

KOREA WESTERN POWER CO., LTD.  
AND SUBSIDIARIES

Consolidated Financial Statements

**December 31, 2017 and 2016**

(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, 2017 and 2016, 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, 2017 and 2016 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 8, 2018

This report is effective as of March 8, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
 Consolidated Statements of Financial Position  
 As of December 31, 2017 and 2016

*In millions of won*

	<u>Note</u>	<u>2017</u>	<u>2016</u>
<b>Assets</b>			
Cash and cash equivalents	6,7,38	₩ 35,416	246,692
Current financial assets	6,10,11,38	53,007	45,811
Current tax assets	35	606	-
Trade and other receivables, net	6,8,38,39	653,556	578,932
Inventories	12	270,054	227,388
Current non-financial assets	13	53,460	34,866
Assets held for sale	15,40	-	41,170
<b>Total current assets</b>		<u>1,066,099</u>	<u>1,174,859</u>
Non-current financial assets	6,9,10,11,27,38,39	152,760	222,566
Non-current trade and other receivables, net	6,8,38	63	662
Property, plant and equipment, net	16,42	8,115,149	8,154,367
Intangible assets, net	17	18,357	15,744
Investments in associates and joint ventures	15,39,40	268,148	213,948
Non-current non-financial assets	13	7,861	10,813
Deferred tax assets	35	234	144
<b>Total non-current assets</b>		<u>8,562,572</u>	<u>8,618,244</u>
<b>Total assets</b>		<u>₩ 9,628,671</u>	<u>9,793,103</u>

*See accompanying notes to the consolidated financial statements.*

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Financial Position, Continued  
As of December 31, 2017 and 2016

*In millions of won*

	<u>Note</u>	<u>2017</u>	<u>2016</u>
<b>Liabilities</b>			
Trade and other payables	6,18,38,39	₩ 278,370	379,866
Current financial liabilities	6,10,19,20,38	902,030	1,084,427
Current tax liabilities	35	13,356	85,880
Current non-financial liabilities	23	103,565	100,328
Current provisions	22	40	-
<b>Total current liabilities</b>		<u>1,297,361</u>	<u>1,650,501</u>
Non-current trade and other payables	6,18,38	2,189	78
Non-current financial liabilities	6,10,19,20,38	4,119,559	3,926,322
Non-current non-financial liabilities	23	244	199
Employee benefits obligations, net	21,25,38	68,656	71,604
Deferred tax liabilities	35	258,154	215,998
Non-current provisions	22,43	115	5,123
<b>Total non-current liabilities</b>		<u>4,448,917</u>	<u>4,219,324</u>
<b>Total liabilities</b>		<u>5,746,278</u>	<u>5,869,825</u>
<b>Equity</b>			
Share capital	24	1,272,898	1,272,898
Retained earnings	25,26	2,639,262	2,593,422
Other components of equity	9,10,27	(36,028)	(49,043)
Hybrid securities	28	-	99,750
<b>Equity attributable to owners of KOWEPO</b>		<u>3,876,132</u>	<u>3,917,027</u>
<b>Non-controlling interests</b>		<u>6,261</u>	<u>6,251</u>
<b>Total equity</b>		<u>3,882,393</u>	<u>3,923,278</u>
<b>Total liabilities and equity</b>		<u>₩ 9,628,671</u>	<u>9,793,103</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, 2017 and 2016

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

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Sales	5,29,39	₩ 4,222,449	4,179,782
Cost of sales	36,39	(3,748,802)	(3,487,049)
<b>Gross profit</b>		<u>473,647</u>	<u>692,733</u>
Selling and administrative expenses	30,36	(112,163)	(104,072)
<b>Operating income</b>		361,484	588,661
Other non-operating income	31	4,732	3,986
Other non-operating expenses	31	(6,123)	(642)
Other income (loss), net	32	(9,351)	4,815
Finance income	6,10,33	172,248	62,490
Finance expenses	6,9,10,34	(311,071)	(134,826)
Loss from associates and joint ventures	15	(63,001)	(13,170)
<b>Profit before income tax</b>		<u>148,918</u>	<u>511,314</u>
Income tax expense	35	(46,089)	(118,120)
<b>Profit for the year</b>		<u>102,829</u>	<u>393,194</u>
<b>Other comprehensive income (loss), net of tax:</b>			
<b>Items that will never be reclassified to profit or loss</b>			
Remeasurements of benefit liability, net of tax	21,25	7,158	(5,539)
Share in other comprehensive income of associates and joint ventures, net of tax		5,604	259
<b>Items that are or may be reclassified to profit or loss</b>			
Net change in the unrealized fair value of available-for-sale financial assets, net of tax	9,27	29,721	(3,827)
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	10,27	(1,512)	3,243
Foreign currency translation of foreign operations, net of tax		(1,714)	550
Share in other comprehensive income (loss) of associates and joint ventures, net of tax		<u>(13,486)</u>	<u>2,118</u>
<b>Total other comprehensive income (loss), net of tax</b>		<u>25,771</u>	<u>(3,196)</u>
<b>Total comprehensive income for the year</b>		<u>₩ 128,600</u>	<u>389,998</u>
<b>Profit (loss) attributable to:</b>			
Owners of KOWEPO		₩ 102,813	393,271
Non-controlling interests		16	(77)
		<u>102,829</u>	<u>393,194</u>
<b>Total comprehensive Income (loss) attributable to:</b>			
Owners of KOWEPO		128,590	390,073
Non-controlling interests		10	(75)
		<u>128,600</u>	<u>389,998</u>
<b>Earnings per share</b>			
Basic and diluted earnings per share (in won)	37	₩ <u>3,085</u>	<u>12,345</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, 2017 and 2016

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				
<b>Balance at January 1, 2016</b>	₩ 1,192,365	2,244,738	99,750	(51,125)	3,485,728		258	3,485,986	
<b>Total comprehensive income (loss) for the year:</b>									
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	
<b>Transactions with owners recognized directly in equity:</b>									
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)	
<b>Balance at December 31, 2016</b>	₩ <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 Changes in Equity, Continued  
For the years ended December 31, 2017 and 2016

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		
<b>Balance at January 1, 2017</b>	₩ 1,272,898	2,593,422	99,750	(49,043)	3,917,027	6,251	3,923,278
<b>Total comprehensive income (loss) for the year:</b>							
Profit (loss) for the year	-	102,813	-	-	102,813	16	102,829
Net change in the unrealized fair value of available-for-sale financial assets, net of tax	-	-	-	29,721	29,721	-	29,721
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	-	-	-	(1,512)	(1,512)	-	(1,512)
Remeasurements of benefit liability, net of tax	-	7,158	-	-	7,158	-	7,158
Share in other comprehensive income (loss) of associates and joint ventures, net of tax	-	5,604	-	(13,486)	(7,882)	-	(7,882)
Foreign currency translation of foreign operations, net of tax	-	-	-	(1,708)	(1,708)	(6)	(1,714)
<b>Transactions with owners recognized directly in equity:</b>							
Dividends paid	-	(66,992)	-	-	(66,992)	-	(66,992)
Repayment in principal and interest of hybrid securities	-	(2,471)	(99,750)	-	(102,221)	-	(102,221)
Others	-	(272)	-	-	(272)	-	(272)
<b>Balance at December 31, 2017</b>	₩ <u>1,272,898</u>	<u>2,639,262</u>	<u>-</u>	<u>(36,028)</u>	<u>3,876,132</u>	<u>6,261</u>	<u>3,882,393</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, 2017 and 2016

In millions of won

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Profit for the year	₩ 102,829	393,194
Adjustments for:		
Income tax expense	46,089	118,120
Depreciation	587,916	473,487
Amortization of intangible assets	3,316	2,959
Loss on disposals of property, plant and equipment, net	11,964	1,619
Impairment loss on disposals of property, plant and equipment	39,656	-
Retirement benefit expenses	20,930	16,942
Interest expense	122,359	70,890
Interest income	(2,086)	(1,845)
Impairment loss on available-for-sale financial assets	-	502
Loss from associates and joint ventures	63,001	13,170
Loss (Gain) on derivative instruments, net	185,146	(35,108)
Loss (Gain) on foreign currency translations, net	(127,867)	49,900
Gain on foreign currency transactions, net	(39,591)	(10,275)
Provisions for employee benefits	41,427	30,002
Provisions for renewable portfolio standard	12,409	40,418
Provisions for litigation	1,802	1,018
Provisions for greenhouse gas emission	10,046	-
Provisions for financial guarantee	42	-
Reversal of provisions for employee benefits	-	(1,288)
Reversal of provisions for renewable portfolio standard	(12,025)	(5,851)
Reversal of provisions for litigation	(1,018)	-
Reversal of provisions for greenhouse gas emission	-	(513)
Others	425	909
	<u>963,941</u>	<u>765,056</u>
Changes in:		
Trade receivables	65,117	(68,069)
Other current receivables	(141,900)	13,739
Other non-current receivables	78	941
Inventories	(42,339)	11,434
Current non-financial assets	(19,261)	(7,866)
Non-current non-financial assets	715	(5,076)
Trade payables	(107,482)	(19,981)
Other current payables	(12,892)	(42,685)
Other non-current payables	2,250	-
Current non-financial liabilities	2,905	6,995
Non-current non-financial liabilities	-	58
Non-current provisions	(65)	-
Payments of retirement benefit obligations	(8,704)	(9,702)
Increase in plan assets	(6,952)	(4,685)
	<u>(268,530)</u>	<u>(124,897)</u>
<b>Cash generated from operating activities:</b>		
Dividend received	6,248	2,344
Interest received	2,124	1,497
Interest paid	(136,377)	(79,338)
Income tax paid	(87,119)	(90,414)
<b>Net cash provided by operating activities</b>	<u>₩ 583,116</u>	<u>867,442</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, 2017 and 2016

In millions of won

	<u>2017</u>	<u>2016</u>
<b>Cash flows from investing activities</b>		
Collection of loans	₩ 1,293	742
Increase in loans	(2,895)	(2,667)
Increase in guarantee deposits	634	2,127
Decrease in guarantee deposits	(2,382)	(995)
Increase in short-term financial instruments	(50,000)	(2,000)
Decrease in short-term financial instruments	10,000	-
Acquisition of investments in associates and joint ventures	(86,392)	(62,552)
Proceeds from disposals of property, plant and equipment	27,940	8,322
Acquisition of property, plant and equipment	(642,423)	(656,279)
Proceeds from disposals of intangible assets	19	-
Acquisition of intangible assets	(2,308)	(519)
Government grants received (repayment)	(5,755)	2,645
Decrease in other investments	2,350	472
<b>Net cash used in investing activities</b>	<u>(749,919)</u>	<u>(710,704)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	1,697,063	1,385,194
Repayment of borrowings	(2,088,712)	(1,455,293)
Proceeds from debentures	1,196,761	498,649
Repayment of debentures	(656,200)	(425,525)
Dividends paid	(66,992)	(36,238)
Repayments on hybrid securities	(100,000)	-
Interest payments on hybrid securities	(4,050)	(4,050)
Settlement of derivative instruments	(21,579)	21,750
<b>Net cash used in financing activities</b>	<u>(43,709)</u>	<u>(15,513)</u>
<b>Net increase (decrease) in cash and cash equivalents before effect of exchange rate fluctuations</b>	(210,512)	141,225
Effect of exchange rate on foreign operations financial statements translation	(764)	(151)
Effect of exchange rate fluctuations on cash held	-	59
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(211,276)</u>	<u>141,133</u>
Cash and cash equivalents at beginning of the year	246,692	105,559
<b>Cash and cash equivalents at end of the year</b>	<u>₩ 35,416</u>	<u>246,692</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, 2017 and 2016

### 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, 2017, the KOWEPO owns and operates three power plants with a total annual capacity of 11,791MW.

The KOWEPO's head office is located in Taean-gun, Chungcheongnam-do, Korea. The share capital of the KOWEPO as of December 31, 2017 amounts to ₩166,646 million and the KOWEPO'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 include the financial results of KOWEPO, the parent company, Garolim Tidal power Co., Ltd. and 6 other subsidiaries ("consolidated entity"). Cheongna Energy Co., Ltd. and 12 other investments are accounted for as equity method investments.

### 2. Basis of Accounting

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, 2017 and 2016

**2. Basis of Accounting, 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; and
- ✓ Note 22 and 43: Recognition and measurement of provisions and contingencies – key assumptions about the likelihood and magnitude of an outflow of resources

**c. Measurement of fair values**

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.

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).

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

**2. Basis of Accounting, Continued**

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

**c. Measurement of fair values, Continued**

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

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

- ✓ Note 38: Risk management

**3. Changes in accounting policies**

Except for the changes below, the Group has consistently applied the accounting policies 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, 2017.

**(1) Amendments to K-IFRS 1007, "Statement of Cash Flows"**

The standards call for the disclosure of fluctuations in liabilities created by financial activities. Information about changes in liabilities arising from financing activities is included in note 19.

**(2) Amendments to K-IFRS 1012, 'Income Taxes'**

The amendments clarify that unrealized losses on fixed-rate debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the holder expects to recover the carrying amount of the debt instrument by sale or by use and that the estimate of probable future taxable profit may include the recovery of some of assets for more than their carrying amount. When the Group assesses whether there will be sufficient taxable profit, the Group should compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. The Group believes that 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, 2017 and 2016

### 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 combinations

Business combinations are accounted for by applying the acquisition method, except for combinations of business entities or businesses that are under the same 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 date of acquisition.

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

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Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

**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.

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 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 principle, 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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Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

**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.

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	10~20
Others	5~10

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

(i) Research and development

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

(ii) Subsequent expenditures

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

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**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.

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 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.

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 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).

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 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.

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.

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.

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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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) Sale 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) Sale 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.

#### (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.

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

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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 Group will apply K-IFRS 1109 'Financial Instruments' and K-IFRS 1115 'Revenue from Contracts with Customers' for annual periods beginning on January 1, 2018. The Group has conducted a detailed assessment upon adoption of these standards and based on the circumstance and information available when these financial statements were authorized for issuance.

The following new standards, including K-IFRS 1109 'Financial Instruments' and K-IFRS 1115 'Revenue from Contracts with Customers', interpretations and amendments to existing standards have been published but are not mandatory for the Group for annual periods beginning on January 1, 2017, and the Group has not early adopted them.

(i) K-IFRS 1109 'Financial Instruments'

K-IFRS 1109 sets out the requirements for recognizing and measuring financial assets, financial liabilities and certain contracts to buy or sell non-financial items. It replaces existing guidance in K-IFRS 1039 'Financial Instruments: Recognition and Measurement'.

The Group will apply the exemption allowing it not to restate the comparative information for prior periods upon adoption of K-IFRS 1109. The Group will retrospectively apply the cumulative effect of the adoption of K-IFRS 1109 in retained earnings as of the date of initial application (January 1, 2018).

Expected impacts on the financial statements are categorized as follows:

① Classification and measurement of financial assets

K-IFRS 1109 includes a new classification and measurement of financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

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.

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.

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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

- 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, 2017, the Group has financial assets at available-for-sale financial assets amounting to ₩133,788 million, and loans and receivables amounting to ₩757,026 million.

① Classification and measurement of financial assets, Continued

Based on the result of the detailed assessment to date, the expected impacts on the Group's financial assets (excluding derivative instruments) on the date of initial application (January 1, 2018) are as follows:

<i>In millions of won</i>				
	Classification based on K-IFRS 1039	Classification based on K-IFRS 1109	Amount based on K-IFRS 1039	Amount based on K-IFRS 1109
Loans and receivables		Amortized cost	₩ 757,026	737,026
Loans and receivables		FVTPL	-	20,000
Available-for-sale financial assets		FVOCI	133,788	133,788
Total financial assets (excluding derivative instruments)			₩ 890,814	890,814

Upon adoption of K-IFRS 1109, ₩20,000 million of loans and receivables will be measured at FVTPL. The Group plans to elect to measure ₩133,788 million of the equity securities classified as available-for-sale financial assets as FVOCI under K-IFRS 1109. Accordingly, from January 1, 2018, gains and losses from changes of fair value of the equity securities are recognized in other comprehensive income, impairment losses are not recognized in profit or loss, and gains and losses are not reclassified at disposal.

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.

The Group did not elect financial liabilities to be designated as FVTPL and believes that there is no significant impact on the Group's financial statements upon adoption of K-IFRS 1109.

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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

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, an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables or contract assets that result from transactions that are within the scope of K-IFRS 1115 and that do not contain a significant financing component in accordance with K-IFRS 1115 and if the trade receivables or contract assets include a significant financing component, an entity may choose as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses.

As of December 31, 2017, the Group has debt instruments in financial assets measured at amortized cost (loans and receivables) amounting to ₩757,026 million.

④ Hedge accounting

When initially applying K-IFRS 1109, an entity may elect as its accounting policy to continue to apply the hedge accounting requirements of K-IFRS 1039. The Group plans to elect to continue apply the hedge accounting requirements of K-IFRS 1039.

As of December 31, 2017, the Group has asset and liabilities designated as hedged items amounting to ₩3,988 million and ₩21,981 million, respectively.

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**4. Significant Accounting Policies, Continued**

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

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

K-IFRS 1115 sets out a comprehensive framework for determining whether revenue is recognized, the extent of revenue recognized, and when revenue is recognized. 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 will retrospectively apply and recognize the cumulative effect of the adoption of K-IFRS 1115 at the date of initial application (January 1, 2018) and has determined to retroactively apply to only those contracts that were not completed as of the date of initial application (January 1, 2018). Accordingly, the Group will not restate the comparative periods.

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.

Expected impacts on the financial statements are categorized as follows:

① Identify the performance obligations in the contract

The Group is engaged in the generation, transmission and distribution of electricity and development of electric power resources, and electricity sales revenue accounts for 93.3% of revenue for the year ended December 31, 2017.

Under K-IFRS 1115, supplying electricity is a series of distinct goods or services identified as a single performance obligation. The Group is also engaged in contracts with customers for transmission and distribution, EPC business, etc. that are identified as different performance obligations for each contract.

Based on the result of the detailed assessment to date, the Group believes that the impact of identifying separately the performance obligations in the contract on the Group's revenue is not significant.

② Variable consideration

In applying K-IFRS 1115, the Group estimates an amount of variable consideration by using the expected value method that the Group expects to better predict the amount of consideration to which it will be entitled, and includes in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Based on the result of the detailed assessment to date, the Group believes that the impact of variable consideration on the Group's revenue is not significant.

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**4. Significant Accounting Policies, Continued**

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

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

③ Performance obligations satisfied over time

The Group provides its customers with services such as EPC business, etc. over time. The Group recognizes revenues based on the percentage-of-completion on a reasonable basis.

Under K-IFRS 1115, an entity recognizes revenue over time if one of the following criteria is met:

- (a) The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- (b) The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- (c) The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Based on the result of the detailed assessment to date, the impact of the revenue recognition over time based on the percentage-of-completion on the Group's revenue is not significant.

(iii) K-IFRS 1116 'Lease'

K-IFRS 1116 replaces K-IFRS 1017 'Lease', and K-IFRS 2104 'Determining whether an Arrangement contains a Lease'. This standard is effective for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted if K-IFRS 1115 'Revenue from Contracts with Customers' has also been applied.

Under K-IFRS 1116, a lessee shall apply this standard to its leases either:

- (a) Retrospectively to each prior reporting period presented applying K-IFRS 1008 'Accounting Policies, Changes in Accounting Estimates and Errors'; or
- (b) Retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Group has not yet determined the transition approach for K-IFRS 1116.

K-IFRS 1116 provides a single lessee accounting model in which the lessee recognizes lease related assets and liabilities in the statement of financial position. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Lease recognition may be exempted for short-term leases and leases for which the underlying asset is of low value. Accounting for a lessor is similar to the existing standard that classifies each of its leases as either an operating lease or a finance lease.

Upon adoption of K-IFRS 1116, the nature of the costs associated with the lease will change as the operating lease payments recognized based on a straight-line basis will change to depreciation expense of a right-of-use asset and interest expense of the lease liability and no significant impact is expected on the Group's finance lease.

The Group plans to conduct a detailed assessment of the potential impact from the application of K-IFRS 1116 during the year ending December 31, 2018.

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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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 major customer, are ₩4,265,124 million and ₩4,185,565 million for the years ended December 31, 2017 and 2016, respectively.

### 6. Categories of Financial Instruments

(1) Financial assets

Categories of financial assets as of December 31, 2017 and 2016 are as follows:

(i) As of December 31, 2017

*In millions of won*

	<u>Loans and receivables</u>	<u>Available-for- sale financial assets</u>	<u>Derivatives using hedge accounting</u>	<u>Total</u>
<b>Current financial assets:</b>				
Cash and cash equivalents	₩ 35,416	-	-	35,416
Current financial assets				
Loans and receivables	3,007	-	-	3,007
Short-term financial instruments	50,000	-	-	50,000
Trade and other receivables, net	653,556	-	-	653,556
	<u>741,979</u>	<u>-</u>	<u>-</u>	<u>741,979</u>
<b>Non-current financial assets:</b>				
Non-current financial assets				
Available-for-sale financial assets	-	133,788	-	133,788
Loans and receivables	14,984	-	-	14,984
Derivative assets	-	-	3,988	3,988
Non-current trade and other receivables, net	63	-	-	63
	<u>15,047</u>	<u>133,788</u>	<u>3,988</u>	<u>152,823</u>
	<u>₩ 757,026</u>	<u>133,788</u>	<u>3,988</u>	<u>894,802</u>

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6. Categories of Financial Instruments, Continued

(1) Financial assets, Continued

Categories of financial assets as of December 31, 2017 and 2016 are as follows, Continued:

(ii) As of December 31, 2016

*In millions of won*

	<b>Financial assets at fair value through profit or loss</b>	<b>Loans and receivables</b>	<b>Available- for-sale financial assets</b>	<b>Derivatives using hedge accounting</b>	<b>Total</b>
<b>Current financial assets:</b>					
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>
<b>Non-current financial assets:</b>					
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><u>1,468</u></u>	<u><u>852,768</u></u>	<u><u>94,837</u></u>	<u><u>145,590</u></u>	<u><u>1,094,663</u></u>

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6. Categories of Financial Instruments, Continued

(2) Financial liabilities

Categories of financial liabilities as of December 31, 2017 and 2016 are as follows:

(i) As of December 31, 2017

*In millions of won*

	<b>Financial liabilities at fair value through profit or loss</b>	<b>Financial liabilities measured at amortized cost</b>	<b>Derivatives using hedge accounting</b>	<b>Total</b>
<b>Current financial liabilities:</b>				
Trade and other payables	₩ -	278,370	-	278,370
Current financial liabilities				
Borrowings	-	348	-	348
Debentures	-	894,951	-	894,951
Derivative liabilities	866	-	5,865	6,731
	<u>866</u>	<u>1,173,669</u>	<u>5,865</u>	<u>1,180,400</u>
<b>Non-current financial liabilities:</b>				
Non-current trade and other payables	-	2,189	-	2,189
Non-current financial liabilities				
Borrowings	-	1,548	-	1,548
Debentures	-	4,101,895	-	4,101,895
Derivative liabilities	-	-	16,116	16,116
	<u>-</u>	<u>4,105,632</u>	<u>16,116</u>	<u>4,121,748</u>
₩	<u>866</u>	<u>5,279,301</u>	<u>21,981</u>	<u>5,302,148</u>

(ii) As of December 31, 2016

*In millions of won*

	<b>Financial liabilities at fair value through profit or loss</b>	<b>Financial liabilities measured at amortized cost</b>	<b>Total</b>
<b>Current financial liabilities:</b>			
Trade and other payables	₩ -	379,866	379,866
Current financial liabilities			
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>
<b>Non-current financial liabilities:</b>			
Non-current trade and other payables	-	78	78
Non-current financial liabilities			
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>

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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, 2017 and 2016 are as follows:

*In millions of won*

Type	Description	2017	2016
Cash and cash equivalents	Interest income	₩ 1,651	1,447
	Gain on foreign currency transactions and translations, net	7	59
Available-for-sale financial assets	Impairment loss on available-for-sale financial assets	-	(502)
	Gain (loss) on valuation of available-for-sale financial assets, net (equity, before tax)	39,210	(5,049)
Loans and receivables	Interest income	33	-
	Amortization of present value discount	402	398
Financial liabilities recorded at amortized cost	Gain (loss) on foreign currency transactions and translations, net	166,589	(37,956)
	Interest expense of borrowings and debentures	(122,207)	(70,804)
	Other interest expense	(152)	(87)
Derivatives (trading)	Gain (loss) on valuation of derivative instruments, net	(866)	1,112
	Loss on transactions of derivative instruments, net	(11,169)	(372)
Derivatives (hedge accounting)	Gain (loss) on valuation of derivative instruments, net (profit or loss)	(127,002)	47,218
	Gain (loss) on valuation of derivative instruments, net (equity, before tax)	(1,995)	4,278
	Loss on transaction of derivatives	(46,109)	(12,850)

**7. Cash and Cash Equivalents**

Cash and cash equivalents as of December 31, 2017 and 2016 are as follows:

*In millions of won*

	2017	2016
Cash	₩ 1	1
Other demand deposits	9,855	227,839
Short-term investments classified as cash equivalents	25,560	18,852
	₩ 35,416	246,692

(\*) There are no financial instruments restricted in use as of December 31, 2017 and 2016.

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8. Trade and Other Receivables

(1) Trade and other receivables as of December 31, 2017 and 2016 are as follows:

(i) As of December 31, 2017

*In millions of won*

	<u>Gross receivables</u>	<u>Present value discount</u>	<u>Book value</u>
<b>Current assets:</b>			
Trade receivables	₩ 388,464	-	388,464
Other receivables	265,234	(142)	265,092
	<u>653,698</u>	<u>(142)</u>	<u>653,556</u>
<b>Non-current assets:</b>			
Other receivables	219	(156)	63
	<u>₩ 653,917</u>	<u>(298)</u>	<u>653,619</u>

(\*) There are no trade and other receivables which are overdue or impaired as of December 31, 2017.

(ii) As of December 31, 2016

*In millions of won*

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

(2) Details of other receivables as of December 31, 2017 and 2016 are as follows:

(i) As of December 31, 2017

*In millions of won*

	<u>Gross receivables</u>	<u>Present value discount</u>	<u>Book value</u>
<b>Current assets:</b>			
Non-trade receivables	₩ 16,863	-	16,863
Accrued income	242,150	-	242,150
Guarantee	6,221	(142)	6,079
	<u>265,234</u>	<u>(142)</u>	<u>265,092</u>
<b>Non-current assets:</b>			
Guarantee	219	(156)	63
	<u>₩ 265,453</u>	<u>(298)</u>	<u>265,155</u>

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8. Trade and Other Receivables, Continued

(2) Details of other receivables as of December 31, 2017 and 2016 are as follows, Continued:

(ii) As of December 31, 2016

*In millions of won*

		<b>Gross receivables</b>	<b>Present value discount</b>	<b>Book value</b>
<b>Current assets:</b>				
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>
<b>Non-current assets:</b>				
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>

9. Available-for-sale Financial Assets

(1) Available-for-sale financial assets as of December 31, 2017 and 2016 are as follows:

*In millions of won*

		<b>Ownership</b>	<b>2017 Non-current</b>	<b>2016 Non-current</b>
<b>Equity securities listed :</b>				
PT Bayan Resources TBK	4.00%	₩	111,653	71,840
<b>Equity securities unlisted :</b>				
Korea Power Exchange	7.14%		15,853	16,455
Kepeco UHDE	2.40%		14	14
HeeMang Sunlight Power Co., Ltd	8.33%		393	393
3i Powergen Inc.	15.00%		-	-
KEPCO Bylong Australia Pty., Ltd	2.00%		5,875	6,135
		₩	<u>133,788</u>	<u>94,837</u>

(2) Changes in available-for-sale financial assets during the year ended December 31, 2017 are as follows:

(i) For the year ended December 31, 2017

*In millions of won*

		<b>Beginning balance</b>	<b>Valuation</b>	<b>Others</b>	<b>Ending balance</b>
Equity securities listed	₩	71,840	39,813	-	111,653
Equity securities unlisted		22,997	(603)	(259)	22,135
	₩	<u>94,837</u>	<u>39,210</u>	<u>(259)</u>	<u>133,788</u>

(ii) For the year ended December 31, 2016

*In millions of won*

		<b>Beginning balance</b>	<b>Acquisition</b>	<b>Impairment</b>	<b>Valuation</b>	<b>Ending balance</b>
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, 2017 and 2016 are as follows:

*In millions of won*

		2017		2016	
		Current	Non-current	Current	Non-current
<b>Derivative assets:</b>					
Currency forward	₩	-	-	1,468	-
Currency swap		-	3,988	31,490	114,100
	₩	-	3,988	32,958	114,100
<b>Derivative liabilities:</b>					
Currency forward	₩	866	-	356	-
Currency swap		5,865	16,116	-	-
	₩	6,731	16,116	356	-

(2) Currency swap contracts as of December 31, 2017 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	Credit Agricole Corporate & Investment Bank	2013~2019	118,343	CHF 100,000	3.470	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	3.470	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	3.340	2.875	1,073.60
	JP Morgan	2013~2018	161,040	USD 150,000	3.340	2.875	1,073.60
	SC Bank	2013~2018	161,040	USD 150,000	3.340	2.875	1,073.60
	SC Bank	2014~2019	104,490	USD 100,000	2.770	2.625	1,044.90
	Credit Agricole Corporate & Investment Bank	2014~2019	104,490	USD 100,000	2.770	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, 2017 are as follows:

*In millions of won and thousands of USD*

Counterparty	Contract Date	Maturity Date	Contract amounts		Contract currency
			Receive	Purchase	
BNP Paribas	2017.11.15	2018.01.17	KRW 3,713	USD 3,349	1,108.60
Bank of Nova Scotia	2017.11.15	2018.01.22	KRW 8,837	USD 8,000	1,104.60
Bank of Tokyo-Mitsubishi UFJ	2017.11.29	2018.02.01	KRW 7,568	USD 7,000	1,081.20
BNP PARIBAS	2017.11.29	2018.02.01	KRW 7,557	USD 7,000	1,079.60
Credit Agricole Corporate & Investment Bank	2017.12.19	2018.01.22	KRW 5,429	USD 5,000	1,085.75
Bank of Tokyo-Mitsubishi UFJ	2017.12.20	2018.02.22	KRW 10,822	USD 10,000	1,082.18
KEB Hana Bank	2017.12.20	2018.01.22	KRW 2,879	USD 2,661	1,082.00
BNP Paribas	2017.12.20	2018.01.22	KRW 5,406	USD 5,000	1,081.10
NH Bank	2017.12.21	2018.01.23	KRW 6,467	USD 6,000	1,077.90
Bank of Nova Scotia	2017.12.27	2018.01.29	KRW 5,366	USD 5,000	1,073.15

(4) The gain (loss) on valuation of derivatives for the years ended December 31, 2017 and 2016 are as follows:

(i) For the year ended December 31, 2017

*In millions of won*

Type	Net income effect of valuation loss	Net income effect of transaction loss	Other comprehensive income (loss)
Currency forward	₩ (866)	(11,169)	-
Currency swap	(127,002)	(46,109)	(1,995)
	₩ (127,868)	(57,278)	(1,995)

(\*) The loss on valuation of derivative instruments using cash flow hedge accounting is recognized as accumulated other comprehensive loss amounting to ₩5,383 million, net of tax as of December 31, 2017.

(ii) 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

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**11. Other Financial Assets**

(1) Other financial assets as of December 31, 2017 and 2016 are as follows:

*In millions of won*

		2017		2016	
		Current	Non-current	Current	Non-current
Loans and receivables	₩	3,007	14,984	2,853	13,629
Short-term financial instruments		50,000	-	10,000	-
Derivative assets		-	3,988	32,958	114,100
Available-for-sale financial assets		-	133,788	-	94,837
	₩	<u>53,007</u>	<u>152,760</u>	<u>45,811</u>	<u>222,566</u>

(2) Loans and receivables as of December 31, 2017 and 2016 are as follows:

(i) As of December 31, 2017

<i>In millions of won</i>		Face value	Present value discount	Book value
<b>Short-term loans</b>				
Loans for tuition	₩	3,047	(76)	2,971
Others		36	-	36
		<u>3,083</u>	<u>(76)</u>	<u>3,007</u>
<b>Long-term loans</b>				
Loans for tuition		14,523	(1,347)	13,176
Others		1,808	-	1,808
		<u>16,331</u>	<u>(1,347)</u>	<u>14,984</u>
	₩	<u>19,414</u>	<u>(1,423)</u>	<u>17,991</u>

(ii) As of December 31, 2016

<i>In millions of won</i>		Face value	Present value discount	Book value
<b>Short-term loans</b>				
Loans for tuition	₩	2,831	(148)	2,683
Others		171	-	171
		<u>3,002</u>	<u>(148)</u>	<u>2,854</u>
<b>Long-term loans</b>				
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>

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**12. Inventories**

Inventories as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		<u>2017</u>	<u>2016</u>
Raw materials	₩	135,488	81,767
Supplies		73,619	61,455
Inventory-in-transit		60,618	84,021
Others		329	145
	₩	<u>270,054</u>	<u>227,388</u>

(\*) There is no valuation allowance for inventories as of December 31, 2017 and 2016.

**13. Non-financial Assets**

Non-financial assets as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		<u>2017</u>		<u>2016</u>	
		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Advanced payments	₩	6,237	44	8,065	53
Prepaid expenses		10,734	1,794	13,949	1,511
Others		36,489	6,023	12,852	9,249
	₩	<u>53,460</u>	<u>7,861</u>	<u>34,866</u>	<u>10,813</u>

**14. Information related to the consolidated entities**

(1) Information related to the consolidated entities as of December 31, 2017 and 2016 are as follows:

<u>Company</u>	<u>Key operating activities</u>	<u>Location</u>	<u>Rate of ownership or voting right</u>	
			<u>2017</u>	<u>2016</u>
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)	Overseas resources development	Australia	100.00%	100.00%
KOWEPO Lao International	Managing power plant	Laos	100.00%	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) The ownership interest in KOWEPO Bylong Pty., Ltd is the percentage of common share capital excluding preferred share capital which has no voting rights.

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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, 2017 and 2016 are as follows:

(i) As of and for the year ended December 31, 2017

*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.	₩	619	345	-	(12)
Kowepo Australia Pty., Ltd.		31,586	4,691	12,096	1,232
Kowepo International Corporation		-	8	-	(2)
Kowepo India Private Limited		781	-	-	(46)
PT Kowepo Sumsel Operation and Maintenance Services		1,350	279	7,651	444
KOWEPO Bylong Pty., Ltd.		5,875	-	-	-
KOWEPO Lao International		3,259	1,452	3,624	1,881

(ii) 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)

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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, 2017 are as follows:

*In millions of won*

	<b>Garolim Tidal power Co., Ltd</b>	<b>PT Kowepo Sumsel Operation and Maintenance Services</b>
Current assets	₩ 619	1,173
Non-current assets	-	177
Current liabilities	345	279
Net assets	274	1,071
Percentage of non-controlling interest	51%	5%
Book value of non-controlling interest	139	54
Sales	-	7,651
Gain(Loss) for the year	(12)	444
Gain(Loss) for the year attributable to non-controlling interest	(6)	22
Cash flows from operating activities	(6)	41
Cash flows from investing activities	-	(2)
Cash flows from financing activities	-	-
Net increase (decrease) of cash and cash equivalents	(6)	39

(4) There is no disposal of subsidiary for the years ended December 31, 2017 and 2016.

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**15. Investments in Associates and Joint Ventures**

(1) Investments in associates and joint ventures as of December 31, 2017 and 2016 are as follows:

Company	Major operation	Location	Rate of ownership or voting right	
			2017	2016
<b>Associates</b>				
Cheongna Energy Co., Ltd.	Energy supply	Republic of Korea	43.90%	43.90%
Pioneer Gas Power., Ltd.	Energy supply	India	38.50%	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. (*1)	Energy supply	Republic of Korea	8.33%	8.33%
KEPCO Energy Solution Co., Ltd. (*1)	Energy supply	Republic of Korea	8.33%	8.33%
<b>Joint ventures</b>				
Rabigh O&M Co., Ltd. (*2)	O&M	Saudi Arabia	40.00%	40.00%

(\*1) It is accounted for as an associate as the Group can exercise significant influence according to the shareholders agreement despite the Group's ownership interest is less than 20%.

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

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

(2) Changes in investments in associates and joint ventures during the years ended December 31, 2017 and 2016 are as follows:

(i) For the year ended December 31, 2017

In millions of won

Company	Beginning balance	Acquisitions	Dividends received	Share of income (loss)	Other comprehensive income (loss)	Retained earnings	Others	Ending balance
<b>Associates</b>								
Cheongna Energy Co., Ltd. ₩	12,373	-	-	(4,035)	-	-	-	8,338
Pioneer Gas Power., Ltd. (*1)	50,740	-	-	(11,119)	(1,239)	-	276	38,658
Eurasia Energy Holdings (*2)	-	-	-	-	-	-	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd. (*3)	51,544	22,362	-	(4,264)	(7,862)	-	-	61,780
PT. Mutiara Jawa (*4)	-	-	-	-	-	-	-	-
Korea Offshore Wind Power Co., Ltd. (*3)	4,482	20,150	-	(875)	(222)	-	-	23,535
Daegu Solar Power Plant Co., Ltd.	1,700	-	(349)	367	-	-	-	1,718
Dongducheon Dream Power Co., Ltd. (*5)	46,876	-	-	(10,980)	-	(34)	17,371	53,233
Solar Power Plants Happy City Co., Ltd.	181	-	-	6	-	-	-	187
Shin Pyeong Taek Power Co., Ltd.	-	43,880	-	(10,998)	(3,616)	5,638	-	34,904
Solar School Plant Co., Ltd.	16,650	-	-	73	-	-	-	16,723
KEPCO Energy Solution Co., Ltd.	24,975	-	-	110	-	-	-	25,085
	<u>209,521</u>	<u>86,392</u>	<u>(349)</u>	<u>(41,715)</u>	<u>(12,939)</u>	<u>5,604</u>	<u>17,647</u>	<u>264,161</u>
<b>Joint ventures</b>								
Rabigh O&M Co., Ltd.	4,427	-	(2,130)	2,236	(546)	-	-	3,987
₩	<u>213,948</u>	<u>86,392</u>	<u>(2,479)</u>	<u>(39,479)</u>	<u>(13,485)</u>	<u>5,604</u>	<u>17,647</u>	<u>268,148</u>

(\*1) The Group's ownership interest has decreased with the increase in the interest held by other shareholders. As a result, the book value has increased by ₩276 for the year ended December 31, 2017.

(\*2) The investment has been reduced to zero, which resulted in discontinuation of the equity method. The accumulated unrecognized loss is ₩172 million as of December 31, 2017.

(\*3) The investee issued additional shares to increase capitals for the year ended December 31, 2017.

(\*4) The investment has been reduced to zero, which resulted in discontinuation of the equity method. The accumulated unrecognized loss is ₩746 million as of December 31, 2017.

(\*5) The Group carried out impairment assessment on the Dongducheon Dream Power Co., Ltd., as there is objective impairment evidence such as sustained losses. As a result, the difference between the book value and recoverable amount, ₩23,798 million, was recognized as impairment loss and classified as impairment loss on investment in associates. In addition, ₩41,170 million in the current period has been replaced with investment in associates in non-current assets held for sale.

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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, 2017 and 2016 are as follows, Continued:

(ii) 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
<b>Associates</b>							
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
	160,948	62,552	(411)	(15,423)	1,889	(34)	209,521
<b>Joint ventures</b>							
Rabigh O&M Co., Ltd.	3,585	-	(1,933)	2,252	229	294	4,427
₩	164,533	62,552	(2,344)	(13,171)	2,118	260	213,948

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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, 2017 and 2016 are as follows:

(i) As of and for the year ended December 31, 2017

*In millions of won*

Company	Assets	Liabilities	Sales	Net profit or loss
<b>Associates</b>				
Cheongna Energy Co., Ltd.	₩ 461,958	448,535	56,533	(9,203)
Pioneer Gas Power., Ltd.	339,271	296,898	8,215	(27,796)
Eurasia Energy Holdings	548	978	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.	858,789	607,462	-	(16,677)
PT. Mutiara Jawa	27,098	29,670	13,574	3,455
Korea Offshore Wind Power Co., Ltd.	190,195	1,985	-	(6,997)
Daegu Solar Power Plant Co., Ltd.	17,262	11,339	3,714	1,263
Dongducheon Dream Power Co., Ltd.	1,575,175	1,365,845	813,440	(33,740)
Solar Power Plants Happy City Co., Ltd.	2,782	2,120	451	22
Shin Pyeong Taek Power Co., Ltd.	175,870	90,662	-	(4,585)
Solar School Plant Co., Ltd	201,482	599	67	874
KEPCO Energy Solution Co., Ltd	313,401	12,376	5,544	1,325
<b>Joint ventures</b>				
Rabigh O&M Co., Ltd.	19,992	10,025	22,668	5,668

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

*In millions of won*

Company	Assets	Liabilities	Sales	Net profit or loss
<b>Associates</b>				
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)
<b>Joint ventures</b>				
Rabigh O&M Co., Ltd.	25,032	13,965	25,607	4,870

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**16. Property, Plant and Equipment**

(1) Property, plant and equipment as of December 31, 2017 and 2016 are as follows:

(i) As of December 31, 2017

*In millions of won*

	<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment loss</b>	<b>Book value</b>
Land	₩ 627,949	-	-	-	627,949
Buildings	1,488,451	(7,126)	(399,495)	(443)	1,081,387
Structures	1,300,266	(5,349)	(446,233)	(59)	848,625
Machinery	7,878,483	(67,979)	(2,633,925)	(39,148)	5,137,431
Vehicles	8,401	(13)	(6,969)	-	1,419
Equipment	98,377	(258)	(66,250)	(6)	31,863
Tools	28,543	(175)	(22,333)	-	6,035
Construction-in-progress	183,354	(11,015)	-	(35,094)	137,245
Finance lease assets	326,013	(26)	(82,792)	-	243,195
	₩ <u>11,939,837</u>	<u>(91,941)</u>	<u>(3,657,997)</u>	<u>(74,750)</u>	<u>8,115,149</u>

(ii) As of December 31, 2016

*In millions of won*

	<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment loss</b>	<b>Book value</b>
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>

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16. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment for the years ended December 31, 2017 and 2016 are as follows:

(i) For the year ended December 31, 2017

In millions of won

	Beginning balance	Acquisition/ Capital expenditure	Disposal	Depreciation (*1)	Impairment loss (*2)	Others (*3)	Ending balance
Land	₩ 627,556	-	-	-	-	393	627,949
Buildings	1,048,279	161	(1,109)	(62,918)	(443)	104,543	1,088,513
(Government grants)	(764)	-	-	324	-	(6,686)	(7,126)
Structures	863,724	-	(352)	(43,487)	(59)	34,148	853,974
(Government grants)	-	-	-	225	-	(5,574)	(5,349)
Machinery	4,542,251	108,469	(8,766)	(458,105)	(39,148)	1,060,708	5,205,409
(Government grants)	(51)	-	-	4,164	-	(72,091)	(67,978)
Vehicles	2,071	-	(14)	(806)	-	181	1,432
(Government grants)	(14)	-	-	5	-	(4)	(13)
Equipment	34,093	101	(1)	(14,180)	(6)	12,114	32,121
(Government grants)	(73)	-	-	131	-	(316)	(258)
Tools	7,329	138	-	(2,814)	-	1,557	6,210
(Government grants)	-	-	-	58	-	(233)	(175)
Construction-in-progress	880,937	505,646	-	-	-	(1,238,323)	148,260
(Government grants)	(101,834)	-	-	-	-	90,819	(11,015)
Finance lease assets	250,863	-	(29,663)	(13,262)	-	35,283	243,221
(Government grants)	-	-	-	1	-	(27)	(26)
	₩ <u>8,154,367</u>	<u>614,515</u>	<u>(39,905)</u>	<u>(590,664)</u>	<u>(39,656)</u>	<u>16,492</u>	<u>8,115,149</u>

(\*1) ₩2,748 million of depreciation expenses are recognized as construction-in-progress.

(\*2) The Group recognized impairment loss ₩6,056 million in difference between the book value and recoverable amount due to abolishment of the Pyeongtaek 1 Complex Power Plant and ₩33,600 million from the fire caused by the Taean Thermal Power Station #10.

(\*3) Other additions in the amount of ₩16,492 million consist of ₩4,069 million transferred from retirement benefits expense and depreciation expense, ₩11,067 million of capitalized interest expense, ₩188 million transferred from intangible assets, ₩390 million of translation effect of overseas operation financial statements, ₩5,755 million of receipt of government subsidy, and ₩4,197 million transferred to intangible assets. The weighted average capitalization rates for the years ended December 31, 2017 and 2016 are 2.70% and 2.90%, respectively.

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**16. Property, Plant and Equipment, Continued**

(2) Changes in property, plant and equipment for the years ended December 31, 2017 and 2016 are as follows, Continued:

(ii) For the year ended December 31, 2016

*In millions of won*

	<b>Beginning balance</b>	<b>Acquisition / Capital expenditure</b>	<b>Disposal</b>	<b>Depreciation</b>	<b>Others</b>	<b>Ending balance</b>
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>

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**17. Intangible Assets**

(1) Intangible assets as of December 31, 2017 and 2016 are as follows:

(i) As of December 31, 2017

*In millions of won*

	<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment loss</b>	<b>Book value</b>
Computer software	₩ 33,991	(81)	(28,471)	-	5,439
Mining rights	10,937	-	(3,092)	-	7,845
Development costs	3,210	-	(2,433)	-	777
Leasehold rights	2,681	-	(443)	-	2,238
Others	83,612	-	(81,323)	(231)	2,058
	<b>₩ 134,431</b>	<b>(81)</b>	<b>(115,762)</b>	<b>(231)</b>	<b>18,357</b>

(ii) As of December 31, 2016

*In millions of won*

	<b>Acquisition cost</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment loss</b>	<b>Book value</b>
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
	<b>₩ 128,322</b>	<b>(112,347)</b>	<b>(231)</b>	<b>15,744</b>

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17. Intangible Assets, Continued

(2) Changes in intangible assets for the years ended December 31, 2017 and 2016 are as follows:

(i) For the year ended December 31, 2017

<i>In millions of won</i>		<b>Beginning balance</b>	<b>Acquisition/ Capital expenditure</b>	<b>Disposals</b>	<b>Amortization</b>	<b>Others (*1)</b>	<b>Ending balance</b>
Computer software	₩	4,220	6	-	(1,538)	2,832	5,520
(Government grants)		-	-	-	26	(107)	(81)
Mining rights		7,018	2,077	-	(894)	(356)	7,845
Development costs		1,172	-	-	(501)	106	777
Leasehold rights		1,542	-	-	(260)	956	2,238
Others		1,792	225	(19)	(149)	209	2,058
	₩	<u>15,744</u>	<u>2,308</u>	<u>(19)</u>	<u>(3,316)</u>	<u>3,640</u>	<u>18,357</u>

(\*1) Other additions of ₩3,640 million consist of ₩4,197 million replaced from construction-in-progress, ₩188 million replaced to construction-in-progress and offset by ₩369 million resulting from translation of overseas operation financial statements.

(i) For the year ended December 31, 2016

<i>In millions of won</i>		<b>Beginning balance</b>	<b>Acquisition/ Capital expenditure</b>	<b>Disposals</b>	<b>Amortization</b>	<b>Others</b>	<b>Ending balance</b>
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>

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**18. Trade and Other Payables**

Trade and other payables as of December 31, 2017 and 2016 are as follows:

*In millions of won*

	2017		2016	
	Current	Non-current	Current	Non-current
Trade payables	₩ 165,340	-	224,508	-
Other payables	42,665	2,189	84,341	-
Accrued expenses	69,845	-	70,940	78
Other deposits	520	-	77	-
	₩ <u>278,370</u>	<u>2,189</u>	<u>379,866</u>	<u>78</u>

**19. Borrowings and Debentures**

(1) Details of borrowings and debentures as of December 31, 2017 and 2016 are as follows:

*In millions of won*

	2017	2016
<b>Current Liabilities:</b>		
Short-term borrowings	₩ -	389,787
Current portion of long-term borrowings	348	376
Current portion of long-term debentures	895,700	694,250
Less: discount on debentures	(749)	(342)
	<u>895,299</u>	<u>1,084,071</u>
<b>Non-current Liabilities:</b>		
Long-term borrowings	1,548	2,059
Debentures	4,110,364	3,933,066
Less: discount on debentures	(8,469)	(8,803)
	<u>4,103,443</u>	<u>3,926,322</u>
	₩ <u>4,998,742</u>	<u>5,010,393</u>

(2) Long-term borrowings as of December 31, 2017 and 2016 are as follows:

*In millions of won*

Lender	Description	Annual interest rate	Maturity date	2017	2016
Korea Energy Agency	Long term borrowings	Floating rate	KTB (three years)	₩ 1,572	1,871
			2023.03.15	62	73
			2023.06.15	-	190
			- 2.25%	48	56
			2024.06.15	140	161
			2024.09.15	8	9
			2025.06.15	66	75
			<u>1,896</u>	<u>2,435</u>	
	Less: current portion			<u>(348)</u>	<u>(376)</u>
			₩ <u>1,548</u>	<u>2,059</u>	

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19. Borrowings and Debentures, Continued

(3) Domestic debentures as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<b>Issue date</b>	<b>Maturity date</b>	<b>Annual interest rate</b>		<b>2017</b>	<b>2016</b>
Corporate bond #15-2	2011.05.27	2018.05.27	Fixed rate	4.190%	₩ 100,000	100,000
Corporate bond #16-2	2011.11.18	2018.11.18	Fixed rate	4.040%	60,000	60,000
Corporate bond #16-3	2011.11.18	2021.11.18	Fixed rate	4.150%	80,000	80,000
Corporate bond #17-1	2012.10.22	2022.10.22	Fixed rate	3.220%	100,000	100,000
Corporate bond #17-2	2012.10.22	2027.10.22	Fixed rate	3.260%	100,000	100,000
Corporate bond #18-1	2013.05.07	2023.05.07	Fixed rate	2.930%	120,000	120,000
Corporate bond #18-2	2013.05.07	2028.05.07	Fixed rate	3.030%	80,000	80,000
Corporate bond #19-1	2013.06.14	2018.06.14	Fixed rate	3.160%	90,000	90,000
Corporate bond #19-2	2013.06.14	2023.06.14	Fixed rate	3.380%	100,000	100,000
Corporate bond #20-1	2013.09.12	2018.09.12	Fixed rate	3.460%	110,000	110,000
Corporate bond #20-2	2013.09.12	2020.09.12	Fixed rate	3.620%	100,000	100,000
Corporate bond #21	2013.10.22	2023.10.22	Fixed rate	3.670%	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	2.210%	-	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	90,000
Corporate bond #30-2	2016.01.28	2026.01.28	Fixed rate	2.103%	110,000	110,000
Corporate bond #31	2016.07.05	2021.07.05	Fixed rate	1.356%	100,000	100,000
Corporate bond #32-1	2016.09.09	2021.09.09	Fixed rate	1.447%	90,000	90,000
Corporate bond #32-2	2016.09.09	2026.09.09	Fixed rate	1.609%	110,000	110,000
Corporate bond #33-1	2017.02.22	2022.02.22	Fixed rate	2.036%	70,000	-
Corporate bond #33-2	2017.02.22	2027.02.22	Fixed rate	2.342%	130,000	-
Corporate bond #34	2017.03.27	2020.03.27	Fixed rate	1.848%	100,000	-
Corporate bond #35-1	2017.05.22	2022.05.22	Fixed rate	2.065%	50,000	-
Corporate bond #35-2	2017.05.22	2027.05.22	Fixed rate	2.458%	40,000	-
Corporate bond #35-3	2017.05.22	2032.05.22	Fixed rate	2.588%	110,000	-
Corporate bond #36-1	2017.06.23	2022.06.23	Fixed rate	2.080%	40,000	-
Corporate bond #36-2	2017.06.23	2027.06.23	Fixed rate	2.345%	70,000	-
Corporate bond #36-3	2017.06.23	2037.06.23	Fixed rate	2.466%	90,000	-
Corporate bond #37-1	2017.07.21	2022.07.21	Fixed rate	2.085%	40,000	-
Corporate bond #37-2	2017.07.21	2027.07.21	Fixed rate	2.357%	50,000	-
Corporate bond #37-3	2017.07.21	2037.07.21	Fixed rate	2.467%	110,000	-
Corporate bond #38-1	2017.09.05	2027.09.05	Fixed rate	2.435%	50,000	-
Corporate bond #38-2	2017.09.05	2037.09.05	Fixed rate	2.508%	100,000	-
Corporate bond #39-1	2017.09.28	2022.09.28	Fixed rate	2.197%	30,000	-
Corporate bond #39-2	2017.09.28	2047.09.28	Fixed rate	2.463%	120,000	-
					<u>3,930,000</u>	<u>2,820,000</u>
Less: discount on debentures					(7,279)	(5,289)
Less: current portion					<u>(359,895)</u>	<u>(89,926)</u>
					<u>₩ 3,562,826</u>	<u>2,724,785</u>

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**19. Borrowings and Debentures, Continued**

(4) Foreign debentures as of December 31, 2017 and 2016 are as follows:

*In millions of won*

	<u>Issue date</u>	<u>Maturity date</u>	<u>Annual interest rate</u>		<u>2017</u>	<u>2016</u>
Global bond #1	2012.05.10	2017.05.10	Fixed rate 3.125%	₩	-	604,250
Swiss franc bond #1	2013.09.26	2019.03.26	Fixed rate 1.625%		218,944	236,266
Global bond #2	2013.10.10	2018.10.10	Fixed rate 2.875%		535,700	604,250
Euro bond #3	2014.09.22	2019.09.22	Fixed rate 2.625%		321,420	362,550
					<u>1,076,064</u>	<u>1,807,316</u>
Less: discount on debentures					(1,939)	(3,856)
Less: current portion					<u>(535,056)</u>	<u>(603,982)</u>
				₩	<u>539,069</u>	<u>1,199,478</u>

(5) Repayment plans of debentures and borrowings as of December 31, 2017 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>
Long-term borrowings	₩	348	348	1,044	156	1,896
Debentures		<u>895,700</u>	<u>700,364</u>	<u>1,320,000</u>	<u>2,090,000</u>	<u>5,006,064</u>
	₩	<u>896,048</u>	<u>700,712</u>	<u>1,321,044</u>	<u>2,090,156</u>	<u>5,007,960</u>

(6) Changes in debentures and borrowings during the year ended December 31, 2017 are as follows:

*In millions of won*

		<u>Beginning balance</u>	<u>Cash flows</u>	<u>Changes in foreign exchange rates</u>	<u>Others</u>	<u>Ending balance</u>
Borrowings	₩	392,222	(391,649)	1,537	(214)	1,896
Debentures		<u>4,618,171</u>	<u>540,561</u>	<u>165,052</u>	<u>(326,938)</u>	<u>4,996,846</u>
	₩	<u>5,010,393</u>	<u>148,912</u>	<u>166,589</u>	<u>(327,152)</u>	<u>4,998,742</u>

**20. Other Financial Liabilities**

Other financial liabilities as of December 31, 2017 and 2016 are as follows:

*In millions of won*

		<u>2017</u>		<u>2016</u>	
		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Derivative liabilities	₩	6,731	16,116	356	-

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**21. Employee Benefit Obligations**

(1) The principal assumptions used on actuarial valuation as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	2.87%	2.56%
Future salary increase rate	3.47 ~ 7.33%	4.08 ~ 7.97%

(2) Details of the Group's expense relating to its defined benefit plans for the years ended December 31, 2017 and 2016 are as follows:

*In millions of won*

		<u>2017</u>	<u>2016</u>
Current service cost	₩	13,967	12,204
Interest cost		2,553	2,057
Gain on settlement		(70)	(86)
Expected return on plan assets		(637)	(493)
	₩	<u>15,813</u>	<u>13,682</u>

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

*In millions of won*

		<u>2017</u>	<u>2016</u>
Cost of sales	₩	13,471	10,077
Selling and administrative expenses		1,421	1,278
Construction-in-progress		921	2,327
	₩	<u>15,813</u>	<u>13,682</u>

Employee benefit obligations expenses of ₩5,463 million and ₩4,958 million, respectively, are recognized as cost of sales, and ₩576 million and ₩629 million, respectively, are recognized as selling and administrative expenses, and ₩374 million and ₩1,145 million, respectively, are recognized as construction-in-progress, relates to the Group's defined contribution plans for the years ended December 31, 2017 and 2016.

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**21. Employee Benefit Obligations, Continued**

(3) Employee benefit obligation as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		<u>2017</u>	<u>2016</u>
Present value of defined benefit obligation from funded plans	₩	99,375	94,896
Fair value of plan assets		<u>(31,270)</u>	<u>(23,917)</u>
Net employee benefits obligation from defined benefit plans	₩	<u>68,105</u>	<u>70,979</u>

(4) Changes in employee benefit obligation during the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		<u>2017</u>	<u>2016</u>
Beginning balance	₩	94,896	76,519
Current service cost		13,967	12,204
Gain on settlement		(70)	(86)
Interest cost		2,553	2,057
Remeasurements loss(gain)		(9,679)	7,172
Actual payments		<u>(2,292)</u>	<u>(2,970)</u>
Ending balance	₩	<u>99,375</u>	<u>94,896</u>

(5) Changes in the fair value of the plan assets during the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		<u>2017</u>	<u>2016</u>
Beginning balance	₩	23,917	18,873
Expected return on plan assets		637	493
Remeasurements gain(loss)		(236)	(135)
Contributions by the employers		7,011	4,686
Actual payments		<u>(59)</u>	<u>-</u>
Ending balance	₩	<u>31,270</u>	<u>23,917</u>

Accumulated remeasurements loss on employee benefit obligations recorded as other comprehensive loss amounts to ₩25,365 million and ₩32,523 million, respectively, for the years ended December 31, 2017 and 2016.

(6) Fair value of major categories of plan assets as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		<u>2017</u>	<u>2016</u>
Equity instrument	₩	670	1,076
Debt instrument		3,949	2,270
Deposits		2,618	2,947
Others		<u>24,033</u>	<u>17,624</u>
	₩	<u>31,270</u>	<u>23,917</u>

Actual returns for the years ended December 31, 2017 and 2016 are ₩401 million and ₩358 million, respectively.

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**21. Employee Benefit Obligations, Continued**

(7) Other long-term employee benefit liabilities as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Long-service leave	₩ 551	625

(8) Remeasurement component recognized in other comprehensive income (loss) for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Remesurements loss (gain) from changes in financial assumptions	₩ (10,975)	(502)
Experience adjustments	1,296	7,674
Expected return	236	135
	<u>₩ (9,443)</u>	<u>7,307</u>

**22. Provisions**

(1) Provisions as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>		<u>2016</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Litigation provisions (*1)	-	115	-	5,123
Financial guarantee provisions(*2)	40	-	-	-
	<u>40</u>	<u>115</u>	<u>-</u>	<u>5,123</u>

(\*1) The Group recognizes a provision when it is probable that an outflow of resources embodying economic benefits required to settle the pending litigation and the amount of the obligation can be reliably estimated. As of December 31, 2017, 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) The Group guarantees the borrowing of KEPCO Bylong Australia Pty., Ltd. to the Export-Import Bank of Korea, which result from step-by-step acquisition of KEPCO equity by government's plan of the public functions and strengthening the stability of electric power generation fuel by securing long-term stable sources.

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**22. Provisions, Continued**

(2) Changes in provisions during the years ended December 31, 2017 and 2016 is as follows:

(i) For the year ended December 31, 2017

*In millions of won*

		<u>Beginning balance</u>	<u>Increase</u>	<u>Utilization</u>	<u>Reversal</u>	<u>Ending balance</u>
Litigation provisions	₩	5,123	1,802	(5,792)	(1,018)	115
Financial guarantee provisions		-	42	(2)	-	40
	₩	<u>5,123</u>	<u>1,844</u>	<u>(5,794)</u>	<u>(1,018)</u>	<u>155</u>

(ii) For the year ended December 31, 2016

*In millions of won*

		<u>Beginning balance</u>	<u>Increase</u>	<u>Others</u>	<u>Ending balance</u>
Litigation provisions	₩	4,096	1,017	10	5,123

**23. Non-financial Liabilities**

Other non-financial liabilities as of December 31, 2017 and 2016 are as follows:

*In millions of won*

		<u>2017</u>		<u>2016</u>	
		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Unearned revenue	₩	654	-	278	-
Withholdings		5,570	-	6,004	-
Others (*1)		97,341	244	94,046	199
	₩	<u>103,565</u>	<u>244</u>	<u>100,328</u>	<u>199</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.

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**24. Share Capital**

(1) Share capital as of December 31, 2017 and 2016 are as follows:

*In millions of won, except par value and number of shares*

<b>Type</b>	<b>Number of shares authorized</b>	<b>Number of shares issued</b>	<b>Par value</b>	<b>2017</b>	<b>2016</b>
Common Stock	100,000,000	33,329,119	₩ 5,000	166,646	166,646

(2) Changes in number of outstanding capital stock for the years ended December 31, 2017 and 2016 are as follows:

<i>Number of shares</i>	<b>2017</b>	<b>2016</b>
Beginning number of shares	33,329,119	31,789,285
Changes for the year	-	1,539,834
Ending number of shares	33,329,119	33,329,119

(3) Share premium as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<b>2017</b>	<b>2016</b>
Paid-in capital in excess of par value	₩ 1,106,252	1,106,252

**25. Retained Earnings and Dividends**

(1) Retained earnings as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<b>2017</b>	<b>2016</b>
Legal reserves (*1)	₩ 72,714	66,015
Voluntary reserves	1,765,803	1,446,166
Retained earnings before appropriations	800,745	1,081,241
	₩ <u>2,639,262</u>	<u>2,593,422</u>

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

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

(2) Composition of voluntary reserves as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Reserve for business stabilization (*1)	₩ 181	181
Reserve for investment on social overhead capital	13,000	13,000
Reserve for business expansion	1,752,622	1,432,985
	<u>₩ 1,765,803</u>	<u>1,446,166</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.

(3) Changes in retained earnings before appropriations during the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Beginning balance	₩ 1,081,241	984,399
Profit for the year - Controlling company	102,813	393,271
Dividends paid	(66,992)	(36,238)
Remeasurements loss	7,158	(5,539)
Transfers to reserves	(326,336)	(257,971)
Appropriation to reserves	-	6,129
Hybrid securities interest	(2,471)	(3,070)
Adjustment of retained earnings of equity method	5,604	260
Others	(272)	-
Ending balance	<u>₩ 800,745</u>	<u>1,081,241</u>

(4) Dividends paid for the years ended December 31, 2017 and 2016 are as follows:

(i) For the year ended December 31, 2017

<u>Type</u>	<u>Number of shares issued</u>	<u>Number of treasury shares</u>	<u>Number of share eligible for dividends</u>	<u>Dividends per share (in won)</u>	<u>Total dividends (in millions of won)</u>
Common Stock	33,329,119	-	33,329,119	2,010	66,992

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25. Retained Earnings and Dividends, Continued

(ii) 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

(5) Changes in retained earnings of equity method during the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Beginning balance	₩ (35)	(295)
Changes during the year	5,604	260
Ending balance	₩ <u>5,569</u>	<u>(35)</u>

(6) Changes in accumulated remeasurements loss on employee benefit obligations during the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Beginning balance	₩ (32,523)	(26,984)
Changes during the year	9,443	(7,307)
Income tax effect	(2,285)	1,768
Ending balance	₩ <u>(25,365)</u>	<u>(32,523)</u>

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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, 2017 and 2016 are as follows:

Date of appropriation for 2017: March 30, 2018

Date of appropriation for 2016: March 30, 2017

*In millions of won*

	<u>2017</u>	<u>2016</u>
<b>Unappropriated retained earnings</b>		
Balance at beginning of year	₩ 711,596	711,596
Hybrid securities interest	(2,471)	(3,070)
Net income	110,939	401,936
Remeasurements gain (loss)	7,158	(5,539)
<b>Balance at end of year before appropriation</b>	<u>827,222</u>	<u>1,104,923</u>
<b>Appropriation of retained earnings</b>		
Cash dividends	(28,996)	(66,992)
Legal reserve	(2,900)	(6,699)
Reserve for business expansion	(83,730)	(319,636)
<b>Unappropriated retained earnings to be carried over</b>	<u>₩ 711,596</u>	<u>711,596</u>

**27. Other Components of Equity**

(1) Other components of equity as of December 31, 2017 and 2016 are as follows:

*In millions of won*

	<u>2017</u>	<u>2016</u>
Accumulated other comprehensive income (loss)	₩ 5,755	(7,260)
Other equity	(41,783)	(41,783)
	<u>₩ (36,028)</u>	<u>(49,043)</u>

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

(2) Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2017 and 2016 are as follows:

(i) For the year ended December 31, 2017

*In millions of won*

		<b>Available- for-sale financial assets valuation reserve</b>	<b>Reserve for loss on valuation of derivatives</b>	<b>Reserve for loss on overseas operations translation credit</b>	<b>Share in other comprehensive income (loss) of associates</b>	<b>Total</b>
Beginning balance	₩	(1,038)	(3,871)	(5,304)	2,953	(7,260)
Valuation of available-for-sale financial assets		39,210	-	-	-	39,210
Valuation of derivatives		-	(1,995)	-	-	(1,995)
Overseas operations translation		-	-	(1,708)	-	(1,708)
Valuation of investments in associates		-	-	-	(17,791)	(17,791)
Tax effect		(9,489)	483	-	4,305	(4,701)
Ending balance	₩	<u>28,683</u>	<u>(5,383)</u>	<u>(7,012)</u>	<u>(10,533)</u>	<u>5,755</u>

(ii) For the year ended December 31, 2016

*In millions of won*

		<b>Available -for-sale financial assets valuation reserve</b>	<b>Reserve for loss on valuation of derivatives</b>	<b>Reserve for loss on overseas operations translation credit</b>	<b>Share in other comprehensive income (loss) of associates</b>	<b>Total</b>
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>

(3) No changes occurred during the year ended December 31, 2017 and 2016.

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**28. Hybrid Securities**

Hybrid securities classified as equity as of December 31, 2017 and 2016 are as follows:

*In millions of won*

Type	Description	Issue date	Maturity date	Annual interest rate	2017	2016
Bond-hybrid capital securities #1	Interest-bearing, unwarranted and subordinated bonds to bear	2012.10.18	-	-	₩ -	100,000
Issuance costs					-	(250)
					₩ <u>-</u>	<u>99,750</u>

(\*) The Group issued hybrid securities in October 2012 and repaid in full during the year ended December 31, 2017

**29. Sales**

Details of sales for the years ended December 31, 2017 and 2016 are as follows:

(i) For the year ended December 31, 2017

*In millions of won*

		Domestic	Overseas
Sales of electricity	₩	4,184,708	-
Services		10,022	27,719
	₩	<u>4,194,730</u>	<u>27,719</u>

(ii) 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>

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**30. Selling and Administrative Expenses**

Composition of selling and administrative expenses for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Employee health and welfare benefit funds	₩ 10,286	11,775
Salaries	25,561	26,103
Retirement benefit expense	1,997	1,907
Welfare and benefit expense	2,966	2,837
Insurance expense	75	45
Depreciation	14,508	13,589
Amortization	1,967	2,296
Commission	18,396	15,620
Advertising expense	6,113	1,004
Training expense	259	70
Vehicle maintenance expense	66	49
Publishing expense	172	159
Business promotion expense	122	98
Rent expense	1,323	936
Telecommunication expense	807	872
Transportation expense	2	-
Taxes and dues	1,703	1,486
Expendable supplies expense	1,155	804
Water, light and heating expense	148	451
Repairs and maintenance expense	2,246	3,854
Ordinary development expense	17,240	16,431
Travel expense	1,267	768
Clothing expense	2	-
Survey and analysis expense	1	1
Others	3,781	2,917
	₩ <u>112,163</u>	<u>104,072</u>

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

(1) Other non-operating income for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Rental income	₩ 4,370	3,834
Gains from assets contributed	362	152
	₩ <u>4,732</u>	<u>3,986</u>

(2) Other non-operating expenses for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Donations	₩ 6,123	642

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**32. Other Income and Loss**

Composition of other income and loss for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Gain on disposal of property, plant, and equipment	₩ 995	4,333
Gain on foreign currency translation	863	-
Gain on foreign currency transaction	19,624	2,673
Other gains	40,057	12,414
Loss on disposal of property, plant, and equipment	(12,959)	(5,952)
Loss on disposal of intangible assets	-	-
Loss on impairment of property, plant and equipment, net	(39,656)	-
Loss on foreign currency translation	(1)	(1,728)
Loss on foreign currency transaction	(7,739)	(3,820)
Other losses	(10,535)	(3,105)
	<u>₩ (9,351)</u>	<u>4,815</u>

**33. Finance Income**

(1) Finance income for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Interest income	₩ 2,086	1,845
Gain on valuation of derivatives	-	49,498
Gain on transaction of derivatives	3,566	-
Gain on foreign currency translation	127,005	872
Gain on foreign currency transaction	39,591	10,275
	<u>₩ 172,248</u>	<u>62,490</u>

(2) Interest income included in finance income for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	₩ 1,651	1,447
Loans and receivables	435	398
	<u>₩ 2,086</u>	<u>1,845</u>

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**34. Finance Expenses**

(1) Finance expenses for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Interest expense	₩ 122,359	70,890
Impairment loss on available-for-sale financial assets	-	502
Loss on valuation of derivatives	127,868	1,168
Loss on transaction of derivatives	60,844	13,222
Loss on foreign currency translation	-	49,044
	<u>₩ 311,071</u>	<u>134,826</u>

(2) Interest expenses included in finance expenses for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Short term borrowings	₩ 2,861	3,543
Long term borrowings	16	20
Debentures	130,398	137,041
Trade and other payables	152	86
	<u>133,427</u>	<u>140,690</u>
Less: capitalized borrowing costs	<u>(11,068)</u>	<u>(69,800)</u>
	<u>₩ 122,359</u>	<u>70,890</u>

**35. Income Tax Expense**

(1) Components of income tax expense for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
<b>Current income tax expense</b>		
Current income tax	₩ 37,497	116,444
Adjustment for prior period	(23,147)	1,540
Income tax charged directly to equity	(9,567)	2,795
	<u>4,783</u>	<u>120,779</u>
<b>Deferred income tax expense</b>		
Generation and realization of temporary differences	11,441	(4,930)
Reclassification of equity to profit or loss	(749)	140
Amount due to tax deficits, tax credits and temporary differences that were not recognized in the past	30,614	-
Tax credit carry-forwards	-	2,131
	<u>41,306</u>	<u>(2,659)</u>
<b>Income tax expense</b>	<u>₩ 46,089</u>	<u>118,120</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, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Profit before income tax expense	₩ 148,918	511,314
Income tax expense in accordance with statutory tax rate	<u>37,811</u>	<u>126,053</u>
Adjustments		
Effects of the application of accumulative tax rate	(462)	(462)
Effects on non-taxable income	785	-
Effects of non-deductible expenses	2,145	34
Effects of tax credits or exemptions	(1,657)	(9,045)
Amount due to tax deficits, tax credits and temporary differences that were not recognized in the past	30,614	-
	<u>31,425</u>	<u>(9,473)</u>
Adjustment for prior period	(23,147)	1,540
Income tax expense	<u>₩ 46,089</u>	<u>118,120</u>

The average effective tax rates for the years ended December 31, 2017 and 2016 are 30.95% and 23.10%, respectively.

(3) Relating to items directly to equity in income tax for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Interest payments on hybrid securities	₩ 975	980

(4) Income tax recognized in other comprehensive income (loss) for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Gain (loss) on valuation of available-for-sale financial assets, net	₩ (9,489)	1,222
Loss on valuation of derivatives using cash flow hedge accounting, net	1,232	(1,176)
Remeasurements of defined benefit obligation	(2,285)	1,768
Income tax expenses (benefit)	<u>₩ (10,542)</u>	<u>1,814</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, 2017 and 2016 are as follows:

(i) For the year ended December 31, 2017

In millions of won

	Balance as of January 1, 2017	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, 2017
<b>Deferred tax on temporary differences</b>						
Long-term employee benefits	₩ 16,970	2,130	(2,285)	-	-	16,815
Cash flow hedges	(35,205)	39,286	1,232	-	(749)	4,564
Property, plant and equipment	(276,581)	(51,315)	-	-	-	(327,896)
Intangible assets	56	-	-	-	-	56
Available-for-sale financial assets	453	(1,033)	(9,489)	-	-	(10,069)
Foreign currency translation	37,177	(38,525)	-	-	-	(1,348)
Other provision	(4,239)	-	-	-	-	(4,239)
Others	45,515	17,707	-	975	-	64,197
	(215,854)	(31,750)	(10,542)	975	(749)	(257,920)
Tax credit	-	-	-	-	-	-
<b>Total</b>	₩ (215,854)	(31,750)	(10,542)	975	(749)	(257,920)

(ii) For the year ended December 31, 2016

In millions of won

	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
<b>Deferred tax on temporary differences</b>						
Long-term employee benefits	₩ 13,024	2,178	1,768	-	-	16,970
Cash flow hedges	(30,937)	(3,232)	(1,176)	-	140	(35,205)
Property, plant and equipment	(271,058)	(5,523)	-	-	-	(276,581)
Intangible assets	56	-	-	-	-	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)	-	-	-	-
<b>Total</b>	₩ (218,742)	(46)	1,814	980	140	(215,854)

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**35. Income Tax Expense, Continued**

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

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Deferred income tax assets	₩ 234	144
Deferred income tax liabilities	(258,154)	(215,998)
	<u>₩ (257,920)</u>	<u>(215,854)</u>

**36. Expenses Classified by Nature**

Expenses classified by nature for the years ended December 31, 2017 and 2016 are as follows:

(1) For the year ended December 31, 2017

<i>In millions of won</i>	<u>Selling and administrative expenses</u>	<u>Cost of sales</u>	<u>Total</u>
Raw materials used	₩ -	2,740,581	2,740,581
Employee health and welfare benefit funds	10,286	-	10,286
Salaries	25,561	170,417	195,978
Retirement benefit expense	1,997	18,933	20,930
Welfare and benefit expense	2,966	15,012	17,978
Insurance expense	75	11,582	11,657
Depreciation	14,508	573,408	587,916
Amortization	1,967	1,349	3,316
Commission	18,396	22,386	40,782
Advertising expense	6,113	608	6,721
Training expense	259	235	494
Vehicle maintenance expense	66	70	136
Publishing expense	172	176	348
Business promotion expense	122	286	408
Rent expense	1,323	13,512	14,835
Telecommunication expense	807	141	948
Transportation expense	2	37	39
Taxes and dues	1,703	21,792	23,495
Expendable supplies expense	1,155	706	1,861
Water, light and heating expense	148	887	1,035
Repairs and maintenance expense	2,246	146,384	148,630
Ordinary development expense	17,240	12,307	29,547
Travel expense	1,267	684	1,951
Clothing expense	2	301	303
Survey and analysis expense	1	87	88
Others	3,781	(3,079)	702
	<u>₩ 112,163</u>	<u>3,748,802</u>	<u>3,860,965</u>

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**36. Expenses Classified by Nature, Continued**

(2) For the year ended December 31, 2016

*In millions of won*

	<b>Selling and administrative expenses</b>	<b>Cost of sales</b>	<b>Total</b>
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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**37. Earnings per Share**

(1) Basic earnings per share for the years ended December 31, 2017 and 2016 are as follows:

<i>In won</i>	<u>2017</u>	<u>2016</u>
Basic earnings per share	₩ 3,085	12,345

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

(2) Profit attributable to controlling interests and weighted average number of common shares outstanding for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won, except for number of share</i>	<u>2017</u>	<u>2016</u>
Profit attributable to controlling interest	₩ 102,813	393,271
Weighted average number of common shares	33,329,119	31,856,785

**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, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Total borrowings and debentures	₩ 4,998,742	5,010,393
Cash and cash equivalents	(35,416)	(246,692)
Net borrowings and debentures	<u>4,963,326</u>	<u>4,763,701</u>
Total shareholder's equity	₩ <u>3,882,393</u>	<u>3,923,278</u>
Debt to equity percentage	<u>127.84%</u>	<u>121.42%</u>

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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, 2017 and 2016 are as follows:

<i>In millions of won</i>		<b>2017</b>	<b>2016</b>
Cash and cash equivalents	₩	35,416	246,692
Loans and receivables		17,991	16,483
Short-term financial instruments		50,000	10,000
Derivative assets (trading)		-	1,468
Derivative assets (hedge accounting)		3,988	145,590
Trade and other receivables		653,619	579,594
Available-for-sale financial assets		133,788	94,837
Financial guarantee contract (*1)		6,214	-
	₩	<u>901,016</u>	<u>1,094,664</u>

(\*1) This amount is the maximum amount the Group will pay if requested by the assisting party. Details of financial guarantee contracts as of December 31, 2017 are as follows.

#### *In thousands of USD*

	<b>Company</b>	<b>Amount of Guarantee</b>
Subsidiaries company	KEPCO Bylong Australia Pty., Ltd.	5,800

#### 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.

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**38. Risk Management, Continued**

(2) Financial risk management, Continued

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, 2017 and 2016 are as follows:

*In millions of won*

Type	Accounts	2017		2016	
		1% Increase	1% Decrease	1% Increase	1% Decrease
Future salary increase rate	Defined benefit obligation	₩ 12,124	(10,365)	11,698	(10,233)
Discount rate	Defined benefit obligation	(10,785)	12,929	(10,546)	12,595

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) As of December 31, 2017

*In thousands of foreign currencies*

	USD	JPY	AUD	GBP	EUR	CHF
<b>Assets</b>						
Cash and cash equivalents	38	-	-	-	-	-
<b>Liabilities</b>						
Trade and Other Payables	(35,414)	(27,950)	-	-	(165)	-
Debentures	(800,000)	-	-	-	-	(200,000)
	<u>(835,414)</u>	<u>(27,950)</u>	<u>-</u>	<u>-</u>	<u>(165)</u>	<u>(200,000)</u>
	<u>(835,376)</u>	<u>(27,950)</u>	<u>-</u>	<u>-</u>	<u>(165)</u>	<u>(200,000)</u>

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**38. Risk Management, Continued**

(2) Financial risk management, Continued

3) Sensitivity analysis

(ii) As of December 31, 2016

*In thousands of  
foreign currencies*

	<b>USD</b>	<b>JPY</b>	<b>AUD</b>	<b>GBP</b>	<b>EUR</b>	<b>CHF</b>
<b>Assets</b>						
Cash and cash equivalents	2,817	50	30	-	-	-
<b>Liabilities</b>						
Trade and Other Payables	(72,683)	(208,828)	-	(28)	(35)	-
Debentures	(1,300,000)	-	-	-	-	(200,000)
Borrowings	(32,923)	-	-	-	-	-
	<u>(1,405,606)</u>	<u>(208,828)</u>	<u>-</u>	<u>(28)</u>	<u>(35)</u>	<u>(200,000)</u>
	<u>(1,402,789)</u>	<u>(208,778)</u>	<u>30</u>	<u>(28)</u>	<u>(35)</u>	<u>(200,000)</u>

A sensitivity analysis on the Group's profit with a 10% increase or decrease in currency exchange rates for the years ended December 31, 2017 and 2016 are as follows:

*In millions of won*

	<b>2017</b>		<b>2016</b>	
	<b>10% Increase</b>	<b>10% Decrease</b>	<b>10% Increase</b>	<b>10% Decrease</b>
Increase (decrease) of profit before income tax	₩ (111,444)	111,444	(193,376)	193,376
Increase (decrease) of shareholder's equity (*1)	(111,444)	111,444	(193,376)	193,376

(\*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, 2017 and 2016.

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.

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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

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, 2017 and 2016 are as follows:

<i>In millions of won</i>	<b>2017</b>	<b>2016</b>
Long-term borrowings	₩ 1,896	2,435

Sensitivity analysis on the Group's borrowings and debentures assuming a 1% increase or decrease in interest rates for the year ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<b>2017</b>		<b>2016</b>	
	<b>1% Increase</b>	<b>1% Decrease</b>	<b>1% Increase</b>	<b>1% Decrease</b>
Increase (decrease) of profit before income tax	₩ (19)	19	(24)	24
Increase (decrease) of shareholder's equity (*1)	(19)	19	(24)	24

(\*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.

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**38. Risk Management, Continued**

(2) Financial risk management, Continued

4) Liquidity risk

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

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

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, 2017

*In millions of won*

	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Borrowings and debentures	₩ 1,022,798	803,263	1,532,645	2,413,463	5,772,169
Trade and other payables	278,370	2,189	-	-	280,559
	<u>₩ 1,301,168</u>	<u>805,452</u>	<u>1,532,645</u>	<u>2,413,463</u>	<u>6,052,728</u>

(ii) As of December 31, 2016

*In millions of won*

	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>	<b>Total</b>
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>

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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, 2017 and 2016 in details are as follows:

(i) As of December 31, 2017

*In millions of won*

		<b>Less than 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Uncertain</b>	<b>Total</b>
Cash and cash equivalents	₩	35,416	-	-	-	35,416
Available-for-sale financial assets		-	-	-	133,788	133,788
Loans and receivables		3,083	16,331	-	-	19,414
Short-term financial instruments		50,000	-	-	-	50,000
Trade and other receivables		653,698	219	-	-	653,917
	₩	<u>742,197</u>	<u>16,550</u>	<u>-</u>	<u>133,788</u>	<u>892,535</u>

(ii) As of December 31, 2016

*In millions of won*

		<b>Less than 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Uncertain</b>	<b>Total</b>
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>

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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, 2017 and 2016 as follows:

(i) As of December 31, 2017

<i>In millions of won</i>		<b>Less than 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Net settlement						
-Trading purpose	₩	-	-	-	-	-
Gross settlement						
-Trading purpose		866	-	-	-	866
-Hedge accounting purpose		5,865	16,116	-	-	21,981
	₩	<u>6,731</u>	<u>16,116</u>	<u>-</u>	<u>-</u>	<u>22,847</u>

(ii) As of December 31, 2016

<i>In millions of won</i>		<b>Less than 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>	<b>Total</b>
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>

(3) Fair value risk

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

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

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

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**38. Risk Management, Continued**

(3) Fair value risk, Continued

1) Fair value and book value of financial assets and liabilities as of December 31, 2017 and 2016 are as follows:

*In millions of won*

	2017		2016	
	Book value	Fair value	Book value	Fair value
<b>Assets recognized at fair value</b>				
Available-for-sale financial assets	₩ 133,788	133,788	94,837	94,837
Derivatives assets (trading)	-	-	1,468	1,468
Derivatives assets (hedge accounting)	3,988	3,988	145,590	145,590
	<u>137,776</u>	<u>137,776</u>	<u>241,895</u>	<u>241,895</u>
<b>Assets carried at amortized cost</b>				
Trade and other receivables	653,619	653,619	579,594	579,594
Loans and receivables	17,991	17,991	16,483	16,483
Short-term financial instruments	50,000	50,000	10,000	10,000
	<u>721,610</u>	<u>721,610</u>	<u>606,077</u>	<u>606,077</u>
<b>Liabilities carried at fair value</b>				
Derivatives liabilities (trading)	866	866	356	356
Derivatives liabilities (hedge accounting)	21,981	21,981	-	-
	<u>22,847</u>	<u>22,847</u>	<u>356</u>	<u>356</u>
<b>Liabilities carried at amortized cost</b>				
Borrowings	1,896	1,896	392,222	392,222
Debentures	4,996,846	4,964,773	4,618,171	4,715,376
Trade and other payables	280,559	280,559	379,944	379,944
	<u>₩ 5,279,301</u>	<u>5,247,228</u>	<u>5,390,337</u>	<u>5,487,542</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, 2017 and 2016 are as follows:

Type	December 31, 2017 (%)	December 31, 2016 (%)
Derivatives	1.34 ~ 1.48	1.11 ~ 1.31
Debentures	0.08 ~ 2.97	0.02 ~ 2.53

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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, 2017 and 2016, respectively, are as follows:

(i) As of December 31, 2017

*In millions of won*

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Financial assets at fair value:</b>				
Available-for-sale financial assets	₩ 111,653	-	22,135	133,788
Derivative assets (trading)	-	-	-	-
Derivative assets (hedge accounting)	-	3,988	-	3,988
	<u>111,653</u>	<u>3,988</u>	<u>22,135</u>	<u>137,776</u>
<b>Financial liabilities at fair value:</b>				
Derivative liabilities (trading)	-	866	-	866
Derivative liabilities (hedge accounting)	-	21,981	-	21,981
	<u>₩ -</u>	<u>22,847</u>	<u>-</u>	<u>22,847</u>

(ii) As of December 31, 2016

*In millions of won*

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Financial assets at fair value:</b>				
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>
<b>Financial liabilities at fair value:</b>				
Derivative liabilities (trading)	₩ -	356	-	356

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**39. Related Party Transactions**

(1) The nature of the Group's relationship as of December 31, 2017 is as follows:

<b>Control relationship</b>	<b>Related party</b>
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 KEPCO Bylong Australia Pty., Ltd.

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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, 2017 and 2016 are as follows:

<i>In millions of won</i>	<b>Related parties</b>	<b>Sales and others</b>		<b>Purchase and others</b>	
		<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	Korea Electric Power Corporation	₩ 4,265,124	4,185,565	73,609	125,011
	Korea Hydro & Nuclear Power Co., Ltd.	-	-	79	89
	Korea Southern Power Co., Ltd.	1,983	4,355	251	769
	Korea East-West Power Co., Ltd.	1	10	119	12
	Korea South-East Power Co., Ltd.	1	10	4	-
	Korea Midland Power Co., Ltd.	43	10	-	2,629
	KEPCO Engineering & Construction Company Inc.	-	-	9,844	12,395
	KEPCO KPS Co., Ltd.	1,886	1,842	72,612	77,478
	KEPCO KDN Co., Ltd.	-	-	12,124	11,655
	Cheongna Energy Co., Ltd.	6,416	5,332	59	73
	Korea Offshore Wind Power Co., Ltd.	236	262	-	-
	Daegu Solar Power Plant Co., Ltd.	349	-	2,680	2,426
	Dongducheon Dream Power Co., Ltd.	1,042	430	-	-
	Solar power plants happy city Co., Ltd.	-	-	299	275
	Rabigh O&M Co., Ltd.	2,784	2,395	-	-
	Korea Gas Corporation	3,976	1,462	639,617	956,658
	Korea Electronic Power Industrial Development Co., Ltd.	4,924	4,392	33,359	31,477
	Korea Power Exchange	-	-	4,491	4,897
	Pioneer Gas Power., Ltd.	62	164	-	-
	Shin Pyeongtaek Power Co., Ltd.	9,025	3,534	-	-
	Xe-Pian Xe-Namnoy Power Co., Ltd.	661	773	-	-
	KEPCO Energy Solution Co., Ltd.	109	49	-	-
	Solar School Plant Co., Ltd.	129	37	-	-
	KEPCO Bylong Australia Pty Ltd.	1	-	-	-
	PT. Mutiara Jawa	47	-	-	-
	Korea Development Bank	-	-	86	30
		₩ <u>4,298,799</u>	<u>4,210,622</u>	<u>849,233</u>	<u>1,225,874</u>

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39. Related Party Transactions, Continued

(3) Receivables and payables arising from related party transactions as of December 31, 2017 and 2016 are as follows:

In millions of won

Company name	Type	Receivables		Payables	
		2017	2016	2017	2016
Korea Electric Power Corporation	Trade receivables	₩ 383,071	446,621	-	-
	Non-trade receivables and others	252,540	116,965	-	-
	Trade payables	-	-	4,892	6,455
	Non-trade payables and others	-	-	1,302	705
Korea Hydro & Nuclear Power Co., Ltd.	Non-trade payables and others	-	-	22	21
Korea Southern Power Co., Ltd.	Non-trade receivables and others	-	627	-	-
	Non-trade payables and others	-	-	92	-
Korea East-West Power Co., Ltd.	Non-trade receivables and others	47	63	-	-
	Non-trade payables and others	-	-	1,122	-
Korea Midland Power Co., Ltd.	Non-trade payables and others	-	-	120	2,809
KEPCO Engineering & Construction Company Inc.	Non-trade payables and others	-	-	418	2,155
KEPCO KPS Co., Ltd.	Non-trade receivables and others	17	13	-	-
	Non-trade payables and others	-	-	119	8,179
KEPCO KDN Co., Ltd.	Non-trade payables and others	-	-	142	915
Cheongna Energy Co., Ltd.	Non-trade payables and others	-	-	1	82
Korea Offshore Wind Power Co., Ltd.	Non-trade receivables and others	260	289	-	-
Dongducheon Dream Power Co., Ltd.	Non-trade receivables and others	526	-	-	-
Rabigh O&M Co., Ltd.	Non-trade receivables	869	2,275	-	-
Shin Pyeongtaek Power Co., Ltd.	Non-trade receivables and others	210	215	-	-
	Non-trade payables and others	-	-	52	-
Pioneer Gas Power., Ltd.	Non-trade receivables and others	-	82	-	-
Korea Gas Corporation	Non-trade receivables and others	294	64	-	-
	Trade payables	-	-	41,084	83,816
	Non-trade payables and others	-	-	569	484
Korea Electronic Power Industrial Development Co., Ltd.	Trade receivables	295	324	-	-
	Non-trade receivables and others	30	27	-	-
	Non-trade payables and others	-	-	1,937	2,702
Korea Power Exchange	Non-trade payables and others	-	-	1	1
Xe-Plan Xe-Namnoy Power Co., Ltd.	Non-trade receivables and others	53	58	-	-
	Loans	1,413	1,413	-	-
KEPCO Energy Solution Co., Ltd.	Non-trade receivables and others	38	39	-	-
Solar School Plant Co., Ltd.	Non-trade receivables and others	-	41	-	-
KEPCO Bylong Australia Pty Ltd.	Non-trade receivables and others	42	-	-	-
Korea Development Bank	Accrued expenses	-	-	-	31

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39. Related Party Transactions, Continued

(4) Borrowings from related parties as of December 31, 2017 and 2016 are as follows:

*In millions of won*

<b>Lender</b>	<b>Beginning balance</b>	<b>Borrowing</b>	<b>Repayment</b>	<b>Ending balance</b>
Korea Development Bank	21,158	16,324	37,482	-

(5) The salaries and other compensations to the key members of management for the years ended December 31, 2017 and 2016 are as follows:

*In millions of won*

<b>Type</b>	<b>2017</b>	<b>2016</b>
Short-term employee benefits	₩ 709	726
Retirement and severance benefits	25	79

(6) Guarantees provided to affiliates as of December 31, 2017 are as follows:

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

<b>Debt repayment guarantee provider</b>	<b>Related Parties</b>	<b>Type of guarantees</b>	<b>Credit limit</b>	<b>Guarantee</b>
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 53,233	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.	KEPCO Bylong Australia Pty., Ltd	Borrowing payment guarantees	USD 5,800	The Export-Import 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 62,253	KrungThai Bank
Korea Western Power Co., Ltd.	Xe-Pian Xe-Namnoy Power Co., Ltd.	Performance guarantees	USD 2,500	KrungThai 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 Power Co., Ltd.	Shin Pyeongtaek Power Co., Ltd.	Investments in associate pledged as collateral	KRW 43,920	Kookmin Bank

(\*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.

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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### 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, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Investments in associates	₩ -	41,170

The market situation has deteriorated since the first classification as held for sale and as a result assets were not sold until the end of the current period. The shares of Dongducheon Dream Power Co., Ltd. were reclassified as investments in associates.

### 41. Non-cash Transactions

Significant non-cash transactions for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>	<u>2016</u>
Reclassification of long-term borrowings and debentures to current portion	₩ 895,332	675,566
Reclassification of construction-in-progress	1,168,444	3,080,080
Reclassification of non-cash purchases of property, plant and equipment's acquisition	(27,908)	1,976
Reclassification of advances from customers related with disposition of land	-	2,837
Reclassification of long-term loans to current portion	1,121	(55)
Reclassification of long-term prepaid expenses to current portion	1,489	1,300
Reclassification of long-term deposit to current portion	2,205	3

### 42. Commitments for Expenditure

Agreements for acquisition of property, plant and equipment as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		<u>2017</u>		<u>2016</u>	
		<u>Contract</u>	<u>Residual</u>	<u>Contract</u>	<u>Residual</u>
Payments	₩	1,863,234	56,035	2,018,418	116,726

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**43. Commitments and Contingencies**

(1) Ongoing litigations of December 31, 2017 and 2016 are as follows:

*In millions of won*

	2017		2016	
	Number of cases	Claim amount	Number of cases	Claim amount
As the defendant (*1)	17 ₩	41,551	18 ₩	43,060
As the plaintiff	6	108,633	1	50

(\*1) The amount includes the total claim amount of ₩27,152 million as a co-defendant with Korea South-East Power Co., Ltd., Korea Midland Power Co., Ltd., Korea Southern Power Co., Ltd. and Korea East-West Power Co., Ltd. As of December 31, 2017, the Company recorded ₩115 million as litigation provisions. Except for the lawsuits that resulted in litigation provisions, the outcome of the other litigations cannot be determined. However, the Company management believes that the ultimate outcomes will not have a significant impact on the Company's operations and financial position.

(2) Credit lines provided by financial institutions as of December 31, 2017 are as follows:

*In millions of won, In thousands of USD*

Description	Financial Institutions	Currency	Limited amount	Exercised amount
Foreign currency payment guarantee	NH Bank	USD	4,680	4,392
	Kookmin Bank	USD	40,000	362
Commitments on Bank-overdraft	NH Bank	KRW	200,000	-
Derivatives trading credit	NH Bank	USD	8,000	168
Loan limit	Bank of Communications	USD	30,000	-
	SC Bank	USD	50,000	-
	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	30,000	-
	Korea Development Bank	USD	80,000	-
	Mizuho Corporate Bank Ltd	USD	188,000	-
	Societe Generale	USD	50,000	-
	Kookmin Bank	KRW	10,000	-
	NH Bank	KRW	5,000	-
	Shinhan Bank	KRW	10,000	-
	Woori Bank	KRW	10,000	-
Certification of payment on L/C	Industrial Bank of Korea	KRW	5,000	-
	KEB Hana Bank	KRW	5,000	-
	KEB Hana Bank	USD	10,000	222
	NH Bank	USD	50,000	748
	Shinhan Bank	USD	50,000	-
	Industrial Bank of Korea	USD	25,000	-
	Woori Bank	USD	30,000	2,728

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 43. Commitments and Contingencies, Continued

(3) Main raw material purchase agreements as of December 31, 2017 are as follows:

Raw materials	Supplier	Contract period	Amount for year (thousand tons, thousand kls)
Bituminous coal	Australia	2018.01~2022.03	1,744
	Indonesia	2018.01~2020.09	1,152
	Russia	2018.01~2022.03	936
	Republic of South Africa	2018.01~2018.03	440
	U.S.A	2018.02~2022.03	160
			4,432
Bunker-C Oil	Posco Daewoo	2017.12~2018.02	45
	Hyundai Corporation	2017.12~2018.02	45
			90
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, 2017 are as follows:

Shipping company	Ship name	Contract period
Daebo International Shipping Co., Ltd.	Glovis Daylight	2015.12~2030.11
Wooyang Shipping Co., Ltd.	Wooyang Queen	2016.07~2026.06
Hansung Line Co., Ltd.	Western Marine	2012.01~2026.12
Five Ocean Corporation	Nozomi	2016.12~2026.11
H-Line Shipping Co., Ltd	HL Balikpapan	2011.07~2026.06
H-Line Shipping Co., Ltd	Hyundai Leader	2016.04~2031.03
H-Line Shipping Co., Ltd	HL Taeon	2018.1st half ~ 2036.1st half
K-Line	Dolce	2007.08~2018.05
K-Line	Elettra	2009.02~2019.01
K-Line	Arpeggio	2009.02~2019.01
K-Line	CSK Brilliance	2011.11~2021.10
MOL	Gloriosa Lily	2008.10~2019.01
MOL	TTM HOPE	2008.10~2018.09
MOL	Pacific Power	2008.11~2019.04
NYK	Frontier Expedition	2013.02~2028.01
SK Shipping Co., Ltd.	K. Western Dream	2016.03~2028.02
SK Shipping Co., Ltd.	K. Taeon	2018.2 <sup>nd</sup> half ~2036.2 <sup>nd</sup> half

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