

KOREA WESTERN POWER CO., LTD.
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2016 and 2015

(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, 2016 and 2015, 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, 2016 and 2015 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 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 2, 2017

This report is effective as of March 2, 2017, 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
For the years ended December 31, 2016 and 2015

In millions of won

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Assets			
Cash and cash equivalents	6,7,38	₩ 246,692	105,559
Current financial assets	6,10,11,38	45,811	47,328
Trade and other receivables, net	6,8,38,39	578,932	525,443
Inventories	12	227,388	238,824
Current non-financial assets	13	34,866	27,006
Assets held for sale	15,40	41,170	41,170
Total current assets		<u>1,174,859</u>	<u>985,330</u>
Non-current financial assets	6,9,10,11,27,38,39	222,566	119,282
Non-current trade and other receivables, net	6,8,38	662	2,115
Property, plant and equipment, net	16,42	8,154,367	7,916,158
Intangible assets, net	17	15,744	14,039
Investments in associates and joint ventures	15,39,40	213,948	164,533
Non-current non-financial assets	13	10,813	6,359
Deferred tax assets	35	144	56
Total non-current assets		<u>8,618,244</u>	<u>8,222,542</u>
Total assets		<u>₩ 9,793,103</u>	<u>9,207,872</u>

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position, Continued
For the years ended December 31, 2016 and 2015

In millions of won

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Liabilities			
Trade and other payables	6,18,38,39	₩ 379,866	347,791
Current financial liabilities	6,10,19,20,38	1,084,427	894,500
Current tax liabilities	35	85,880	58,684
Current non-financial liabilities	23	100,328	69,182
Total current liabilities		<u>1,650,501</u>	<u>1,370,157</u>
Non-current trade and other payables	6,18,38	78	78
Non-current financial liabilities	6,19,38	3,926,322	4,067,926
Non-current non-financial liabilities	23	199	2,632
Employee benefits obligations, net	21,25,38	71,604	58,199
Deferred tax liabilities	35	215,998	218,798
Non-current provisions	22,43	5,123	4,096
Total non-current liabilities		<u>4,219,324</u>	<u>4,351,729</u>
Total liabilities		<u>5,869,825</u>	<u>5,721,886</u>
Equity			
Share capital	24	1,272,898	1,192,365
Retained earnings	25,26	2,593,422	2,244,738
Other components of equity	9,10,27	(49,043)	(51,125)
Hybrid securities	28	99,750	99,750
Equity attributable to owners of KOWEPO		<u>3,917,027</u>	<u>3,485,728</u>
Non-controlling interests		<u>6,251</u>	<u>258</u>
Total equity		<u>3,923,278</u>	<u>3,485,986</u>
Total liabilities and equity		<u>₩ 9,793,103</u>	<u>9,207,872</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, 2016 and 2015

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

	Note	2016	2015
Sales	5,29,39	₩ 4,179,782	4,224,675
Cost of sales	36,39	(3,487,049)	(3,653,430)
Gross profit		692,733	571,245
Selling and administrative expenses	30,36	(104,072)	(82,344)
Operating income		588,661	488,901
Other non-operating income	31	3,986	3,689
Other non-operating expenses	31	(642)	(443)
Other income, net	32	4,815	1,534
Finance income	6,10,33	62,490	124,642
Finance expenses	6,9,10,34	(134,826)	(192,849)
Loss from associate and joint ventures	14,15	(13,170)	(13,169)
Profit before income tax		511,314	412,305
Income tax expense	35	(118,120)	(111,996)
Profit for the year		393,194	300,309
Other comprehensive income (loss), net of tax:			
Items that will never be reclassified to profit or loss			
Remeasurements of benefit liability, net of tax	21,25	(5,539)	(3,466)
Share in other comprehensive income (loss) of associates and joint ventures, net of tax		259	(295)
Items that are or may be reclassified to profit or loss			
Net change in the unrealized fair value of available-for-sale financial assets, net of tax	9,27	(3,827)	503
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	10,27	3,243	4,773
Foreign currency translation of foreign operations, net of tax		550	(611)
Share in other comprehensive income of associates and joint ventures, net of tax		2,118	1,880
Total other comprehensive income (loss), net of tax		(3,196)	2,784
Total comprehensive income for the year		₩ 389,998	303,093

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, 2016 and 2015

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

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Profit (loss) attributable to:			
Owners of KOWEPO	₩	393,271	300,260
Non-controlling interests		(77)	49
		<u>393,194</u>	<u>300,309</u>
Total comprehensive Income (loss) attributable to:			
Owners of KOWEPO		390,073	303,044
Non-controlling interests		(75)	49
		<u>389,998</u>	<u>303,093</u>
Earnings per share			
Basic and diluted earnings per share (in won)	37	₩	<u>12,345</u>
			<u>9,445</u>

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
 Consolidated Statements of Changes in Equity
 For the years ended December 31, 2016 and 2015

In millions of won

	Equity attributable to owners of KOWEPO							Non-controlling interests	Total equity
	Share Capital	Retained earnings	Hybrid securities	Other components of equity	Subtotal				
Balance at January 1, 2015	₩ 1,192,365	1,974,058	99,750	(57,670)	3,208,503		209	3,208,712	
Total comprehensive income (loss) for the year:									
Profit for the year	-	300,260	-	-	300,260		49	300,309	
Net change in the unrealized fair value of available-for-sale financial assets, net of tax	-	-	-	503	503		-	503	
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	-	-	-	4,773	4,773		-	4,773	
Remeasurements of benefit liability, net of tax	-	(3,466)	-	-	(3,466)		-	(3,466)	
Share in other comprehensive income of associates and joint ventures, net of tax	-	(295)	-	1,880	1,585		-	1,585	
Foreign currency translation of foreign operations, net of tax	-	-	-	(611)	(611)		-	(611)	
Transactions with owners recognized directly in equity:									
Dividends paid	-	(22,749)	-	-	(22,749)		-	(22,749)	
Interest payments on hybrid securities	-	(3,070)	-	-	(3,070)		-	(3,070)	
Balance at December 31, 2015	₩ 1,192,365	2,244,738	99,750	(51,125)	3,485,728		258	3,485,986	

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity, Continued
For the years ended December 31, 2016 and 2015

In millions of won

	Equity attributable to owners of KOWEPO					Non-controlling interests	Total equity
	Share Capital	Retained earnings	Hybrid securities	Other components of equity	Subtotal		
Balance at January 1, 2016	₩ 1,192,365	2,244,738	99,750	(51,125)	3,485,728	258	3,485,986
Total comprehensive income (loss) for the year:							
Profit (loss) for the year	-	393,271	-	-	393,271	(77)	393,194
Net change in the unrealized fair value of available-for-sale financial assets, net of tax	-	-	-	(3,827)	(3,827)	-	(3,827)
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	-	-	-	3,243	3,243	-	3,243
Remeasurements of benefit liability, net of tax	-	(5,539)	-	-	(5,539)	-	(5,539)
Share in other comprehensive income of associates and joint ventures, net of tax	-	260	-	2,118	2,378	-	2,378
Foreign currency translation of foreign operations, net of tax	-	-	-	548	548	2	550
Transactions with owners recognized directly in equity:							
Dividends paid	-	(36,238)	-	-	(36,238)	-	(36,238)
Paid-in capital increase	80,533	-	-	-	80,533	-	80,533
Changes in consolidation scope	-	-	-	-	-	6,068	6,068
Interest payments on hybrid securities	-	(3,070)	-	-	(3,070)	-	(3,070)
Balance at December 31, 2016	₩ <u>1,272,898</u>	<u>2,593,422</u>	<u>99,750</u>	<u>(49,043)</u>	<u>3,917,027</u>	<u>6,251</u>	<u>3,923,278</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, 2016 and 2015

In millions of won

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Profit for the year	₩ 393,194	300,309
Adjustments for:		
Income tax expense	118,120	111,996
Depreciation	473,487	419,939
Amortization of intangible assets	2,959	5,536
Loss on disposals of property, plant and equipment	1,619	3,426
Retirement benefit expenses	16,942	14,233
Interest expense	70,890	70,580
Interest income	(1,845)	(2,542)
Impairment loss on available-for-sale financial assets	502	-
Loss on disposals of available-for-sale financial assets	-	82
Loss from associates and joint ventures	13,170	13,169
Gain on derivative instruments, net	(35,108)	(120,724)
Loss on foreign currency translations, net	49,900	121,043
Gain on foreign currency transactions	(10,275)	-
Provisions for employee benefits	30,002	36,637
Provisions for renewable portfolio standard	40,418	19,154
Provisions for litigation	1,018	4,833
Provisions for greenhouse gas emission	-	9,315
Reversal of provisions for employee benefits	(1,288)	-
Reversal of provisions for renewable portfolio standard	(5,851)	(15,038)
Reversal of provisions for litigation	-	(1,957)
Reversal of greenhouse gas emission	(513)	-
Others, net	909	222
	<u>765,056</u>	<u>689,904</u>
Changes in:		
Trade receivables	(68,069)	42,269
Other current receivables	13,739	(58,546)
Other non-current receivables	941	-
Inventories	11,434	68,535
Current non-financial assets	(7,866)	64,176
Non-current non-financial assets	(5,076)	(205)
Trade payables	(19,981)	(181,703)
Other current payables	(42,685)	(112,703)
Other non-current payables	-	(315)
Current non-financial liabilities	6,995	25
Non-current provisions	-	(26,010)
Non-current non-financial payables	58	908
Payments of retirement benefit obligations	(9,702)	(10,472)
Increase in plan assets	(4,685)	(5,536)
	<u>₩ (124,897)</u>	<u>(219,577)</u>

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued
For the years ended December 31, 2016 and 2015

In millions of won

	<u>2016</u>	<u>2015</u>
Cash generated from operating activities:		
Dividend received	₩ 2,344	-
Interest received	1,497	2,767
Interest paid	(79,338)	(58,358)
Income tax paid	(90,414)	(44,518)
Net cash provided by operating activities	<u>86,742</u>	<u>670,527</u>
Cash flows from investing activities		
Collection of loans	742	2,594
Increase in loans	(2,667)	(3,552)
Decrease in guarantee deposits	2,127	6,898
Increase in guarantee deposits	(995)	(147)
Increase in short-term financial instruments	(2,000)	(500)
Proceeds from disposals of available-for-sale financial assets	-	50
Acquisition of disposals of available-for-sale financial assets	-	(393)
Acquisition of investments in associates and joint ventures	(62,552)	(9,244)
Proceeds from disposals of property, plant and equipment	8,322	20,858
Acquisition of property, plant and equipment	(656,279)	(1,581,574)
Proceeds from disposals of intangible assets	-	1
Acquisition of intangible assets	(519)	(145)
Government grants received	2,645	5,111
Increase in other investments	472	2,750
Net cash used in investing activities	<u>(710,704)</u>	<u>(1,557,293)</u>
Cash flows from financing activities		
Proceeds from borrowings	1,385,194	2,385,189
Repayment of borrowings	(1,455,293)	(1,939,189)
Proceeds from debentures	498,649	598,305
Repayment of debentures	(425,525)	(99,985)
Dividends paid	(36,238)	(22,749)
Settlement of derivative instruments	21,750	-
Interest payments on hybrid securities	(4,050)	(4,050)
Net cash provided by (used in) financing activities	<u>(15,513)</u>	<u>917,521</u>
Net increase in cash and cash equivalents before effect of exchange rate fluctuations	141,225	30,755
Effect of exchange rate on foreign operations financial statements translation	(151)	61
Effect of exchange rate fluctuations on cash held	59	(4)
Net increase in cash and cash equivalents	<u>141,133</u>	<u>30,812</u>
Cash and cash equivalents at beginning of the year	105,559	74,747
Cash and cash equivalents at end of the year	<u>₩ 246,692</u>	<u>105,559</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, 2016 and 2015

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, 2016, the KOWEPO owns and operates five power plants with a total annual capacity of 10,725MW.

The KOWEPO's head office is located in Taean-gun, Chungcheongnam-do, Korea. The share capital of the KOWEPO as of December 31, 2016 amounts to ₩166,646 million and the Group's sole shareholder is KEPCO (100%).

In accordance with Korea International Financial Reporting Standards ("K-IFRS") 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 four other subsidiaries ("consolidated entity"). Cheongna Energy Co., Ltd. and 10 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*.

(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, 2016 and 2015

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 21: Measurement of defined benefit obligations - key actuarial assumptions
- ✓ Note 22 and 43: Recognition and measurement of provisions and contingencies – key assumptions about the likelihood and magnitude of an outflow of resources

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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

(3) Use of estimates and judgments, Continued

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).

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 38: Risk management

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

3. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 4 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, 2016.

- ✓ Amendments to K-IFRS 1016 'Property, Plant and Equipment'

The Group has adopted amendments to K-IFRS 1016, 'Property, Plant and Equipment', since January 1, 2016. Amendments to K-IFRS 1016, 'Property, Plant and Equipment', specify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate.

Upon adoption of the amendments, there is no significant impact on the Group's consolidated financial statements.

- ✓ Amendments to K-IFRS 1038 'Intangible Assets'

The Group has adopted amendments to K-IFRS 1038, 'Intangible Assets', since January 1, 2016. Amendments to K-IFRS 1038, 'Intangible Assets', introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be rebutted only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue.

Upon adoption of the amendments, there is no significant impact on the Group's consolidated financial statements.

- ✓ Amendments to K-IFRS 1111 'Joint Arrangement'

The Group has adopted amendments to K-IFRS 1111, 'Joint Arrangement', since January 1, 2016. Amendments to K-IFRS 1111, 'Joint Arrangement', require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business as defined in K-IFRS 1103, 'Business Combinations'.

Upon adoption of the amendments, there is no significant impact on the Group's consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. 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 3.

(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 1032, *Financial Instruments: Presentation* and K-IFRS 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.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. 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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4. 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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4. 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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4. Significant Accounting Policies, Continued

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

(i) 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.

① 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.

② 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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4. 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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4. 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:

	<u>Useful lives (years)</u>
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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4. 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
Leasehold rights	10
Others	5~20

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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4. 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.

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4. 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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4. 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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4. 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) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. Remeasurements are recognized in profit or loss in the period in which they arise.

(iii) 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.

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4. Significant Accounting Policies, Continued

(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.

(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.

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4. Significant Accounting Policies, Continued

(17) Foreign currencies, Continued

(ii) Foreign operations, Continued

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.

(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.

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4. Significant Accounting Policies, Continued

(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 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.

(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.

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4. Significant Accounting Policies, Continued

(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.

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.

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4. Significant Accounting Policies, Continued

(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) Greenhouse gas emission rights and obligations

With Enforcement of Allocation and Trading of Greenhouse Gas Emissions Allowances, the Group applies the following accounting policies for emissions rights and obligations.

(i) Emissions rights

Greenhouse gas emissions rights consist of the allowances received free of charge from the government and the ones purchased. The cost of the emissions rights includes expenditures arising directly from the acquisition and any other costs incurred during normal course of the acquisition.

Emissions rights are held by the Group to fulfill the legal obligation and recorded as intangible assets. To the extent that the portion to be submitted to the government within one year from the end of reporting period, the emissions rights are classified as current assets. Emissions rights recorded as intangible assets are initially measured at cost and substantially remeasured at cost less accumulated impairment losses.

Greenhouse gas emission rights are derecognized on submission to the government or when no future economic benefits are expected from its use or disposal.

(ii) Emissions obligations

Emissions obligations are the Group's present legal obligation to submit the emissions allowances to the government and recognized when an outflow of resources is probable and a reliable estimate can be made of the amount of the obligation. Emissions obligations are measured as the sum of the carrying amount of the allocated rights that will be submitted to the government and the best estimate of expenditure required to settle the obligation at the end of the reporting period for any excess emission.

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4. Significant Accounting Policies, Continued

(24) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published for mandatory application for annual periods beginning after January 1, 2016.

(i) K-IFRS 1109, 'Financial Instruments'

K-IFRS 1109, published on September 25, 2015, is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. It replaces existing guidance in K-IFRS 1039, 'Financial Instruments: Recognition and Measurement'. The Group plans to adopt K-IFRS 1109 for the year beginning on January 1, 2018. K-IFRS 1109 will generally be applied retrospectively; however the Group plans to take advantage of the exemption allowing it not to restate the comparative information for prior periods with respect to classification and measurement including impairment changes. New hedge accounting requirements will generally be applied prospectively except for certain exemptions including the accounting for the time value of options.

Key features of the new standard, K-IFRS 1109, are 1) classification and measurement of financial assets that reflects the business model in which the assets are managed and their cash flow characteristics, 2) impairment methodology that reflects 'expected credit loss' (ECL) model for financial assets, and 3) expanded scope of hedged items and hedging instruments which qualify for hedge accounting and changes in assessment method for effect of hedging relationships.

K-IFRS 1109 will require the Group to assess the financial impact from application of K-IFRS 1109 and revise its accounting processes and internal controls related to financial instruments. Actual impact of adopting K-IFRS 1109 will be dependent on the financial instruments the Group holds and economic conditions at that time as well as accounting policy elections and judgment that it will make in the future.

The Group has not initiated any changes in internal controls processes or accounting processing systems, and has not performed an assessment of the impact resulting from the application of K-IFRS 1109. The Group has not performed a detailed assessment of the potential impact from the application of K-IFRS 1109. Expected impacts on the consolidated financial statements are generally categorized as follows:

① Classification and measurement of financial assets

Under K-IFRS 1109, financial assets are classified into three principal categories; measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) based on the business model in which assets are managed and their cash flow characteristics. Under K-IFRS 1109, derivatives embedded in hybrid contracts where the host is a financial asset are not bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

As there are additional requirements for a financial asset to be classified as measured at amortized costs or FVOCI under K-IFRS 1109 compared to the existing guidance in K-IFRS 1039, the adoption of K-IFRS 1109 would potentially increase the proportion of financial assets that are measured at FVTPL, increasing volatility in the Group's profit or loss.

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4. Significant Accounting Policies, Continued

(24) New standards and interpretations not yet adopted, Continued

(i) K-IFRS 1109, 'Financial Instruments', Continued

① Classification and measurement of financial assets, Continued

The criteria for classification and measurement of financial assets under K-IFRS 1109 are as follows:

- A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: 1) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and 2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL: 1) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and 2) the contractual terms of the financial asset give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding.

- On initial recognition of equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI, and will not reclassify (recycle) the those items in OCI to profit or loss subsequently.

- A financial asset is measured at FVTPL if the contractual terms of the financial asset give rise to specified dates to cash flows that are not solely payments of principal and interest on the principal amount outstanding, the debt instrument is held within a business model whose objective is to sell the asset, or the equity instruments that are not elected to be designated as measured at FVOCI.

As of December 31, 2016, the Group has loans and receivables amounting to ₩852,768 million, available-for-sale financial assets amounting to ₩94,837 million, and financial assets at fair value through profit or loss amounting to ₩1,468 million.

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4. Significant Accounting Policies, Continued

(24) New standards and interpretations not yet adopted, Continued

(i) K-IFRS 1109, 'Financial Instruments', Continued

② Classification and measurement of financial liabilities

Under K-IFRS 1109, the amount of change in the fair value attributable to the changes in the credit risk of the financial liabilities is presented in OCI, not recognized in profit or loss, and the OCI amount will not be reclassified (recycled) to profit or loss. However, if doing so creates or increase an accounting mismatch, the amount of change in the fair value is recognized in profit or loss.

As a portion of fair value change which was recognized in profit or loss under the existing standard, K-IFRS 1039, will be presented in OCI under K-IFRS 1109, profit or loss related to valuation of the same financial liabilities is likely to decrease.

The Group does not have any financial liability designated as at FVTPL as of December 31, 2016.

③ Impairment: Financial assets and contract assets

K-IFRS 1109 replaces the 'incurred loss' model in the existing standard with a forward-looking 'expected credit loss' (ECL) model for debt instruments, lease receivables, contractual assets, loan commitments, financial guarantee contracts.

Under K-IFRS 1109, impairment losses are likely to be recognized earlier than using the incurred loss model under the existing guidance in K-IFRS 1039 as loss allowances will be measured on either of the 12-month or lifetime ECL based on the extent of increase in credit risk since inception as shown in the below table.

	Classification	Loss allowances
Stage 1	Credit risk has not increased significantly since the initial recognition	12-month ECL: ECLs that resulted from possible default events within the 12 months after the reporting date
Stage 2	Credit risk has increased significantly since the initial recognition	Lifetime ECL: ECL that resulted from all possible default events over the expected life of a financial instrument
Stage 3	Credit-impaired	

Under K-IFRS 1109, financial assets of which the credit was impaired at the initial recognition, cumulative changes in lifetime ECL since the initial recognition are recognized as loss allowances.

As of December 31, 2016, the Group has debt instruments in financial assets measured at amortized cost amounting to ₩852,768 million (loans and receivables) and has not recognized loss allowances.

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4. Significant Accounting Policies, Continued

(24) New standards and interpretations not yet adopted, Continued

(i) K-IFRS 1109, 'Financial Instruments', Continued

④ Hedge accounting

K-IFRS 1109 retains the mechanics of hedge accounting (fair value hedge, cash flow hedge, hedging on net investment in a foreign operation) which was defined in the existing guidance in K-IFRS 1109, but provides principle-based and less complex guidance in hedging which focuses on the risk management activities. More hedged items and hedging instruments would qualify for hedge accounting, more qualitative and forward-looking approach will be taken to assessing hedge effectiveness, and qualitative threshold (80~125%) is removed under K-IFRS 1109.

Certain transactions which were not qualified for hedge accounting under the existing standard will be likely to qualify for hedge accounting under K-IFRS 1109, decreasing volatility in the Group's profits or loss.

When initially applying K-IFRS 1109, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of K-IFRS 1039.

(ii) K-IFRS 1115, 'Revenue from Contracts with Customers'

K-IFRS 1115, 'Revenue from Contracts from Customers', published on November 6, 2015, is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

It replaces existing revenue recognition guidance, including K-IFRS 1018, 'Revenue', K-IFRS 1011, 'Construction Contracts', K-IFRS 2031, 'Revenue-Barter transactions involving advertising services', K-IFRS, '2113 Customer Loyalty Programs', K-IFRS 2115, 'Agreements for the construction of real estate', K-IFRS 2118, 'Transfers of assets from customers'. The Group plans to adopt K-IFRS 1115 in its consolidated financial statements for the year ending December 31, 2018, and retrospectively adjust the comparative period presented in the set of financial statements, in accordance with K-IFRS 1008, 'Accounting Policies, changes in accounting estimates and errors'. The Group plans to use the practical expedients for completed contracts- i.e. completed contracts as of January 1, 2017 are not restated.

Existing K-IFRS standards and interpretations including K-IFRS 1018 provide revenue recognition guidance by transaction types such as sales of goods, rendering of services, interest income, royalty income, dividend income and construction revenue; however, under the new standard, K-IFRS 1115, the five-step approach (Step 1: Identify the contract(s) with a customer, Step 2: Identify the performance obligations in the contract, Step 3: Determine the transaction price, Step 4: Allocate the transaction price to the performance obligations in the contract, Step 5: Recognize revenue when the entity satisfied a performance obligation) is applied for all types of contracts or agreements.

As of December 31, 2016, the Group has not launch into revising internal control, changing accounting system and analyzing effects for imposing on K-IFRS 1115.

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5. Operating segment

(1) Substantially all of the Group's revenue and non-current assets are generated and located in Korea. 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 ₩4,185,565 million and ₩4,167,451 million for the years ended December 31, 2016 and 2015, respectively.

6. Categories of Financial Instruments

(1) Financial assets

Categories of financial assets as of December 31, 2016 and 2015 are as follows:

(i) As of December 31, 2016

In millions of won

	Financial assets at fair value through profit or loss	Loans and receivables	Available- for-sale financial assets	Derivatives using hedge accounting	Total
Current financial assets:					
Cash and cash equivalents	-	246,692	-	-	246,692
Current financial asset					
Loans and receivables	-	2,853	-	-	2,853
Short-term Financial instruments	-	10,000	-	-	10,000
Derivative assets	1,468	-	-	31,490	32,958
Trade and other receivables, net	-	578,932	-	-	578,932
	<u>1,468</u>	<u>838,477</u>	<u>-</u>	<u>31,490</u>	<u>871,435</u>
Non-current financial assets:					
Non-current financial assets					
Available-for-sale financial assets	-	-	94,837	-	94,837
Loans and receivables	-	13,629	-	-	13,629
Derivative assets	-	-	-	114,100	114,100
Non-current trade and other receivables, net	-	662	-	-	662
	<u>-</u>	<u>14,291</u>	<u>94,837</u>	<u>114,100</u>	<u>223,228</u>
	<u>1,468</u>	<u>852,768</u>	<u>94,837</u>	<u>145,590</u>	<u>1,094,663</u>

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

(1) Financial assets, Continued

Categories of financial assets as of December 31, 2016 and 2015 are as follows, Continued:

(ii) As of December 31, 2015

In millions of won

	Financial assets at fair value through profit or loss	Loans and receivables	Available- for-sale financial assets	Derivatives using hedge accounting	Total
Current financial assets:					
Cash and cash equivalents	-	105,559	-	-	105,559
Current financial asset					
Loans and receivables	-	3,523	-	-	3,523
Short-term Financial instruments	-	8,000	-	-	8,000
Derivative assets	1,205	-	-	34,600	35,805
Trade and other receivables, net	-	525,443	-	-	525,443
	<u>1,205</u>	<u>642,525</u>	<u>-</u>	<u>34,600</u>	<u>678,330</u>
Non-current financial assets:					
Non-current financial assets					
Available-for-sale financial assets	-	-	13,720	-	13,720
Loans and receivables	-	11,468	-	-	11,468
Derivative assets	-	-	-	94,094	94,094
Non-current trade and other receivables, net	-	2,115	-	-	2,115
	<u>-</u>	<u>13,583</u>	<u>13,720</u>	<u>94,094</u>	<u>121,397</u>
	<u>1,205</u>	<u>656,108</u>	<u>13,720</u>	<u>128,694</u>	<u>799,727</u>

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

(2) Financial liabilities

Categories of financial liabilities as of December 31, 2016 and 2015 are as follows:

(i) As of December 31, 2016

In millions of won

	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Current financial liabilities:			
Trade and other payables	-	379,866	379,866
Borrowings	-	390,163	390,163
Debentures	-	693,908	693,908
Derivative liabilities	356	-	356
	<u>356</u>	<u>1,463,937</u>	<u>1,464,293</u>
Non-current financial liabilities:			
Non-current trade and other payables	-	78	78
Borrowings	-	2,059	2,059
Debentures	-	3,924,263	3,924,263
	<u>-</u>	<u>3,926,400</u>	<u>3,926,400</u>
	<u>356</u>	<u>5,390,337</u>	<u>5,390,693</u>

(ii) As of December 31, 2015

In millions of won

	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Current financial liabilities:			
Trade and other payables	-	347,791	347,791
Borrowings	-	454,751	454,751
Debentures	-	438,916	438,916
Derivative liabilities	833	-	833
	<u>833</u>	<u>1,241,458</u>	<u>1,242,291</u>
Non-current financial liabilities:			
Non-current trade and other payables	-	78	78
Borrowings	-	2,435	2,435
Debentures	-	4,065,491	4,065,491
	<u>-</u>	<u>4,068,004</u>	<u>4,068,004</u>
	<u>833</u>	<u>5,309,462</u>	<u>5,310,295</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
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6. 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, 2016 and 2015 are as follows:

In millions of won

Type	Description	2016	2015
Cash and cash equivalents	Interest income	₩ 1,447	1,795
	Gain (loss) on foreign currency transactions and translations, net	59	(4)
Available-for-sale financial assets	Interest income	-	22
	Loss on disposal of available-for-sale financial assets	-	(82)
	Impairment loss on available-for-sale financial assets	(502)	-
	Gain (loss) on valuation of available-for-sale financial assets, net (equity, before tax)	(5,049)	664
Loans and receivables	Interest income	-	201
	Amortization of present value discount	398	524
Financial liabilities recorded at amortized cost	Loss on foreign currency transactions and translations, net	(37,956)	(120,807)
	Interest expense of borrowings and debentures	(70,804)	(70,486)
	Other interest expense	(87)	(94)
Derivatives (trading)	Gain on valuation of derivative instruments, net	1,112	372
	Loss on transactions of derivative instruments, net	(372)	-
Derivatives (hedge accounting)	Gain on valuation of derivative instruments, net (profit or loss)	47,218	120,352
	Gain on valuation of derivative instruments, net (equity, before tax)	4,278	6,297
	Loss on transaction of derivatives	(12,850)	-

7. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2016 and 2015 are as follows:

In millions of won

	2016	2015
Cash	₩ 1	1
Other demand deposits	227,839	99,799
Short-term investments classified as cash equivalents	18,852	5,759
	₩ 246,692	105,559

(*) There are no financial instruments restricted in use as of December 31, 2016 and 2015.

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8. Trade and Other Receivables

(1) Trade and other receivables as of December 31, 2016 and 2015 are as follows:

(i) As of December 31, 2016

In millions of won

	<u>Gross receivables</u>	<u>Present value discount</u>	<u>Book value</u>
Current assets:			
Trade receivables	₩ 453,710	-	453,710
Other receivables	125,331	(109)	125,222
	<u>579,041</u>	<u>(109)</u>	<u>578,932</u>
Non-current assets:			
Other receivables	808	(146)	662
	<u>₩ 579,849</u>	<u>(255)</u>	<u>579,594</u>

(*) There are no trade and other receivables which are overdue or impaired as of December 31, 2016.

(ii) As of December 31, 2015

In millions of won

	<u>Gross receivables</u>	<u>Present value discount</u>	<u>Book value</u>
Current assets:			
Trade receivables	₩ 385,641	-	385,641
Other receivables	139,911	(109)	139,802
	<u>525,552</u>	<u>(109)</u>	<u>525,443</u>
Non-current assets:			
Other receivables	2,259	(144)	2,115
	<u>₩ 527,811</u>	<u>(253)</u>	<u>527,558</u>

(2) Details of other receivables as of December 31, 2016 and 2015 are as follows:

(i) As of December 31, 2016

In millions of won

	<u>Gross receivables</u>	<u>Present value discount</u>	<u>Book value</u>
Current assets:			
Non-trade receivables	₩ 7,396	-	7,396
Accrued income	113,972	-	113,972
Guarantee	3,963	(109)	3,854
	<u>125,331</u>	<u>(109)</u>	<u>125,222</u>
Non-current assets:			
Guarantee	730	(146)	584
Others	78	-	78
	<u>808</u>	<u>(146)</u>	<u>662</u>
	<u>₩ 126,139</u>	<u>(255)</u>	<u>125,884</u>

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8. Trade and Other Receivables, Continued

(2) Details of other receivables as of December 31, 2016 and 2015 are as follows, Continued:

(ii) As of December 31, 2015

In millions of won

	Gross receivables	Present value discount	Book value
Current assets:			
Non-trade receivables	₩ 9,145	-	9,145
Accrued income	126,181	-	126,181
Guarantee	4,585	(109)	4,476
	<u>139,911</u>	<u>(109)</u>	<u>139,802</u>
Non-current assets:			
Guarantee	1,240	(144)	1,096
Others	1,019	-	1,019
	<u>2,259</u>	<u>(144)</u>	<u>2,115</u>
	<u>₩ 142,170</u>	<u>(253)</u>	<u>141,917</u>

9. Available-for-sale Financial Assets

(1) Available-for-sale financial assets as of December 31, 2016 and 2015 are as follows:

In millions of won

	Ownership	2016 Non-current	2015 Non-current
Equity securities listed :			
PT Bayan Resources TBK	4.00% ₩	71,840	-
Equity securities unlisted :			
Korea Power Exchange	7.14%	16,455	12,811
Kepeco UHDE	2.40%	14	516
HeeMang Sunlight Power Co., Ltd	8.33%	393	393
KEPCO Bylong Australia Pty., Ltd	2.00%	6,135	-
	<u>₩</u>	<u>94,837</u>	<u>13,720</u>

(2) Changes in available-for-sale financial assets during the year ended December 31, 2016 are as follows:

In millions of won

	Beginning balance	Acquisition	Impairment	Valuation	Ending balance
Equity securities listed	₩ -	80,533	-	(8,693)	71,840
Equity securities unlisted	13,720	6,135	(502)	3,644	22,997
	<u>₩ 13,720</u>	<u>86,668</u>	<u>(502)</u>	<u>(5,049)</u>	<u>94,837</u>

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10. Derivatives

(1) Derivatives as of December 31, 2016 and 2015 are as follows:

In millions of won

		2016		2015	
		Current	Non-current	Current	Non-current
Derivative Assets:					
Currency forward	₩	1,468	-	1,205	-
Currency swap		31,490	114,100	34,600	94,094
		<u>32,958</u>	<u>114,100</u>	<u>35,805</u>	<u>94,094</u>
Derivative Liabilities:					
Currency forward	₩	356	-	833	-

(2) Currency swap contracts as of December 31, 2016 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 hedge	Morgan Stanley	2012~2017	285,000	USD 250,000	3.763	3.125	1,140.00
	Credit Agricole						
	Corporate & Investment Bank	2012~2017	142,500	USD 125,000	3.83	3.125	1,140.00
	JPMorgan	2012~2017	142,500	USD 125,000	3.83	3.125	1,140.00
	Credit Agricole						
	Corporate & Investment Bank	2013~2019	118,343	CHF 100,000	3.47	1.625	1,183.43
	Morgan Stanley	2013~2019	59,172	CHF 50,000	3.403	1.625	1,183.43
	Nomura Securities Co., Ltd.	2013~2019	59,172	CHF 50,000	3.47	1.625	1,183.43
	Morgan Stanley	2013~2018	107,360	USD 100,000	3.273	2.875	1,073.60
	Credit Agricole						
	Corporate & Investment Bank	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
	Credit Agricole						
	Corporate & Investment Bank	2014~2019	104,490	USD 100,000	2.77	2.625	1,044.90
	Morgan Stanley	2014~2019	104,490	USD 100,000	2.703	2.625	1,044.90

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10. Derivatives, Continued

(3) Currency forward contracts as of December 31, 2016 are as follows:

In millions of won and thousands of USD

Counterparty	Contract Date	Maturity Date	Contract amounts		Contract currency
			Receive	Purchase	
BNP PARIBAS	2016.11.22	2017.01.25	KRW 2,351	USD 2,000	1,175.40
BNP PARIBAS	2016.11.25	2017.01.31	KRW 2,353	USD 2,000	1,176.40
Citi Bank	2016.11.25	2017.01.31	KRW 1,029	USD 874	1,177.85
Mizuho Corporate Bank Ltd.	2016.12.30	2017.03.03	KRW 9,596	USD 8,000	1,199.45
The Hongkong and Shanghai Banking Co., Ltd.	2016.11.18	2017.05.22	KRW 4,717	USD 4,000	1,179.35
The Hongkong and Shanghai Banking Co., Ltd.	2016.11.22	2017.01.25	KRW 7,046	USD 6,000	1,174.32
The Hongkong and Shanghai Banking Co., Ltd.	2016.12.07	2017.02.09	KRW 4,669	USD 4,000	1,167.15
The Hongkong and Shanghai Banking Co., Ltd.	2016.12.15	2017.01.25	USD 2,489	KRW 2,923	1,174.32
The Hongkong and Shanghai Banking Co., Ltd.	2016.12.28	2017.02.09	USD 3,424	KRW 3,997	1,167.15
The Hongkong and Shanghai Banking Co., Ltd.	2016.12.29	2017.01.25	USD 2,693	KRW 3,162	1,174.32
The Hongkong and Shanghai Banking Co., Ltd.	2016.12.30	2017.03.03	KRW 3,605	USD 3,000	1,201.55
The Hongkong and Shanghai Banking Co., Ltd.	2016.12.30	2017.03.03	KRW 8,396	USD 7,000	1,199.45
SC Bank	2016.12.13	2017.02.15	KRW 871	USD 748	1,163.60
Bank of Nova Scotia	2016.11.22	2017.01.23	KRW 7,080	USD 6,000	1,180.03
Bank of Nova Scotia	2016.11.24	2017.01.31	KRW 3,004	USD 2,540	1,182.55
Bank of Nova Scotia	2016.12.26	2017.02.28	KRW 2,397	USD 2,000	1,198.70
Bank of Nova Scotia	2016.12.30	2017.03.03	KRW 6,017	USD 5,000	1,203.30
Bank of Nova Scotia	2016.12.30	2017.03.03	KRW 9,597	USD 8,000	1,199.60
NH Bank	2016.11.22	2017.01.25	KRW 2,446	USD 2,083	1,174.73
NH Bank	2016.12.27	2017.02.28	KRW 2,410	USD 2,000	1,205.20
Credit Agricole Corporate & Investment Bank	2016.11.21	2017.01.23	KRW 1,182	USD 1,000	1,181.55
Credit Agricole Corporate & Investment Bank	2016.12.26	2017.02.28	KRW 2,397	USD 2,000	1,198.25
Societe Generale	2016.11.22	2017.01.25	KRW 2,352	USD 2,000	1,175.90
Societe Generale	2016.11.30	2017.02.02	KRW 1,167	USD 1,000	1,166.70
Societe Generale	2016.12.29	2017.02.02	USD 913	KRW 1,065	1,166.70
Societe Generale	2016.12.06	2017.02.08	KRW 1,168	USD 1,000	1,167.65
Societe Generale	2016.12.23	2017.02.27	KRW 4,807	USD 4,000	1,201.78

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10. Derivatives, Continued

(4) The gain (loss) on valuation of derivatives for the years ended December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

In millions of won

Type	Net income effect of valuation gain	Net income effect of transaction loss	Other comprehensive income
Currency forward	₩ 1,112	(372)	-
Currency swap	47,218	(12,850)	4,278
	₩ 48,330	(13,222)	4,278

(*) The loss on valuation of derivative instruments using cash flow hedge accounting is recognized as accumulated other comprehensive loss amounting to ₩3,870 million, net of tax as of December 31, 2016.

(ii) For the year ended December 31, 2015

In millions of won

Type	Net income effect of valuation gain	Other comprehensive income
Currency forward	₩ 372	-
Currency swap	120,352	6,297
	₩ 120,724	6,297

11. Other Financial Assets

(1) Other financial assets as of December 31, 2016 and 2015 are as follows:

In millions of won

		2016		2015	
		Current	Non-current	Current	Non-current
Loans and receivables	₩	2,853	13,629	3,523	11,468
Short-term financial instruments		10,000	-	8,000	-
Derivative assets		32,958	114,100	35,805	94,094
Available-for-sale financial assets		-	94,837	-	13,720
	₩	45,811	222,566	47,328	119,282

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11. Other Financial Assets, Continued

(2) Loans and receivables as of December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

<i>In millions of won</i>		Face value	Present value discount	Book value
Short-term loans				
Loans for tuition	₩	2,831	(148)	2,683
Others		171	-	171
		<u>3,002</u>	<u>(148)</u>	<u>2,854</u>
Long-term loans				
Loans for tuition		13,330	(1,275)	12,055
Others		1,574	-	1,574
		<u>14,904</u>	<u>(1,275)</u>	<u>13,629</u>
	₩	<u>17,906</u>	<u>(1,423)</u>	<u>16,483</u>

(ii) For the year ended December 31, 2015

<i>In millions of won</i>		Face value	Present value discount	Book value
Short-term loans				
Loans for tuition	₩	3,514	(161)	3,353
Others		170	-	170
		<u>3,684</u>	<u>(161)</u>	<u>3,523</u>
Long-term loans				
Loans for tuition		11,101	(1,455)	9,646
Others		1,822	-	1,822
		<u>12,923</u>	<u>(1,455)</u>	<u>11,468</u>
	₩	<u>16,607</u>	<u>(1,616)</u>	<u>14,991</u>

12. Inventories

Inventories as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Raw materials	₩	81,767	124,847
Supplies		61,455	57,860
Inventory-in-transit		84,021	56,015
Others		145	102
	₩	<u>227,388</u>	<u>238,824</u>

(*) There is no valuation allowance for inventories as of December 31, 2016 and 2015.

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13. Non-financial Assets

Non-financial assets as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016		2015	
	Current	Non-current	Current	Non-current
Advanced payments	₩ 8,065	53	2,160	73
Prepaid expenses	13,949	1,511	8,454	1,733
Others	12,852	9,249	16,392	4,553
	₩ 34,866	10,813	27,006	6,359

14. Information related to the consolidated entities

(1) Information related to the consolidated entities as of December 31, 2016 and 2015 are as follows:

Company	Key operating activities	Location	Rate of ownership or voting right	
			2016	2015
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 India Private Limited	Overseas resources development	India	100.00%	100.00%
PT Kowepo Sumsel Operation and Maintenance Services	Managing power plant	Indonesia	95.00%	95.00%
KOWEPO Bylong Pty., Ltd (*2) (*3)	Overseas resources development	Australia	100.00%	-
KOWEPO Lao International (*2)	Managing power plant	Laos	100.00%	-

(*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 and has the ability to control the entity's operating and financial policies.

(*2) They are newly acquired during the year ended December 31, 2016.

(*3) The ownership interest in KOWEPO Bylong Pty., Ltd is the percentage of common share capital excluding preferred share capital which has no voting rights.

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

(2) Summary financial information of the subsidiaries as of and for the years ended December 31, 2016 and 2015 are as follows:

(i) As of and for the year ended December 31, 2016

In millions of won

<u>Company</u>		<u>Assets</u>	<u>Liabilities</u>	<u>Sales</u>	<u>Net profit or loss</u>
Garolim Tidal power Co., Ltd.	₩	632	346	-	(24)
Kowepo Australia Pty., Ltd.		25,550	10	5,357	4,012
Kowepo International Corporation		-	-	-	-
Kowepo India Private Limited		879	-	-	1
PT Kowepo Sumsel Operation and Maintenance Services		1,439	700	6,165	(96)
KOWEPO Bylong Pty., Ltd.		6,135	-	-	-
KOWEPO Lao International		218	181	-	(108)

(ii) As of and for the year ended December 31, 2015

In millions of won

<u>Company</u>		<u>Assets</u>	<u>Liabilities</u>	<u>Sales</u>	<u>Net profit or loss</u>
Garolim Tidal power Co., Ltd.	₩	655	346	-	(76)
Kowepo Australia Pty., Ltd.		18,390	1,648	4,729	353
Kowepo International Corporation		-	-	-	-
Kowepo America., LLC. (*1)		-	-	-	3,201
Kowepo India Private Limited		911	10	-	(105)
PT Kowepo Sumsel Operation and Maintenance Services		2,053	51	5,405	1,762

(*1) Kowepo America., LLC. was liquidated during the year ended December 31, 2015.

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14. Information related to the consolidated entities, Continued

(3) Details of non-controlling interest as of and for the year ended December 31, 2016 are as follows:

<i>In millions of won</i>	<u>Garolim Tidal power Co., Ltd</u>	<u>PT Kowepo Sumsel Operation and Maintenance Services</u>
Current assets	₩ 631	1,373
Non-current assets	1	66
Current liabilities	(346)	(700)
Net assets	286	739
Percentage of non-controlling interest	51%	5%
Book value of non-controlling interest	146	37
Sales	-	6,165
Loss for the year	(24)	(96)
Loss for the year attributable to non-controlling interest	(12)	(5)
Cash flows from operating activities	(12)	(41)
Cash flows from investing activities	16	(1)
Cash flows from financing activities	-	-
Net increase (decrease) of cash and cash equivalents	4	(42)

(4) Disposal of subsidiary for the years ended December 31, 2016 and 2015 are as follows:

(i) There is no disposal of subsidiary for the year ended December 31, 2016.

(ii) Kowepo America., LLC. was liquidated as of December 22, 2015.

① The fair value of disposal price is as follows:

<i>In millions of won</i>	<u>Amount</u>
Cash and cash equivalent received from disposal	₩ 10,111

② At the disposal date, the book value of assets and liabilities of the subsidiary as follows:

<i>In millions of won</i>	<u>Amount</u>
Current assets:	
Cash and cash equivalents	₩ 10,111

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

(4) Disposal of subsidiary for the years ended December 31, 2016 and 2015 are as follows, Continued:

(ii) Kowepo America., LLC. was liquidated as of December 22, 2015., Continued

③ Gain on disposal of investments in subsidiary during 2015 was as follows:

<i>In millions of won</i>	<u>Amount</u>
The fair value of disposal price	₩ 10,111
Book value of net assets disposed	(10,111)
Non-controlling interests	-
Realization of unrealized gain	<u>470</u>
Gain on disposal of investments in subsidiary	<u>₩ 470</u>

The Group reclassified ₩470 million of exchange differences on translating foreign operations, which was the balance at the disposal, into gain on disposal of interests in subsidiaries. The reclassified amount was recognized as loss from associates and joint ventures in Consolidated Statements of Comprehensive Income.

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

<i>In millions of won</i>	<u>Amount</u>
Consideration received in cash and cash equivalents	₩ 10,111
Less : Disposal of cash and cash equivalents	<u>(10,111)</u>
Net cash flow	<u>₩ -</u>

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

(1) Investments in associates and joint ventures as of December 31, 2016 and 2015 are as follows:

Company	Major operation	Location	Rate of ownership or voting right	
			2016	2015
Associates				
Cheongna Energy Co., Ltd.	Energy supply	Republic of Korea	43.90%	43.90%
Pioneer Gas Power., Ltd.	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%	33.61%
Solar Power Plants Happy City Co., Ltd.	Energy supply	Republic of Korea	28.00%	28.00%
Shin Pyeongtaek Power Co., Ltd.	O&M	Republic of Korea	40.00%	40.00%
Solar School Plant Co.,Ltd. (*2)	Energy supply	Republic of Korea	8.33%	-
KEPCO Energy Solution Co., Ltd. (*2)	Energy supply	Republic of Korea	8.33%	-
Joint ventures				
Rabigh O&M Co., Ltd. (*3)	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 despite the Group's ownership interest is less than 20%.

(*2) They are newly acquired during the year ended December 31, 2016. It is included in the scope of investments in associates as the Group can exercise significant influence according to the shareholders' agreement despite the Group's ownership interest is less than 20%.

(*3) 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.

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

(2) Changes in investments in associates and joint ventures during the years ended December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

In millions of won

Company	Beginning balance	Acquisitions	Dividends received	Share of income (loss)	Other comprehensive income (loss)	Retained earnings	Ending balance
Associates							
Cheongna Energy Co., Ltd. ₩	19,490	-	-	(7,117)	-	-	12,373
Pioneer Gas Power., Ltd.	51,187	-	-	(698)	251	-	50,740
Eurasia Energy Holdings (*1)	-	-	-	-	-	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd. (*2)	31,863	16,402	-	1,576	1,703	-	51,544
PT. Mutiara Jawa (*3)	-	-	-	-	-	-	-
Korea Offshore Wind Power Co., Ltd. (*2)	662	4,500	-	(615)	(65)	-	4,482
Daegu Solar Power Plant Co., Ltd.	1,886	-	(411)	225	-	-	1,700
Dongducheon Dream Power Co., Ltd.	55,669	-	-	(8,759)	-	(34)	46,876
Solar Power Plants Happy City Co., Ltd.	191	-	-	(10)	-	-	181
Shin Pyeong Taek Power Co.,Ltd. (*4)	-	-	-	-	-	-	-
Solar School Plant Co.,Ltd. (*5)	-	16,650	-	-	-	-	16,650
KEPCO Energy Solution Co., Ltd. (*5).	-	25,000	-	(25)	-	-	24,975
	<u>160,948</u>	<u>62,552</u>	<u>(411)</u>	<u>(15,423)</u>	<u>1,889</u>	<u>(34)</u>	<u>209,521</u>
Joint ventures							
Rabigh O&M Co., Ltd.	3,585	-	(1,933)	2,252	229	294	4,427
₩	<u>164,533</u>	<u>62,552</u>	<u>(2,344)</u>	<u>(13,171)</u>	<u>2,118</u>	<u>260</u>	<u>213,948</u>

(*1) The investment has been reduced to zero, which resulted in discontinuation of the equity method. The accumulated unrecognized loss is ₩194 million as of December 31, 2016.

(*2) The investee issued additional shares to increase capitals during the year ended December 31, 2016.

(*3) The investment has been reduced to zero, which resulted in discontinuation of the equity method. The accumulated unrecognized loss is ₩1,835 million as of December 31, 2016.

(*4) The investment has been reduced to zero, which resulted in discontinuation of the equity method. The accumulated unrecognized loss is ₩5,917 million as of December 31, 2016.

(*5) They are newly acquired during the year ended December 31, 2016.

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15. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and joint ventures during the years ended December 31, 2016 and 2015 are as follows, Continued:

(ii) For the year ended December 31, 2015

In millions of won

<u>Company</u>	<u>Beginning balance</u>	<u>Acquisitions</u>	<u>Dividends received</u>	<u>Share of income (loss)</u>	<u>Other comprehensive income</u>	<u>Retained earnings</u>	<u>Other</u>	<u>Ending balance</u>
Associates								
Cheongna Energy Co., Ltd.	₩ 28,771	-	-	(9,281)	-	-	-	19,490
Pioneer Gas Power., Ltd.	50,669	-	-	59	459	-	-	51,187
Eurasia Energy Holdings	-	-	-	-	-	-	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.	22,152	9,244	-	(749)	1,216	-	-	31,863
PT. Mutiara Jawa	818	-	-	(818)	-	-	-	-
Korea Offshore Wind Power Co., Ltd.	1,193	-	-	(531)	-	-	-	662
Daegu Solar Power Plant Co., Ltd.	1,581	-	-	305	-	-	-	1,886
Dongducheon Dream Power Co., Ltd.	100,545	-	-	(3,411)	-	(295)	(41,170)	55,669
Solar Power Plants Happy City Co., Ltd.	223	-	-	(32)	-	-	-	191
Shin Pyeong Taek Power Co.,Ltd.	(288)	-	-	288	-	-	-	-
	<u>205,664</u>	<u>9,244</u>	<u>-</u>	<u>(14,170)</u>	<u>1,675</u>	<u>(295)</u>	<u>(41,170)</u>	<u>160,948</u>
Joint ventures								
Rabigh O&M Co., Ltd.	4,629	-	(1,780)	531	205	-	-	3,585
	₩ <u>210,293</u>	<u>9,244</u>	<u>(1,780)</u>	<u>(13,639)</u>	<u>1,880</u>	<u>(295)</u>	<u>(41,170)</u>	<u>164,533</u>

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15. Investments in Associates and Joint Ventures, Continued

(3) Summary financial information of investments in associates and joint ventures as of and for the years ended December 31, 2016 and 2015 are as follows:

(i) As of and for the year ended December 31, 2016

In millions of won

Company	Assets	Liabilities	Sales	Net profit or loss
Associates				
Cheongna Energy Co., Ltd.	₩ 469,843	447,216	46,484	(16,127)
Pioneer Gas Power., Ltd.	345,791	276,978	14,353	396
Eurasia Energy Holdings	618	1,103	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.	772,699	543,472	-	6,458
PT. Mutiara Jawa	28,104	34,671	7,175	(1,361)
Korea Offshore Wind Power Co., Ltd.	37,826	2,048	-	(4,960)
Daegu Solar Power Plant Co., Ltd.	18,909	13,047	3,317	739
Dongducheon Dream Power Co., Ltd.	1,670,945	1,427,773	946,379	(27,936)
Solar Power Plants Happy City Co., Ltd.	2,937	2,297	427	(47)
Shin Pyeong Taek Power Co.,Ltd.	54,174	60,518	-	(3,291)
Solar School Plant Co.,Ltd	200,268	259	1	9
KEPCO Energy Solution Co., Ltd	299,933	233	-	(300)
Joint ventures				
Rabigh O&M Co., Ltd.	25,032	13,965	25,607	4,870

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15. Investments in Associates and Joint Ventures, Continued

(3) Summary financial information of investments in associates and joint ventures as of and for the years ended December 31, 2016 and 2015 are as follows, Continued:

(ii) As of and for the year ended December 31, 2015

In millions of won

Company	Assets	Liabilities	Sales	Net profit or loss
Associates				
Cheongna Energy Co., Ltd.	₩ 458,205	419,353	48,519	(21,108)
Pioneer Gas Power., Ltd.	310,761	240,833	-	148
Eurasia Energy Holdings	599	1,069	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.	506,970	341,261	-	2,760
PT. Mutiara Jawa	25,013	29,913	1,943	(7,247)
Korea Offshore Wind Power Co., Ltd.	7,582	2,359	-	(4,252)
Daegu Solar Power Plant Co., Ltd.	21,039	14,535	3,977	1,051
Dongducheon Dream Power Co., Ltd.	1,668,235	1,397,026	1,003,346	(10,307)
Solar Power Plants Happy City Co., Ltd.	3,128	2,452	490	81
Shin Pyeong Taek Power Co., Ltd.	25,875	29,190	-	(2,595)
Joint ventures				
Rabigh O&M Co., Ltd.	18,186	9,222	22,203	2,144

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16. Property, Plant and Equipment

(1) Property, plant and equipment as of December 31, 2016 and 2015 are as follows:

(i) As of December 31, 2016

In millions of won

	Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 627,556	-	-	-	627,556
Buildings	1,385,484	(764)	(337,205)	-	1,047,515
Structures	1,266,914	-	(403,190)	-	863,724
Machinery	6,722,334	(51)	(2,180,083)	-	4,542,200
Vehicles	8,275	(13)	(6,205)	-	2,057
Equipment	91,129	(73)	(57,036)	-	34,020
Tools	27,160	-	(19,831)	-	7,329
Construction-in-progress	916,031	(101,834)	-	(35,094)	779,103
Finance lease assets	320,937	-	(70,074)	-	250,863
	<u>₩ 11,365,820</u>	<u>(102,735)</u>	<u>(3,073,624)</u>	<u>(35,094)</u>	<u>8,154,367</u>

(ii) As of December 31, 2015

In millions of won

	Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 630,245	-	-	-	630,245
Buildings	977,432	(487)	(290,210)	-	686,735
Structures	946,820	-	(366,197)	-	580,623
Machinery	4,485,717	(88)	(1,813,497)	-	2,672,132
Vehicles	7,004	-	(5,839)	-	1,165
Equipment	72,126	(49)	(47,417)	-	24,660
Tools	21,805	-	(18,357)	-	3,448
Construction-in-progress	3,310,448	(99,546)	-	(35,094)	3,175,808
Finance lease assets	201,702	-	(60,360)	-	141,342
	<u>₩ 10,653,299</u>	<u>(100,170)</u>	<u>(2,601,877)</u>	<u>(35,094)</u>	<u>7,916,158</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
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16. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment during the years ended December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

In millions of won

	Beginning balance	Acquisition / Capital expenditure	Disposal	Depreciation (*1)	Others (*2)	Ending balance
Land	₩ 630,245	-	(2,689)	-	-	627,556
Buildings	687,222	13	(3,769)	(48,733)	413,546	1,048,279
(Government grants)	(487)	-	-	23	(300)	(764)
Structures	580,623	-	-	(36,993)	320,094	863,724
Machinery	2,672,220	52,573	(6,308)	(369,933)	2,193,699	4,542,251
(Government grants)	(88)	-	-	41	(4)	(51)
Vehicles	1,165	-	-	(586)	1,492	2,071
(Government grants)	-	-	-	-	(14)	(14)
Equipment	24,709	71	(12)	(12,252)	21,577	34,093
(Government grants)	(49)	-	-	16	(40)	(73)
Tools	3,448	24	-	(2,087)	5,944	7,329
Construction-in-progress	3,275,354	605,574	-	-	(2,999,991)	880,937
(Government grants)	(99,546)	-	-	-	(2,288)	(101,834)
Finance lease assets	141,342	-	-	(9,713)	119,234	250,863
	<u>7,916,158</u>	<u>658,255</u>	<u>(12,778)</u>	<u>(480,217)</u>	<u>72,949</u>	<u>8,154,367</u>

(*1) ₩6,528 million of depreciation expenses are recognized as construction-in-progress and ₩202 million of depreciation expenses are recognized as other losses.

(*2) Other additions in the amount of ₩72,949 million consist of ₩10,000 million transferred from retirement benefits expense and depreciation expense, ₩69,800 million of capitalized interest expense, ₩267 million transferred from intangible assets, ₩95 million of translation effect of overseas operation financial statements, ₩2,645 million of receipt of government subsidy, and ₩4,568 million transferred to intangible assets. The weighted average capitalization rates for the years ended December 31, 2016 and 2015 are 2.90% and 3.43%, respectively.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
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16. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment during the years ended December 31, 2016 and 2015 are as follows, Continued:

(ii) For the year ended December 31, 2015

In millions of won

	Beginning balance	Acquisition / Capital expenditure	Disposal	Depreciation	Others	Ending balance
Land	560,071	-	(643)	-	70,817	630,245
₩ Buildings	482,199	10	(4,419)	(39,564)	248,996	687,222
(Government grants)	(98)	-	-	12	(401)	(487)
Structures	577,735	-	-	(35,590)	38,478	580,623
Machinery	2,667,179	68,378	(13,544)	(328,465)	278,672	2,672,220
(Government grants)	(129)	-	-	41	-	(88)
Vehicles	1,466	-	-	(745)	444	1,165
Equipment	16,133	86	(2)	(8,647)	17,139	24,709
(Government grants)	-	-	-	1	(50)	(49)
Tools	3,688	43	-	(1,675)	1,392	3,448
Construction-in-progress	2,567,171	1,287,548	(5,676)	-	(573,689)	3,275,354
(Government grants)	(94,885)	-	-	-	(4,661)	(99,546)
Finance lease assets	135,510	-	-	(7,881)	13,713	141,342
	<u>6,916,040</u>	<u>1,356,065</u>	<u>(24,284)</u>	<u>(422,513)</u>	<u>90,850</u>	<u>7,916,158</u>

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

(1) Intangible assets as of December 31, 2016 and 2015 are as follows:

(i) As of December 31, 2016

In millions of won

		Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Computer software	₩	30,965	(26,745)	-	4,220
Mining rights		9,330	(2,312)	-	7,018
Development costs		3,104	(1,932)	-	1,172
Leasehold rights		1,725	(183)	-	1,542
Others		83,198	(81,175)	(231)	1,792
	₩	<u>128,322</u>	<u>(112,347)</u>	<u>(231)</u>	<u>15,744</u>

(ii) As of December 31, 2015

In millions of won

		Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Computer software	₩	28,465	(24,678)	-	3,787
Mining rights		8,620	(1,621)	-	6,999
Development costs		2,690	(1,387)	-	1,303
Leasehold rights		76	(52)	-	24
Others		83,195	(81,038)	(231)	1,926
	₩	<u>123,046</u>	<u>(108,776)</u>	<u>(231)</u>	<u>14,039</u>

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17. Intangible Assets, Continued

(2) Changes in intangible assets during the years ended December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

<i>In millions of won</i>		Beginning balance	Acquisition/ Capital expenditure	Disposals	Amortization (*1)	Others (*2)	Ending balance
Computer software	₩	3,787	1	-	(1,806)	2,238	4,220
Mining rights		6,999	518	-	(651)	152	7,018
Development costs		1,303	-	-	(545)	414	1,172
Leasehold rights		24	-	-	(131)	1,649	1,542
Others		1,926	-	-	(137)	3	1,792
	₩	<u>14,039</u>	<u>519</u>	<u>-</u>	<u>(3,270)</u>	<u>4,456</u>	<u>15,744</u>

(*1) ₩311 million of amortization expenses are recognized as other losses.

(*2) Other additions of ₩4,456 million consist of ₩4,568 million replaced from construction-in-progress, ₩267 million replaced to construction-in-progress and offset by ₩155 million resulting from translation of overseas operation financial statements.

(ii) For the year ended December 31, 2015

<i>In millions of won</i>		Beginning balance	Acquisition/ Capital expenditure	Amortization	Others	Ending balance
Computer software	₩	7,087	3	(4,609)	1,306	3,787
Mining rights		7,862	142	(601)	(404)	6,999
Development costs		1,103	-	(440)	640	1,303
Leasehold rights		32	-	(8)	-	24
Others		2,068	-	(137)	(5)	1,926
	₩	<u>18,152</u>	<u>145</u>	<u>(5,795)</u>	<u>1,537</u>	<u>14,039</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
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18. Trade and Other Payables

Accounts and other payables as of December 31, 2016 and 2015 are as follows:

In millions of won

	2016		2015	
	Current	Non-current	Current	Non-current
Trade payables	₩ 224,508	-	204,772	-
Other payables	84,341	-	58,455	-
Accrued expenses	70,940	78	84,485	78
Other deposits	77	-	79	-
	₩ 379,866	78	347,791	78

19. Borrowings and Debentures

(1) Details of borrowings as of December 31, 2016 and 2015 are as follows:

In millions of won

	2016	2015
Current Liabilities:		
Short-term borrowings	₩ 389,787	454,375
Current portion of long-term borrowings	376	376
Current portion of long-term debentures	694,250	439,175
Less: discount on debentures	(342)	(259)
	1,084,071	893,667
Non-current Liabilities:		
Long-term borrowings	2,059	2,435
Debentures	3,933,066	4,077,303
Less: discount on debentures	(8,803)	(11,812)
	3,926,322	4,067,926
	₩ 5,010,393	4,961,593

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19. Borrowings and Debentures, Continued

(2) Short-term borrowings as of December 31, 2016 are as follows:

In millions of won

Type	Lender	Annual interest rate		Maturity date	2016
Domestic short-term borrowings	Woori Investment Bank Co., Ltd.	Fixed rate	1.65%	2017.01.25	₩ 30,000
		Fixed rate	1.72%	2017.02.15	30,000
		Fixed rate	1.72%	2017.02.15	30,000
		Fixed rate	1.76%	2017.02.20	30,000
		Fixed rate	1.74%	2017.01.25	10,000
	KTB Investments & Securities Co., Ltd. Dongbu Securities Co., Ltd. Shinyoung Securities Co., Ltd. BNK Securities Co., Ltd.	Fixed rate	1.72%	2017.02.15	50,000
		Fixed rate	1.72%	2017.02.15	20,000
		Fixed rate	1.72%	2017.02.15	40,000
		Fixed rate	1.74%	2017.01.25	20,000
		Fixed rate	1.54%	2017.03.27	90,000
				<u>350,000</u>	
Foreign short-term borrowings	Mizuho Corporate Bank Ltd.	Fixed rate	1.63%	2017.03.30	4,462
		Fixed rate	1.63%	2017.03.30	14,167
	Korea Development Bank	Fixed rate	1.58%	2017.05.24	4,393
		Fixed rate	1.58%	2017.05.26	16,765
				<u>39,787</u>	
				<u>₩ 389,787</u>	

(3) Long-term borrowings as of December 31, 2016 and 2015 are as follows:

In millions of won

Lender	Description	Annual interest rate		Maturity date	2016	2015
Korea Resource Corporation	Long term borrowings	Floating rate	KTB (three years) – 2.25%	2023.03.15	₩ 1,871	2,171
				2023.06.15	73	84
				2023.12.15	190	218
				2024.06.15	56	63
				2024.09.15	161	182
				2025.06.15	9	10
				2025.12.15	75	83
			<u>2,435</u>	<u>2,811</u>		
	Less: current portion			<u>(376)</u>	<u>(376)</u>	
				<u>₩ 2,059</u>	<u>2,435</u>	

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19. Borrowings and Debentures, Continued

(4) Domestic debentures as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	Issue date	Maturity date	Annual interest rate	2016	2015
Corporate bond #15-1	2011.05.27	2016.05.27	Fixed rate 4.09%	-	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
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 2.467%	80,000	80,000
Corporate bond #23-2	2014.10.23	2024.10.23	Fixed rate 2.815%	120,000	120,000
Corporate bond #24-1	2014.11.20	2017.11.20	Fixed rate 2.21%	90,000	90,000
Corporate bond #24-2	2014.11.20	2024.11.20	Fixed rate 2.812%	110,000	110,000
Corporate bond #25	2014.12.11	2019.12.11	Fixed rate 2.488%	80,000	80,000
Corporate bond #26-1	2015.03.05	2020.03.05	Fixed rate 2.139%	110,000	110,000
Corporate bond #26-2	2015.03.05	2025.03.05	Fixed rate 2.427%	90,000	90,000
Corporate bond #27-1	2015.05.08	2020.05.08	Fixed rate 2.334%	120,000	120,000
Corporate bond #27-2	2015.05.08	2025.05.08	Fixed rate 2.701%	80,000	80,000
Corporate bond #28	2015.07.17	2020.07.17	Fixed rate 2.268%	80,000	80,000
Corporate bond #29	2015.09.21	2020.09.21	Fixed rate 1.997%	120,000	120,000
Corporate bond #30-1	2016.01.28	2021.01.28	Fixed rate 1.884%	90,000	-
Corporate bond #30-2	2016.01.28	2026.01.28	Fixed rate 2.103%	110,000	-
Corporate bond #31	2016.07.05	2021.07.05	Fixed rate 1.356%	100,000	-
Corporate bond #32-1	2016.09.09	2021.09.09	Fixed rate 1.447%	90,000	-
Corporate bond #32-2	2016.09.09	2026.09.09	Fixed rate 1.609%	110,000	-
				<u>2,820,000</u>	<u>2,580,000</u>
Less: discount on debentures				(5,289)	(5,075)
Less: current portion				<u>(89,926)</u>	<u>(259,889)</u>
				₩ <u>2,724,785</u>	<u>2,315,036</u>

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19. Borrowings and Debentures, Continued

(5) Foreign debentures as of December 31, 2016 and 2015 are as follows:

In millions of won

	<u>Issue date</u>	<u>Maturity date</u>	<u>Annual interest rate</u>	<u>2016</u>	<u>2015</u>
Euro bond #2	2006.09.29	2016.09.29	Fixed rate 5.50% ₩	-	179,175
Global bond #1	2012.05.10	2017.05.10	Fixed rate 3.125%	604,250	586,000
Swiss franc bond #1	2013.09.26	2019.03.26	Fixed rate 1.625%	236,266	237,078
Global bond #2	2013.10.10	2018.10.10	Fixed rate 2.875%	604,250	586,000
Euro bond #3	2014.09.22	2019.09.22	Fixed rate 2.625%	362,550	348,225
				<u>1,807,316</u>	<u>1,936,478</u>
Less: discount on debentures				(3,856)	(6,995)
Less: current portion				<u>(603,982)</u>	<u>(179,028)</u>
				<u>₩ 1,199,478</u>	<u>1,750,455</u>

(6) Retirement plans of debentures and borrowings as of December 31, 2016 are as follows:

In millions of won

	<u>Less than 1 year</u>	<u>1 - 2 years</u>	<u>2 - 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Short-term borrowings ₩	389,787	-	-	-	389,787
Long-term borrowings	376	375	1,126	558	2,435
Debentures	694,250	964,250	1,648,816	1,320,000	4,627,316
₩	<u>1,084,413</u>	<u>964,625</u>	<u>1,649,942</u>	<u>1,320,558</u>	<u>5,019,538</u>

20. Other Financial Liabilities

Other financial liabilities as of December 31, 2016 and 2015 are as follows:

In millions of won

	<u>2016</u>		<u>2015</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Derivative liabilities ₩	356	-	833	-

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21. Employee Benefit Obligations

(1) The principal assumptions used on actuarial valuation as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	2.56%	2.52%
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, 2016 and 2015 are as follows:

In millions of won

	<u>2016</u>	<u>2015</u>
Current service cost	12,204	10,628
Interest cost	2,057	2,035
Gain on settlement	(86)	(221)
Expected return on plan assets	(493)	(421)
	<u>13,682</u>	<u>12,021</u>

The Group's expense relating to its defined benefit plans in the financial statements are as follows:

In millions of won

	<u>2016</u>	<u>2015</u>
Cost of sales	₩ 10,077	8,387
Selling and administrative expenses	1,278	1,092
Construction-in-progress	2,327	2,542
	<u>₩ 13,682</u>	<u>12,021</u>

Employee benefit obligations expenses of ₩4,958 million and ₩4,207 million, respectively, are recognized as cost of sales, and ₩629 million and ₩548 million, respectively, are recognized as selling and administrative expenses, and ₩1,145 million and ₩1,275 million, respectively, are recognized as construction-in-progress, relates to the Group's defined contribution plans for the years ended December 31, 2016 and 2015.

(3) Employee benefit obligation as of December 31, 2016 and 2015 are as follows:

In millions of won

	<u>2016</u>	<u>2015</u>
Present value of defined benefit obligation from funded plans	94,896	76,519
Fair value of plan assets	(23,917)	(18,873)
Net employee benefits obligation from defined benefit plans	<u>70,979</u>	<u>57,646</u>

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21. Employee Benefit Obligations, Continued

(4) Changes in retirement benefit obligation during the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Beginning balance	76,519	64,106
Current service cost	12,204	10,628
Gain on settlement	(86)	(221)
Interest cost	2,057	2,035
Remeasurements loss	7,172	4,447
Actual payments	(2,970)	(4,476)
Ending balance	<u>94,896</u>	<u>76,519</u>

(5) Changes in the fair value of the plan assets during the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Beginning balance	18,873	13,076
Expected return on plan assets	493	421
Remeasurements loss	(135)	(126)
Contributions by the employers	4,686	5,535
Actual payments	-	(33)
Ending balance	<u>23,917</u>	<u>18,873</u>

Accumulated remeasurements loss on employee benefit obligations recorded as other comprehensive loss amounts to ₩32,523 million and ₩26,984 million, respectively, for the years ended December 31, 2016 and 2015.

(6) Fair value of major categories of plan assets as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Equity instrument	1,076	684
Debt instrument	2,270	2,665
Deposits	2,947	8,770
Others	17,624	6,754
	<u>23,917</u>	<u>18,873</u>

Actual returns for the years ended December 31, 2016 and 2015 are ₩358 million and ₩296 million, respectively.

(7) Other long-term employee benefit liabilities as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Long-service leave	₩ 625	553

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21. Employee Benefit Obligations, Continued

(8) Remeasurement component recognized in other comprehensive income (loss) for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		<u>2016</u>	<u>2015</u>
Remesurements loss (gain) from changes in financial assumptions	₩	(502)	4,999
Experience adjustments		7,674	(552)
Expected return		135	126
	₩	<u>7,307</u>	<u>4,573</u>

22. Provisions

(1) Provisions as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		<u>2016</u>		<u>2015</u>	
		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Litigation provisions (*1)	₩	-	5,123	-	4,096

(*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, 2016, 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 years ended December 31, 2016 and 2015 is as follows:

(i) For the year ended December 31, 2016

<i>In millions of won</i>		<u>Beginning balance</u>	<u>Provision increase</u>	<u>Others</u>	<u>Ending balance</u>
Litigation Provisions	₩	4,096	1,017	10	5,123

(ii) For the year ended December 31, 2015

<i>In millions of won</i>		<u>Beginning balance</u>	<u>Provision increase</u>	<u>Provision reversals</u>	<u>Provision utilization</u>	<u>Ending balance</u>
Litigation Provisions	₩	27,230	4,833	(1,957)	(26,010)	4,096

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23. Non-financial Liabilities

Other non-financial liabilities as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016		2015	
	Current	Non-current	Current	Non-current
Advance received	₩ -	-	-	2,492
Unearned revenue	278	-	8	-
Withholdings	6,004	-	5,116	-
Others (*1)	94,046	199	64,058	140
	₩ <u>100,328</u>	<u>199</u>	<u>69,182</u>	<u>2,632</u>

(*1) Others are primarily comprised of renewable portfolio standard (RPS) provisions for the governmental regulations requiring the production of energies from renewable energy sources, and provisions for the greenhouse gas emission rights.

24. Share Capital

(1) Share capital as of December 31, 2016 and 2015 are as follows:

<i>In millions of won, except par value and number of shares</i>	Number of shares authorized	Number of shares issued	Par value	2016		2015	
				Govt.	Non-govt.	Govt.	Non-govt.
Common Stock	100,000,000	33,329,119	₩ 5,000	-	166,646	-	158,946

(2) Changes in number of outstanding capital stock during the years ended December 31, 2016 and 2015 are as follows:

<i>Number of shares</i>	2016	2015
Beginning number of shares	31,789,285	31,789,285
Changes for the year	1,539,834	-
Ending number of shares	33,329,119	31,789,285

(3) Share premium as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016	2015
Paid-in capital in excess of par value	₩ 1,106,253	1,033,419

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25. Retained Earnings and Dividends

(1) Retained earnings as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Legal reserves (*1)	₩ 66,015	62,392
Voluntary reserves	1,446,166	1,197,947
Retained earnings before appropriations	<u>1,081,241</u>	<u>984,399</u>
	₩ <u>2,593,422</u>	<u>2,244,738</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.

(2) Composition of voluntary reserves as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Reserve for business stabilization (*1)	181	181
Reserve for research and human development (*2)	-	6,129
Reserve for investment on social overhead capital	13,000	13,000
Reserve for business expansion	<u>1,432,985</u>	<u>1,178,637</u>
	<u>1,446,166</u>	<u>1,197,947</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, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Beginning balance	₩ 984,399	831,648
Profit for the year - Controlling company	393,271	300,260
Dividends paid	(36,238)	(22,749)
Remeasurements loss	(5,539)	(3,466)
Transfers to reserves	(257,971)	(124,058)
Appropriation to reserves	6,129	6,129
Hybrid securities interest	(3,070)	(3,070)
Adjustment of retained earnings of equity method	260	(295)
Ending balance	₩ <u>1,081,241</u>	<u>984,399</u>

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25. Retained Earnings and Dividends, Continued

(4) Dividends paid for the years ended December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

Type	Number of shares issued	Number of treasury shares	Number of share eligible for dividends	Dividends per share (in won)	Total dividends (in millions of won)
Common Stock	33,329,119	-	33,329,119	1,087	36,238

(ii) For the year ended December 31, 2015

Type	Number of shares issued	Number of treasury shares	Number of share eligible for dividends	Dividends per share (in won)	Total dividends (in millions of won)
Common Stock	31,789,285	-	31,789,285	716	22,749

(5) Changes in retained earnings of equity method during the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016	2015
Beginning balance	₩ (295)	-
Changes during the year	260	(295)
Ending balance	₩ (35)	(295)

(6) Changes in accumulated remeasurements loss on employee benefit obligations during the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016	2015
Beginning balance	₩ (26,984)	(23,518)
Changes during the year	(7,307)	(4,573)
Income tax effect	1,768	1,107
Ending balance	₩ (32,523)	(26,984)

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26. 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, 2016 and 2015 are as follows:

Date of appropriation for 2016: March 30, 2017

Date of appropriation for 2015: March 30, 2016

In millions of won

	<u>2016</u>	<u>2015</u>
Unappropriated retained earnings		
Balance at beginning of year	711,596	711,596
Hybrid securities interest	(3,070)	(3,070)
Net income	401,936	294,617
Remeasurements loss	(5,539)	(3,466)
Balance at end of year before appropriation	<u>1,104,923</u>	<u>999,677</u>
Reverse of reserve for research and human development	-	6,129
	1,104,923	1,005,806
Appropriation of retained earnings		
Cash dividends	(66,992)	(36,238)
Legal reserve	(6,699)	(3,624)
Reserve for business expansion	(319,636)	(254,348)
Unappropriated retained earnings to be carried over	<u>711,596</u>	<u>711,596</u>

27. Other Components of Equity

(1) Other components of equity as of December 31, 2016 and 2015 are as follows:

In millions of won

	<u>2016</u>	<u>2015</u>
Accumulated other comprehensive loss	₩ (7,260)	(9,342)
Other equity	(41,783)	(41,783)
	<u>₩ (49,043)</u>	<u>(51,125)</u>

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27. Other Components of Equity, Continued

(2) Changes in accumulated other comprehensive income (loss) during the years ended December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

In millions of won

	Available- for-sale financial assets valuation reserve	Reserve for income (loss) on valuation of derivatives	Reserve for income (loss) on overseas operations translation credit	Share in other comprehensive income (loss) of associates	Total
Beginning balance	₩ 2,789	(7,114)	(5,852)	835	(9,342)
Valuation of available-for-sale financial assets	(5,049)	-	-	-	(5,049)
Valuation of derivatives	-	4,278	-	-	4,278
Overseas operations translation	-	-	548	-	548
Valuation of investments in associates	-	-	-	2,794	2,794
Tax effect	1,222	(1,035)	-	(676)	(489)
Ending balance	₩ <u>(1,038)</u>	<u>(3,871)</u>	<u>(5,304)</u>	<u>2,953</u>	<u>(7,260)</u>

(ii) For the year ended December 31, 2015

In millions of won

	Available -for-sale financial assets valuation reserve	Reserve for income (loss) on valuation of derivatives	Reserve for loss on overseas operations translation credit	Share in other comprehensive income (loss) of associates	Total
Beginning balance	₩ 2,286	(11,887)	(5,241)	(1,045)	(15,887)
Valuation of available-for-sale financial assets	664	-	-	-	664
Valuation of derivatives	-	6,297	-	-	6,297
Overseas operations translation	-	-	(611)	-	(611)
Valuation of investments in associates	-	-	-	2,480	2,480
Tax effect	(161)	(1,524)	-	(600)	(2,285)
Ending balance	₩ <u>2,789</u>	<u>(7,114)</u>	<u>(5,852)</u>	<u>835</u>	<u>(9,342)</u>

(3) No changes occurred during the year ended December 31, 2016 and 2015.

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28. Hybrid Securities

Hybrid securities classified as equity as of December 31, 2016 and 2015 are as follows :

In millions of won

Type	Description	Issue date	Maturity date	Annual interest rate	December 31, 2016	December 31, 2015
Bond-hybrid capital securities #1	Interest-bearing, unwarranted and subordinated bonds to bear	2012.10.18	2042.10.18	KTB(five years) +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.

29. Sales

Details of sales for the years ended December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

In millions of won

		Domestic	Overseas
Sales of electricity	₩	4,158,126	-
Services		6,021	15,635
	₩	<u>4,164,147</u>	<u>15,635</u>

(ii) For the year ended December 31, 2015

In millions of won

		Domestic	Overseas
Sales of electricity	₩	4,205,989	4,730
Services		4,571	9,385
	₩	<u>4,210,560</u>	<u>14,115</u>

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30. Selling and Administrative Expenses

Composition of selling and administrative expenses for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Employee health and welfare benefit funds	₩ 11,775	5,342
Salaries	26,103	21,590
Retirement benefit expense	1,907	1,639
Welfare and benefit expense	2,837	2,043
Insurance expense	45	41
Depreciation	13,589	7,377
Amortization	2,296	4,881
Commission	15,620	13,680
Advertising expense	1,004	594
Training expense	70	68
Vehicle maintenance expense	49	70
Publishing expense	159	152
Business promotion expense	98	100
Rent expense	936	4,207
Telecommunication expense	872	344
Transportation expense	-	204
Taxes and dues	1,486	600
Expendable supplies expense	804	464
Water, light and heating expense	451	295
Repairs and maintenance expense	3,854	1,147
Ordinary development expense	16,431	12,114
Travel expense	768	813
Survey and analysis expense	1	1
Others	2,917	4,578
	<u>₩ 104,072</u>	<u>82,344</u>

31. Other Non-operating Income and Expense

(1) Other non-operating income for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Rental income	₩ 3,834	3,689
Gain on gratuitous conveyance of assets from outside	152	-
	<u>₩ 3,986</u>	<u>3,689</u>

(2) Other non-operating expenses for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Donations	₩ 642	443

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32. Other Income and Loss

Composition of other income and loss for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Gain on disposal of property, plant, and equipment	₩ 4,333	9,885
Gain on foreign currency translation	-	242
Gain on foreign currency transaction	2,673	3,196
Other gains	12,414	20,645
Loss on disposal of property, plant, and equipment	(5,952)	(13,310)
Loss on disposal of intangible assets	-	-
Loss on foreign currency translation	(1,728)	(164)
Loss on foreign currency transaction	(3,820)	(3,880)
Other losses	(3,105)	(15,080)
	<u>₩ 4,815</u>	<u>1,534</u>

33. Finance Income

(1) Finance income for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Interest income	₩ 1,845	2,542
Gain on valuation of derivatives	49,498	121,557
Gain on foreign currency translation	872	-
Gain on foreign currency transaction	10,275	543
	<u>₩ 62,490</u>	<u>124,642</u>

(2) Interest income included in finance income for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	₩ 1,447	1,795
Loans and receivables	398	725
Available-for-sale financial assets	-	22
	<u>₩ 1,845</u>	<u>2,542</u>

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34. Finance Expenses

(1) Finance expenses for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Interest expense	₩ 70,890	70,580
Loss on disposal of financial assets	-	82
Impairment loss on available-for-sale financial assets	502	-
Loss on valuation of derivatives	1,168	833
Loss on transaction of derivatives	13,222	-
Loss on foreign currency translation	49,044	121,121
Loss on foreign currency transaction	-	233
	<u>₩ 134,826</u>	<u>192,849</u>

(2) Interest expenses included in finance expenses for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Short term borrowings	₩ 3,543	7,243
Long term borrowings	20	23
Debentures	137,041	154,713
Trade and other payables	86	94
	<u>140,690</u>	<u>162,073</u>
Less: capitalized borrowing costs	(69,800)	(91,493)
	<u>₩ 70,890</u>	<u>70,580</u>

35. Income Tax Expense

(1) Components of income tax expense for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Current income tax expense		
Current income tax	₩ 116,444	74,016
Adjustment for prior period	1,540	1,296
Income tax charged directly to equity	2,795	402
	<u>120,779</u>	<u>75,714</u>
Deferred income tax expense		
Generation and realization of temporary differences	(4,930)	2,217
Reclassification of equity to profit or loss	140	-
Tax credit carryforwards	2,131	34,065
	<u>(2,659)</u>	<u>36,282</u>
Income tax expense	<u>₩ 118,120</u>	<u>111,996</u>

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35. Income Tax Expense, Continued

(2) Reconciliation between the actual income tax expense and that amount computed by applying 24.2% to profit before income tax expense for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Profit before income tax expense	₩ 511,314	412,305
Income tax expense in accordance with statutory tax rate	<u>126,053</u>	<u>98,171</u>
Adjustments		
Effects of the application of accumulative tax rate	(462)	(462)
Effects of non-deductible expenses	34	1,448
Effects of tax credits or exemptions	<u>(9,045)</u>	<u>11,543</u>
	(9,473)	12,529
Adjustment for prior period	<u>1,540</u>	<u>1,296</u>
Income tax expense	<u>₩ 118,120</u>	<u>111,996</u>

The average effective tax rates for the years ended December 31, 2016 and 2015 are 23.10% and 27.16%, respectively.

(3) Relating to items directly to equity in income tax for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Interest payments on hybrid securities	₩ 980	980

(4) Income tax recognized in other comprehensive income (loss) for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Gain (loss) on valuation of available-for-sale financial assets, net	₩ 1,222	(161)
Loss on valuation of derivatives using cash flow hedge accounting, net	(1,176)	(1,524)
Remeasurements of defined benefit obligation	<u>1,768</u>	<u>1,107</u>
Income tax expenses (benefit)	<u>₩ 1,814</u>	<u>(578)</u>

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35. Income Tax Expense, Continued

(5) Recognized deferred income tax assets (liabilities) in the statement of financial position for the years ended December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

<i>In millions of won</i>	Balance as of January 1, 2016	Amounts recognized in profit or loss	Amounts recognized in other comprehensive income (loss)	Amounts recognized directly in equity	Amounts reclassified equity to profit or loss	Balance as of December 31, 2016
Deferred tax on temporary differences						
Long-term employee	13,024	2,178	1,768	-	-	16,970
Cash flow hedges	(30,937)	(3,232)	(1,176)	-	140	(35,205)
Property, plant and Intangible assets	(271,058) 56	(5,523) -	- -	- -	- -	(276,581) 56
Available-for-sale financial assets	(890)	121	1,222	-	-	453
Foreign currency translation	34,997	2,180	-	-	-	37,177
Other provision	(4,239)	-	-	-	-	(4,239)
Others	38,174	6,361	-	980	-	45,515
	(220,873)	2,085	1,814	980	140	(215,854)
Tax credit	2,131	(2,131)	-	-	-	-
Total	(218,742)	(46)	1,814	980	140	(215,854)

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35. Income Tax Expense, Continued

(5) Recognized deferred income tax assets (liabilities) in the statement of financial position for the years ended December 31, 2016 and 2015 are as follows, Continued:

(ii) For the year ended December 31, 2015

<i>In millions of won</i>	<u>Balance as of January 1, 2015</u>	<u>Amounts recognized in profit or loss</u>	<u>Amounts recognized in other comprehensive income (loss)</u>	<u>Amounts recognized directly in equity</u>	<u>Balance as of December 31, 2015</u>
Deferred tax on temporary differences					
Long-term employee benefits	₩ 10,871	1,046	1,107	-	13,024
Cash flow hedges	(324)	(29,089)	(1,524)	-	(30,937)
Property, plant and equipment	(255,298)	(15,760)	-	-	(271,058)
Intangible assets	56	-	-	-	56
Available-for-sale financial assets	(729)	-	(161)	-	(890)
Foreign currency translation	5,682	29,315	-	-	34,997
Allowance for doubtful accounts	(1,116)	1,116	-	-	-
Other provision	(4,239)	-	-	-	(4,239)
Reserve for research and human development	(1,896)	1,896	-	-	-
Others	28,284	8,910	-	980	38,174
	(218,709)	(2,566)	(578)	980	(220,873)
Tax credit	36,197	(34,066)	-	-	2,131
Total	₩ <u>(182,512)</u>	<u>(36,632)</u>	<u>(578)</u>	<u>980</u>	<u>(218,742)</u>

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

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Deferred income tax assets	144	56
	₩	
Deferred income tax liabilities	(215,998)	(218,798)
	(215,854)	(218,742)
	₩	

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36. Expenses Classified by Nature

Expenses classified by nature for the years ended December 31, 2016 and 2015 are as follows:

(1) For the year ended December 31, 2016

In millions of won

	Selling and administrative expenses	Cost of sales	Total
Raw materials used	₩ -	2,612,115	2,612,115
Employee health and welfare benefit funds	11,775	-	11,775
Salaries	26,103	135,887	161,990
Retirement benefit expense	1,907	15,035	16,942
Welfare and benefit expense	2,837	12,035	14,872
Insurance expense	45	4,443	4,488
Depreciation	13,589	459,898	473,487
Amortization	2,296	663	2,959
Commission	15,620	14,577	30,197
Advertising expense	1,004	434	1,438
Training expense	70	216	286
Vehicle maintenance expense	49	56	105
Publishing expense	159	199	358
Business promotion expense	98	212	310
Rent expense	936	12,037	12,973
Telecommunication expense	872	132	1,004
Transportation expense	-	12	12
Taxes and dues	1,486	21,171	22,657
Expendable supplies expense	804	375	1,179
Water, light and heating expense	451	559	1,010
Repairs and maintenance expense	3,854	137,890	141,744
Ordinary development expense	16,431	10,379	26,810
Travel expense	768	480	1,248
Clothing expense	-	278	278
Survey and analysis expense	1	111	112
Others	2,917	47,855	50,772
	₩ <u>104,072</u>	<u>3,487,049</u>	<u>3,591,121</u>

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36. Expenses Classified by Nature, Continued

(2) For the year ended December 31, 2015

In millions of won

	Selling and administrative expenses	Cost of sales	Total
Raw materials used	₩ -	2,890,622	2,890,622
Employee health and welfare benefit funds	5,342	-	5,342
Salaries	21,590	120,945	142,535
Retirement benefit expense	1,639	12,594	14,233
Welfare and benefit expense	2,043	10,610	12,653
Insurance expense	41	7,962	8,003
Depreciation	7,377	412,562	419,939
Amortization	4,881	655	5,536
Commission	13,680	14,244	27,924
Advertising expense	594	437	1,031
Training expense	68	221	289
Vehicle maintenance expense	70	53	123
Publishing expense	152	105	257
Business promotion expense	100	140	240
Rent expense	4,207	13,163	17,370
Telecommunication expense	344	467	811
Transportation expense	204	98	302
Taxes and dues	600	19,831	20,431
Expendable supplies expense	464	324	788
Water, light and heating expense	295	240	535
Repairs and maintenance expense	1,147	120,774	121,921
Ordinary development expense	12,114	13,876	25,990
Travel expense	813	319	1,132
Clothing expense	-	350	350
Survey and analysis expense	1	95	96
Others	4,578	12,743	17,321
	<u>₩ 82,344</u>	<u>3,653,430</u>	<u>3,735,774</u>

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37. Earnings per Share

(1) Basic earnings per share for the years ended December 31, 2016 and 2015 are as follows:

<i>In won</i>	<u>2016</u>	<u>2015</u>
Basic earnings per share	₩ 12,345	9,445

(*) Since the Group does not own dilutive securities, basic earnings per share is identical to dilutive earnings per share.

(2) Controlling interest in profit and weighted average number of common shares outstanding for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won, except for number of share</i>	<u>2016</u>	<u>2015</u>
Controlling interest in profit	₩ 393,271	300,260
Weighted average number of common share	31,856,785	31,789,285

38. 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, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Total borrowings and debentures	₩ 5,010,393	4,961,593
Cash and cash equivalents	(246,692)	(105,559)
Net borrowings and debentures	4,763,701	4,856,034
Total shareholder's equity	₩ 3,923,278	3,485,986
Debt to equity percentage	121.42%	139.30%

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38. 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, 2016 and 2015 are as follows:

<i>In millions of won</i>		<u>2016</u>	<u>2015</u>
Cash and cash equivalents	₩	246,692	105,559
Loans and receivables		16,483	14,991
Short-term financial instruments		10,000	8,000
Derivative assets (trading)		1,468	1,205
Derivative assets (hedge accounting)		145,590	128,694
Trade and other receivables		579,594	527,558
Available-for-sale financial assets		94,837	13,720

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, 2016 and 2015 are as follows:

<i>In millions of won</i>			<u>2016</u>		<u>2015</u>	
<u>Type</u>	<u>Accounts</u>		<u>1%</u> <u>Increase</u>	<u>1%</u> <u>Decrease</u>	<u>1%</u> <u>Increase</u>	<u>1%</u> <u>Decrease</u>
Future salary increase rate	Defined benefit obligation	₩	11,698	(10,233)	9,514	(8,243)
Discount rate	Defined benefit obligation		(10,546)	12,595	(8,641)	10,247

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38. Risk Management, Continued

(2) Financial risk management, Continued

3) Sensitivity analysis, 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>	Assets		Liabilities	
	2016	2015	2016	2015
USD	2,817	333	1,405,606	1,547,284
JPY	50	-	208,828	50,879
EUR	-	-	35	67
CHF	-	-	200,000	200,000
GBP	-	-	28	2
AUD	30	-	-	-

A sensitivity analysis on the Group's profit with a 10% increase or decrease in currency exchange rates for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016		2015	
	10%	10%	10%	10%
	Increase	Decrease	Increase	Decrease
Increase (decrease) of profit before income tax	₩ (193,376)	193,376	(205,069)	205,069
Increase (decrease) of shareholder's equity (*1)	(193,376)	193,376	(205,069)	205,069

(*1) 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, 2016 and 2015.

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38. Risk Management, Continued

(2) Financial risk management, Continued

3) Sensitivity analysis, Continued

b) Management judgment effected by uncertainties in underlying assumptions, Continued

① Foreign currency risk, 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 borrowings and debentures with floating interest rates as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>	<u>2015</u>
Short-term borrowings	₩ -	34,375
Long-term borrowings	<u>2,435</u>	<u>2,810</u>
	<u>₩ 2,435</u>	<u>37,185</u>

Sensitivity analysis on the Group's borrowings and debentures assuming a 1% increase or decrease in interest rates for the year ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	<u>2016</u>		<u>2015</u>	
	<u>1% Increase</u>	<u>1% Decrease</u>	<u>1% Increase</u>	<u>1% Decrease</u>
Increase (decrease) of profit before income tax	₩ (24)	24	(372)	372
Increase (decrease) of shareholder's equity (*1)	(24)	24	(372)	372

(*1) 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. This analysis measures interest rate risk before reflecting hedging effect of derivatives.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

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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.

38. Risk Management, Continued

(2) Financial risk management, Continued

4) Liquidity risk, Continued

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.

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, 2016

In millions of won

	Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Borrowings and debentures	₩ 1,203,050	1,066,769	1,823,169	1,436,323	5,529,311
Trade and other payables	379,866	78	-	-	379,944
	<u>₩ 1,582,916</u>	<u>1,066,847</u>	<u>1,823,169</u>	<u>1,436,323</u>	<u>5,909,255</u>

(ii) As of December 31, 2015

In millions of won

	Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Borrowings and debentures	₩ 1,029,811	784,987	2,427,864	1,315,686	5,558,348
Trade and other payables	347,791	78	-	-	347,869
	<u>₩ 1,377,602</u>	<u>785,065</u>	<u>2,427,864</u>	<u>1,315,686</u>	<u>5,906,217</u>

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

(2) Financial risk management, Continued

4) Liquidity risk, Continued

The expected maturities for non-derivative financial assets as of December 31, 2016 and 2015 in details are as follows:

(i) As of December 31, 2016

In millions of won

		Less than 1 year	1-5 years	Over 5 years	Uncertain	Total
Cash and cash equivalents	₩	246,692	-	-	-	246,692
Available-for-sale financial assets		-	-	-	94,837	94,837
Loans and receivables		3,002	14,904	-	-	17,906
Short-term financial instruments		10,000	-	-	-	10,000
Trade and other receivables		579,041	808	-	-	579,849
	₩	<u>838,735</u>	<u>15,712</u>	<u>-</u>	<u>94,837</u>	<u>949,284</u>

(ii) As of December 31, 2015

In millions of won

		Less than 1 year	1-5 years	Over 5 years	Uncertain	Total
Cash and cash equivalents	₩	105,559	-	-	-	105,559
Available-for-sale financial assets		-	-	-	13,720	13,720
Loans and receivables		3,684	12,923	-	-	16,607
Short-term financial instruments		8,000	-	-	-	8,000
Trade and other receivables		525,553	2,258	-	-	527,811
	₩	<u>642,796</u>	<u>15,181</u>	<u>-</u>	<u>13,720</u>	<u>671,697</u>

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

(2) Financial risk management, Continued

4) Liquidity risk, Continued

Derivative financial liabilities classified by maturity periods which from reporting date to maturity date of contract as of December 31, 2016 and 2015 as follows:

(i) As of December 31, 2016

<i>In millions of won</i>		Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Net settlement						
-Trading purpose	₩	-	-	-	-	-
Gross settlement						
-Trading purpose		356	-	-	-	356
-Hedge accounting purpose		-	-	-	-	-
	₩	<u>356</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>356</u>

(ii) As of December 31, 2015

<i>In millions of won</i>		Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Net settlement						
-Trading purpose	₩	-	-	-	-	-
Gross settlement						
-Trading purpose		833	-	-	-	833
-Hedge accounting purpose		-	-	-	-	-
	₩	<u>833</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>833</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.

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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.

38. Risk Management, Continued

(3) Fair value risk, Continued

1) Fair value and book value of financial assets and liabilities as of December 31, 2016 and 2015 are as follows:

In millions of won

	2016		2015	
	Book value	Fair value	Book value	Fair value
Assets recognized at fair value				
Available-for-sale financial assets	₩ 94,837	94,837	13,720	13,720
Derivatives assets (trading)	1,468	1,468	1,205	1,205
Derivatives assets (hedge accounting)	145,590	145,590	128,694	128,694
	<u>241,895</u>	<u>241,895</u>	<u>143,619</u>	<u>143,619</u>
Assets carried at amortized cost				
Trade and other receivables	579,594	579,594	527,558	527,558
Loans and receivables	16,483	16,483	14,991	14,991
Short-term financial instruments	10,000	10,000	8,000	8,000
	<u>606,077</u>	<u>606,077</u>	<u>550,549</u>	<u>550,549</u>
Liabilities carried at fair value				
Derivatives liabilities (trading)	356	356	833	833
Liabilities carried at amortized cost				
Borrowings	392,222	392,222	457,185	457,185
Debentures	4,618,171	4,715,376	4,504,408	4,665,108
Trade and other payables	379,944	379,944	347,869	347,869
	<u>₩ 5,390,337</u>	<u>5,487,542</u>	<u>5,309,462</u>	<u>5,470,162</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, 2016 and 2015 are as follows:

Type	December 31, 2016 (%)	December 31, 2015 (%)
Derivatives	1.11 ~ 1.31	1.42 ~ 1.85
Debentures	0.02 ~ 2.53	0.15 ~ 2.58

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38. Risk Management, Continued

(3) Fair value risk, Continued

3) Fair value hierarchy

Fair values of financial instruments by hierarchy level as of December 31, 2016 and 2015, respectively, are as follows:

(i) As of December 31, 2016

In millions of won

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value:				
Available-for-sale financial assets	₩ 71,840	-	22,997	94,837
Derivative assets (trading)	-	1,468	-	1,468
Derivative assets (hedge accounting)	-	145,590	-	145,590
	<u>71,840</u>	<u>147,058</u>	<u>22,997</u>	<u>241,895</u>
Financial liabilities at fair value:				
Derivative liabilities (trading)	₩ -	356	-	356

(ii) As of December 31, 2015

In millions of won

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value:				
Available-for-sale financial assets	₩ -	-	13,720	13,720
Derivative assets (trading)	-	1,205	-	1,205
Derivative assets (hedge accounting)	-	128,694	-	128,694
	<u>-</u>	<u>129,899</u>	<u>13,720</u>	<u>143,619</u>
Financial liabilities at fair value:				
Derivative liabilities (trading)	₩ -	833	-	833

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39. Related Party Transactions

(1) The nature of the Group's relationship as of December 31, 2016 is as follows:

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

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39. 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, 2016 and 2015 are as follows:

<i>In millions of won</i>	Related parties	Sales and others		Purchase and others	
		2016	2015	2016	2015
	Korea Electric Power Corporation	₩ 4,185,565	4,167,451	125,011	91,718
	Korea Hydro & Nuclear Power Co., Ltd.	-	-	89	89
	Korea Southern Power Co., Ltd.	4,355	1,742	769	983
	Korea East-West Power Co., Ltd.	10	-	12	41
	Korea South-East Power Co., Ltd.	10	-	-	-
	Korea Midland Power Co., Ltd.	10	-	2,629	37
	KEPCO Engineering & Construction Company Inc.	-	-	12,395	18,556
	KEPCO KPS Co., Ltd.	1,842	1,739	77,478	86,352
	KEPCO KDN Co., Ltd.	-	-	11,655	9,788
	Cheongna Energy Co., Ltd.	5,332	19,671	73	-
	Korea Offshore Wind Power Co., Ltd.	262	252	-	-
	Daegu Solar Power Plant Co., Ltd.	-	-	2,426	2,864
	Dongducheon Dream Power Co., Ltd.	430	473	-	-
	Solar power plants happy city Co., Ltd.	-	-	275	295
	Rabigh O&M Co., Ltd.	2,395	1,780	-	-
	Korea Gas Corporation	1,462	2,670	956,658	1,254,351
	Korea Electronic Power Industrial Development Co., Ltd.	4,392	6,735	31,477	36,073
	Korea Power Exchange	-	-	4,897	4,054
	Pioneer Gas Power., Ltd.	164	274	-	-
	Shin Pyeongtaek Power Co., Ltd.	3,534	5,109	-	-
	Xe-Pian Xe-Namnoy Power Co., Ltd.	773	584	-	-
	KEPCO Energy Solution Co., Ltd.	49	-	-	-
	Solar School Plant Co.,Ltd.	37	-	-	-
	Korea Development Bank	-	-	30	-
		₩ <u>4,210,622</u>	<u>4,208,480</u>	<u>1,225,874</u>	<u>1,505,201</u>

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39. Related Party Transactions, Continued

(3) Receivables and payables arising from related party transactions as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		Receivables		Payables	
Company name	Type	2016	2015	2016	2015
Korea Electric Power Corporation	Trade receivables	₩ 446,621	376,933	-	-
	Non-trade receivables and others	116,965	132,437	-	-
	Trade payables	-	-	6,455	6,379
	Non-trade payables and others	-	-	705	11
Korea Hydro & Nuclear Power Co., Ltd.	Non-trade payables and others	-	-	21	23
Korea Southern Power Co., Ltd.	Non-trade receivables and others	627	689	-	-
	Non-trade payables and others	-	-	-	83
Korea East-West Power Co., Ltd.	Non-trade receivables and others	63	227	-	-
	Non-trade payables and others	-	-	-	22
Korea South-East Power Co., Ltd.	Non-trade payables and others	-	-	-	11
Korea Midland Power Co., Ltd.	Non-trade payables and others	-	-	2,809	23
KEPCO Engineering & Construction Company Inc.	Non-trade payables and others	-	-	2,155	-
KEPCO KPS Co., Ltd.	Non-trade receivables and others	13	13	-	-
	Non-trade payables and others	-	-	8,179	11,013
KEPCO KDN Co., Ltd.	Non-trade payables and others	-	-	915	-
Cheongna Energy Co., Ltd.	Non-trade receivables and others	-	375	-	-
	Non-trade payables and others	-	-	82	-
Korea Offshore Wind Power Co., Ltd.	Non-trade receivables and others	289	277	-	-
Rabigh O&M Co., Ltd.	Non-trade receivables	2,275	1,780	-	-
Shin Pyeongtaek Power Co., Ltd.	Non-trade receivables and others	215	56	-	-
Pioneer Gas Power., Ltd.	Non-trade receivables and others	82	26	-	-
Korea Gas Corporation	Non-trade receivables and others	64	23	-	-
	Trade payables	-	-	83,816	85,480
	Non-trade payables and others	-	-	484	68
Korea Electronic Power Industrial Development Co., Ltd.	Trade receivables	324	396	-	-
	Non-trade receivables and others	27	33	-	-
	Non-trade payables and others	-	-	2,702	2,921
Korea Power Exchange	Non-trade payables and others	-	-	1	128
Xe-Pian Xe-Namnoy Power Co., Ltd.	Non-trade receivables and others	58	-	-	-
	Loans	1,413	1,413	-	-
PT. Mutiara Jawa	Loans	-	450	-	-
KEPCO Energy Solution Co., Ltd.	Non-trade receivables and others	39	-	-	-
Solar School Plant Co., Ltd.	Non-trade receivables and others	41	-	-	-
Korea Development Bank	Accrued expenses	-	-	31	-

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39. Related Party Transactions, Continued

(4) Borrowings from related parties as of December 31, 2016 and 2015 are as follows:

In millions of won

Lender	Beginning balance	Borrowing	Repayment	Ending balance
Korea Development Bank	-	21,158	-	21,158

(5) The salaries and other compensations to the key members of management for the years ended December 31, 2016 and 2015 are as follows:

In millions of won

Type	2016	2015
Short-term employee benefits	₩ 726	607
Retirement and severance benefits	79	36

(6) Guarantees provided to affiliates as of December 31, 2016 are as follows:

In millions of won, In thousands of USD, SAR

Debt repayment 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 27,211	KEB Hana Bank, etc.
Korea Western Power Co., Ltd.	Dongducheon Dream Power Co., Ltd.	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	Woori Bank
Korea Western Power Co., Ltd.	Rabigh O&M Co., Ltd.	Contract performance guarantees, etc.	SAR 5,600	Saudi Arabia British Bank
Korea Western Power Co., Ltd.	Xe-Pian Xe-Namnoy Power Co., Ltd.	Investments in associate pledged as collateral	USD 43,276	Krung Thai 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.	Guarantees of Impounding bonus (*1)	USD 5,000	SK E&C
Korea Western Power Co., Ltd.	Solar Power Plants Happy City Co., Ltd.	Investments in associate pledged as collateral	KRW 194	NH bank
Korea Western	Shin Pyeongtaek	Investments in associate	KRW 40	Kookmin Bank

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Power Co., Ltd. Power Co., Ltd. pledged as collateral

(*1) Xe-Pian Xe-Namnoy Power Co., Ltd. entered into the agreement to pay incentives to SK E&C when the impoundment occurs upon the completion of the hydropower project. For the case that Xe-Pian Xe-Namnoy Power Co., Ltd. becomes unable to pay the incentives to SK E&C, the Group provides guarantees for payment of USD 5,000 thousands.

39. Related Party Transactions, Continued

(7) Cheongna Energy Co., Ltd. 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.

40. Asset held for sale

Asset held for sale as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016	2015
Investments in associates (*1)	₩ 41,170	41,170

(*1) Representing the carrying amount for the portion of investment in Dongducheon Dream Power Co., Ltd., that the Group intends to sell.

41. Non-cash Transactions

Significant non-cash transactions for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016	2015
Reclassification of long-term borrowings and debentures to current portion	₩ 675,566	428,291
Reclassification of construction-in-progress	3,080,080	671,793
Reclassification of non-cash purchases of property, plant and equipment's acquisition	1,976	(225,509)
Reclassification of advances from customers related with disposition of land	2,837	-
Reclassification of long-term loans to current portion	(55)	1,409
Reclassification of long-term prepaid expenses to current portion	1,300	1,028
Reclassification of long-term deposit to current portion	3	125

42. Commitments for Expenditure

Agreements for acquisition of property, plant and equipment as of December 31, 2016 and 2015 are as follows:

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Description	2016		2015	
	Contract	Residual	Contract	Residual
Payments	₩ 2,018,418	116,726	2,122,633	252,092

43. Commitments and Contingencies

(1) Ongoing litigations of December 31, 2016 and 2015 are as follows:

Description	2016		2015	
	Number of cases	Claim amount	Number of cases	Claim amount
As the defendant (*1)	18	₩ 43,060	10	₩ 26,872
As the plaintiff	1	50	2	3,049

(*1) As of December 31, 2016, the Group recorded ₩5,123 million as litigation provisions. Except for the lawsuits that resulted in litigation provisions, the outcome of the other litigations cannot be determined. However, the Group management believes that the ultimate outcomes will not have a significant impact on the Group's operations and financial position.

(2) Credit lines provided by financial institutions as of December 31, 2016 are as follows:

In millions of won, In thousands of USD

Description	Financial Institutions	Currency	Limited amount	Exercised amount
Contract performance guarantee	NH Bank	USD	3,000	2,193
Commitments on Bank-overdraft	NH Bank	KRW	200,000	-
Loan limit	Bank of Communications	USD	30,000	-
	Bank of Nova Scotia	USD	20,000	-
	BNP PARIBAS	USD	40,000	-
	Credit Agricole Corporate & Investment Bank	USD	50,000	-
	DBS Bank	USD	100,000	-
	Deutsche Bank AG	USD	70,000	-
	Korea Development Bank	USD	80,000	17,508
	Mizuho Corporate Bank Ltd	USD	100,000	89,887
	Societe Generale	USD	50,000	-
	The Hongkong and Shanghai Banking Co., Ltd.	USD	40,000	-
	The Hongkong and Shanghai Banking Co., Ltd.	USD	50,000	-
	Kookmin Bank	KRW	30,000	-
	NH Bank	KRW	10,000	-
	Shinhan Bank	KRW	30,000	-
	Woori Bank	KRW	10,000	-
SC Bank	USD	50,000	-	

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Certification of payment on L/C	KEB Hana Bank	USD	25,800	-
	NH Bank	USD	50,000	1,224
	Shinhan Bank	USD	50,000	29,172
	Woori Bank	USD	30,000	-

43. Commitments and Contingencies, Continued

(3) Main raw material purchase agreements as of December 31, 2016 are as follows:

Raw materials	Supplier	Contract period	Amount for year (thousand tons, thousand kls)
Bituminous coal	Australia	2016.05~2020.09	2,716
	Indonesia	2016.10~2020.03	1,190
	Russia	2016.10~2020.08	700
	Republic of South Africa	2016.10~2017.12	845
	U.S.A	2016.11~2017.06	140
			5,591
Bunker-C Oil	Hyundai Corporation	2016.11~2017.01	90
	Vitol	2016.12~2017.02	45
			135
LNG	Korea Gas Corporation	2007~2026	Determined annually
	Korea Gas Corporation	2015~2025	Determined annually

(4) Details of long-term marine transportation commitment for the safe transport of bituminous coal as of December 31, 2016 are as follows:

Shipping company	Ship name	Contract period
Daebo International Shipping Co., Ltd.	Glovis Daylight	2015.12~2030.11
H-Line Shipping Co., Ltd	Hanjin Balikpapan	2011.07~2026.06
Hansung Line Co., Ltd.	Western Marine	2012.01~2026.12
H-Line Shipping Co., Ltd	Hyundai Leader	2016.04~2031.03
K-Line	CSK Brilliance	2011.11~2021.10
K-Line	Elettra	2009.02~2019.01
K-Line	Arpeggio	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
SK Shipping Co., Ltd.	K Western Dream	2016.03~2028.02
Wooyang Shipping Co., Ltd	Wooyang Queen	2016.07~2026.06
Five Ocean Corporation	Nozomi	2016.12~2026.12
H-Line Shipping Co., Ltd	HL Taean	2018.01~2036.06
SK Shipping Co., Ltd.	K.Taean	2018.01~2036.06

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(5) As described in Note 39, the Group provides financial supports including the debt repayment guarantees to related parties.

44. 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 #33-1	2017.02.22	2022.02.22	2.036%	₩	70,000
Corporate bond #33-2	2017.02.22	2027.02.22	2.342%		130,000
				₩	<u>200,000</u>

(2) Subsequent to December 31, 2016, the Group has issued short-term bonds for funds of facilities and operation as follows:

In thousands of USD

<u>Type</u>	<u>Lender</u>	<u>Issue date</u>	<u>Maturity date</u>	<u>Interest rate</u>	<u>Amounts</u>
Foreign short-term borrowings	Korea Development Bank	2017.01.11	2017.07.10	1.62%	13,618

(3) On January 19, 2017, Marubeni Korea Corporation filed an arbitration against the Group to the Korean Commercial Arbitration Board in relation to the refund of ₩4,050 million paid by Marubeni Korea Corporation to the Group as a penalty for the delayed delivery of Pyeongtaek 2 compound main equipment. It was notified to the Group on February 14, 2017 and the Group plans to appoint an arbitrator to proceed with arbitration. The management of the Group anticipates that the result of the arbitration will not have a significant impact on the Group's business or financial position.