

KOREA WESTERN POWER CO., LTD.

**NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010
AND INDEPENDENT AUDITORS' REPORT**

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

To the Shareholder and Board of Directors of
Korea Western Power Co., Ltd.:

We have audited the accompanying statements of non-consolidated financial position of Korea Western Power Co., Ltd. (the "Company") as of December 31, 2009 and 2010, and the related non-consolidated statements of operations, appropriations of retained earnings, changes in shareholder's equity and cash flows for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2010, and the results of its operations, changes in its retained earnings and its shareholder's equity, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea.

Our audit also comprehended the translation of Korean Won amounts into U.S. Dollar amounts and, in our opinion, such translation has been made in conformity with the basis in Note 2. Such U.S. Dollar amounts are presented solely for the convenience of the readers outside of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, changes in shareholder's equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.



March 22, 2011

Notice to Readers

This report is effective as of March 22, 2011, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

KOREA WESTERN POWER CO., LTD.

STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2009 AND 2010

<u>ASSETS</u>	<u>Korean Won</u>		<u>Translation into</u>
	<u>2009</u>	<u>2010</u>	<u>U.S. Dollars (Note 2)</u>
	<u>(In millions)</u>		<u>2010</u>
			<u>(In thousands)</u>
CURRENT ASSETS:			
Cash and cash equivalents, net of government grants of ₩5,072 million in 2009 and ₩3,244 million in 2010 (Note 10)	₩ 126,274	₩ 146,884	\$ 129,917
Trade receivables, net of allowance for doubtful accounts of ₩3,766 million in 2009 and ₩4,535 million in 2010 (Note 19)	372,872	448,927	397,069
Accounts receivable-other, net of allowance for doubtful accounts of ₩192 million in 2009 and ₩81 million in 2010 (Note 19)	19,031	8,030	7,102
Short-term financial instruments	-	10,000	8,845
Inventories	234,461	151,550	134,044
Short-term loans (Note 19)	1,302	1,158	1,025
Accrued income	122	163	144
Prepaid expenses (Note 19)	4,616	7,325	6,479
Advanced payments	4,679	2,828	2,501
Income tax receivables	497	-	-
Currency forward (Note 12)	18	91	81
Current portion of currency swap (Note 12)	65,308	16,260	14,381
Other current assets	13,668	22,251	19,681
	<u>842,848</u>	<u>815,467</u>	<u>721,269</u>
NON-CURRENT ASSETS:			
Investment securities (Note 3)	9,022	8,180	7,235
Investment securities using the equity method (Note 4)	50,270	63,182	55,884
Long-term loans (Note 19)	14,942	15,253	13,491
Guarantee deposits	25,363	23,866	21,109
Property, plant and equipment, net (Note 5)	3,275,099	3,373,237	2,983,581
Intangibles (Note 6)	161,290	146,667	129,725
Deferred tax assets (Note 17)	23,831	9,043	7,999
Interest swap (Note 12)	378	-	-
Currency swap (Note 12)	71,698	37,914	33,535
Other non-current assets	6,900	5,820	5,148
	<u>3,638,793</u>	<u>3,683,162</u>	<u>3,257,707</u>
Total assets	<u>₩ 4,481,641</u>	<u>₩ 4,498,629</u>	<u>\$ 3,978,976</u>

(Continued)

KOREA WESTERN POWER CO., LTD.

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2009 AND 2010

	Korean Won		Translation into
	2009	2010	U.S. Dollars (Note 2)
	(In millions)		2010
			(In thousands)
<u>LIABILITIES AND SHAREHOLDER'S EQUITY</u>			
CURRENT LIABILITIES:			
Trade payables (Notes 10 and 19)	₩ 228,924	₩ 339,459	\$ 300,247
Short-term borrowings (Notes 7 and 10)	92,908	17,742	15,693
Current portion of long-term borrowings (Notes 7 and 10)	14,900	14,900	13,179
Current portion of debentures, net of a discount on debentures issued of ₩169 million in 2009 and ₩196 million in 2010 (Notes 7 and 10)	376,626	313,693	277,457
Accounts payable-other (Notes 8, 10 and 19)	210,351	50,335	44,520
Withholdings	3,685	3,301	2,920
Accrued expenses	13,033	9,266	8,196
Unearned income (Note 19)	378	609	538
Income tax payable(Note 17)	-	13,812	12,217
Current portion of deferred income tax liabilities (Note 17)	10,046	915	809
Currency swap (Note 12)	-	116	103
Other current liabilities	5,336	802	708
	<u>956,187</u>	<u>764,950</u>	<u>676,587</u>
NON-CURRENT LIABILITIES:			
Debentures, net of discount on debentures issued of ₩2,653million in 2009 and ₩2,366 million in 2010 (Notes 7 and 10)	809,247	708,469	626,631
Long-term borrowings (Note 7)	178,060	263,254	232,845
Interest swap (Note 12)	-	1,557	1,377
Long-term accounts payable-other (Notes 8 and 19)	88,288	83,132	73,530
Accrued severance benefits (Note 9)	95,525	110,479	97,717
	<u>1,171,120</u>	<u>1,166,891</u>	<u>1,032,100</u>
Total Liabilities	<u>2,127,307</u>	<u>1,931,841</u>	<u>1,708,687</u>
SHAREHOLDER'S EQUITY:			
Common stock (Note 13)	176,000	176,000	155,670
Paid-in capital in excess of par value (Note 13)	1,266,638	1,266,638	1,120,324
Accumulated other comprehensive income (Notes 3, 12 and 15)	15,283	7,848	6,941
Retained earnings (Note 14):			
Appropriated	808,493	870,037	769,536
Unappropriated retained earnings (Undisposed deficit)	87,920	246,265	217,818
Total Shareholder's Equity	<u>2,354,334</u>	<u>2,566,788</u>	<u>2,270,289</u>
Total Liabilities and Shareholder's Equity	₩ 4,481,641	₩ 4,498,629	\$ 3,978,976

See accompanying notes to financial statements.

KOREA WESTERN POWER CO., LTD.

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010

	Korean Won		Translation into U.S. Dollars (Note 2)
	2009	2010	2010
	(In millions, except per share amount)		(In thousands, except per share amount)
SALES (Note 19)	₩ 3,677,742	₩ 4,571,789	\$ 4,043,684
COST OF SALES (Notes 6 and 19)	<u>3,554,672</u>	<u>4,238,727</u>	<u>3,749,095</u>
GROSS PROFIT	123,070	333,062	294,589
SELLING AND ADMINISTRATIVE EXPENSES (Note 20)	<u>(31,799)</u>	<u>(38,085)</u>	<u>(33,685)</u>
OPERATING INCOME	<u>91,271</u>	<u>294,977</u>	<u>260,904</u>
NON-OPERATING NET INCOME (EXPENSES):			
Interest expense	(44,465)	(38,929)	(34,432)
Rental income	4,330	4,252	3,761
Equity losses on investments (Note 4)	(1,979)	(887)	(785)
Dividends Income	-	60	53
Gain (loss) on disposition of inventories	(304)	107	95
Loss on valuation of inventories	-	(6)	(6)
Gain (loss) on disposition of property, plant and equipment	23	(22)	(20)
Loss on retirement of property, plant and equipment	(676)	(3,943)	(3,488)
Gain (loss) on foreign currency transactions	19,907	(4,713)	(4,169)
Gain on foreign currency translation	69,635	7,770	6,873
Gain (loss) on valuation of currency forward (Note 12)	18	(25)	(22)
Loss on valuation of currency swap (Note 12)	(37,259)	(7,175)	(6,346)
Gain (loss) on valuation of interest swap (Note 12)	378	(1,935)	(1,711)
Loss on currency forward transactions	(1,010)	(18)	(16)
Gain (loss) on currency swap transactions	(3,396)	16,047	14,193
Loss on interest swap transactions (Note 12)	-	(1,566)	(1,385)
Reversal of Allowance for Doubtful Accounts	-	114	101
Donations (Note 23)	(317)	(876)	(775)
Other income	<u>5,556</u>	<u>15,205</u>	<u>13,449</u>
	<u>10,415</u>	<u>(16,540)</u>	<u>(14,630)</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	101,686	278,437	246,274
INCOME TAX EXPENSE FROM CONTINUING OPERATIONS (Note 17)	<u>22,508</u>	<u>63,108</u>	<u>55,818</u>
INCOME FROM CONTINUING OPERATIONS	<u>79,178</u>	<u>215,329</u>	<u>190,456</u>
INCOME FROM DISCONTINUED OPERATIONS (Note 24)	<u>8,742</u>	<u>30,936</u>	<u>27,362</u>
NET INCOME	<u>₩ 87,920</u>	<u>₩ 246,265</u>	<u>\$ 217,818</u>
INCOME PER SHARE FROM CONTINUING OPERATIONS (Note 18)	<u>2,249</u>	<u>6,117</u>	<u>5.41</u>
INCOME PER SHARE (Note 18)	<u>₩ 2,498</u>	<u>₩ 6,996</u>	<u>\$ 6.19</u>

See accompanying notes to financial statements.

KOREA WESTERN POWER CO., LTD.

STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010

	Korean Won		Translation into U.S. Dollars (Note 2)
	2009	2010	2010
	(In millions)		(In thousands)
RETAINED EARNINGS BEFORE APPROPRIATIONS:			
Unappropriated retained earnings carried over from prior year	₩ -	₩ -	\$ -
Net income	87,920	246,265	217,818
	<u>87,920</u>	<u>246,265</u>	<u>217,818</u>
TRANSFERS FROM VOLUNTARY RESERVES:			
Reserve for investment in social overhead capital	8,833	5,167	4,570
Reserve for research and human resource development	7,900	6,000	5,307
	<u>16,733</u>	<u>11,167</u>	<u>9,877</u>
	<u>104,653</u>	<u>257,432</u>	<u>227,695</u>
APPROPRIATIONS:			
Legal reserve	2,637	7,388	6,534
Reserve for research and human resource	-	18,388	16,264
Reserve for operations expansion	75,641	157,777	139,552
Dividends (Note 16)	<u>26,375</u>	<u>73,879</u>	<u>65,345</u>
	<u>104,653</u>	<u>257,432</u>	<u>227,695</u>
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	<u>₩ -</u>	<u>₩ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

KOREA WESTERN POWER CO., LTD.

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010

	Korean Won (In millions)				
	Capital stock	Capital surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance at January 1, 2009	₩ 176,000	₩ 1,266,638	₩ 21,123	₩ 808,493	₩ 2,272,254
Annual dividends	-	-	-	-	-
Net income	-	-	-	87,920	87,920
Valuation loss on available-for-sale securities	-	-	(229)	-	(229)
Loss on valuation of financial derivatives	-	-	(6,855)	-	(6,855)
Changes in unrealized equity income of affiliates	-	-	1,244	-	1,244
Balance at December 31, 2009	<u>₩ 176,000</u>	<u>₩ 1,266,638</u>	<u>₩ 15,283</u>	<u>₩ 896,413</u>	<u>₩ 2,354,334</u>
Balance at January 1, 2010	₩ 176,000	₩ 1,266,638	₩ 15,283	₩ 896,413	₩ 2,354,334
Annual dividends	-	-	-	(26,376)	(26,376)
Net income	-	-	-	246,265	246,265
Valuation loss on available-for-sale securities	-	-	(657)	-	(657)
Loss on valuation of financial derivatives	-	-	(8,073)	-	(8,073)
Changes in unrealized equity income of affiliates	-	-	1,295	-	1,295
Balance at December 31, 2010	<u>₩ 176,000</u>	<u>₩ 1,266,638</u>	<u>₩ 7,848</u>	<u>₩ 1,116,302</u>	<u>₩ 2,566,788</u>
Translation into U.S. Dollars (In thousands) (Note 2)	<u>\$ 155,670</u>	<u>\$ 1,120,324</u>	<u>\$ 6,941</u>	<u>\$ 987,354</u>	<u>\$ 2,270,289</u>

See accompanying notes to financial statements.

KOREA WESTERN POWER CO., LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010

	Korean Won		Translation into U.S. Dollars (Note 2)
	2009	2010	2010
	(In millions)		(In thousands)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	₩ 87,920	₩ 246,265	\$ 217,818
Addition(Deduction) of expenses(revenue) not involving net cash flows:			
Depreciation	300,316	377,622	334,002
Amortization expenses of intangibles	19,099	19,228	17,007
Bad debt expenses	345	768	679
Equity losses on investments	1,979	887	785
Amortization of bond discount	1,036	976	864
Loss (gain) on disposition of inventories	304	(107)	(95)
Loss on valuation of inventories	2	6	6
Gain on disposition of property, plant and equipment	(52)	(49)	(43)
Loss on retirement of property, plant and equipment	1,421	3,996	3,535
Gain on foreign currency translation	(69,635)	(7,770)	(6,873)
Loss (gain) on valuation of currency forward	(18)	25	22
Loss on valuation of currency swap	37,259	7,175	6,346
Loss (gain) on valuation of interest swap	(378)	1,935	1,711
Loss on currency forward transactions	1,010	18	16
Loss (gain) on currency swap transactions	3,396	(16,047)	(14,193)
Loss on interest swap transactions	-	1,566	1,385
Provision for severance indemnities	9,743	19,841	17,549
Reversal of Allowance for Doubtful Accounts	-	(111)	(98)
Other loss (income)	45	(1)	(1)
	<u>305,872</u>	<u>409,958</u>	<u>362,604</u>
Changes in operating assets and liabilities			
Increase in trade receivables	(43,009)	(76,823)	(67,949)
Decrease in accounts receivable-other	9,190	11,112	9,829
Decrease (Increase) in prepaid expenses	1,503	(2,709)	(2,396)
Decrease (Increase) in advanced payments	(3,610)	1,851	1,637
Increase in income tax receivables	(497)	-	-
Increase in accrued income	(39)	(41)	(36)
Increase in other current assets	(862)	(8,582)	(7,591)
Decrease in inventories	81,394	83,011	73,423
Decrease in non-current portion of deferred tax assets	16,814	16,872	14,923
Increase (Decrease) in trade payables	(96,090)	110,885	98,076
Increase (Decrease) in accounts payable-other	125,498	(165,166)	(146,087)
Decrease in long-term accounts payable-other	(787)	-	-
Decrease in withholdings	(452)	(384)	(339)
Increase (Decrease) in accrued expenses	4,956	(3,767)	(3,332)
Increase (Decrease) in income tax payable	(4,480)	14,309	12,656
Increase in unearned income	76	230	204
Increase (Decrease) in other current liabilities	5,201	(4,537)	(4,013)
Payments of severance benefits, net of change in deposit for severance benefit trust	(5,223)	(4,886)	(4,322)

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KOREA WESTERN POWER CO., LTD.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010

	Korean Won		Translation into U.S. Dollars (Note 2)
	2009	2010	2010
	(In millions)		(In thousands)
Increase (Decrease) in current portion of deferred income tax liabilities	₩ 8,192	₩ (9,131)	\$ (8,076)
	97,775	(37,756)	(33,393)
Net cash flows provided by operating activities	491,567	618,467	547,029
CASH FLOWS FROM INVESTING ACTIVITIES:			
Collection of short-term loans	1,186	2,765	2,445
Withdrawal of guarantee deposits	4,134	11,368	10,055
Proceeds from disposal of property, plant and equipment	645	642	568
Receipt of government subsidy	1,900	-	-
Disposal of other non-current assets	1,582	5,765	5,099
Acquisition of short-term financial instruments	-	(10,000)	(8,845)
Increase of long-term loans	(1,638)	(2,931)	(2,593)
Acquisition of investment securities	(70)	-	-
Acquisition of investment securities using the equity method	(29,006)		(10,724)
Acquisition of guarantee deposits	(7,006)	(9,871)	(8,730)
Acquisition of other non-current assets	(5,810)	(4,685)	(4,144)
Acquisition of property, plant and equipment	(593,098)	(485,030)	(429,002)
Acquisition of intangibles	-	(137)	(121)
Repayment of government subsidy	(228)	(1,616)	(1,430)
Net cash flows used in investing activities	(627,409)	(505,855)	(447,422)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings	773,871	567,981	502,371
Proceeds from long-term borrowings	100,282	100,094	88,532
Proceeds from derivatives	-	81,355	71,957
Issuance of debentures	359,732	218,973	193,679
Repayment of short-term borrowings	(851,139)	(642,908)	(568,643)
Repayment of current portion of long-term borrowings	(157,975)	(391,385)	(346,174)
Payment of currency swap	(3,396)	-	-
Payment of currency forward	(1,016)	-	-
Payment of interest swap	-	(1,565)	(1,385)
Payment of cash dividends	-	(26,375)	(23,328)
Net cash flows provided by financing activities	220,359	(93,830)	(82,991)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	84,517	18,782	16,616
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR (Note 22)	46,829	131,346	116,170
CASH AND CASH EQUIVALENTS, END OF THE YEAR (Note 22)	₩ 131,346	₩ 150,128	\$ 132,786

See accompanying notes to financial statements.

KOREA WESTERN POWER CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010

1. GENERAL:

Korea Western Power Co., Ltd. (the “Company”) was incorporated on April 2, 2001 through the spin-off of the power generation division of Korea Electric Power Corporation (“KEPCO”) in accordance with the restructuring plan, dated January 21, 1999, for the electricity industry in the Republic of Korea announced by the Ministry of Commerce, Industry and Energy and the Law on Promotion of Restructuring of the Electricity Industry published on December 23, 2000. The Company engages in the generation of electricity and development of electric power resources, and sells all generated electricity to KEPCO through the Korea Power Exchange (KPX) in accordance with Article 31 of the Electricity Operations Law. As of December 31, 2010, KEPCO holds all of the Company’s outstanding shares.

As of December 31, 2010, the Company operates five thermal power units including Taeon thermal power plant. The Company’s cumulative power generating capacity is 9,598MW as of December 31, 2010

On January 1, 2011, the Company transferred certain assets and liabilities to the Pump-storage hydroelectricity business and established Kowepo Pump-storage hydroelectricity business division. Immediately thereafter, Kowepo Pump-storage hydroelectricity business division merged with Korea Hydro & Nuclear Power Co., Ltd.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Financial Statement Presentation

The Company maintains its official accounting records in Korean won and prepares financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been translated into English from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company’s financial position, results of operations, changes in shareholder’s equity or cash flows, is not presented in the accompanying financial statements.

The accompanying financial statements are stated in Korean Won, the currency of the country in which the Company is incorporated and operates. The translation of Korean Won amounts into U.S. Dollar amounts is included solely for the convenience of the readers outside of the Republic of Korea and has been made at the rate of ₩1,130.6 to US\$1.00, the noon buying rate in the City of New York for cable transfers in Won as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2010, solely for the convenience of the reader. Such translation should not be constructed as representations that the Korean Won amounts could be converted at that or any other rate.

The Company’s financial statements, which are to be presented to the Company’s shareholder’s meeting, were approved by the board of directors on March 30, 2011.

Significant accounting policies followed by the Company in preparing the accompanying financial statements are summarized as follows:

Adoption of Statements of Korea Accounting Standards ("SKAS")

Through December 31, 2010, the Korea Accounting Standards Board ("KASB") has issued SKASs No. 1 through No. 25 to revise the previous Financial Accounting Standards. As a result, certain SKASs were amended, and interpretations and opinions were released. However, those amended or newly released standards are not applicable to the Company. Therefore, there has been no impact on equity or net income of the Company.

Revenue Recognition

Revenues derived from power generation are recognized upon product delivery or satisfaction of other conditions, all as specified by contractual terms.

Cash and Cash Equivalents

Cash and cash equivalents includes cash, including checks issued by others, and checking accounts, ordinary deposits and financial instruments, which can be easily converted into cash and whose value changes due to changes in interest rates are not material, with maturities (or date of redemption) of three months or less from acquisition.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts to cover estimated losses on receivables (account receivable, account receivable - other), based on collection experience and analysis of the collectability of individual outstanding receivables.

Inventories

Inventories are stated at the lower of cost or net realizable value, cost being determined using the average method and specific identification method for materials in transit. The Company maintains perpetual inventory records, which are adjusted through physical counts.

Securities (Excluding Investment Securities using the Equity Method)

Debt and equity securities are initially stated at the market value of consideration given for acquisition (market value of securities acquired if market value of consideration given is not available) plus incidental costs attributable to the acquisition of the securities and are classified into trading, available-for-sale and held-to-maturity securities depending on the purpose and nature of acquisition. The Company presents trading securities as short-term investments, and available-for-sale securities and held-to-maturity securities as short-term investments or long-term investment securities depending on their nature in the statement of financial position. The moving average method for equity securities and the specific identification method for debt securities are used to determine the cost of securities for the calculation of gain (loss) on disposal of those securities.

1) Trading securities

Securities that are bought and held principally for the purpose of selling them in the near term with active and frequent buying and selling, including securities which consist of a portfolio of securities with the clear objective of generating profits on short-term differences in price, are classified as trading securities. Trading securities are recorded at their fair value and unrealized gains or losses from trading securities are recorded as gain (loss) on valuation of trading securities included in the non-operating income (expense).

2) Held-to-maturity security

Debt securities that have fixed or determinable payments with a fixed maturity are classified as held-to-maturity securities only if the Company has both the positive intent and ability to hold those securities to maturity. However, debt securities, whose maturity dates are due within one year from the period end date, are classified as current assets.

After initial recognition, held-to-maturity securities are stated at amortized cost in the statement of financial position. When held-to-maturity securities are measured at amortized costs, the difference between their acquisition cost and face value is amortized using the effective interest rate method and the amortization is included in the cost and interest income.

When the possibility of not being able to collect the principal and interest of held-to-maturity securities according to the terms of the contracts is highly likely, the difference between the recoverable amount (the present value of expected cash flows using the effective interest rate upon acquisition of the securities) and book value is recorded as loss on impairment of held-to-maturity securities included in the non-operating expense and the held-to-maturity securities are stated at the recoverable amount after impairment loss. If the value of impaired securities subsequently recovers and the recovery can be objectively related to an event occurring after the impairment loss was recognized, the reversal of impairment loss is recorded as reversal of impairment loss on held-to-maturity securities included in non-operating income. However, the resulting carrying amount after the reversal of impairment loss shall not exceed the amortized cost that would have been measured, at the date of the reversal, if no impairment loss was recognized.

3) Available-for-sale securities

Debt and equity securities that do not fall under the classifications of trading or held-to-maturity securities are categorized and presented as available-for-sale securities included in investment assets. However, if an available-for-sale security matures or it is certain that such security will be disposed of within one year from the period end date, it is classified as a current asset.

Available-for-sale securities are recorded at fair value. Unrealized gain or loss from available-for-sale securities are presented as gain or loss on valuation of available-for-sale securities included in accumulated other comprehensive income (loss) under shareholder's equity. In addition, accumulated gain or loss on valuation of available-for-sale securities is reflected in either gain or loss on disposal of available-for-sale securities or loss on impairment of available-for-sale securities upon disposal or recognition of impairment of the securities. However, available-for-sale equity securities that are not marketable and whose fair value cannot be reliably measured are recorded at acquisition cost.

When there is objective evidence that the available-for-sale securities are impaired and the recoverable amount is lower than the cost (amortized cost for debt securities) of the available-for-sale securities, an impairment loss is recognized as loss on impairment of available-for-sale securities in non-operating expense and the related unrealized gain or loss remaining in shareholder's equity is adjusted to the impairment loss. If the value of impaired securities subsequently recovers and the recovery can be objectively related to an event occurring after the impairment loss was recognized, the reversal of impairment loss can be recognized up to the previously recorded impairment loss as a reversal of loss on impairment of available-for-sale securities in non-operating income. However, if the fair value increases after the impairment loss is recognized but does not relate to the recovery of impairment loss as described above, the increase in fair value is recorded in shareholder's equity.

4) Reclassification of securities

Trading securities cannot be reclassified as other categories of securities. However, when those securities can no longer be held for sale in the near-term to generate profits from short-term price differences, the trading securities can be reclassified as available-for-sale or held-to-maturity securities. When those securities are no longer traded in an active market, such securities are reclassified as available-for-sale securities.

When trading securities are reclassified to other categories, the fair value (latest market value) as of the date of the reclassification becomes new acquisition cost of the security and the security's unrealized holding gain or loss through the date of the reclassification is recorded in the non-operating income or expenses.

Investment Securities Using the Equity Method

Investments in equity securities in companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. The change in the Company's portion of an investee's net equity resulting from a change in an investee's net equity is reflected in the Company's net income (loss), retained earnings and accumulated other comprehensive income (loss), in accordance with the causes of the change, which consist of the investee's net income (loss), changes in retained earnings and changes in capital surplus, capital adjustments and accumulated other comprehensive income (loss). Unrealized gain (loss) arising from the transactions of assets between the Company and equity method investees is eliminated according to the ownership percentage.

Property, Plant and Equipment

Property, plant and equipment are stated at cost (acquisition cost or manufacturing cost plus expenditures directly related to preparing the assets ready for use). Assets acquired from investment-in-kind, by donation or free of charge in other ways are stated at fair value.

Expenditures after acquisition or completion that increase future economic benefit in excess of the most recently assessed capability level of the asset are capitalized and other expenditures are charged to expense as incurred.

In accordance with the Company's policy, borrowing costs in relation to the manufacture, purchase, construction or development of assets are capitalized as part of the cost of those assets.

When the expected future cash flow from use or disposal of the property, plant and equipment is lower than the carrying amount due to obsolescence, physical damage or other causes, the carrying amount is adjusted to the recoverable amount (the higher of net sales price or value in use) and the difference is recognized as an impairment loss. When the recoverable amount subsequently exceeds the carrying amount of the impaired asset, the excess is recorded as a reversal of impairment loss to the extent that the reversed asset does not exceed the carrying amount before previous impairment as adjusted by depreciation.

Depreciation is computed based on the following depreciation methods and estimated useful lives:

	Method	Years
Buildings & structures	Straight-line	8 - 30
Machinery	Declining-balance	16
Vehicles	Declining-balance	4
Others	Declining-balance	4~9

Intangibles

Intangible assets are initially recognized at acquisition cost (purchase cost plus expenditures directly related to preparing the asset ready for use) and subsequently presented at amortized cost. Intangible assets are stated at cost, net of accumulated amortization computed using straight-line method (electric facility usage right: declining-balance and straight-line) over the estimated economic useful lives of the assets as described below. Amortization related to the manufacture of other assets is included in the manufacturing cost whereas other amortization is included in selling and administrative expense.

	Method	Years
Electric facility usage right	Declining-balance /Straight-line	4 - 30
Industrial water usage right	Straight-line	10
Other intangible assets	Straight-line	5~10

When the recoverable amount (the higher of net sales price or value in use) of intangible assets is significantly lower than the carrying amount due to obsolescence and other, the difference is recognized as an impairment loss. When the recoverable amount subsequently exceeds the carrying amount of the impaired asset, the excess is recorded as a reversal of impairment loss to the extent that the reversed asset does not exceed the carrying amount before previous impairment as adjusted by amortization.

Government Subsidy

Government subsidy which has been received, in cash, yet has not been used as of the reporting period end, is presented on the face of the statements of financial position, as net of cash and cash equivalents.

Government subsidy and contribution for construction granted for the purpose of acquisition of certain assets are recorded as a deduction from the assets granted or other assets acquired for the temporary use of the assets granted. When the related assets are acquired, they are recorded as a deduction from the acquired assets and are offset against the depreciation of the acquired assets over their useful lives. In addition, government subsidy and contribution for construction without any repayment obligation is offset against the related expenses which they are intended to be disbursed, however, if there is no matching expense, they are recorded as operating revenue or non-operating revenue depending on whether they are directly related to the Company's principal operating activities. Government subsidy and contribution for construction with a repayment obligation is recorded as a liability.

Discount on Debentures

Discounts on debentures issued are amortized over the redemption period of debentures using the effective interest rate method. Amortization of discounts is recognized as interest expense.

Accrued Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on current salary rates and length of service when they leave the Company. The Company's estimated liability under the plan, which would be payable if all employees resign on the period end date, is accrued in the accompanying statement of financial position. A portion of the liability is covered by an employees' severance benefits trust where the employees have a vested interest in the deposit with the insurance company. The deposit for severance benefits held in trust is reflected in the accompanying statements of financial position as a reduction from accrued severance benefits.

Translation of Assets and Liabilities Denominated in Foreign Currency

Transactions denominated in foreign currencies are recorded in Korean won translated at the exchange rate prevailing on the transaction date and the resulting gain (loss) from foreign currency transactions is included in non-operating income (expense). Monetary assets and liabilities denominated in foreign currency are translated into Korean Won at the Base Rates announced by Seoul Money Brokerage Services, Ltd. at the period end dates, which were ₩1,167.60 and ₩1,138.90 to USD 1.00 at December 31, 2009 and 2010, respectively, and the resulting gain (loss) from foreign currency translation is included in non-operating income (expense). When it is probable that the conversion right will not be exercised, such convertible bonds are regarded as monetary liabilities denominated in foreign currency.

Accounting for Derivative Instruments

The Company records rights and obligations arising from derivative instruments in assets and liabilities, which are stated at fair value. Gains and losses that result from the changes in the fair value of derivative instruments are recognized in current earnings. However, for derivative instruments that cash flow hedge accounting applies to, the effective portion of the gain or loss on the derivatives instruments are recorded as gain (loss) on valuation of derivatives included in accumulated other comprehensive income (loss).

Income Tax Expense

The Company recognizes deferred income tax assets or liabilities for the temporary differences between the carrying amount of an asset and liability and tax base. A deferred income tax liability for taxable temporary difference is fully recognized except to the extent in accordance with related SKAS, while a deferred tax asset for deductible temporary difference is recognized to the extent that it is almost certain that future taxable profit will be available against which the deductible temporary difference can be utilized. Deferred income tax asset (liability) is classified as current or non-current asset (liability) depending on the classification of related asset (liability) in the statement of financial position. Deferred income tax asset (liability), which does not relate to specific asset (liability) account in the statement of financial position such as deferred income tax asset recognized for tax loss carryforwards, is classified as current or non-current asset (liability) depending on the expected reversal period. Deferred income tax assets and liabilities in the same tax jurisdiction and in the same current or non-current classification are presented on a net basis. Current and deferred income tax expense are included in income tax expense in the statement of operations and additional income tax or tax refunds for the prior periods are included in income tax expense for the current period when recognized. However, income tax resulting from transactions or events, which was directly recognized in shareholder's equity in current or prior periods, or operations combinations, is directly adjusted to equity account or goodwill (or negative goodwill).

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the Republic of Korea requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to the financial statements. Actual results could differ from those estimates

3. INVESTMENT SECURITIES:

(1) Available-for-sale-securities as of December 31, 2009 and 2010 are as follows (Won in millions):

	2009			2010	
	Ownership percentage (%)	Acquisition cost	Book value	Acquisition cost	Book value
Korea Power Exchange (*1)	7.14	₩ 9,131	₩ 8,352	₩ 9,131	₩ 7,510
POSTECH Electric Power & Electricity Companies' Cooperative Fund (*2)	1.05	300	300	300	300
Hanwha Electric Power Venture Fund (*2)	1.20	300	300	300	300
Rabigh, The Kingdom of Saudi Arabia O&M (*2,3)	40.00	70	70	70	70
		₩ 9,801	₩ 9,022	₩ 9,801	₩ 8,180

(*1) The fair value is reliably determined using a Discounted Cash Flow Method (Income Approach). The Company recorded loss on valuation of ₩779 million (net of tax), as accumulated other comprehensive loss.

(*2) As the fair value cannot be determined reliably, the investment securities are stated at acquisition cost.

(*3) The Company owns 20% or more of the voting stock. However, as the difference between the equity method and cost is considered to be immaterial, the Company records the investment in available-for-sale securities at cost.

(2) Details of fair value estimation of one of above available-for-sale-securities are as follows (Won in millions):

	Fair value	Ownership percentage(%)	Net asset value	Acquisition cost	Loss on valuation of available-for-sale securities(*)
Korea Power Exchange	₩ 105,189	7.14	₩ 7,510	₩ 9,131	₩ 1,621

(*) Before income tax

4. INVESTMENT SECURITIES USING THE EQUITY METHOD:

(1) Investment securities using the equity method as of December 31, 2009 and 2010 are as follows(Won in millions):

2009				
	<u>Ownership(%)</u>	<u>Acquisition cost</u>	<u>Equity in net asset value</u>	<u>Book value</u>
Cheongna Energy Co., Ltd.	30.00	₩ 18,200	₩ 16,870	₩ 16,946
Kowepo International Corporation	99.99	2,685	2,142	2,142
Garolim Tidal Power	49.00	17,714	16,870	16,870
Kowepo Australia Pty. Ltd.	100.00	12,819	14,312	14,312
		<u>₩ 51,418</u>	<u>₩ 50,194</u>	<u>₩ 50,270</u>
2010				
	<u>Ownership(%)</u>	<u>Acquisition cost</u>	<u>Equity in net asset value</u>	<u>Book value</u>
Cheongna Energy Co., Ltd. (*1)	30.00	₩ 30,000	₩ 26,019	₩ 26,078
Kowepo International Corporation	99.99	3,010	2,515	2,515
Garolim Tidal Power	49.00	17,714	16,537	16,537
Kowepo Australia Pty. Ltd.	100.00	12,819	18,052	18,052
		<u>₩ 63,543</u>	<u>₩ 63,123</u>	<u>₩ 63,182</u>

(*1) The Company pledged as collateral its investment securities in Cheongna Energy Co., Ltd to Korea Exchange Bank and Hana Bank, for the payment guarantee it provides on Cheongna Energy Co., Ltd.'s PF borrowings through the aforementioned banks.

Those securities were accounted for using the equity method of accounting based on unaudited financial statements as of and for the year ended December 31, 2010 as the audited financial statements of these companies could not be obtained prior to the Company's year-end closing. In order to verify the reliability of such unaudited financial statements, the Company has performed the following procedures and found no significant exceptions:

- 1) Obtained the unaudited financial statements signed by the investee's chief executive officer and statutory auditor
- 2) Identified whether the major transactions or accounting events, including those disclosed to public by the investee, which were acknowledged by the Company, are properly reflected in the unaudited financial statements
- 3) Identified the major accounting issues under discussion between the investee and its external auditors and the investee's plan to resolve such issues
- 4) Analyzed the effect of potential difference between the unaudited and audited financial statements

- (2) Details of valuation using the equity method of accounting for the years ended December 31, 2009 and 2010 are as follows (Won in millions):

2009							
	January 1, 2009	Acquisition	Other comprehensive income (loss)	Equity losses on investee	Others	December 31, 2009	
Cheongna Energy Co., Ltd.	₩ 4,822	₩ 12,620	₩ (178)	₩ (318)	₩ -	₩ 16,946	
Kowepo International Corporation	-	187	293	(836)	2,497	2,141	
Garolim Tidal Power	-	12,053	(97)	(746)	5,660	16,870	
Kowepo Australia Pty. Ltd.	-	4,146	1,572	(79)	8,674	14,313	
	<u>₩ 4,822</u>	<u>₩ 29,006</u>	<u>₩ 1,590</u>	<u>₩ (1,979)</u>	<u>₩16,831</u>	<u>₩ 50,270</u>	

2010							
	January 1, 2010	Acquisition	Other comprehensive income (loss)	Equity losses on investments	Others	December 31, 2010	
Cheongna Energy Co., Ltd.	₩ 16,946	₩ 11,800	₩ (118)	₩ (2,550)	₩ -	₩ 26,078	
Kowepo International Corporation	2,141	325	74	(25)	-	2,515	
Garolim Tidal Power	16,870	-	-	(333)	-	16,537	
Kowepo Australia Pty. Ltd.	14,313	-	1,717	2022	-	18,052	
	<u>₩ 50,270</u>	<u>₩ 12,215</u>	<u>₩ 1,673</u>	<u>₩ (886)</u>	<u>₩ -</u>	<u>₩ 63,182</u>	

- (3) Details of changes in the differences between the acquisition cost and net asset value of equity method investees for the year ended December 31, 2010 are as follows (Won in millions):

	January 1, 2010	Increase	Amortization	December 31, 2010
Cheongna Energy Co., Ltd.	₩ 76	₩ -	₩ (17)	₩ 59

- (4) Summarized financial information regarding affiliated companies for using the equity method as of and for the years ended December 31, 2009 and 2010 are as follows (Won in millions):

2009				
	Total assets	Total liabilities	Sales	Net loss
Cheongna Energy Co., Ltd.	₩ 223,200	₩ 166,985	₩ 3,024	₩ (1,011)
Kowepo International Corporation	2,374	232	-	(431)
Garolim Tidal Power	34,929	500	-	(641)
Kowepo Australia Pty. Ltd.	14,312	-	-	(19)

2010				
	Total assets	Total liabilities	Sales	Net loss
Cheongna Energy Co., Ltd.	₩ 333,091	₩ 246,360	₩ 6,963	₩ (7,462)
Kowepo International Corporation	2,550	35	-	(26)
Garolim Tidal Power	36,285	2,537	-	(679)
Kowepo Australia Pty. Ltd.	19,594	1,542	6,963	2,133

5. PROPERTY, PLANT AND EQUIPMENT:

- (1) The book value and standard value of land declared by the government for the purpose of taxes and land policy as of December 31, 2009 and 2010 are as follows (Won in millions):

	<u>Book value</u>		<u>Official price</u>	
	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>
Land	₩ 283,069	₩ 285,527	₩ 400,208	₩ 432,679

- (2) The changes in property, plant and equipment for the years ended December 31, 2009 and 2010 are as follows (Won in millions):

<u>Account</u>	<u>2009</u>					
	<u>Beginning of year</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Depreciation</u>	<u>Other</u>	<u>End of year</u>
Land	₩ 283,285	₩ -	₩ (281)	₩ -	₩ 65	₩ 283,069
Buildings	407,729	-	(1,034)	(34,503)	18,372	390,564
Structures	754,683	-	(160)	(38,381)	1,659	717,801
Machinery	1,252,073	-	(245)	(222,216)	101,194	1,130,806
Government subsidy	(414)	-	-	70	-	(344)
Vehicles	1,113	-	-	(677)	263	699
Others	5,949	-	(4)	(4,609)	9,955	11,291
Construction in progress	301,641	593,098	-	-	(145,459)	749,280
Government subsidy	(7,402)	-	-	-	(665)	(8,067)
	<u>₩ 2,998,657</u>	<u>₩ 593,098</u>	<u>₩ (1,724)</u>	<u>₩ (300,316)</u>	<u>₩ (14,616)</u>	<u>₩ 3,275,099</u>

<u>Account</u>	<u>2010</u>					
	<u>Beginning of year</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Depreciation</u>	<u>Other</u>	<u>End of year</u>
Land	₩ 283,069	₩ -	₩ (279)	₩ -	₩ 2,737	₩ 285,527
Buildings	390,564	-	(838)	(40,166)	92,428	441,988
Structures	717,801	-	-	(40,170)	107,380	785,011
Machinery	1,130,806	103,274	(3,435)	(288,379)	705,120	1,647,386
Government subsidy	(344)	-	-	59	-	(285)
Vehicles	699	107	-	(505)	94	395
Others	11,291	1,001	-	(8,461)	7,575	11,406
Construction in progress	749,280	380,648	-	-	(919,841)	210,087
Government subsidy	(8,067)	-	-	-	(211)	(8,278)
	<u>₩ 3,275,099</u>	<u>₩ 485,030</u>	<u>₩ (4,552)</u>	<u>₩ (377,622)</u>	<u>₩ (4,718)</u>	<u>₩ 3,373,237</u>

Government subsidy of ₩59 million as of December 31, 2010 and ₩70 million as of December 31, 2009 is offset against depreciation expense.

- (3) The Company capitalizes interest and other borrowing costs related to debt issued to finance capital expenditures as part of the acquisition cost of major facilities and equipment. The amount of capitalized expense for the years ended December 31, 2009 and 2010 is ₩18,119 million and ₩21,306 million, respectively. The effects of the expense capitalized on the financial statements as of and for the year ended December 31, 2010 are as follows (Won in millions):

	Statement of financial position		Statement of operations	
	Construction in-progress	Total assets	Interest expense	Income before income tax
When capitalized	₩ 210,087	₩ 4,498,629	₩ 49,161	₩ 278,437
When expensed	188,781	4,477,323	70,467	257,131
Difference	<u>₩ 21,306</u>	<u>₩ 21,306</u>	<u>₩ (21,306)</u>	<u>₩ 21,306</u>

- (4) Insured assets as of December 31, 2010 are as follows (Won in millions):

Insured type	Insured assets	Insurer	Insured value
Loading and shipping insurance	Inventories	Lotte Insurance	₩ 1,673,848
Construction work insurance	Load duck	Samsung Insurance and others	162,722
Property general insurance	Electricity generation units	Dongbu Insurance and others	6,031,436
			<u>₩ 7,868,006</u>

In addition, the Company carries general group insurance for vehicles.

6. INTANGIBLES:

- (1) Intangibles as of December 31, 2009 and 2010 are as follows (Won in millions):

	2009		
Account	Acquisition cost	Accumulated amortization	Book value
Electric facility usage right	₩ 177,923	₩ (31,810)	₩ 146,113
Industrial water usage right	78,642	(67,922)	10,720
Other intangible assets	8,770	(4,313)	4,457
	<u>₩ 265,335</u>	<u>₩ (104,045)</u>	<u>₩ 161,290</u>

	2010		
Account	Acquisition cost	Accumulated amortization	Book value
Electric facility usage right	₩ 181,426	₩ (41,605)	₩ 139,821
Industrial water usage right	78,642	(76,498)	2,144
Other intangible assets	9,872	(5,170)	4,702
	<u>₩ 269,940</u>	<u>₩ (123,273)</u>	<u>₩ 146,667</u>

(2) Changes in intangibles for the years ended December 31, 2009 and 2010 are as follows (Won in millions):

2009						
Account	Beginning of year	Acquisition	Amortization (*1)	Others (*2)	End of year	
Electric facility usage right	₩ 143,794	₩ -	₩ (10,468)	₩ 12,787	₩ 146,113	
Industrial water usage right	18,584	-	(7,864)	-	10,720	
Other intangible assets	4,438	-	(767)	786	4,457	
	<u>₩ 166,816</u>	<u>₩ -</u>	<u>₩ (19,099)</u>	<u>₩ 13,573</u>	<u>₩ 161,290</u>	

2010						
Account	Beginning of year	Acquisition	Amortization (*1)	Others (*2)	End of year	
Electric facility usage right	₩ 146,113	₩ -	₩ (9,795)	₩ 3,503	₩ 139,821	
Industrial water usage right	10,720	-	(8,576)	-	2,144	
Other intangible assets	4,457	137	(857)	965	4,702	
	<u>₩ 161,290</u>	<u>₩ 137</u>	<u>₩ (19,228)</u>	<u>₩ 4,468</u>	<u>₩ 146,667</u>	

(*1) Allocation of amortization expenses on intangible assets is as follows (Won in millions):

	2009	2010
Cost of sales	₩ 16,194	₩ 16,427
Selling and administrative expenses	411	423
Income from discontinued operations	2,494	2,378
	<u>₩ 19,099</u>	<u>₩ 19,228</u>

(*2) Transfer of construction-in-progress to intangibles

(3) Ordinary development expenses incurred for the years ended December 31, 2009 and 2010 are ₩11,575 million and ₩14,660 million, respectively.

7. BORROWINGS AND DEBENTURES:

(1) Short-term borrowings as of December 31, 2009 and 2010 are as follows (Won in millions):

Financial institution	Type	Interest rate per annum (%)	2009	2010
BNP Paribas	Foreign currency	1.25	₩ 50,200	₩ -
RBS	"	1.04	38,341	9,665
Korea Exchange Bank	"	1.33	4,367	-
Shinhan Bank	"	1.80	-	8,077
			<u>₩ 92,908</u>	<u>₩ 17,742</u>

(2) Long-term borrowings as of December 31, 2009 and 2010 are as follows (Won in millions):

Lender	Type	Interest rate per annum (%)	Maturity date	2009	2010
Korea Resource Corporation	Local currency	1.25	2024.06.25	₩ 74	₩ 74
"	"	"	2024.09.15	208	208
"	"	"	2023.03.15	2,994	2,994
"	"	"	2023.06.15	112	112
"	"	"	2023.12.15	272	272
"	"	"	2025.06.15	-	11
"	"	"	2025.12.15	-	83
Industrial Bank of Korea	"	4.00	2012.10.08	7,800	5,200
"	"	"	2016.05.29	20,000	20,000
Hana Bank	"	"	2014.04.10	61,500	49,200
Korea Exchange Bank	"	Floating rate	2012.10.22	100,000	100,000
"	"	"	2013.06.24	-	100,000
				192,960	278,154
				(14,900)	(14,900)
Less: Current portion				₩ 178,060	₩ 263,254

(3) Debentures as of December 31, 2009 and 2010 are as follows (Won in millions)

Type	Issued date	Maturity date	Annual interest rate (%)	2009	2010
4th Corporate bond	2005.03.30	2010.03.30	-	100,000	-
5th Corporate bond	2005.08.08	2010.08.08	-	100,000	-
6th Corporate bond	2006.06.15	2011.06.15	5.09	100,000	100,000
7th Corporate bond	2007.10.25	2010.10.25	-	176,795	-
8th Corporate bond	2008.03.18	2011.03.18	4.15	116,760	113,890
9th Corporate bond	2008.11.26	2011.11.26	7.58	100,000	100,000
10th Corporate bond	2009.01.23	2012.01.23	4.38	120,000	120,000
11th Corporate bond	2009.05.29	2014.05.29	5.15	80,000	80,000
12th Corporate bond	2009.11.24	2013.11.24	5.12	120,000	120,000
13th Corporate bond	2010.02.18	2015.02.18	5.08	-	120,000
14th Corporate bond	2010.03.19	2015.03.19	4.57	-	100,000
Global bond (#2)	2006.09.29	2016.09.29	5.50	175,140	170,835
				1,188,695	1,024,725
Less: Current portion				(376,795)	(313,890)
Discount on bonds payable				(2,653)	(2,366)
				₩ 809,247	₩ 708,469

(4) Payment schedules of the Company's long-term borrowings and debentures as of December 31, 2010 are as follows (Won in millions):

	Long-term borrowings	Debentures	Total
2011.12.31	₩ 14,900	₩ 313,890	₩ 328,790
2012.12.31	118,900	120,000	238,900
2013.12.31	16,530	120,000	236,530
2014.12.31	16,638	80,000	96,638
2015.12.31	4,338	220,000	224,338
There after	6,848	170,835	177,683
	₩ 278,154	₩ 1,024,725	₩ 1,302,879

8. LONG-TERM ACCOUNTS PAYABLE-OTHER:

Long-term accounts payable-other as of December 31, 2009 and 2010 are as follows (Won in millions):

<u>Company name</u>	<u>Type</u>	<u>Annual interest rate(%)</u>	<u>2009</u>	<u>2010</u>
KEPCO	Electric facility usage fee(*)	5.52	₩ 94,798	₩ 88,175
Less: Current portion			(7,166)	(5,412)
Other			656	369
			<u>₩ 88,288</u>	<u>₩ 83,132</u>

(*) The Company pays the usage fee for electricity transmission utilities constructed by KEPCO in accordance with the payment schedules.

9. ACCRUED SEVERANCE BENEFITS:

Changes in accrued severance benefits for the years ended December 31, 2009 and 2010 are summarized as follows (Won in millions):

	<u>2009</u>	<u>2010</u>
Beginning of year	₩ 91,005	₩ 95,525
Payments of severance indemnities	(5,223)	(4,886)
Provision for severance benefits	9,743	19,840
End of year	<u>₩ 95,525</u>	<u>₩ 110,479</u>

10. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES:

Significant liabilities denominated in foreign currencies as of December 31, 2009 and 2010 are as follows (Won in millions, EUR in thousands, USD in thousands and JPY in millions):

	<u>2009</u>		<u>2010</u>	
	<u>Foreign currencies</u>	<u>Equivalent Korean Won</u>	<u>Foreign currencies</u>	<u>Equivalent Korean Won</u>
Assets:				
Cash and Cash equivalents	EUR 381	₩ 637	USD 16	₩ 18
Liabilities:				
Trade payables	USD 62,897	73,438	USD 45,063	51,322
Accounts payable-other	USD -	-	USD 475	541
	JPY 10,592	133,759	JPY 21	291
Short-term borrowings	USD 79,572	92,908	USD 15,578	17,742
Current portion of debentures	USD -	-	USD 100,000	113,890
	JPY 14,000	176,795	JPY -	-
Debentures	USD 250,000	291,900	USD 150,000	170,835
Total Liabilities	USD 392,469		USD 311,116	
	JPY 24,592	₩ 768,800	JPY 21	₩ 354,621

11. CONTINGENCIES AND COMMITMENTS:

- (1) The Company is involved in litigation as a defendant in one case with claims in the aggregate amount of ₩ 7 million and as a plaintiff in one case with claims in the aggregate amount of ₩ 331 million as of December 31, 2010. The Company is unable to determine the outcome of the litigations. However, management believes that the ultimate settlement of these matters will not have a materially adverse effect on the Company's financial position or results of operations.
- (2) The guarantees provided by banks for import letters as of December 31, 2010 are as follows (Won in millions, USD in thousands and JPY in millions):

<u>Financial institution</u>	<u>Credit limit</u>		<u>Description</u>
Hana Bank	USD	30,000	Bituminous coal importation
	USD	90,730	"
Korea Exchange Bank	THB	12,829	Foreign construction bid guarantee
	USD	30,000	Bituminous coal importation
	USD	41,500	"
Woori Bank	USD	1,000	"
Kookmin Bank	USD	30,000	"
Total	USD	223,230	
	THB	12,829	

- (3) The details of the significant agreements with banks for loans as of December 31, 2010 are as follows (Won in millions, USD in thousands):

<u>Type</u>	<u>Financial institution</u>	<u>Credit limit</u>		<u>Amount used</u>	
Loan agreements	Hana Bank	KRW	49,200	KRW	49,200
		KRW	348,000	KRW	200,000
"	Korea Exchange Bank	USD	18,000	USD	-
		USD	30,000	USD	7,092
"	Shinhan Bank	KRW	100,000	KRW	-
		KRW	13,000	KRW	5,200
"	Industrial Bank of Korea	KRW	20,000	KRW	20,000
		USD	60,000	USD	-
Overdraft agreements	Shinhan Bank	USD	50,000	USD	-
		KRW	50,000	USD	-
Corporate Card	Korea Exchange Bank	KRW	500	KRW	149
Total		KRW	580,700	KRW	274,549
		USD	158,000	USD	7,092

- (4) The Company has entered into several contracts for construction of power plant facilities, including the construction of Teaan 7th and 8th generators of thermal power plant facilities and Gunsan combined cycle power plant facilities. The total contract amounts to ₩233,430 million.
- (5) The Company has several coal and oil purchase contracts with domestic and foreign suppliers as of December 31, 2010. In relation to coal imports, the Company has long-term transportation contracts with nine transportation companies including STX Pan Ocean. The Company also has a long-term LNG purchase contract with Korea Gas Corporation as of December 31, 2010.

12. DERIVATIVES:

- (1) Currency swap contracts as of December 31, 2010 are as follows (Won in millions, USD in thousands and JPY in millions):

	Term	Contract amounts		Contract interest rate per annum		Fair value(*2)
		Receive	Pay	Receive (%)	Pay (%)	
Barclays (*1)	2006~2016	USD 75,000	71,888	5.50%	4.81%	18,957
Deutsche Bank (*1)	2006~2016	USD 75,000	71,888	5.50%	4.81%	18,957
BNP Paribas (*1)	2008~2011	USD 50,000	48,650	3M Libor+1.3%	4.15%	8,130
RBS	2008~2011	USD 30,000	29,190	3M Libor+1.3%	4.15%	4,878
Woori Investment & Securities (*1)	2008~ 2011	USD 20,000	19,460	3M Libor+1.3%	4.15%	3,252
						<u>₩ 54,174</u>

(*1) Cash flow hedging

(*2) The gain (loss) on fair value of currency swaps for the years ended December 31, 2010 are as follows (Won in millions):

Transaction purpose	Type	Gain (Loss) on valuation	Accumulated other comprehensive income (loss) (*1)
Cash Flow Hedging (*1)	Euro bond #2	(4,305)	(6,952)
	Debenture #8	(2,870)	(3,397)
Total		<u>(7,175)</u>	<u>(10,349)</u>

- (2) Currency forward contract as of December 31, 2010 is as follows (Won in millions, USD in thousands):

	Maturity(*1)	Condition	Contract amounts		Fair value
			Receive	Pay	
Korea Exchange Bank	2011.01.03	1,147.10	USD 10,000	KRW 11,471	₩ (82)
	2011.01.06	1,147.10	USD 1,000	KRW 1,147	(8)
	2011.01.03	1,147.10	KRW 5,736	USD 5,000	41
	2011.01.13	1,138.10	USD 1,000	KRW 1,138	1
	2011.01.03	1,147.10	KRW 5,736	USD 5,000	41
	2011.01.06	1,147.10	KRW 1,147	USD 1,000	8
	2011.01.13	1,138.10	KRW 1,138	USD 1,000	(1)
	2011.01.31	1,145.35	USD 4,000	KRW 4,581	(20)
	2011.01.31	1,143.10	USD 2,000	KRW 2,286	(5)

(*1) The gain (loss) on fair value of currency forward contracts for the years ended December 31, 2009 and 2010, is 91 and 116 million Won.

- (3) Interest swap contract as of December 31, 2010 is as follows (Won in millions):

	Maturity	Contract amounts		Fair value
		Amount	Receive	
RBS	2012.10.22	100,000	4.79%	KRW CD(3M)+0.55% ₩ (1,557)

(*)The gain (loss) on fair value of interest swaps for the years ended December 31, 2010 is 1,935 million Won.

13. SHARHOLDER'S EQUITY:

(1) Capital stock

The Company has authorized 100,000,000 shares of ₩5,000 par value, of which 35,200,000 shares are issued and outstanding as of December 31, 2010.

(2) Capital surplus

Capital surplus as of December 31, 2010 is additional paid-in capital that was made at the date of physical spinoff.

14. RETAINED EARNINGS:

Appropriated retained earnings as of December 31, 2009 and 2010 consist of the following (Won in millions):

Account	2009	2010
Involuntary		
Legal reserve(*1)	₩ 37,832	₩ 40,469
Voluntary		
Reserve for operations expansion	728,080	803,720
Reserve for research and human development(*2)	13,900	6,000
Reserve for operations rationalization	181	181
Reserve for investment on social overhead capital(*2)	28,500	19,667
	<u>770,661</u>	<u>829,568</u>
	<u>₩ 808,493</u>	<u>₩ 870,037</u>

(*1) The Korean Commercial Code requires the Company to appropriate a legal reserve an amount equal to at least 10% of the cash dividends paid for each accounting period, until the reserve equals 50% of stated capital. The legal reserve is not available for cash dividends; however, these reserves may be credited to paid-in capital or offset against any accumulated deficit by resolution of the shareholder.

(*2) The reserve for investment on social overhead capital and reserve for research and human development are appropriated by the Company to avail qualified tax credits to reduce corporate tax liabilities. These reserves are not available for cash dividends for a certain period defined in the Special Tax Incentive Control Law.

15. COMPREHENSIVE INCOME (LOSS):

Comprehensive income (loss) for the years ended December 31, 2009 and 2010 is as follows (Won in millions):

	2009	2010
Net income (loss)	₩ 87,920	₩ 246,265
Other comprehensive gain (loss):		
Loss on available-for-sale-securities		
Tax effect: 2009: 65)		
2010: (185)	(229)	(657)
Changes in unrealized equity income of affiliates		
Tax effect: 2009: 346		
2010: 378	1,244	1,295
Unrealized loss on valuation of derivatives		
Tax effect: 2009: (1,934)		
2010: (2,277)	(6,855)	(8,072)
Comprehensive income (loss)	<u>₩ 82,080</u>	<u>₩ 238,831</u>

16. DIVIDENDS:

- (1) Proposed dividends for the years ended December 31, 2009 and 2010 are as follows (Won):

	<u>2009</u>	<u>2010</u>
Common shares	35,200,000	35,200,000
Par value	5,000	5,000
Dividend rate	14.99%	41.98%
Dividends	749 per share	2,099 per share

- (2) Ratio of dividends to net income for the years ended December 31, 2009 and 2010 is as follows (Won in millions):

	<u>2009</u>	<u>2010</u>
Dividends	26,375	73,879
Net income	87,920	246,265
Ratio of dividends to net income	30%	30%

17. INCOME TAX EXPENSE (BENEFITS):

- (1) The statutory corporate income tax rate (including resident surtax) applicable to the Company is approximately 24.2% in 2009 and 2010, and the effective corporate income tax rate is 22.67% for the year ended December 31, 2010. Income tax expense (benefits) for the years ended December 31, 2009 and 2010 are as follows (Won in millions):

	<u>2009</u>	<u>2010</u>
Income tax currently payable	₩ -	₩ 64,437
Change in deferred income taxes by temporary differences	469	(2,587)
Change in deferred income taxes by accumulated deficit	24,598	6,517
Change in deferred income taxes by tax credit carryforwards	(1,726)	1,726
Change in deferred income taxes adjusted directly in net assets	1,653	2,084
Change in deferred income taxes adjusted directly discontinued operations	<u>(2,486)</u>	<u>(9,069)</u>
Income tax expense (benefits)	<u>₩ 22,508</u>	<u>₩ 63,108</u>

- (2) A reconciliation between income tax expense (benefits) and accounting income (loss) of from continuing operations before income tax expense (benefits) for the years ended December 31, 2010 and 2009 is as follows (Won in millions):

	<u>2009</u>	<u>2010</u>
Income (loss) of from continuing operations before income tax	₩ 101,686	₩ 278,437
Tax effect at the rate of 24.2%	24,608	67,382
Adjustment:		
Non-taxable income	(43)	(1)
Non-deductible expenses	114	93
Temporary differences not recognized as deferred income tax	455	715
Tax credit	(660)	(2,579)
Additional payment of income taxes (Additional income tax)	62	(1,530)
Other	<u>(2,028)</u>	<u>(972)</u>
Income tax expense from continuing operations	<u>₩ 22,508</u>	<u>₩ 63,108</u>
Effective tax rate	22.13%	22.67%

(3) Deferred income tax assets (liabilities) as of December 31, 2009 and 2010 are as follows (Won in millions).

	2009	2010
Accumulated temporary differences	₩ 57,307	₩ 37,326
Estimated tax rate	24.2%, 22.0%	24.2%, 22.0%
Deferred income tax assets	12,059	8,128
Tax credit	1,726	-
Current liabilities	₩ (10,046)	₩ (915)
Non-current assets	23,831	9,043

18. EARNINGS (LOSS) PER SHARE:

Earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares, 35,200,000 shares for the years ended December 31, 2009 and 2010, outstanding during the years (Won in millions except per share amounts).

	2009	2010
Net income(loss) from continuing operations	₩ 79,178	₩ 215,329
Net income(loss) from discontinued operations	8,742	30,936
Net income(loss)	87,920	246,265
Weighted average number of common shares	35,200,000	35,200,000
Earnings per share from continuing operations	₩ 2,249	₩ 6,117
Earnings per share from discontinuing operations	249	879
Earnings per share from net income(loss)	2,498	6,996

19. RELATED PARTY TRANSACTIONS:

(1) Related party is as follows:

Relationship	Company name
Parents company	Korea Electric Power Corporation
Subsidiary	Garolim Tidal Power, Kowepo International Corporation and Kowepo Australia Pty. Ltd.
Equity method investee	Cheongna Energy Co., Ltd.

(2) Significant transactions with related parties for the years ended December 31, 2009 and 2010 are as follows (Won in millions):

Related parties	2009				Transactions
	Sales	Purchases	Other income	Other expenses	
KEPCO	₩ 3,803,145	₩ 90,827	₩ 1,450	₩ 25,853	Sales of electricity and others
Garolim Tidal Power	446	-	-	-	Sales of others
Cheongna Energy Co., Ltd.	946	-	-	-	Sales of others
Korea Gas Corporation	-	854,531	2,670	-	Purchases of LNG
KPS Co., Ltd.	-	58,663	559	-	Rental fee and others
Korea Electric Power Industrial Development Co., Ltd.	4,550	16,851	1,273	-	Rental fee and others
Korea Electric Power Data Network Co., Ltd.	-	2,394	-	2,739	Service fee and others
Korea South-East Power Co., Ltd.	-	-	29	34	Service fee and others
Korea Midland Power Co., Ltd.	-	46	29	-	Service fee and others
Korea East-West Power Co., Ltd.	-	27	29	98	Service fee and others
Korea South Power Co., Ltd.	1,666	644	71	35	Service fee and others
Korea Power Engineering Co., Inc	-	4,618	-	53	Others
LG U plus(formerly LG telecom)	-	221	12	930	Service fee and others
	<u>₩3,810,753</u>	<u>₩1,028,822</u>	<u>₩ 6,122</u>	<u>₩ 29,742</u>	
Related parties	2010				Transactions
	Sales	Purchases	Other income	Other expenses	
KEPCO	₩4,774,016	₩ 128,039	₩ 538	₩ 7,937	Sales of electricity and others
Garolim Tidal Power	2,090	-	2,090	-	Sales of others
Cheongna Energy Co., Ltd.	1,274	-	-	-	Sales of others
Korea Gas Corporation	-	931,654	-	-	Purchases of LNG
KPS Co., Ltd.	-	78,192	1,113	-	Rental fee and others
Korea Electric Power Industrial Development Co., Ltd.	4,278	17,415	936	-	Rental fee and others
Korea Electric Power Data Network Co., Ltd.	-	3,082	-	2,357	Service fee and others
Korea South-East Power Co., Ltd.	-	-	147	18	Service fee and others
Korea Midland Power Co., Ltd.	-	3	123	28	Service fee and others
Korea East-West Power Co., Ltd.	-	-	152	6	Service fee and others
Korea South Power Co., Ltd.	2,612	515	187	136	Service fee and others
Korea Power Engineering Co., Inc	-	3,616	34	2	Others
LG U plus(formerly LG telecom)	-	8	-	97	Service fee and others
	<u>₩4,784,270</u>	<u>₩1,162,524</u>	<u>₩ 5,320</u>	<u>₩ 10,581</u>	

- (3) Significant receivables and payables arising from related parties transactions as of December 31, 2009 and 2010 are as follows (Won in millions):

Related parties	2009					
	Receivables			Payables		
	Trade receivables	Others	Sub-total	Trade payables	Others	Sub-total
KEPCO	₩ 375,997	₩ 10,180	₩ 386,177	₩ 8,300	₩ 95,608	₩ 103,908
Garolim Tidal Power	-	235	235	-	-	-
Cheongna Energy Co., Ltd.	-	1,041	1,041	-	198	198
KPS Co., Ltd.	-	-	-	-	2,659	2,659
Korea Gas Corporation	-	176	176	138,001	13,800	151,801
Korea South-East Power Co., Ltd	-	15	15	-	-	-
Korea South Power Co., Ltd	-	15	15	-	-	-
Korea Midland Power Co., Ltd.	-	15	15	-	-	-
Korea Electric Power Industrial Development Co., Ltd.	178	-	178	-	1,535	1,535
Korea Electric Power Data Network Co., Ltd.	-	-	-	-	296	296
Korea East-West Power Co., Ltd.	-	15	15	-	-	-
	<u>₩ 376,175</u>	<u>₩ 11,692</u>	<u>₩387,867</u>	<u>₩ 146,301</u>	<u>₩ 114,096</u>	<u>₩ 260,397</u>

Related parties	2010					
	Receivables			Payables		
	Trade receivables	Others	Sub-total	Trade payables	Others	Sub-total
KEPCO	₩ 451,024	₩ 1,414	₩ 452,438	₩ 12,650	₩ 90,838	₩ 103,488
Garolim Tidal Power	-	2,281	2,281	-	-	-
Cheongna Energy Co., Ltd.	-	1,402	1,402	-	-	-
KPS Co., Ltd.	-	-	-	-	4,928	4,928
Korea Gas Corporation	-	-	-	261,462	-	261,462
Korea Power Engineering Co., Inc	-	-	-	-	139	139
Korea South Power Co., Ltd	-	500	500	-	110	110
Korea Midland Power Co., Ltd.	-	-	-	-	7,265	7,265
Korea Electric Power Industrial Development Co., Ltd.	-	187	187	-	1,548	1,548
Korea Electric Power Data Network Co., Ltd.	-	-	-	-	216	216
Korea East-West Power Co., Ltd.	-	25,306	25,306	-	24,844	24,844
	<u>₩ 451,024</u>	<u>₩ 31,090</u>	<u>₩482,114</u>	<u>₩ 274,112</u>	<u>₩ 114,096</u>	<u>₩ 404,000</u>

- (4) Short-term and long-term loans are housing and tuition loans to employees, and the balances as of December 31, 2009 and 2010 are as follows (Won in millions):

	Details	Amount	
		2009	2010
Short-term loans	Housing Loans	₩ 455	₩ 454
"	Tuition Loans	847	704
		<u>1,302</u>	<u>1,158</u>
Long-term loans	Housing Loans	4,507	4,230
"	Tuition Loans	10,378	10,970
"	Others	57	53
		<u>14,942</u>	<u>15,253</u>
		<u>₩ 16,244</u>	<u>₩ 16,411</u>

20. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the years ended December 31, 2009 and 2010 are as follows (Won in millions):

Account	2009	2010
Salaries and wages	₩ 9,082	₩ 10,741
Provision for severance benefits	556	1,463
Employee benefits	2,355	3,966
Travel and lodging	290	330
Communication	1,152	1,125
Insurance	28	29
Taxes and dues	384	224
Supplies	93	98
Clothing	22	23
Publication	123	97
Rent	1,825	1,939
Depreciation	759	1,197
Amortization	411	423
Maintenance and repairs	90	88
Vehicles maintenance	26	48
Commission	8,545	9,045
Advertisement	496	609
Training	54	47
Registration and regal fees	269	252
Ordinary development	4,419	4,818
Bad debt	345	768
Others	475	755
	<u>₩ 31,799</u>	<u>₩ 38,085</u>

21. VALUE-ADDED:

The components of electricity generating costs and selling, general administrative expenses and construction-in-progress, which are necessary in calculating value-added for the years ended December 31, 2009 and 2010, are as follows (Won in millions):

	2009	2010
Salaries	₩ 113,783	₩ 124,069
Retirement allowance and severance benefits	8,607	18,296
Other employee benefits	15,719	16,976
Rent	13,696	14,514
Depreciation & amortization	319,415	396,850
Taxes and dues	3,973	3,824
	<u>₩ 475,193</u>	<u>₩ 574,529</u>

22. STATEMENTS OF CASH FLOWS:

- (1) The gross cash and cash equivalents in the statements of cash flows represent cash and cash equivalents in the statements of financial position.
- (2) Transactions not involving cash flow for the years ended December 31, 2009 and 2010 are as follows (Won in millions):

Transactions	2009	2010
Transfer of long loan to current portion	₩ 1,302	₩ 2,621
Transfer of construction-in-progress to property, plant and equipment	146,124	921,693
Transfer of currency swap to current portion	65,308	22,527
Transfer of long term borrowings to current portion	14,900	14,900
Transfer of long term debentures to current portion	417,411	313,890
Transfer of long term accounts payable-other to current portion	7,166	5,156

23. 4th QUARTER'S FINANCIAL INFORMATION (UNAUDITED):

The Company's financial information (unaudited) for the three months ended December 31, 2009 and 2010 are as follows (Won in millions, except for share amount):

	Unaudited	
	4 th qtr of 2009	4 th qtr 2010
Sales	₩ 1,060,630	₩ 1,201,069
Operating loss	(6,462)	(9,957)
Net loss	(6,093)	(9,789)
Net loss per share	(173)	(278)

24. DISCONTINUED OPERATIONS:

The Company disposed of its Pumped-storage hydroelectricity business division during the year ended December 31, 2010 as follows:

- (1) General information on the discontinued division

On August 24, 2010, the Ministry of Knowledge issued the Development Plan, to be effective as of January 1, 2011. Under the Development Plan, the Company's Cheongsoung and Samnayungjin pumped storage power plant and seven (7) other pumped storage power plants at other KEPCO's subsidiaries, will be spilt from its respective companies and merged under Korea Hydro & Nuclear Power Co., Ltd.'s, a subsidiary of KEPCO, pumped storage business. The purpose of the Development Plan is to eliminate the inefficiencies of the five different thermal power plants with pumped storage businesses under KEPCO and to obtain synergy effects and overall stability within the grid.

On November 15, 2010, the Company's extraordinary general shareholder's meeting approved the Cheongsoung and Samnayungjin pumped storage power plant split and merger under Korea Hydro & Nuclear Power Co. Ltd., to be effective as of January 1, 2011.

- (2) As of December 31, 2010, the book value of the assets and liabilities to be disposed of subsequent to the balance sheet date are as follows (Won in millions):

Description	Book value
Asset	
Quick Assets	₩ 21,327
Inventories	768
Investments	985
Property, Plant, & Equipment	425,651
Intangible Assets	40,331
Other non-current assets	3,640
	<u>₩ 492,702</u>
Liabilities	
Current Liabilities	15,232
Non Current Liabilities	214,399
	<u>₩ 229,631</u>

- (3) Income (loss) of the discontinued division is as follows (Won in millions):

	2009	2010
Sales	₩ 139,497	₩ 194,891
Cost of sales	(126,538)	(154,350)
Gross profit(loss)	12,959	40,541
Selling and administrative expenses	(181)	(172)
Operating income(loss)	12,778	40,369
Non operating income(loss)	123	430
Non operating expense	(1,674)	(794)
Income(loss) before income tax	11,227	40,005
Income(loss) tax expense	(2,486)	(9,069)
Income(loss) of the Pumped-storage hydroelectricity business	<u>₩ 8,741</u>	<u>₩ 30,936</u>

- (4) Net cash flows from operating activities, investing activities and financing activities related to the discontinued division are as follows (Won in millions):

Description	Amount
Operating activities	(99,941)
Investing activities	(19,618)
Financing activities	119,559

-

25. PLAN AND PROGRESS ON ADOPTION OF K-IFRS:

- (1) The Company is scheduled to prepare financial statements in accordance with Korean International Financial Reporting Standards (the "K-IFRS") effective for financial statements issued for fiscal years beginning after January 1, 2011. The Company has set up a special task force and has been assessing the impact that the adoption of K-IFRS may have on financial statements and conducting on-the-job training and off-the-job training for its employees. In addition, the task force regularly reports the introduction plan and progress to the management.

(2) Significant differences between Korean GAAP and K-IFRS applicable to the Company are as follows:

	Issues	K-IFRS	K-GAAP
First-Adoption of Korean IFRS	Business combination	The Company has elected not to apply K-IFRS 1103, <i>Business combinations</i> , retrospectively to past business combinations which have occurred prior to January 1, 2010 (transition date).	Not applicable
	Deemed cost of Tangible assets	The Company selected to use deemed cost for selected tangible assets by measuring fair value of individual assets as at K-IFRS transition date.	Not applicable
	Employee benefits	The Company has elected to recognize all cumulative actuarial gains and losses on defined benefit plans in equity at January 1, 2010 (transition date).	Not applicable
	Cumulative translation differences	The Company has elected to reset its cumulative foreign currency translation adjustments from translation of foreign operations to zero at January 1, 2010 (transition date).	Not applicable
	Investment securities accounted for using the equity method	Book value as at transition date or fair value as of transition date is to be used as deemed cost and measured at cost from then after.	Not applicable
	Employee benefits	The present value of the estimated retirement benefits calculated using actuarial assumptions and discount rates is accrued for as defined benefit obligation, accordance with the Company's severance policy.	The Company accrued for estimated severance indemnities calculated as if all employees with more than one year of service were to terminate as of the period end date, in accordance with the Company's severance policy.
	Investment in subsidiaries and affiliates	Investment in subsidiaries and affiliates at transition date are measured at book value calculated under current GAAP applied before adoption of K-IFRS and are accounted for under the cost method after the transition date.	Investment in subsidiaries and affiliates are accounted for under equity method.
	Deferred income tax	Classification of deferred tax assets and liabilities is always non-current	Classification of deferred tax assets and liabilities is split between current and non-current components based on the classification of underlying asset or liability, or on the expected reversal of items not related an asset or liability.

Independent Accountant's Review Report on Internal Accounting Control System ("IACS")

English Translation of a Report Originally Issued in Korean

To the Representative Director of
Korea Western Power Co., Ltd.

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of Korea Western Power Co., Ltd. (the "Company") as of December 31, 2010. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2010, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2010, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, objective of which is to obtain a lower level of assurance than an audit, of the Management's Report in all material respects. A review includes obtaining an understanding of a company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

The Company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2010, and we did not review its IACS subsequent to December 31, 2010. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

March 22, 2011