SUPERNUS PHARMACEUTICALS INC
Form 8-K
April 30, 2014

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 8-K

**CURRENT REPORT**
**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **April 29, 2014**

# Supernus Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

**Delaware**
(State or other jurisdiction of
Incorporation)

| | |
|---|---|
| **0-50440** (Commission File Number) | **20-2590184** (IRS Employer Identification No.) |
| **1550 East Gude Drive, Rockville MD** (Address of principal executive offices) | **20850** (Zip Code) |

Registrant s telephone number, including area code: **(301) 838-2500**

**Not Applicable**

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 2.02 Other Events**

On April 29, 2014, Supernus issued a press release announcing that it expects to report financial results for the quarter ending March 31, 2014 after the market closes on May 12, 2014, and will hold a conference call and webcast on May 13, 2014 to review the first quarter 2014 financial results and to provide a business update. A copy of this press release is furnished as Exhibit 99.1 hereto and is incorporated herein by reference.

**Item 9.01 Financial Statements and Exhibits.**

(d) Exhibit

The following document is furnished as an Exhibit pursuant to Item 2.02 hereof:

Exhibit 99.1 Press Release Dated April 29, 2014 of the Company.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

| | | |
|---|---|---|
| | SUPERNUS PHARMACEUTICALS, INC. | |
| DATED: April 30, 2014 | By: | /s/ Gregory S. Patrick<br>Gregory S. Patrick<br>Vice-President and Chief Financial Officer |

**EXHIBIT INDEX**

| **Number** | **Description** | |
|---|---|---|
| 99.1 | Press Release Dated April 29, 2014 of the Company. | Attached |

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1,052.60 HSBC 2012 2014 KRW 45,264 USD 40,000 3.25%
3M Libor
+1.50
% 1,131.60 Citibank 2012 2014 KRW 33,948 USD 30,000 3.25%
3M Libor
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% 1,131.60 RBS 2012 2014 KRW 22,632 USD 20,000 3.25%
3M Libor
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% 1,131.60 UOB 2012 2014 KRW 33,948 USD 30,000 3.25%

3M Libor

+1.50

%

1,131.60 DBS 2012 2014 KRW 56,580 USD 50,000 3.20%

3M Libor

+1.50

%

1,131.60 ANZ 2012 2014 KRW 22,632 USD 20,000 3.20%

3M Libor

+1.50

%

1,131.60 Citibank 2012 2014 KRW 20,369 USD 18,000 3.20%

3M Libor

+1.50

%

1,131.60 Credit Suisse 2012 2014 KRW 45,264 USD 40,000 2.77%

3M Libor

+1.50

%

1,131.60 RBS 2012 2014 KRW 58,843 USD 52,000 2.77%

3M Libor

+1.50

%

1,131.60 Citibank 2013 2018 KRW 54,570 USD 50,000 2.90%

3M Libor

+1.01

%

1,091.40 Standard Chartered 2013 2018 KRW 54,570 USD 50,000 2.90%

3M Libor

+1.01

%

1,091.40 Credit Suisse 2013 2018 KRW 111,410 USD 100,000 3.22%

3M Libor

+1.50

%

1,114.10 UBS AG 2006 2016 KRW 98,100 USD 100,000 5.48% 5.50% 981 Credit Suisse 2006 2016 KRW 98,100 USD 100,000 5.48% 5.50% 981 Barclays Bank PLC 2006 2016 KRW 71,888 USD 75,000 4.81% 5.50% 958.51 Deutsche Bank AG 2006 2016 KRW 71,888 USD 75,000 4.81% 5.50% 958.51 Barclays Bank PLC 2012 2017 KRW 142,500 USD 125,000 3.83% 3.13% 1,140.00 Morgan Stanley 2012 2017 KRW 142,500 USD 125,000 3.83% 3.13% 1,140.00 RBS 2012 2017 KRW 142,500 USD 125,000 3.83% 3.13% 1,140.00 JP Morgan 2012 2017 KRW 142,500 USD 125,000 3.83% 3.13% 1,140.00 RBS 2013 2019 KRW 118,343 CHF 100,000 3.47% 1.63% 1,183.43

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| Type | Counterparty | Contract Year | Settlement Year | Contract amounts Pay | Contract amounts Receive | Contract interest rate Pay | Contract interest rate Receive | Contract Exchange Rate |
|---|---|---|---|---|---|---|---|---|
| | | | | (KRW in millions, USD in thousands) | | | | |
| | Barclays Bank PLC | 2013 | 2019 | KRW 59,172 | CHF 50,000 | 3.47% | 1.63% | 1,183.43 |
| | Nomura | 2013 | 2019 | KRW 59,172 | CHF 50,000 | 3.47% | 1.63% | 1,183.43 |
| | Barclays Bank PLC | 2013 | 2018 | KRW 107,360 | USD 100,000 | 3.34% | 2.88% | 1,073.60 |
| | RBS | 2013 | 2018 | KRW 107,360 | USD 100,000 | 3.34% | 2.88% | 1,073.60 |
| | JP Morgan | 2013 | 2018 | KRW 161,040 | USD 150,000 | 3.34% | 2.88% | 1,073.60 |
| | Standard Chartered | 2013 | 2018 | KRW 161,040 | USD 150,000 | 3.34% | 2.88% | 1,073.60 |
| | Barclays Bank PLC | 2004 | 2014 | KRW 172,875 | USD 150,000 | 5.10% | 5.75% | 1,152.50 |
| | Barclays Bank PLC | 2013 | 2018 | KRW 81,188 | USD 75,000 | 2.65% | 1.88% | 1,082.50 |
| | RBS | 2013 | 2018 | KRW 81,188 | USD 75,000 | 2.65% | 1.88% | 1,082.50 |
| | Deutsche Bank | 2013 | 2018 | KRW 81,188 | USD 75,000 | 2.65% | 1.88% | 1,082.50 |
| | Citibank | 2013 | 2018 | KRW 81,188 | USD 75,000 | 2.65% | 1.88% | 1,082.50 |
| | BTMU | 2010 | 2015 | KRW 55,900 | USD 50,000 | 4.03% | 3M Libor +1.20% | 1,118.00 |
| | RBS | 2012 | 2017 | KRW 115,140 | USD 100,000 | 3.38% | 2.50% | 1,151.40 |
| | BNP Paribas | 2012 | 2017 | KRW 115,140 | USD 100,000 | 3.38% | 2.50% | 1,151.40 |
| | Hana Bank | 2012 | 2017 | KRW 115,140 | USD 100,000 | 3.38% | 2.50% | 1,151.40 |
| | Barclays Bank PLC | 2012 | 2017 | KRW 57,570 | USD 50,000 | 3.38% | 2.50% | 1,151.40 |
| | Standard Chartered | 2012 | 2017 | KRW 57,570 | USD 50,000 | 3.38% | 2.50% | 1,151.40 |
| | Nomura | 2012 | 2017 | KRW 57,570 | USD 50,000 | 3.38% | 2.50% | 1,151.40 |
| | Credit Agricole | 2012 | 2017 | KRW 57,570 | USD 50,000 | 3.38% | 2.50% | 1,151.40 |
| | Societe Generale | 2013 | 2018 | KRW 106,190 | USD 100,000 | 3.48% | 2.63% | 1,061.90 |
| | BNP Paribas | 2013 | 2018 | KRW 53,095 | USD 50,000 | 3.48% | 2.63% | 1,061.90 |
| | Hana Bank | 2013 | 2018 | KRW 53,095 | USD 50,000 | 3.48% | 2.63% | 1,061.90 |
| | Standard Chartered | 2013 | 2018 | KRW 106,030 | USD 100,000 | 3.48% | 2.63% | 1,060.30 |
| | Barclays Bank PLC | 2013 | 2018 | KRW 53,015 | USD 50,000 | 3.48% | 2.63% | 1,060.30 |
| | Hana Bank | 2013 | 2018 | KRW 31,809 | USD 30,000 | 3.48% | 2.63% | 1,060.30 |
| | Societe Generale | 2013 | 2018 | KRW 21,206 | USD 20,000 | 3.48% | 2.63% | 1,060.30 |
| | HSBC | 2013 | 2018 | KRW 53,015 | USD 50,000 | 3.47% | 2.63% | 1,060.30 |
| | Nomura | 2013 | 2018 | KRW 53,015 | USD 50,000 | 3.47% | 2.63% | 1,060.30 |

Under these currency swap contracts, we recognized a valuation loss of Won 217,361 million in 2013, net.

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Details of interest rate contracts outstanding as of December 31, 2013 are as follows:

| Type | Counterparty | Contract Year | Settlement Year | Notional Amount (KRW in millions, USD in thousands) | Contract Interest Rate Per Annum | |
|---|---|---|---|---|---|---|
| | | | | | Pay | Receive |
| Trading | Nonghyup Bank | 2010 | 2015 | KRW 100,000 | 4.90% | 3M CD + 1.05% |
| | Nonghyup Bank | 2010 | 2015 | KRW 100,000 | 4.83% | 3M CD + 0.90% |
| | Nonghyup Bank | 2010 | 2015 | KRW 50,000 | 4.77% | 3M CD + 0.90% |
| | Korea Development Bank | 2012 | 2016 | KRW 200,000 | 3.57% | 3M CD + 0.26% |
| | Nonghyup Bank | 2012 | 2016 | KRW 100,000 | 3.49% | 3M CD + 0.25% |
| | Korea Development Bank | 2012 | 2016 | KRW 50,000 | 3.49% | 3M CD + 0.25% |
| | HSBC | 2012 | 2016 | KRW 50,000 | 3.49% | 3M CD + 0.25% |
| | Standard Chartered | 2012 | 2016 | KRW 200,000 | 3.55% | 3M CD + 0.26% |
| | Standard Chartered | 2012 | 2017 | KRW 160,000 | 3.57% | 3M CD + 0.32% |
| | JP Morgan | 2013 | 2018 | KRW 150,000 | 3.58% | 3M CD + 0.31% |
| | Korea Exchange Bank | 2011 | 2014 | KRW 100,000 | 4.08% | 3M CD + 0.03% |
| | Korea Exchange Bank | 2011 | 2014 | KRW 100,000 | 3.89% | 3M CD + 0.05% |
| | Shinhan Bank | 2011 | 2014 | KRW 100,000 | 3.63% | 3M CD + 0.18% |
| | Korea Exchange Bank | 2011 | 2014 | KRW 200,000 | 3.66% | 3M CD + 0.24% |
| | Korea Exchange Bank | 2012 | 2015 | KRW 100,000 | 3.58% | 3M CD + 0.15% |
| | Korea Exchange Bank | 2012 | 2015 | KRW 200,000 | 3.65% | 3M CD + 0.10% |
| | Korea Exchange Bank | 2012 | 2015 | KRW 100,000 | 2.86% | 3M CD + 0.05% |
| | Korea Exchange Bank | 2013 | 2016 | KRW 100,000 | 2.82% | 3M CD + 0.04% |
| | Korea Exchange Bank | 2013 | 2016 | KRW 200,000 | 2.57% | 3M CD + 0.04% |
| | Korea Exchange Bank | 2013 | 2016 | KRW 100,000 | 2.75% | 3M CD + 0.03% |
| Cash flow hedge | BNP Paribas | 2009 | 2027 | USD 108,633 | 4.16% | 6M USD Libor |
| | KFW | 2009 | 2027 | USD 108,633 | 4.16% | 6M USD Libor |
| | Credit Agricole | 2012 | 2033 | USD 106,684 | 3.98% ~ 4.10% | 6M USD Libor |
| | SMBC | 2012 | 2033 | USD 139,510 | 4.05% ~ 4.18% | 6M USD Libor |

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Under these interest rate swap contracts, we recognized a valuation gain of Won 13,112 million in 2013, net.

We engage in transactions denominated in foreign currencies and consequently, we become exposed to fluctuations in exchange rates. The carrying amounts of our foreign currency-denominated monetary assets and monetary liabilities as of December 31, 2012 and 2013 were as follows:

| Type | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2012 | 2013 | 2012 | 2013 |
| | (In thousands of USD, EUR, GBP and other foreign currencies) | | | |
| AUD | 1,188 | 1,460 | 152,692 | 321,444 |
| CAD | 2,314 | 4 | 4 | 611 |
| CNY | 1 | 1 | | |
| EUR | 9,091 | 27,946 | 18,792 | 33,398 |
| IDR | 711,304 | 546,902 | 1,726 | 2,973 |
| MXN | 703 | 5,064 | | 426 |
| PHP | 1,043,932 | 248,623 | 31,675 | 22,954 |
| SAR | 1,309 | 1,565 | | |
| USD | 292,256 | 627,504 | 9,866,661 | 11,207,483 |
| INR | 417,544 | 362,996 | 52,755 | 500,933 |
| PKR | 63,445 | 116,847 | 277 | 650 |
| MGA | 240,233 | 2,124,218 | 92,979 | 101,503 |
| JPY | 520 | 176,921 | 20,006,730 | 22,521,580 |
| KZT | 720,121 | 164,790 | | 16,517 |
| GBP | 6 | | 253 | 4 |
| CHF | | 143,120 | 223 | 400,012 |
| AED | 220 | 288 | 1,829 | 809 |
| SEK | | | 1,105 | |
| JOD | | 132 | | 1 |
| BDT | | 34,753 | | 2,977 |
| CLP | | 93 | | |

The following analysis sets forth the sensitivity of our consolidated net income before income taxes (our pre-tax income ) to changes in exchange rates, interest rates, electricity rates and fuel costs. For purposes of this section, we and our related parties will be deemed one entity. The range of changes in such risk categories represents our view of the changes that are reasonably possible over a one-year period, although it is difficult to predict such changes as a result of adverse economic developments in Korea. See Item 3D. Risk Factors Risks Relating to Korea and the Global Economy Unfavorable financial and economic conditions in Korea and globally may have a material adverse impact on us. The following discussion only addresses material market risks faced by us and does not discuss other risks which we face in the normal course of business, including country risk, credit risk and legal risk. Unless otherwise specified, all calculations are made under IFRS.

If Won depreciates against U.S. dollar and all other foreign currencies held by us by 10% and all other variables are held constant from their levels as of December 31, 2013, we estimate that our unrealized foreign exchange translation losses will increase by Won 1,200 billion in 2014. Such sensitivity analysis is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency as of December 31, 2013 and 2012, before accounting for swap transactions. To manage our foreign currency risk related to foreign currency-denominated receivables and payables, we have a policy of entering into currency forward agreements. In addition, to manage our foreign currency risk related to foreign currency-denominated expected sales transactions and purchase transactions, we enter into cross-currency swap agreements.

We are exposed to interest rate risk due to its borrowing with floating interest rates. If interest rates increase by 1% on all of our borrowings and debentures bearing variable interest and all other variables are held constant

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as of December 31, 2013, we estimate that our income before income taxes will decrease by Won 73.5 billion (not reflecting the fact that a portion of such interest may be capitalized under IFRS) in 2014. Such sensitivity analysis does not take into consideration interest rate swap transactions. To manage our interest rate risks, we, in addition to maintaining an appropriate mix of fixed and floating rate loans, have entered into certain interest rate swap agreements.

We are exposed to electricity rates risk due to the rate regulation by the Government, which considers the effect of electricity rate changes on the national economy. If the electricity rate rises by 1% and all other variables are held constant as of December 31, 2013, we estimate that our income before income taxes will increase by Won 511.1 billion in 2014.

We are exposed to fuel price risks due to the heavy influence of fuel costs on our sales and cost of sales. If the fuel prices of anthracite and bituminous coal, oil, LNG and others used for generation by us and our generation subsidiaries rise by 1% and all other variables are held constant as of December 31, 2013, we estimate that our income before income taxes will decrease by Won 242 billion in 2014.

The above discussion and the estimated amounts generated from the sensitivity analyzes referred to above include forward-looking statements, which assume for analytical purposes that certain market conditions may occur. Accordingly, such forward-looking statements should not be considered projections by us of future events or losses.

See Note 44 of the notes to our consolidated financial statements included in this annual report for further related information.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**Item 12A. Debt Securities**

Not applicable.

**Item 12B. Warrants and Rights**

Not applicable.

**Item 12C. Other Securities**

Not applicable.

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**Item 12D. American Depositary Shares**

Under the terms of the Deposit Agreement in respect of our ADSs, the holder and beneficiary owners of ADSs, any party depositing or withdrawing or surrendering ADSs or ADRs, whichever applicable, may be required to pay the following fees and charges to JPMorgan Chase Bank acting as depositary for our ADSs:

| Item | Services | Fees |
|---|---|---|
| 1 | Taxes and other governmental charges | As applicable |
| 2 | Registration of transfer of common shares generally on our shareholders register, any institution authorized under the applicable law to effect book-entry transfers of securities (including Korea Securities Depositary), or any entity that presently carries out the duties of registrar for the common shares, and applicable to transfers of common shares to the name of the Depositary or its nominee on the making of deposits or withdrawals | A fee of $1.50 or less per ADS |
| 3 | Cable, telex and facsimile transmission expenses | As applicable |
| 4 | Expenses incurred by the Depositary in the conversion of foreign currency | As applicable |
| 5 | Execution and delivery of ADRs and the surrender of ADRs | Fee of $0.05 or less per ADS |
| 6 | Cash distribution made by the Depositary or its agent | Fee of $0.02 or less per ADS |
| 7 | Fee for the distribution of proceeds of sales of securities or rights for distribution other than cash, common shares or rights to subscribe for shares, distribution in shares or distribution in rights to subscribe for shares | Lesser of (i) the fee for the execution and delivery of ADRs referred to above which would have been charged as a result of the deposit by the holders of securities or common shares received in exercise of rights distributed to them, but which securities or rights are instead sold by the Depositary and the net proceeds distributed and (ii) the amount of such proceeds |
| 8 | Depositary services performed in administering the ADRs (which fee shall be assessed against holders of ADSs as of the record date or dates and shall be payable at the sole discretion of the Depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions) | Fee of US$0.02 or less per ADS per calendar year |

Depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly-issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these transaction fees to their clients.

Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date. The depositary fees payable for cash distributions are generally deducted from the cash being

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distributed. In the case of distributions other than cash (i.e., stock dividends, rights offerings), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or un-certificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts via the central clearing and settlement system, the Depository Trust Company ( DTC ), the depositary generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients ADSs in DTC accounts in turn charge their clients accounts the amount of the fees paid to the depositary.

In the event of refusal to pay the depositary fees, the depositary may, under the terms of the Deposit Agreement, refuse the requested service until payment is received or may set-off the amount of the depositary fees from any distribution to be made to the ADS holder.

The fees and charges the ADS holders may be required to pay may vary over time and may be changed by us and by the depositary. The ADS holders will receive prior notice of such changes.

***Depositary Payments for the Fiscal Year 2013***

The following table sets forth our expenses incurred in 2013, which were reimbursed by JPMorgan Chase Bank, N.A., acting as depositary for our ADSs:

| | **(In thousands of U.S. dollars)** | |
|---|---|---|
| Reimbursement of listing fees on the New York Stock Exchange | US$ | 91 |
| Reimbursement of legal fees | | 491 |
| Reimbursement of accounting fees | | 178 |
| Contributions towards our investor relations and other financing efforts (including investor conferences, non-deal roadshows and market information services) | | 1,548 |
| Other | | 123 |
| Total | US$ | 2,431 |

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## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

### ITEM 15. CONTROLS AND PROCEDURES

**Disclosure Control**

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2013. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that the design and operation of our disclosure controls and procedures as of December 31, 2013 were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decision regarding required disclosure.

**Management s Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, for our company. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of our internal control over financial reporting as of December 31, 2013 based on the framework established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company s assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company s receipts and expenditures are being made only in accordance with authorizations of a company s management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013 using criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2013 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992).

**Audit Report of the Independent Registered Public Accounting Firm**

KPMG Samjong Accounting Corp. has issued an audit report on the effectiveness of our internal control over financial reporting, which is included elsewhere in this annual report.

**Changes in Internal Controls**

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We operate an integrated ERP system for a transparent and efficient management of the core ERP components, including personnel, accounting, procurement, construction and facilities maintenance. In addition, we also operate a strategic enterprise management system that includes business warehouse, management information and business planning and simulation systems. We continue to upgrade and improve the ERP system, which is being used as our core information infrastructure.

**ITEM 16. *[RESERVED]***

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors has determined that we have at least one audit committee financial expert as such term is defined by the regulations of the Securities and Exchange Commission issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. Our audit committee financial expert is Cho, Jeon-Hyeok. Such member currently remains a member of the audit committee and is independent within the meaning of the Korea Stock Exchange listing standards, the regulations promulgated under the Enforcement Decree of the Korean Commercial Code and the New York Stock Exchange listing standards. For biographic information of our audit committee financial expert, Cho, Jeon-Hyeok, see Item 6A. Directors and Senior Management.

**ITEM 16B. CODE OF ETHICS**

We have adopted a code of ethics for our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions as required under Section 406 of the Sarbanes-Oxley Act of 2002, together with an insider reporting system in compliance with Section 301 of the Sarbanes-Oxley Act. The code of ethics is available on our website www.kepco.co.kr. We have not granted any waiver, including an implicit waiver, from a provision of the code of ethics to any of the above-mentioned officers during our most recently completed fiscal year.

**ITEM 16C. PRINCIPAL AUDITOR FEES AND SERVICES**

The following table sets forth the aggregate fees billed for each of the years ended December 31, 2012 and 2013 for professional services rendered by our principal auditors for such year, for various types of services and a brief description of the nature of such services. Deloitte Anjin LLC, a member firm of Deloitte Touche Tohmatsu Limited, was our principal auditor for the year ended December 31, 2012. KPMG Samjong

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Accounting Corp., a Korean independent registered public accounting firm, was our principal auditor for the year ended December 31, 2013 and we currently expect KPMG Samjong Accounting Corp. to serve as our principal auditor for the year ended December 31, 2014.

| Type of Services | Aggregate Fees Billed During 2012 | 2013 | Nature of Services |
|---|---|---|---|
| | (In millions of Won) | | |
| Audit Fees | 3,109 | 2,979 | Audit service for KEPCO and its subsidiaries. |
| Audit-Related Fees | 355 | 94 | Accounting advisory service. |
| Tax Fees | | 35 | Tax return and consulting advisory service. |
| All Other Fees | | 496 | All other services which do not meet the three categories above. |
| Total | 3,464 | 3,604 | |

United States law and regulations in effect since May 6, 2003 generally require all service of the principal auditors be pre-approved by an independent audit committee or, if no such committee exists with respect to an issuer, by the entire board of directors. We have adopted the following policies and procedures for consideration and approval of requests to engage our principal auditors to perform audit and non-audit services. If the request relates to services that would impair the independence of our principal auditors, the request must be rejected. If the service request relates to audit and permitted non-audit services for us and our subsidiaries, it must be forwarded to our audit committee and receive pre-approval.

In addition, United States law and regulations permit the pre-approval requirement to be waived with respect to engagements for non-audit services aggregating no more than five percent of the total amount of revenues we paid to our principal auditors, if such engagements were not recognized by us at the time of engagement and were promptly brought to the attention of our audit committee or a designated member thereof and approved prior to the completion of the audit.

### ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEE

Not applicable.

### ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Neither we nor any affiliated purchaser, as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

### ITEM 16F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANTS

Due to the expiration of the term of the appointment of Deloitte Anjin LLC as the independent registered public accounting firm for us and our certain other subsidiaries, including KHNP, as of the fiscal year ended December 31, 2012, we appointed KPMG Samjong Accounting Corp. as the independent registered public accounting firm for us and KHNP for the years ended December 31, 2013, 2014 and 2015, effective from January 1, 2013. The decision to make such appointment was approved at our audit committee meeting on March 27, 2013.

The foregoing decision to change the independent registered public accounting firm was made pursuant to the rules of the Board of Audit and Inspection, a Government agency, relating to audits of public enterprises, under which a public accounting firm may not audit a public enterprise (including us and KHNP) for a term exceeding six consecutive years. The fiscal year 2012 marked the sixth year of audit by Deloitte Anjin LLC of us and KHNP.

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The consolidated financial statements as of and for the years ended December 31, 2011 and 2012, before the effects of the retrospective adjustments to apply the changes in accounting described in Note 2 thereto and the retrospective adjustments to the disclosures for a change in the composition of segments discussed in Note 4 thereto, were audited by Deloitte Anjin LLC. Deloitte Anjin LLC s engagement as our independent registered public accounting firm was terminated after the completion of the audit of our consolidated financial statements as of and for the year ended December 31, 2012. The audit report of Deloitte Anjin LLC on our consolidated financial statements as of and for the years ended December 31, 2011 and 2012, before the effects of the adjustments discussed in Note 2 and Note 4 thereto, prepared in accordance with IFRS did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles. Furthermore, in connection with the audit of our consolidated financial statements as of and for the years ended December 31, 2011 and 2012, before the effects of the adjustments discussed in Note 2 and Note 4 thereto, there were no disagreements (as described in Item 16F(a)(1)(iv) of Form 20-F) with Deloitte Anjin LLC on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Deloitte Anjin LLC, would have caused Deloitte Anjin LLC to make reference to the subject matter of the disagreement in connection with their reports. In addition, we confirm that between January 1, 2011 and the date of the termination of Deloitte Anjin s engagement as our independent registered public accounting firm, there were no reportable events requiring disclosure pursuant to Item 16F(a)(1)(v) of Form 20-F. The foregoing also applies in the same way to KHNP s consolidated financial statements as of and for the years ended December 31, 2011 and 2012, before the effects of the adjustments discussed in Note 2 thereto, and the audit report of Deloitte Anjin LLC thereon; and KHNP also did not have any disagreements with Deloitte Anjin LLC as to the matters mentioned above and there were similarly no reportable events as applies to KHNP.

Between January 1, 2011 and the date of appointment of KPMG Samjong Accounting Corp. as our independent registered public accounting firm, neither we nor anyone on our behalf consulted with KPMG Samjong Accounting Corp. with respect to either (1) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, and neither a written report nor oral advice was provided to us that KPMG Samjong Accounting Corp. concluded was an important factor considered by us in reaching a decision as to any accounting, auditing or financial reporting issue or (2) any matter that was either the subject of a disagreement, as defined in Item 16F(a)(1)(iv) of Form 20-F and the related instructions to Item 16F, or a reportable event, as described in Item 16F(a)(1)(v) of Form 20-F. Similarly, neither KHNP nor anyone on its behalf consulted with KPMG Samjong Accounting Corp. with respect to the matters mentioned above.

We provided a copy of this disclosure to Deloitte Anjin LLC and requested that Deloitte Anjin LLC furnish us with a letter addressed to the SEC stating whether or not it agrees with the statements made above. A copy of Deloitte Anjin LLC s letter addressed to the SEC dated April 30, 2013 is attached to this annual report as Exhibit 15.5.

**ITEM 16G. CORPORATE GOVERNANCE**

We are committed to high standards of corporate governance. We are in compliance with the corporate governance provisions of the KEPCO Act, the Public Agencies Management Act, the Korean Commercial Code, the Financial Investment Services and Capital Markets Act of Korea and the Listing Rules of the Korea Exchange. We, like all other companies in Korea, must comply with the corporate governance provisions under the Korean Commercial Code, except to the extent the KEPCO Act and the Public Agencies Management Act otherwise require. In addition, as a listed company, we are subject to the Financial Investment Services and Capital Markets Act of Korea, unless the Financial Investment Services and Capital Markets Act of Korea otherwise provides.

**The Public Agencies Management Act**

On April 1, 2007, the Government-invested Enterprise Management Basic Act, which was enacted in 1984, was abolished and the Public Agencies Management Act took effect. Unless stated otherwise, the Public Agencies

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Management Act takes precedence over any other laws and regulations in the event of inconsistency. Under this Act, the minister of the Ministry of Strategy and Finance designated us as a market-oriented public enterprise, as defined under this Act, on April 2, 2007, and we became subject to this Act accordingly.

The Public Agencies Management Act requires a number of changes in the appointment process for our executive officers, which we have incorporated in our amendment to our Articles of Incorporation in September 2007. A senior non-standing director appointed by the minister of the Ministry of Strategy and Finance becomes our chairman of the board following the review and resolution of the Public Agencies Operating Committee. Our president is appointed by the President of the Republic upon the motion of the Ministry of Trade, Industry and Energy following the nomination by our director nomination committee, the review and resolution of the Public Agencies Operating Committee pursuant to the Public Agencies Management Act and an approval at the general meeting of our shareholders. Standing directors other than our president must be appointed by our president with the approval at the general meeting of our shareholders from a pool of candidates recommended by our director nomination committee. Prior to the enactment of the Act, standing directors were appointed directly by the minister of the Ministry of Trade, Industry and Energy. The non-standing directors must be appointed by the minister of the Ministry of Strategy and Finance following the review and resolution of the Public Agencies Operating Committee from a pool of candidates recommended by the director nomination committee and must have ample knowledge and experience in business management. Government officials that are not part of the teaching staff in national and public schools are ineligible to become our non-standing directors.

Under the Public Agencies Management Act and our Articles of Incorporation, the term of office for directors is three years for the president and two years for other directors. The directors may be reappointed for an additional term of one year. In order to be reappointed, the president must be evaluated on the basis of his management performance; a standing director, on the basis of the performance of the duties for which he was elected to perform, or if the standing director has executed an incentive bonus contract, on the basis of his performance under the contract; and a non-standing director, on the basis of his performance of the duties for which he was elected to perform.

Under the Public Agencies Management Act and our Articles of Incorporation, a recommendation from the director nomination committee is required for the appointment of our executive officers, except in the case of reappointments. The director nomination committee consists of five to fifteen members, including private-sector members appointed by the board of directors. Non-standing directors must comprise at least the majority of the director nomination committee. One of the private-sector members must be able to represent our opinion and must not be currently employed by us. As required under the Public Agencies Management Act, we established an audit committee. At least two-thirds of the audit committee members must be non-standing directors, and at least one committee member must be an expert in finance or accounting. According to the Public Agencies Management Act, our president s term cannot be terminated unless done so by the President of the Republic pursuant to the Public Agencies Management Act or upon an event as specified in our Articles of Incorporation.

As required under Public Agencies Management Act, we submit to the Government by October 31 every year a report on our medium- to long-term management goals. Under the Public Agencies Management Act, we are also required to give separate public notice of important management matters, such as our budget and financial statements, status of directors and annual reports. In addition, for purposes of providing a comparison of the management performances of government agencies, we are required to post on a designated website a notice on a standard form detailing our management performance. Following consultation with the minister of the Ministry of Trade, Industry and Energy and the review and resolution of the operating committee, the Ministry of Strategy and Finance must examine the adequacy and competency of government agencies and establish plans on merger, abolishment, restructuring and privatization of public agencies. In such case, the minister of the Ministry of Trade, Industry and Energy must execute these plans and submit a performance report to the Ministry of Strategy and Finance.

On January 24, 2011, the Ministry of Trade, Industry and Energy changed the designation of our generation subsidiaries from other public institutions to market-oriented public enterprises. As other public institutions under the provisions of the Public Agencies Management Act, our generation subsidiaries were not

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subject to the same regulations applicable to us with regards to corporate governance matters such as the appointment and dismissal of directors and the composition of the boards of directors. However, as market-oriented public enterprises, our generation subsidiaries are currently subject to the same corporate governance rules applicable to us. All of our generation subsidiaries accordingly amended their respective articles of incorporation in 2011 and are subject to the same system of regulations applicable to us.

**Differences in Korean/New York Stock Exchange Corporate Governance Practices**

We are a foreign private issuer (as such term is defined in Rule 3b-4 under the Exchange Act), and our ADSs are listed on the New York Stock Exchange, or NYSE. Under Section 303A of the NYSE Listed Company Manual, NYSE-listed companies that are foreign private issuers are permitted to follow home country practice in lieu of the corporate governance provisions specified by the NYSE with limited exceptions. Under the NYSE Listed Company Manual, we as a foreign private issuer are required to disclose significant differences between NYSE s corporate governance standards and those we follow under Korean law. The following summarizes some significant ways in which our corporate governance practices differ from those followed by U.S. companies listed on the NYSE under the listing rules of the NYSE:

***Majority of Independent Directors on the Board***

Under the NYSE listing rules, U.S. companies listed on the NYSE must have a board the majority of which is comprised of independent directors satisfying the requirements of independence as set forth in Rule 10A-3 under the Exchange Act. No director qualifies as independent unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with us). The NYSE rules include detailed tests for determining director independence. While as a foreign private issuer, we are exempt from this requirement, our board of directors is in compliance with this requirement as it currently consists of 15 directors, of which eight directors satisfy the requirements of independence as set forth in Rule 10A-3 under the Exchange Act. U.S. companies listed on the NYSE are required to adopt and disclose corporate governance guidelines. Under the Public Agencies Management Act, more than one-half of our directors must be non-standing directors. The Financial Investment Services and Capital Markets Act of Korea deems a non-standing director nominated pursuant to other applicable laws (such as the Public Agencies Management Act) as an outside or non-executive director. Under the Public Agencies Management Act, a non-standing director is appointed by the Ministry of Strategy and Finance following the review and resolution of the Public Agencies Operating Committee from a pool of candidates recommended by the director nomination committee and must have ample knowledge and experience in business management. Government officials that are not part of the teaching staff in national and public schools are ineligible to become our non-standing directors.

***Executive Session***

Under the NYSE listing rules, non-management directors of U.S. companies listed on the NYSE are required to meet on a regular basis without management present and independent directors must meet separately at least once per year. While no such requirement currently exists under applicable Korean law, listing standards or our Articles of Incorporation, exclusive sessions were held quarterly in 2013 in order to promote the exchange of diverse opinions by non-standing directors.

***Audit Committee***

Under the NYSE listing rules, listed companies must have an audit committee that has a minimum of three members, and all audit committee members must satisfy the requirements of independence set forth in Section 303A.02 of the NYSE Listed Company Manual and Rule 10A-3 under the Exchange Act. We are in compliance with this requirement as our audit committee is comprised of three outside directors meeting the requirements of independence set forth in Section 303A.02 of the NYSE Listed Company Manual and

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Rule 10A-3 under the Exchange Act. The audit committee must be directly responsible for the appointment, compensation, retention and oversight of the work of the independent registered public accountants. Our board of auditors performs the roles and responsibilities required of an audit committee under the Sarbanes-Oxley Act, including the supervision of the audit by the independent registered public accountants. Under the Korea Exchange listing rules and the Korean Commercial Code, a large listed company must also establish an audit committee of which at least two-thirds of its members must be outside directors and whose chairman must be an outside director. In addition, at least one member of the audit committee who is an outside director must also be an accounting or financial expert. Currently, our audit committee consists of three independent directors, and our audit committee is in compliance with the foregoing requirements under the NYSE listing rules, the Sarbanes-Oxley Act, the Korea Exchange listing rules and the Korean Commercial Code.

***Nomination/Corporate Governance Committee***

Under the NYSE listing rules, U.S. companies listed on the NYSE must have a nomination/corporate governance committee composed entirely of independent directors. In addition to identifying individuals qualified to become board members, this committee must develop and recommend to the board a set of corporate governance principles. Under the Public Agencies Management Act, we are required to have a director nomination committee which consists of non-standing directors and ad hoc members appointed by our Board of Directors. Our standing directors and executives as well as governmental officials that are not part of the teaching staff in national and public schools are ineligible to become a member of our director nomination committee. There is no requirement to establish a corporate governance committee under applicable Korean law.

Pursuant to the NYSE listing standards, non-management directors must meet on a regular basis without management present and independent directors must meet separately at least once per year. No such requirement currently exists under applicable Korean law.

***Compensation Committee***

Under the NYSE listing rules, U.S. companies listed on the NYSE are required to have a compensation committee which is composed entirely of independent directors. In January 2013, the SEC approved amendments to the listing rules of NYSE and NASDAQ regarding the independence of compensation committee members and the appointment, payment and oversight of compensation consultants. The listing rules were adopted as required by Section 952 of the Dodd-Frank Act and rule 10C-1 of the Securities Exchange Act of 1934, as amended, which direct the national securities exchanges to prohibit the listing of any equity security of a company that is not in compliance with the rule s compensation committee director and advisor independence requirements. Certain elements of the listing rules became effective on July 1, 2013 and companies listed on the NYSE must comply with such listing rules by the earlier of the company s first annual meeting after January 15 or October 31, 2014.

No such requirement currently exists under applicable Korean law or listing standards, and we currently do not have a compensation committee.

***Corporate Governance Guidelines and Code of Business Conduct and Ethics***

Under the NYSE listing rules, U.S. companies listed on the NYSE are required to establish corporate governance guidelines and to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. As a foreign private issuer, we are exempt from this requirement. Pursuant to the requirements of the Sarbanes-Oxley Act, we have adopted a code of ethics applicable to our President & Chief Executive Officer and all other directors and executive officers including the Chief Financial Officer and the Chief Accounting Officer, as well as all financial, accounting and other officers that are involved in the preparation and disclosure of our consolidated financial statements and internal control of financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. We have also adopted

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an insider reporting system in compliance with Section 301 of the Sarbanes-Oxley Act. The code of ethics applicable to our executive officers as well as the financial officers of the holding company and its subsidiaries are available on www.kepco.co.kr.

***Shareholder Approval of Equity Compensation Plans***

Under the NYSE listing rules, shareholders of U.S. companies listed on the NYSE are required to approve all equity compensation plans. Under Korean law and regulations, stock options can be granted to employees to the extent expressly permitted by the articles of incorporation. We currently don t have any equity compensation plans.

***Annual Certification of Compliance***

Under the NYSE listing rules, a chief executive officer of a U.S. company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards. As a foreign private issuer, we are not subject to this requirement. However, in accordance with rules applicable to both U.S. companies and foreign private issuers, we are required to promptly notify the NYSE in writing if any executive officer becomes aware of any material noncompliance with the NYSE corporate governance standards applicable to us. In addition, foreign private issuers, including us, are required to submit to the NYSE an annual written affirmation relating to compliance with Sections 303A.06 and 303A.11 of the NYSE listed company manual, which are the NYSE corporate governance standards applicable to foreign private issuers. All written affirmations must be executed in the form provided by the NYSE, without modification. An annual written affirmation is required to be submitted to the NYSE within 30 days of filing with the SEC our annual report on Form 20-F. We have been in compliance with this requirement in all material respects and plan to submit such affirmation within the prescribed time line.

***Whistle Blower Protection***

On May 25, 2011, the SEC adopted final rules to implement whistleblower provisions of the Dodd-Frank Act, which are applicable to foreign private issuers with securities registered under the U.S. securities laws. The final rules provide that any eligible whistleblower who voluntarily provides the SEC with original information that leads to the successful enforcement of an action brought by the SEC under U.S. securities laws must receive an award of between 10 and 30 percent of the total monetary sanctions collected if the sanctions exceed $1,000,000. An eligible whistleblower is defined as someone who provides information about a possible violation of the securities laws that he or she reasonably believes has occurred, is ongoing, or is about to occur. The possible violation does not need to be material, probably or even likely, but the information must have a facially plausible relationship to some securities law violation ; frivolous submissions would not qualify. The final rules also prohibit retaliation against the whistleblower. While the final rules do not require employees to first report allegations of wrongdoing through a company s corporate compliance system, they do seek to incentivize whistleblowers to utilize internal corporate compliance first by, among other things, (i) giving employees who first report information internally the benefit of the internal reporting date for purposes of the SEC program so long as the whistleblower submits the same information to the SEC within 120 days of the initial disclosure; (ii) clarifying that the SEC will consider, as part of the criteria for determining the amount of a whistleblower s award, whether the whistleblower effectively utilized the company s corporate compliance program or hindered the function of the program; and (iii) crediting a whistleblower who reports internally first and whose company passes the information along to the SEC, which would mean the whistleblower could receive a potentially higher award for information gathered in an internal investigation initiated as a result of the whistleblower s internal report.

In addition, the final rules address concerns that the whistleblower rules incentivize officers, directors and those with legal, audit, compliance or similar responsibilities to abuse these positions by making whistleblower

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complaints to the SEC with respect to information they obtained in these roles by generally providing that information obtained through a communication subject to attorney-client privilege or as a result of legal representation would not be eligible for a whistleblower award unless disclosure would be permitted by attorney conduct rules. Accordingly, officers and directors, auditors and compliance personnel and other persons in similar roles would not be eligible to receive awards for information received in these positions unless (x) they have a reasonable basis to believe that (1) disclosure of the information is necessary to prevent the entity from engaging in conduct that is likely to cause substantial injury to the financial interests of the entity or investors; or (2) the entity is engaging in conduct that will impede an investigation of the misconduct, for example, destroying documents or improperly influencing witnesses; or (y) 120 days have passed since the whistleblower provided the information to senior responsible persons at the entity or 120 days have passed since the whistleblower received the information at a time when these people were already aware of the information.

In Korea, there is no corresponding law or regulation.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

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## PART III

### ITEM 17. FINANCIAL STATEMENTS

Not applicable.

### ITEM 18. FINANCIAL STATEMENTS

Reference is made to Item 19  Exhibits  for a list of all financial statements filed as part of this annual report.

### ITEM 19. EXHIBITS

**(a) Financial Statements filed as part of this Annual Report**

See Index to Financial Statements on page F-1 of this annual report.

**(b) Exhibits filed as part of this Annual Report**

See Index of Exhibits beginning on page E-1 of this annual report.

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## SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

**KOREA ELECTRIC POWER CORPORATION**

| | |
|---|---|
| By: | /s/ Cho, Hwan-Eik |
| **Name:** | **Cho, Hwan-Eik** |
| **Title:** | **President and Chief Executive Officer** |
| **Date:** | **April 30, 2014** |

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**REPORT OF INDEPENDENT REGISTERED PUBLIC**

**ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS**

To the shareholders and Board of Directors of

Korea Electric Power Corporation:

We have audited the accompanying consolidated statement of financial position of Korea Electric Power Corporation (the Company ) and subsidiaries as of December 31, 2013, and the related consolidated statements of comprehensive income (loss), changes in equity and cash flows, for the year ended December 31, 2013. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Korea East-West Power Co., Ltd., a consolidated subsidiary, whose financial statements comprise 3.93 percent of consolidated total assets (prior to inter-company eliminations) as of December 31, 2013 and 5.90 percent of consolidated total revenue (prior to inter-company eliminations) for the year ended December 31, 2013. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts are based solely on the report of the other auditors. The accompanying consolidated financial statements of Korea Electric Power Corporation and subsidiaries as of December 31, 2012, and for the years ended December 31, 2011 and 2012, were audited by other auditors whose report thereon dated April 30, 2013, expressed an unqualified opinion on those financial statements, before the retrospective presentation of the power generation maintenance operating segment as a reportable segment as described in note 4 to the consolidated financial statements and the reclassification adjustments to present accrued incentive compensation as provisions instead of trade accounts payable and other as described in note 2.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Korea Electric Power Corporation and subsidiaries as of December 31, 2013 and the results of their operations and their cash flows for the year then ended, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have audited the retrospective presentation in 2011 and 2012 of the plant maintenance & engineering service operating segment as a reportable segment as described in note 4 and the reclassification adjustments to present accrued incentive compensation as provisions instead of trade accounts payable and other as described in note 2. In our opinion, such retrospective reportable segment presentation and reclassification adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2011 and 2012 consolidated financial statements of the Company other than with respect to the retrospective reportable segment presentation and reclassification adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2011 and 2012 consolidated financial statements of the Company taken as a whole.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 30, 2014 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting, based on our audit and the report of other auditors.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 30, 2014

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON**

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Shareholders and Board of Directors of

Korea Electric Power Corporation:

We have audited Korea Electric Power Corporation s (the Company ) internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit. We did not audit the internal control over financial reporting of Korea East-West Power Co., Ltd., a consolidated subsidiary, whose financial statements reflect total assets and revenues constituting 3.93 percent and 5.90 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2013. Korea East-West Power Co., Ltd. s internal control over financial reporting was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to Korea East-West Power Co., Ltd s internal control over financial reporting, is based solely on the report of the other auditors.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the group s assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit and the report of the other auditors, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2013, all expressed in Korean won, and our report dated April 30, 2014 expressed an unqualified opinion on those consolidated financial statements, based on our audit and the report of the other auditors.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 30, 2014

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Korea Electric Power Corporation:

We have audited, before the effects of the retrospective adjustments to apply the changes in accounting described in Note 2 to the consolidated financial statements and the retrospective adjustments to the disclosures for a change in the composition of segments discussed in Note 4 to the consolidated financial statements, the consolidated statements of financial position of Korea Electric Power Corporation and subsidiaries (the Company ) as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the two years in the period ended December 31, 2011 and 2012 (the 2011 and 2012 consolidated financial statements before the effects of the adjustments discussed in Note 2 and Note 4 to the consolidated financial statements are not presented herein). These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries whose financial statements reflect 4.7 percent of consolidated total assets as of December 31, 2012 and 9.5 and 10.1 percent of consolidated total revenue for each of the two years in the period ended December 31, 2011 and 2012. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Korea South-East Power Co., Ltd., is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, such consolidated financial statements, before the effects of retrospective adjustment for the change in accounting described in Note 2 and retrospective adjustment for a change in segments discussed in Note 4, present fairly, in all material respects, the financial position of Korea Electric Power Corporation and subsidiaries as of December 31, 2012 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2011 and 2012, in conformity with the International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ).

We were not engaged to audit, review, or apply any procedures to the retrospective adjustments for the changes in accounting described in Note 2 to the consolidated financial statements, and the retrospective adjustments to the disclosures for a change in the composition of segments discussed in Note 4 to the consolidated financial statements and, accordingly, we do not express on opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditor.

/s/ Deloitte Anjin LLC

Seoul, Korea

April 30, 2013

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholder

Korea East-West Power Co., Ltd.

We have audited the consolidated statement of financial position of Korea East-West Power Co., Ltd. and subsidiaries (the Company ), a wholly owned subsidiary of Korea Electric Power Corporation as of December 31, 2013 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2013. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Korea East-West Power Co., Ltd. and subsidiaries as of December 31, 2013 and their consolidated results of operations, and their cash flows for the year ended December 31, 2013, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Korea East-West Power Co., Ltd. s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated April 30, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young Han Young

April 30, 2014

Seoul, Republic of Korea

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Board of Directors and Stockholder of

Korea East-West Power Co., Ltd.

We have audited Korea East-West Power Co., Ltd. s (the Company ) internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria ). Korea East-West Power Co., Ltd. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Korea East-West Power Co., Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of Korea East-West Power Co., Ltd. as of December 31, 2013 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2013 and our report dated April 30, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young Han Young

April 30, 2014

Seoul, Republic of Korea

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholder

Korea South-East Power Co., Ltd.

We have audited the consolidated statements of financial position of Korea South-East Power Co., Ltd. (the Company ) as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the two years in the period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Korea South-East Power Co., Ltd. as at December 31, 2012 and 2011 and the consolidated results of its financial performance, and its cash flows for each of the two years in the period ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ Ernst & Young Han Young

April 29, 2013

Seoul, Republic of Korea

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**KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Financial Position**

**As of December 31, 2012 and 2013**

| | Note | 2012 | 2013 |
|---|---|---|---|
| | | In millions of won | |
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | 5,6,7,44 | 1,954,949 | 2,232,313 |
| Current financial assets, net | 5,10,11,12,44 | 656,217 | 436,213 |
| Trade and other receivables, net | 5,8,14,20,44,45,46 | 7,184,625 | 7,526,311 |
| Inventories, net | 13 | 3,440,341 | 4,279,593 |
| Income tax receivables | | 30,476 | 223,803 |
| Current non-financial assets | 15 | 664,047 | 570,845 |
| Non-current assets held for sale | | 2,828 | |
| **Total current assets** | | 13,933,483 | 15,269,078 |
| Non-current assets | | | |
| Non-current financial assets, net | 5,6,9,10,11,12,44 | 1,873,676 | 1,902,953 |
| Non-current trade and other receivables, net | 5,8,14,44,45,46 | 1,254,330 | 1,644,333 |
| Property, plant and equipment, net | 18,27,48 | 122,376,140 | 129,637,596 |
| Investment properties, net | 19,27 | 590,223 | 538,327 |
| Goodwill | 16 | | 2,582 |
| Intangible assets other than goodwill, net | 21,27 | 883,814 | 810,664 |
| Investments in joint ventures | 4,17 | 908,593 | 1,106,181 |
| Investments in associates | 4,17 | 3,982,340 | 4,124,574 |
| Deferred tax assets | 41 | 209,783 | 359,535 |
| Non-current non-financial assets | 15 | 140,438 | 131,511 |
| **Total non-current assets** | | 132,219,337 | 140,258,256 |
| **Total Assets** | 4 | 146,152,820 | 155,527,334 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Trade and other payables, net | 5,22,24,44,46 | 5,601,852 | 5,892,763 |
| Current financial liabilities, net | 5,11,23,44,46 | 7,788,819 | 8,425,231 |
| Income tax payables | | 334,053 | 51,407 |
| Current non-financial liabilities | 20,28,29 | 4,117,440 | 4,730,631 |
| Current provisions | 26,44 | 974,915 | 1,113,817 |
| Total current liabilities | | 18,817,079 | 20,213,849 |
| Non-current liabilities | | | |
| Non-current trade and other payables, net | 5,22,24,44,46 | 4,173,691 | 3,971,519 |
| Non-current financial liabilities, net | 5,11,23,44,46 | 46,050,766 | 53,163,394 |
| Non-current non-financial liabilities | 28,29 | 6,298,650 | 6,985,641 |
| Employee benefits obligations, net | 25,44 | 2,144,334 | 2,137,296 |
| Deferred tax liabilities | 41 | 5,433,292 | 5,002,585 |
| Non-current provisions | 26,44 | 12,170,806 | 12,602,314 |

| | | | |
|---|---|---|---|
| **Total non-current liabilities** | | 76,271,539 | 83,862,749 |
| **Total Liabilities** | 4 | 95,088,618 | 104,076,598 |

(Continued)

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**KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Financial Position (Continued)**

**As of December 31, 2012 and 2013**

| | Note | 2012 | 2013 |
|---|---|---|---|
| | | In millions of won | |
| **Equity** | | | |
| Contributed capital | 30,44 | | |
| Share capital | | 3,209,820 | 3,209,820 |
| Share premium | | 843,758 | 843,758 |
| | | 4,053,578 | 4,053,578 |
| Retained earnings | 31 | | |
| Legal reserves | | 1,603,919 | 1,603,919 |
| Voluntary reserves | | 25,961,315 | 22,753,160 |
| Retained earnings before appropriations | 32 | 4,999,049 | 8,409,007 |
| | | 32,564,283 | 32,766,086 |
| Other components of equity | 34 | | |
| Other capital surpluses | | 705,448 | 830,982 |
| Accumulated other comprehensive income | | 11,957 | 55,538 |
| Treasury stock | | (741,489) | (741,489) |
| Other equity | | 13,294,990 | 13,294,973 |
| | | 13,270,906 | 13,440,004 |
| Equity attributable to owners of the Company | | 49,888,767 | 50,259,668 |
| Non-controlling interests | 16, 33 | 1,175,435 | 1,191,068 |
| **Total Equity** | | 51,064,202 | 51,450,736 |
| **Total Liabilities and Equity** | | 146,152,820 | 155,527,334 |

See accompanying notes to the consolidated financial statements.

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**KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income (Loss)**

**For the years ended December 31, 2011, 2012 and 2013**

| | Note | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| | | In millions of won, except per share information | | |
| **Sales** | 4,35,44,46 | | | |
| Sales of goods | | 41,397,469 | 46,906,587 | 51,132,803 |
| Sales of construction services | 20 | 1,455,132 | 1,856,045 | 2,253,083 |
| Sales of other services | | 322,616 | 357,877 | 326,619 |
| | | 43,175,217 | 49,120,509 | 53,712,505 |
| **Cost of sales** | 13,25,42,46 | | | |
| Cost of sales of goods | | (40,926,543) | (46,293,591) | (47,983,987) |
| Cost of sales of construction services | | (1,405,302) | (1,695,218) | (2,159,023) |
| Cost of sales of other services | | (393,049) | (470,453) | (452,628) |
| | | (42,724,894) | (48,459,262) | (50,595,638) |
| **Gross profit** | | 450,323 | 661,247 | 3,116,867 |
| **Selling and administrative expenses** | 25,36,42,46 | (1,751,696) | (1,780,168) | (1,923,192) |
| **Other income** | 37 | 598,302 | 675,000 | 725,457 |
| **Other expenses** | 37 | (147,595) | (74,567) | (99,811) |
| **Other gains (losses), net** | 38 | 165,703 | (1,781,835) | 128,514 |
| **Operating profit (loss)** | 4 | (684,963) | (2,300,323) | 1,947,835 |
| **Finance income** | 5,11,39 | 607,592 | 1,128,357 | 629,542 |
| **Finance expenses** | 5,11,40 | (2,518,850) | (3,068,321) | (2,931,622) |
| **Equity method income (loss) of associates and joint ventures** | 17 | | | |
| Share in income of associates and joint ventures | | 162,513 | 205,987 | 170,399 |
| Gains on disposal of investments in associates and joint ventures | | 3,147 | | 1,725 |
| Share in loss of associates and joint ventures | | (42,115) | (20,127) | (140,984) |
| Losses on disposal of investments in associates and joint ventures | | (450) | (162) | (45,291) |
| Impairment losses on investments in associates and joint ventures | | | (8,757) | (28,092) |
| | | 123,095 | 176,941 | (42,243) |
| **Loss before income taxes** | | (2,473,126) | (4,063,346) | (396,488) |
| **Income tax (expense) benefit** | 41 | (819,871) | 985,377 | 570,794 |
| **Profit (loss) for the period** | | (3,292,997) | (3,077,969) | 174,306 |

(Continued)

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss) (Continued)

For the years ended December 31, 2011, 2012 and 2013

| | Note | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| | | In millions of won, except per share information | | |
| **Other comprehensive income (loss)** | 5,11,25,34 | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Defined benefit plan actuarial gains (losses), net of tax | 25,31 | (152,196) | (41,310) | 132,457 |
| Share in other comprehensive income (loss) of associates and joint ventures, net of tax | 31 | (5,002) | (846) | 7,671 |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Net change in the unrealized fair value of available-for-sale financial assets, net of tax | 34 | (174,958) | 2,245 | 86,570 |
| Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax | 5,11,34 | (27,999) | (63,850) | 29,332 |
| Foreign currency translation of foreign operations, net of tax | 34 | 47,135 | (121,892) | (108,625) |
| Share in other comprehensive income (loss) of associates and joint ventures, net of tax | 34 | 50,862 | (96,060) | 38,366 |
| **Other comprehensive income (loss), net of tax** | | (262,158) | (321,713) | 185,771 |
| **Total comprehensive income (loss) for the period** | | (3,555,155) | (3,399,682) | 360,077 |
| **Profit (loss) attributable to:** | | | | |
| Owners of the Company | 43 | (3,370,464) | (3,166,616) | 60,011 |
| Non-controlling interests | | 77,467 | 88,647 | 114,295 |
| | | (3,292,997) | (3,077,969) | 174,306 |
| **Total comprehensive income (loss) attributable to:** | | | | |
| Owners of the Company | | (3,627,669) | (3,447,949) | 245,384 |
| Non-controlling interests | | 72,514 | 48,267 | 114,693 |
| | | (3,555,155) | (3,399,682) | 360,077 |
| **Earnings (loss) per share** | 43 | | | |
| Basic and diluted earnings (loss) per share | | (5,411) | (5,083) | 96 |

See accompanying notes to the consolidated financial statements.

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**KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Changes in Equity**

**For the years ended December 31, 2011, 2012 and 2013**

| | Equity attributable to owners of the Company | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| | Contributed capital | Retained earnings | Other components of equity | Subtotal | | |
| | In millions of won | | | | | |
| **Balance at January 1, 2011** | 4,042,979 | 39,296,232 | 13,478,767 | 56,817,978 | 458,559 | 57,276,537 |
| **Total comprehensive income for the period** | | | | | | |
| Profit (loss) for the period | | (3,370,464) | | (3,370,464) | 77,467 | (3,292,997) |
| Items that will not be reclassified subsequently to profit or loss: | | | | | | |
| Defined benefit plan actuarial losses, net of tax | | (151,672) | | (151,672) | (524) | (152,196) |
| Share in other comprehensive loss of associates and joint ventures, net of tax | | (5,002) | | (5,002) | | (5,002) |
| Items that may be reclassified subsequently to profit or loss: | | | | | | |
| Net changes in the unrealized fair value of available-for-sale financial assets, net of tax | | | (174,937) | (174,937) | (21) | (174,958) |
| Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax | | | (18,648) | (18,648) | (9,351) | (27,999) |
| Foreign currency translation of foreign operations, net of tax | | | 42,173 | 42,173 | 4,962 | 47,135 |
| Share in other comprehensive income (loss) of associates and joint ventures, net of tax | | | 50,881 | 50,881 | (19) | 50,862 |
| **Transactions with owners of the Company, recognized directly in equity** | | | | | | |
| Dividends paid | | | | | (44,663) | (44,663) |
| Issuance of share capital | 10,599 | | | 10,599 | 3,187 | 13,786 |
| Changes in consolidation scope | | | 69,388 | 69,388 | 42,991 | 112,379 |
| Others | | | | | 1,066 | 1,066 |
| **Balance at December 31, 2011** | 4,053,578 | 35,769,094 | 13,447,624 | 53,270,296 | 533,654 | 53,803,950 |

(Continued)

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**KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Changes in Equity (Continued)**

**For the years ended December 31, 2011, 2012 and 2013**

| | Equity attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Contributed capital | Retained earnings | Other components of equity | Subtotal | Non-controlling Interests | Total equity |
| | In millions of won | | | | | |
| **Balance at January 1, 2012** | 4,053,578 | 35,769,094 | 13,447,624 | 53,270,296 | 533,654 | 53,803,950 |
| **Total comprehensive income (loss) for the period** | | | | | | |
| Profit (loss) for the period | | (3,166,616) | | (3,166,616) | 88,647 | (3,077,969) |
| Items that will not be reclassified subsequently to profit or loss: | | | | | | |
| Defined benefit plan actuarial losses, net of tax | | (37,349) | | (37,349) | (3,961) | (41,310) |
| Share in other comprehensive loss of associates and joint ventures, net of tax | | (846) | | (846) | | (846) |
| Items that may be reclassified subsequently to profit or loss: | | | | | | |
| Net changes in the unrealized fair value of available-for-sale financial assets, net of tax | | | 2,255 | 2,255 | (10) | 2,245 |
| Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax | | | (44,909) | (44,909) | (18,941) | (63,850) |
| Foreign currency translation of foreign operations, net of tax | | | (104,595) | (104,595) | (17,297) | (121,892) |
| Share in other comprehensive loss of associates and joint ventures, net of tax | | | (95,889) | (95,889) | (171) | (96,060) |
| **Transactions with owners of the Company, recognized directly in equity** | | | | | | |
| Dividends paid | | | | | (55,254) | (55,254) |
| Issuance of share capital | | | | | 115,346 | 115,346 |
| Changes in consolidation scope | | | 66,420 | 66,420 | 31,003 | 97,423 |
| Issuance of hybrid securities | | | | | 498,660 | 498,660 |
| Others | | | | | 3,759 | 3,759 |
| **Balance at December 31, 2012** | 4,053,578 | 32,564,283 | 13,270,906 | 49,888,767 | 1,175,435 | 51,064,202 |

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**KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Changes in Equity (Continued)**

**For the years ended December 31, 2011, 2012 and 2013**

| | Equity attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|
| | **Contributed capital** | **Retained earnings** | **Other components of equity** | **Subtotal** | **Non-controlling Interests** | **Total equity** |
| | In millions of won | | | | | |
| **Balance at January 1, 2013** | 4,053,578 | 32,564,283 | 13,270,906 | 49,888,767 | 1,175,435 | 51,064,202 |
| **Total comprehensive income (loss) for the period** | | | | | | |
| Profit for the period | | 60,011 | | 60,011 | 114,295 | 174,306 |
| Items that will not be reclassified subsequently to profit or loss: | | | | | | |
| Defined benefit plan actuarial income (loss), net of tax | | 134,121 | | 134,121 | (1,664) | 132,457 |
| Share in other comprehensive income of associates and joint ventures, net of tax | | 7,671 | | 7,671 | | 7,671 |
| Items that may be reclassified subsequently to profit or loss: | | | | | | |
| Net changes in the unrealized fair value of available-for-sale financial assets, net of tax | | | 86,543 | 86,543 | 27 | 86,570 |
| Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax | | | 18,907 | 18,907 | 10,425 | 29,332 |
| Foreign currency translation of foreign operations, net of tax | | | (100,572) | (100,572) | (8,053) | (108,625) |
| Share in other comprehensive income (loss) of associates and joint ventures, net of tax | | | 38,703 | 38,703 | (337) | 38,366 |
| **Transactions with owners of the Company, recognized directly in equity** | | | | | | |
| Dividends paid | | | | | (41,812) | (41,812) |
| Issuance of share capital | | | (173) | (173) | 31,229 | 31,056 |
| Equity transaction in consolidated scope other than issuance of share capital | | | 135,914 | 135,914 | 43,128 | 179,042 |
| Changes in consolidation scope | | | (10,224) | (10,224) | (115,991) | (126,215) |
| Dividends paid (hybrid securities) | | | | | (16,455) | (16,455) |
| Others | | | | | 841 | 841 |
| **Balance at December 31, 2013** | 4,053,578 | 32,766,086 | 13,440,004 | 50,259,668 | 1,191,068 | 51,450,736 |

See accompanying notes to the consolidated financial statements.

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**KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**For the years ended December 31, 2011, 2012 and 2013**

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| | | In millions of won | |
| **Cash flows from operating activities** | | | |
| Profit (loss) for the period | (3,292,997) | (3,077,969) | 174,306 |
| Adjustments for: | | | |
| Income tax expense (benefit) | 819,871 | (985,377) | (570,794) |
| Depreciation | 6,782,661 | 6,903,350 | 7,303,996 |
| Amortization | 94,729 | 93,360 | 88,379 |
| Employee benefit expense | 341,902 | 364,913 | 384,323 |
| Bad debt expense | 15,136 | 41,440 | 49,110 |
| Interest expense | 2,123,579 | 2,344,328 | 2,381,900 |
| Loss on sale of financial assets | | | 4,202 |
| Loss on disposal of property, plant and equipment | 31,228 | 39,942 | 58,852 |
| Loss on abandonment of property, plant, and equipment | 296,557 | 253,985 | 295,627 |
| Impairment loss on property, plant and equipment | | 27,968 | 24,612 |
| Impairment loss on intangible assets | 221 | 459 | 267 |
| Loss on disposal of intangible assets | | 44 | 1 |
| Accretion expense to provisions, net | 421,364 | 843,047 | 663,621 |
| Gain (loss) on foreign currency translation, net | 226,012 | (766,863) | (195,571) |
| Valuation and transaction loss (gain) on derivative instruments, net | (75,307) | 597,628 | 233,484 |
| Share in income of associates and joint ventures, net | (120,398) | (185,860) | (29,414) |
| Gain on sale of financial assets | | (189) | (107) |
| Gain on sale of property, plant and equipment | (38,776) | (32,797) | (59,345) |
| Gain on disposal of intangible assets | | (15) | (4) |
| Loss on disposal of other non-current assets | | 584 | |
| Gain (loss) on disposal of investments in associates and joint ventures | (2,699) | 162 | 43,566 |
| Impairment loss on investments in associates and joint ventures | | 8,757 | 28,091 |
| Interest income | (291,625) | (204,123) | (182,161) |
| Dividends income | (18,894) | (10,452) | (9,870) |
| Impairment loss on available-for-sale financial assets | | 40,156 | 12,592 |
| Impairment loss on other non-current non-financial assets | | 1,877,371 | |
| Others, net | 47,998 | (21,434) | (64,089) |
| | 10,653,559 | 11,230,384 | 10,461,268 |
| Changes in: | | | |
| Increase in trade receivables | (664,696) | (781,099) | (330,494) |
| Decrease (increase) in non-trade receivables | (45,009) | (103,028) | 20,853 |
| Decrease (increase) in accrued income | 26,205 | (66,504) | 563 |
| Decrease (increase) in other receivables | | 377 | (123) |
| Decrease (increase) in other current assets | (154,062) | (384,765) | 98,724 |
| Increase in inventories | (1,411,785) | (672,979) | (1,206,676) |
| Decrease (increase) in other non-current assets | (335,262) | (1,521,249) | 65,087 |
| Increase (decrease) in trade payables | 710,831 | 154,341 | (40,416) |
| Increase (decrease) in non-trade payables | (298,356) | 224,567 | (195,191) |
| Increase (decrease) in accrued expenses | 308,531 | 14,197 | (240,901) |
| Increase in other payables | | | (1) |
| Increase in other current liabilities | 1,204,974 | 1,865,302 | 1,500,717 |

| | | | |
|---|---|---|---|
| Increase (decrease) in other non-current liabilities | 525,996 | (262,590) | 48,719 |
| Decrease in investments in associates and joint ventures | 62,169 | 48,429 | 65,888 |
| Increase (decrease) in provisions | (264,898) | 78,581 | (386,377) |
| Payments of employee benefit obligations | (345,774) | (186,274) | (132,179) |
| Increase in plan assets | (291,339) | (94,763) | (101,720) |
| | (972,475) | (1,687,457) | (833,527) |

(Continued)

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**KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows (Continued)**

**For the years ended December 31, 2011, 2012 and 2013**

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| | | In millions of won | |
| **Cash generated from operating activities** | | | |
| Dividends received | 18,894 | 10,452 | 14,114 |
| Interest paid | (2,196,429) | (2,386,125) | (2,460,247) |
| Interest received | 247,711 | 153,414 | 160,830 |
| Income taxes paid | (313,534) | (325,866) | (632,837) |
| **Net cash from operating activities** | 4,144,729 | 3,916,833 | 6,883,907 |
| **Cash flows investing activities** | | | |
| Proceeds from disposals of subsidiaries, associates and joint ventures | 10,136 | 8,988 | 44 |
| Acquisition of subsidiaries, associates and joint ventures | (491,293) | (404,761) | (321,476) |
| Proceeds from disposals of property, plant and equipment | 50,578 | 100,573 | 119,464 |
| Acquisition of property, plant and equipment | (10,610,402) | (11,446,834) | (14,259,050) |
| Proceeds from disposals of intangible assets | 467 | 1,448 | 39 |
| Acquisition of intangible assets | (42,599) | (67,715) | (69,007) |
| Disposal of investment properties | 523 | | |
| Proceeds from disposals of financial assets | 856,021 | 650,757 | 610,847 |
| Acquisition of financial assets | (840,852) | (637,620) | (545,992) |
| Increase in loans | (146,227) | (94,133) | (196,607) |
| Decrease in loans | 116,653 | 141,117 | 143,935 |
| Increase in deposits | (136,376) | (120,425) | (55,594) |
| Decrease in deposits | 83,334 | 66,670 | 51,882 |
| Receipt of government grants | 48,807 | 49,618 | 92,000 |
| Usage of government grants | (904) | (3,686) | (31,027) |
| Net cash inflow (outflow) from business acquisitions | (65,147) | 10,022 | (41,809) |
| Other cash inflow (outflow) from investing activities, net | (28,412) | 26,785 | (921) |
| **Net cash used in investing activities** | (11,195,693) | (11,719,196) | (14,503,272) |
| **Cash flows from financing activities** | | | |
| Increase (decrease) in short-term borrowings, net | 114,015 | (476,192) | (107,748) |
| Proceeds from long-term borrowings and debt securities | 12,100,107 | 14,202,095 | 15,233,428 |
| Repayment of long-term borrowings and debt securities | (5,880,330) | (5,895,384) | (7,315,752) |
| Payment of finance lease liabilities | (136,760) | (122,320) | (125,921) |
| Settlement of derivative instruments, net | 51,916 | (247) | 38,844 |
| Proceeds on disposal of partial interest in a subsidiary that does not involve loss of control | 100,691 | 109,589 | 236,244 |
| Change in non-controlling interest | 36,142 | 116,020 | 47,019 |
| Cash inflow from hybrid bond | | 498,660 | |
| Dividends paid (hybrid bond) | | | (16,455) |
| Dividends paid | (44,663) | (55,254) | (41,812) |
| Other cash inflow (outflow) from financing activities, net | 297 | (1,480) | (14,715) |
| **Net cash from financing activities** | 6,341,415 | 8,375,487 | 7,933,132 |
| **Net increase (decrease) in cash and cash equivalents before effect of exchange rate fluctuations** | (709,549) | 573,124 | 313,767 |

| | | | |
|---|---|---|---|
| **Effect of exchange rate fluctuations on cash held** | 7,419 | (6,096) | (36,403) |
| **Net increase (decrease) in cash and cash equivalents** | (702,130) | 567,028 | 277,364 |
| **Cash and cash equivalents at January 1** | 2,090,051 | 1,387,921 | 1,954,949 |
| **Cash and cash equivalents at December 31, 2013** | 1,387,921 | 1,954,949 | 2,232,313 |

See accompanying notes to the consolidated financial statements.

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**KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**December 31, 2013**

## 1. Reporting Entity (Description of the controlling company)

Korea Electric Power Corporation (the Company ) was incorporated on January 1, 1982 in accordance with the Korea Electric Power Corporation Act (the KEPCO Act ) to engage in the generation, transmission and distribution of electricity and development of electric power resources in the Republic of Korea. The Company also provides power plant construction services. The Company s stock was listed on the Korea Stock Exchange on August 10, 1989 and the Company listed its Depository Receipts (DR) on the New York Stock Exchange on October 27, 1994.

As of December 31, 2013, the Company s share capital amounts to 3,209,820 million and the Company s shareholders are as follows:

| | Number of shares | Percentage of ownership |
|---|---|---|
| Government of the Republic of Korea | 135,917,118 | 21.17% |
| Korea Finance Corporation | 192,159,940 | 29.93% |
| Foreign investors | 147,623,014 | 23.00% |
| Other | 166,264,005 | 25.90% |
| | 641,964,077 | 100.00% |

In accordance with the Restructuring Plan enacted on January 21, 1999 by the Ministry of Trade, Industry and Energy (the MTIE , formerly the Ministry of Knowledge Economy), the Company spun off its power generation divisions on April 2, 2001, resulting in the establishment of six power generation subsidiaries.

## 2. Basis of Preparation

The consolidated financial statements were authorized for issuance by the Board of Directors on February 20, 2014, which were submitted for approval at the shareholders meeting held on March 28, 2014.

### (1) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standard Board ( IASB ).

### (2) Basis of measurement

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

**(3) Functional and presentation currency**

These consolidated financial statements are presented in Korean won ( Won ), which are the Company s functional currency and the currency of the primary economic environment in which the Company operates.

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

The preparation of the consolidated financial statements in conformity with 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.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Continued operation of Wolseong #1 nuclear power plant

The Company owns Wolseong #1 nuclear power plant, which started its operation on November 21, 1982, and completed its operation on November 20, 2012, completing the permitted operation period of 30 years. As of December 31, 2013, the Company is in the process of obtaining safety assessments to obtain an approval from the Nuclear Safety and Security Commission to resume the plant s operation for another term. The Company has prepared the consolidated financial statements assuming that the plant will operate for the next 10 years.

(ii) Unbilled revenue

Energy delivered but not yet metered, and the quantities of energy delivered but not yet measured and not billed are calculated at the reporting date based on consumption statistics and selling price estimates. Determination of the unbilled revenues at the end of the reporting period is sensitive to the estimated assumptions and prices based on statistics. Unbilled revenue recognized as of December 31, 2012 and 2013 is 1,628,732 million and 1,678,327 million, respectively, and is included in sales of goods in the accompanying consolidated statements of financial position.

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 notes:

Note 18 Property, plant and equipment

Note 44 Risk Management

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

Note 41 Income tax

Note 25 Defined employee liabilities

**(5) Changes in accounting policies**

(i) IFRS 10, Consolidated Financial Statements

The Company adopted IFRS 10, Consolidated Financial Statements since January 1, 2013. As a result, the Company changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if the Company controls the investee on the basis of de facto circumstances.

The standard includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor s return. The adoption of IFRS 10 had no impact on the Company s consolidated financial statements.

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The following amendments to IFRSs have been applied in the current year and do not have any impact on the amounts reported in these consolidated financial statements.

(ii) IFRS 11, Joint Arrangements

Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. As a result of IFRS 11, the Company has changed its accounting policy for its interests in joint arrangements. Under IFRS 11, the Company has classified its interests in joint arrangements as either joint operations (if the Company has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Company has rights only to the net assets of an arrangement). When making this assessment, the Company considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification. The Company has re-evaluated its involvement in its joint arrangements and has reclassified the investment from a jointly controlled entity to a joint venture. Notwithstanding the reclassification, the investment continues to be recognized by applying the equity method and there has been no impact on the recognized assets, liabilities and comprehensive income of the Company.

(iii) IFRS 12, Disclosure of Interests in Other Entities

The standard brings together into a single standard all the disclosure requirements about an entity s interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard requires the disclosure of information about the nature, risks and financial effects of these interests.

(iv) IFRS 13, Fair Value Measurement

IFRS 13, establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs.

(v) IAS 19, Employee Benefits

The Company has applied the amendments to IAS 19 in the current year which requires the Company to recognize gains and losses on the settlement of a defined benefit plan when the settlement occurs.

The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest on the net defined benefit liability (asset) can be viewed as comprising interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling. Prior to adopting this amendment, the Company measured the interest on plan assets based on the long-term expected rate of return.

The Company has not applied the amendment retrospectively since management believes the impact of the amendments on the Company s consolidated financial statements is clearly immaterial.

(vi) IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine

The interpretation provides accounting for the costs from waste removal activity (stripping). To the extent that the benefit from the stripping activity is realized in the form of inventory produced, the

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entity shall account for the costs of that stripping activity in accordance with the principles of IAS 2 Inventories. To the extent the benefit is improved access to ore, the entity shall recognize these costs as a non-current asset, if the criteria in paragraph 9 below are met. This Interpretation refers to the non-current asset as the stripping activity asset .

The Company shall recognize a stripping activity asset if, and only if, all of the following are met:

It is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;

the entity can identify the component of the ore body for which access has been improved; and

the costs relating to the stripping activity associated with that component can be measured reliably.

In accordance with the interpretation, the Company has applied it prospectively beginning January 1, 2013. However PT Bayan Resources TBK (PT Bayan), one of the equity method investments of the Company, has retrospectively applied the interpretation and has restated its comparative financial statements to adjust the stripping activity costs that do not meet the criteria for asset recognition in the interpretation. The Company reflected this adjustment of 31,529 million due to the change in accounting policy as a loss on its equity method investment during the year ended December 31, 2013.

**(6) New standards and interpretations not yet adopted**

The following new standards, interpretations and amendments to existing standards have been published for mandatory application for annual periods beginning after January 1, 2014, and the Company has not early adopted them.

(i) IFRS 7, Financial Instruments: Disclosures

The amendments to IFRS 7 will require changes to the presentation of offsetting financial assets and financial liabilities. The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2014.

(ii) IFRIC 21, Levies

The interpretation covers the accounting for outflows imposed on entities by governments (including government agencies and similar bodies) in accordance with laws and/or regulations. The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2014. The Company is in the process of evaluating the impact on the consolidated financial statements upon the adoption of the amendments.

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**(7) Reclassification of items**

The Company has reclassified certain current trade and other payables to current provisions in the accompanying consolidated financial statements. The provisions represent management s estimated incentive compensation to be paid based on individual performance evaluations or management assessments. The impacts of reclassification of accounts are as below:

| | 2011 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Before | After | Difference | Before | After | Difference |
| | In millions of won | | | | | |
| **Consolidated statement of financial position** | | | | | | |
| Trade and other payables | 6,576,158 | 5,967,442 | (608,716) | 6,418,464 | 5,601,852 | (816,612) |
| Current provisions | 92,383 | 701,099 | 608,716 | 158,303 | 974,915 | 816,612 |
| **Consolidated statement of cash flow** | | | | | | |
| Accretion expense in provisions, net | 433,374 | 421,364 | (12,010) | 788,371 | 843,047 | 54,676 |
| Change in provisions | (289,237) | (264,898) | 24,339 | (74,638) | 78,581 | 153,219 |
| Increase (decrease) in non-trade payables | (7,882) | (298,356) | (290,474) | 573,517 | 224,567 | (348,949) |
| Decrease in accrued expenses | 30,386 | 308,531 | 278,145 | (126,857) | 14,197 | 141,054 |

The above reclassification does not have an impact on the net assets, net profits and losses or loss per share of the prior periods.

**3. Significant Accounting Policies**

**(1) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (or one of its subsidiaries).

Income and expense of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income (loss) from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Company.

Transactions between the Company and its subsidiaries are eliminated during the consolidation.

Changes in the Company s ownership interests in a subsidiary that do not result in the Company losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Company s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, the income or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to income or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under IAS 39, Financial Instruments : Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

**(2) Business combinations**

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

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in income or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12, Income Taxes and IAS 19, Employee Benefits respectively;

- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, Non-current Assets Held for Sale are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer s previously held interest in the acquiree (if any), the excess is recognized immediately in income or loss as a bargain purchase gain.

Non-controlling interest that is present on acquisition day and entitles the holder to a proportionate share of the entity s net assets in an event of liquidation, may be initially measured either at fair value or at the non-controlling interest s proportionate share of the recognized amounts of the acquiree s identifiable net assets. The choice of measurement can be elected on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in other IFRSs.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39, Financial Instruments: Recognition and Measurement , or with IAS 37, Provisions , Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in income or loss.

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When a business combination is achieved in stages, the Company s previously held equity interest in the acquiree is re-measured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in income or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to income or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

**(3) Investments in associates**

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. If the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale , any retained portion of an investment in associates that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. If the Company holds 20% ~ 50% of the voting power of the investee, it is presumed that the Company has significant influence.

After the disposal takes place, the Company shall account for any retained interest in associates in accordance with IAS 39 Financial Instruments: Recognition and Measurement unless the retained interest continues to be an associates, in which case the entity uses the equity method.

Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company s share of the income or loss and other comprehensive income of the associate. When the Company s share of losses of an associate exceeds the Company s interest in that associate (which includes any long-term interests that, in substance, form part of the Company s net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Company s share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in income or loss. The requirements of IAS 39, Financial Instruments: Recognition and Measurement , are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company s investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Company losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value

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on initial recognition as a financial asset in accordance with IAS 36. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to income or loss on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to income or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a Company entity transacts with its associate, incomes and losses resulting from the transactions with the associate are recognized in the Company s consolidated financial statements only to the extent of interests in the associate that are not related to the Company.

**(4) Joint arrangements**

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint arrangements are classified into two types joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement.

If the Company is a joint operator, the Company is to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses. If the joint arrangement is a joint venture, the Company is to account for that investment using the equity method accounting in accordance with IAS 28, Investment in Associates and Joint Ventures (see note 3 (3)), except when the Company is applicable to the IFRS 5, Non-current Assets Held for Sale .

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

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

**(6) Goodwill**

The Company measures goodwill which acquired in a business combination at the amount recognized at the date on which it obtains control of the acquiree (acquisition date) less any accumulated impairment losses. Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired.

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The Company assesses at the end of each reporting period whether there is any indication that an asset may be impaired. 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.

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.

**(7) Revenue recognition**

Revenue from the sale of goods, rendering of services or use of the Company assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, and are recognized as a reduction of revenue. Revenue is recognized when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company.

(i) Sales of goods

The Korean government approves the rates charged to customers by the Company s power transmission and distribution division. The Company s utility rates are designed to recover the Company s reasonable costs plus a fair investment return. The Company s power generation rates are determined in the market.

The Company recognizes electricity sales revenue based on power sold (transferred to the customer) up to the reporting date. To determine the amount of power sold, the Company estimates daily power volumes of electricity for residential, commercial, general and etc. The differences between the current month s estimated amount and actual (meter-read) amount, is adjusted for (trued-up) during the next month period.

(ii) Sales of other services

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

(iii) Dividend income and interest income

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

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

(iv) Rental income

The Company s policy for recognition of revenue from operating leases is described in note 3 (9) below.

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(v) Deferral of revenue Transfer of Assets from Customers

The Company recovers a substantial amount of the cost related to its electric power distribution facilities from customers through the transfer of assets, while the remaining portion is recovered through electricity sales from such customers in the future. As such, the Company believes there exists a continued service obligation to the customers in accordance with IFRIC 18, Transfer of Assets from Customers when the Company receives an item of property, equipment, or cash for constructing or acquiring an item of property or equipment, in exchange for supplying electricity to customers. The Company defers the amounts received, which are then recognized as revenue over the estimated service period which does not exceed the transferred asset s useful life.

**(8) Construction services revenue**

The Company provides services related to the construction of power plants related to facilities of its customers, mostly in foreign countries.

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognized based on the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred when it is probable the revenue will be realized. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date plus recognized income less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized income less recognized losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statements of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statements of financial position as accounts and other receivables.

**(9) Leases**

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

(i) The Company as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company s net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

(ii) The Company as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in income or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company s general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**(10) Foreign currencies**

Transactions in foreign currencies are translated to the respective functional currencies of the Company 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.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to income or loss on disposal or partial disposal of the net investment.

For the purpose of presenting financial statements, the assets and liabilities of the Company s foreign operations are expressed in Korean won using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

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.

**(11) Borrowing costs**

The Company 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.

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Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in income or loss in the period in which they are incurred.

**(12) Government grants**

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

Benefit from a government loan at a below-market interest rate is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

(i) If the Company received grants related to assets

Government grants whose primary condition is that the Company 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 reduced depreciation expense.

(ii) If the Company received grants related to income

Government grants which are intended to compensate the Company for expenses incurred are recognized as other income (government grants) in profit or loss over the periods in which the Company recognizes the related costs as expenses.

**(13) Employee benefits**

(i) Retirement benefits: defined contribution plans

When an employee has rendered service to the Company during a period, the Company recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid.

(ii) Retirement benefits: defined benefit plans

For defined benefit pension plans and other post-employment benefits, the net periodic pension expense is actuarially determined by Pension Actuarial System developed by independent actuaries using the projected unit credit method.

The asset or liability recognized in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in retained earnings and included in the statement of comprehensive income.

For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actual results will differ from results which are estimated based on assumptions. Past service cost is recognized as an expense at the earlier of the following dates: (a) when the plan amendment or curtailment occurs; (b) when the company recognizes related restructuring costs or termination benefits.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial

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gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

**(14) 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 Company 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 Company 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 Company 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 Company 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 Company expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

(iii) Current and deferred tax for the year

Current and deferred tax are recognized in income or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**(15) 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 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 Company 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. For loaded nuclear fuel related to long-term raw materials and spent nuclear fuels related to asset retirement costs, the Company uses the production method to measure and recognizes as expense the economic benefits of the assets.

The estimated useful lives of the Company s property, plant and equipment are as follows:

| | Useful lives (years) |
|---|---|
| Buildings | 8 ~ 40 |
| Structures | 8 ~ 50 |
| Machinery | 6 ~ 32 |
| Vehicles | 4 |
| Loaded heavy water | 30 |
| Asset retirement costs | 18, 30, 40 |
| Finance lease assets | 20 |
| Ships | 9 |
| Others | 4 ~ 9 |

A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate.

Property, plant and equipment are derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of a property, plant and equipment, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in income or loss when the asset is derecognized.

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**(16) Investment property**

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Company 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.

Investment property except for land, are depreciated on a straight-line basis over 8 ~ 40 years as estimated useful lives.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in income or loss in the period in which the property is derecognized.

**(17) Intangible assets**

(i) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

(ii) Research and development

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

The technical feasibility of completing the intangible asset so that it will be available for use or sale;

The intention to complete the intangible asset and use or sell it;

The ability to use or sell the intangible asset;

How the intangible asset will generate probable future economic benefits;

The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. When the development expenditure does not meet the criteria listed above, an internally-generated intangible asset cannot be recognized and the expenditure is recognized in income or loss in the period in which it is incurred.

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Internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses.

The estimated useful lives and amortization methods of the Company s intangible assets with finite useful lives are as follows:

| | Useful lives (years) | Amortization methods |
|---|---|---|
| Usage rights for donated assets | 4 ~ 30 | Straight |
| Software | 4, 5 | Straight |
| Industrial rights | 5, 10 | Straight |
| Development expenses | 5 | Straight |
| Dam usage right | 50 | Straight |
| Mining right | | Unit of production |
| Others | 4 ~ 20, 50 | Straight |

(iii) Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(iv) Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in income or loss when the asset is derecognized.

**(18) Impairment of non-financial assets other than goodwill**

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets with definite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in income or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does

not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in income or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**(19) Inventories**

Inventories are measured at the lower of cost and net realizable value. Cost of inventories, except for those in transit, are measured under the weighted average method and consists of the purchase price, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

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.

**(20) Provisions**

Provisions are recognized when the Company 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.

(i) Provision for Polychlorinated Biphenyls ( PCB )

Under the regulation of Persistent Organic Pollutants Management Act, enacted in 2007, the Company is required to remove polychlorinated biphenyls (PCBs), a toxin, from the insulating oil of its transformers by 2025. As a result of the enactments, the Company is required to inspect the PCBs contents of transformers and dispose of PCBs in excess of safety standards under the legally settled procedures. The Company s estimates and assumptions used to determine fair value can be affected by many factors, such as the estimated costs of inspection and disposal, inflation rate, discount rate, regulations and the general economy.

(ii) Provision for decommissioning costs of nuclear power plants

The Company records the fair value of estimated decommissioning costs as a liability in the period in which the Company incurs a legal obligation associated with retirement of long-lived assets that result from acquisition, construction, development and/or normal use of the assets. Accretion expense consists of period-to-period changes in the liability for decommissioning costs resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows.

(iii) Provision for disposal of spent nuclear fuel

Under the Radioactive Waste Management Act, the Company is levied to pay the spent nuclear fuel fund for the management of spent nuclear fuel. The Company recognizes the provision of present value of the payments.

(iv) Provision for low and intermediate radioactive wastes

Under the Radioactive Waste Management Act, the Company recognizes the provision for the disposal of low and intermediate radioactive wastes in best estimate of the expenditure required to settle the present obligation.

(v) Provisions for power plant regional support program

Power plant regional support programs consist of scholarship programs to local students, local economy support programs, local culture support programs, environment development programs, and local welfare programs. The Company recognizes the provision in relation to power plant regional support program.

(vi) Provision for employment benefits

The Company determines the provision for employment benefits as the incentive payments based on the results of the individual performance evaluation or management assessment.

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

The Company 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 Company recognizes financial assets in the statement of financial position when the Company 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.

A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting or settlement date accounting. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

(i) Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as financial assets at fair value through profit or loss.

(ii) Financial assets at fair value through profit or loss (FVTPL)

A financial asset is classified as financial assets are classified 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. A financial assets its acquired principally for the purpose of selling it in the near term are classified as a short-term financial assets held for trading and

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also all the derivatives including an embedded derivate that is not designated and effective as a hedging instrument are classified at the short-term trading financial asset as well. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

A financial asset is classified as held for trading if:

It has been acquired principally for the purpose of selling it in the near term; or

On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short term profit taking; or

It is derivative, including an embedded derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at financial assets at fair value through profit or loss upon initial recognition if:

Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis in accordance with the Company s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

It forms a part of a contract containing one or more embedded derivatives, and with K-IFRS No. 1039, Financial Instruments; Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on re-measurement recognized in income or loss. The net gain or loss recognized in income or loss incorporates any dividend or interest earned on the financial asset and is included in the finance income and finance expenses line item in the consolidated statement of comprehensive income.

(iii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Company 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.

(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.

Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the valuation reserve. However, impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets are recognized in income or loss. Unquoted equity investments which are not traded in an active market, whose fair value cannot be measured reliably are carried 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 Company s right to receive payment is established.

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The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in income or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

(v) 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.

(vi) Impairment of financial assets

Financial assets, other than those at financial assets at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as available-for-sale financial asset, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment in addition to the criteria mentioned below .

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments, or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets recorded at amortized cost, the amount of the impairment loss recognized is the difference between the asset s carrying amount and the present value of estimated future cash flows, discounted at the financial asset s original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in income or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to income or loss in the period.

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For financial assets measured at amortized cost, 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, the previously recognized impairment loss is reversed through income or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity securities, impairment losses previously recognized in income or loss are not reversed through income or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment losses are subsequently reversed through income or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(vii) De-recognition of financial assets

The Company 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 Company is recognized as a separate asset or liability. If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

On de-recognition of a financial asset in its entirety, the difference between the asset s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in income or loss.

On de-recognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in income or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

**(22) Non-derivative financial liabilities and equity instruments issued by the Company**

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company s own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in income or loss on the purchase, sale, issue or cancellation of the Company s own equity instruments.

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(iii) Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction cost that are directly attributable to the issue of financial liabilities are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction cost directly attributable to acquisition of financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

(iv) Financial liabilities at fair value through profit or loss (FVTPL)

Financial liabilities are classified as at financial liabilities at fair value through profit or loss when the financial liability is either held for trading or it is designated as financial liabilities at fair value through profit or loss.

A financial liability is classified as held for trading if:

It has been acquired principally for the purpose of repurchasing it in the near term; or

On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or

It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

The financial liability forms part of a Company of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

It forms part of a contract containing one or more embedded derivatives, and IAS 39, Financial Instruments: Recognition and Measurement , permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on re-measurement recognized in income or loss. The net gain or loss recognized in income or loss incorporates any interest paid on the financial liability and is included in finance income and finance expenses .

(v) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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(vi) Financial guarantee contract liabilities

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of: (a) the amount of the obligation under the contract, as determined in accordance with IAS 37, Provisions , Contingent Liabilities and Contingent Assets; or (b) the amount initially recognized less, cumulative amortization recognized in accordance with IAS 18, Revenue .

(vii) De-recognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company s obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in income or loss.

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

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps and others.

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value. The resulting gain or loss is recognized in income or loss immediately unless the derivative is designated and effective as a hedging instrument, in such case the timing of the recognition in income or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

(i) Separable embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and when the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative is part of, is more than 12 months and it is not expected to be realized or settled within 12 months. All other embedded derivatives are presented as current assets or current liabilities.

(ii) Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

(iii) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in income or loss immediately, together with any changes in the fair value of the hedged

asset or liability that are attributable to the hedged risk. The changes in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk relating to the hedged items are recognized in the consolidated statements of comprehensive income.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized as income or loss as of that date.

(iv) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of reverse for gains (loss) on valuation of derivatives. The gain or loss relating to the ineffective portion is recognized immediately in income or loss, and is included in the finance income and expense .

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to income or loss in the periods when the hedged item is recognized in income or loss, in the same line of the consolidated statement of comprehensive income as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in income or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in income or loss.

**4. Segment, Geographic and Other Information**

**(1) Segment determination and explanation of the measurements**

The Company s operating segments are its business components that generates discrete financial information that is reported to and regularly revised by the Company s the chief operating decision maker, the Chief Executive Officer, for the purpose of resource allocation and assessment of segment performance. The Company s reportable segments are Transmission and distribution , Electric power generation (Nuclear) , Electric power generation (Non-nuclear) , Plant maintenance & engineering service and Others ; others mainly represent the business unit that manages the Company s foreign operations.

The Power generation maintenance is an operating segment that met the quantitative thresholds to be a reportable segment as of December 31, 2013. Accordingly, the prior period s reportable segment information has been revised to show the Power generation maintenance information.

Segment operating income (loss) is determined the same way that consolidated operating income (loss) is determined under IFRS without any adjustment for corporate allocations. The accounting policies used by each segment are consistent with the accounting policies used in the preparation of the consolidated financial statements. Segment assets and liabilities are determined based on separate financial statements of the entities instead of on a consolidated basis. There are various transactions between the reportable segments, including sales of property, plant and equipment and so on, that are conducted on an arms-length basis at market prices that would be applicable to an independent third-party. For subsidiaries which are in a different segment from that of its immediate parent company, their carrying amount in separate financial statements is eliminated in the consolidating adjustments in the tables below. In addition, consolidation adjustments in the table below include adjustments of the amount of investment in associates and joint ventures from the cost basis amount reflected in segment assets to that determined using an equity method basis in the consolidated financial statements.

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**(2) Financial information of the segments for the years ended December 31, 2011, 2012 and 2013, respectively are as follows:**

**2011**

**In millions of won**

| Segment | Total segment revenue | Intersegment revenue | Revenue from external customers | Depreciation and amortization | Interest income | Interest expense | Income(loss) of associates and joint ventures | Employee benefit expense | Loss on abandonment of property, plant, and equipment | Accretion expense to provisions, net | Operating income (loss) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Transmission and distribution | 42,857,773 | 709,413 | 42,148,360 | 2,542,587 | 73,393 | 1,409,216 | 98,558 | 185,851 | 299,118 | 16,903 | (2,993,785) |
| Electric power generation (Nuclear) | 6,611,936 | 6,597,515 | 14,421 | 2,422,121 | 150,165 | 428,821 | | 24,543 | | 387,209 | 1,144,714 |
| Electric power generation (Non-nuclear) | 25,349,726 | 25,078,788 | 270,938 | 1,858,736 | 34,641 | 321,961 | 22,698 | 78,327 | 19,688 | (620) | 908,773 |
| Plant maintenance & engineering service | 2,193,511 | 1,747,014 | 446,497 | 65,385 | 30,500 | 50 | 1,838 | 60,118 | | 18,392 | 295,110 |
| Others | 297,198 | 2,197 | 295,001 | 4,039 | 60,459 | 22,480 | | 417 | | | 114,202 |
| Consolidation adjustments | (34,134,927) | (34,134,927) | | (15,479) | (57,533) | (58,949) | | (7,354) | (22,249) | (520) | (153,977) |
| | 43,175,217 | | 43,175,217 | 6,877,389 | 291,625 | 2,123,579 | 123,095 | 341,902 | 296,557 | 421,364 | (684,963) |
| Finance income | | | | | | | | | | | 607,592 |
| Finance costs | | | | | | | | | | | (2,518,850) |
| Equity method Income of associates joint ventures | | | | | | | | | | | 123,095 |
| Loss before income tax | | | | | | | | | | | (2,473,126) |

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| Segment | Total segment revenue | Intersegment revenue | Revenue from external customers | Depreciation and amortization | Interest income | Interest expense | Income(loss) of associates and joint ventures | Employee benefit expense | Loss on abandonment of property, plant, and equipment | Accretion expense to provisions, net | Operating income (loss) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | | | | | | | |
| | In millions of won | | | | | | | | | | |
| Transmission and distribution | 49,033,869 | 1,121,920 | 47,911,949 | 2,562,128 | 58,509 | 1,603,628 | 169,755 | 207,332 | 253,985 | 50,656 | (5,309,607) |
| Electric power generation (Nuclear) | 6,717,341 | 6,698,326 | 19,015 | 2,488,367 | 20,712 | 394,288 | | 41,823 | | 733,533 | 464,506 |
| Electric power generation (Non-nuclear) | 28,973,768 | 28,649,846 | 323,922 | 1,887,419 | 57,209 | 339,057 | 4,510 | 63,334 | | 19,270 | 2,210,669 |
| Plant maintenance & engineering service | 2,369,591 | 1,798,698 | 570,893 | 71,695 | 30,331 | 143 | 2,676 | 61,583 | | 33,492 | 342,848 |
| Others | 304,971 | 10,241 | 294,730 | 6,589 | 83,208 | 51,460 | | 1,950 | | | 117,629 |
| Consolidation adjustments | (38,279,031) | (38,279,031) | | (19,488) | (45,846) | (44,248) | | (11,109) | | 6,096 | (126,368) |
| | 49,120,509 | | 49,120,509 | 6,996,710 | 204,123 | 2,344,328 | 176,941 | 364,913 | 253,985 | 843,047 | (2,300,323) |
| Finance income | | | | | | | | | | | 1,128,357 |
| Finance costs | | | | | | | | | | | (3,068,321) |
| Equity method Income of associates joint ventures | | | | | | | | | | | 176,941 |
| Loss before income tax | | | | | | | | | | | (4,063,346) |

| Segment | Total segment revenue | Intersegment revenue | Revenue from external customers | Depreciation and amortization | Interest income | Interest expense | Income(loss) of associates and joint ventures | Employee benefit expense | Loss on abandonment of property, plant, and equipment | Accretion expense to provisions, net | Operating income (loss) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | | | | | | | | |
| | In millions of won | | | | | | | | | | |
| Transmission and distribution | 53,367,116 | 1,069,699 | 52,297,417 | 2,660,444 | 27,187 | 1,525,166 | (2,521) | 206,279 | 273,785 | 253,153 | 549,929 |
| Electric power generation (Nuclear) | 6,378,280 | 6,369,715 | 8,565 | 2,724,629 | 20,994 | 557,621 | (926) | 51,394 | | 250,814 | 325,274 |
| Electric power generation (Non-nuclear) | 28,067,093 | 27,687,112 | 379,981 | 1,952,680 | 50,193 | 262,076 | (40,976) | 73,710 | 21,842 | 154,285 | 735,546 |
| Plant maintenance & engineering service | 2,483,670 | 1,774,577 | 709,093 | 72,489 | 23,473 | 183 | 2,180 | 76,395 | | 5,016 | 248,661 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Others | 365,968 | 48,519 | 317,449 | 14,086 | 75,653 | 50,266 | 1,498 | 32 |