

KOREA WESTERN POWER CO., LTD.  
AND SUBSIDIARIES

Consolidated Financial Statements

**December 31, 2014 and 2013**

(With Independent Auditors' Report Thereon)

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## Independent Auditors' Report

Based on a report originally issued in Korean

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

We have audited the accompanying consolidated financial statements of Korea Western Power Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2014 and 2013 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.



### **Other Matter**

The accompanying consolidated statement of financial position of the Group as of December 31, 2013, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, were audited by us in accordance with the previous auditing standards generally accepted in the Republic of Korea.

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

*KPMG Samjong Accounting Corp.*

Seoul, Korea  
March 16, 2015

This report is effective as of March 16, 2015, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
 Consolidated Statements of Financial Position  
 As of December 31, 2014 and 2013

*In millions of won*

|  | <b>Note</b> | <b>2014</b>        | <b>2013</b>      |
|--|-------------|--------------------|------------------|
| <b>Assets</b>                                |             |                    |                  |
| Cash and cash equivalents                    | 5,6,37      | ₩ 74,747           | 502,996          |
| Current financial assets                     | 5,9,10,37   | 10,346             | 1,396            |
| Trade and other receivables, net             | 5,7,37,38   | 510,830            | 481,335          |
| Inventories                                  | 11          | 308,395            | 281,361          |
| Current tax assets                           | 34          | -                  | 429              |
| Current non-financial assets                 | 12          | 90,066             | 75,227           |
| <b>Total current assets</b>                  |             | ₩ <u>994,384</u>   | <u>1,342,744</u> |
| Non-current financial assets                 | 5,8,9,10,37 | ₩ 65,678           | 54,908           |
| Non-current trade and other receivables, net | 5,7,37      | 6,429              | 6,214            |
| Property, plant and equipment, net           | 15,40       | 6,916,040          | 5,482,089        |
| Intangible assets, net                       | 16          | 18,152             | 22,072           |
| Investments in associates and joint ventures | 14,38       | 210,293            | 236,638          |
| Non-current non-financial assets             | 12          | 9,406              | 8,969            |
| Deferred tax assets                          | 34          | 4                  | 303              |
| <b>Total non-current assets</b>              |             | <u>7,226,002</u>   | <u>5,811,193</u> |
| <b>Total assets</b>                          |             | ₩ <u>8,220,386</u> | <u>7,153,937</u> |

*See accompanying notes to the consolidated financial statements.*

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Financial Position, Continued  
As of December 31, 2014 and 2013

*In millions of won*

|  | <u>Note</u>  | <u>2014</u>        | <u>2013</u>      |
|--|--------------|--------------------|------------------|
| <b>Liabilities</b>                             |              |                    |                  |
| Trade and other payables                       | 5,17,37,38   | ₩ 740,373          | 559,352          |
| Current financial liabilities                  | 5,9,18,19,37 | 100,352            | 80,415           |
| Current tax liabilities                        | 34           | 27,890             | 508              |
| Current non-financial liabilities              | 22           | 55,727             | 44,010           |
| <b>Total current liabilities</b>               |              | <u>924,342</u>     | <u>684,285</u>   |
| Non-current trade and other payables           | 5,17,37      | 393                | 393              |
| Non-current financial liabilities              | 5,9,18,19,37 | 3,823,862          | 3,087,004        |
| Non-current non-financial liabilities          | 22           | 1,724              | 1,140            |
| Employee benefits obligations, net             | 20,37        | 51,608             | 47,783           |
| Deferred tax liabilities                       | 34           | 182,516            | 192,777          |
| Non-current provisions                         | 21           | 27,230             | -                |
| <b>Total non-current liabilities</b>           |              | <u>4,087,333</u>   | <u>3,329,097</u> |
| <b>Total liabilities</b>                       |              | <u>5,011,675</u>   | <u>4,013,382</u> |
| <b>Equity</b>                                  |              |                    |                  |
| Share capital                                  | 23           | 1,192,365          | 1,192,365        |
| Retained earnings                              | 20,24,25     | 1,974,058          | 1,863,516        |
| Other components of equity                     | 26           | (57,671)           | (35,599)         |
| Hybrid securities                              | 27           | 99,750             | 99,750           |
| <b>Equity attributable to owners of KOWEPO</b> |              | <u>3,208,502</u>   | <u>3,120,032</u> |
| <b>Non-controlling interests</b>               |              | 209                | 20,523           |
| <b>Total equity</b>                            |              | <u>3,208,711</u>   | <u>3,140,555</u> |
| <b>Total liabilities and equity</b>            |              | <u>₩ 8,220,386</u> | <u>7,153,937</u> |

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Comprehensive Income  
For the years ended December 31, 2014 and 2013

*In millions of won, except earnings  
per share information*

|   | Note    | 2014        | 2013        |
|---|---------|-------------|-------------|
| Sales   | 4,28,38 | ₩ 4,844,478 | 5,760,877   |
| Cost of sales   | 35,38   | (4,558,053) | (5,576,362) |
| <b>Gross profit</b>   |         | 286,425     | 184,515     |
| Selling and administrative expenses   | 29,35   | (77,728)    | (64,672)    |
| <b>Operating income</b>   |         | 208,697     | 119,843     |
| Other non-operating income  | 30      | 3,532       | 3,196       |
| Other non-operating expenses  | 30      | (413)       | (1,355)     |
| Other income, net   | 31      | 3,669       | 10,383      |
| Finance income  | 5,9,32  | 89,206      | 34,956      |
| Finance expenses  | 5,9,33  | (150,780)   | (93,677)    |
| Income from associates and joint ventures   | 14      | 8,854       | 1,384       |
| <b>Profit before income tax</b>   |         | 162,765     | 74,730      |
| Income tax expense (benefit)  | 34      | 29,537      | (20,030)    |
| <b>Profit for the year</b>  |         | 133,228     | 94,760      |
| <b>Other comprehensive income (loss), net of tax:</b>   |         |             |             |
| <b>Items that will never be reclassified to profit or loss</b>                                      |         |             |             |
| Defined benefit plan actuarial losses, net of tax   | 20      | (7,906)     | (826)       |
| <b>Items that are or may be reclassified to profit or loss</b>                                      |         |             |             |
| Net change in the unrealized fair value of available-for-sale financial assets, net of tax          |         | 120         | 2,370       |
| Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax | 9       | (22,795)    | 2,686       |
| Share in other comprehensive income of associates and joint ventures, net of tax                    |         | 1,271       | 456         |
| Foreign currency translation of foreign operations, net of tax                                      |         | (667)       | (3,607)     |
| <b>Total other comprehensive income (loss), net of tax</b>  |         | (29,977)    | 1,079       |
| <b>Total comprehensive income for the year</b>  |         | ₩ 103,251   | 95,839      |

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
 Consolidated Statements of Comprehensive Income, Continued  
 For the years ended December 31, 2014 and 2013

*In millions of won, except earnings  
 per share information*

|  | <u>Note</u> | <u>2014</u>     | <u>2013</u>    |
|--|-------------|-----------------|----------------|
| <b>Profit (loss) attributable to:</b>            |             |                 |                |
| Owners of KOWEPO                                 | ₩           | 153,575         | 97,670         |
| Non-controlling interests                        |             | <u>(20,347)</u> | <u>(2,910)</u> |
|  | ₩           | <u>133,228</u>  | <u>94,760</u>  |
| <b>Total comprehensive Income</b>                |             |                 |                |
| <b>(loss) attributable to:</b>                   |             |                 |                |
| Owners of KOWEPO                                 | ₩           | 123,598         | 98,749         |
| Non-controlling interests                        |             | <u>(20,347)</u> | <u>(2,910)</u> |
|  | ₩           | <u>103,251</u>  | <u>95,839</u>  |
| <b>Earnings per share</b>                        |             |                 |                |
| Basic and diluted earnings per<br>share (in won) | 36          | ₩ <u>4,831</u>  | <u>3,072</u>   |

*See accompanying notes to the consolidated financial statement.*



KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Changes in Equity  
For the year ended December 31, 2013

In millions of won

|   | Equity attributable to owners of KOWEPO |                   |                            |                   |                  | Non-controlling interests | Total equity     |
|---|---|-------------------|----------------------------|-------------------|------------------|---------------------------|------------------|
|   | Share Capital                           | Retained earnings | Other components of equity | Hybrid securities | Subtotal         |                           |                  |
| <b>Balance at January 1, 2013</b>   | ₩ 1,192,365                             | 1,828,700         | (37,356)                   | 99,750            | 3,083,459        | 138,281                   | 3,221,740        |
| <b>Total comprehensive income for the year:</b>   |   |                   |                            |                   |                  |                           |                  |
| Profit (loss) for the year  | -                                       | 97,670            | -                          | -                 | 97,670           | (2,910)                   | 94,760           |
| Defined benefit plan actuarial losses, net of tax   | -                                       | (826)             | -                          | -                 | (826)            | -                         | (826)            |
| Net change in the unrealized fair value of available-for-sale financial assets, net of tax          | -                                       | -                 | 2,370                      | -                 | 2,370            | -                         | 2,370            |
| Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax | -                                       | -                 | 2,686                      | -                 | 2,686            | -                         | 2,686            |
| Share in other comprehensive income of associates and joint ventures, net of tax                    | -                                       | -                 | 456                        | -                 | 456              | -                         | 456              |
| Foreign currency translation of foreign operations, net of tax                                      | -                                       | -                 | (3,607)                    | -                 | (3,607)          | -                         | (3,607)          |
| <b>Transactions with owners recognized directly in equity:</b>                                      |   |                   |                            |                   |                  |                           |                  |
| Interest payments on hybrid securities  | -                                       | (2,868)           | -                          | -                 | (2,868)          | -                         | (2,868)          |
| Disposal of subsidiary  | -                                       | -                 | (148)                      | -                 | (148)            | (114,848)                 | (114,996)        |
| Dividends paid  | -                                       | (59,160)          | -                          | -                 | (59,160)         | -                         | (59,160)         |
| <b>Balance at December 31, 2013</b>   | ₩ <u>1,192,365</u>                      | <u>1,863,516</u>  | <u>(35,599)</u>            | <u>99,750</u>     | <u>3,120,032</u> | <u>20,523</u>             | <u>3,140,555</u> |

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Changes in Equity, Continued  
For the year ended December 31, 2014

In millions of won

|   | Equity attributable to owners of KOWEPO |                   |                            |                   |                  | Non-controlling interests | Total equity     |
|---|---|-------------------|----------------------------|-------------------|------------------|---------------------------|------------------|
|   | Share Capital                           | Retained earnings | Other components of equity | Hybrid securities | Subtotal         |                           |                  |
| <b>Balance at January 1, 2014</b>   | ₩ 1,192,365                             | 1,863,516         | (35,599)                   | 99,750            | 3,120,032        | 20,523                    | 3,140,555        |
| <b>Total comprehensive income for the year:</b>   |   |                   |                            |                   |                  |                           |                  |
| Profit (loss) for the year  | -                                       | 153,575           | -                          | -                 | 153,575          | (20,347)                  | 133,228          |
| Defined benefit plan actuarial losses, net of tax   | -                                       | (7,906)           | -                          | -                 | (7,906)          | -                         | (7,906)          |
| Net change in the unrealized fair value of available-for-sale financial assets, net of tax          | -                                       | -                 | 120                        | -                 | 120              | -                         | 120              |
| Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax | -                                       | -                 | (22,795)                   | -                 | (22,795)         | -                         | (22,795)         |
| Share in other comprehensive income of associates and joint ventures, net of tax                    | -                                       | -                 | 1,271                      | -                 | 1,271            | -                         | 1,271            |
| Foreign currency translation of foreign operations, net of tax                                      | -                                       | -                 | (667)                      | -                 | (667)            | -                         | (667)            |
| <b>Transactions with owners recognized directly in equity:</b>                                      |   |                   |                            |                   |                  |                           |                  |
| Interest payments on hybrid securities  | -                                       | (3,079)           | -                          | -                 | (3,079)          | -                         | (3,079)          |
| Disposal of subsidiary  | -                                       | -                 | (1)                        | -                 | (1)              | 33                        | 32               |
| Dividends paid  | -                                       | (32,048)          | -                          | -                 | (32,048)         | -                         | (32,048)         |
| <b>Balance at December 31, 2014</b>   | ₩ <u>1,192,365</u>                      | <u>1,974,058</u>  | <u>(57,671)</u>            | <u>99,750</u>     | <u>3,208,502</u> | <u>209</u>                | <u>3,208,711</u> |

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
For the years ended December 31, 2014 and 2013

In millions of won

|   | <b>2014</b>     | <b>2013</b>      |
|---|-----------------|------------------|
| <b>Cash flows from operating activities</b>   |                 |                  |
| Profit for the year   | ₩ 133,228       | 94,760           |
| Adjustments for:  |                 |                  |
| Income tax expense (benefit)  | 29,537          | (20,030)         |
| Depreciation  | 388,110         | 383,938          |
| Amortization of intangible assets   | 5,131           | 5,144            |
| Retirement benefit expenses   | 9,566           | 12,504           |
| Interest expense  | 66,885          | 67,556           |
| Interest income   | (6,770)         | (12,389)         |
| Loss (gain) on disposals of property, plant and equipment<br>and intangible assets, net | (8,262)         | 13,683           |
| Impairment loss on property, plant and equipment  | 35,094          | -                |
| Gain on disposals of available-for-sale financial assets,<br>net                        | -               | (37)             |
| Impairment loss on available-for-sale financial assets                                  | 1,513           | -                |
| Loss (gain) on derivative instruments, net  | (51,327)        | 18,430           |
| Loss (gain) on foreign currency translations, net                                       | 53,722          | (13,367)         |
| Income from associates and joint ventures   | (8,854)         | (1,384)          |
| Provision for renewable portfolio standard  | 27,562          | 32,605           |
| Increase in litigation provision  | 27,230          | -                |
| Others, net   | 231             | 452              |
|   | <u>569,368</u>  | <u>487,105</u>   |
| Changes in:   |                 |                  |
| Trade receivables   | 19,636          | 2,655            |
| Other receivables   | (50,338)        | (16,725)         |
| Inventories   | (26,689)        | (3,750)          |
| Current non-financial assets  | (17,165)        | 17,757           |
| Non-current non-financial assets  | (8,626)         | 2,182            |
| Trade payables  | 103,454         | (129,822)        |
| Other current payables  | (31,158)        | 1,436            |
| Current non-financial liabilities   | (15,845)        | 2,183            |
| Non-current other receivables   | -               | 290              |
| Non-current non-financial payables  | 584             | 499              |
| Payments of retirement benefit obligations  | (17,008)        | (8,111)          |
| Increase in plan assets   | -               | (2,903)          |
|   | <u>(43,155)</u> | <u>(134,309)</u> |
| Cash generated from operating activities  |                 |                  |
| Dividend received   | 2,546           | 1,831            |
| Interest received   | 7,113           | 15,361           |
| Interest paid   | (62,474)        | (59,395)         |
| Income tax paid   | (943)           | (30,329)         |
|   | <u>605,683</u>  | <u>375,024</u>   |
| <b>Net cash provided by operating activities</b>  | <b>₩</b>        |                  |

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows, Continued  
For the years ended December 31, 2014 and 2013

In millions of won

|   | 2014               | 2013               |
|---|--------------------|--------------------|
| <b>Cash flows from investing activities</b>   |                    |                    |
| Collection of loans   | ₩ 6,237            | 17,283             |
| Increase in loans   | (5,963)            | (2,912)            |
| Decrease in guarantee deposits  | 880                | 1,816              |
| Increase in guarantee deposits  | (833)              | (1,732)            |
| Decrease in short-term financial instruments  | -                  | 2,000              |
| Increase in short-term financial instruments  | (7,500)            | -                  |
| Proceeds from disposals of available-for-sale financial assets  | -                  | 325                |
| Proceeds from disposals of non-current assets as held for sale  | 46,765             | -                  |
| Proceeds from disposals of investments in associates and joint ventures                                 | -                  | 2,002              |
| Acquisition of investments in associates and joint ventures   | (12,841)           | (10,133)           |
| Cash inflow (outflow) from disposals of subsidiaries  | 33                 | (3,223)            |
| Acquisition of property, plant and equipment  | (1,787,722)        | (1,605,606)        |
| Proceeds from disposals of property, plant and equipment  | 21,301             | 286                |
| Acquisition of intangible assets  | (1)                | (330)              |
| Proceeds from disposals of other non-current assets   | -                  | -                  |
| Government grants received  | 42,146             | 20,369             |
| Increase in other investments   | -                  | (9,317)            |
| <b>Net cash used in investing activities</b>  | <u>(1,697,498)</u> | <u>(1,589,172)</u> |
| <b>Cash flows from financing activities</b>   |                    |                    |
| Proceeds from borrowings  | 1,219,996          | 469,922            |
| Repayment of borrowings   | (1,220,342)        | (570,153)          |
| Proceeds from debentures  | 771,675            | 1,564,110          |
| Repayment of debentures   | (80,000)           | (121,536)          |
| Issuance of share capital   | -                  | 30,367             |
| Dividends paid  | (32,048)           | (59,160)           |
| Settlement of derivative instruments  | (59)               | -                  |
| Interest payments on hybrid securities  | (4,050)            | (2,868)            |
| <b>Net cash provided by financing activities</b>  | <u>655,172</u>     | <u>1,310,682</u>   |
| <b>Net increase (decrease) in cash and cash equivalents before effect of exchange rate fluctuations</b> | (436,643)          | 96,534             |
| Effect of exchange rate on foreign operations financial statements translation                          | 8,320              | 2,863              |
| Effect of exchange rate fluctuations on cash held   | 74                 | (5,130)            |
| <b>Net increase (decrease) in cash and cash equivalents</b>   | <u>(428,249)</u>   | <u>94,267</u>      |
| Cash and cash equivalents at beginning of the year  | 502,996            | 408,729            |
| <b>Cash and cash equivalents at end of the year</b>   | <u>₩ 74,747</u>    | <u>502,996</u>     |

See accompanying notes to the consolidated financial statements.

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

### 1. Reporting Entity

In accordance with a 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 Act on Promotion of Restructuring the Electric Power Industry published on December 23, 2000, Korea Western Power Co., Ltd. (the "KOWEPO") was incorporated on April 2, 2001 through the spin-off of the power generation division of Korea Electric Power Corporation (the "KEPCO"). KOWEPO and its subsidiaries (the "Group") engage in the generation of electricity and development of electric power resources. The Group sells all generated electricity to KEPCO through the Korea Power Exchange ("KPX") in accordance with Article 31 of the Electricity Business Law.

As of December 31, 2014, the KOWEPO owns and operates five power plants with a total annual capacity of 9,305MW.

The KOWEPO's head office is located in Gangnam-gu, Seoul, Korea. The share capital of the KOWEPO as of December 31, 2014 amounts to ₩158,946 million and the Group's sole shareholder is KEPCO (100%).

In accordance with Korea International Financial Reporting Standards ("K-IFRS") No.1110 'Consolidated Financial Statements', the Group's consolidated financial statements includes the financial results of KOWEPO, the parent company, Garolim Tidal power Co., Ltd. and six other subsidiaries ("consolidated entity"). Cheongna Energy Co., Ltd. and 11 other investments are accounted for as equity method investments.

### 2. Basis of Preparation and Changes in accounting policies

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *the Act on External Audits of Corporations in the Republic of Korea*.

The consolidated financial statements were authorized for issue on March 13, 2015, which will be submitted for approval to the shareholder's meeting to be held on March 27, 2015.

#### (1) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- ✓ Derivative financial instruments are measured at fair value
- ✓ Available-for-sale financial assets are measured at fair value
- ✓ Liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

#### (2) Functional and presentation currency

These consolidated financial statements are presented in Korean won, which is KOWEPO's functional currency and the currency of the primary economic environment in which the Group operates.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
For the years ended December 31, 2014 and 2013

**2. Basis of Preparation and Changes in accounting policies, Continued**

**(3) Use of estimates and judgments**

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

**a. The judgment of management**

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following note.

- ✓ Note 14 : Scope of consolidation - whether the Group has de facto control over an investee

**b. The uncertainty of assumptions and estimates**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year are included in the following notes:

- ✓ Note 20: Measurement of defined benefit obligations - key actuarial assumptions
- ✓ Note 21 and 41: Recognition and measurement of provisions and contingencies - key assumptions about the likelihood and magnitude of an outflow of resources

**c. Fair Value Measurement**

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- ✓ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- ✓ Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- ✓ Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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**2. Basis of Preparation and Changes in accounting policies, Continued**

**(3) Use of estimates and judgments, Continued**

If the inputs used to measure the fair value of an asset or a liability are categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following note:

- ✓ Note 37: Risk management

**(4) Changes in accounting policies**

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these financial statements. The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2014.

- ✓ Offsetting Financial Assets and Financial Liabilities (Amendments to K-IFRS 1032 'Financial Instruments: Presentation')
- ✓ Recoverable Amount Disclosures for Non-Financial Assets (Amendments to K-IFRS 1036)
- ✓ K-IFRS 2121 'Levies'

The Group has applied the above amendments retrospectively and did not make any adjustments on prior year financial statements since the management believes the impact of the amendments on the Group's consolidated financial statements is not significant.

(i) Offsetting Financial Assets and Financial Liabilities (Amendments to K-IFRS 1032)

The Group has adopted amendments to K-IFRS 1032, 'Offsetting Financial Assets and Financial Liabilities' since January 1, 2014. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'. According to the amendments, the right to set off should not be contingent on a future event, and legally enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendments also state that some gross settlement systems would be considered equivalent to net settlement if they eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle.

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**2. Basis of Preparation and Changes in accounting policies, Continued**

**(4) Changes in accounting policies, Continued**

(ii) Recoverable Amount Disclosures for Non-Financial Assets (Amendments to K-IFRS No.1036)

The Group has adopted amendments to K-IFRS 1036 'Impairment of Assets' since January 1, 2014. The amendments require the disclosure of information about the recoverable amount of impaired assets, if that amount is based on fair value less costs of disposal. They also require the disclosure of additional information about that fair value measurement. In addition, if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using a present value technique, the amendments also require the disclosure of the discount rates that have been used in the current and previous measurements.

(iii) K-IFRS No.2121, 'Levies'

The Group has adopted K-IFRS No.2121, 'Levies' since January 1, 2014. K-IFRS No. 2121 is an Interpretation of K-IFRS No. 1037 Provisions, Contingent Liabilities and Contingent Assets, on the accounting for levies imposed by governments. K-IFRS 1037 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (or 'obligating event'). K-IFRS 2121 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The interpretation does not provide guidance on the accounting for the costs arising from recognizing the liability to pay a levy. Other K-IFRSs should be applied to determine whether the recognition of a liability to pay a levy gives rise to an asset or an expense.



# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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### 3. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except those as described in note 2(4).

#### (1) Consolidation

##### (i) Business combination

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or business under common control.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No.1032, *Financial Instruments: Presentation* and K-IFRS No.1039, *Financial Instruments: Recognition and Measurement*.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

##### (ii) Non-controlling interests

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

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**3. Significant Accounting Policies, Continued**

**(1) Consolidation, Continued**

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(iv) Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method. They are recognized initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(vii) Business combination under common control

For business combinations arising from transfers of interests in the entities that are under common control, the assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are presented in the same components within the Group's equity except that any share capital of the acquired entities is recognized as part of share premium.

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**3. Significant Accounting Policies, Continued**

**(2) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

**(3) Inventories**

The cost of inventories is based on the moving average method, and includes expenditures for acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

**(4) Non-derivative financial assets**

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

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**3. Significant Accounting Policies, Continued**

**(4) Non-derivative financial assets, Continued**

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost. When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

(v) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

**(5) Derivative financial instruments, including hedge accounting**

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

(i) Hedge accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

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**3. Significant Accounting Policies, Continued**

**(5) Derivative financial instruments, including hedge accounting, Continued**

The Group makes an assessment, both at the inception of the hedge relationship as well as on a quarterly basis, whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80%-125%. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

*Fair value hedge*

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

*Cash flow hedge*

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(ii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

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**3. Significant Accounting Policies, Continued**

**(6) Impairment of financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses are measured and recognized.

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

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3. Significant Accounting Policies, Continued

(7) Property, plant and equipment

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

The estimated useful lives of the Group's assets are as follows:

|  | <b>Useful lives (years)</b> |
|--|-----------------------------|
| Buildings  | 8 ~ 30                      |
| Structures   | 8 ~ 30                      |
| Machinery  | 6 ~ 24                      |
| Vehicles   | 4                           |
| Finance lease  | 6~ 30                       |
| Other property, plant and equipment ("the other PP&E") | 4                           |

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

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3. Significant Accounting Policies, Continued

(8) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

|   | <u>Useful lives (years)</u> |
|---|-----------------------------|
| Computer software                                 | 5                           |
| Development costs                                 | 5                           |
| Rights of use for the loading docks               | 20                          |
| Rights of use for the industrial water facilities | 10                          |
| Others  | 5~10                        |

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

(i) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

(ii) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.



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**3. Significant Accounting Policies, Continued**

**(9) Borrowing costs**

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Group immediately recognizes other borrowing costs as an expense. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

**(10) Government grants**

Government grants are not recognized unless there is reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received.

Government grants whose primary condition is that the Group purchase, construct or otherwise acquire long-term assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense.

Government grants which are intended to compensate the Group for expenses incurred shall be recognized as other income in profit or loss over the periods in which the Group recognizes the related costs as expenses.

**(11) Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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### 3. Significant Accounting Policies, Continued

#### (11) Impairment of non-financial assets, Continued

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

#### (12) Leases

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

##### (i) Finance leases

At the commencement of the lease term, the Group recognizes as finance assets and finance liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews to determine whether the leased asset may be impaired.

##### (ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

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**3. Significant Accounting Policies, Continued**

**(12) Leases, Continued**

(iii) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a financial lease that it is impracticable to separate the payments reliably, the Group recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability shall be reduced as payments are made and an imputed finance charge on the liability recognized using the purchaser's incremental borrowing rate of interest.

**(13) Non-current assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

**(14) Non-derivative financial liabilities**

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

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**3. Significant Accounting Policies, Continued**

**(15) Employee benefits**

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Retirement benefits: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognizes the past service cost immediately.

**(16) Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

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**3. Significant Accounting Policies, Continued**

**(17) Foreign currencies**

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

(iii) Translation of net investments on foreign operations

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

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**3. Significant Accounting Policies, Continued**

**(18) Equity capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Group's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Group's shareholders.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. In the case of hybrid securities that have an unconditional right for the Group to avoid the delivery of financial assets such as cash to settle a contractual obligation, it is classified as equity instruments, presented as part of the equity.

**(19) Revenue**

Revenue from the sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable, trade discounts and volume rebates, which are recognized as a reduction of revenue.

(i) Sales of goods

The Group recognizes revenue from the sale of goods when the significant risks and rewards of ownership of the goods are transferred to the buyer. The Group is primarily an electric power generation company through operations of the thermal and combined-cycle plants. Electric energy revenue is recognized upon transmission to the customers.

(ii) Sales of service

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed or services performed to date as a percentage of total services to be performed or the proportion that costs incurred to date bear to the estimated total costs of the transaction or other methods that reliably measures the services performed.

(iii) Dividend income and interest income

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Interest income is recognized as it accrues in profit or loss, using the effective interest method. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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**3. Significant Accounting Policies, Continued**

**(20) Finance income and finance costs**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

**(21) Income taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets or deferred tax liabilities on investment properties measured at fair value, unless any contrary evidence exists, are measured using the assumption that the carrying amount of the property will be recovered entirely through sale.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

### 3. Significant Accounting Policies, Continued

#### (21) Income taxes, Continued

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

#### (22) Earnings per share

KOWEPO presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of KOWEPO by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

#### (23) New standards and interpretations not yet adopted

The following amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2014, and the Group has not early adopted them. Management believes the impact of the amendments on the Group's consolidated financial statements is not significant.

(i) K-IFRS 1019 'Employee Benefits' – Employee contributions

Amendments to K-IFRS 1019 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. According to the amendments, the entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits.

### 4. Operating segment

(1) Substantially all of the Group's revenue and non-current assets are in Korea, therefore it does not disclose entity-wide geographic information. The Group's chief operating decision maker ("CODM") does not receive and therefore does not review discrete financial information for any component of the Group.

(2) Information about major customer

Sales attributable to KEPCO, the main customer, are ₩4,801,804 million and ₩5,749,477 million for the years ended December 31, 2014 and 2013, respectively.



KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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5. Categories of Financial Instruments

(1) Financial assets

Categories of financial assets as of December 31, 2014 and 2013 are as follows:

(i) As of December 31, 2014

*In millions of won*

|   | <b>Loans and<br/>receivables</b> | <b>Available-<br/>for-sale<br/>financial<br/>assets</b> | <b>Derivatives<br/>using hedge<br/>accounting</b> | <b>Total</b>   |
|---|----------------------------------|---|---|----------------|
| <b>Current financial assets:</b>                |                                  |   |   |                |
| Cash and cash equivalents                       | ₩ 74,747                         | -   | -   | 74,747         |
| Current financial assets                        |                                  |   |   |                |
| Loans and receivables                           | 2,846                            | -   | -   | 2,846          |
| Short-term Financial<br>instruments             | 7,500                            | -   | -   | 7,500          |
| Trade and other receivables, net                | 510,830                          | -   | -   | 510,830        |
|   | <u>595,923</u>                   | <u>-</u>  | <u>-</u>  | <u>595,923</u> |
| <b>Non-current financial assets:</b>            |                                  |   |   |                |
| Non-current financial assets                    |                                  |   |   |                |
| Available-for-sale financial<br>assets          | -                                | 12,795  | -   | 12,795         |
| Derivative assets                               | -                                | -   | 42,008  | 42,008         |
| Loans and receivables                           | 10,875                           | -   | -   | 10,875         |
| Non-current trade and other<br>receivables, net | 6,429                            | -   | -   | 6,429          |
|   | <u>17,304</u>                    | <u>12,795</u>   | <u>42,008</u>                                     | <u>72,107</u>  |
| ₩   | <u>613,227</u>                   | <u>12,795</u>   | <u>42,008</u>                                     | <u>668,030</u> |

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5. Categories of Financial Instruments, Continued

(ii) As of December 31, 2013

*In millions of won*

|   | <b>Financial<br/>assets at<br/>fair value<br/>through<br/>profit or<br/>loss</b> | <b>Loans and<br/>receivables</b> | <b>Available<br/>-for-sale<br/>financial<br/>assets</b> | <b>Derivatives<br/>using<br/>hedge<br/>accounting</b> | <b>Total</b>     |
|---|--|----------------------------------|---|---|------------------|
| <b>Current financial assets:</b>                |  |                                  |   |   |                  |
| Cash and cash equivalents                       | ₩ -  | 502,996                          | -   | -   | 502,996          |
| Current financial assets                        |  |                                  |   |   |                  |
| Derivative assets                               | 46   | -                                | -   | -   | 46               |
| Loans and receivables                           | -  | 1,350                            | -   | -   | 1,350            |
| Trade and other receivables,<br>net             | -  | 481,335                          | -   | -   | 481,335          |
|   | <u>46</u>  | <u>985,681</u>                   | <u>-</u>  | <u>-</u>  | <u>985,727</u>   |
| <b>Non-current financial<br/>assets:</b>        |  |                                  |   |   |                  |
| Non-current financial assets                    |  |                                  |   |   |                  |
| Available-for-sale financial<br>assets          | -  | -                                | 14,153  | -   | 14,153           |
| Derivative assets                               | -  | -                                | -   | 27,463  | 27,463           |
| Loans and receivables                           | -  | 13,292                           | -   | -   | 13,292           |
| Non-current trade and other<br>receivables, net | -  | 6,214                            | -   | -   | 6,214            |
|   | <u>-</u>   | <u>19,506</u>                    | <u>14,153</u>   | <u>27,463</u>   | <u>61,122</u>    |
| ₩   | <u>46</u>  | <u>1,005,187</u>                 | <u>14,153</u>   | <u>27,463</u>   | <u>1,046,849</u> |

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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5. Categories of Financial Instruments, Continued

(2) Financial liabilities

Categories of financial liabilities as of December 31, 2014 and 2013 are as follows:

(i) As of December 31, 2014

*In millions of won*

|   | <b>Financial liabilities<br/>measured at<br/>amortized cost</b> | <b>Derivatives using<br/>hedge accounting</b> | <b>Total</b>     |
|---|---|---|------------------|
| <b>Current financial liabilities:</b>     |   |   |                  |
| Borrowings                                | ₩ 367   | -   | 367              |
| Debentures                                | 99,985  | -   | 99,985           |
| Trade and other payables                  | 740,373   | -   | 740,373          |
|   | <u>840,725</u>  | <u>-</u>                                      | <u>840,725</u>   |
| <b>Non-current financial liabilities:</b> |   |   |                  |
| Borrowings                                | 2,811   | -   | 2,811            |
| Debentures                                | 3,781,088   | -   | 3,781,088        |
| Derivative liabilities                    | -   | 39,963  | 39,963           |
| Non-current trade and other payables      | 393   | -   | 393              |
|   | <u>3,784,292</u>  | <u>39,963</u>                                 | <u>3,824,255</u> |
| ₩   | <u>4,625,017</u>  | <u>39,963</u>                                 | <u>4,664,980</u> |

(ii) As of December 31, 2013

*In millions of won*

|   | <b>Financial liabilities at fair value through profit or loss</b> | <b>Financial liabilities measured at amortized cost</b> | <b>Derivatives using hedge accounting</b> | <b>Total</b>     |
|---|---|---|---|------------------|
| <b>Current financial liabilities:</b>     |   |   |   |                  |
| Borrowings                                | ₩ -   | 347   | -   | 347              |
| Debentures                                | -   | 79,964  | -   | 79,964           |
| Derivative liabilities                    | 104   | -   | -   | 104              |
| Trade and other payables                  | -   | 559,352   | -   | 559,352          |
|   | <u>104</u>  | <u>639,663</u>  | <u>-</u>                                  | <u>639,767</u>   |
| <b>Non-current financial liabilities:</b> |   |   |   |                  |
| Borrowings                                | -   | 3,177   | -   | 3,177            |
| Debentures                                | -   | 3,037,155   | -   | 3,037,155        |
| Derivative liabilities                    | -   | -   | 46,672                                    | 46,672           |
| Non-current trade and other payables      | -   | 393   | -   | 393              |
|   | <u>-</u>  | <u>3,040,725</u>  | <u>46,672</u>                             | <u>3,087,397</u> |
| ₩   | <u>104</u>  | <u>3,680,388</u>  | <u>46,672</u>                             | <u>3,727,164</u> |

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5. Categories of Financial Instruments, Continued

(3) Finance income and expenses

Finance income and expenses on each category of financial instruments for the years ended December 31, 2014 and 2013 are as follows:

*In millions of won*

| Type   | Description  | 2014     | 2013     |
|--|--|----------|----------|
| Cash and cash equivalents                        | Interest income  | ₩ 6,221  | 10,981   |
|  | Gain (loss) on foreign currency transactions and translations, net                 | 74       | (5,130)  |
| Available-for-sale financial assets              | Gain on valuation of available-for-sale financial assets, net (equity, before tax) | 158      | 3,126    |
|  | Gain on disposal of available-for-sale financial assets                            | -        | 37       |
|  | Impairment loss on available-for-sale financial assets                             | (1,513)  | -        |
| Loans and receivables                            | Interest income  | 268      | 966      |
|  | Amortization of present value discount   | 281      | 442      |
| Financial liabilities recorded at amortized cost | Gain (loss) on foreign currency transactions and translations, net                 | (51,347) | 19,969   |
|  | Interest expense of borrowings and debentures                                      | (66,675) | (67,555) |
|  | Other interest expense   | (210)    | (1)      |
| Derivatives (trading)                            | Loss on valuation of derivative instruments, net                                   | -        | (59)     |
| Derivatives (hedge accounting)                   | Gain (loss) on valuation of derivative instruments, net (profit or loss)           | 51,327   | (18,371) |
|  | Gain (loss) on valuation of derivative instruments, net (equity, before tax)       | (30,072) | 3,544    |

6. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2014 and 2013 are as follows:

*In millions of won*

|                     | 2014     | 2013    |
|---------------------|----------|---------|
| Cash                | ₩ 1      | 1       |
| Cash equivalents(*) | 74,746   | 502,995 |
|                     | ₩ 74,747 | 502,996 |

(\*) There are no financial instruments restricted in use as of December 31, 2014.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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7. Trade and Other Receivables

(1) Trade and other receivables as of December 31, 2014 and 2013 are as follows:

(i) As of December 31, 2014

*In millions of won*

|                            | <u>Gross<br/>receivables</u> | <u>Present value<br/>discount</u> | <u>Book value</u> |
|----------------------------|------------------------------|-----------------------------------|-------------------|
| <b>Current assets:</b>     |                              |                                   |                   |
| Trade receivables          | ₩ 427,909                    | -                                 | 427,909           |
| Other receivables          | 83,030                       | (109)                             | 82,921            |
|                            | <u>510,939</u>               | <u>(109)</u>                      | <u>510,830</u>    |
| <b>Non-current assets:</b> |                              |                                   |                   |
| Other receivables          | 6,634                        | (205)                             | 6,429             |
|                            | <u>₩ 517,573</u>             | <u>(314)</u>                      | <u>517,259</u>    |

(\*) There are no trade and other receivables which are overdue or impaired as of December 31, 2014.

(ii) As of December 31, 2013

*In millions of won*

|                            | <u>Gross<br/>receivables</u> | <u>Present value<br/>discount</u> | <u>Book value</u> |
|----------------------------|------------------------------|-----------------------------------|-------------------|
| <b>Current assets:</b>     |                              |                                   |                   |
| Trade receivables          | ₩ 447,546                    | -                                 | 447,546           |
| Other receivables          | 33,930                       | (141)                             | 33,789            |
|                            | <u>481,476</u>               | <u>(141)</u>                      | <u>481,335</u>    |
| <b>Non-current assets:</b> |                              |                                   |                   |
| Other receivables          | 6,400                        | (186)                             | 6,214             |
|                            | <u>₩ 487,876</u>             | <u>(327)</u>                      | <u>487,549</u>    |

(2) Details of other receivables as of December 31, 2014 and 2013 are as follows:

(i) As of December 31, 2014

*In millions of won*

|                            | <u>Gross receivables</u> | <u>Present value<br/>discount</u> | <u>Book value</u> |
|----------------------------|--------------------------|-----------------------------------|-------------------|
| <b>Current assets:</b>     |                          |                                   |                   |
| Non-trade receivables      | ₩ 9,533                  | -                                 | 9,533             |
| Accrued income             | 66,221                   | -                                 | 66,221            |
| Guarantee                  | 7,276                    | (109)                             | 7,167             |
|                            | <u>83,030</u>            | <u>(109)</u>                      | <u>82,921</u>     |
| <b>Non-current assets:</b> |                          |                                   |                   |
| Guarantee                  | 5,301                    | (205)                             | 5,096             |
| Others                     | 1,333                    | -                                 | 1,333             |
|                            | <u>6,634</u>             | <u>(205)</u>                      | <u>6,429</u>      |
|                            | <u>₩ 89,664</u>          | <u>(314)</u>                      | <u>89,350</u>     |

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7. Trade and Other Receivables, Continued

(ii) As of December 31, 2013

*In millions of won*

|                            |   | <u>Gross receivables</u> | <u>Present value discount</u> | <u>Book value</u> |
|----------------------------|---|--------------------------|-------------------------------|-------------------|
| <b>Current assets:</b>     |   |                          |                               |                   |
| Non-trade receivables      | ₩ | 5,565                    | -                             | 5,565             |
| Accrued income             |   | 20,866                   | -                             | 20,866            |
| Guarantee                  |   | 7,499                    | (141)                         | 7,358             |
|                            |   | <u>33,930</u>            | <u>(141)</u>                  | <u>33,789</u>     |
| <b>Non-current assets:</b> |   |                          |                               |                   |
| Guarantee                  |   | 5,127                    | (186)                         | 4,941             |
| Others                     |   | 1,273                    | -                             | 1,273             |
|                            |   | <u>6,400</u>             | <u>(186)</u>                  | <u>6,214</u>      |
|                            | ₩ | <u>40,330</u>            | <u>(327)</u>                  | <u>40,003</u>     |

8. Available-for-sale Financial Assets

Available-for-sale financial assets as of December 31, 2014 and 2013 are as follows:

*In millions of won*

|   |                  | <u>2014</u>        | <u>2013</u>        |
|---|------------------|--------------------|--------------------|
|   | <u>Ownership</u> | <u>Non-current</u> | <u>Non-current</u> |
| <b>Equity securities</b>                    |                  |                    |                    |
| <b>Unlisted:</b>                            |                  |                    |                    |
| Korea Power Exchange                        | 7.14% ₩          | 12,147             | 11,988             |
| Hanhwa Power Venture Fund                   | 1.20%            | 132                | 132                |
| Kepeco UHDE                                 | 3.00%            | 516                | 516                |
| 3i Powergen Inc.                            | 15.00%           | -                  | 1,486              |
| Kanan Hydroelectric Power Corp.             | 19.58%           | -                  | 17                 |
| Green & Sustainable Energy Investment Corp. | -                | -                  | 14                 |
|   | ₩                | <u>12,795</u>      | <u>14,153</u>      |

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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9. Derivatives

(1) Derivatives as of December 31, 2014 and 2013 are as follows:

*In millions of won*

|                                |   | 2014    |             | 2013    |             |
|--------------------------------|---|---------|-------------|---------|-------------|
|                                |   | Current | Non-current | Current | Non-current |
| <b>Derivative Assets:</b>      |   |         |             |         |             |
| Currency forward               | ₩ | -       | -           | 46      | -           |
| Currency swap                  |   | -       | 42,008      | -       | 27,463      |
|                                |   | -       | 42,008      | 46      | 27,463      |
| <b>Derivative Liabilities:</b> |   |         |             |         |             |
| Currency forward               |   | -       | -           | 104     | -           |
| Currency swap                  |   | -       | 39,963      | -       | 46,672      |
|                                | ₩ | -       | 39,963      | 104     | 46,672      |

(2) Currency swap contracts as of December 31, 2014 are as follows:

*In millions of won and thousands of USD and CHF*

| Type      | Counterparty               | Period    | Contract amounts |             | Contract interest rate |             | Contract currency |
|-----------|----------------------------|-----------|------------------|-------------|------------------------|-------------|-------------------|
|           |                            |           | Pay (KRW)        | Receive     | Pay (%)                | Receive (%) |                   |
| Cash flow | Barclays Bank PLC          | 2006~2016 | 71,888           | USD 75,000  | 4.81                   | 5.50        | 958.51            |
|           | Deutsche Bank AG           | 2006~2016 | 71,888           | USD 75,000  | 4.81                   | 5.50        | 958.51            |
| hedge     | Barclays Bank PLC          | 2012~2017 | 142,500          | USD 125,000 | 3.83                   | 3.13        | 1,140.00          |
|           | Morgan Stanley             | 2012~2017 | 142,500          | USD 125,000 | 3.83                   | 3.13        | 1,140.00          |
|           | The Royal Bank of Scotland | 2012~2017 | 142,500          | USD 125,000 | 3.83                   | 3.13        | 1,140.00          |
|           | JPMorgan                   | 2012~2017 | 142,500          | USD 125,000 | 3.83                   | 3.13        | 1,140.00          |
|           | The Royal Bank of Scotland | 2013~2019 | 118,343          | CHF 100,000 | 3.47                   | 1.625       | 1,183.43          |
|           | Barclays Bank PLC          | 2013~2019 | 59,172           | CHF 50,000  | 3.47                   | 1.625       | 1,183.43          |
|           | Nomura Securities Co., Ltd | 2013~2019 | 59,172           | CHF 50,000  | 3.47                   | 1.625       | 1,183.43          |
|           | Barclays Bank PLC          | 2013~2018 | 107,360          | USD 100,000 | 3.34                   | 2.875       | 1,073.60          |
|           | The Royal Bank of Scotland | 2013~2018 | 107,360          | USD 100,000 | 3.34                   | 2.875       | 1,073.60          |
|           | JPMorgan                   | 2013~2018 | 161,040          | USD 150,000 | 3.34                   | 2.875       | 1,073.60          |
|           | SC bank                    | 2013~2018 | 161,040          | USD 150,000 | 3.34                   | 2.875       | 1,073.60          |
|           | SC bank                    | 2014~2019 | 104,490          | USD 100,000 | 2.77                   | 2.625       | 1,044.90          |
|           | The Royal Bank of Scotland | 2014~2019 | 104,490          | USD 100,000 | 2.77                   | 2.625       | 1,044.90          |
|           | Barclays Bank PLC          | 2014~2019 | 104,490          | USD 100,000 | 2.77                   | 2.625       | 1,044.90          |

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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For the years ended December 31, 2014 and 2013

9. Derivatives, Continued

(3) The gain (loss) on valuation of derivatives for the years ended December 31, 2014 and 2013 are as follows:

(i) For the year ended December 31, 2014

*In millions of won*

| Type                 | Net income effect of valuation<br>gain | Accumulated other<br>comprehensive loss |
|----------------------|--|---|
| Currency swap      ₩ | 51,327                                 | (30,072)                                |

(\*) The gain on valuation of derivative instruments using cash flow hedge accounting is recognized as accumulated other comprehensive loss amounting to ₩11,887 million, net of tax as of December 31, 2014.

(ii) For the year ended December 31, 2013

*In millions of won*

| Type                    | Net income effect of valuation<br>loss | Accumulated other<br>comprehensive income<br>(loss) |
|-------------------------|--|---|
| Currency forward      ₩ | (59)                                   | 4,004   |
| Currency swap           | (18,371)                               | (460)   |
| ₩                       | (18,430)                               | 3,544   |



KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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**10. Other Financial Assets**

Other financial assets as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>           | <b>2014</b>    |                    | <b>2013</b>    |                    |
|-------------------------------------|----------------|--------------------|----------------|--------------------|
|                                     | <b>Current</b> | <b>Non-current</b> | <b>Current</b> | <b>Non-current</b> |
| Loans and receivables               | ₩ 2,846        | 10,875             | 1,350          | 13,292             |
| Short-term financial instruments    | 7,500          | -                  | -              | -                  |
| Available-for-sale financial assets | -              | 12,795             | -              | 14,153             |
| Derivative assets                   | -              | 42,008             | 46             | 27,463             |
|                                     | ₩ 10,346       | 65,678             | 1,396          | 54,908             |

**11. Inventories**

Inventories as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i> | <b>2014</b> | <b>2013</b> |
|---------------------------|-------------|-------------|
| Raw materials             | ₩ 172,597   | 151,805     |
| Supplies                  | 54,191      | 45,593      |
| Inventory-in-transit      | 81,408      | 83,871      |
| Others                    | 199         | 92          |
|                           | ₩ 308,395   | 281,361     |

(\*) There is no valuation allowance for inventories as of December 31, 2014 and 2013.

**12. Non-financial Assets**

Non-financial assets as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i> | <b>2014</b>    |                    | <b>2013</b>    |                    |
|---------------------------|----------------|--------------------|----------------|--------------------|
|                           | <b>Current</b> | <b>Non-current</b> | <b>Current</b> | <b>Non-current</b> |
| Advanced payments         | ₩ 8,470        | 77                 | 14,710         | 69                 |
| Prepaid expenses          | 5,253          | 2,492              | 2,851          | 1,986              |
| Others                    | 76,343         | 6,837              | 57,666         | 6,914              |
|                           | ₩ 90,066       | 9,406              | 75,227         | 8,969              |

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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13. Information related to the consolidated entities

(1) Information related to the consolidated entities as of December 31, 2014 and 2013 are as follows:

*In millions of won*

| Company   | Key operating activities       | Location                 | Rate of ownership or voting right (%) |         |
|---|--------------------------------|--------------------------|---------------------------------------|---------|
|   |                                |                          | 2014                                  | 2013    |
| Garolim Tidal power Co., Ltd.(*1)                   | Power generation               | Republic of Korea        | 49.00%                                | 49.00%  |
| Kowepo Australia Pty Ltd.                           | Overseas resources development | Australia                | 100.00%                               | 100.00% |
| Kowepo International Corporation                    | Managing power plant           | Philippines              | 99.99%                                | 99.99%  |
| Kowepo America LLC(*2)                              | Photovoltaic power generation  | United States of America | 100.00%                               | 100.00% |
| Kowepo India Private Limited(*3)                    | Overseas resources development | India                    | 100.00%                               | 100.00% |
| PT Kowepo Sumsel Operation and Maintenance Services | Managing power plant           | Indonesia                | 95.00%                                | -       |

(\*1) Despite holding less than a majority ownership, the Group has the ability to appoint or dismiss the majority of the Board of Directors by the shareholders' agreements.

(2) Summary financials information of the subsidiaries as of and for the years ended December 31, 2014 and 2013 are as follows:

(i) As of and for the year ended December 31, 2014

*In millions of won*

| Company   | Assets | Liabilities | Sales | Net profit or loss |
|---|--------|-------------|-------|--------------------|
| Garolim Tidal power Co., Ltd.                       | ₩ 772  | 387         | -     | (39,856)           |
| Kowepo Australia Pty Ltd.                           | 19,990 | 1,004       | 4,786 | 2,434              |
| Kowepo International Corporation                    | -      | -           | -     | (1,861)            |
| Kowepo America LLC                                  | 5,813  | 137         | -     | (1,006)            |
| Kowepo India Private Limited                        | 997    | 11          | -     | (397)              |
| PT Kowepo Sumsel Operation and Maintenance Services | 1,628  | 1,386       | -     | (408)              |

(ii) As of and for the year ended December 31, 2013

*In millions of won*

| Company                          | Assets   | Liabilities | Sales | Net profit or loss |
|----------------------------------|----------|-------------|-------|--------------------|
| Garolim Tidal power Co., Ltd.    | ₩ 43,592 | 3,350       | -     | (2,502)            |
| Kowepo Australia Pty Ltd.        | 18,724   | 929         | 4,728 | 1,577              |
| Kowepo International Corporation | 1,897    | 31          | -     | -                  |
| Kowepo America LLC               | 6,057    | 21          | -     | (1,295)            |
| Kowepo India Private Limited     | 1,370    | 4           | -     | (377)              |

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
For the years ended December 31, 2014 and 2013

13. Information related to the consolidated entities, Continued

(3) Details of non-controlling interest as of and for the year ended December 31, 2014 are as follows:

| <i>In millions of won</i>                                  | <u>Garolim Tidal<br/>power Co., Ltd</u> | <u>PT Kowepo Sumsel<br/>Operation and<br/>Maintenance<br/>Services</u> |
|--|---|--|
| Current assets   | ₩ 729                                   | 1,628  |
| Non-current assets   | 43                                      | -  |
| Current liabilities  | (387)                                   | (1,386)  |
| Non-current liabilities                                    | -                                       | -  |
| Net assets   | 385                                     | 242  |
| Percentage of non-controlling interest                     | 51%                                     | 5%   |
| Book value of non-controlling interest                     | 197                                     | 12   |
| Sales  | -                                       | -  |
| Loss for the year  | (39,856)                                | (408)  |
| Percentage of non-controlling interest                     | 51%                                     | 5%   |
| Loss for the year attributable to non-controlling interest | (20,327)                                | (20)   |
| Cash flows from operating activities                       | (2,422)                                 | 465  |
| Cash flows from investing activities                       | (742)                                   | (138)  |
| Cash flows from financing activities                       | -                                       | 332  |
| Net increase (decrease) of cash and cash equivalents       | (3,164)                                 | 659  |

(4) Disposal of subsidiary for the years ended December 31, 2014 and 2013 are as follows:

(i) There is no disposal of subsidiary for the year ended December 31, 2014.

(ii) For the year ended December 31, 2013

The Group lost controls over Dongducheon Dream Power Co., Ltd. upon the decrease in shares owned and the loss of right to appoint of directors during the year ended December 31, 2013. Accordingly, Dongducheon Dream Power Co., Ltd. was reclassified as investments in associates.

① The fair value of the remaining shares is as follows:

| <i>In millions of won</i>          | <u>Amount</u> |
|------------------------------------|---------------|
| Fair value of the remaining shares | ₩ 140,079     |

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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13. Information related to the consolidated entities, Continued

② At the disposal date, the carrying amounts of assets and liabilities of the subsidiary as follows:

| <i>In millions of won</i>               | <u>Amount</u>    |
|---|------------------|
| Current assets:                         |                  |
| Cash and cash equivalents               | ₩ 3,223          |
| Trade and other receivables             | 5,817            |
| Current tax assets                      | 50               |
| Current non-financial assets            | 3,413            |
| Non-current assets:                     |                  |
| Non-current trade and other receivables | 2,031            |
| Property, plant and equipment           | 267,991          |
| Intangible assets                       | 10               |
| Non-current non-financial assets        | 3,183            |
| Current liabilities:                    |                  |
| Trade and other payables                | (15)             |
| Current non-financial liabilities       | (549)            |
| Non-current liabilities:                |                  |
| Employee benefits obligations           | (128)            |
| Book value of disposed net assets       | <u>₩ 285,026</u> |

③ Gain on disposal of investments in subsidiary during 2013 is as follows:

| <i>In millions of won</i>                     | <u>Amount</u>  |
|---|----------------|
| The fair value of the remaining shares        | ₩ 140,079      |
| Book value of net assets disposed             | (285,026)      |
| Non-controlling interests                     | 145,363        |
| Realization of unrealized gain                | 6,996          |
| Gain on disposal of investments in subsidiary | <u>₩ 7,412</u> |

④ Net cash flow on disposal of the subsidiary is as follows:

| <i>In millions of won</i>                           | <u>Amount</u>    |
|---|------------------|
| Consideration received in cash and cash equivalents | ₩ -              |
| Less : Disposal of cash and cash equivalents        | (3,223)          |
| Net cash flow                                       | <u>₩ (3,223)</u> |

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

### 14. Investments in Associates and Joint Ventures

(1) Investments in associates and joint ventures as of December 31, 2014 and 2013 are as follows:

| Company                                 | Major operation | Location          | Rate of ownership or voting right (%) |        |
|---|-----------------|-------------------|---------------------------------------|--------|
|   |                 |                   | 2014                                  | 2013   |
| <b>Associates</b>                       |                 |                   |                                       |        |
| Cheongna Energy Co., Ltd.               | Energy supply   | Republic of Korea | 43.90%                                | 43.90% |
| Pioneer Gas Power Limited               | Energy supply   | India             | 40.00%                                | 40.00% |
| Eurasia Energy Holdings                 | Energy supply   | Russia            | 40.00%                                | 40.00% |
| Xe-Pian Xe-Namnoy Power Co., Ltd.       | Energy supply   | Laos              | 25.00%                                | 25.00% |
| PT Mutiara Jawa                         | Energy supply   | Indonesia         | 29.00%                                | 29.00% |
| Korea Offshore Wind Power Co., Ltd.(*1) | Energy supply   | Republic of Korea | 12.50%                                | 12.50% |
| Daegu Solar Power Plant Co., Ltd.       | Energy supply   | Republic of Korea | 29.00%                                | 29.00% |
| Dongducheon Dream Power Co., Ltd.       | Energy supply   | Republic of Korea | 33.61%                                | 43.61% |
| Solar Power Plants Happy City Co., Ltd. | Energy supply   | Republic of Korea | 28.00%                                | 28.00% |
| Shin Pyeong Taek Power Co., Ltd.        | O&M             | Republic of Korea | 40.00%                                | 0.00%  |
| <b>Joint ventures</b>                   |                 |                   |                                       |        |
| Rabigh O&M Co., Ltd.(*2)                | O&M             | Saudi Arabia      | 40.00%                                | 40.00% |

(\*1) It is included in the scope of investments in associates as the Group can exercise significant influence according to the shareholders agreement even when the Group's ownership interest is less than 20%.

(\*2) The Group accounts for its investments of Rabigh O&M Co., Ltd. as investments in joint ventures since the strategic financial and operating policy decisions relating to the activities of the joint ventures require unanimous consent of the investors.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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14. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and joint ventures during the years ended December 31, 2014 and 2013 are as follows:

(i) For the year ended December 31, 2014

In millions of won

| Company                                     | Beginning balance | Acquisitions  | Dividends received | Share of income (loss) | Other comprehensive income (loss) | Other           | Ending balance |
|---|-------------------|---------------|--------------------|------------------------|-----------------------------------|-----------------|----------------|
| <b>Associates</b>                           |                   |               |                    |                        |                                   |                 |                |
| Cheongna Energy Co., Ltd.(*1) ₩             | 28,114            | 5,707         | -                  | (5,022)                | (27)                              | -               | 28,772         |
| Pioneer Gas Power Limited(*1)               | 48,867            | 1,122         | -                  | 298                    | 381                               | -               | 50,668         |
| Eurasia Energy Holdings(*2)                 | -                 | -             | -                  | -                      | -                                 | -               | -              |
| Xe-Pian Xe-Namnoy Power Co., Ltd.(*1)       | 17,769            | 4,546         | -                  | (915)                  | 753                               | -               | 22,153         |
| PT Mutiara Jawa                             | 1,666             | -             | -                  | (885)                  | 37                                | -               | 818            |
| Korea Offshore Wind Power Co., Ltd.(*1)     | 316               | 1,325         | -                  | (428)                  | (19)                              | -               | 1,194          |
| Daegu Solar Power Plant Co., Ltd.           | 1,334             | -             | -                  | 247                    | -                                 | -               | 1,581          |
| Dongducheon Dream Power Co., Ltd.(*3)       | 134,398           | -             | -                  | (4,072)                | -                                 | (29,782)        | 100,544        |
| Solar Power Plants Happy City Co., Ltd.(*1) | 92                | 101           | -                  | 31                     | (2)                               | -               | 222            |
| Shin Pyeong Taek Power Co., Ltd.(*4)        | -                 | 40            | -                  | (328)                  | -                                 | -               | (288)          |
|   | <u>232,556</u>    | <u>12,841</u> | <u>-</u>           | <u>(11,074)</u>        | <u>1,123</u>                      | <u>(29,782)</u> | <u>205,664</u> |
| <b>Joint ventures</b>                       |                   |               |                    |                        |                                   |                 |                |
| Rabigh O&M Co., Ltd.                        | 4,082             | -             | (2,546)            | 2,945                  | 148                               | -               | 4,629          |
| ₩   | <u>236,638</u>    | <u>12,841</u> | <u>(2,546)</u>     | <u>(8,129)</u>         | <u>1,271</u>                      | <u>(29,782)</u> | <u>210,293</u> |

(\*1) The investee issued additional shares to increase capitals during the year ended December 31, 2014.

(\*2) The investment has been reduced to zero, which resulted in discontinuation of the equity method. The accumulated unrecognized loss is ₩176 million as of December 31, 2014.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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14. Investments in Associates and Joint Ventures, Continued

(\*3) Shares of Dongducheon Dream Power Co., Ltd. in the amount of ₩29,782 million were classified as assets held for sale. The shares were disposed during the year ended December 31, 2014.

(\*4) This investment in associate was newly acquired during the year ended December 31, 2014.

(i) For the year ended December 31, 2013

In millions of won

| Company                                 | Beginning balance    | Acquisitions         | Disposal              | Dividends received    | Share of income (loss) | Other comprehensive income (loss) | Other                 | Ending balance        |
|---|----------------------|----------------------|-----------------------|-----------------------|------------------------|-----------------------------------|-----------------------|-----------------------|
| <b>Associates</b>                       |                      |                      |                       |                       |                        |                                   |                       |                       |
| Cheongna Energy Co., Ltd.               | ₩ 33,330             | -                    | -                     | -                     | (5,216)                | -                                 | -                     | 28,114                |
| Pioneer Gas Power Limited               | 37,795               | 8,811                | -                     | -                     | 444                    | 1,817                             | -                     | 48,867                |
| Eurasia Energy Holdings                 | -                    | -                    | -                     | -                     | -                      | -                                 | -                     | -                     |
| Xe-Pian Xe-Namnoy Power Co., Ltd.       | 27                   | -                    | -                     | -                     | (373)                  | (783)                             | 18,898                | 17,769                |
| PT Mutiara Jawa                         | 2,695                | -                    | -                     | -                     | (541)                  | (488)                             | -                     | 1,666                 |
| Korea Offshore Wind Power Co., Ltd.     | 620                  | -                    | -                     | -                     | (304)                  | -                                 | -                     | 316                   |
| Daegu Solar Power Plant Co., Ltd.       | -                    | 1,230                | -                     | -                     | 111                    | (7)                               | -                     | 1,334                 |
| Dongducheon Dream Power Co., Ltd.       | -                    | -                    | -                     | -                     | (5,629)                | (52)                              | 140,079               | 134,398               |
| Solar Power Plants Happy City Co., Ltd. | -                    | 92                   | -                     | -                     | -                      | -                                 | -                     | 92                    |
|   | <u>74,467</u>        | <u>10,133</u>        | <u>-</u>              | <u>-</u>              | <u>(11,508)</u>        | <u>487</u>                        | <u>158,977</u>        | <u>232,556</u>        |
| <b>Joint ventures</b>                   |                      |                      |                       |                       |                        |                                   |                       |                       |
| Rabigh O&M Co., Ltd.                    | 814                  | -                    | -                     | (1,831)               | 5,151                  | (52)                              | -                     | 4,082                 |
| YeongAm F1 Solar Power Plant Co., Ltd.  | 1,673                | -                    | (2,002)               | -                     | 329                    | -                                 | -                     | -                     |
|   | <u>2,487</u>         | <u>-</u>             | <u>(2,002)</u>        | <u>(1,831)</u>        | <u>5,480</u>           | <u>(52)</u>                       | <u>-</u>              | <u>4,082</u>          |
| ₩                                       | <u><u>76,954</u></u> | <u><u>10,133</u></u> | <u><u>(2,002)</u></u> | <u><u>(1,831)</u></u> | <u><u>(6,028)</u></u>  | <u><u>435</u></u>                 | <u><u>158,977</u></u> | <u><u>236,638</u></u> |

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

### 14. Investments in Associates and Joint Ventures, Continued

(3) Summary financials information of investments in associates and joint ventures as of and for the years ended December 31, 2014 and 2013 are as follows:

(i) As of and for the year ended December 31, 2014

*In millions of won*

| Company                                 | Assets    | Liabilities | Sales  | Net profit<br>or loss |
|---|-----------|-------------|--------|-----------------------|
| <b>Associates</b>                       |           |             |        |                       |
| Cheongna Energy Co., Ltd.               | ₩ 443,672 | 384,020     | 47,075 | (11,585)              |
| Pioneer Gas Power Limited               | 237,922   | 169,289     | -      | 96                    |
| Eurasia Energy Holdings                 | 562       | 1,003       | -      | -                     |
| Xe-Pian Xe-Namnoy Power Co., Ltd.       | 248,773   | 181,560     | -      | (2,326)               |
| PT Mutiara Jawa                         | 28,407    | 25,827      | 15     | (3,114)               |
| Korea Offshore Wind Power Co., Ltd.     | 11,762    | 2,287       | -      | (3,424)               |
| Daegu Solar Power Plant Co., Ltd.       | 22,340    | 16,887      | 3,633  | 739                   |
| Dongducheon Dream Power Co., Ltd.       | 1,516,412 | 1,234,544   | -      | 615                   |
| Solar Power Plants Happy City Co., Ltd. | 3,422     | 2,632       | 289    | 111                   |
| Shin Pyeong Taek Power Co.,Ltd.         | 5,075     | 5,794       | -      | (819)                 |
| <b>Joint ventures</b>                   |           |             |        |                       |
| Rabigh O&M Co., Ltd.                    | 16,667    | 5,097       | 22,911 | 7,417                 |



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14. Investments in Associates and Joint Ventures, Continued

(ii) As of and for the year ended December 31, 2013

*In millions of won*

| Company                                 | Assets    | Liabilities | Sales  | Net profit<br>or loss |
|---|-----------|-------------|--------|-----------------------|
| <b>Associates</b>                       |           |             |        |                       |
| Cheongna Energy Co., Ltd.               | ₩ 429,095 | 370,940     | 44,455 | (11,278)              |
| Pioneer Gas Power Limited               | 199,974   | 135,845     | 135    | 65                    |
| Eurasia Energy Holdings                 | 540       | 963         | 3,414  | (297)                 |
| Xe-Pian Xe-Namnoy Power Co., Ltd.       | 127,858   | 75,138      | 70     | (1,239)               |
| PT Mutiara Jawa                         | 13,939    | 8,435       | -      | (1,987)               |
| Korea Offshore Wind Power Co., Ltd.     | 4,052     | 1,598       | -      | (2,436)               |
| Daegu Solar Power Plant Co., Ltd.       | 22,580    | 17,980      | 1,829  | 439                   |
| Dongducheon Dream Power Co., Ltd.       | 1,159,917 | 878,315     | -      | (9,713)               |
| Solar Power Plants Happy City Co., Ltd. | 324       | -           | -      | -                     |
| <b>Joint ventures</b>                   |           |             |        |                       |
| Rabigh O&M Co., Ltd.                    | 17,857    | 7,651       | 25,636 | 13,243                |

(4) Summary financials information of investments in joint ventures (Rabigh O&M Co., Ltd.) as of and for the years ended December 31, 2014 and 2013 are as follows:

*In millions of won*

| Company                         | 2014     | 2013    |
|---------------------------------|----------|---------|
| Current assets                  |          |         |
| Cash and cash equivalents       | ₩ 15,047 | 17,857  |
| Non-current assets              |          |         |
| Long-term financial Instruments | 1,620    | -       |
| Current liabilities             |          |         |
| Trade and other payables        | 3,328    | 7,651   |
| Non-current liabilities         |          |         |
| Trade and other payables        | 1,769    | -       |
| Sales                           | 22,911   | 25,636  |
| Cost of sales                   | 14,936   | 9,816   |
| Other profit loss               | (554)    | (2,567) |
| Income tax expense              | 4        | 10      |
| Profit for the year             | 7,417    | 13,243  |

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**15. Property, Plant and Equipment**

(1) Property, plant and equipment as of December 31, 2014 and 2013 are as follows:

(i) As of December 31, 2014

| <i>In millions of won</i> |   | <b>Acquisition cost</b> | <b>Government grants</b> | <b>Accumulated depreciation</b> | <b>Accumulated impairment loss</b> | <b>Book value</b> |
|---------------------------|---|-------------------------|--------------------------|---------------------------------|------------------------------------|-------------------|
| Land                      | ₩ | 560,071                 | -                        | -                               | -                                  | 560,071           |
| Buildings                 |   | 734,464                 | (98)                     | (252,265)                       | -                                  | 482,101           |
| Structures                |   | 908,342                 | -                        | (330,607)                       | -                                  | 577,735           |
| Machinery                 |   | 4,155,860               | (129)                    | (1,488,681)                     | -                                  | 2,667,050         |
| Vehicles                  |   | 6,602                   | -                        | (5,136)                         | -                                  | 1,466             |
| Equipment                 |   | 55,464                  | -                        | (39,331)                        | -                                  | 16,133            |
| Tools                     |   | 20,714                  | -                        | (17,026)                        | -                                  | 3,688             |
| Construction-in-progress  |   | 2,602,265               | (94,885)                 | -                               | (35,094)                           | 2,472,286         |
| Finance lease assets      |   | 187,990                 | -                        | (52,480)                        | -                                  | 135,510           |
|                           | ₩ | <u>9,231,772</u>        | <u>(95,112)</u>          | <u>(2,185,526)</u>              | <u>(35,094)</u>                    | <u>6,916,040</u>  |

(ii) As of December 31, 2013

| <i>In millions of won</i> |   | <b>Acquisition cost</b> | <b>Government grants</b> | <b>Accumulated depreciation</b> | <b>Book value</b> |
|---------------------------|---|-------------------------|--------------------------|---------------------------------|-------------------|
| Land                      | ₩ | 537,438                 | -                        | -                               | 537,438           |
| Buildings                 |   | 680,854                 | -                        | (218,755)                       | 462,099           |
| Structures                |   | 865,020                 | -                        | (296,380)                       | 568,640           |
| Machinery                 |   | 3,595,048               | (170)                    | (1,185,763)                     | 2,409,115         |
| Vehicles                  |   | 5,432                   | -                        | (4,489)                         | 943               |
| Equipment                 |   | 52,048                  | -                        | (33,169)                        | 18,879            |
| Tools                     |   | 19,405                  | -                        | (15,677)                        | 3,728             |
| Construction-in-progress  |   | 1,394,415               | (52,838)                 | -                               | 1,341,577         |
| Finance lease assets      |   | 184,391                 | -                        | (44,721)                        | 139,670           |
|                           | ₩ | <u>7,334,051</u>        | <u>(53,008)</u>          | <u>(1,798,954)</u>              | <u>5,482,089</u>  |

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15. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment during the years ended December 31, 2014 and 2013 are as follows:

(i) For the year ended December 31, 2014

In millions of won

|                          | Beginning<br>balance | Acquisition/<br>Capital<br>expenditure | Disposal        | Depreciation<br>(*1) | Impairment<br>(*2) | Others<br>(*3) | Ending<br>balance |
|--------------------------|----------------------|--|-----------------|----------------------|--------------------|----------------|-------------------|
| Land                     | ₩ 537,438            | -                                      | (92)            | -                    | -                  | 22,725         | 560,071           |
| Buildings                | 462,099              | 85                                     | (236)           | (33,624)             | -                  | 53,875         | 482,199           |
| (Government grants)      | -                    | -                                      | -               | 2                    | -                  | (100)          | (98)              |
| Structures               | 568,640              | -                                      | -               | (34,227)             | -                  | 43,322         | 577,735           |
| Machinery                | 2,409,285            | 110,647                                | (12,682)        | (304,847)            | -                  | 464,776        | 2,667,179         |
| (Government grants)      | (170)                | -                                      | -               | 41                   | -                  | -              | (129)             |
| Vehicles                 | 943                  | -                                      | -               | (647)                | -                  | 1,170          | 1,466             |
| Equipment                | 18,879               | 784                                    | (28)            | (7,120)              | -                  | 3,618          | 16,133            |
| Tools                    | 3,728                | 3                                      | (1)             | (1,697)              | -                  | 1,655          | 3,688             |
| Construction-in-progress | 1,394,415            | 1,740,311                              | -               | -                    | (35,094)           | (532,461)      | 2,567,171         |
| (Government grants)      | (52,838)             | -                                      | -               | -                    | -                  | (42,047)       | (94,885)          |
| Finance lease assets     | 139,670              | -                                      | -               | (7,759)              | -                  | 3,599          | 135,510           |
|                          | ₩ <u>5,482,089</u>   | <u>1,851,830</u>                       | <u>(13,039)</u> | <u>(389,878)</u>     | <u>(35,094)</u>    | <u>20,132</u>  | <u>6,916,040</u>  |

(\*1) ₩1,565 million of depreciation expenses are recognized as construction-in-progress and ₩203 million of depreciation expenses are recognized as other losses.

(\*2) As Garolim Tidal power Co., Ltd. discontinued its construction of the assets due to the related project's continuous operating loss making, the Group recognized full impairment loss of ₩35,094 million.

(\*3) Other additions (decreases) in the amount of ₩20,132 million consist of ₩4,331 million transferred from construction-in-progress from retirement benefits expense and depreciation expense, ₩59,637 million of capitalized interest expense, ₩193 million of translation effect of overseas operation financial statements, ₩42,146 million of receipt of government subsidy, and ₩1,497 million transferred to intangible assets. The weighted average capitalization rates for the years ended December 31, 2014 and 2013 are 3.69% and 3.95%, respectively.

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15. Property, Plant and Equipment, Continued

(ii) For the year ended December 31, 2013

*In millions of won*

|                          | <b>Beginning<br/>balance</b> | <b>Acquisition/<br/>Capital<br/>expenditure</b> | <b>Disposal</b> | <b>Depreciation</b> | <b>Others</b>    | <b>Ending<br/>balance</b> |
|--------------------------|------------------------------|---|-----------------|---------------------|------------------|---------------------------|
| Land                     | ₩ 568,436                    | -   | (190)           | -                   | (30,808)         | 537,438                   |
| Buildings                | 465,993                      | 34  | (108)           | (40,004)            | 36,184           | 462,099                   |
| Structures               | 571,939                      | -   | (123)           | (33,111)            | 29,935           | 568,640                   |
| Machinery                | 2,069,827                    | 152,913   | (6,091)         | (293,310)           | 485,946          | 2,409,285                 |
| (Government grants)      | (199)                        | -   | -               | 29                  | -                | (170)                     |
| Vehicles                 | 1,354                        | -   | -               | (484)               | 73               | 943                       |
| Equipment                | 17,866                       | 1,195   | -               | (8,850)             | 8,668            | 18,879                    |
| Tools                    | 3,443                        | -   | -               | (2,280)             | 2,565            | 3,728                     |
| Construction-in-progress | 616,408                      | 1,615,618                                       | -               | -                   | (837,611)        | 1,394,415                 |
| (Government grants)      | (32,469)                     | -   | -               | -                   | (20,369)         | (52,838)                  |
| Finance lease assets     | 90,386                       | -   | (7,457)         | (7,085)             | 63,826           | 139,670                   |
|                          | ₩ <u>4,372,984</u>           | <u>1,769,760</u>                                | <u>(13,969)</u> | <u>(385,095)</u>    | <u>(261,591)</u> | <u>5,482,089</u>          |

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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**16. Intangible Assets**

(1) Intangible assets as of December 31, 2014 and 2013 are as follows:

(i) As of December 31, 2014

*In millions of won*

|  |   | <b>Acquisition<br/>cost</b> | <b>Accumulated<br/>depreciation</b> | <b>Accumulated<br/>impairment loss</b> | <b>Book<br/>value</b> |
|--|---|-----------------------------|-------------------------------------|--|-----------------------|
| Computer software                                | ₩ | 27,155                      | (20,068)                            | -                                      | 7,087                 |
| Development costs                                |   | 2,051                       | (948)                               | -                                      | 1,103                 |
| Rights of use for loading<br>docks               |   | 2,253                       | (826)                               | -                                      | 1,427                 |
| Rights of use for industrial<br>water facilities |   | 79,947                      | (79,947)                            | -                                      | -                     |
| Leasehold rights                                 |   | 76                          | (44)                                | -                                      | 32                    |
| Mining rights                                    |   | 8,935                       | (1,073)                             | -                                      | 7,862                 |
| Other deposits provided                          |   | 442                         | -                                   | (231)                                  | 211                   |
| Others   |   | 559                         | (129)                               | -                                      | 430                   |
|  | ₩ | <u>121,418</u>              | <u>(103,035)</u>                    | <u>(231)</u>                           | <u>18,152</u>         |

(ii) As of December 31, 2013

*In millions of won*

|  |   | <b>Acquisition<br/>cost</b> | <b>Accumulated<br/>depreciation</b> | <b>Accumulated<br/>impairment loss</b> | <b>Book<br/>value</b> |
|--|---|-----------------------------|-------------------------------------|--|-----------------------|
| Computer software                                | ₩ | 26,160                      | (15,446)                            | -                                      | 10,714                |
| Development costs                                |   | 1,549                       | (579)                               | -                                      | 970                   |
| Rights of use for loading<br>docks               |   | 2,253                       | (713)                               | -                                      | 1,540                 |
| Rights of use for industrial<br>water facilities |   | 79,947                      | (79,947)                            | -                                      | -                     |
| Leasehold rights                                 |   | 76                          | (37)                                | -                                      | 39                    |
| Mining rights                                    |   | 9,161                       | (1,025)                             | -                                      | 8,136                 |
| Other deposits provided                          |   | 442                         | -                                   | (231)                                  | 211                   |
| Others   |   | 567                         | (105)                               | -                                      | 462                   |
|  | ₩ | <u>120,155</u>              | <u>(97,852)</u>                     | <u>(231)</u>                           | <u>22,072</u>         |

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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16. Intangible Assets

(2) Changes in intangible assets during the years ended December 31, 2014 and 2013 are as follows:

(i) For the year ended December 31, 2014

*In millions of won*

|  |   | <b>Beginning<br/>balance</b> | <b>Acquisition/<br/>Capital<br/>expenditure</b> | <b>Amortization<br/>(*1)</b> | <b>Others<br/>(*2)</b> | <b>Ending<br/>balance</b> |
|--|---|------------------------------|---|------------------------------|------------------------|---------------------------|
| Computer software                                    | ₩ | 10,714                       | 1   | (4,623)                      | 995                    | 7,087                     |
| Development costs                                    |   | 970                          | -   | (369)                        | 502                    | 1,103                     |
| Rights of use for the loading<br>docks               |   | 1,540                        | -   | (113)                        | -                      | 1,427                     |
| Rights of use for the industrial<br>water facilities |   | -                            | -   | -                            | -                      | -                         |
| Leasehold rights                                     |   | 39                           | -   | (7)                          | -                      | 32                        |
| Mining rights  |   | 8,136                        | -   | (50)                         | (224)                  | 7,862                     |
| Other deposits provided                              |   | 211                          | -   | -                            | -                      | 211                       |
| Others   |   | 462                          | -   | (25)                         | (7)                    | 430                       |
|  | ₩ | <u>22,072</u>                | <u>1</u>  | <u>(5,187)</u>               | <u>1,266</u>           | <u>18,152</u>             |

(\*1) ₩56 million of amortization expenses are recognized as other losses.

(\*2) Other additions (subtractions) of ₩1,266 million consist of ₩1,497 million replaced from construction-in-progress and offset by ₩231 million resulting from translation of overseas operation financial statements.

(ii) For the year ended December 31, 2013

*In millions of won*

|  |   | <b>Beginning<br/>balance</b> | <b>Acquisition/<br/>Capital<br/>expenditure</b> | <b>Amortization</b> | <b>Others</b> | <b>Ending<br/>balance</b> |
|--|---|------------------------------|---|---------------------|---------------|---------------------------|
| Computer software                                    | ₩ | 13,664                       | 255   | (4,504)             | 1,299         | 10,714                    |
| Development costs                                    |   | 874                          | -   | (252)               | 348           | 970                       |
| Rights of use for the loading<br>docks               |   | 1,652                        | -   | (113)               | 1             | 1,540                     |
| Rights of use for the industrial<br>water facilities |   | -                            | -   | -                   | -             | -                         |
| Leasehold rights                                     |   | 47                           | -   | (8)                 | -             | 39                        |
| Mining rights  |   | 9,994                        | 75  | (273)               | (1,660)       | 8,136                     |
| Other deposits provided                              |   | 211                          | -   | -                   | -             | 211                       |
| Others   |   | 515                          | -   | (26)                | (27)          | 462                       |
|  | ₩ | <u>26,957</u>                | <u>330</u>                                      | <u>(5,176)</u>      | <u>(39)</u>   | <u>22,072</u>             |

(3) Residual amortization period for major intangible asset as of December 31, 2014 and 2013 is as follows:

*In millions of won*

|                   | <b>Contents</b> |   | <b>2014</b>   |   | <b>2013</b>   |   |
|-------------------|-----------------|---|---------------|---|---------------|---|
|                   |                 |   | <b>Amount</b> | <b>Residual<br/>amortization<br/>period</b> | <b>Amount</b> | <b>Residual<br/>amortization<br/>period</b> |
| Computer software | ERP system      | ₩ | 3,521         | One year and<br>two months                  | 6,540         | Two years and<br>two months                 |

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**17. Trade and Other Payables**

Accounts and other payables as of December 31, 2014 and 2013 are as follows:

*In millions of won*

|                  | 2014      |             | 2013    |             |
|------------------|-----------|-------------|---------|-------------|
|                  | Current   | Non-current | Current | Non-current |
| Trade payables   | ₩ 352,578 | -           | 249,211 | -           |
| Other payables   | 318,861   | -           | 246,017 | -           |
| Accrued expenses | 68,765    | 393         | 64,080  | 393         |
| Other deposits   | 169       | -           | 44      | -           |
|                  | ₩ 740,373 | 393         | 559,352 | 393         |

**18. Borrowings and Debentures**

(1) Details of borrowings as of December 31, 2014 and 2013 are as follows:

*In millions of won*

|   | 2014        | 2013      |
|---|-------------|-----------|
| <b>Current Liabilities:</b>             |             |           |
| Current portion of long-term borrowings | ₩ 367       | 347       |
| Current portion of long-term debentures | 100,000     | 80,000    |
| Less: discount on debentures            | (15)        | (36)      |
|   | 100,352     | 80,311    |
| <b>Non-current Liabilities:</b>         |             |           |
| Long-term borrowings                    | 2,811       | 3,177     |
| Debentures                              | 3,796,126   | 3,051,329 |
| Less: discount on debentures            | (15,038)    | (14,174)  |
|   | 3,783,899   | 3,040,332 |
|   | ₩ 3,884,251 | 3,120,643 |

(2) Long-term borrowings as of December 31, 2014 and 2013 are as follows:

*In millions of won*

| Lender                | Description          | Annual interest rate | Maturity       | 2014    | 2013  |
|-----------------------|----------------------|----------------------|----------------|---------|-------|
| Domestic              | Long term borrowings | Floating rate        | KTB 2023.03.15 | ₩ 2,471 | 2,770 |
|                       |                      |                      | (three years)  | 95      | 106   |
|                       |                      |                      | 2023.06.15     | 245     | 272   |
|                       |                      |                      | 2023.12.15     | 70      | 74    |
|                       |                      |                      | - 2.25         | 204     | 208   |
|                       |                      |                      | 2024.06.15     | 11      | 11    |
|                       |                      |                      | 2024.09.15     | 83      | 83    |
|                       |                      |                      | 3,178          | 3,524   |       |
|                       |                      |                      | (367)          | (347)   |       |
| Less: current portion |                      |                      | ₩ 2,811        | 3,177   |       |

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18. Borrowings and Debentures, Continued

(3) Domestic debentures as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>    | <b>Issue date</b> | <b>Maturity date</b> | <b>Annual interest rate</b> |   | <b>2014</b>      | <b>2013</b>      |
|------------------------------|-------------------|----------------------|-----------------------------|---|------------------|------------------|
| Corporate bond #11           | 2009.05.29        | 2014.05.29           | Fixed rate 5.15%            | ₩ | -                | 80,000           |
| Corporate bond #14           | 2010.03.19        | 2015.03.19           | Fixed rate 4.57%            |   | 100,000          | 100,000          |
| Corporate bond #15-1         | 2011.05.27        | 2016.05.27           | Fixed rate 4.09%            |   | 100,000          | 100,000          |
| Corporate bond #15-2         | 2011.05.27        | 2018.05.27           | Fixed rate 4.19%            |   | 100,000          | 100,000          |
| Corporate bond #16-1         | 2011.11.18        | 2016.11.18           | Fixed rate 3.97%            |   | 160,000          | 160,000          |
| Corporate bond #16-2         | 2011.11.18        | 2018.11.18           | Fixed rate 4.04%            |   | 60,000           | 60,000           |
| Corporate bond #16-3         | 2011.11.18        | 2021.11.18           | Fixed rate 4.15%            |   | 80,000           | 80,000           |
| Corporate bond #17-1         | 2012.10.22        | 2022.10.22           | Fixed rate 3.22%            |   | 100,000          | 100,000          |
| Corporate bond #17-2         | 2012.10.22        | 2027.10.22           | Fixed rate 3.26%            |   | 100,000          | 100,000          |
| Corporate bond #18-1         | 2013.05.07        | 2023.05.07           | Fixed rate 2.93%            |   | 120,000          | 120,000          |
| Corporate bond #18-2         | 2013.05.07        | 2028.05.07           | Fixed rate 3.03%            |   | 80,000           | 80,000           |
| Corporate bond #19-1         | 2013.06.14        | 2018.06.14           | Fixed rate 3.16%            |   | 90,000           | 90,000           |
| Corporate bond #19-2         | 2013.06.14        | 2023.06.14           | Fixed rate 3.38%            |   | 100,000          | 100,000          |
| Corporate bond #20-1         | 2013.09.12        | 2018.09.12           | Fixed rate 3.46%            |   | 110,000          | 110,000          |
| Corporate bond #20-2         | 2013.09.12        | 2020.09.12           | Fixed rate 3.62%            |   | 100,000          | 100,000          |
| Corporate bond #21           | 2013.10.22        | 2023.10.22           | Fixed rate 3.67%            |   | 110,000          | 110,000          |
| Corporate bond #22           | 2013.10.31        | 2023.10.31           | Fixed rate 3.607%           |   | 90,000           | 90,000           |
| Corporate bond #23-1         | 2014.10.23        | 2019.10.23           | Fixed rate 2.47%            |   | 80,000           | -                |
| Corporate bond #23-2         | 2014.10.23        | 2024.10.23           | Fixed rate 2.82%            |   | 120,000          | -                |
| Corporate bond #24-1         | 2014.11.20        | 2017.11.20           | Fixed rate 2.21%            |   | 90,000           | -                |
| Corporate bond #24-2         | 2014.11.20        | 2024.11.20           | Fixed rate 2.81%            |   | 110,000          | -                |
| Corporate bond #25           | 2014.12.11        | 2019.12.11           | Fixed rate 2.49%            |   | 80,000           | -                |
|                              |                   |                      |                             |   | <u>2,080,000</u> | <u>1,680,000</u> |
| Less: discount on debentures |                   |                      |                             |   | (4,404)          | (3,778)          |
| Less: current portion        |                   |                      |                             |   | (99,985)         | (79,964)         |
|                              |                   |                      |                             | ₩ | <u>1,975,611</u> | <u>1,596,258</u> |

(4) Foreign debentures as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>    | <b>Issue date</b> | <b>Maturity date</b> | <b>Annual interest rate</b> |   | <b>2014</b>      | <b>2013</b>      |
|------------------------------|-------------------|----------------------|-----------------------------|---|------------------|------------------|
| Euro bond #2                 | 2006.09.29        | 2016.09.29           | Fixed rate 5.50%            | ₩ | 164,880          | 158,295          |
| Global bond #1               | 2012.05.10        | 2017.05.10           | Fixed rate 3.125%           |   | 549,600          | 527,650          |
| Swiss franc bond #1          | 2013.09.26        | 2019.03.26           | Fixed rate 1.625%           |   | 222,286          | 237,734          |
| Global bond #2               | 2013.10.10        | 2018.10.10           | Fixed rate 2.875%           |   | 549,600          | 527,650          |
| Euro bond #3                 | 2014.09.22        | 2019.09.22           | Fixed rate 2.625%           |   | 329,760          | -                |
|                              |                   |                      |                             |   | <u>1,816,126</u> | <u>1,451,329</u> |
| Less: discount on debentures |                   |                      |                             |   | (10,649)         | (10,432)         |
|                              |                   |                      |                             | ₩ | <u>1,805,477</u> | <u>1,440,897</u> |



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**19. Other Financial Liabilities**

Other financial liabilities as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i> | <b>2014</b>    |                    | <b>2013</b>    |                    |        |
|---------------------------|----------------|--------------------|----------------|--------------------|--------|
|                           | <b>Current</b> | <b>Non-current</b> | <b>Current</b> | <b>Non-current</b> |        |
| Derivative liabilities    | ₩              | -                  | 39,963         | 104                | 46,672 |

**20. Employee Benefit Obligations**

(1) The principal assumptions used on actuarial valuation as of December 31, 2014 and 2013 are as follows:

|                             | <b>2014</b>  | <b>2013</b>   |
|-----------------------------|--------------|---------------|
| Discount rate               | 3.03%        | 3.98%         |
| Future salary increase rate | 4.08 ~ 7.97% | 4.08% ~ 7.97% |

(2) Details of the Group's expense relating to its defined benefit plans for the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>      | <b>2014</b>    | <b>2013</b>  |
|--------------------------------|----------------|--------------|
| Current service cost           | ₩ 5,169        | 8,059        |
| Interest cost                  | 2,119          | 1,883        |
| Gain (loss) on settlement      | (4)            | 13           |
| Expected return on plan assets | (510)          | (343)        |
|                                | ₩ <u>6,774</u> | <u>9,612</u> |

(3) Employee benefit obligation as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>                                       | <b>2014</b>     | <b>2013</b>   |
|---|-----------------|---------------|
| Present value of defined benefit obligation from funded plans   | ₩ 64,106        | 57,568        |
| Fair value of plan assets                                       | (13,076)        | (12,708)      |
| Net retirement obligations from defined benefit plans           | 51,030          | 44,860        |
| Present value of defined benefit obligation from unfunded plans | -               | 78            |
| Net employee benefits obligation from defined benefit plans     | ₩ <u>51,030</u> | <u>44,938</u> |

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**20. Employee Benefit Obligations, Continued**

(4) Changes in retirement benefit obligation during the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>         |   | <u>2014</u>   | <u>2013</u>   |
|-----------------------------------|---|---------------|---------------|
| Beginning balance                 | ₩ | 57,646        | 48,877        |
| Current service cost              |   | 5,169         | 8,059         |
| Gain (loss) on settlement         |   | (4)           | 13            |
| Interest cost                     |   | 2,119         | 1,883         |
| Actuarial gains or losses         |   | 10,286        | 1,052         |
| Actual payments                   |   | (11,110)      | (2,123)       |
| Changes in scope of consolidation |   | -             | (115)         |
| Ending balance                    | ₩ | <u>64,106</u> | <u>57,646</u> |

(5) Changes in the fair value of the plan assets during the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>      |   | <u>2014</u>   | <u>2013</u>   |
|--------------------------------|---|---------------|---------------|
| Beginning balance              | ₩ | 12,708        | 9,500         |
| Expected return on plan assets |   | 510           | 343           |
| Actuarial gains or losses      |   | (142)         | (38)          |
| Contributions by the employers |   | -             | 2,915         |
| Actual payments                |   | -             | (12)          |
| Ending balance                 | ₩ | <u>13,076</u> | <u>12,708</u> |

Accumulated actuarial losses on employee benefit obligations recorded as other comprehensive loss amounts to ₩23,519 million and ₩15,613 million, respectively, for the years ended December 31, 2014 and 2013.

(6) Fair value of major categories of plan assets as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i> |   | <u>2014</u>   | <u>2013</u>   |
|---------------------------|---|---------------|---------------|
| Equity instrument         | ₩ | 181           | 174           |
| Debt instrument           |   | 1,602         | 1,663         |
| Deposits                  |   | 6,701         | 7,201         |
| Others                    |   | 4,592         | 3,670         |
|                           | ₩ | <u>13,076</u> | <u>12,708</u> |

Actual returns for the years ended December 31, 2014 and 2013 are ₩368 million and ₩305 million, respectively.

(7) Other long-term employee benefit liabilities as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i> |   | <u>2014</u> | <u>2013</u>  |
|---------------------------|---|-------------|--------------|
| Long-service bonus        | ₩ | -           | 1,871        |
| Long-service leave        |   | 578         | 974          |
|                           | ₩ | <u>578</u>  | <u>2,845</u> |

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**21. Provisions**

(1) Provisions as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i> | <b>2014</b>    |                    | <b>2013</b>    |                    |
|---------------------------|----------------|--------------------|----------------|--------------------|
|                           | <b>Current</b> | <b>Non-current</b> | <b>Current</b> | <b>Non-current</b> |
| Litigation provisions(*1) | ₩              | -                  | 27,230         | -                  |

(\*1) On December 18, 2013, the Supreme Court of Korea made a ruling regarding the scope of Ordinary Wage which could be the basis for overtime payment, allowance for night work and others. As of December 31, 2014, the Group recognized the litigation provisions for such amount expected to be paid to employees in relation to the on-going litigation over the Ordinary Wage.

(2) Changes in provisions during the year ended December 31, 2014 is as follows:

| <i>In millions of won</i> | <b>Beginning balance</b> | <b>Transfer to provision</b> | <b>Ending balance</b> |
|---------------------------|--------------------------|------------------------------|-----------------------|
| Litigation Provisions     | ₩                        | -                            | 27,230                |

**22. Non-financial Liabilities**

Other non-financial liabilities as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i> | <b>2014</b>    |                    | <b>2013</b>    |                    |
|---------------------------|----------------|--------------------|----------------|--------------------|
|                           | <b>Current</b> | <b>Non-current</b> | <b>Current</b> | <b>Non-current</b> |
| Advance received          | ₩              | 100                | 1,604          | -                  |
| Unearned revenue          |                | 10                 | -              | 9                  |
| Withholdings              |                | 4,716              | -              | 4,441              |
| Others(*)                 |                | 50,901             | 120            | 39,560             |
|                           | ₩              | 55,727             | 1,724          | 44,010             |

(\*) Others are primarily comprised of renewable portfolio standard (RPS) provisions which are recognized for the governmental regulations to require the production of energies from renewable energy sources such as solar, wind and biomass.

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**23. Share Capital**

(1) Share capital as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won , except par value and number of shares</i> |                                    |                                |                  | <b>2014</b>  |                  | <b>2013</b>  |                  |
|---|------------------------------------|--------------------------------|------------------|--------------|------------------|--------------|------------------|
| <b>Type</b>   | <b>Number of shares authorized</b> | <b>Number of shares issued</b> | <b>Par value</b> | <b>Govt.</b> | <b>Non-govt.</b> | <b>Govt.</b> | <b>Non-govt.</b> |
| Common Stock  | 100,000,000                        | 31,789,285                     | ₩ 5,000          | -            | 158,946          | -            | 158,946          |

(2) There were no changes in number of outstanding capital stock during the years ended December 31, 2014 and 2013.

(3) Share premium as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>              | <b>2014</b> | <b>2013</b> |
|--|-------------|-------------|
| Paid-in capital in excess of par value | ₩ 1,033,419 | 1,033,419   |

**24. Retained Earnings and Dividends**

(1) Retained earnings as of December 31, 2014 and 2013 are summarized as follows:

| <i>In millions of won</i>               | <b>2014</b>        | <b>2013</b>      |
|---|--------------------|------------------|
| Legal reserves(*1)                      | ₩ 60,117           | 56,912           |
| Voluntary reserves                      | 1,082,293          | 1,014,411        |
| Retained earnings before appropriations | 831,648            | 792,193          |
|   | ₩ <u>1,974,058</u> | <u>1,863,516</u> |

(\*1) The Commercial Code of the Republic of Korea requires KOWEPO to appropriate as a legal reserve, an amount equal to a minimum of 10% of annual cash dividends paid, until the reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock through a resolution of the Board of Directors or used to reduce accumulated deficit, if any, with the ratification of the shareholders.

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**24. Retained Earnings and Dividends, Continued**

(2) Composition of voluntary reserves as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>                         | <u>2014</u>        | <u>2013</u>      |
|---|--------------------|------------------|
| Reserve for business stabilization(*1)            | ₩ 181              | 181              |
| Reserve for research and human development(*2)    | 12,259             | 18,388           |
| Reserve for investment on social overhead capital | 13,000             | 13,000           |
| Reserve for business expansion                    | 1,056,853          | 982,842          |
|   | ₩ <u>1,082,293</u> | <u>1,014,411</u> |

(\*1) Prior to 2002, KOWEPO appropriated certain tax-deductible benefits as reserve for business stabilization, for offsetting future deficit in accordance with the relevant tax laws. Due to the amendment of such tax laws on December 11, 2002, the reserve is no longer required. However, KOWEPO continues to maintain such reserve on a voluntary basis.

(\*2) The reserve for research and human development is appropriated by KOWEPO to use as qualified tax credits to reduce corporate tax liabilities. The reserve is available for cash dividends for a certain period as defined by the Tax Incentive Control Law of Korea.

(3) Changes in retained earnings before appropriations during the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>                 | <u>2014</u>      | <u>2013</u>    |
|---|------------------|----------------|
| Beginning balance                         | ₩ 792,193        | 811,541        |
| Profit for the year - Controlling company | 153,575          | 97,670         |
| Dividends paid                            | (32,048)         | (59,160)       |
| Actuarial losses                          | (7,906)          | (826)          |
| Transfers to reserves                     | (77,216)         | (54,164)       |
| Appropriation to reserves                 | 6,129            | -              |
| Dividends on hybrid securities            | (3,079)          | (2,868)        |
| Ending balance                            | ₩ <u>831,648</u> | <u>792,193</u> |

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**24. Retained Earnings and Dividends, Continued**

(4) Dividends paid for the years ended December 31, 2014 and 2013 are as follows:

(i) For the year ended December 31, 2014

| <b>Type</b>  | <b>Number of shares issued (shares)</b> | <b>Number of treasury shares</b> | <b>Number of share eligible for dividends (shares)</b> | <b>Dividends per share (in won)</b> | <b>Total dividends (in millions of won)</b> |
|--------------|---|----------------------------------|--|-------------------------------------|---|
| Common Stock | 31,789,285                              | -                                | 31,789,285   | 1,008                               | 32,048                                      |

(ii) For the year ended December 31, 2013

| <b>Type</b>  | <b>Number of shares issued (shares)</b> | <b>Number of treasury shares</b> | <b>Number of share eligible for dividends (shares)</b> | <b>Dividends per share (in won)</b> | <b>Total dividends (in millions of won)</b> |
|--------------|---|----------------------------------|--|-------------------------------------|---|
| Common Stock | 31,789,285                              | -                                | 31,789,285   | 1,861                               | 59,160                                      |

(5) Changes in accumulated actuarial losses on employee benefit obligations during the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i> | <b>2014</b>       | <b>2013</b>     |
|---------------------------|-------------------|-----------------|
| Beginning balance         | ₩ (15,613)        | (14,787)        |
| Changes for the year      | (10,429)          | (1,090)         |
| Income tax effect         | 2,523             | 264             |
| Ending balance            | ₩ <u>(23,519)</u> | <u>(15,613)</u> |

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**25. Statement of appropriation of retained earnings**

Statements of appropriation of retained earnings of KOWEPO based on its separate financial statements for the years ended December 31, 2014 and 2013 are as follows:

Date of appropriation for 2014: March 27, 2015

Date of appropriation for 2013: March 26, 2014

*In millions of won*

|  | <u>2014</u>      | <u>2013</u>    |
|--|------------------|----------------|
| <b>Unappropriated retained earnings</b>                    |                  |                |
| Balance at beginning of year                               | ₩ 711,596        | 711,596        |
| Hybrid securities interest                                 | (3,079)          | (2,868)        |
| Net income   | 151,662          | 106,829        |
| Actuarial losses   | (7,905)          | (826)          |
| <b>Balance at end of year before appropriation</b>         | <u>852,274</u>   | <u>814,731</u> |
| Reverse of reserve for research and human development      | 6,129            | 6,129          |
|  | 858,403          | 820,860        |
| <b>Appropriated retained earnings</b>                      |                  |                |
| Cash dividends   | (22,749)         | (32,048)       |
| Legal reserve  | (2,275)          | (3,205)        |
| Reserve for business expansion                             | (121,783)        | (74,011)       |
| <b>Unappropriated retained earnings to be carried over</b> | <u>₩ 711,596</u> | <u>711,596</u> |

**26. Other Components of Equity**

(1) Other components of equity as of December 31, 2014 and 2013 are as follows:

*In millions of won*

|   | <u>2014</u>       | <u>2013</u>     |
|---|-------------------|-----------------|
| Accumulated other comprehensive income (loss) | ₩ (15,886)        | 6,185           |
| Other equity                                  | (41,785)          | (41,784)        |
|   | <u>₩ (57,671)</u> | <u>(35,599)</u> |

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### 26. Other Components of Equity, Continued

(2) Changes in accumulated other comprehensive income (loss) during the years ended December 31, 2014 and 2013 are as follows:

(i) For the year ended December 31, 2014

*In millions of won*

|  |   | <b>Available<br/>-for-sale<br/>financial<br/>assets<br/>valuation<br/>reserve</b> | <b>Reserve for<br/>gain (loss)<br/>on<br/>valuation of<br/>derivatives</b> | <b>Reserve for<br/>loss on<br/>overseas<br/>operations<br/>translation<br/>credit</b> | <b>Share in other<br/>comprehensive<br/>income (loss)<br/>of associates</b> | <b>Total</b>    |
|--|---|---|--|---|---|-----------------|
| Beginning balance                                | ₩ | 2,166   | 10,908   | (4,575)   | (2,314)   | 6,185           |
| Valuation of available-for-sale financial assets |   | 158   | -  | -   | -   | 158             |
| Valuation of derivatives                         |   | -   | (30,072)   | -   | -   | (30,072)        |
| Overseas operations translation                  |   | -   | -  | (667)   | -   | (667)           |
| Valuation of investments in associates           |   | -   | -  | -   | 1,271   | 1,271           |
| Tax effect                                       |   | (38)  | 7,277  | -   | -   | 7,239           |
| Ending balance                                   | ₩ | <u>2,286</u>  | <u>(11,887)</u>  | <u>(5,242)</u>  | <u>(1,043)</u>  | <u>(15,886)</u> |

(ii) For the year ended December 31, 2013

*In millions of won*

|  |   | <b>Available<br/>-for-sale<br/>financial<br/>assets<br/>valuation<br/>reserve</b> | <b>Reserve for<br/>gain (loss)<br/>on<br/>valuation of<br/>derivatives</b> | <b>Reserve for<br/>gain (loss)<br/>on<br/>overseas<br/>operations<br/>translation<br/>credit</b> | <b>Share in other<br/>comprehensive<br/>income (loss)<br/>of associates</b> | <b>Total</b> |
|--|---|---|--|--|---|--------------|
| Beginning balance                                | ₩ | (204)   | 8,222  | (968)  | (2,770)   | 4,280        |
| Valuation of available-for-sale financial assets |   | 3,126   | -  | -  | -   | 3,126        |
| Valuation of derivatives                         |   | -   | 3,544  | -  | -   | 3,544        |
| Overseas operations translation                  |   | -   | -  | (3,709)  | -   | (3,709)      |
| Valuation of investments in associates           |   | -   | -  | -  | 435   | 435          |
| Tax effect                                       |   | (756)   | (858)  | 102  | 21  | (1,491)      |
| Ending balance                                   | ₩ | <u>2,166</u>  | <u>10,908</u>  | <u>(4,575)</u>   | <u>(2,314)</u>  | <u>6,185</u> |



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**26. Other Components of Equity, Continued**

(3) Changes in other components of equity for the years ended December 31, 2014 and 2013 are as follows:

(i) For the year ended December 31, 2014

*In millions of won*

|                        | <u>Loss on capital<br/>reduction</u> | <u>Other capital<br/>adjustments</u> | <u>Total</u>    |
|------------------------|--------------------------------------|--------------------------------------|-----------------|
| Beginning balance      | ₩ (41,046)                           | (738)                                | (41,784)        |
| Disposal of subsidiary | -                                    | (1)                                  | (1)             |
| Ending balance         | <u>₩ (41,046)</u>                    | <u>(739)</u>                         | <u>(41,785)</u> |

(ii) For the year ended December 31, 2013

*In millions of won*

|                        | <u>Loss on capital<br/>reduction</u> | <u>Other capital<br/>adjustments</u> | <u>Total</u>    |
|------------------------|--------------------------------------|--------------------------------------|-----------------|
| Beginning balance      | ₩ (41,046)                           | (590)                                | (41,636)        |
| Disposal of subsidiary | -                                    | (148)                                | (148)           |
| Ending balance         | <u>₩ (41,046)</u>                    | <u>(738)</u>                         | <u>(41,784)</u> |

**27. Hybrid Securities**

Hybrid securities classified as equity as of December 31, 2014 and 2013 are as follows :

*In millions of  
won*

| <u>Type</u>                            | <u>Description</u>   | <u>Issue date</u> | <u>Maturity<br/>date</u> | <u>Annual<br/>interest rate</u> | <u>December<br/>31, 2014</u> | <u>December<br/>31, 2013</u> |
|--|--|-------------------|--------------------------|---------------------------------|------------------------------|------------------------------|
| Bond-hybrid<br>capital<br>securities#1 | Interest-bearing,<br>unwarranted<br>and<br>subordinated<br>bonds to bear | 2012.10.18        | 2042.10.18               | KTB(five<br>years)<br>+1.20     | ₩ 100,000                    | 100,000                      |
| Issuance costs                         |  |                   |                          |                                 | (250)                        | (250)                        |
|  |  |                   |                          |                                 | <u>₩ 99,750</u>              | <u>99,750</u>                |

In October 2012, KOWEPO issued hybrid securities and KOWEPO has a right to extend the maturity date of the hybrid securities with the same condition of it at the maturity date, continually.

Interest payments may be deferred under certain conditions, such as resolution from the general meeting of stockholders that a dividend not be paid.

The hybrid securities holders' preference in the event of liquidation is higher than the common stock holders, but lower than other creditors.

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**28. Sales**

Details of sales for the years ended December 31, 2014 and 2013 are as follows:

(i) For the year ended December 31, 2014

| <i>In millions of won</i> |   | <u>Domestic</u>  | <u>Overseas</u> |
|---------------------------|---|------------------|-----------------|
| Sales of electricity      | ₩ | 4,825,711        | 4,786           |
| Services                  |   | 10,446           | 3,535           |
|                           | ₩ | <u>4,836,157</u> | <u>8,321</u>    |

(ii) For the year ended December 31, 2013

| <i>In millions of won</i> |   | <u>Domestic</u>  | <u>Overseas</u> |
|---------------------------|---|------------------|-----------------|
| Sales of electricity      | ₩ | 5,741,722        | 4,728           |
| Services                  |   | 13,894           | 533             |
|                           | ₩ | <u>5,755,616</u> | <u>5,261</u>    |

**29. Selling and Administrative Expenses**

Composition of selling and administrative expenses for the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>        |   | <u>2014</u>   | <u>2013</u>   |
|----------------------------------|---|---------------|---------------|
| Salaries                         | ₩ | 11,745        | 16,826        |
| Retirement benefit expense       |   | 655           | 1,468         |
| Welfare and benefit expense      |   | 3,434         | 5,881         |
| Insurance expense                |   | 48            | 85            |
| Depreciation                     |   | 3,063         | 3,275         |
| Amortization                     |   | 4,473         | 4,480         |
| Commission                       |   | 10,055        | 11,295        |
| Advertising expense              |   | 947           | 1,187         |
| Training expense                 |   | 48            | 135           |
| Vehicle maintenance expense      |   | 110           | 157           |
| Publishing expense               |   | 148           | 136           |
| Business promotion expense       |   | 171           | 211           |
| Rent expense                     |   | 4,236         | 4,054         |
| Telecommunication expense        |   | 188           | 918           |
| Transportation expense           |   | 1             | -             |
| Taxes and dues                   |   | 410           | 1,390         |
| Expendable supplies expense      |   | 72            | 59            |
| Water, light and heating expense |   | 14            | 23            |
| Repairs and maintenance expense  |   | 79            | 135           |
| Ordinary development expense     |   | 9,239         | 9,840         |
| Travel expense                   |   | 342           | 722           |
| Clothing expense                 |   | 1             | -             |
| Survey and analysis expense      |   | -             | 2             |
| Provisions for litigation        |   | 27,230        | -             |
| Others                           |   | 1,019         | 2,393         |
|                                  | ₩ | <u>77,728</u> | <u>64,672</u> |

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**30. Other Non-operating Income and Expense**

(1) Other non-operating income for the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i> | <u>2014</u> | <u>2013</u> |
|---------------------------|-------------|-------------|
| Rental income             | ₩ 3,532     | 3,196       |

(2) Other non-operating expenses for the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i> | <u>2014</u> | <u>2013</u> |
|---------------------------|-------------|-------------|
| Donations                 | ₩ 413       | 1,355       |

**31. Other Income and Loss**

Composition of other income and loss for the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>                          | <u>2014</u>    | <u>2013</u>   |
|--|----------------|---------------|
| Gain on disposal of property, plant, and equipment | ₩ 11,695       | 47            |
| Gain on foreign currency translation               | 108            | 267           |
| Gain on foreign currency transaction               | 10,837         | 9,235         |
| Other gains  | 28,595         | 27,615        |
| Loss on disposal of property, plant, and equipment | (3,433)        | (13,730)      |
| Impairment loss on property, plant, and equipment  | (35,094)       | -             |
| Loss on foreign currency translation               | (2,577)        | (141)         |
| Loss on foreign currency transaction               | (2,098)        | (8,066)       |
| Other losses                                       | (4,364)        | (4,844)       |
|  | ₩ <u>3,669</u> | <u>10,383</u> |

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**32. Finance Income**

(1) Finance income for the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>                               |   | <u>2014</u>   | <u>2013</u>   |
|---|---|---------------|---------------|
| Interest income   | ₩ | 6,770         | 12,389        |
| Gain on valuation of derivatives                        |   | 66,775        | 1,094         |
| Gain on foreign currency translation(*)                 |   | 15,522        | 19,420        |
| Gain on foreign currency transaction(*)                 |   | 139           | 2,016         |
| Gain on disposal of available-for-sale financial assets |   | -             | 37            |
|   | ₩ | <u>89,206</u> | <u>34,956</u> |

(\*) Incurred from Group's financing activities

(2) Interest income included in finance income for the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i> |   | <u>2014</u>  | <u>2013</u>   |
|---------------------------|---|--------------|---------------|
| Cash and cash equivalents | ₩ | 6,221        | 10,981        |
| Loans and receivables     |   | 549          | 1,408         |
|                           | ₩ | <u>6,770</u> | <u>12,389</u> |

**33. Finance Expenses**

(1) Finance expenses for the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>                              |   | <u>2014</u>    | <u>2013</u>   |
|--|---|----------------|---------------|
| Interest expense                                       | ₩ | 66,885         | 67,556        |
| Loss on valuation of derivatives                       |   | 15,448         | 19,524        |
| Impairment loss on available-for-sale financial assets |   | 1,513          | -             |
| Loss on foreign currency translation                   |   | 66,775         | 6,179         |
| Loss on foreign currency transaction                   |   | 159            | 418           |
|  | ₩ | <u>150,780</u> | <u>93,677</u> |

(2) Interest expenses included in finance expenses for the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>         |   | <u>2014</u>    | <u>2013</u>   |
|-----------------------------------|---|----------------|---------------|
| Trade and other payables          | ₩ | 210            | 1             |
| Short term borrowings             |   | 2,894          | 646           |
| Long term borrowings              |   | 25             | 1,632         |
| Debentures                        |   | 123,393        | 88,314        |
|                                   |   | <u>126,522</u> | <u>90,593</u> |
| Less: capitalized borrowing costs |   | (59,637)       | (23,037)      |
|                                   | ₩ | <u>66,885</u>  | <u>67,556</u> |

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**34. Income Tax Expense**

(1) Components of incomes tax expense (benefit) for the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>                                     | <u>2014</u>     | <u>2013</u>     |
|---|-----------------|-----------------|
| <b>Current income tax expense</b>                             |                 |                 |
| Tax payable   | ₩ 31,583        | 9,932           |
| Adjustment for prior period                                   | (2,627)         | (48,301)        |
| Income tax charged (credited) directly in equity              | 10,745          | (46)            |
|   | <u>39,701</u>   | <u>(38,415)</u> |
| <b>Deferred income tax expense</b>                            |                 |                 |
| Generation and realization of temporary differences           | (5,308)         | 7,079           |
| Adjustment due to changes in estimates related to prior years | 9,942           | 42,006          |
| Changes in tax rates or tax laws                              | (14,798)        | (30,700)        |
|   | <u>(10,164)</u> | <u>18,385</u>   |
| <b>Income tax expense (benefit)</b>                           | ₩ <u>29,537</u> | <u>(20,030)</u> |

(2) Reconciliation between the actual income tax expense and that amount computed by applying 24.2% to profit before income tax expense (benefit) for the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>  | <u>2014</u>     | <u>2013</u>     |
|--|-----------------|-----------------|
| Profit before income tax expense   | ₩ 162,765       | 74,730          |
| Income tax expense in accordance with statutory tax rate (tax rate: 24.2%) | 44,791          | 18,085          |
| Adjustments  |                 |                 |
| Effects of the application of accumulative tax rate                        | (462)           | (201)           |
| Effects of non-taxable revenue   | -               | (1,826)         |
| Effects of non-deductible expenses   | 4,817           | 3,934           |
| Effects of tax credits   | (26,924)        | (37,362)        |
| Adjustment due to changes in estimates related to prior years              | 9,942           | 42,006          |
| Others   | -               | 3,635           |
|  | <u>(12,627)</u> | <u>10,186</u>   |
| Adjustment for prior period  | (2,627)         | (48,301)        |
| Income tax expense (benefit) recognized in profit or loss                  | ₩ <u>29,537</u> | <u>(20,030)</u> |

In 2014, the average effective tax rate is 18.15% and in 2013, the average effective tax rate was not presented as the income tax benefit was recognized.

(3) Relating to items directly to equity in income tax for the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>              | <u>2014</u> | <u>2013</u> |
|--|-------------|-------------|
| Interest payments on hybrid securities | ₩ 983       | 1,181       |

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**34. Income Tax Expense, Continued**

(4) Income tax recognized in other comprehensive income (loss) for the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>   | <u>2014</u>    | <u>2013</u>    |
|---|----------------|----------------|
| Gain on valuation of available-for-sale financial assets, net                 | ₩ (38)         | (756)          |
| Loss (gain) on valuation of derivatives using cash flow hedge accounting, net | 7,277          | (858)          |
| Defined benefit plan actuarial loss, net                                      | 2,523          | 264            |
| Change in equity in equity method investees                                   | -              | 21             |
| Conversion effect of foreign financial statements                             | -              | 102            |
| Income tax expense (benefit)  | ₩ <u>9,762</u> | <u>(1,227)</u> |

(5) Reconized deferred income tax assets (liabilities) in the statement of financial position for the years ended December 31, 2014 and 2013 are as follows:

(i) For the year ended December 31, 2014

*In millions of won*

|  | <u>Balance as of January 1, 2014</u> | <u>Amounts recognized in profit or loss</u> | <u>Amounts recognized in other comprehensive income</u> | <u>Amounts recognized directly in equity</u> | <u>Balance as of December 31, 2014</u> |
|--|--------------------------------------|---|---|--|--|
| <b>Deferred tax on temporary differences</b> |                                      |   |   |  |  |
| Long-term employee benefits                  | ₩ 8,767                              | (419)                                       | 2,523   | -  | 10,871                                 |
| Cash flow hedges                             | 5,237                                | (12,838)                                    | 7,277   | -  | (324)                                  |
| Property, plant and equipment                | (243,225)                            | (12,073)                                    | -   | -  | (255,298)                              |
| Intangible assets                            | 56                                   | -   | -   | -  | 56                                     |
| Available-for-sale financial assets          | (691)                                | -   | (38)  | -  | (729)                                  |
| Foreign currency translation                 | (6,747)                              | 12,429                                      | -   | -  | 5,682                                  |
| Allowance for doubtful accounts              | (1,116)                              | -   | -   | -  | (1,116)                                |
| Other provision                              | (4,240)                              | 1   | -   | -  | (4,239)                                |
| Reserve for research and human development   | (2,845)                              | 949   | -   | -  | (1,896)                                |
| Others                                       | 21,630                               | 5,671                                       | -   | 983  | 28,284                                 |
|  | <u>(223,174)</u>                     | <u>(6,280)</u>                              | <u>9,762</u>  | <u>983</u>                                   | <u>(218,709)</u>                       |
| Tax credit                                   | 30,700                               | 5,497                                       | -   | -  | 36,197                                 |
| <b>Total</b>                                 | ₩ <u>(192,474)</u>                   | <u>(783)</u>                                | <u>9,762</u>  | <u>983</u>                                   | <u>(182,512)</u>                       |

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34. Income Tax Expense, Continued

(ii) For the year ended December 31, 2013

*In millions of won*

|  | <b>Balance as<br/>of January<br/>1, 2013</b> | <b>Amounts<br/>recognized<br/>in profit or<br/>loss</b> | <b>Amounts<br/>recognized<br/>in other<br/>comprehen-<br/>sive income</b> | <b>Amounts<br/>recognized<br/>directly in<br/>equity</b> | <b>Balance as<br/>of December<br/>31,2013</b> |
|--|--|---|---|--|---|
| <b>Deferred tax on temporary differences</b> |  |   |   |  |   |
| Long-term employee benefits                  | ₩ 8,521                                      | (18)  | 264   | -  | 8,767   |
| Cash flow hedges                             | 1,014  | 5,081   | (858)   | -  | 5,237   |
| Property, plant and equipment                | (182,309)                                    | (60,916)  | -   | -  | (243,225)                                     |
| Intangible assets                            | 56   | -   | -   | -  | 56  |
| Available-for-sale financial assets          | 65   | -   | (756)   | -  | (691)   |
| Foreign currency translation                 | (3,561)                                      | (3,186)   | -   | -  | (6,747)                                       |
| Allowance for doubtful accounts              | (1,116)                                      | -   | -   | -  | (1,116)                                       |
| Other provision                              | (4,383)                                      | 143   | -   | -  | (4,240)                                       |
| Reserve for research and human development   | (4,268)                                      | 1,423   | -   | -  | (2,845)                                       |
| Others                                       | 11,922                                       | 8,404   | 123   | 1,181  | 21,630  |
|  | <u>(174,059)</u>                             | <u>(49,069)</u>   | <u>(1,227)</u>  | <u>1,181</u>   | <u>(223,174)</u>                              |
| Tax credit                                   | -  | 30,700  | -   | -  | 30,700  |
| <b>Total</b>                                 | <b>₩ <u>(174,059)</u></b>                    | <b><u>(18,369)</u></b>                                  | <b><u>(1,227)</u></b>   | <b><u>1,181</u></b>                                      | <b><u>(192,474)</u></b>                       |

(6) Deferred tax assets (liabilities) presented in the statement of financial position are as follows:

*In millions of won*

|                                 | <b>2014</b>               | <b>2013</b>             |
|---------------------------------|---------------------------|-------------------------|
| Deferred income tax assets      | ₩ 4                       | 303                     |
| Deferred income tax liabilities | <u>(182,516)</u>          | <u>(192,777)</u>        |
|                                 | <b>₩ <u>(182,512)</u></b> | <b><u>(192,474)</u></b> |

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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**35. Expenses Classified by Nature**

Expenses classified by nature for the years ended December 31, 2014 and 2013 are as follows:

(i) For the year ended December 31, 2014

*In millions of won*

|                                     | <b>Selling and<br/>administrative<br/>expenses</b> | <b>Cost of sales</b> | <b>Total</b>     |
|-------------------------------------|--|----------------------|------------------|
| Raw materials used                  | ₩ -  | 3,856,966            | 3,856,966        |
| Salaries                            | 11,745   | 111,055              | 122,800          |
| Retirement benefit expense          | 655  | 8,910                | 9,565            |
| Welfare and benefit expense         | 3,434  | 8,433                | 11,867           |
| Insurance expense                   | 48   | 7,600                | 7,648            |
| Depreciation                        | 3,063  | 385,047              | 388,110          |
| Amortization                        | 4,473  | 658                  | 5,131            |
| Commission                          | 10,055   | 15,383               | 25,438           |
| Advertising expense                 | 947  | 314                  | 1,261            |
| Training expense                    | 48   | 286                  | 334              |
| Vehicle maintenance expense         | 110  | 62                   | 172              |
| Publishing expense                  | 148  | 111                  | 259              |
| Business promotion expense          | 171  | 174                  | 345              |
| Rent expense                        | 4,236  | 10,172               | 14,408           |
| Telecommunication expense           | 188  | 567                  | 755              |
| Transportation expense              | 1  | 10                   | 11               |
| Taxes and dues                      | 410  | 11,983               | 12,393           |
| Expendable supplies expense         | 72   | 269                  | 341              |
| Water, light and heating<br>expense | 14   | 308                  | 322              |
| Repairs and maintenance<br>expense  | 79   | 106,924              | 107,003          |
| Ordinary development<br>expense     | 9,239  | 17,625               | 26,864           |
| Travel expense                      | 342  | 592                  | 934              |
| Clothing expense                    | 1  | 225                  | 226              |
| Survey and analysis expense         | -  | 102                  | 102              |
| Others                              | 28,249   | 14,277               | 42,526           |
|                                     | ₩ <u>77,728</u>                                    | <u>4,558,053</u>     | <u>4,635,781</u> |



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35. Expenses Classified by Nature, Continued

(ii) For the year ended December 31, 2013

*In millions of won*

|                                     | <b>Selling and<br/>administrative<br/>expenses</b> | <b>Cost of sales</b> | <b>Total</b>     |
|-------------------------------------|--|----------------------|------------------|
| Raw materials used                  | ₩ -  | 4,866,215            | 4,866,215        |
| Salaries                            | 16,826   | 108,994              | 125,820          |
| Retirement benefit expense          | 1,468  | 11,036               | 12,504           |
| Welfare and benefit expense         | 5,881  | 9,755                | 15,636           |
| Insurance expense                   | 85   | 7,236                | 7,321            |
| Depreciation                        | 3,275  | 380,663              | 383,938          |
| Amortization                        | 4,480  | 664                  | 5,144            |
| Commission                          | 11,295   | 11,524               | 22,819           |
| Advertising expense                 | 1,187  | 342                  | 1,529            |
| Training expense                    | 135  | 271                  | 406              |
| Vehicle maintenance expense         | 157  | 71                   | 228              |
| Publishing expense                  | 136  | 80                   | 216              |
| Business promotion expense          | 211  | 155                  | 366              |
| Rent expense                        | 4,054  | 9,913                | 13,967           |
| Telecommunication expense           | 918  | 200                  | 1,118            |
| Transportation expense              | -  | 11                   | 11               |
| Taxes and dues                      | 1,390  | 5,375                | 6,765            |
| Expendable supplies expense         | 59   | 228                  | 287              |
| Water, light and heating<br>expense | 23   | 314                  | 337              |
| Repairs and maintenance<br>expense  | 135  | 104,963              | 105,098          |
| Ordinary development<br>expense     | 9,840  | 14,627               | 24,467           |
| Travel expense                      | 722  | 260                  | 982              |
| Clothing expense                    | -  | 420                  | 420              |
| Survey and analysis expense         | 2  | 142                  | 144              |
| Others                              | 2,393  | 42,903               | 45,296           |
|                                     | <b>₩ 64,672</b>                                    | <b>5,576,362</b>     | <b>5,641,034</b> |

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**36. Earnings per Share**

(1) Basic earnings per share for the years ended December 31, 2014 and 2013 are as follows:

| <i>In won</i>            | <u>2014</u> | <u>2013</u> |
|--------------------------|-------------|-------------|
| Basic earnings per share | ₩ 4,831     | 3,072       |

(\*) KOWEPO does not own dilutive securities so basic earnings per share is identical to dilutive earnings per share.

(2) Controlling interest in profit for the year and weighted average number of common shares outstanding for the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won, except for number of share</i> | <u>2014</u> | <u>2013</u> |
|---|-------------|-------------|
| Net income from continuing operations                 | ₩ 153,575   | 97,670      |
| Weighted average number of common share               | 31,789,285  | 31,789,285  |

**37. Risk Management**

(1) Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholder through the optimization of the debt and equity balance. The capital structure of the Group consists of net debt (offset by cash and bank balances) and equity. The Group's overall capital risk management strategy remains unchanged from that of the prior year.

Details of the Group's capital management accounts as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>       | <u>2014</u>      | <u>2013</u>      |
|---------------------------------|------------------|------------------|
| Total borrowings and debentures | ₩ 3,884,251      | 3,120,643        |
| Cash and cash equivalents       | (74,747)         | (502,996)        |
| Net borrowings and debentures   | <u>3,809,504</u> | <u>2,617,647</u> |
| Total shareholder's equity      | <u>3,208,711</u> | <u>3,140,555</u> |
| Debt to equity percentage       | <u>118.72%</u>   | <u>83.35%</u>    |

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**37. Risk Management, Continued**

(2) Financial risk management

The Group is exposed to various risks related to its financial instruments, such as, market risk (currency risk, interest rate risk, price risk), credit risk. The Group monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks.

The Group uses derivative financial instruments to certain hedge risk exposures. The Group's overall financial risk management strategy remains unchanged from the prior year.

1) Credit risk

Book values of the financial assets represent the maximum exposure of the credit risk. Details of the Group's level of maximum exposure to credit risk as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>            |   | <b>2014</b> | <b>2013</b> |
|--------------------------------------|---|-------------|-------------|
| Cash and cash equivalents            | ₩ | 74,747      | 502,996     |
| Loans and receivables                |   | 13,721      | 14,642      |
| Short-term financial instruments     |   | 7,500       | -           |
| Derivative assets (trading)          |   | -           | 46          |
| Derivative assets (hedge accounting) |   | 42,008      | 27,463      |
| Trade and other receivables          |   | 517,259     | 487,549     |

The Group has performance guarantees up to the limit of SAR 4,800 thousand and USD 2,510 thousand, but there are no borrowings outstanding related to the guarantees provided as of December 31, 2014.

2) Market risk

Market risk is the risk that the Group's fair values of the financial instruments or future cash flows are affected by the changes in the market. Market risk consists of interest rate risk, currency risk and other price risk.

3) Sensitivity analysis

a) Major assets and liabilities with uncertainties in underlying assumptions

① Defined benefit obligation

A sensitivity analysis on the Group's defined benefit obligation assuming a 1% increase or decrease in various assumptions as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>   |                            |   | <b>2014</b>            |                        | <b>2013</b>            |                        |
|-----------------------------|----------------------------|---|------------------------|------------------------|------------------------|------------------------|
| <b>Type</b>                 | <b>Accounts</b>            |   | <b>1%<br/>Increase</b> | <b>1%<br/>Decrease</b> | <b>1%<br/>Increase</b> | <b>1%<br/>Decrease</b> |
| Future salary increase rate | Defined benefit obligation | ₩ | 8,203                  | (7,025)                | 6,623                  | (5,783)                |
| Discount rate               | Defined benefit obligation |   | (7,318)                | 8,763                  | (5,988)                | 7,020                  |

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**37. Risk Management, Continued**

b) Management judgment effected by uncertainties in underlying assumptions

① Foreign currency risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to currency exchange rate fluctuations arise. The carrying amount of the Group's, except for the Group's foreign subsidiary, foreign currency denominated monetary assets and monetary liabilities at the end of the reporting year are as follows:

| <i>In thousands of foreign currencies</i> | <b>Assets</b> |             | <b>Liabilities</b> |             |
|---|---------------|-------------|--------------------|-------------|
|   | <b>2014</b>   | <b>2013</b> | <b>2014</b>        | <b>2013</b> |
| USD                                       | 38            | 251,422     | 1,516,538          | 1,259,891   |
| JPY                                       | -             | 1           | 6,688              | 54,351      |
| CHF                                       | -             | -           | 200,000            | 200,000     |

A sensitivity analysis on the Group's profit for the year assuming a 10% increase or decrease in currency exchange rates for the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>                       | <b>2014</b>             |                         | <b>2013</b>             |                         |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
|   | <b>10%<br/>Increase</b> | <b>10%<br/>Decrease</b> | <b>10%<br/>Increase</b> | <b>10%<br/>Decrease</b> |
| Increase (decrease) of income before income tax | ₩ (188,928)             | 188,928                 | (130,252)               | 130,252                 |
| Increase (decrease) of shareholder's equity(*)  | (188,928)               | 188,928                 | (130,252)               | 130,252                 |

(\*) Tax effect is not considered.

Sensitivity analysis above is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency, without consideration of hedge effect of related derivatives, as of December 31, 2014 and 2013.

The Group signed a contract currency swaps in order to avoid payments foreign trade payables and recovery foreign trade receivables. Also Group signed currency forward contract in order to mitigate currency risk expected purchase transaction and sales transaction.

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### 37. Risk Management, Continued

To manage its foreign currency risk related to foreign currency denominated receivables and payables, the Group has a policy to enter into currency swap agreements. In addition, to manage its foreign currency risk related to foreign currency denominated expected sales transactions and purchase transactions, the Group enters into cross-currency forward agreements.

#### ② Interest rate risk

The Group is exposed to interest rate risk due to its borrowing with floating interest rates. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel which represents management's assessment of the reasonably possible change in interest rates.

The Group's long-term borrowings and debentures with floating interest rates as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i> |   | <b>2014</b> | <b>2013</b> |
|---------------------------|---|-------------|-------------|
| Long-term borrowings      | ₩ | 3,178       | 3,524       |

Sensitivity analysis on the Group's long-term borrowings and debentures assuming a 1% increase or decrease in interest rates for the year ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>                      |   | <b>2014</b>            |                        | <b>2013</b>            |                        |
|--|---|------------------------|------------------------|------------------------|------------------------|
|  |   | <b>1%<br/>Increase</b> | <b>1%<br/>Decrease</b> | <b>1%<br/>Increase</b> | <b>1%<br/>Decrease</b> |
| Increase (decrease) of net income              | ₩ | (32)                   | 32                     | (35)                   | 35                     |
| Increase (decrease) of shareholder's equity(*) |   | (32)                   | 32                     | (35)                   | 35                     |

(\*) Tax effect is not considered.

To manage its interest rate risks, in addition to maintaining an appropriate mix of fixed and floating rate loans, the Group enters into certain interest rate swap agreements.

#### 4) Liquidity risk

The Group has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

In addition, the Group has established credit lines on its trade financing and bank overdrafts, and through payment guarantees it has received, it maintains an adequate credit (borrowing) line. In addition, in case of major construction investment, the Group has the ability to use reserve cash or utilize long-term borrowings.

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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### 37. Risk Management, Continued

Details of contractual maturities of the Group's non-derivative financial liabilities based on agreement terms are as follows. The amount disclosed below represents the undiscounted cash flows of the principal and estimated interest amounts that the Group is obligated to pay in the future based on the earliest repayment date:

(i) As of December 31, 2014

*In millions of won*

|                           | <b>Less than<br/>1 year</b> | <b>1-2<br/>years</b> | <b>2-5<br/>years</b> | <b>More than<br/>5 years</b> | <b>Total</b>     |
|---------------------------|-----------------------------|----------------------|----------------------|------------------------------|------------------|
| Borrowings and debentures | ₩ 231,080                   | 528,944              | 2,493,229            | 1,257,402                    | 4,510,655        |
| Trade and other payables  | 740,373                     | 393                  | -                    | -                            | 740,766          |
|                           | <u>₩ 971,453</u>            | <u>529,337</u>       | <u>2,493,229</u>     | <u>1,257,402</u>             | <u>5,251,421</u> |

(ii) As of December 31, 2013

*In millions of won*

|                           | <b>Less than<br/>1 year</b> | <b>1-2<br/>years</b> | <b>2-5<br/>years</b> | <b>More than<br/>5 years</b> | <b>Total</b>     |
|---------------------------|-----------------------------|----------------------|----------------------|------------------------------|------------------|
| Borrowings and debentures | ₩ 183,028                   | 199,489              | 2,056,257            | 1,272,302                    | 3,711,076        |
| Trade and other payables  | 559,352                     | 393                  | -                    | -                            | 559,745          |
|                           | <u>₩ 742,380</u>            | <u>199,882</u>       | <u>2,056,257</u>     | <u>1,272,302</u>             | <u>4,270,821</u> |

The expected maturities for non-derivative financial assets as of December 31, 2014 and 2013 in details are as follows:

(i) As of December 31, 2014

*In millions of won*

|                                     | <b>Less than<br/>1 year</b> | <b>1-5<br/>years</b> | <b>Over<br/>5 years</b> | <b>Uncertain</b> | <b>Total</b>   |
|-------------------------------------|-----------------------------|----------------------|-------------------------|------------------|----------------|
| Cash and cash equivalents           | ₩ 74,747                    | -                    | -                       | -                | 74,747         |
| Available-for-sale financial assets | -                           | -                    | -                       | 12,795           | 12,795         |
| Loans and receivables               | 2,922                       | 12,646               | -                       | -                | 15,568         |
| Short-term financial instruments    | 7,500                       | -                    | -                       | -                | 7,500          |
| Trade and other receivables         | 510,939                     | 6,634                | -                       | -                | 517,573        |
|                                     | <u>₩ 596,108</u>            | <u>19,280</u>        | <u>-</u>                | <u>12,795</u>    | <u>628,183</u> |

(ii) As of December 31, 2013

*In millions of won*

|                                     | <b>Less than<br/>1 year</b> | <b>1-5<br/>years</b> | <b>Over<br/>5 years</b> | <b>Uncertain</b> | <b>Total</b>     |
|-------------------------------------|-----------------------------|----------------------|-------------------------|------------------|------------------|
| Cash and cash equivalents           | ₩ 502,996                   | -                    | -                       | -                | 502,996          |
| Available-for-sale financial assets | -                           | -                    | -                       | 14,153           | 14,153           |
| Loans and receivables               | 1,489                       | 14,920               | -                       | -                | 16,409           |
| Trade and other receivables         | 481,476                     | 6,400                | -                       | -                | 487,876          |
|                                     | <u>₩ 985,961</u>            | <u>21,320</u>        | <u>-</u>                | <u>14,153</u>    | <u>1,021,434</u> |

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

### 37. Risk Management, Continued

Derivative financial liabilities classified by maturity periods which from reporting date to maturity date of contract as of December 31, 2014 and 2013 as follows:

(i) As of December 31, 2014

| <i>In millions of won</i> |   | <b>Less than<br/>1 year</b> | <b>1-2<br/>years</b> | <b>2-5<br/>years</b> | <b>More than<br/>5 years</b> | <b>Total</b>  |
|---------------------------|---|-----------------------------|----------------------|----------------------|------------------------------|---------------|
| Net settlement            |   |                             |                      |                      |                              |               |
| -Trading purpose          | ₩ | -                           | -                    | -                    | -                            | -             |
| Gross settlement          |   |                             |                      |                      |                              |               |
| -Trading purpose          |   | -                           | -                    | -                    | -                            | -             |
| -Hedge accounting purpose |   | -                           | 27,539               | 12,424               | -                            | 39,963        |
|                           | ₩ | <u>-</u>                    | <u>27,539</u>        | <u>12,424</u>        | <u>-</u>                     | <u>39,963</u> |

(ii) As of December 31, 2013

| <i>In millions of won</i> |   | <b>Less than<br/>1 year</b> | <b>1-2<br/>years</b> | <b>2-5<br/>years</b> | <b>More than<br/>5 years</b> | <b>Total</b>  |
|---------------------------|---|-----------------------------|----------------------|----------------------|------------------------------|---------------|
| Net settlement            |   |                             |                      |                      |                              |               |
| -Trading purpose          | ₩ | -                           | -                    | -                    | -                            | -             |
| Gross settlement          |   |                             |                      |                      |                              |               |
| -Trading purpose          |   | 104                         | -                    | -                    | -                            | 104           |
| -Hedge accounting purpose |   | -                           | -                    | 46,672               | -                            | 46,672        |
|                           | ₩ | <u>104</u>                  | <u>-</u>             | <u>46,672</u>        | <u>-</u>                     | <u>46,776</u> |

(3) Fair value risk

The fair value of the Group's actively-traded financial instruments (i.e. available-for-sale financial assets, etc.) is based on the traded market-price as of the reporting period end. The fair value of the Group's financial assets is the amount which the asset could be exchanged for or the amount a liability could be settled for.

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

For trade receivables and payables, the Group considers the carrying value, net of impairment, as fair value. While for disclosure purposes, the fair value of financial liabilities is estimated by discounting a financial instrument with similar contractual cash flows using the effective interest method.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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**37. Risk Management, Continued**

1) Fair value and book value of financial assets and liabilities as of December 31, 2014 and 2013 are as follows:

*In millions of won*

|  | 2014               |                  | 2013             |                  |
|--|--------------------|------------------|------------------|------------------|
|  | Book value         | Fair value       | Book value       | Fair value       |
| <b>Assets recognized at fair value</b>       |                    |                  |                  |                  |
| Available-for-sale financial assets          | ₩ 12,795           | 12,795           | 14,153           | 14,153           |
| Derivatives assets (trading)                 | -                  | -                | 46               | 46               |
| Derivatives assets (hedge accounting)        | 42,008             | 42,008           | 27,463           | 27,463           |
|  | ₩ <u>54,803</u>    | <u>54,803</u>    | <u>41,662</u>    | <u>41,662</u>    |
| <b>Assets carried at amortized cost</b>      |                    |                  |                  |                  |
| Trade and other receivables                  | ₩ 517,259          | 517,259          | 487,549          | 487,549          |
| Loans and receivables                        | 13,721             | 13,721           | 14,642           | 14,642           |
| Short-term financial instruments             | 7,500              | 7,500            | -                | -                |
|  | ₩ <u>538,480</u>   | <u>538,480</u>   | <u>502,191</u>   | <u>502,191</u>   |
| <b>Liabilities carried at fair value</b>     |                    |                  |                  |                  |
| Derivatives liabilities (trading)            | ₩ -                | -                | 104              | 104              |
| Derivatives liabilities (hedge accounting)   | 39,963             | 39,963           | 46,672           | 46,672           |
|  | ₩ <u>39,963</u>    | <u>39,963</u>    | <u>46,776</u>    | <u>46,776</u>    |
| <b>Liabilities carried at amortized cost</b> |                    |                  |                  |                  |
| Borrowings                                   | ₩ 3,178            | 3,178            | 3,524            | 3,524            |
| Debentures                                   | 3,881,073          | 3,865,679        | 3,117,119        | 3,138,650        |
| Trade and other payables                     | 740,766            | 740,766          | 559,745          | 559,745          |
|  | ₩ <u>4,625,017</u> | <u>4,609,623</u> | <u>3,680,388</u> | <u>3,701,919</u> |

2) The discount rate used for calculating fair value is derived from interest rates which are observable from the market, such as government bond interest rate, after considering credit spread.

The discount rates used for calculating fair value as of December 31, 2014 and 2013 are as follows:

| Type        | December 31, 2014 (%) | December 31, 2013 (%) |
|-------------|-----------------------|-----------------------|
| Derivatives | 0.58 ~ 2.14           | 0.49 ~ 2.18           |
| Debentures  | 0.45 ~ 3.02           | 1.44 ~ 3.98           |



KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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37. Risk Management, Continued

3) Fair value hierarchy

Fair values of financial instruments by hierarchy level as of December 31, 2014 and 2013, respectively, are as follows:

(i) As of December 31, 2014

| <i>In millions of won</i>                 |   | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>  |
|---|---|----------------|----------------|----------------|---------------|
| Financial assets at fair value:           |   |                |                |                |               |
| Available-for-sale financial assets       | ₩ | -              | -              | 12,795         | 12,795        |
| Derivative assets (hedge accounting)      |   | -              | 42,008         | -              | 42,008        |
|   |   | <u>-</u>       | <u>42,008</u>  | <u>12,795</u>  | <u>54,803</u> |
| Financial liabilities at fair value:      |   |                |                |                |               |
| Derivative liabilities (hedge accounting) |   | -              | 39,963         | -              | 39,963        |
|   | ₩ | <u>-</u>       | <u>39,963</u>  | <u>-</u>       | <u>39,963</u> |

(ii) As of December 31, 2013

| <i>In millions of won</i>                 |   | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>  |
|---|---|----------------|----------------|----------------|---------------|
| Financial assets at fair value:           |   |                |                |                |               |
| Available-for-sale financial assets       | ₩ | -              | -              | 14,153         | 14,153        |
| Derivative assets (trading)               |   | -              | 46             | -              | 46            |
| Derivative assets (hedge accounting)      |   | -              | 27,463         | -              | 27,463        |
|   |   | <u>-</u>       | <u>27,509</u>  | <u>14,153</u>  | <u>41,662</u> |
| Financial liabilities at fair value:      |   |                |                |                |               |
| Derivative liabilities (trading)          |   | -              | 104            | -              | 104           |
| Derivative liabilities (hedge accounting) |   | -              | 46,672         | -              | 46,672        |
|   | ₩ | <u>-</u>       | <u>46,776</u>  | <u>-</u>       | <u>46,776</u> |

Changes in Level 3 available-for-sale financial assets during the year ended December 31, 2014 are as follows:

*In millions of won*

| <b>Type</b>                         |   | <b>Beginning</b> | <b>Valuation</b> | <b>Impairment</b> | <b>Net exchange difference</b> | <b>Ending</b> |
|-------------------------------------|---|------------------|------------------|-------------------|--------------------------------|---------------|
| Available-for-sale financial assets | ₩ | 14,153           | 158              | (1,513)           | (3)                            | 12,795        |

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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For the years ended December 31, 2014 and 2013

**38. Related Party Transactions**

(1) The nature of the Group's relationship as of December 31, 2014 is as follows:

| <b>Type</b>           | <b>Related party</b>   |
|-----------------------|--|
| Parent company        | Korea Electric Power Corporation   |
| Associate company     | Cheongna Energy Co., Ltd.<br>Pioneer Gas Power Limited<br>Eurasia Energy Holdings<br>Xe-Pian Xe-Namnoy Power Co., Ltd.<br>PT Mutiara Jawa<br>Korea Offshore Wind Power Co., Ltd.<br>Daegu Solar Power Plant Co., Ltd.<br>Dongducheon Dream Power Co., Ltd.<br>Solar Power Plants Happy City Co., Ltd.<br>Shin Pyeongtaek Power Co., Ltd.   |
| Joint venture company | Rabigh O&M Co., Ltd.   |
| Other related company | Korea Hydro & Nuclear Power Co., Ltd.<br>Korea South-East Power Co., Ltd.<br>Korea Southern Power Co., Ltd.<br>Korea East-West Power Co., Ltd.<br>Korea Midland Power Co., Ltd.<br>KEPCO Engineering & Construction Company Inc.<br>KEPCO KDN Co., Ltd.<br>KEPCO KPS Co., Ltd.<br>KEPCO Nuclear Fuel Co., Ltd.<br>Korea Gas Corporation<br>Korea Electronic Power Industrial Development Co., Ltd.<br>Korea Power Exchange |

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

### 38. Related Party Transactions, Continued

(2) All transactions between KOWEPO and its consolidated subsidiaries are eliminated upon consolidation, and transactions with related parties other than subsidiaries for the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i> | <b>Related parties</b>                                     | <b>Sales and others</b> |                  | <b>Purchase and others</b> |                  |
|---------------------------|--|-------------------------|------------------|----------------------------|------------------|
|                           |  | <b>2014</b>             | <b>2013</b>      | <b>2014</b>                | <b>2013</b>      |
|                           | Korea Electric Power Corporation                           | ₩ 4,865,796             | 5,760,810        | 72,939                     | 109,554          |
|                           | Korea Hydro & Nuclear Power Co., Ltd.                      | -                       | -                | 81                         | 86               |
|                           | Korea South-East Power Co., Ltd.                           | -                       | -                | 3                          | -                |
|                           | Korea Midland Power Co., Ltd.                              | -                       | -                | 105                        | -                |
|                           | Korea Southern Power Co., Ltd.                             | 2,149                   | 3,473            | 1,168                      | 121              |
|                           | Korea East-West Power Co., Ltd.                            | -                       | -                | 114                        | 15               |
|                           | KEPCO Engineering & Construction<br>Company Inc.           | -                       | -                | 22,262                     | 30,293           |
|                           | KEPCO KPS Co., Ltd.  | 1,692                   | 1,311            | 86,185                     | 85,630           |
|                           | KEPCO KDN Co., Ltd.  | -                       | -                | 7,578                      | 6,975            |
|                           | Cheongna Energy Co., Ltd.                                  | 12,899                  | 11,930           | -                          | -                |
|                           | Korea Offshore Wind Power Co., Ltd.                        | 218                     | 159              | -                          | -                |
|                           | Daegu Solar Power Plant Co., Ltd.                          | -                       | -                | 2,007                      | 1,070            |
|                           | Dongducheon Dream Power Co., Ltd.                          | 9,297                   | 11,603           | -                          | -                |
|                           | Solar Power Plants Happy City Co., Ltd.                    | -                       | -                | 119                        | -                |
|                           | Rabigh O&M Co., Ltd.                                       | 2,822                   | 2,091            | -                          | -                |
|                           | Korea Gas Corporation                                      | 2,947                   | 3,312            | 2,296,668                  | 2,902,537        |
|                           | Korea Electronic Power Industrial<br>Development Co., Ltd. | 9,921                   | 9,299            | 28,110                     | 26,799           |
|                           | Korea Power Exchange                                       | -                       | -                | 4,240                      | 4,809            |
|                           | Pioneer Gas Power Ltd.                                     | 214                     | -                | -                          | -                |
|                           | Shin Pyeongtaek Power Co., Ltd.                            | 174                     | -                | -                          | -                |
|                           | Xe-Pian Xe-Namnoy Power Co., Ltd.                          | 1,333                   | -                | -                          | -                |
|                           |  | ₩ <u>4,909,462</u>      | <u>5,803,988</u> | <u>2,521,579</u>           | <u>3,167,889</u> |

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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**38. Related Party Transactions, Continued**

(3) Receivables and payables arising from related party transactions as of December 31, 2014 and 2013 are as follows:

*In millions of won*

| Company name  | Type                             | Receivables |         | Payables |         |
|---|----------------------------------|-------------|---------|----------|---------|
|   |                                  | 2014        | 2013    | 2014     | 2013    |
| Korea Electric Power Corporation                        | Trade receivables                | ₩ 424,836   | 444,729 | -        | -       |
|   | Non-trade receivables and others | 59,934      | 20,974  | -        | -       |
|   | Trade payables                   | -           | -       | 3,343    | 8       |
|   | Non-trade payables and others    | -           | -       | 71       | 808     |
| Korea Hydro & Nuclear Power Co., Ltd.                   | Non-trade payables and others    | -           | -       | 22       | 22      |
| Korea East-West Power Co., Ltd.                         | Non-trade payables and others    | -           | -       | 1,149    | -       |
| Korea Midland Power Co., Ltd.                           | Non-trade receivables and others | -           | -       | -        | -       |
|   | Non-trade payables and others    | -           | -       | -        | -       |
| Korea Southern Power Co., Ltd.                          | Non-trade receivables and others | 36          | 498     | -        | -       |
|   | Non-trade payables and others    | -           | -       | 191      | 101     |
| KEPCO Engineering & Construction Company Inc.           | Non-trade payables and others    | -           | -       | 560      | 7,508   |
| KEPCO KPS Co., Ltd.                                     | Non-trade payables and others    | -           | -       | 13,912   | 6,588   |
| KEPCO KDN Co., Ltd.                                     | Non-trade receivables and others | -           | 247     | -        | -       |
|   | Non-trade payables and others    | -           | -       | 767      | 1,281   |
| Cheongna Energy Co., Ltd.                               | Non-trade receivables and others | 5,073       | 1,805   | -        | -       |
| Korea Offshore Wind Power Co., Ltd.                     | Non-trade receivables and others | 240         | 175     | -        | -       |
| Shin Pyeongtaek Power Co., Ltd.                         | Non-trade receivables and others | 191         | -       | -        | -       |
| Pioneer Gas Power., Ltd.                                | Non-trade receivables and others | 214         | -       | -        | -       |
| Daegu Solar Power Plant Co., Ltd.                       | Non-trade payables and others    | -           | -       | -        | 212     |
| Korea Gas Corporation                                   | Non-trade receivables and others | -           | 1,507   | -        | -       |
|   | Trade payables                   | -           | -       | 283,772  | 116,941 |
| Korea Electronic Power Industrial Development Co., Ltd. | Trade receivables                | 652         | 548     | -        | -       |
|   | Non-trade receivables and others | -           | 28      | -        | -       |
|   | Non-trade payables and others    | -           | -       | 3,187    | 1,544   |
| Xe-Pian Xe-Namnoy Power Co., Ltd.                       | Non-trade receivables and others | 547         | -       | -        | -       |
|   | Loans                            | 1,413       | -       | -        | -       |

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**38. Related Party Transactions, Continued**

(4) The salaries and other compensations to the key members of management for the years ended December 31, 2014 and 2013 are as follows:

*In millions of won*

| Type                              | 2014  | 2013 |
|-----------------------------------|-------|------|
| Short-term employee benefits      | ₩ 540 | 783  |
| Retirement and severance benefits | 35    | 36   |

(5) Guarantees provided to affiliates as of December 31, 2014 are as follows:

*In millions of won, In thousands of USD, SAR*

| Debt repayment<br>guarantee provider | Related Parties                         | Type of guarantees                             | Credit limit | Guarantee                 |
|--------------------------------------|---|--|--------------|---------------------------|
| Korea Western Power Co., Ltd.        | Cheongna Energy Co., Ltd.               | Investments in associate pledged as collateral | KRW 48,353   | Hana Bank, etc.           |
| Korea Western Power Co., Ltd.        | Dongducheon Dream Power Co., Ltd.(*1)   | Investments in associate pledged as collateral | KRW 111,134  | Kookmin Bank              |
| Korea Western Power Co., Ltd.        | Daegu Solar Power Plant Co., Ltd.       | Investments in associate pledged as collateral | KRW 1,230    | Industrial Bank of Korea  |
| Korea Western Power Co., Ltd.        | PT Mutiara Jawa                         | Investments in associate pledged as collateral | USD 2,610    | Shinhan Bank Singapore    |
| Korea Western Power Co., Ltd.        | Rabigh O&M Co., Ltd.                    | Contract Performance guarantees, etc.          | SAR 4,800    | Saudi Arabia British Bank |
| Korea Western Power Co., Ltd.        | Xe-Pian Xe-Namnoy Power Co., Ltd.       | Performance guarantees                         | USD 2,500    | Krung Thai Bank           |
| Korea Western Power Co., Ltd.        | Xe-Pian Xe-Namnoy Power Co., Ltd.       | Investments in associate pledged as collateral | USD 21,345   | Krung Thai Bank           |
| Korea Western Power Co., Ltd.        | Solar Power Plants Happy City Co., Ltd. | Investments in associate pledged as collateral | KRW 194      | Shinhan Capital, NH bank  |
| Korea Western Power Co., Ltd.        | Shin Pyeongtaek Power Co., Ltd.         | Investments in associate pledged as collateral | KRW 40       | Kookmin Bank              |

(\*1) The Group entered into the asset pledge agreement with the stocks of Dongducheon Dream Power Co., Ltd. as the part of the project finance agreements to initiate the Dongducheon combined cycle power project.

(6) Cheongna Energy Co., Ltd., an associate, operates integrated energy transportation and distributions and has outstanding loans from the financial institutions. In relation to the loans, the Group entered into the supplemental funding agreement for Cheongna Energy Co., Ltd. According to the agreement, all shareholders of Cheongna Energy Co., Ltd are required to raise additional funds based on the shareholders' equity ratios when Cheongna Energy Co., Ltd. is unable to repay the principal and interest amounts.

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**39. Non-cash Transactions**

Significant non-cash transactions for the years ended December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i>   |   | <u>2014</u> | <u>2013</u> |
|---|---|-------------|-------------|
| Reclassification of long-term borrowings and debentures to current portion            | ₩ | 100,277     | 80,311      |
| Reclassification of construction-in-progress  |   | 596,344     | 632,830     |
| Reclassification of non-cash purchases of property, plant and equipment's acquisition |   | (64,108)    | (164,154)   |
| Reclassification of long-term loans to current portion                                |   | 2,406       | 1,367       |
| Reclassification of long-term prepaid expenses to current portion                     |   | (2,326)     | (427)       |
| Reclassification of long-term deposit to current portion                              |   | (4,156)     | (2,184)     |

**40. Commitments for Expenditure**

Agreements for acquisition of property, plant and equipment as of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i> | <b>Description</b> | <u>2014</u>     |                 | <u>2013</u>     |                 |
|---------------------------|--------------------|-----------------|-----------------|-----------------|-----------------|
|                           |                    | <u>Contract</u> | <u>Residual</u> | <u>Contract</u> | <u>Residual</u> |
|                           | Payments           | ₩ 2,299,954     | 657,998         | 2,279,326       | 1,474,676       |

**41. Commitments and Contingencies**

(1) Ongoing litigations of December 31, 2014 and 2013 are as follows:

| <i>In millions of won</i> | <u>2014</u>            |                     | <u>2013</u>            |                     |
|---------------------------|------------------------|---------------------|------------------------|---------------------|
|                           | <u>Number of cases</u> | <u>Claim amount</u> | <u>Number of cases</u> | <u>Claim amount</u> |
| As the defendant          | 8                      | ₩ 23,745            | 11                     | ₩ 18,047            |
| As the plaintiff          | 1                      | 20                  | 2                      | 180                 |

(\*)As of December 31, 2014, the Group recorded ₩27,230 million as litigation provisions. Except for the lawsuits that resulted in litigation provisions, the outcome of the other litigations cannot be determined. However, management of the Group believes that the ultimate outcomes will not have a significant impact on the Group's operations and financial position.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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41. Commitments and Contingencies, Continued

(2) Credit lines provided by financial institutions as of December 31, 2014 are as follows:

*In millions of won, In thousands of USD*

| Description                     | Financial Institutions                      | Current | Amount  |
|---------------------------------|---|---------|---------|
| Commitments on Bank-overdraft   | NH Bank                                     | KRW     | 100,000 |
|                                 | Korea Exchange Bank                         | KRW     | 100,000 |
| Limit amount available for CP   | Shinhan Bank                                | KRW     | 100,000 |
| Loan limit                      | Korea Exchange Bank                         | USD     | 18,000  |
|                                 | Korea Exim Bank                             | USD     | 100,000 |
|                                 | SC Bank                                     | USD     | 50,000  |
|                                 | Bank of Communications                      | USD     | 100,000 |
|                                 | Bank of Nova Scotia                         | USD     | 20,000  |
|                                 | BNP Paribas                                 | USD     | 60,000  |
|                                 | Credit Agricole                             | USD     | 50,000  |
|                                 | Deutsche Bank AG                            | USD     | 100,000 |
|                                 | DBS Bank                                    | USD     | 100,000 |
|                                 | Korea Development Bank                      | USD     | 80,000  |
|                                 | Mizuho Corporate Bank Ltd                   | USD     | 100,000 |
|                                 | The Hongkong and Shanghai Banking Co., Ltd. | USD     | 100,000 |
| The Royal Bank of Scotland      | USD   | 100,000 |         |
| Certification of payment on L/C | Kookmin Bank                                | USD     | 40,000  |
|                                 | NH Bank                                     | USD     | 220,000 |
|                                 | Shinhan Bank                                | USD     | 30,000  |
|                                 | Woori Bank                                  | USD     | 30,000  |
|                                 | Industrial Bank of Korea                    | USD     | 10,000  |
|                                 | Hana Bank                                   | USD     | 40,000  |
|                                 | Korea Exchange Bank                         | USD     | 53,000  |

(3) Main raw material purchase agreements as of December 31, 2014 are as follows:

| Raw materials   | Supplier              | Contract period | Amount for year<br>(thousand tons,<br>thousand kls) |
|-----------------|-----------------------|-----------------|---|
| Bituminous coal | Australia             | 2011.01~2019.12 | 3,609   |
|                 | Indonesia             | 2010.10~2019.12 | 2,090   |
|                 | Russia                | 2012.08~2019.05 | 290   |
|                 | Canada, America       | 2012.04~2017.12 | 340   |
|                 |                       |                 | 6,329   |
| LNG             | Korea Gas Corporation | 2007~2026       | Determined annually                                 |

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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### 41. Commitments and Contingencies, Continued

(4) Details of long-term marine transportation commitment for the safe transport of bituminous coal as of December 31, 2014 are as follows:

| Shipping company                       | Ship name         | Contract period |
|--|-------------------|-----------------|
| Hanjin Shipping Co., Ltd.              | Hanjin Balikpapan | 2011.07~2026.06 |
| Hansung Line Co., Ltd.                 | Western Marine    | 2012.01~2026.12 |
| K-Line                                 | CSK Brilliance    | 2011.11~2021.10 |
| K-Line                                 | Elettra           | 2009.02~2019.01 |
| K-Line                                 | Serenata          | 2009.02~2019.01 |
| K-Line                                 | Dolce             | 2007.08~2017.07 |
| MOL                                    | Gloriosa Lily     | 2008.10~2018.09 |
| MOL                                    | TTM HOPE          | 2008.10~2018.09 |
| MOL                                    | Pacific Power     | 2008.11~2018.10 |
| NYK                                    | LOWLANDS PHOENIX  | 2013.02~2028.01 |
| Daebo International Shipping Co., Ltd. | Undecided         | 2015.10~2030.09 |
| Wuyang Merchant Marine Co., Ltd        | Undecided         | 2016.07~2026.09 |
| Five Ocean Corporation                 | Undecided         | 2016.10~2026.12 |
| Hyundai Merchant Marine Co., Ltd.      | Undecided         | 2018.01~2036.06 |
| Hyundai Merchant Marine Co., Ltd.      | Undecided         | 2016.01~2031.03 |
| SK Shipping Co., Ltd.                  | Undecided         | 2018.07~2036.12 |
| SK Shipping Co., Ltd.                  | Undecided         | 2016.01~2028.03 |

(5) As described in note 38, the Group provides financial supports including the debt repayment guarantees to related parties.

(6) Korea Western Power Co., Ltd. is under an agreement to make an investment to Dongducheon Dream Power Co., Ltd., an associate, in relation to the project financing related with Dongducheon Conventional Combined Cycle Project, and the shares of Dongducheon Dream Power Co., Ltd. owned by Korea Western Power Co., Ltd are pledged for the above investment agreement.

(7) On January 1, 2011, the Group transferred the pumped storage unit to Korea Hydro & Nuclear Power Co., Ltd. The Group and Korea Hydro & Nuclear Power Co., Ltd. are jointly liable for the liabilities of the pumped storage unit occurred before the transfer date.



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42. Subsequent Events

(1) The Group has issued interest-bearer coupon debentures for facilities and operation funds as follows:

*In millions of won*

|                      | <u>Issue date</u> | <u>Maturity date</u> | <u>Interest rate</u> |   | <u>Amounts</u> |
|----------------------|-------------------|----------------------|----------------------|---|----------------|
| Corporate bond #26-1 | 2015.03.05        | 2020.03.05           | 2.139%               | ₩ | 110,000        |
| Corporate bond #26-2 | 2015.03.05        | 2025.03.05           | 2.427%               |   | 90,000         |
|                      |                   |                      |                      | ₩ | <u>200,000</u> |

(2) Subsequent to December 31, 2014, the Group has issued short-term bonds for funds of facilities and operation as follows:

*In millions of won*

| <u>Type</u>                    | <u>Lender</u>                           | <u>Issue date</u> | <u>Maturity date</u> | <u>Interest rate</u> |   | <u>Amounts</u> |
|--------------------------------|---|-------------------|----------------------|----------------------|---|----------------|
| Domestic short-term borrowings | Shinyoung Securities. Co., Ltd.         | 2015.01.08        | 2015.03.13           | 2.13%                | ₩ | 90,000         |
|                                | KTB Investments & Securities. Co., Ltd. | 2015.01.08        | 2015.03.13           | 2.13%                |   | 30,000         |
|                                | SK Securities. Co., Ltd.                | 2015.01.08        | 2015.03.13           | 2.13%                |   | 20,000         |
|                                | Dongbu Securities. Co., Ltd.            | 2015.01.12        | 2015.03.23           | 2.14%                |   | 20,000         |
|                                | Shinyoung Securities. Co., Ltd.         | 2015.01.12        | 2015.03.23           | 2.14%                |   | 50,000         |
|                                | Woori Investment Bank Co., Ltd.         | 2015.01.12        | 2015.03.23           | 2.14%                |   | 20,000         |
|                                | KTB Investments & Securities. Co., Ltd. | 2015.01.12        | 2015.03.23           | 2.14%                |   | 50,000         |
|                                | SK Securities. Co., Ltd.                | 2015.01.12        | 2015.03.23           | 2.14%                |   | 10,000         |
|                                |   |                   |                      |                      | ₩ | <u>290,000</u> |