

KOREA ELECTRIC POWER CORP  
Form 20-F  
April 30, 2015  
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As filed with the Securities and Exchange Commission on April 30, 2015

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549 F

**Form 20-F**

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from            to

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report

For the transition period from to

Commission File Number: 001-13372

## KOREA ELECTRIC POWER CORPORATION

*(Exact name of registrant as specified in its charter)*

N/A  
*(Translation of registrant's name into English)*

The Republic of Korea  
*(Jurisdiction of incorporation or organization)*

55 Jeollyeok-ro, Naju-si, Jeollanam-do, 520-350, Korea

*(Address of principal executive offices)*

Cecilia (Hyangjoo) Oh, +82 61 345 4261, cecilia@kepcoco.kr, +82 61 345 4299

*(Name, telephone, e-mail and/or facsimile number and address of company contact person)*

### Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:  
Common stock, par value Won 5,000 per share  
American depositary shares, each representing

Name of each exchange on which registered:  
New York Stock Exchange\*  
New York Stock Exchange

one-half of share of common stock

\* Not for trading, but only in connection with the listing of American depositary shares on the New York Stock Exchange, pursuant to the requirements of the Securities and Exchange Commission.

### Securities registered or to be registered pursuant to Section 12(g) of the Act:

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None

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**Twenty Year 7.40% Amortizing Debentures, due April 1, 2016**

**One Hundred Year 7.95% Zero-to-Full Debentures, due April 1, 2096**

**6% Debentures due December 1, 2026**

**7% Debentures due February 1, 2027**

**6<sup>3</sup>/<sub>4</sub>% Debentures due August 1, 2027**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the last full fiscal year

covered by the annual report:

641,964,077 shares of common stock, par value of Won 5,000 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this annual report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

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**CERTAIN DEFINED TERMS AND CONVENTIONS**

All references to Korea or the Republic in this annual report on Form 20-F, or this annual report, are references to the Republic of Korea. All references to the Government in this annual report are references to the government of the Republic. All references to we, us, our, ours, the Company or KEPCO in this annual report are references to Korea Electric Power Corporation and, as the context may require, its subsidiaries, and the possessive thereof, as applicable. All references to the Ministry of Trade, Industry and Energy and the Ministry of Strategy and Finance include the respective predecessors thereof. All references to tons are to metric tons, equal to 1,000 kilograms, or 2,204.6 pounds. Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding. All references to IFRS in this annual report are references to the International Financial Reporting Standards as issued by the International Accounting Standard Board. Unless otherwise stated, all of our financial information presented in this annual report has been prepared on a consolidated basis and in accordance with IFRS.

In addition, in this annual report, all references to:

KHNP are to Korea Hydro & Nuclear Power Co., Ltd.,

EWP are to Korea East-West Power Co., Ltd.,

KOMIPO are to Korea Midland Power Co., Ltd.,

KOSEP are to Korea South-East Power Co., Ltd.,

KOSPO are to Korea Southern Power Co., Ltd., and

KOWEPO are to Korea Western Power Co., Ltd.,  
each of which is our wholly-owned generation subsidiary.

**FORWARD-LOOKING STATEMENTS**

This annual report includes forward-looking statements (as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934), including statements regarding our expectations and projections for future operating performance and business prospects. The words believe, expect, anticipate, estimate, project and similar words used in connection with any discussion of our future operation or financial performance identify forward-looking statements. In addition, all statements other than statements of historical facts included in this annual report are forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this annual report.

This annual report discloses, under the caption Item 3D. Risk Factors and elsewhere, important factors that could cause actual results to differ materially from our expectations ( Cautionary Statements ). All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.



**Table of Contents****PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION****Item 3A. Selected Financial Data**

The selected consolidated financial data set forth below as of and for the years ended December 31, 2010, 2011, 2012, 2013 and 2014 have been derived from our audited consolidated financial statements which have been prepared in accordance with IFRS.

You should read the following data with the more detailed information contained in Item 5. Operating and Financial Review and Prospects and our consolidated financial statements included in Item 18. Financial Statements. Historical results do not necessarily predict future results.

**Consolidated Statement of Comprehensive Income (Loss) Data**

	2010	2011	2012	2013	2014	
	(in billions of Won and millions of US\$, except per share data) <sup>(1)</sup>					
Sales	39,507	43,175	49,121	53,713	57,123	\$ 52,363
Cost of sales	36,188	42,725	48,460	50,596	49,763	45,616
Gross profit	3,319	450	661	3,117	7,360	6,747
Selling and administrative expenses	1,645	1,752	1,780	1,923	1,924	1,764
Other gains (losses)	118	166	(1,782)	129	107	98
Operating profit (loss)	2,260	(685)	(2,300)	1,948	6,209	5,692
Finance income (expense), net	(1,967)	(1,911)	(1,940)	(2,302)	(2,255)	(2,067)
Income (loss) before income taxes	370	(2,473)	(4,063)	(396)	4,229	3,877
Income tax (expense) benefit	(439)	(820)	985	571	(1,430)	(1,311)
Profit (loss) for the period	(69)	(3,293)	(3,078)	174	2,799	2,566
Other comprehensive income (loss)	(43)	(262)	(322)	186	(358)	(328)
Total comprehensive income (loss)	(112)	(3,555)	(3,400)	360	2,441	2,238
Profit (loss) attributable to:						
Owners of the Company	(120)	(3,370)	(3,167)	60	2,687	2,463
Non-controlling interests	51	77	89	114	112	103
Total comprehensive income (loss) attributable to:						
Owners of the Company	(152)	(3,628)	(3,448)	245	2,336	2,141
Non-controlling interests	40	73	48	115	105	96
Earnings (loss) per share						
Basic <sup>(2)</sup>	(193)	(5,411)	(5,083)	96	4,290	3.93
Earnings (loss) per ADS						
Basic <sup>(2)</sup>	(97)	(2,706)	(2,542)	48	2,145	1.97
Dividends per share				90	500	0.46

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	2010	2011	As of December 31, 2012 2013		2014	
	(in billions of Won and millions of US\$, except share and per share data)					
Net working capital deficit <sup>(3)</sup>	(916)	(3,973)	(4,884)	(4,945)	(4,780)	\$ (4,382)
Property, plant and equipment, net	107,406	112,385	122,376	129,638	135,812	124,496
Total assets	129,518	136,468	146,153	155,527	163,708	150,067
Total shareholders equity	57,277	53,804	51,064	51,451	54,825	50,257
Equity attributable to owners of the Company	56,818	53,270	49,889	50,260	53,601	49,135
Non-controlling interests	459	534	1,175	1,191	1,224	1,122
Share capital	3,208	3,210	3,210	3,210	3,210	2,942
Number of common shares as adjusted to reflect any changes in capital stock	641,567,712	641,964,077	641,964,077	641,964,077	641,964,077	641,964,077
Long-term debt (excluding current portion)	32,848	39,198	45,525	52,801	55,720	51,077
Other long term liabilities	25,321	25,725	30,747	31,062	31,563	28,933

*Notes:*

- (1) The financial information denominated in Won as of and for the year ended December 31, 2014 has been translated into U.S. dollars at the exchange rate of Won 1,090.9 to US\$1.00, which was the Noon Buying Rate as of December 31, 2014.
- (2) Basic earnings per share are calculated by dividing net income available to holders of our common shares by the weighted average number of common shares issued and outstanding for the relevant period. Dilutive loss per share is not presented as such amount was anti-dilutive for the periods indicated.
- (3) Net working capital is defined as current assets minus current liabilities. For the periods indicated, current liabilities exceeded current assets, which gave rise to working capital deficit.

**Currency Translations and Exchange Rates**

In this annual report, unless otherwise indicated, all references to Won or ₩ are to the currency of Korea, and all references to U.S. dollars, Dollars, \$ or US\$ are to the currency of the United States of America, all references to Euro or € are references to the currency of the European Union, and all references to Yen or ¥ are references to the currency of Japan. Unless otherwise indicated, all translations from Won to U.S. dollars were made at Won 1,090.9 to US\$1.00, which was the noon buying rate of the Federal Reserve Board (the Noon Buying Rate) in effect as of December 31, 2014, which rates are available on the H.10 statistical release of the Federal Reserve Board. On April 10, 2015, the Noon Buying Rate was Won 1,093.1 to US\$1.00. The exchange rate between the U.S. dollar and Korean Won may be highly volatile from time to time and the U.S. dollar amounts referred to in this annual report should not be relied upon as an accurate reflection of our results of operations. No representation is made that the Won or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all.

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The following table sets forth, for the periods and dates indicated, certain information concerning the Noon Buying Rate in Won per US\$1.00.

Year Ended December 31,	At End of Period	Average <sup>(1)</sup> (Won per US\$1.00)	High	Low
2010	1,130.6	1,158.7	1,253.2	1,104.0
2011	1,158.5	1,105.2	1,197.5	1,049.2
2012	1,063.2	1,119.6	1,185.0	1,063.2
2013	1,055.3	1,094.6	1,161.3	1,050.1
2014	1,090.9	1,054.0	1,117.7	1,008.9
October	1,073.1	1,073.1	1,074.4	1,043.9
November	1,112.1	1,112.1	1,114.7	1,077.0
December	1,090.9	1,090.9	1,117.7	1,080.8
2015 (through April 10)	1,093.1	1,101.5	1,135.7	1,075.3
January	1,104.3	1,104.3	1,109.1	1,075.3
February	1,100.7	1,100.7	1,112.8	1,086.8
March	1,107.7	1,107.7	1,135.7	1,095.7
April (through April 10)	1,093.1	1,093.1	1,098.1	1,083.4

Source: Federal Reserve Board

Note:

(1) Represents the average of the Noon Buying Rates on the last day of each month during the relevant period.

**Item 3B. Capitalization and Indebtedness**

Not Applicable

**Item 3C. Reasons for the Offer and Use of Proceeds**

Not Applicable

**Item 3D. Risk Factors**

*Our business and operations are subject to various risks, many of which are beyond our control. If any of the risks described below actually occurs, our business, financial condition or results of operations could be seriously harmed.*

**Risks Relating to KEPCO**

*Increases in fuel prices will adversely affect our results of operations and profitability as we may not be able to pass on the increased cost to consumers at a sufficient level or on a timely basis.*

Fuel costs constituted 36.1% and 41.4% of our sales and cost of sales, respectively, in 2014. Our generation subsidiaries purchase substantially all of the fuel that they use (except for anthracite coal) from suppliers outside Korea at prices determined in part by prevailing market prices in currencies other than Won. For example, most of the bituminous coal requirements (which accounted for approximately 44.1% of our entire fuel requirements in 2014 in terms of electricity output) are imported principally from Indonesia and Australia and, to a lesser extent, Russia, the United States and others, which accounted for approximately 41.6%, 40.2%, 10.4%, 6.8% and 0.9%, respectively, of the annual bituminous coal requirements of our generation subsidiaries in 2014. Approximately 84.5% of the bituminous coal requirements of our generation subsidiaries in 2014 were purchased under long-term contracts and the remaining 15.5% from the spot market. Pursuant to the terms of our long-term



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supply contracts, prices are adjusted periodically based on prevailing market conditions. In addition, our generation subsidiaries purchase a significant portion of their fuel requirements under contracts with limited duration. See Item 4B. Business Overview Fuel.

If fuel prices increase sharply within a short span of time, our generation subsidiaries may be unable to secure requisite fuel supplies at prices commercially acceptable to them. In addition, any significant interruption or delay in the supply of fuel, bituminous coal in particular, from any of their suppliers may cause our generation subsidiaries to purchase fuel on the spot market at prices higher than the prices available under existing supply contracts, which would result in an increase in fuel costs. In recent years, however, the prices of our main fuel types, namely, bituminous coal, oil and liquefied natural gas, or LNG have generally declined in tandem with their international market prices. For example, the average free on board Newcastle coal 6300 GAR spot price index published by Platts declined from US\$85.1 per ton in 2013 to US\$70.7 per ton in 2014 and US\$56.4 per ton as of April 10, 2015. The prices of oil and LNG are substantially dependent on the price of crude oil, and according to Bloomberg (Bloomberg Ticker: PGCRDUBA), the average daily spot price of Dubai crude oil declined from US\$105.4 per barrel in 2013 to US\$96.6 per barrel in 2014 and to US\$54.8 per barrel as of April 10, 2015. However, we cannot assure you that the fuel prices will remain at similarly low levels or will not significantly increase in the remainder of 2015 or thereafter.

Because the Government regulates the rates we charge for the electricity we sell to our customers (see Item 4B. Business Overview Sales and Customers Electricity Rates ), our ability to pass on fuel and other cost increases to our customers is limited. If fuel prices increase rapidly and substantially and the Government, out of concern for inflation or for other reasons, maintains the current level of electricity tariff or does not increase it to a level to sufficiently offset the impact of high fuel prices, the fuel price increases will negatively affect our profit margins or even cause us to suffer operating and/or net losses and our business, financial condition, results of operations and cash flows would suffer. In addition, partly because the Government may have to undergo a lengthy deliberative process to approve an increase in electricity tariff, which represents a key component of the consumer price index, the electricity tariff may not be adjusted to a level sufficient to ensure a fair rate of return to us in a timely manner or at all. Similarly, we cannot assure that any future tariff increase by the Government will be sufficient to fully offset the adverse impact on our results of operations from the current or potential rises in fuel costs.

***The Government may adopt policy measures to substantially restructure the Korean electric power industry or our operational structure, which may have a material adverse effect on our business, operations and profitability.***

From time to time, the Government considers various policy initiatives to foster efficiency in the Korean electric power industry, and at times have adopted policy measures that have substantially altered our business and operations. For example, in January 1999, with the aim of introducing greater competition in the Korean electric power industry and thereby improving its efficiency, the Government announced a restructuring plan for the Korean electric power industry, or the Restructuring Plan. For a detailed description of the Restructuring Plan, see Item 4B. Business Overview Restructuring of the Electric Power Industry in Korea. As part of this initiative, in April 2001 the Government established the Korea Power Exchange to enable the sale and purchase of electricity through a competitive bidding process, established the Korea Electricity Commission to ensure fair competition in the Korean electric power industry, and, in order to promote competition in electricity generation, split off our electricity generation business to form one nuclear generation company and five thermal generation companies, in each case, to be wholly owned by us. In 2002, the Government introduced a plan to privatize one of our five thermal generation subsidiaries, but this plan was suspended indefinitely in 2003 due to prevailing market conditions and other policy considerations.

In 2003, the Government established a Tripartite Commission consisting of representatives of the Government, leading businesses and labor unions in Korea to deliberate on ways to introduce competition in electricity distribution, such as by forming and privatizing new distribution subsidiaries. In 2004, the Tripartite

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Commission recommended not pursuing such privatization initiatives but instead creating independent business divisions within us to improve operational efficiency through internal competition. Following the adoption of such recommendation by the Government in 2004 and further studies by Korea Development Institute, in 2006 we created nine strategic business units (which, together with our other business units, were subsequently restructured into 14 such units in February 2012) that have a greater degree of autonomy with respect to management, financial accounting and performance evaluation while having a common focus on increasing profitability.

In August 2010, the Ministry of Trade, Industry and Energy announced the Proposal for the Improvement in the Structure of the Electric Power Industry, whose key initiatives included the following: (i) maintain the current structure of having six generation subsidiaries, (ii) designate the six generation subsidiaries as market-oriented public enterprises under the Public Agency Management Act in order to foster competition among them and autonomous and responsible management by them, (iii) create a supervisory unit to act as a control tower in reducing inefficiencies created by arbitrary division of labor among the six generation subsidiaries and fostering economies of scale among them and require the presidents of the generation subsidiaries to hold regular meetings, (iv) create a nuclear power export business unit to systematically enhance our capabilities to win projects involving the construction and operation of nuclear power plants overseas, (v) further rationalize the electricity tariff by adopting a fuel-cost based tariff system in 2011 and a voltage-based tariff system in a subsequent year, and (vi) create separate accounting systems for electricity generation, transmission, distribution and sales with the aim of introducing competition in electricity sales in the intermediate future. Pursuant to this Proposal, in December 2010 the Ministry of Trade, Industry and Energy announced guidelines for a cooperative framework between us and our generation subsidiaries, and in January 2011 the five thermal generation subsidiaries formed a joint cooperation unit and transferred their pumped-storage hydroelectric business units to KHNP. Furthermore, in January 2011 the six generation subsidiaries were officially designated as market-oriented public enterprises, whereupon the President of Korea appoints the president and the statutory auditor of each such subsidiary; the selection of outside directors of each such subsidiary is subject to approval by the minister of the Ministry of Strategy and Finance; the president of each such subsidiary is required to enter into a management contract directly with the minister of the Ministry of Trade, Industry and Energy; and the Public Enterprise Management Evaluation Commission conducts performance evaluation of such subsidiaries. Previously, our president appointed the president and the statutory auditor of each such subsidiary; the selection of outside directors of each such subsidiary was subject to approval by our president; the president of each such subsidiary entered into a management contract with our president; and our evaluation committee conducted performance evaluation of such subsidiaries.

Other than as set forth above and except as described below under *The newly adopted vesting contract system may not achieve desired benefits.*, we are not aware of any specific plans by the Government to resume the implementation of the Restructuring Plan or otherwise change the current structure of the electric power industry or the operations of us or our generation subsidiaries in the near future. However, for reasons relating to changes in policy considerations, socio-political, economic and market conditions and/or other factors, the Government may resume the implementation of the Restructuring Plan or initiate other steps that may change the structure of the Korean electric power industry or the operations of us or our generation subsidiaries. Any such measures may have a negative effect on our business, results of operation and financial conditions. In addition, the Government, which beneficially owns a majority of our shares and exercises significant control over our business and operations, may from time to time pursue policy initiatives with respect to our business and operations, and such initiatives may vary from the interest and objectives of our other shareholders.

***The newly adopted vesting contract system may not achieve desired benefits.***

On May 20, 2014, the Electricity Business Act was amended, with effect from November 21, 2014, to introduce a vesting contract system in determining the price and quantity of electricity to be sold and purchased through the Korea Power Exchange between the purchaser of electricity (namely, us) and the sellers of electricity (namely, our generation subsidiaries and independent power producers). While the vesting contract

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system will work in conjunction with the cost-based pool system, the former will also substantially revamp and rationalize the latter as currently in effect, particularly with respect to the adjusted coefficient component.

Under the vesting contract system as currently contemplated by the amended Electricity Business Act and the Enforcement Decree of the Electricity Business Act, producers of electricity to be generated from base load fuels (such as nuclear, coal, hydro and by-product gas) at a particular generation unit will be required to enter into a contract with the purchaser of electricity (namely, us), which will specify, among other things, the quantity of electricity to be generated and sold from such generation unit and the price at which such electricity will be sold and purchased. The contracted quantity will be subject to annual adjustment in consideration of past generation amounts, maintenance and overhaul periods, among others. The contracted price will be subject to monthly adjustment largely depending on the fuel price movements, provided that in the event of a drastic change in electricity tariff rates, inflation rate and the general market conditions of electricity supply and demand, the contracted price may be further adjusted on an as-needed basis. Generally, the contractual terms will be subject to prior consultation with the Korea Electricity Commission and approval by the Minister of the Ministry of Trade, Industry and Energy in order to ensure fair and standardized application of the vesting contract system to all producers of electricity.

In addition to aiming to stabilize the electricity supply market, a key feature of the vesting contract system is to provide a settlement mechanism that is designed to incentivize producers of electricity to supply electricity at or exceeding the contracted quantity. Under this settlement mechanism, an electricity producer is required to settle, among others, the difference between the contracted price and the market price of electricity sold at a given hour through the Korea Power Exchange (namely, the system marginal price), as multiplied by the contracted quantity of electricity. For further details of this settlement mechanism, see Item 4B. Business Overview Purchase of Electricity Vesting Contract System . Under this settlement mechanism, assuming sale of electricity in the contracted quantity and further assuming the system marginal price being higher than the contracted price, the consideration to be received by the seller of electricity net of the settlement amount will effectively amount to the product of the contracted quantity multiplied by the contracted price. If the seller sells a quantity of electricity exceeding the contracted quantity at a given hour, under the settlement mechanism and assuming the system marginal price being higher than the contracted price, the seller is entitled to an extra return (effectively, an incentive) equal to the product of the excess quantity multiplied by the difference between the system marginal price and the contracted price. On the other hand, if the seller sells a quantity of electricity falling short of the contracted quantity at a given hour, under the settlement mechanism and assuming the system marginal price being higher than the contracted price, the seller is required to pay an amount (effectively, a penalty) equal to the product of the shortfall quantity multiplied by the difference between the system marginal price and the contracted price. The foregoing notions of incentive and penalty are intended to minimize the additional cost of purchasing electricity at the higher system marginal price in the event that the seller of electricity fails to deliver the contracted quantity of electricity. Details of the settlement mechanism in the event of the system marginal price being lower than the contracted price have not yet been finalized.

The vesting contract system was introduced principally in order to prevent excessive profit-taking by low-cost producers of electricity by replacing the adjusted coefficient as the basis for determining the guaranteed return to generation companies, as well as to attain the following objectives. First, this system seeks to increase transactional certainty and stability of electricity supply and purchase by requiring that a relatively long-term (generally one-year) contract be entered in relation to electricity supply, which had been previously made entirely through what was effectively a spot market. Second, in order to foster responsible management of electricity supply by generation companies, the generation companies will become subject to minimum supply requirements and will be rewarded or penalized depending on whether they meet these requirements. Third, the introduction of standard contractual prices is designed to encourage cost savings and productivity enhancements on the part of the generation companies, who will be rewarded or penalized depending on whether they can supply electricity at such standard contractual prices.

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In order to minimize undue impact on the electricity trading market in Korea, the vesting contract system will be implemented in phases, with the target date of implementation for hydro power in the second half of 2015, for coal-based electricity in 2016 and for nuclear power in 2017, although vesting contracts have been entered in February 2015 between us and two independent power producers of by-product gas-based electricity (namely, POSCO Energy and Hyundai Green Power) at a contractual price set a level at which the vesting contract system replaced the adjustment coefficient mechanism previously in effect with equal economic effect. By-product gas-based electricity accounted for 1.7% of electricity purchased by us in 2014. Since the vesting contract system is still in the early stages of implementation and many of the related details are still being finalized, it presently remains unclear in what final form the vesting contract system will actually operate, whether the vesting contract system will be able to achieve the desired results and whether there will be any adverse unintended consequences from the application of the system, and no assurance can be given that such system will not adversely affect our business, results of operation or financial condition in the future. See Item 4B. Business Purchase of Electricity Vesting Contract System .

***Our capacity expansion plans, which are based on projections on long-term supply and demand of electricity in Korea, may prove to be inadequate.***

We and our generation subsidiaries make plans for expanding or upgrading our generation capacity based on the Basic Plan Relating to the Long-Term Supply and Demand of Electricity, or the Basic Plan, which is generally revised and announced every two years by the Government. In February 2013, the Government announced the Sixth Basic Plan relating to the future supply and demand of electricity. The Sixth Basic Plan, which is effective for the period from 2013 to 2027, focuses on, among other things, (i) minimizing the need to construct new generation facilities through active consumer demand management, (ii) ensuring that we maintain adequate electricity reserve appropriate to the size of the national economy and (iii) expanding our generation capacity to promote efficient supply of electricity in consideration of the stability of the national electricity grid network and the specific needs of localities. In addition, while the Sixth Basic Plan did not contemplate the construction of additional nuclear plants in light of the heightened public concern over nuclear safety following the nuclear power plant meltdown in Japan in March 2011, there is no assurance that the Government will not implement a supplemental plan for the construction of additional nuclear plants in the future, which may increase the amount of our required capital expenditure.

In addition, on January 13, 2014, the Ministry of Trade, Industry and Energy adopted the Second Basic National Energy Plan following consultations with representatives from civic groups, the power industry and academia. The Second Basic National Energy Plan, which is a comprehensive plan that covers the entire spectrum of energy industries in Korea, will cover the period from 2013 to 2035 (compared to 2008 to 2030 under the First Basic National Energy Plan) and focuses on the following six key tasks: (i) shifting the focus of energy policy to demand management with a goal of reducing electricity demand by 15% by 2035, (ii) establishing a geographically decentralized electricity generation system so as to reduce transmission losses with a goal of supplying at least 15% of total electricity through such system by 2035, (iii) applying latest greenhouse gas emission reduction technologies to newly constructed generation units in order to further promote safety and environmental friendliness, (iv) strengthening exploration and procurement capabilities to enhance Korea's energy security and to ensure stable supply of energy and increasing the portion of electricity supplied from renewable sources to 11% by 2035, (v) reinforcing the system for stable supply of conventional energy, such as oil and gas, and (vi) introducing in 2015 an energy voucher system in lieu of a tariff discount system for the benefit of consumers in the low income group. In addition, the Second Basic National Energy Plan contemplates revising the target level of electricity generated by nuclear sources as a percentage of total electricity generated to 29%, compared to 41% under the First Basic National Energy Plan announced in 2008.

We cannot assure that the Sixth Basic Plan, the Second Basic National Energy Plan or the respective plans to be subsequently adopted will successfully achieve their intended goals, the foremost of which is to ensure, through carefully calibrated capacity expansion and other means, balanced overall electricity supply and demand in Korea at affordable costs to the end users while promoting efficiency and environmental friendliness in the



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consumption and production of electricity. If there is a significant variance between the projected electricity supply and demand considered in planning our capacity expansions and the actual electricity supply and demand or if these plans otherwise fail to meet their intended goals or have other unintended consequences, this may result in inefficient use of our capital, mispricing of electricity and undue financing costs on the part of us and our generation subsidiaries, among others, which may have a material adverse effect on our results of operations, financial condition and cash flows.

From time to time, we may experience temporary power shortages or circumstances bordering on power shortages due to factors beyond our control, such as extreme weather conditions. Such circumstances may lead to increased end-user complaints and greater public scrutiny, which may in turn result in our need to modify our capacity expansion plans, and if we were to substantially modify our capacity plans, this may result in additional capital expenditures, which may have a material adverse effect on our results of operations, financial condition and cash flows.

In light of these temporary power shortages, the Government has increasingly expanded its efforts to encourage conservation of electricity, including through a public relations campaign, but there is no assurance such efforts will have the desired effect of substantially reducing the demand for electricity or improving efficient use thereof.

***We may require a substantial amount of additional indebtedness to refinance existing debt and for future capital expenditures.***

We anticipate that a substantial amount of additional indebtedness will be required in the coming years in order to refinance existing debt, make capital expenditures for construction of generation plants and other facilities and/or make acquisitions and investments related to overseas natural resources. In 2012, 2013 and 2014, our capital expenditures for construction of generation, transmission and distribution facilities amounted to Won 12,748 billion, Won 15,831 billion and Won 16,629 billion, respectively, and our budgeted capital expenditures for 2015, 2016 and 2017 amount to Won 17,629 billion, Won 14,917 billion and Won 14,873 billion, respectively. While we currently do not expect to face any material difficulties in procuring short-term borrowing to meet our liquidity and short-term capital requirements, there is no assurance that we will be able to do so. We expect that a portion of our long-term debt will need to be paid or refinanced through foreign currency-denominated borrowings and capital raising in international capital markets. Such financing may not be available on terms commercially acceptable to us or at all, especially if the global financial markets experience significant turbulence or a substantial reduction in liquidity or due to other factors beyond our control. If we are unable to obtain financing on commercially acceptable terms on a timely basis, or at all, we may be unable to meet our funding requirements or debt repayment obligations, which could have a material adverse impact on our business, results of operations and financial condition.

Recently, in light of the general policy guideline of the Government for public institutions (including us and our generation subsidiaries) in general to reduce their respective overall debt levels, we and our generation subsidiaries have, in consultation with the Government and as approved by the Committee for Management of Public Institutions, set target debt-to-equity levels and undertaken various programs to reduce debt and improve the overall financial health, including through rationalizing various aspects of our operations (both domestic and overseas), engaging private sector investments, disposing of non-core assets, reducing costs and exploring alternative ways to generate additional revenue. For further information, see Item 4B. Business Overview Recent Developments Debt Reduction Program and Related Activities. Despite our best efforts, however, for reasons beyond our control, including macroeconomic environments, government regulations and market forces (such as international market prices for our fuels), we cannot assure whether we or our generation subsidiaries will be able to successfully reduce debt burdens or otherwise improve our financial health to a level contemplated by the Government or to a level that would be optimal for our capital structure. If we or our generation subsidiaries fail to do so or the measures taken by us or our generation subsidiaries to reduce debt levels or improve financial health have unintended adverse consequences, such developments may have an adverse effect on our business, results of operation and financial condition.

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### ***The movement of Won against the U.S. dollar and other currencies may have a material adverse effect on us.***

The Won has fluctuated significantly against major currencies in recent years. See Item 3A. Selected Financial Data Currency Translations and Exchange Rates. Depreciation of Won against U.S. dollar and other foreign currencies typically results in a material increase in the cost of fuel and equipment purchased by us from overseas since the prices for substantially all of the fuel materials and a significant portion of the equipment we purchase are denominated in currencies other than Won, generally in U.S. dollars. Changes in foreign exchange rates may also impact the cost of servicing our foreign currency-denominated debt. As of December 31, 2014, approximately 20.5% of our long-term debt (including the current portion but excluding issue discounts and premium) before accounting for swap transactions, was denominated in foreign currencies, principally U.S. dollars. In addition, even if we make payments in Won for certain fuel materials and equipment, some of these fuel materials may originate from other countries and their prices may be affected accordingly by the exchange rates between the Won and foreign currencies, especially the U.S. dollar. Since the substantial majority of our revenues are denominated in Won, we must generally obtain foreign currencies through foreign currency-denominated financings or from foreign currency exchange markets to make such purchases or service such debt. As a result, any significant depreciation of Won against the U.S. dollar or other major foreign currencies will have a material adverse effect on our profitability and results of operations.

### ***We may not be successful in implementing new business strategies.***

As part of our overall business strategy, we plan to (i) strengthen reliability of our domestic operations by enhancing efficiency of our generation, transmission and distribution networks, (ii) expand overseas business by selectively exploring renewable energy, smart transmission and distribution facilities and fuel procurement projects in the overseas markets along with our traditional businesses in the generation sector, (iii) create a platform for new business growth opportunities by gaining first mover advantages in new businesses through technological development, and (iv) fulfill social responsibilities as an electricity provider by seeking a balance between our public policy mandate and profitability.

Due to their inherent uncertainties, such new and expanded strategic initiatives expose us to a number of risks and challenges, including the following:

new and expanded business activities may require unanticipated capital expenditures and involve additional compliance requirements;

new and expanded business activities may result in less growth or profit than we currently anticipate, and there can be no assurance that such business activities will become profitable at the level we desire or at all;

certain of our new and expanded businesses, particularly in the areas of renewable energy, require substantial government subsidies to become profitable, and such subsidies may be substantially reduced or entirely discontinued;

we may fail to identify and enter into new business opportunities in a timely fashion, putting us at a disadvantage vis-à-vis competitors, particularly in overseas markets; and

we may need to hire or retrain personnel to supervise and conduct the relevant business activities.

As part of our business strategy, we may also seek, evaluate or engage in potential acquisitions, mergers, joint ventures, strategic alliances, restructurings, combinations, rationalizations, divestments or other similar opportunities. The prospects of these initiatives are uncertain, and there can be no assurance that we will be able to successfully implement or grow new ventures, and these ventures may prove more difficult or costly than what we originally anticipated. In addition, we regularly review the profitability and growth potential of our existing and new businesses. As a result of such review, we may decide to exit from or to reduce the resources that we allocate to new or existing ventures in the future. There is a risk that these ventures may not achieve profitability or operational efficiencies to the extent originally anticipated, and we may fail to recover investments or



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expenditures that we have already made. Any of the foregoing may have a material adverse effect on our reputation, business, results of operations, financial condition and cash flows.

*We plan to pursue international expansion opportunities that may subject us to different or greater risks than those associated with our domestic operations.*

While our operations have, to-date, been primarily based in Korea, we may expand, on a selective basis, our overseas operations in the future. In particular, we may further diversify the geographic focus of our operations from Asia to the rest of the world, including the resource-rich Middle East, Australia and Africa as well as expand our project portfolio (which has to-date involved primarily construction and operation of conventional thermal generation units) to include construction and operation of nuclear power plants as well as mining and development of fuel sources in order to increase the level of self-sufficiency in the procurement of fuels.

Overseas operations generally carry risks that are different from those we face in our domestic operations. These risks include:

challenges of complying with multiple foreign laws and regulatory requirements, including tax laws and laws regulating our operations and investments;

volatility of overseas economic conditions, including fluctuations in foreign currency exchange rates;

difficulties in enforcing creditors' rights in foreign jurisdictions;

risk of expropriation and exercise of sovereign immunity where the counterparty is a foreign government;

difficulties in establishing, staffing and managing foreign operations;

differing labor regulations;

political and economic instability, natural calamities, war and terrorism;

lack of familiarity with local markets and competitive conditions;

changes in applicable laws and regulations in Korea that affect foreign operations; and

obstacles to the repatriation of earnings and cash.

Any failure by us to recognize or respond to these differences may adversely affect the success of our operations in those markets, which in turn could materially and adversely affect our business and results of operations.

Furthermore, while we seek to enter into business opportunities in a prudent and selective manner, some of our new international business ventures, such as mining and resource exploration, carry inherent risks that are different from our traditional business of electricity power generation, transmission and distribution. While these new businesses in the aggregate currently do not comprise a material portion of our overall business, as we are relatively inexperienced in these types of businesses, the actual revenues and profitability from, and investments and expenditures into, these business ventures may be substantially different from what we planned or anticipated and have a material adverse

impact on our overall business, results of operations, financial condition and cash flows.

***An increase in electricity generated by and/or sourced from private power producers may erode our market position and hurt our business, growth prospects, revenues and profitability.***

As of December 31, 2014, we and our generation subsidiaries owned approximately 77.6% of the total electricity generation capacity in Korea (excluding plants generating electricity for private or emergency use). New entrants to the electricity business will erode our market share and create significant competition, which could have a material adverse impact on our financial conditions and results of operation.

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In particular, we compete with independent power producers with respect to electricity generation. The independent power generators accounted for 15.1% of total power generation in 2014 and 22.4% of total generation capacity as of December 31, 2014. As of December 31, 2014, there were 10 independent power generators in Korea, excluding renewable energy producers. Prior to December 2010, private enterprises had not been permitted to own and operate coal-fired power plants in Korea. However, the Fifth Basic Plan announced in December 2010 included for the first time a plan for independent power producers to own and operate coal-fired power plants, namely four generation units with aggregate capacity of 2,290 megawatts for completion in 2016. In addition, in connection with the Sixth Basic Plan announced in February 2013, the Ministry of Trade, Industry and Energy accepted additional applications from independent power producers for construction of coal-fired power plants. 15 independent power producers applied for construction of a total of 40 additional coal-fired generation units with aggregate generation capacity of 37,100 megawatts, of which the Government approved applications for the construction of six generation units with aggregate generation capacity of 6,000 megawatts. The Government also approved applications from independent power producers for construction of two additional generation units with aggregate generation capacity of 2,000 megawatts to prepare for the contingency of failed or delayed construction of the foregoing generation units. Construction for the six generation units is scheduled to be completed between 2018 and 2021. While it remains to be seen whether construction of these generation units will be completed as scheduled, if it were to be completed as scheduled or independent power producers are permitted to build additional generation capacity (whether coal-fired or not), our market share in Korea may decrease, which may have a material adverse effect on our results of operations and financial condition.

In addition, under the Community Energy System adopted by the Government in 2004, a minimal amount of electricity is supplied directly to consumers on a localized basis by independent power producers without having to undergo the cost-based pool system used by our generation subsidiaries and most independent power producers to distribute electricity nationwide. A supplier of electricity under the Community Energy System must be authorized by Korea Electricity Commission and be approved by the minister of the Ministry of Trade, Industry and Energy in accordance with the Electricity Business Act. The purpose of this system is to geographically decentralize electricity supply and thereby reduce transmission losses and improve the efficiency of energy use. These entities do not supply electricity on a national level but are licensed to supply electricity to limited geographic areas. As of March 31, 2015, the aggregate generation capacity of suppliers participating in the Community Energy System represented less than 1% of that of our generation subsidiaries in the aggregate. Accordingly, we currently do not expect the Community Energy System to be widely adopted, especially in light of the significant level of capital expenditure required for such direct supply. However, if the Community Energy System is widely adopted, it may erode our currently dominant market position in the generation and distribution of electricity in Korea, and may have a material adverse effect on our business, results of operations and financial condition.

### ***Labor unrest may adversely affect our operations.***

We and each of our generation subsidiaries have separate labor unions. As of December 31, 2014, approximately 70.3% of our and our generation subsidiaries' employees in the aggregate were members of these labor unions. Since a six-week labor strike in 2002 by union members of our generation subsidiaries in response to a proposed privatization of one of our generation subsidiaries, there has been no material labor dispute. However, we cannot assure you that there will not be a major labor strike or other material disruptions of operations by the labor unions of us and our generation subsidiaries if the Government resumes privatization or other restructuring initiatives or for other reasons, which may adversely affect our business and results of operations.

### ***Relocation of our headquarters and those of our generation subsidiaries may reduce our operational efficiency.***

Pursuant to a Government plan announced in 2005, which mandated relocation of the headquarters of select government-invested enterprises, including us and our six generation and certain other subsidiaries, from the

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Seoul metropolitan area to other provinces in Korea as part of an initiative to foster balanced economic growth in the provinces, we and certain of our generation and other subsidiaries recently relocated our respective headquarters to the designated locations. Following relocation in November 2014, our headquarters are currently located in Naju in Jeollanam-do Province, which is approximately 300 kilometers south of Seoul. The designated locations for the headquarters of our six generation subsidiaries and other subsidiaries are various cities outside of Seoul across Korea. There is no assurance yet that, following such relocation, we have been or will be able to maintain the prior level of operational efficiency due to geographic dispersion of our business units.

***Operation of nuclear power generation facilities inherently involves numerous hazards and risks, any of which could result in a material loss of revenues or increased expenses.***

Through KHNP, we currently operate 23 nuclear-fuel generation units. Operation of nuclear power plants is subject to certain hazards, including environmental hazards such as leaks, ruptures and discharge of toxic and radioactive substances and materials. These hazards can cause personal injuries or loss of life, severe damage to or destruction of property and natural resources, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. Nuclear power has a stable and relatively inexpensive cost structure (which is least costly among the fuel types used by our generation subsidiaries) and is the second largest source of Korea's electricity supply, accounting for 30% of electricity generated in Korea in 2014. Due to significantly lower unit fuel costs compared to those for thermal power plants, our nuclear power plants are generally operated at full capacity with only routine shutdowns for fuel replacement and maintenance, with limited exceptions.

From time to time, our nuclear generation units may experience unexpected shutdowns. Any prolonged or substantial breakdown, failure or suspension of operation of a nuclear unit could result in a material loss of revenues, an increase in fuel costs related to the use of alternative power sources, additional repair and maintenance costs, greater risk of litigation and increased social political hostility to the use of nuclear power, any of which could have a material adverse impact on our financial conditions and results of operations.

In response to the damage to the nuclear facilities (including nuclear meltdowns) in Japan as a result of the tsunami and earthquake in March 2011, the Government took steps to further enhance the safety and security of nuclear power facilities, including by establishing the Nuclear Safety and Security Commission (NSSC) in July 2011 for neutral and independent safety appraisals, subjecting nuclear power plants to additional safety inspections by governmental authorities and civic groups and requiring KHNP to prepare a comprehensive safety improvement plan. As a result of the foregoing, as well as a generally higher level of public and regulatory scrutiny of nuclear power following the recent nuclear incident in Japan, KHNP plans to implement a significant number of measures to improve the safety and efficiency of its generation facilities for target completion by the end of 2015. We expect to incur additional compliance costs and capital expenditures in relation to our improvement measures, which could have a material adverse impact on our business, financial conditions and results of operation.

In addition, in December 2014, KHNP became subject to a cyber terror incident. According to the preliminary findings of the Prosecutor's Office announced in March 2015, hackers suspected to be affiliated with North Korean authorities stole and distributed a mock blueprint for a hypothetical nuclear unit that had been devised for educational purposes, hacked into the computer network of the KHNP employees and threatened to shut down certain of KHNP's nuclear plants. The hacking incident did not jeopardize our nuclear operation in any material respect and none of the stolen information was material to our nuclear operation or the national nuclear policy. In response to such incident, we and our subsidiaries have further bolstered anti-hacking and other preventive and remedial measures in relation to potential cyber terror. However, there is no assurance that a similar or more serious hacking or other forms of cyber terror will not happen with respect to us and our nuclear and non-nuclear generation subsidiaries, which could have a material adverse impact on our business, financial conditions and results of operation.

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***Recent findings of falsified testing results and bribery and the subsequent prolonged shutdowns of certain of our nuclear generation units may adversely hurt our reputation, business, results of operations and financial condition.***

In May 2013, the NSSC announced that it discovered certain control cables used in three of our then-operating nuclear generation units, Shin-Kori #1 and #2, Shin-Wolsong #1, and three units under construction, Shin-Kori #3 and #4 and Shin-Wolsong #2, had been supplied based on forged testing results. These parts were custom-made and have critical functions in the case of emergency for activating certain safety signals. The forgery was made by a testing facility in charge of performance evaluation of the parts before delivery.

Upon such discovery, KHNP immediately began internal investigation of related certification documents and reported to the Prosecutor's Office all testing facilities and suppliers suspected of forgery for further investigation. Currently, the NSSC, with the full cooperation of KHNP, is conducting a full scale investigation into the appropriateness of all testing results at all of our nuclear generation units. In addition, the Prosecutor's Office has been conducting extensive investigation on all parties suspected of having been involved in the forgery and has brought several criminal and civil charges, including against several of KHNP's former and current officers and employees. In addition, one of KHNP's former CEOs and several former and current officers and employees of KHNP were arrested on separate bribery charges brought by the Prosecutor's Office as part of a wider investigation into the nuclear power industry in general, and in June 2013, KHNP's then CEO was dismissed by the Government for failure of oversight. KHNP has been fully cooperating with the authorities on these investigations and have promptly taken all appropriate disciplinary actions against KHNP's employees allegedly involved in such incidents. KHNP has also immediately suspended all existing relationships with all of the entities alleged to have participated in any related illegal or improper activities. KHNP as an entity has not been subject to any criminal charges or sanctions.

Immediately following the discovery of the forgery incident, Shin-Kori #1 and #2 and Shin-Wolsong #1 were shut down in May 2013 for further safety inspections. Shin-Kori #3 and #4 and Shin-Wolsong #2, where such parts were also used, currently remain under construction. Shin-Kori #1 and #2 and Shin-Wolsong #1 resumed operations in January 2014 following parts replacement and the NSSC approval. While we expect that the construction of the other units will proceed as originally planned, we cannot assure you that any or all of these units will complete construction as currently scheduled. As a result of the shutdown, we incurred additional operating expenses, including as a result of having had to purchase electricity generated from more expensive fuel sources while the aforementioned nuclear plants were suspended from operation.

The foregoing incidents follow a discovery in November 2012 that certain machinery parts, such as fuses and switches, used in KHNP's nuclear-fuel generation units Hanbit #5 and Hanbit #6 had been supplied using forged quality certification documents. These parts were generic parts that were not essential to the function or safety of our nuclear generation, and the forgery was made by the suppliers of these parts. Following such discovery, relationships with these suppliers were immediately terminated and these units were shut down in November 2012 pending a Government investigation into the extent of the forgeries and the replacement of the affected parts, and the NSSC performed inspections on all generic supply parts at all of KHNP's nuclear-fuel generation units. Upon completion of such investigation and inspections, Hanbit #5 and Hanbit #6 resumed operation in December 2012 and January 2013, respectively.

These incidents have had a material adverse effect, and may have a further material adverse effect, on our reputation, business, results of operation, financial condition as well as the general acceptance of nuclear power, especially if, as a result of these incidents or otherwise, there are findings of other criminal or other illegal or improper activities or if there are additional shutdowns that lead to greater social and political concerns over nuclear safety to the effect of impeding with our normal operation of nuclear generation units.



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*The construction and operation of our generation, transmission and distribution facilities involve difficulties, such as opposition from civic groups, which may have an adverse effect on us.*

From time to time, we encounter social and political opposition against construction and operation of our generation facilities (particularly nuclear units) and, to a lesser extent, our transmission and distribution facilities. For example, we recently faced intense opposition from local residents and civic groups to the construction of transmission lines in the Milyang area, which we resolved through various compensatory and other support programs. Such opposition delayed the schedule for completion of this project. Although we and the Government have undertaken various community programs to address concerns of residents in areas near our facilities, civic and community opposition could result in delayed construction or relocation of our planned facilities, which could have a material adverse impact on our business and results of operation.

*We are subject to environmental regulations, including in relation to climate change, and our operations could expose us to substantial liabilities.*

We are subject to national, local and overseas environmental laws and regulations, including increasing pressure to reduce emission of carbon dioxide relating to our electricity generation activities as well as our natural resource development endeavors overseas. Our operations could expose us to the risk of substantial liability relating to environmental or health and safety issues, such as those resulting from discharge of pollutants and carbon dioxide into the environment and the handling, storage and disposal of hazardous materials. We may be responsible for the investigation and remediation of environmental conditions at current or former operational sites. We may also be subject to related liabilities (including liabilities for environmental damage, third party property damage or personal injury) resulting from lawsuits brought by governments or private litigants. In the course of our operations, hazardous wastes may be generated, disposed of or treated at third party-owned or -operated sites. If those sites become contaminated, we could also be held responsible for the cost of investigation and remediation of such sites for any related liabilities, as well as for civil or criminal fines or penalties.

We currently operate extensive programs to comply with various environmental regulations, including the Renewable Portfolio Standard program, under which each generation subsidiary is required to generate a specified percentage of total electricity to be generated by such generation subsidiary in a given year in the form of renewable energy, with the target percentage being 2.5% in 2013 and 3.0% in 2014 and incrementally increasing to 10.0% by 2024. Fines are to be levied on any subsidiary that fails to do so in the prescribed timeline. In 2013, while one of our generation subsidiaries met 100% of its target, five others were unsuccessful to do so. Our six generation subsidiaries met, on average, 91.8% of the target for 2013 and accordingly were fined an aggregate amount of Won 44 billion. Compliance by our generation subsidiaries of the 2014 target is currently under evaluation, and if we are found to have failed to meet the target for 2014 or for subsequent years, our generation subsidiaries may become subject to additional fines or other penalties. There is no assurance that such fine or other penalty will not be substantial, and if substantial, such fine or other penalty may have a material adverse effect on our business, results of operations or financial condition. The budgeted amount of capital expenditure for implementation of the Renewable Portfolio Standard program as currently planned for the period from 2014 to 2024 is approximately Won 14.8 trillion. We expect that such additional capital expenditure to be covered by a corresponding increase in electricity tariff. However, there is no assurance that the Government will in fact raise the electricity tariff to a level sufficient to fully cover such additional capital expenditures or at all. See also Item 4B. Business Overview Environmental Programs.

Our environmental measures, including the use of environmentally friendly but more expensive parts and equipment and budgeting capital expenditures for the installation of such facilities, may result in increased operating costs and liquidity requirement. The actual cost of installation and operation of such equipment and related liquidity requirement will depend on a variety of factors which may be beyond our control. There is no assurance that we will continue to be in material compliance with legal or social standards or requirements in the future in relation to the environment, including in respect of climate change.

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See Item 4B. Business Overview Environmental Programs.

***Newly adopted coal consumption tax may have a material adverse effect on our business, operations and profitability.***

Effective July 1, 2014, consumption tax has applied to bituminous coal, which previously was not subject to consumption tax unlike other fuel types such as LNG or bunker oil. The base tax rate (which is subject to certain adjustments) is Won 24 per kilogram for bituminous coal; however, due to concerns on the potential adverse effect on industrial activities, the applicable tax rate is Won 19 per kilogram for bituminous coal with net heat generation of 5,000 kilo calories or more per kilogram, and Won 17 per kilogram for bituminous coal with net heat generation of less than 5,000 kilo calories per kilogram. In contrast, the applicable tax rate for LNG was reduced from Won 60 per kilogram to Won 42 per kilogram. Since bituminous coal currently represents the largest fuel type for electricity generation, accounting for approximately 44.1% of our entire fuel requirements in 2014 in terms of electricity output, the newly adopted consumption tax thereon may result in an increase of our overall fuel costs, notwithstanding the decrease in the consumption tax rate for LNG, which accounted for approximately 15.5% of our entire fuel requirements in 2014 in terms of electricity output. While we expect that such additional fuel costs will be covered by a corresponding increase in electricity tariff, there is no assurance that the Government will in fact raise electricity tariff to a level sufficient to fully cover such additional costs in a timely manner or at all, and if the Government does not do so, the increase in our overall fuel costs arising from the newly adopted coal consumption tax will adversely affect our results of operation and financial condition.

***Our risk management procedures may not prevent losses in debt and foreign currency positions.***

We manage interest rate exposure for our debt instruments by limiting our variable rate debt exposure as a percentage of our total debt and closely monitoring the movements in market interest rates. We also actively manage currency exchange rate exposure for our foreign currency-denominated liabilities by measuring the potential loss therefrom using risk analysis software and entering into derivative contracts to hedge such exposure when the possible loss reaches a certain risk limit. To the extent we have unhedged positions or our hedging and other risk management procedures do not work as planned, our results of operations and financial condition may be adversely affected.

***The amount and scope of coverage of our insurance are limited.***

Substantial liability may result from the operations of our nuclear generation units, the use and handling of nuclear fuel and possible radioactive emissions associated with such nuclear fuel. KHNP carries insurance for its generation units and nuclear fuel transportation, and we believe that the level of insurance is generally adequate and is in compliance with relevant laws and regulations. In addition, KHNP is the beneficiary of Government indemnity which covers a portion of liability in excess of the insurance. However, such insurance is limited in terms of amount and scope of coverage and does not cover all types or amounts of losses which could arise in connection with the ownership and operation of nuclear plants. Accordingly, material adverse financial consequences could result from a serious accident or a natural disaster to the extent it is neither insured nor covered by the government indemnity.

In addition, our thermal generation subsidiaries carry insurance covering certain risks, including fire, in respect of their key assets, including buildings and equipment located at their respective power plants, construction-in-progress and imported fuel and procurement in transit. Such insurance and indemnity, however, cover only a portion of the assets that the thermal generation subsidiaries own and operate and do not cover all types or amounts of loss that could arise in connection with the ownership and operation of these power plants. In addition, unlike us, our generation subsidiaries are not permitted to self-insure, and accordingly have not self-insured, against risks of their uninsured assets or business. Accordingly, material adverse financial consequences could result from a serious accident to the extent it is uninsured.

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In addition, because neither we nor our generation subsidiaries, other than KHNP, carry any insurance against terrorist attacks, an act of terrorism would result in significant financial losses. See Item 4B. Business Overview Insurance.

### ***We may not be able to raise equity capital in the future without the participation of the Government.***

Under applicable laws, the Government is required to directly or indirectly own at least 51% of our issued capital stock. As of December 31, 2014 the last day on which our shareholder registry was closed, the Government, directly and through Korea Development Bank (a statutory banking institution wholly owned by the Government), owned 51.1% of our issued capital stock. Accordingly, without changes in the existing Korean law, it may be difficult or impossible for us to undertake, without the participation of the Government, any equity financing in the future.

### ***Following from the recent decision of the Supreme Court of Korea, we may be exposed to potential claims made by current or previous employees for unpaid wages for the past three years under the expanded scope of ordinary wages and become subject to additional labor costs arising from the broader interpretation of ordinary wages under such decision.***

Under the Labor Standards Act, an employee is legally entitled to ordinary wages. Under the guidelines previously issued by the Ministry of Labor, ordinary wages include base salary and certain fixed monthly allowances for work performed overtime during night shifts and holidays. Prior to the Supreme Court decision described below, many companies in Korea had typically interpreted these guidelines as excluding from the scope of ordinary wages fixed bonuses that are paid other than on a monthly basis, namely on a bi-monthly, quarterly or biannually basis, although such interpretation had been a subject of controversy and had been overruled in a few court cases.

In December 2013, the Supreme Court of Korea ruled that regular bonuses fall under the category of ordinary wages on the condition that those bonuses are paid regularly and uniformly, and that any agreement which excludes such regular bonuses from ordinary wage is invalid. The Supreme Court further ruled that in spite of invalidity of such agreements, employees shall not retroactively claim additional wages incurred due to such court decision, in case that such claims bring to employees unexpected benefits which substantially exceeds the wage level agreed by employers and employees and cause an unpredicted increase in expenditures for their company, which would lead the company to material managerial difficulty or would threaten to the existence of the company. In that case, the claim is not acceptable since it is unjust and is in breach of the principle of good faith. Prior to such Supreme Court ruling, we determined wages in accordance with budget instructions from the Ministry of Strategy and Finance, which excluded bonuses from ordinary wages and which was determined with the consent of the relevant labor unions.

In tandem with the above-mentioned proceeding at the Supreme Court of Korea, as of December 31, 2014 our six generation subsidiaries and another subsidiary, KPS, were subject to several lawsuits filed by various industry-wide and company-specific labor unions based on claims that ordinary wage had been paid without including certain items that should have been included as ordinary wage. In one of such lawsuits, in January 2015, the Seoul District Court found largely in favor of a company-specific labor union whose members consist of employees of KOSPO, and in February 2015, KOSPO filed an appeal with the Seoul High Court. In light of the District Court ruling and the wage structure of us and our subsidiaries, as of December 31, 2014 we have set aside a reserve on a consolidated basis in the aggregate amount of Won 174 billion to cover the likely future payments of additional ordinary wage in relation to the related lawsuits. We cannot presently assure you that there will not be further lawsuits in relation to ordinary wage or that the foregoing reserve amount will be sufficient to cover additional ordinary wage payments or other compensation and damages arising from the present or future litigation. If there are further litigation or if the actual compensation or other damages we become liable on a consolidated basis to pay in relation to these or other similar lawsuits were to be higher than our reserve amounts, it would adversely affect our results of operation.

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**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.*

We are incorporated in Korea, where most of our assets are located and most of our income is generated. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea, and our business, results of operation and financial condition are substantially dependent on the Korean consumers' demand for electricity, which are in turn largely dependent on developments relating to the Korean economy.

The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy. In light of the ongoing general economic weakness and political turbulence in Europe, signs of cooling economy for China and the continuing political instability in the Middle East and the former republics of the Soviet Union, including Russia, among others, significant uncertainty remains as to the global economic prospects in general and has adversely affected, and may continue to adversely affect, the Korean economy. In addition, as the Korean economy matures, it is increasingly exposed to the risk of a "scissor effect", namely being pursued by competitors in less advanced economies while not having fully caught up with competitors in advanced economies, which risk is amplified by the fact that the Korean economy is heavily dependent on exports. The Korean economy also continues to face other difficulties, including sluggishness in domestic consumption and investment, weakness in the real estate market, rising household debt, potential declines in productivity due to aging demographics and a rise in youth unemployment. Any future deterioration of the global and Korean economies could adversely affect our business, financial condition and results of operations. As the Korean economy is highly dependent on the health and direction of the global economy, the prices of our securities may be adversely affected by investors' reactions to developments in other countries. In addition, the value of the Won relative to the U.S. dollar has also fluctuated significantly in recent years, which in turn also may adversely affect our financial condition and results of operation.

Factors that determine economic and business cycles of the Korean or global economy are for the most part beyond our control and inherently uncertain. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on our business and profitability.

More specifically, factors that could hurt the Korean economy in the future include, among others:

fiscal difficulties, political turbulence and increased sovereign default risks in select countries in Europe and the resulting adverse effects on the global financial markets;

adverse change or increased volatility in macroeconomic indicators, including interest rates, inflation level, foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of U.S. Dollar, Euro or Japanese Yen or revaluation of the Renminbi), stock market indices and inflows and outflows of foreign capital;

adverse developments in the economies of countries and regions that are Korea's important export markets (such as the United States, China and Japan) and deterioration in economic or diplomatic relations between Korea and its major trading partners or allies, including as a result of trading or territorial disputes or disagreements in foreign policy;

continued sluggishness in the Korean real estate market;

a continuing rise in the level of household debt and an increase in delinquency and credit default by retail or small- and medium-sized enterprise borrowers;

a rise in unemployment or stagnation of real wages;

an increase in social expenditures to support an aging population or decreases in productivity due to shifting demographics;



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social and labor unrest;

a decline in consumer confidence and a slowdown in consumer spending and corporate investments;

a widening fiscal deficit from a decrease in tax revenues and a substantial increase in the Government's expenditures for fiscal stimulus, unemployment compensation and other economic and social programs;

political gridlock within the government or in the legislature, which prevents or disrupts timely and effective policy making;

laws, regulations or other government actions (financial, economic or otherwise) that fail to achieve desired policy objectives, produce adverse unintended consequences or otherwise constrain or distort sound economic activities;

loss of investor confidence arising from corporate accounting irregularities and corporate governance issues, including in respect of certain *chaebols*; and

any other developments that has a material adverse effect on the global or Korean economy, such geopolitical tensions (such as in the Crimea peninsula, certain former republics of the Soviet Union, the Middle East and the Korean peninsula), an act of war, a terrorist act, a breakout of an epidemic or natural or man-made disasters (such as the sinking of the Sewol ferry in April 2014, which significantly dampened consumer sentiment in Korea for months).

Any future deterioration of the Korean economy could have an adverse effect on our business, financial condition and results of operations.

***Tensions with North Korea could have an adverse effect on us and the market value of our shares.***

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, there continues to be uncertainty regarding the long-term stability of North Korea's political leadership since the succession of Kim Jong-un to power following the death of his father in December 2011, which has raised concerns with respect to the political and economic future of the region.

In addition, there continues to be heightened security tension in the region stemming from North Korea's hostile military and diplomatic actions, including in respect of its nuclear weapons and long-range missile programs. Some examples from recent years include the following:

In December 2014, North Korea allegedly hacked into Sony's network to prevent the airing of the movie *The Interview* which unfavorably portrays the North Korean leader, which has prompted the United States to consider implementing additional economic sanctions against North Korea.

In March 2013, North Korea stated that it had entered a state of war with Korea, declaring the 1953 armistice invalid, and put its artillery at the highest level of combat readiness to protest the Korea-United States allies' military drills and additional sanctions imposed on North Korea for its missile and nuclear tests.

North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 to February 2013, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council unanimously passed resolutions that condemned North Korea for the nuclear tests and expanded sanctions against North Korea, most recently in March 2013.

In December 2012, North Korea launched a satellite into orbit using a long-range rocket, despite concerns in the international community that such a launch would be in violation of the agreement with the United States as well as United Nations Security Council resolutions that prohibit North Korea from conducting launches that use ballistic missile technology.

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North Korea's economy also faces severe challenges, including severe inflation and food shortages, which may further aggravate social and political tensions within North Korea. In addition, reunification of Korea and North Korea may suddenly occur in the future, which would entail significant economic commitment and expenditure by Korea that may outweigh any resulting economic benefits of reunification. Any further increase in tension or uncertainty relating to the military, political or economic stability in the Korean peninsula, including a breakdown of diplomatic negotiations over the North Korean nuclear program, occurrence of military hostilities, heightened concerns about the stability of North Korea's political leadership or its actual collapse, a leadership crisis, a breakdown of high-level contacts or accelerated reunification could have a material adverse effect on our business, financial condition and results of operations, as well as the price of our common shares and our American depository shares.

*We are generally subject to Korean corporate governance and disclosure standards, which differ in significant respects from those in other countries.*

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies which differ in many respects from standards applicable in other countries, including the United States. As a reporting company registered with the Securities and Exchange Commission and listed on the New York Stock Exchange, we are, and will continue to be, subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002, as amended. However, foreign private issuers, including us, are exempt from certain corporate governance standards required under the Sarbanes-Oxley Act or the rules of the New York Stock Exchange. For a description of significant differences in corporate governance standards, see Item 16G. Corporate Governance. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information could result in less than satisfactory corporate governance practices or disclosure to investors in certain countries.

*You may not be able to enforce a judgment of a foreign court against us.*

We are a corporation with limited liability organized under the laws of Korea. Substantially all of our directors and officers and other persons named in this annual report reside in Korea, and all or a significant portion of the assets of our directors and officers and other persons named in this annual report and substantially all of our assets are located in Korea. As a result, it may not be possible for holders of the American depository shares to affect service of process within the United States, or to enforce against them or us in the United States judgments obtained in United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

### **Risks Relating to Our American Depository Shares**

*There are restrictions on withdrawal and deposit of common shares under the depository facility.*

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the depository bank's custodian in Korea and obtain American depository shares, and holders of American depository shares may surrender American depository shares to the depository bank and receive shares of our common stock. However, under current Korean laws and regulations, the depository bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of American depository shares (including deposits in connection with the initial and all subsequent offerings of American depository shares and stock dividends or other distributions related to these American depository shares) and (2) the number of shares on deposit with the depository bank at the time of such proposed deposit. We have consented to the deposit of outstanding shares of common stock as long as the number of American depository shares outstanding at any



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time does not exceed 80,153,810 shares. As a result, if you surrender American depositary shares and withdraw shares of common stock, you may not be able to deposit the shares again to obtain American depositary shares.

### ***Ownership of our shares is restricted under Korean law.***

Under the Financial Investment Services and Capital Markets Act, with certain exceptions, a foreign investor may acquire shares of a Korean company without being subject to any single or aggregate foreign investment ceiling. As one such exception, certain designated public corporations, such as us, are subject to a 40% ceiling on acquisitions of shares by foreigners in the aggregate. The Financial Services Commission may impose other restrictions as it deems necessary for the protection of investors and the stabilization of the Korean securities and derivatives market.

In addition to the aggregate foreign investment ceiling, the Financial Investment Services and Capital Markets Act and our Articles of Incorporation set a 3% ceiling on acquisition by a single investor (whether domestic or foreign) of the shares of our common stock. Any person (with certain exceptions) who holds our issued and outstanding shares in excess of such 3% ceiling cannot exercise voting rights with respect to our shares exceeding such limit.

The ceiling on aggregate investment by foreigners applicable to us may be exceeded in certain limited circumstances, including as a result of acquisition of:

shares by a depositary issuing depositary receipts representing such shares (whether newly issued shares or outstanding shares);

shares by exercise of warrant, conversion right under convertible bonds, exchange right under exchangeable bonds or withdrawal right under depositary receipts issued outside of Korea;

shares from the exercise of shareholders' rights; or

shares by gift, inheritance or bequest.

A foreigner who has acquired our shares in excess of any ceiling described above may not exercise his voting rights with respect to our shares exceeding such limit and the Financial Services Commission may take necessary corrective action against him.

### ***Holders of our ADSs will not have preemptive rights in certain circumstances.***

The Korean Commercial Code and our Articles of Incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the depositary bank, after consultation with us, may make the rights available to you or use reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The depositary bank, however, is not required to make available to you any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares; or

the offering and sale of those shares is exempt from or is not subject to the registration requirements of the U.S. Securities Act. We are under no obligation to file any registration statement with the U.S. Securities and Exchange Commission in relation to the registration rights. If a registration statement is required for you to exercise preemptive rights but is not filed by us, you will not be able to exercise your preemptive rights for additional shares and you will suffer dilution of your equity interest in us.



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*The market value of your investment in our ADSs may fluctuate due to the volatility of the Korean securities market.*

Our common stock is listed on the KRX KOSPI Division of the Korea Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the Stock Market Division of the Korea Exchange. The Stock Market Division of the Korea Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the Stock Market Division of the Korea Exchange has prescribed a fixed range in which share prices are permitted to move on a daily basis. Like other securities markets, including those in developed markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

The Korean government has the ability to exert substantial influence over many aspects of the private sector business community, and in the past has exerted that influence from time to time. For example, the Korean government has promoted mergers to reduce what it considers excess capacity in a particular industry and has also encouraged private companies to publicly offer their securities. Similar actions in the future could have the effect of depressing or boosting the Korean securities market, whether or not intended to do so. Accordingly, actual or perceived actions or inactions by the government may cause sudden movements in the market prices of the securities of Korean companies in the future, which may affect the market price and liquidity of our common stock and ADSs.

*Your dividend payments and the amount you may realize in connection with a sale of your ADSs will be affected by fluctuations in the exchange rate between the U.S. dollar and the Won.*

Investors who purchase the American depository shares will be required to pay for them in U.S. dollars. Our outstanding shares are listed on the Korea Exchange and are quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the American depository shares will be paid to the depository bank in Won and then converted by the depository bank into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Won and the U.S. dollar will affect, among other things, the amounts a registered holder or beneficial owner of the American depository shares will receive from the depository bank in respect of dividends, the U.S. dollar value of the proceeds which a holder or owner would receive upon sale in Korea of the shares obtained upon surrender of American depository shares and the secondary market price of the American depository shares.

*If the Government deems that certain emergency circumstances are likely to occur, it may restrict the depository bank from converting and remitting dividends in U.S. dollars.*

If the Government deems that certain emergency circumstances are likely to occur, it may impose restrictions such as requiring foreign investors to obtain prior Government approval for the acquisition of Korean securities or for the repatriation of interest or dividends arising from Korean securities or sales proceeds from disposition of such securities. These emergency circumstances include any or all of the following:

sudden fluctuations in interest rates or exchange rates;

extreme difficulty in stabilizing the balance of payments; and

a substantial disturbance in the Korean financial and capital markets.

The depository bank may not be able to secure such prior approval from the Government for the payment of dividends to foreign investors when the Government deems that there are emergency circumstances in the Korean financial markets.

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**ITEM 4. INFORMATION ON THE COMPANY**

**Item 4A. History and Development of the Company**

**General Information**

Our legal and corporate name is Korea Electric Power Corporation. We were established by the Government on December 31, 1981 as a statutory juridical corporation in Korea under the Korea Electric Power Corporation ( KEPCO ) Act as the successor to Korea Electric Company. Our registered office is located at 55 Jeollyeok-ro, Naju-si, Jeollanam-do, 520-350, Korea, and our telephone number is 82-61-345-4261. Our website address is www.kepc.co.kr. Our agent in the United States is Korea Electric Power Corporation, New York Office, located at 7th Floor, Parker Plaza, 400 Kelby Street, Fort Lee, NJ 07024.

The Korean electric utility industry traces its origin to the establishment of the first electric utility company in Korea in 1898. On July 1, 1961, the industry was reorganized by the merger of Korea Electric Power Company, Seoul Electric Company and South Korea Electric Company, which resulted in the formation of Korea Electric Company. From 1976 to 1981, the Government acquired the private minority shareholdings in Korea Electric Company. After the Government acquired all the remaining shares of Korea Electric Company, Korea Electric Company was dissolved, and we were incorporated in 1981 and assumed the assets and liabilities of Korea Electric Company. We ceased to be wholly owned by the Government in 1989 when the Government sold 21% of our common stock. As of December 31, 2014, the last day on which our shareholder registry was closed, the Government maintained 51.1% ownership in aggregate of our common shares by direct holdings by the Government and indirect holdings through Korea Development Bank, a statutory banking institution wholly owned by the Government.

Under relevant laws of Korea, the Government is required to own, directly or indirectly, at least 51% of our capital. Direct or indirect ownership of more than 50% of our outstanding common stock enables the Government to control the approval of certain corporate matters relating to us that require a shareholders' resolution, including approval of dividends. The rights of the Government and Korea Development Bank as holders of our common stock are exercised by the Ministry of Trade, Industry and Energy, based on the Government's ownership of our common stock and a proxy received from Korea Development Bank, in consultation with the Ministry of Strategy and Finance.

We operate under the general supervision of the Ministry of Trade, Industry and Energy. The Ministry of Trade, Industry and Energy, in consultation with the Ministry of Strategy and Finance, is responsible for approving, subject to review by the Korea Electricity Commission, the electricity rates we charge our customers. See Item 4B. Business Overview Sales and Customers Electricity Rates. We furnish reports to officials of the Ministry of Trade, Industry and Energy, the Ministry of Strategy and Finance and other Government agencies and regularly consult with such officials on matters relating to our business and affairs. See Item 4B. Business Overview Regulation. Our non-standing directors, who comprise the majority of our board of directors, must be 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 our director nomination committee and must have ample knowledge and experience in business management, and our President must be appointed by the President of the Republic upon the motion of the minister 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 and an approval at the general meeting of shareholders. See Item 6A. Directors and Senior Management Board of Directors.

**Item 4B. Business Overview**

**Introduction**

We are an integrated electric utility company engaged in the transmission and distribution of substantially all of the electricity in Korea. Through our six wholly-owned generation subsidiaries, we also generate the

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substantial majority of electricity produced in Korea. As of December 31, 2014, we and our generation subsidiaries owned approximately 77.6% of the total electricity generation capacity in Korea (excluding plants generating electricity primarily for private or emergency use). In 2014, we sold to our customers approximately 477,592 gigawatt-hours of electricity. We purchase electricity principally from our generation subsidiaries and to a lesser extent from independent power producers. Of the 490,018 gigawatt-hours of electricity we purchased in 2014, 31.6% was generated by KHNP, our wholly-owned nuclear and hydroelectric power generation subsidiary, 54.6% was generated by our wholly-owned five thermal generation subsidiaries and 13.8% was generated by independent power producers that trade electricity to us through the cost-based pool system of power trading (excluding independent power producers that supply electricity under power purchase agreements with us). Our five thermal generation subsidiaries are KOSEP, KOMIPO, KOWEPO, KOSPO and EWP, each of which is wholly owned by us and is incorporated in Korea. We derive substantially all of our revenues and profit from Korea, and substantially all of our assets are located in Korea.

In 2014, we had sales of Won 57,123 billion and net profit of Won 2,799 billion, compared to sales of Won 53,713 billion and net profit of Won 174 billion in 2013.

Our revenues are closely tied to demand for electricity in Korea. Demand for electricity in Korea increased at a compounded average growth rate of 3.9% per annum from 2010 to 2014, compared to the real gross domestic product, or GDP, which increased at a compounded average growth rate of 3.7% during the same period, according to the Bank of Korea. The GDP growth rate was 3.3% during 2014 while demand for electricity in Korea increased by 0.6% during 2014.

### **Strategy**

As our overall strategy, we seek to become a leading global energy enterprise through enhanced global competitiveness and strengthening our contribution to the global environmental campaigns through continued development of green and smart power-related technologies. We also aim to adapt to the growing uncertainties in global economy by selectively pursuing new business opportunities and through development of innovative technologies. In addition, we are in the process of integrating a creating shared values platform to our business model and operating strategy so as to enhance our social contributions as well as financial profitability in the form of creating new business opportunities while promoting energy welfare for our consumers.

*Strengthen reliability of our domestic operations.* Our primary strategies in this connection are to enhance efficiency of our electricity generation, transmission and distribution networks and acceptability of the construction and operation of our related facilities. Toward this end, we will strategically focus on ensuring stable supply of electricity, making our electricity networks smarter and more intelligent, creating customer-oriented marketing solutions, hiring outside agencies to assist with site selection for our facilities and improving the compensation system in relation to our facilities. We also aim to strengthen our marketing capabilities in anticipation of increasing competition, as well as bolster programs designed to encourage efficient energy use. We believe these measures will be instrumental to reinforcing our dominance in the Korean electricity market.

*Expand overseas business.* Our primary strategies in this connection are to develop tailored expansion plans specific to the target region, increase the level of our control over the proposed projects and procure secure supply of fuels. In this connection, we plan to expand our thermal and nuclear power projects as well as selectively explore renewable energy, smart transmission and distribution facilities and fuel procurement projects in the overseas markets.

*Create a platform for new business growth opportunities.* Our primary objectives in this connection are to gain first mover advantages in new businesses through technological development and to create opportunities for synergy through formation of an integrated energy network connecting Northeast Asia. Towards these goals, we plan to focus on development of high value-added electricity-related technology, commercialization of our strategic projects and establishment of super grids in Northeast Asia.

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*Fulfill social responsibilities as an electricity provider.* In this connection, we will continue to seek to balance between our public policy mandate and profitability and develop sustainable products, including through leadership in low-carbon clean energy business, creating and fostering a common set of shared values with local communities, development of a sustainable energy business model and actualization of results-oriented social responsibility as a global corporate citizen.

### **Recent Developments**

#### ***Vesting Contract System***

On May 20, 2014, the Electricity Business Act was amended, with effect from November 21, 2014, to introduce a vesting contract system in determining the price and quantity of electricity to be sold and purchased through the Korea Power Exchange between the purchaser of electricity (namely, us) and the sellers of electricity (namely, our generation subsidiaries and independent power producers). While the vesting contract system will work in conjunction with the cost-based pool system, the former will also substantially revamp and rationalize the latter as currently in effect, particularly with respect to the adjusted coefficient component.

Under the vesting contract system as currently contemplated by the amended Electricity Business Act and the Enforcement Decree of the Electricity Business Act, producers of electricity to be generated from base load fuels (such as nuclear, coal, hydro and by-product gas) at a particular generation unit will be required to enter into a contract with the purchaser of electricity (namely, us), which will specify, among other things, the quantity of electricity to be generated and sold from such generation unit and the price at which such electricity will be sold and purchased. The contracted quantity will be subject to annual adjustment in consideration of past generation amounts, maintenance and overhaul periods, among others. The contracted price will be subject to monthly adjustment largely depending on the fuel price movements, provided that in the event of a drastic change in electricity tariff rates, inflation rate and the general market conditions of electricity supply and demand, the contracted price may be further adjusted on an as-needed basis. Generally, the contractual terms will be subject to prior consultation with the Korea Electricity Commission and approval by the Minister of the Ministry of Trade, Industry and Energy in order to ensure fair and standardized application of the vesting contract system to all producers of electricity.

In addition to aiming to stabilize the electricity supply market, a key feature of the vesting contract system is to provide a settlement mechanism that is designed to incentivize producers of electricity to supply electricity at or exceeding the contracted quantity. Under this settlement mechanism, an electricity producer is required to settle, among others, the difference between the contracted price and the market price of electricity sold at a given hour through the Korea Power Exchange (namely, the system marginal price), as multiplied by the contracted quantity of electricity. For further details of this settlement mechanism, see *Purchase of Electricity Vesting Contract System*. Under this settlement mechanism, assuming sale of electricity in the contracted quantity and further assuming the system marginal price being higher than the contracted price, the consideration to be received by the seller of electricity net of the settlement amount will effectively amount to the product of the contracted quantity multiplied by the contracted price. If the seller sells a quantity of electricity exceeding the contracted quantity at a given hour, under the settlement mechanism and assuming the system marginal price being higher than the contracted price, the seller is entitled to an extra return (effectively, an incentive) equal to the product of the excess quantity multiplied by the difference between the system marginal price and the contracted price. On the other hand, if the seller sells a quantity of electricity falling short of the contracted quantity at a given hour, under the settlement mechanism and assuming the system marginal price being higher than the contracted price, the seller is required to pay an amount (effectively, a penalty) equal to the product of the shortfall quantity multiplied by the difference between the system marginal price and the contracted price. The foregoing notions of incentive and penalty are intended to minimize the additional cost of purchasing electricity at the higher system marginal price in the event that the seller of electricity fails to deliver the contracted quantity of electricity. Details of the settlement mechanism in the event of the system marginal price being lower than the contracted price have not yet been finalized.

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The vesting contract system was introduced principally in order to prevent excessive profit-taking by low-cost producers of electricity by replacing the adjusted coefficient as the basis for determining the guaranteed return to generation companies, as well as to attain the following objectives. First, this system seeks to increase transactional certainty and stability of electricity supply and purchase by requiring that a relatively long-term (generally one-year) contract be entered in relation to electricity supply, which had been previously made entirely through what was effectively a spot market. Second, in order to foster responsible management of electricity supply by generation companies, the generation companies will become subject to minimum supply requirements and will be rewarded or penalized depending on whether they meet these requirements. Third, the introduction of standard contractual prices is designed to encourage cost savings and productivity enhancements on the part of the generation companies, who will be rewarded or penalized depending on whether they can supply electricity at such standard contractual prices.

In order to minimize undue impact on the electricity trading market in Korea, the vesting contract system will be implemented in phases, with the target date of implementation for hydro power in the second half of 2015, for coal-based electricity in 2016 and for nuclear power in 2017, although vesting contracts have been entered in February 2015 between us and two independent power producers of by-product gas-based electricity (namely, POSCO Energy and Hyundai Green Power) at a contractual price set a level at which the vesting contract system replaced the adjustment coefficient mechanism previously in effect with equal economic effect. By-product gas-based electricity accounted for 1.7% of electricity purchased by us in 2014. Since the vesting contract system is still in the early stages of implementation and many of the related details are still being finalized, it presently remains unclear in what final form the vesting contract system will actually operate, whether the vesting contract system will be able to achieve the desired results and whether there will be any adverse unintended consequences from the application of the system, and no assurance can be given that such system will not adversely affect our business, results of operation or financial condition in the future. See [Purchase of Electricity Vesting Contract System](#) .

### ***Relocation and Sale of Our Headquarters***

Pursuant to a Government plan announced in 2005, which mandated relocation of the headquarters of select government-invested enterprises, including us and our six generation and certain other subsidiaries from the Seoul metropolitan area to other provinces in Korea as part of an initiative to foster balanced economic growth in the provinces, we and certain of our generation and other subsidiaries recently relocated our respective headquarters to the designated locations. Following relocation in November 2014, our headquarters are currently located in Naju in Jeollanam-do Province, which is approximately 300 kilometers south of Seoul. The designated locations for the headquarters of our six generation subsidiaries and other subsidiaries are various cities outside of Seoul across Korea. The estimated total cost of relocation of the headquarters of us and our generation subsidiaries is Won 1,522 billion, which has been funded with operating cash, borrowings and proceeds from the sale of existing headquarters.

Under a special act enacted for this purpose which requires that we sell our headquarters within one year after relocation, in September 2014 we entered into a definitive agreement with a consortium consisting of Hyundai Motor Company, Kia Motor Company and Hyundai Mobis for the sale of the properties in our previous headquarters for a sale price of Won 10,550 billion. The sale was made following an open bidding, and the assessment value for such properties was approximately Won 3,335 billion. Under the sales agreement, the purchaser made a deposit equal to 10% of the purchase price on the date of the agreement, paid the first installment equal to 30% of the purchase price on January 15, 2015 and is obligated to pay the remaining proceeds in two equal installments on May 25 and September 25, 2015, and the title to the properties will transfer on the date the full purchase price is paid.

### ***Sale of Treasury Shares***

On October 24, 2014, we sold 18,929,995 treasury shares held by us, representing 2.95% of our total issued shares for a consideration of Won 45,200 per share, or approximately Won 856 billion in the aggregate, through an after-hours block sale on the Korea Exchange to third party investors.

**Table of Contents****Debt Reduction Program and Related Activities**

In 2014, in light of the general policy guideline of the Government for public institutions (including us and our generation subsidiaries) in general to reduce their respective overall debt levels, we and our generation subsidiaries have, in consultation with the Ministry of Trade, Industry and Energy and as approved by the Committee for Management of Public Institutions in June 2014, set target debt-to-equity levels and undertaken various programs to reduce debt and improve the overall financial health, including through rationalizing and applying stricter review (from a profitability and efficiency perspective) various aspects of our operations (both domestic and overseas), inviting private sector investments, disposing of non-core assets (such as non-core or loss-generating overseas operations and real property unrelated to operations), reducing costs, exploring alternative ways to generate additional revenue and developing contingency plans for further cost savings.

The following table summarizes some of the actions that we and our generation subsidiaries have undertaken or plan to undertake as part of such debt reduction program.

<b>Entity</b>	<b>Target Debt-to-Equity Level<sup>(1)</sup></b>	<b>Actual Debt-to-Equity Level<sup>(1)</sup></b>	<b>Other Related Activities</b>
KEPCO	145% by 2017	136% as of December 31, 2013; 130% as of December 31, 2014	- Sale of treasury shares, remaining shares in LG Uplus and shares in select subsidiaries;
KHNP	150% by 2017	129% as of December 31, 2013; 132% as of December 31, 2014	- Active rental of facilities for additional revenue - Stricter review of new nuclear generation construction and new headquarters construction  - Rationalization of the procurement process and other budget reduction efforts
EWP	107% by 2017	117% as of December 31, 2013; 135% as of December 31, 2014	- Development and sale of radioactive waste vitrification and other advanced technologies - Sale of shares in GS Donghae Electric Power Co., Ltd. and six other domestic and overseas companies
KOMIPO	160% by 2017	112% as of December 31, 2013; 135% as of December 31, 2014	- Sale of shares in seven solar power facilities and closed facilities at Incheon Thermal Nos. 1 and 2
KOSEP	130% by 2017	128% as of December 31, 2013; 128% as of December 31, 2014	- Sale of shares in Korea Engineering & Power Service Co., Ltd. and shares in six renewable energy companies
KOSPO	143% by 2017	113% as of December 31, 2013; 151% as of December 31, 2014	- Sale of real properties that yield no revenues
KOWEPO	149% by 2017	128% as of December 31, 2013; 156% as of December 31, 2014	- Sale of equity interests in Dongducheon Dream Power and obtaining private sector investment in the Pyeongtaek Combined Cycle Unit No. 3  - Accelerated construction of generation units



*Note:*

(1) Computed on a separate basis for KEPCO, EWP, and KOSPO.

Despite our best efforts, however, for reasons beyond our control, including macroeconomic environments, government regulations and market forces (such as international market prices for our fuels), we cannot assure whether we or our generation subsidiaries will be able to successfully reduce debt burdens or otherwise improve our financial health to a level contemplated by the Government or to a level that would be optimal for our capital

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structure. If we or our generation subsidiaries fail to do so or the measures taken by us or our generation subsidiaries to reduce debt levels or improve financial health have unintended adverse consequences, such developments may have an adverse effect on our business, results of operation and financial condition.

### **Government Ownership and Our Interactions with the Government**

The KEPCO Act requires that the Government own at least 51% of our capital stock. Direct or indirect ownership of more than 50% of our outstanding common stock enables the Government to control the approval of certain corporate matters which require a shareholders' resolution, including approval of dividends. The rights of the Government and Korea Development Bank as holders of our common stock are exercised by the Ministry of Trade, Industry and Energy in consultation with the Ministry of Strategy and Finance. We are currently not aware of any plans of the Government to cease to own, directly or indirectly, at least 51% of our outstanding common stock.

We play an important role in the implementation of the Government's national energy policy, which is established in consultation with us, among other parties. As an entity formed to serve public policy goals of the Government, we seek to maintain a fair level of profitability and strengthen our capital base in order to support the growth of our business in the long term.

The Government, through its various policy initiatives for the Korean energy industry as well as direct and indirect supervision of us and our industry, plays an important role in our business and operations. Most importantly, the electricity tariff rates we charge to our customers are regulated by the Government taking into account, among others, our needs to recover the costs of operations, make capital investments and recoup a fair return on capital invested by us, as well as the Government's overall policy considerations, such as inflation. See Item 4B. Business Overview Sales and Customers Electricity Rates.

In addition, pursuant to the Basic Plan determined by the Government, we and our generation subsidiaries have made, and plan to make, substantial expenditures for the construction of generation plants and other facilities to meet demand for electric power. See Item 5B. Liquidity and Capital Resources Capital Requirements.

### **Restructuring of the Electric Power Industry in Korea**

On January 21, 1999, the Ministry of Trade, Industry and Energy published the Restructuring Plan. The overall objectives of the Restructuring Plan consisted of: (i) introducing competition and thereby increasing efficiency in the Korean electric power industry, (ii) ensuring a long-term, inexpensive and stable electricity supply, and (iii) promoting consumer convenience through the expansion of consumer choice.

The following provides further details relating to the Restructuring Plan.

#### ***Phase I***

During Phase I, which served as a preparatory stage for Phase II and lasted from the announcement of the Restructuring Plan in January 1999 until April 2001, we undertook steps to split our generation business units off into one wholly-owned nuclear generation subsidiary (namely, KHNP) and five wholly-owned thermal generation subsidiaries (namely, KOSEP, KOMIPO, KOWEPO, KOSPO and EWP), each with its own management structure, assets and liabilities. These steps were completed upon the approval of the split-off at our shareholders' meeting in April 2001.

The Government's principal objectives in the split-off of the generation units into separate subsidiaries were to: (i) introduce competition and thereby increase efficiency in the electricity generation industry in Korea, and (ii) ensure a stable supply of electricity in Korea.

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Following the implementation of Phase I, we have substantial monopoly with respect to the transmission and distribution of electricity in Korea.

While our ownership percentage of the thermal generation subsidiaries will depend on the further adjustments to the Restructuring Plan to be adopted by the Government, we plan to retain 100% ownership of both KHNP and our transmission and distribution business.

### ***Phase II***

At the outset of Phase II in April 2001, the Government introduced a cost-based competitive bidding pool system under which we purchase power from our generation subsidiaries and other independent power producers for transmission and distribution to customers. For a further description of this system, see *Purchase of Electricity Cost-based Pool System* below.

In order to support the logistics of the cost-based pool system, the Government established the Korea Power Exchange in April 2001 pursuant to the Electricity Business Law. The primary function of the Korea Power Exchange is to deal with the sale of electricity and implement regulations governing the electricity market to allow for electricity distribution through a competitive bidding process. The Government also established the Korea Electricity Commission in April 2001 to regulate the Korean electric power industry and ensure fair competition among industry participants. To facilitate this goal, the Korea Power Exchange established the Electricity Market Rules relating to the operation of the bidding pool system. To amend the Electricity Market Rules, the Korea Power Exchange must have the proposed amendment reviewed by the Korea Electricity Commission and then obtain the approval of the Ministry of Trade, Industry and Energy.

The Korea Electricity Commission's main functions include implementation of standards and measures necessary for electricity market operation and review of matters relating to licensing participants in the Korean electric power industry. The Korea Electricity Commission also acts as an arbitrator in tariff-related disputes among participants in the Korean electric power industry and investigates illegal or deceptive activities of the industry participants.

### ***Privatization of Thermal Generation Subsidiaries***

In April 2002, the Ministry of Trade, Industry and Energy released the basic privatization plan for five of our generation subsidiaries other than KHNP. Pursuant to this plan, we commenced the process of selling our equity interest in KOSEP in 2002. According to the original plan, this process was, in principle, to take the form of a sale of management control, potentially supplemented by an initial public offering as a way of broadening the investor base. In November 2003, KOSEP submitted its application to the Korea Exchange for a preliminary screening review, which was approved in December 2003. However, in June 2004, KOSEP made a request to the Korea Exchange to delay its stock listing due to unfavorable stock market conditions at that time. We may resume the stock listing process for KOSEP in due course, after taking into consideration the overall stock market conditions and other pertinent matters. The aggregate foreign ownership of our generation subsidiaries is limited to 30% of total power generation capacity in Korea. In consultation with us, the Government will determine the size of the ownership interest to be sold and the timing of such sale, with a view to encouraging competition and assuring adequate electricity supply and debt service capability.

We believe the Government currently has no specific plans to resume the public offering of KOSEP or commence the same for any of our other generation subsidiaries in the near future. However, we cannot assure that our generation subsidiaries will not become part of Government-led privatization initiatives in the future for reasons relating to a change in Government policy, economic and market conditions and/or other factors.

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### ***Suspension of the Plan to Form and Privatize Distribution Subsidiaries***

In 2003, the Government established a Tripartite Commission consisting of representatives of the Government, leading businesses and labor unions in Korea to deliberate on ways to introduce competition in electricity distribution, such as by forming and privatizing new distribution subsidiaries. In 2004, the Tripartite Commission recommended not pursuing such privatization initiatives but instead creating independent business divisions within us to improve operational efficiency through internal competition. Following the adoption of such recommendation by the Government in 2004 and further studies by Korea Development Institute, in 2006 we created nine strategic business units (which, together with our other business units, were subsequently restructured into 14 such units in February 2012) that have a greater degree of autonomy with respect to management, financial accounting and performance evaluation while having a common focus on increasing profitability.

### ***Initiatives to Improve the Structure of Electricity Generation***

In August 2010, based on deliberations with various interested parties, the Ministry of Trade, Industry and Energy announced the Proposal for the Improvement in the Structure of the Electric Power Industry, whose key initiatives include the following: (i) maintain the current structure of having six generation subsidiaries, (ii) designate the six generation subsidiaries as market-oriented public enterprises under the Public Agency Management Act in order to foster competition among them and autonomous and responsible management by them, (iii) create a supervisory unit to act as a control tower in reducing inefficiencies created by arbitrary division of labor among the six generation subsidiaries and fostering economies of scale among them and require the presidents of the generation subsidiaries to hold regular meetings, (iv) create a nuclear power export business unit to systematically enhance our capabilities to win projects involving the construction and operation of nuclear power plants overseas, (v) further rationalize the electricity tariff by adopting a fuel-cost based tariff system in 2011 and a voltage-based tariff system in a subsequent year, and (vi) create separate accounting systems for electricity generation, transmission, distribution and sales with the aim of introducing competition in electricity sales in the intermediate future.

Pursuant to this Proposal, in December 2010 the Ministry of Trade, Industry and Energy announced guidelines for a cooperative framework between us and our generation subsidiaries, and in January 2011 the five thermal generation subsidiaries formed a joint cooperation unit and transferred their pumped-storage hydroelectric business units to KHNP. Furthermore, in January 2011 the six generation subsidiaries were officially designated as market-oriented public enterprises, whereupon the President of Korea appoints the president and the statutory auditor of each such subsidiary; the selection of outside directors of each such subsidiary is subject to approval by the minister of the Ministry of Strategy and Finance; the president of each such subsidiary is required to enter into a management contract directly with the minister of the Ministry of Trade, Industry and Energy; and the Public Enterprise Management Evaluation Commission conducts performance evaluation of such subsidiaries. Previously, our president appointed the president and the statutory auditor of each such subsidiary; the selection of outside directors of each such subsidiary was subject to approval by our president; the president of each such subsidiary entered into a management contract with our president; and our evaluation committee conducted performance evaluation of such subsidiaries.

### **Purchase of Electricity**

#### ***Cost-based Pool System***

Since April 2001, the purchase and sale of electricity in Korea is required to be made through the Korea Power Exchange, which is a statutory not-for-profit organization established under the Electricity Business Act with responsibilities for setting the price of electricity, handling the trading and collecting relevant data for the electricity market in Korea. The suppliers of electricity in Korea consist of our six generation subsidiaries, which were spun off from us in April 2001, and independent power producers, which numbered 10 (excluding renewable energy producers) as of December 31, 2014. We distribute electricity purchased through the Korea Power Exchange to the end users.

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### *Our Relationship with the Korea Power Exchange*

The key features of our relationships with the Korea Power Exchange include the following: (i) we and our six generation subsidiaries are member corporations of the Korea Power Exchange and collectively own 100% of its share capital, (ii) three of the 10 members of the board of directors of the Korea Power Exchange are currently our or our subsidiaries' employees, and (iii) one of our employees is currently a member in three of the key committees of the Korea Power Exchange that are responsible for evaluating the costs of producing electricity, making rules for the Korea Power Exchange and gathering and disclosing information relating to the Korean electricity market.

Notwithstanding the foregoing relationships, however, we do not have control over the Korea Power Exchange or its policies since, among others, (i) the Korea Power Exchange, its personnel, policies, operations and finances are closely supervised and controlled by the Government, namely through the Ministry of Trade, Industry and Energy, and are subject to a host of laws and regulations, including, among others, the Electricity Business Act and the Public Agencies Management Act, as well as the Articles of Incorporation of the Korea Power Exchange, (ii) we are entitled to elect no more than one-third of the Korea Power Exchange directors and our representatives represent only a minority of its board of directors and committees (with the other members being comprised of representatives of the Ministry of Trade, Industry and Energy, employees of the Korea Power Exchange, businesspersons and/or scholars), and (iii) the role of our representatives in the policy making process for the Korea Power Exchange is primarily advisory based on their technical expertise derived from their employment at us or our generation subsidiaries. Consistent with this view, the Finance Supervisory Service issued a ruling in 2005 that stated that we are not deemed to have significant influence or control over the decision-making process of the Korea Power Exchange relating to its business or financial affairs.

### *Pricing Factors*

The price of electricity in the Korean electricity market is determined principally based on the cost of generating electricity using a system known as the cost-based pool system. Under the cost-based pool system, the price of electricity has two principal components, namely the marginal price (representing in principle the variable cost of generating electricity) and the capacity price (representing in principle the fixed cost of generating electricity).

Under the merit order system, the electricity purchase allocation, the system marginal price (as described below) and the final allocation adjustment are automatically determined based on an objective formula. The variable cost (including the adjusted coefficient as described below) and the capacity price are determined in advance of trading by the Cost Evaluation Committee. Accordingly, a supplier of electricity cannot exercise control over the merit order system or its operations to such supplier's strategic advantage.

### *Marginal Price*

The primary purpose of the marginal price is to compensate the generation companies for fuel costs, which represents the principal component of the variable costs of generating electricity. We currently refer such marginal price as the system marginal price.

The system marginal price represents, in effect, the marginal price of electricity at a given hour at which the projected demand for electricity and the projected supply of electricity for such hour intersect, as determined by the merit order system, which is a system used by the Korea Power Exchange to allocate which generation units will supply electricity for which hour and at what price. To elaborate, the projected demand for electricity for a given hour is determined by the Korea Power Exchange based on a forecast made one day prior to trading, and such forecast takes into account, among others, historical statistics relating to demand for electricity nationwide by day and by hour, seasonality and on-peak-hour versus off-peak hour demand analysis. The projected supply of electricity at a given hour is determined as the aggregate of the available capacity of all generation units that have submitted bids to supply electricity for such hour. These bids are submitted to the Korea Power Exchange one day prior to trading.

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Under the merit order system, the generation unit with the lowest variable cost of producing electricity among all the generation units that have submitted a bid for a given hour is first awarded a purchase order for electricity up to the available capacity of such unit as indicated in its bid. The generation unit with the next lowest variable cost is then awarded a purchase order up to its available capacity in its bid, and so forth, until the projected demand for electricity for such hour is met. We refer to the variable cost of the generation unit that is the last to receive the purchase order for such hour as the system marginal price, which also represents the highest price at which electricity can be supplied at a given hour based on the demand and supply for such hour. Generation units whose variable costs exceed the system marginal price for a given hour do not receive purchase orders to supply electricity for such hour. The variable cost of each generation unit is determined by the Cost Evaluation Committee (comprised of representatives from the Ministry of Trade, Industry and Energy, the Korea Power Exchange, generation companies, scholars and researchers as well as us) on a monthly basis and reflected in the following month based on the fuel costs two months prior to such determination. The purpose of the merit order system is to encourage generation units to reduce its electricity generation costs by making its generation process more efficient, sourcing fuels from most cost-effective sources or adopting other cost savings programs.

The final allocation of electricity supply is further adjusted on the basis of other factors, including the proximity of a generation unit to the geographical area to which power is being supplied, network and fuel constraints and the amount of power loss. This adjustment mechanism is designed to adjust for transmission losses in order to improve overall cost-efficiency in the transmission of electricity to end-users.

The price of electricity at which our generation subsidiaries sell electricity to us is determined using the following formula:

Variable cost + [System marginal price - Variable cost] \* Adjusted coefficient

The adjusted coefficient is determined based on considerations of, among others, electricity tariff rates, the differential generation costs for different fuel types and the relative fair returns on investment in respect of us compared to our generation subsidiaries. The purpose of the adjusted coefficient is to prevent electricity trading from resulting in undue imbalances as to the relative financial results among generation subsidiaries as well as between us (as the purchaser of electricity) and our generation subsidiaries (as sellers of electricity). Such imbalances may arise from excessive profit taking by base load generators (on account of their inherently cheaper fuel cost structure compared to non-base load generators) as well as from fluctuations in fuel prices (it being the case that during times of rapid and substantial rises in fuel costs which are not offset by corresponding rises in electricity tariff rates charged by us to end-users, on a non-consolidated basis our profitability will decline compared to that our generation subsidiaries since our generation subsidiaries are entitled to sell electricity to us at cost plus a guaranteed margin).

The adjusted coefficient applies in principle to all generation units that use the same type of fuel, except for independent power producers that use LNG, oil, or by-product gas (for which the adjusted coefficient was replaced with the vesting contract system as further discussed below). The adjusted coefficient is currently set at the highest level for the marginal price of electricity generated using nuclear fuel, followed by coal, oil and LNG. The differentiated adjusted coefficients reflect the Government's current energy policy objectives and have the effect of setting priorities in the fuel types to be used in electricity generation. The adjusted coefficient is determined by the Cost Evaluation Committee in principle on an annual basis, although in exceptional cases driven by external factors such as material developments in fuel costs and electricity tariff rates, the adjusted coefficient may be adjusted on a quarterly basis.

Under the vesting contract system which is currently being implemented in phases as to the purchase and sale of electricity between us and the suppliers of electricity (namely, our generation subsidiaries and independent power producers) pursuant to an amendment to the Electricity Business Act, effective November 21, 2014, the application of adjusted coefficient will be gradually cease in tandem with the rollout of the vesting contract system depending on various fuel types, and the adjustment mechanism for determining the price we

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currently pay to our generation subsidiaries and independent power producers for electricity sold to us will be replaced by the vesting contract system as further described below in *Vesting Contract System* .

### *Capacity Price*

In addition to payment in respect of the variable cost of generating electricity, generation units receive payment in the form of capacity price, the purpose of which is to compensate them for the costs of constructing generation facilities and to provide incentives for new construction. The capacity price is determined annually by the Cost Evaluation Committee based on the construction costs and maintenance costs of a standard generation unit and is paid to each generation company for the amount of available capacity indicated in the bids submitted the day before trading, subject to such capacity being actually available on the relevant day of trading. From time to time, the capacity price is adjusted in ways to soften the impact of changes in the marginal price over time based on the expected rate of return for our generational subsidiaries. Currently, the capacity price is Won 7.46/kW-h and is applied equally to all generation units, regardless of fuel types used.

Under a regionally differentiated capacity price system, we are required to maintain a standard capacity reserve margin in the range of 12.0% to 20.0% in order to prevent excessive capacity build-up as well as induce optimal capacity investment at the regional level. The capacity reserve margin is the ratio of peak demand to the total available capacity. Under this system, generation units in a region where available capacity is insufficient to meet demand for electricity as evidenced by a failure to meet the standard capacity reserve margin receive increased capacity price. Conversely, generation units in a region where available capacity exceeds demand for electricity as evidenced by exceeding the standard capacity reserve margin receive reduced capacity price. The capacity price received by generation units is subject to hourly and seasonal adjustments in order to incentivize our generation subsidiaries to operate their generation facilities at full capacity during periods of highest demand. For example, the capacity price paid differs depending on whether the relevant hour is a on-peak hour, a mid-peak hour or an off-peak hour (it being highest for the on-peak hours and lowest for the off-peak hours) and the capacity price paid is highest during the months of January, July and August when electricity usage is highest due to weather conditions. Other than subject to the aforementioned variations, the same capacity pricing mechanism applies to all generation units regardless of fuel types used.

### *Vesting Contract System*

On May 20, 2014, the Electricity Business Act was amended, with effect from November 21, 2014, to introduce a vesting contract system in determining the price and quantity of electricity to be sold and purchased through the Korea Power Exchange between the purchaser of electricity (namely, us) and the sellers of electricity (namely, our generation subsidiaries and independent power producers). While the vesting contract system will work in conjunction with the cost-based pool system, the former will also substantially revamp and rationalize the latter as currently in effect, particularly with respect to the adjusted coefficient component.

Under the vesting contract system as currently contemplated by the amended Electricity Business Act and the Enforcement Decree of the Electricity Business Act, producers of electricity to be generated from base load fuels (such as nuclear, coal, hydro and by-product gas) at a particular generation unit will be required to enter into a contract with the purchaser of electricity (namely, us), which will specify, among other things, the quantity of electricity to be generated and sold from such generation unit and the price at which such electricity will be sold and purchased. The contracted quantity will be subject to annual adjustment in consideration of past generation amounts, maintenance and overhaul periods, among others. The contracted price will be subject to monthly adjustment largely depending on the fuel price movements, provided that in the event of a drastic change in electricity tariff rates, inflation rate and the general market conditions of electricity supply and demand, the contracted price may be further adjusted on an as-needed basis. Generally, the contractual terms will be subject to prior consultation with the Korea Electricity Commission and approval by the Minister of the Ministry of Trade, Industry and Energy in order to ensure fair and standardized application of the vesting contract system to all producers of electricity.

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In addition to aiming to stabilize the electricity supply market, a key feature of the vesting contract system is to provide a settlement mechanism that is designed to incentivize producers of electricity to supply electricity at or exceeding the contracted quantity. Under this settlement mechanism, an electricity producer is required to settle, among others, the difference between the contracted price and the market price of electricity sold at a given hour through the Korea Power Exchange (namely, the system marginal price), as multiplied by the contracted quantity of electricity.

To elaborate, the net consideration that the seller of electricity at a particular generation unit is entitled to receive upon sale of the contracted quantity of electricity through the Korea Power Exchange at a given hour is determined using the following formula:

Net consideration = Gross consideration – Settlement amount, assuming the system marginal price is higher than the contracted price, where:

(A) Gross consideration equals the sum of:

- (i) System marginal price \* quantity of electricity sold; and
- (ii) Capacity price (as discussed above), as applicable to the particular generation unit; and

(B) Settlement amount equals the sum of:

- (i) Contracted quantity \* (system marginal price – contracted price); and
- (ii) Capacity price.

Accordingly, under this settlement mechanism, assuming sale of electricity in the contracted quantity and further assuming the system marginal price being higher than the contracted price, the consideration to be received by the seller of electricity net of the settlement amount will effectively amount to the product of the contracted quantity multiplied by the contracted price. If the seller sells a quantity of electricity exceeding the contracted quantity at a given hour, under the settlement mechanism and assuming the system marginal price being higher than the contracted price, the seller is entitled to an extra return (effectively, an incentive) equal to the product of the excess quantity multiplied by the difference between the system marginal price and the contracted price. On the other hand, if the seller sells a quantity of electricity falling short of the contracted quantity at a given hour, under the settlement mechanism and assuming the system marginal price being higher than the contracted price, the seller is required to pay an amount (effectively, a penalty) equal to the product of the shortfall quantity multiplied by the difference between the system marginal price and the contracted price. The foregoing notions of incentive and penalty are intended to minimize the additional cost of purchasing electricity at the higher system marginal price in the event that the seller of electricity fails to deliver the contracted quantity of electricity. Details of the settlement mechanism in the event of the system marginal price being lower than the contracted price have not yet been finalized.

The vesting contract system was introduced principally in order to prevent excessive profit-taking by low-cost producers of electricity by replacing the adjusted coefficient as the basis for determining the guaranteed return to generation companies, as well as to attain the following objectives. First, this system seeks to increase transactional certainty and stability of electricity supply and purchase by requiring that a relatively long-term (generally one-year) contract be entered in relation to electricity supply, which had been previously made entirely through what was effectively a spot market. Second, in order to foster responsible management of electricity supply by generation companies, the generation companies will become subject to minimum supply requirements and will be rewarded or penalized depending on whether they meet these requirements. Third, the introduction of standard contractual prices is designed to encourage cost savings and productivity enhancements on the part of the generation companies, who will be rewarded or penalized depending on whether they can supply electricity at such standard contractual prices.



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In order to minimize undue impact on the electricity trading market in Korea, the vesting contract system will be implemented in phases, with the target date of implementation for hydro power in the second half of 2015, for coal-based electricity in 2016 and for nuclear power in 2017, although vesting contracts have been entered in February 2015 between us and two independent power producers of by-product gas-based electricity (namely, POSCO Energy and Hyundai Green Power) at a contractual price set a level at which the vesting contract system replaced the adjustment coefficient mechanism previously in effect with equal economic effect. By-product gas-based electricity accounted for 1.7% of electricity purchased by us in 2014. Since the vesting contract system is still in the early stages of implementation and many of the related details are still being finalized, it presently remains unclear in what final form the vesting contract system will actually operate, whether the vesting contract system will be able to achieve the desired results and whether there will be any adverse unintended consequences from the application of the system, and no assurance can be given that such system will not adversely affect our business, results of operation or financial condition in the future.

**Power Trading Results**

The results of power trading, as effected through the Korea Power Exchange, for our generation subsidiaries and independent power producers for the year ended December 31, 2014 are as follows:

	Items	Volume (Gigawatt hours)	Percentage of Total Volume (%)	Sales to KEPCO (in billions of Won)	Percentage of Total Sales (%)	Unit Price (Won/kWh)
Generation Companies	KHNP	154,894	31.6	9,287	20.8	59.95
	KOSEP	63,876	13.0	4,501	10.1	70.46
	KOMIPO	50,181	10.2	5,029	11.3	100.22
	KOWEPO	48,391	9.9	4,932	11.0	101.93
	KOSPO	56,686	11.6	6,302	14.1	111.17
	EWP	48,549	9.9	4,537	10.2	93.44
	Others <sup>(1)</sup>	67,441	13.8	10,108	22.6	144.87
	Total	490,018	100.0	44,695	100.6	91.21
Energy Sources	Nuclear	149,056	30.4	8,192	18.3	54.96
	Bituminous coal	189,330	38.6	11,994	26.8	63.35
	Anthracite coal	7,746	1.6	706	1.6	91.18
	Oil	7,591	1.5	1,681	3.8	221.42
	LNG	25,267	5.2	3,936	8.8	155.78
	Combined-cycle	89,566	18.3	14,524	32.5	162.16
	Hydro	2,070	0.4	333	0.7	170.94
	Pumped-storage	5,037	1.0	866	1.9	204.41
	Others	14,355	2.9	2,464	5.5	171.67
Total	490,018	100.0	44,695	100.0	91.21	
Load	Base load	342,132	69.8	20,791	46.5	60.77
	Non-base load	147,886	30.2	23,904	53.5	161.64
	Total	490,018	100.0	44,695	100.0	91.21

Note:

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- (1) Others represent independent power producers that trade electricity through the cost-based pool system of power trading (excluding independent power producers that supply electricity under power purchase agreements with us).

**Table of Contents*****Power Purchased from Independent Power Producers Under Power Purchase Agreements***

In 2014, we purchased an aggregate of 11,114 gigawatt hours of electricity generated by independent power producers under existing power purchase agreements. These independent power producers had an aggregate generation capacity of 4,243 megawatts as of December 31, 2014.

***Power Generation***

As of December 31, 2014, we and our generation subsidiaries had a total of 607 generation units, including nuclear, thermal, hydroelectric and internal combustion units, representing total installed generation capacity of 72,305 megawatts. Our thermal units produce electricity using steam turbine generators fired by coal, oil and LNG. Our internal combustion units use oil or diesel-fired gas turbines and our combined-cycle units are primarily LNG-fired. We also purchase power from several generation plants not owned by our generation subsidiaries.

The table below sets forth as of and for the year ended December 31, 2014 the number of units, installed capacity and the average capacity factor for each type of generating facilities owned by our generation subsidiaries.

	Number of Units	Installed Capacity <sup>(1)</sup> (Megawatts)	Average Capacity Factor <sup>(2)</sup> (Percent)
Nuclear	23	20,716	85.0
Thermal:			
Coal	53	26,274	88.5
Oil	11	2,950	26.5
LNG	2	388	16.7
Total thermal	66	29,612	81.4
Internal combustion	208	330	22.7
Combined-cycle	111	16,074	48.4
Hydro	73	5,343	12.8
Wind	40	94	18.0
Solar	75	74	14.8
Fuel cell	9	28	55.4
Biogas	2	35	62.1
Total	607	72,305	69.9

***Notes:***

- (1) Installed capacity represents the level of output that may be sustained continuously without significant risk of damage to plant and equipment.
- (2) Average capacity factor represents the total number of kilowatt hours of electricity generated in the indicated period divided by the total number of kilowatt hours that would have been generated if the generation units were continuously operated at installed capacity, expressed as a percentage.

The expected useful life of a unit, assuming no substantial renovation, is approximately as follows: nuclear, over 40 years; thermal, over 30 years; internal combustion, over 25 years; and hydroelectric, over 55 years. Substantial renovation can extend the useful life of thermal units by up to 20 years.

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We seek to achieve efficient use of fuels and diversification of generation capacity by fuel type. In the past, we relied principally upon oil-fired thermal generation units for electricity generation. Since the oil shock in 1974, however, Korea's power development plans have emphasized the construction of nuclear generation units. While nuclear units are more expensive to construct than thermal generation units of comparable capacity, nuclear fuel is less expensive than fossil fuels in terms of electricity output per unit cost. However, efficient operation of nuclear units requires that such plants be run continuously at relatively constant energy output levels. As it is impractical to store large quantities of electrical energy, we seek to maintain nuclear power production capacity at approximately the level at which demand for electricity is continuously stable. During

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those times when actual demand exceeds the usual level of electricity supply from nuclear power, we rely on units fired by fossil fuels and hydroelectric units, which can be started and shut down more quickly and efficiently than nuclear units, to meet the excess demand. Bituminous coal is currently the least expensive thermal fuel per kilowatt-hour of electricity produced, and therefore we seek to maximize the use of bituminous coal for generation needs in excess of the stable demand level, except for meeting short-term surges in demand which require rapid start-up and shutdown. Thermal units fired by LNG, hydroelectric units and internal combustion units are the most efficient types of units for rapid start-ups and shutdowns, and therefore we use such units principally to meet short-term surges in demand. Anthracite coal is a less efficient fuel source than bituminous coal in terms of electricity output per unit cost.

Our generation subsidiaries have constructed and recommissioned thermal and internal combustion units in order to help meet power demand. Subject to market conditions, our generation subsidiaries plan to continue to add additional thermal and internal combustion units. These units generally take less time to complete construction than nuclear units.

The high average age of our oil-fired thermal units is attributable to our reliance on oil-fired thermal units as the primary means of electricity generation until mid-1970s. Since then, we have diversified our fuel sources and constructed relatively few oil-fired thermal units compared to units of other fuel types.

The table below sets forth, for the periods indicated, the amount of electricity generated by facilities linked to our grid system and the amount of power used or lost in connection with transmission and distribution.

	2010	2011	2012	2013	2014	% of 2014 Gross Generation <sup>(1)</sup>
(in gigawatt hours, except percentages)						
<b>Electricity generated by us and our generation subsidiaries:</b>						
Nuclear	148,596	154,723	150,327	138,784	156,407	30.0
Coal	198,287	199,516	199,330	201,119	203,765	39.0
Oil	10,874	9,456	13,553	13,941	6,838	1.3
LNG	2,288	2,233	3,453	3,526	568	0.1
Internal combustion	731	821	752	741	656	0.1
Combined-cycle	70,081	71,668	75,751	84,561	68,134	13.1
Hydro	4,393	4,815	5,140	5,679	5,976	1.1
Wind	91	117	127	155	148	
Solar and fuel cells	44	60	83	251	422	0.1
<b>Total generation by us and our generation subsidiaries</b>	<b>435,385</b>	<b>443,409</b>	<b>448,516</b>	<b>448,757</b>	<b>442,914</b>	<b>84.9</b>
<b>Electricity generated by IPPs:</b>						
Thermal	37,197	42,240	48,043	55,923	63,088	12.1
Hydro and other renewable	2,079	11,244	13,015	12,468	15,968	3.1
<b>Total generation by IPPs</b>	<b>39,276</b>	<b>53,484</b>	<b>61,058</b>	<b>68,391</b>	<b>79,056</b>	<b>15.1</b>
Gross generation	474,660	496,893	509,574	517,148	521,970	100
Auxiliary use <sup>(2)</sup>	19,372	19,689	20,154	20,463	20,610	3.9
Pumped-storage <sup>(3)</sup>	3,663	4,257	4,789	5,408	6,644	1.3
<b>Total net generation<sup>(4)</sup></b>	<b>451,625</b>	<b>472,947</b>	<b>484,631</b>	<b>491,277</b>	<b>494,716</b>	<b>94.8</b>
Transmission and distribution losses <sup>(5)</sup>	18,034	17,430	17,292	18,019	18,270	3.7

IPPs = Independent power producers



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Notes:

- (1) Unless otherwise indicated, percentages are based on gross generation.
- (2) Auxiliary use represents electricity consumed by generation units in the course of generation.
- (3) Pumped-storage represents electricity consumed during low demand periods in order to store water which is utilized to generate hydroelectric power during peak demand periods.
- (4) Total net generation is gross generation minus auxiliary and pumped-storage use.
- (5) Total transmission and distribution losses divided by total net generation.

The table below sets forth our total capacity at the end of, and peak and average loads during, the indicated periods.

	2010	2011	2012	2013	2014
	(Megawatts)				
Total capacity	76,078	76,649	81,806	82,296	93,216
Peak load	71,308	73,137	75,987	76,522	80,154
Average load	54,185	56,723	58,012	58,615	59,586

**Korea Hydro & Nuclear Power Co., Ltd.**

We commenced nuclear power generation activities in 1978 when our first nuclear generation unit, Kori-1, began commercial operation. On April 2, 2001, all of nuclear and hydroelectric power generation assets and liabilities of our thermal generation subsidiaries were transferred to KHNP.

KHNP owns and operates 23 nuclear generation units at four power plant complexes in Korea, located in Kori, Wolsong, Yonggwang (Hanbit) and Ulchin (Hanul), 51 hydroelectric generation units including 16 pumped storage hydro generation units as well as five solar generation units and one wind generation unit as of December 31, 2014.

The table below sets forth the number of units and installed capacity as of December 31, 2014 and the average capacity factor by types of generation units in 2014.

	Number of Units	Installed Capacity <sup>(1)</sup> (Megawatts)	Average Capacity Factor <sup>(2)</sup> (Percent)
Nuclear	23	20,716	85.0
Hydroelectric	51	5,307	27.1
Solar	5	16	15.2
Wind	1	1	6.9
Total	80	26,040	

Notes:

- (1) Installed capacity represents the level of output that may be sustained continuously without significant risk of damage to plant and equipment.
- (2) Average capacity factor represents the total number of kilowatt hours of electricity generated in the indicated period divided by the total number of kilowatt hours that would have been generated if the generation units were continuously operated at installed capacity.

expressed as a percentage.

Shin-Kori-2 and Shin-Wolsong-1, each with a 1,000 megawatt capacity, commenced commercial operation in July 2012. We are currently building five additional nuclear generation units, consisting of one unit with a 1,000 megawatt capacity and four units each with a 1,400 megawatt capacity at the Shin-Kori and Shin-Hanul sites, respectively. We expect to complete these units between 2015 and 2018. In addition, we plan to build four additional nuclear units, each with a 1,400 megawatt capacity, and two additional nuclear units, each with a 1,500 megawatt capacity at the Shin-Kori and Shin-Hanul sites between 2019 and 2024.



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*Nuclear*

The table below sets forth certain information with respect to the nuclear generation units of KHNP as of December 31, 2014.

Unit	Reactor Type <sup>(1)</sup> (Megawatts)	Reactor Design <sup>(2)</sup>	Turbine and Generation <sup>(3)</sup>	Commencement of Operations	Installed Capacity
Kori-1	PWR	W	GEC, Hitachi, D	1978	587
Kori-2	PWR	W	GEC	1983	650
Kori-3	PWR	W	GEC, Hitachi	1985	950
Kori-4	PWR	W	GEC, Hitachi	1986	950
Shin-Kori-1	PWR	D, KOPEC, W	D, GE	2011	1,000
Shin-Kori-2	PWR	D, KOPEC, W	D, GE	2012	1,000
Wolsong-1	PHWR	AECL	P	1983	679
Wolsong-2	PHWR	AECL, H, K	H, GE	1997	700
Wolsong-3	PHWR	AECL, H	H, GE	1998	700
Wolsong-4	PHWR	AECL, H	H, GE	1999	700
Shin-Wolsong-1	PWR	D, KOPEC, W	D, GE	2012	1,000
Hanbit-1	PWR	W	W, D	1986	950
Hanbit-2	PWR	W	W, D	1987	950
Hanbit-3	PWR	H, CE, K	H, GE	1995	1,000
Hanbit-4	PWR	H, CE, K	H, GE	1996	1,000
Hanbit-5	PWR	D, CE, W, KOPEC	D, GE	2002	1,000
Hanbit-6	PWR	D, CE, W, KOPEC	D, GE	2002	1,000
Hanul-1	PWR	F	A	1988	950
Hanul-2	PWR	F	A	1989	950
Hanul-3	PWR	H, CE, K	H, GE	1998	1,000
Hanul-4	PWR	H, CE, K	H, GE	1999	1,000
Hanul-5	PWR	D, KOPEC, W	D, GE	2004	1,000
Hanul-6	PWR	D, KOPEC, W	D, GE	2005	1,000
Total nuclear					20,716

*Notes:*

- (1) PWR means pressurized light water reactor; PHWR means pressurized heavy water reactor.
- (2) W means Westinghouse Electric Company (U.S.A.); AECL means Atomic Energy Canada Limited (Canada); F means Framatome (France); H means Hanjung; CE means Combustion Engineering (U.S.A.); D means Doosan Heavy Industries; K means Korea Atomic Energy Research Institute; KOPEC means Korea Power Engineering Company.
- (3) GEC means General Electric Company (U.K.); P means Parsons (Canada and U.K.); W means Westinghouse Electric Company (U.S.A.); A means Alstom (France); H means Hanjung; GE means General Electric (U.S.A.); D means Doosan Heavy Industries; Hitachi means Hitachi Ltd. (Japan).

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The table below sets forth the average capacity factor and average fuel cost per kilowatt for 2014 with respect to each nuclear generation unit of KHNP.

Unit	Average Capacity Factor (Percent)	Average Fuel Cost Per kWh (Won)
Kori-1	85.2	5.8
Kori-2	91.5	6.5
Kori-3	83.5	6.8
Kori-4	86.3	6.5
Shin-Kori-1	84.8	5.8
Shin-Kori-2	95.1	5.3
Wolsong-1		
Wolsong-2	91.3	8.7
Wolsong-3	85.6	9.1
Wolsong-4	85.1	9.2
Shin-Wolsong-1	99.3	5.4
Hanbit-1	103.5	6.5
Hanbit -2	77.8	5.5
Hanbit -3	78.8	6.3
Hanbit -4	77.9	6.3
Hanbit -5	79.5	5.9
Hanbit -6	81.8	5.5
Hanul-1	91.9	5.9
Hanul-2	84.6	6.3
Hanul-3	41.4	6.8
Hanul-4	98.1	4.9
Hanul-5	84.2	6.1
Hanul-6	88.7	5.8
Total nuclear	85.0	6.3

Under extended-cycle operations, nuclear units can be run continuously for periods longer than the conventional 12-month period between scheduled shutdowns for refueling and maintenance. Since 1987, we have adopted the mode of extended-cycle operations for all of our pressurized light water reactor units and plan to use it for our newly constructed units. The duration of shutdown for fuel replacement and maintenance was 71.9 days per unit in 2014. In addition, KHNP's nuclear units experienced an average of 0.2 unplanned shutdowns per unit in 2014. In the ordinary course of operations, KHNP's nuclear units routinely experience damage and wear and tear, which are repaired during routine shutdown periods or during unplanned temporary suspensions of operations. No significant damage has occurred in any of KHNP's nuclear reactors, and no significant nuclear exposure or release incidents have occurred at any of KHNP's nuclear facilities since the first nuclear plant commenced operation in 1978.

**Table of Contents***Hydroelectric*

Effective January 1, 2011, pursuant to the Government's Proposal for Improvements in the Structure of the Electric Power Industry announced in August 2010, our five thermal generation subsidiaries transferred all of the assets and liabilities relating to their pumped-storage and hydroelectric business units to KHNP. The table below sets forth certain information, including the installed capacity as of December 31, 2014 and the average capacity factor in 2014.

Location of Unit	Number of Units	Classification	Year Built	Installed Capacity (Megawatts)	Average Capacity Factor (%)
Hwacheon	4	Dam waterway	1944	108.0	9.5
Chuncheon	2	Dam	1965	62.3	9.6
Euiam	2	Dam	1967	48.0	21.8
Cheongpyung	4	Dam	1943	140.1	
Paldang	4	Dam	1973	120.0	13.8
Seomjingang	3	Basin deviation	1945	34.8	25.4
Boseonggang	2	Basin deviation	1937	4.5	61.6
Kwoesan	2	Dam	1957	2.6	34.4
Anheung	3	Dam waterway	1978	0.5	29.0
Kangreung	2	Basin deviation	1991	82.0	
Topyeong	1	Dam	2011	0.05	23.8
Muju <sup>(1)</sup>	1	Dam	2003	0.4	17.7
Sancheong <sup>(1)</sup>	2	Dam	2001	1.0	45.2
Yangyang <sup>(1)</sup>	2	Dam	2005	1.4	26.8
Yecheon <sup>(1)</sup>	1	Dam	2011	1.0	11.5
Cheongpeoung <sup>(1)</sup>	2	Pumped Storage	1980	400.0	9.3
Samrangjin <sup>(1)</sup>	2	Pumped Storage	1985	600.0	10.4
Muju <sup>(1)</sup>	2	Pumped Storage	1995	600.0	14.1
Sancheong <sup>(1)</sup>	2	Pumped Storage	2001	700.0	13.6
Yangyang <sup>(1)</sup>	4	Pumped Storage	2006	1,000.0	11.4
Cheongsong <sup>(1)</sup>	2	Pumped Storage	2006	600.0	14.5
Yecheon <sup>(1)</sup>	2	Pumped Storage	2011	800.0	11.9
<b>Total</b>	<b>51</b>			<b>5,307.0</b>	<b>27.1</b>

*Note:*

(1) Indicates facilities that have been transferred from our five thermal generation companies to KHNP as of January 1, 2011.

*Solar/Wind*

The table below sets forth certain information, including the installed capacity as of December 31, 2014 and the average capacity factor in 2014, regarding each solar and wind power unit of KHNP. Yecheon-units 1 and 2 began commercial operation in July 2012 and December 2012, respectively. KHNP added an 11-megawatt capacity unit to the Younggwang Solar Park, for which commercial operation began in November 2012.

Location of Unit	Classification	Year Built	Installed Capacity	Average Capacity
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			(Megawatts)	Factor (Percent)
Yonggwang	Solar	2008	13.9	15.1
Yecheon	Solar	2012	2.0	15.8
Kori	Wind	2008	0.8	6.78
Total			16.7	

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Korea Water Resources Corporation, which is a Government-owned entity, assumes full control of multi-purpose dams, while KHNP maintains the dams used for power generation. Existing hydroelectric power units have exploited most of the water resources in Korea available for commercially viable hydroelectric power generation. Consequently, we expect that no new major hydroelectric power plants will be built in the foreseeable future. Due to the ease of its start-up and shut-down mechanism, hydroelectric power generation is reserved for peak demand periods.

***Korea South-East Power Co., Ltd.***

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2014 and the average capacity factor and average fuel cost per kilowatt in 2014 based upon the net amount of electricity generated, of KOSEP.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
<b>Bituminous:</b>				
Samchunpo #1, 2, 3, 4, 5, 6	23.5	3,240	90.9	42.8
Yong Hung #1, 2, 3, 4, 5, 6	5.5	5,080	90.4	41.3
Yosu # 2	37.5	328.6	89.7	57.3
<b>Anthracite:</b>				
Yongdong #1, 2	37.6	325	88.8	58.3
<b>Combined cycle and internal Combustion:</b>				
Bundang gas turbine #1,2,3,4,5,6,7,8; steam turbine #1, 2	20.9	922	32.8	188.4
Hydro, Solar and other renewable energy		83.3		
<b>Total</b>	<b>15.0</b>	<b>9,979</b>	<b>83.9</b>	<b>49.3</b>

**Table of Contents*****Korea Midland Power Co., Ltd.***

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2014 and the average capacity factor and average fuel cost per kilowatt in 2014 based upon the net amount of electricity generated, of KOMIPO.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
<b>Bituminous:</b>				
Boryeong #1, 2, 3, 4, 5, 6, 7, 8	19.9	4,000	95.3	39.5
<b>Anthracite:</b>				
Seocheon #1, 2	31.5	400	65.2	68.8
<b>Oil-fired:</b>				
Jeju #2, 3	14.5	150	58.8	208.6
<b>LNG-fired:</b>				
Seoul #4, 5	45.1	387.5	12.1	237.8
<b>Combined-cycle and internal combustion:</b>				
Boryeong gas turbine #1, 2, 3, 4, 5, 6; steam turbine #1, 2, 3,	15.8	1,350	29.5	155.0
Incheon gas turbine #1, 2, 3, 4, 5, 6; steam turbine #1, 2, 3	9.8	1,462.7	65.2	140.9
Sejong gas turbine #1, 2; steam turbine #1	1.1	530.4	59.0	147.4
Jeju Gas Turbine #3	37.1	55	0.4	779.6
Jeju Internal Combustion Engine #1, 2	7.6	80	58.8	159.2
<b>Wind-powered:</b>				
Yangyang #1, 2	8.5	3.0	15.1	13.7
<b>Hydroelectric:</b>				
Boryeong	5.8	7.5	26.9	0.7
<b>Photovoltaic ( PV ) power and fuel cell generation:</b>				
Boryeong (PV) site	6.6	0.6	12.7	15.2
Seocheon (PV) site	6.9	1.2	14.2	
Jeju (PV) site	3.4	2.3	12.3	
Seoul (PV) site	3.3	1.3	15.2	2.7
Yeosu (PV) site	2.8	2.2	15.8	
Incheon (PV) site	3.0	0.3	14.1	
Boryeong (fuel cell) site	6.3	0.3	78.9	243.8
<b>Total</b>	<b>19.7</b>	<b>8,434</b>	<b>67.1</b>	<b>76.9</b>

**Table of Contents***Korea Western Power Co., Ltd.*

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2014 and the average capacity factor and average fuel cost per kilowatt in 2014 based upon the net amount of electricity generated, of KOWEPO.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
<b>Bituminous:</b>				
Taeon #1, 2, 3, 4, 5, 6, 7, 8	14.4	4,000	93.4	41.9
<b>Oil-fired:</b>				
Pyeongtaek #1, 2, 3, 4	33.1	1,400	15.9	178.4
<b>Combined cycle:</b>				
Pyeongtaek #1, 2	8.2	1,348.5	31.0	146.8
Gunsan	4.6	718.4	73.4	145.0
West Incheon	22.5	1,800	52.5	152.1
<b>Hydroelectric:</b>				
Taeon	7.3	2.2	22.6	
<b>Solar:</b>				
Taeon	9.4	0.1	12.6	
Taeon 2	2.9	0.6	14.1	
Gunsan	4.5	0.3	14.4	
Samryangjin	7.1	3.0	13.6	
Sejong City	2.5	4.9	14.3	
Gyeonggi-do	1.7	2.5	14.4	
Yeongam	1.8	13.3	15.2	
Pyeongtaek	0.1	0.46	6.1	
<b>Fuel Cell:</b>				
West Incheon	0.3	11.2	84.2	
Total	17.1	9,305.5	64.8	80.4

**Table of Contents*****Korea Southern Power Co., Ltd.***

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2014 and the average capacity factor and average fuel cost per kilowatt in 2014 based upon the net amount of electricity generated, of KOSPO.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
<b>Bituminous:</b>				
Hadong #1, 2, 3, 4, 5, 6, 7, 8	13.3	4,000	100.0	41.45
<b>Oil-fired:</b>				
Nam Jeju #3, 4	8.0	200	78.8	203.76
<b>Combined cycle:</b>				
Shin Incheon #1, 2, 3, 4	18.2	1,800	66.9	149.56
Busan #1, 2, 3, 4	11.2	1,800	77.8	142.52
Yeongwol #1	4.6	848	29.3	154.31
Hallim	18.5	105	12.0	265.63
Andong #1	1.3	361	55.9	
<b>Wind power:</b>				132.22
Hankyung	8.2	21	28.4	0.92
Seongsan	5.2	20	26.7	0.60
Solar	4.2	6	13.0	0.29
<b>Total</b>	<b>12.5</b>	<b>9,161</b>	<b>75.0</b>	<b>91.43</b>



**Table of Contents*****Korea East-West Power Co., Ltd.***

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2014 and the average capacity factor and average fuel cost per kilowatt in 2014 based upon the net amount of electricity generated, of EWP.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
<b>Bituminous:</b>				
Dangjin #1, 2, 3, 4, 5, 6, 7, 8	11.4	4,000	91.4	39.3
Honam #1, 2	41.7	500	82.9	56.3
<b>Anthracite:</b>				
Donghae #1, 2	15.8	400	91.0	56.4
<b>Oil-fired:</b>				
Ulsan #1, 2, 3, 4, 5, 6	34.4	1,200	20.5	181.3
<b>Combined cycle:</b>				
Ulsan gas turbine #1, 2, 3, 4, 5, 6; steam turbine #1, 2, 3	15.5	2.1	39.5	138.9
Ilsan gas turbine #1, 2, 3, 4, 5, 6; steam turbine #1, 2	20.8	900	26.1	194.6
<b>Mini hydro:</b>				
Dangjin	5.1	5.0	54.2	
<b>Photovoltaic:</b>				
Dangjin	4.3	1.0	14.0	
Ulsan	3.8	0.5	10.8	
Kwangyang	3.1	2.3	9.8	1.4
Dangjin Storage Facility	2.1	0.7	13.9	
Dangjin Floating System	1.6	1.0	11.4	
Dangjin Waste Treatment Facility	3.1	1.3	13.0	
Donghae	8.3	1.0	72.1	
<b>Fuel cell:</b>				
Ilsan #1	5.3	2.4	80.1	193.7
Ilsan #2	3.8	2.8	71.0	206.8
Ilsan #3	1.8	2.8	86.0	184.9
Ulsan	1.3	2.8	90.3	166.9
<b>Wind Power:</b>				
YeongGwang Jisan	2.3	3.0		4.0
<b>Biomass:</b>				
Donghae	1.5	30.0	82.4	83.9
Total	8.5	9,128.5	71.4	70.2

**Table of Contents****Power Plant Remodeling and Recommissioning**

Our generation subsidiaries supplement power generation capacity through remodeling or recommissioning of thermal units. Recommissioning includes installation of anti-pollution devices, modification of control systems and overall rehabilitation of existing equipment. The following table shows recent remodeling and recommissioning initiatives by our generation subsidiaries.

Power Plant	Capacity	Completed (Year)	Extension	Company
Taeon #1-8	4,000 MW	EP <sup>(1)</sup> upgrade (#4, 2011)	Anti-pollution	KOWEPO
	(500 MW×8)	EP <sup>(1)</sup> upgrade (#1, 2012)		
Pyeongtaek #1-4	1,400 MW	Steam turbine upgrade (#1, 4, 2013/#2, 3, 2014)	10-year performance-improvement	KOWEPO
	(350×4)			
Boryeong #1-8	4,000 MW	Control System upgrade	Performance-improvement	KOMIPO
	(500×8)	(#6, 2011, #3, 5, 2012)		
Incheon CC #2	508.9 MW	SCR <sup>(2)</sup> : 2012	Anti-pollution	KOMIPO
	(gas turbines 164 MW ×2)			
	(steam turbines 181 MW ×1)			
Yosu #2	328.6 MW	Boiler Type Change (CFBC <sup>(3)</sup> : 2011)	30 years	KOSEP
Samcheonpo #1-6	3,240 MW	Boiler, EP, Draft System Upgrade (#1, 2: 2012)	10 years	KOSEP
	(560 ×4500 ×2)		Refurbishing-modernization	

*Notes:*

- (1) EP means an electrostatic precipitation system.
- (2) SCR means a selective catalytic reduction system.
- (3) CFBC means a circulating fluidized bed combustion system.

**Transmission and Distribution**

We currently transmit and distribute substantially all of the electricity in Korea.

As of December 31, 2014, our transmission system consisted of 32,795 circuit kilometers of lines of 765 kilovolts and others including high-voltage direct current lines, and we had 805 substations with aggregate installed transformer capacity of 285,242 megavolt-amperes.

As of December 31, 2014, our distribution system consisted of 107,804 megavolt-amperes of transformer capacity and 8,832,409 units of support with a total line length of 457,249 circuit kilometers.

We make substantial investments in our transmission and distribution systems to increase geographic coverage and improve efficiency. Our current projects principally focus on increasing capabilities of the existing lines and reducing our transmission and distribution loss, which was

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3.69% of our gross generation in 2014. In light of the increased damage to large-scale transmission and distribution facilities, we plan to reinforce stability of our transmission and distribution facilities through stricter design and material specifications. In addition, we also plan to expand underground transmission and distribution facilities to meet customer demand for more environment-friendly facilities. In order to reduce the interruption time in power distribution, which is an indicator of the quality of electricity transmission, we are also continuing to invest in automation of electricity transmission and development of new transmission technologies, among others.

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In particular, as part of our overall business strategy, we are currently developing, or seek to develop, an intelligent power transmission and distribution network, or smart grids, based on advanced information technology, in order to promote a more efficient allocation and use of electricity by consumers. We expect that such technology will improve efficiency and reduce electricity loss over the course of electricity transmission and distribution. In July 2012, the Government implemented a master plan to build out a smart grid, which includes the Advanced Metering Infrastructure (AMI) roadmap. In accordance with such plan, we are in the process of installing smart meters and related communication networks and operating systems for 22 million households for target completion by 2020 as part of the smart grid initiative in an effort to enhance efficiency in the power electricity industry and alleviate growing energy shortage concerns. Smart meters refer to digital meters that record, on a real-time basis, electricity consumption within a household and the effective tariff rate at the time of electricity usage so that consumers will have a price-based incentive to enhance efficiency in their electricity usage. On the other hand, the smart grid refers to the next-generation network for electricity distribution that integrates information technology into the existing power grid with the aim of enabling two-way real time exchange of information between electricity suppliers and consumers for optimal efficiency in electricity use. The smart grid project is scheduled to be completed in 2030, and the AMI project is currently scheduled to be completed in 2020. We expect that the smart grid initiative would significantly increase efficient energy consumption by providing real-time data to customers, which would in turn help to reduce greenhouse gas emission and decrease Korea's reliance on foreign energy sources. As of December 31, 2014, we have installed 2 million smart meter units, and plan to install an additional 2.3 million units in 2015. The AMI project is expected to cost Won 1.7 trillion by 2020.

Some of the facilities we own and use in our distribution system use rights of way and other concessions granted by municipal and local authorities in areas where our facilities are located. These concessions are generally renewed upon expiration.

## **Fuel**

### ***Nuclear***

Uranium, the principal fuel source for nuclear power, accounted for 33.5%, 30.9% and 35.3% of our fuel requirements for electricity generation in 2012, 2013 and 2014, respectively.

All uranium ore concentrates are imported from, and conversion and enrichment of such concentrates are provided by, sources outside Korea and are paid for with currencies other than Won, primarily U.S. dollars.

In order to ensure stable supply, KHNP enters into long-term and medium-term contracts with various suppliers and supplements such supplies with purchases in spot markets. In 2014, KHNP purchased 100%, or approximately 4,172 tons, of its uranium concentrate requirement under both long-term and spot supply contracts with suppliers in the United Kingdom, Kazakhstan, France, Germany, Niger, Canada, Japan and Australia. Under the long-term supply contracts, the purchase prices of uranium concentrates are adjusted annually based on base prices and spot market prices prevailing at the time of actual delivery. The conversion and enrichment services of uranium concentrates are provided by suppliers in Canada, France, Germany, Japan, China, Russia, the United Kingdom and the United States. A Korean supplier typically provides fabrication of fuel assemblies. Except for certain fixed contract prices, contract prices for processing of uranium are adjusted annually in accordance with the general rate of inflation. KHNP intends to obtain its uranium requirements in the future, in part, through purchases under medium- to long-term contracts and, in part, through spot market purchases.

### ***Coal***

Bituminous coal accounted for 42.5%, 43.0% and 44.1% of our fuel requirements for electricity generation in 2012, 2013 and 2014 respectively, and anthracite coal accounted for 2.0%, 1.8% and 1.9% of our fuel requirements for electricity generation in 2012, 2013 and 2014, respectively.

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In 2014, our generation subsidiaries purchased approximately 77 million tons of bituminous coal, of which approximately 41.6%, 40.2%, 10.4%, 6.8% and 0.9%, were imported from Indonesia, Australia, Russia, the United States and others, respectively. Approximately 84.5% of the bituminous coal requirements of our generation subsidiaries in 2014 were purchased under long-term contracts with the remaining 15.5% purchased in the spot market. Some of our long-term contracts relate to specific generating plants and extend through the end of the projected useful lives of such plants, subject in some cases to periodic renewal. Pursuant to the terms of our long-term supply contracts, prices are adjusted periodically based on market conditions. The average cost of bituminous coal per ton purchased under such contracts amounted to Won 113,705, Won 94,217 and Won 92,206 in 2012, 2013 and 2014, respectively.

In 2014, our generation subsidiaries purchased approximately 1.2 million tons of anthracite coal. The prices for anthracite coal under such contracts are set by the Government. The average cost of anthracite coal per ton purchased under such contracts was Won 141,669, Won 126,425 and Won 108,118 in 2012, 2013 and 2014, respectively.

***Oil***

Oil accounted for 3.2%, 3.3% and 1.7% of our fuel requirements for electricity generation in 2012, 2013 and 2014, respectively.

In 2014, our generation subsidiaries purchased approximately 10.9 million barrels of fuel oil, substantially all of which was purchased from domestic refiners through competitive open bidding. Purchase prices are based on the spot market price in Singapore. The average cost per barrel was Won 139,204, Won 123,402 and Won 117,692 in 2012, 2013 and 2014, respectively.

***LNG***

LNG accounted for 17.7%, 19.7% and 15.5% of our fuel requirements for electricity generation in 2012, 2013 and 2014, respectively. In 2014, for use in electricity generation we purchased approximately 9.4 million tons of LNG from Korea Gas Corporation, a Government-controlled entity in which we currently own a 24.5% equity interest. In 2014, we purchased all of our LNG requirements for use in power generation from Korea Gas Corporation. Under the terms of the LNG contract with Korea Gas Corporation, all of our five thermal generation subsidiaries jointly and severally agreed to purchase a total of 9.4 million tons of LNG in 2014, subject to an automatic price adjustment annually based on a pre-determined formula if the actual purchased amount exceeds or falls short of the contracted amount. We believe the quantities of LNG provided under such contract will be adequate to meet the needs of our generation subsidiaries for LNG for the next several years. The LNG supply contracts between our generation subsidiaries and Korea Gas Corporation generally have a term of 20 years and provide for minimum purchase requirements for our generation subsidiaries, the specific terms of which are subject to negotiation between Korea Gas Corporation and our generation subsidiaries and approval by the Government. The average cost per ton of LNG under our contract with Korea Gas Corporation was Won 1,020,528, Won 1,002,323 and Won 1,059,640 in 2012, 2013 and 2014, respectively.

***Hydroelectric***

Hydroelectric power generation accounted for 1.1%, 1.3% and 1.3% of our fuel requirements for electricity generation in 2012, 2013 and 2014, respectively. The availability of water for hydroelectric power depends on rainfall and competing uses for available water supplies, including residential, commercial, industrial and agricultural consumption. Pumped storage enables us to increase the available supply of water for use during periods of peak electricity demand.

As of January 1, 2011, assets and liabilities relating to the pumped storage units of the five thermal generation subsidiaries were transferred to KHNP pursuant to the Government's Proposal for Improvements in the Korean Electric Power Industry.

**Table of Contents****Sales and Customers**

Our sales depend principally on the level of demand for electricity in Korea and the rates we charge for the electricity we sell to the end-users.

Demand for electricity in Korea grew at a compounded average rate of 3.9% per annum for the five years ended December 31, 2014. According to the Bank of Korea, the compounded growth rate for real gross domestic product, or GDP, was approximately 3.7% for the same period. The GDP growth rate was approximately 2.3%, 2.9% and 3.3% during 2012, 2013 and 2014, respectively.

The table below sets forth, for the periods indicated, the annual rate of growth in Korea's gross domestic product, or GDP, and the annual rate of growth in electricity demand (measured by total annual electricity consumption) on a year-on-year basis.

	2010	2011	2012	2013	2014
Growth in GDP	6.5%	3.7%	2.3%	2.9%	3.3%
Growth in electricity consumption	10.1%	4.8%	2.5%	1.8%	0.6%

Electricity demand in Korea varies within each year for a variety of reasons other than the general growth in GDP demand. Electricity demand tends to be higher during daylight hours due to heightened commercial and industrial activities and electronic appliance use. Due to the use of air conditioning during the summer and heating during the winter, electricity demand is higher during these two seasons than the spring or the fall. Variation in weather conditions may also cause significant variation in electricity demand.

We do not use any marketing channels, including any special sales methods, to sell electricity to our customers, other than to install electricity meters on-site and take monthly readings of such meters, based upon which invoices are sent to our customers.

***Demand by the Type of Usage***

The table below sets forth consumption of electric power, and growth of such consumption on a year-on-year basis, by the type of usage (in gigawatt hours) for the periods indicated.

	2010 (GWh)	YoY growth (%)	2011 (GWh)	YoY growth (%)	2012 (GWh)	YoY growth (%)	2013 (GWh)	YoY growth (%)	2014 (GWh)	YoY growth (%)	% of Total 2014
Residential	63,200	6.3	63,524	0.5	65,484	3.1	65,815	0.5	64,457	(2.1)	13.5
Commercial	97,410	8.7	99,504	2.1	101,593	2.1	102,196	0.6	100,761	(1.4)	21.1
Educational	7,453	15.3	7,568	1.5	7,860	3.9	7,947	1.1	7,438	(6.4)	1.6
Industrial	232,672	12.3	251,491	8.1	258,102	2.6	265,373	2.8	272,552	2.7	57.1
Agricultural	10,654	10.2	11,232	5.4	12,776	13.8	13,866	8.5	14,505	4.6	3.0
Street lighting	3,081	4.3	3,145	2.1	3,158	0.4	3,156	(0.1)	3,221	2.1	0.7
Overnight Power	19,690	3.0	18,606	(5.5)	17,620	(5.3)	16,496	(6.4)	14,658	(11.1)	3.0
Total	434,160	10.1	455,070	4.8	466,593	2.5	474,849	1.8	477,592	0.6	100.0

The industrial sector represents the largest segment of electricity consumption in Korea. Demand for electricity from the industrial sector was 272,552 gigawatt hours in 2014, representing a 2.7% increase from 2013, largely due to continued export-led growth of the Korean economy. Demand for electricity from the commercial sector has increased in recent years, largely due to increased commercial activities in Korea and the rapid expansion of the service sector of the Korean economy, which has resulted in increased office building construction, office automation and use of air conditioners. Demand for electricity from the commercial sector, however, decreased to 100,761 gigawatt hours in 2014, representing a 1.4% decrease from 2013 largely due to a

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decrease in electricity usage for air conditioning and heating resulting in part from cooler summer and warmer winter compared to the prior year. In 2014, we distributed electricity to approximately 22 million households, which represent substantially all of the households in Korea. Demand for electricity from the residential sector is largely dependent on population growth and use of heaters, air conditioners and other electronic appliances. Demand for electricity from the residential sector decreased to 64,457 gigawatt hours in 2014, representing a 2.1% decrease compared to 2013.

***Demand Management***

Our ability to provide adequate supply of electricity is principally measured by the facility capacity reserve margin and the supply reserve margin. The facility capacity reserve margin represents the difference between the peak usage during a year and the installed capacity at the time of such peak usage, expressed as a percentage of such installed capacity. The supply reserve margin represents the difference between the peak usage in a year and the average available capacity at the time of such peak usage, expressed as a percentage of such peak usage. The following table sets forth our facility reserve margin and supply reserve margin for the periods indicated.

	2010	2011	2012	2013	2014
Facility reserve margin	6.7%	4.8%	7.7%	7.5%	16.3%
Supply reserve margin	6.2%	5.5%	5.2%	5.5%	11.5%

While we seek to meet the growing demand for electricity in Korea primarily by continuing to expand our generation capacity, we have also implemented several measures to curtail electricity consumption, especially during peak periods. We apply time-of-use and seasonality tariff, which are structured so that higher tariffs are charged at the time and months of peak demand to select types of customers, and we also apply a progressive rate structure for the residential use of electricity. We have several demand management programs to control demand and induce power conservation during peak hours and peak seasons such as providing incentives for reducing power consumption during peak hours.

***Electricity Rates***

The Electricity Business Law and the Price Stabilization Act of 1975, each as amended from time to time, prescribe the procedures for the approval and establishment of rates charged for the electricity we sell. We submit our proposals for revisions of rates or changes in the rate structure to the Ministry of Trade, Industry and Energy. The Ministry of Trade, Industry and Energy then reviews these proposals and, following consultation with the Electricity Rates Expert Committee of the Ministry of Trade, Industry and Energy and the Ministry of Strategy and Finance, makes the final decision. Under the Electricity Business Law, the Korea Electricity Commission must review our proposals prior to the Ministry of Trade, Industry and Energy's final decision.

Under the Electricity Business Law and the Price Stabilization Act, electricity rates are established at levels that would enable us to recover our operating costs attributable to our basic electricity generation, transmission and distribution operations as well as receive a fair investment return on capital used in those operations.

In May 2014, in order to make conforming changes to the standards for determining the public utility rates and to further bolster the reasonableness of cost determination, the Ministry of Trade, Industry and Energy amended the standards for determining the electricity tariff rates. The main amendments include (i) recording as our cost of electricity (which forms part of our operating costs) (x) the pretax income of our six generation subsidiaries (which was previously deducted from our operating costs) and (y) our equity interests in our six generation subsidiaries (which were previously included in the rate base discussed below), and (ii) when determining working capital, considering the actual time of our cost recovery (namely, the accounts receivable collection period and the accounts payable payment period).

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For the purposes of rate approval, operating costs are defined as the sum of our operating expenses (which principally consists of cost of sales and selling and administrative expenses) and our adjusted income taxes.

Fair investment return represents an amount equal to the rate base multiplied by the rate of return.

Following the amendments to its computation methods in May 2014 as described above, the rate base is currently equal to the sum of:

net utility plant in service (which is equal to utility plant minus accumulated depreciation minus revaluation reserve);

working capital for 19.2 days; and

the portion of construction-in-progress which is charged from our retained earnings.

The amounts used for the variables in the rates are those projected by us for the periods to be covered by the rate approval. There is no provision for prior period adjustments to compensate us.

For the purpose of determining the fair rate of return, the rate base is divided into two components in proportion to our total shareholders' equity and our total debt. The rate of return permitted in relation to the debt component of the rate base is set at a level designed to approximate the weighted average interest cost on all types of borrowing for the periods covered by the rate approval. The rate of return permitted in relation to the equity component of the rate base is set by applying the capital asset pricing model which takes account of the risk-free rate, the return on the Korea Stock Price Index, KOSPI, a Korean equity market index, and the correlation of the stock price of our company with KOSPI. In 2013, the approved rate of return on the debt component of the rate base was 3.2% while the approved rate of return on the equity component of the rate base was 6.4%. As a result of such approved rates of returns, the fair rate of return in 2013 was determined to be 4.6%. The fair rate of return for 2014 has not yet been determined.

The Electricity Business Law and the Price Stabilization Act do not specify a basis for determining the reasonableness of our operating expenses or any other items (other than the level of the fair investment return) for the purposes of the rate calculation. However, the Government exercises substantial control over our budgeting and other financial and operating decisions.

In addition to the calculations described above, a variety of other factors are considered in setting overall tariff levels. These other factors include consumer welfare, our projected capital requirements, the effect of electricity tariff on inflation in Korea and the effect of tariff on demand for electricity.

From time to time, our actual rate of return on invested capital may differ significantly from the fair rate of return on invested capital assumed for the purposes of electricity tariff approvals, for reasons, among others, related to movements in fuel prices, exchange rates and demand for electricity that differ from what is assumed for determining our fair rate of return. For example, between 1987 and 1990, the actual rate of return was above the fair rate of return due to declining fuel costs and rising demand for electricity at a rate not anticipated for purposes of determining our fair rate of return. Similarly, depreciation of the Won against the U.S. dollar accounted for our actual rates of return being lower than the fair rate of return for the period from 1996 to 2000. For the period since 2006, our actual rates of return have been lower than the fair rate of return largely due to a general increase in fuel costs and additional facility investment costs incurred, the effects of which were not offset by timely increases in our tariff rates. Partly in response to the variance between our actual rates of return and the fair rates of return, the Government from time to time increases the electricity tariff rates, but there typically is a significant time lag for the tariff increases as such increases requires a series of deliberative processes and administrative procedures and the Government also has to consider other policy considerations, such as the inflationary effect of overall tariff increases and the efficiency of energy use from sector-specific tariff increases.



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Recent increases to the electricity tariff rates by the Government involve the following, which were made principally in response to the rising fuel prices which hurt our profitability as well as to encourage a more efficient use of electricity by the different sectors:

effective August 6, 2012, a 4.9% overall increase in our average tariff rate, consisting of increases in the residential, commercial, educational, industrial, street lighting, agricultural and overnight power usage tariff rates by 2.7%, 4.4%, 3.0%, 6.0%, 4.9%, 3.0% and 4.9%, respectively.

effective January 14, 2013, a 4.0% overall increase in our average tariff rate, consisting of increases in the residential, commercial, industrial, educational, agricultural, street lighting and overnight power usage tariff rates by 2.0%, 4.6%, 4.4%, 3.5%, 3.0%, 5.0% and 5.0%, respectively.

effective November 21, 2013, a 5.4% overall increase in our average tariff rate, consisting of increases in the residential, commercial, industrial, agricultural, street lighting and overnight power usage tariff rates by 2.7%, 5.8%, 6.4%, 3.0%, 5.4% and 5.4%, respectively, while making no change to the educational tariff.

The tariff rates we charge for electricity vary among the different classes of consumers, which principally consist of industrial, commercial, residential, educational and agricultural consumers. The tariff also varies depending upon the voltage used, the season, the time of usage, the rate option selected by the user and, in the residential sector, the amount of electricity used per household, as well as other factors. For example, we adjust for seasonal tariff variations by applying higher rates when demand tends to rise such as during the months of June, July and August (when the demand tends to rise due to increased use of air conditioning) and November, December, January and February (when demand tends to rise due to increased use of heating), which reflects the policy of the Korean government to cope with the rise in electricity demand during peak seasons by encouraging a more efficient use of electricity by customers.

Our current tariff schedule, which became effective as of November 21, 2013, is summarized below by the type of usage:

*Industrial.* The basic charge varies from Won 5,550 per kilowatt to Won 9,810 per kilowatt depending on the type of contract, the voltage used and the rate option. The energy usage charge varies from Won 53.7 per kilowatt hour to Won 196.6 per kilowatt hour depending on the type of contract, the voltage used, the season, the time of day and the rate option.

*Commercial.* The basic charge varies from Won 6,160 per kilowatt to Won 9,810 per kilowatt depending on the type of contract, the voltage used and the rate option. The energy usage charge varies from Won 53.7 per kilowatt hour to Won 196.6 per kilowatt hour depending on the type of contract, the voltage used, the season, the time of day and the rate option.

*Residential.* Residential tariff includes a basic charge ranging from Won 410 for electricity usage of less than 100 kilowatt hours to Won 12,940 for electricity usage in excess of 500 kilowatt hours. Residential tariff also includes an energy usage charge ranging from Won 60.7 to Won 709.5 per kilowatt hour for electricity usage depending on the amount of usage and voltage.

*Educational.* The basic charge varies from Won 5,230 per kilowatt to Won 6,980 per kilowatt depending on the voltage used and the rate option. The energy usage charge varies from Won 43.8 per kilowatt hour to Won 160.4 per kilowatt hour depending on the voltage used, the season and the rate option.

*Agricultural.* The basic charge varies from Won 360 per kilowatt to Won 1,210 per kilowatt depending on the type of usage. The energy usage charge varies from Won 21.6 per kilowatt-hour to Won 41.9 per kilowatt hour depending on the type of contract, the voltage used and the season.

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*Street-lighting.* The basic charge is Won 6,290 per kilowatt and the energy usage charge is Won 85.9 per kilowatt hour. For electricity capacity of less than 1 kilowatt or for places where the

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installation of the electricity meter is difficult, a fixed rate of Won 37.5 per watt applies, with the minimum charge per month of Won 1,220.

In 2001, as part of implementing the Restructuring Plan, the Ministry of Trade, Industry and Energy established the Electric Power Industry Basis Fund to enable the Government to take over certain public services previously performed by us. In 2014, 3.7% of the tariff we collected from our customers was transferred to this fund prior to recognizing our sales revenue.

### ***Fuel Cost Pass-through Adjustment to the Tariff System***

Further to the announcement by the Ministry of Trade, Industry and Energy in February 2010, a new electricity tariff system went into effect on July 1, 2011. This system is designed to overhaul the prior system for determining electricity tariff chargeable to customers by more closely aligning the tariff levels to the movements in fuel prices, with the aim of providing more timely pricing signals to the market regarding the expected changes in electricity tariff levels and encouraging more efficient use of electricity by customers. Previously, the electricity tariff consisted of two components: (i) base rate and (ii) usage rate based on the cost of electricity and the amount of electricity consumed by the end-users. Under the new tariff system, the electricity tariff is also to have a third component of fuel cost pass-through adjustment ( FCPTA ) rate, which is to be added to or subtracted from the sum of the base rate and the usage rate on a monthly basis based on the three-month average movements of coal, LNG and oil prices. This system was intended to provide greater financial stability and ensure a minimum return on investment to electricity suppliers, such as us.

However, due to inflationary and other policy considerations relating to protecting the consumers from sudden and substantial rises in electricity tariff, the Ministry of Trade, Industry and Energy issued a hold order on July 29, 2011 suspending our billing and collecting of the FCPTA amount and eventually abolished the FCPTA system altogether on May 21, 2014 and generally reverted to the tariff system in place prior to the adoption of the FCPTA system. See Item 5A. Operating Results Critical Accounting Policies Correction of Accounting for Fuel Cost Pass-through Adjustment.

### **Power Development Strategy**

We and our generation subsidiaries make plans for expanding or upgrading our generation capacity based on the Basic Plan Relating to the Long-Term Supply and Demand of Electricity, or the Basic Plan, which is generally revised and announced every two years by the Government. In February 2013, the Government announced the Sixth Basic Plan relating to the future supply and demand of electricity. The Sixth Basic Plan, which is effective for the period from 2013 to 2027, focuses on, among other things, (i) minimizing the need to construct new generation facilities through active consumer demand management, (ii) ensuring that we maintain adequate electricity reserve appropriate to the size of the national economy and (iii) expanding our generation capacity to promote efficient supply of electricity in consideration of the stability of the national electricity grid network and the specific needs of localities. In addition, while the Sixth Basic Plan did not contemplate the construction of additional nuclear plants in light of the heightened public concern over nuclear safety following the nuclear power plant meltdown in Japan in March 2011, there is no assurance that the Government will not implement a supplemental plan for the construction of additional nuclear plants in the future, which may increase the amount of our required capital expenditure.

In addition, on January 13, 2014, the Ministry of Trade, Industry and Energy adopted the Second Basic National Energy Plan following consultations with representatives from civic groups, the power industry and academia. The Second Basic National Energy Plan, which is a comprehensive plan that covers the entire spectrum of energy industries in Korea, will cover the period from 2013 to 2035 (compared to 2008 to 2030 under the First Basic National Energy Plan) and focuses on the following six key tasks: (i) shifting the focus of energy policy to demand management with a goal of reducing electricity demand by 15% by 2035, (ii) establishing a geographically decentralized electricity generation system so as to reduce transmission losses

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with a goal of supplying at least 15% of total electricity through such system by 2035, (iii) applying latest greenhouse gas emission reduction technologies to newly constructed generation units in order to further promote safety and environmental friendliness, (iv) strengthening exploration and procurement capabilities to enhance Korea's energy security and to ensure stable supply of energy and increasing the portion of electricity supplied from renewable sources to 11% by 2035, (v) reinforcing the system for stable supply of conventional energy, such as oil and gas, and (vi) introducing in 2015 an energy voucher system in lieu of a tariff discount system for the benefit of consumers in the low income group. In addition, the Second Basic National Energy Plan contemplates revising the target level of electricity generated by nuclear sources as a percentage of total electricity generated to 29%, compared to 41% under the First Basic National Energy Plan.

We cannot assure that the Sixth Basic Plan, the Second Basic National Energy Plan or the respective plans to be subsequently adopted will successfully achieve their intended goals, the foremost of which is to ensure, through carefully calibrated capacity expansion and other means, balanced overall electricity supply and demand in Korea at affordable costs to the end users while promoting efficiency and environmental friendliness in the consumption and production of electricity. If there is a significant variance between the projected electricity supply and demand considered in planning our capacity expansions and the actual electricity supply and demand or if these plans otherwise fail to meet their intended goals or have other unintended consequences, this may result in inefficient use of our capital, mispricing of electricity and undue financing costs on the part of us and our generation subsidiaries, among others, which may have a material adverse effect on our results of operations, financial condition and cash flows.

**Capital Investment Program**

The table below sets forth, for each of the years ended December 31, 2012, 2013 and 2014, the amounts of capital expenditures for the construction of generation, transmission and distribution facilities.

2012	2013	2014
(In billions of Won)		
12,748	15,831	16,629

The table below sets forth the currently estimated installed capacity for new or expanded generation units to be completed by our generation subsidiaries in each year from 2015 to 2018.

Year	Number of Units	Type of Units	Total Installed Capacity (Megawatts)
2015	2	Coal-fired	2,020
	2	Nuclear power	2,400
2016	6	Coal-fired	5,470
	3	LNG-combined	1,200
2017	1	Nuclear power	1,400
	1	Coal-fired	1,000
	1	LNG-combined	900
2018	1	Nuclear power	1,400
	2	Coal-fired	1,370

For the period from 2018 to 2027, our generation subsidiaries currently plan to complete seven additional nuclear units with an aggregate installed capacity of 10,000 megawatts (subject to any further plan to be announced by the Government in relation to the construction of additional nuclear generation capacity which was not included in the Sixth Basic Plan) and four additional coal-fired units with an aggregate installed capacity of 2,740 megawatts.

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As part of our capital investment program, we also intend to add new transmission lines and substations, continue to replace overhead lines with underground cables and improve the existing transmission and distribution systems.

The actual number and capacity of generation units and transmission and distribution facilities we construct and the timing of such construction are subject to change depending upon a variety of factors, including, among others, changes in the Basic Plan, demand growth projections, availability and cost of financing, changes in fuel prices and availability of fuel, ability to acquire necessary plant sites, environmental considerations and community opposition.

The table below sets forth, for the period from 2015 to 2018, the budgeted amounts of capital expenditures for the construction of generation, transmission and distribution facilities pursuant to our capital investment program. The budgeted amounts may vary from the actual amounts of capital expenditures for a variety of reasons, including, among others, the implementation of the Sixth Basic Plan, changes in the number of units to be constructed, the actual timing of such construction, changes in rates of exchange between the Won and foreign currencies and changes in interest rates.

	2015	2016	2017	2018	Total
	(in billions of Won)				
<b>Generation<sup>(1)</sup>:</b>					
Nuclear	4,522	5,018	4,991	4,550	19,081
Thermal	5,038	2,771	3,138	3,191	14,138
Sub-total	9,560	7,789	8,129	7,741	33,219
<b>Transmission and Distribution:</b>					
Transmission	2,806	2,919	2,847	2,355	10,927
Distribution	2,931	2,680	2,589	2,577	10,777
Sub-total	5,737	5,599	5,436	4,932	21,704
Others <sup>(2)</sup>	1,972	1,529	1,308	1,567	6,376
Total	17,269	14,917	14,873	14,240	61,299

*Notes:*

(1) The budgeted amounts for our generation facilities are based on the Sixth Basic Plan.

(2) Principally consists of investments in renewable energy generation, among others.

We have financed, and plan to finance in the future, our capital investment programs primarily through net cash provided by our operating activities and financing in the form of debt securities and loans from domestic financial institutions, and to a lesser extent, borrowings from overseas financial institutions. In addition, in order to prepare for potential liquidity shortage, we and our generation subsidiaries maintain several credit facilities with domestic financial institutions in the aggregate amounts of Won 2,655 billion and US\$5,181 million, the full amount of which was available as of December 31, 2014. We, KHNP and KOWEPO also maintain global medium-term note programs in the aggregate amount of US\$10 billion, of which approximately US\$3.3 billion remains currently available for future drawdown. KOSEP also maintains an A\$2 billion Australian dollar medium-term note program, of which approximately A\$1.7 billion remains current available for future drawdown. See also Item 5B. Liquidity and Capital Resources Capital Resources.

**Environmental Programs**

The Environmental Policy Basic Act, the Air Quality Preservation Act, the Water Quality Preservation Act, the Marine Pollution Prevention Act and the Waste Management Act, collectively referred in this annual report as the Environmental Acts, are the major laws of Korea that regulate

atmospheric emissions, waste water, noise

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and other emissions from our facilities, including power generators and transmission and distribution units. Our existing facilities are currently in material compliance with the requirements of these environmental laws and international agreements, such as the United Nations Framework Convention on Climate Change, the Montreal Protocol on Substances that Deplete the Ozone Layer, the Stockholm Convention on Persistent Organic Pollutants and the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal. In order to foster coordination among us and our generation subsidiaries in respect of climate change and development of renewable energy sources, we and our generation subsidiaries formed the Committee on Climate Change and the Committee on Renewable Energy in 2005. In 2011 the Ministry of Security and Public Administration issued guidelines for the reduction of nationwide greenhouse gas emissions and energy conservation, pursuant to which we are intensifying our efforts to reduce the levels of carbon emission in order to help meet the national target for greenhouse gas emission reduction.

We continuously endeavor to contribute to sustainable growth (whether as an economy, a society or an ecosystem) by actively taking actions that benefit our social responsibility as a corporate citizen in the energy industry. For example, in 2005, we became the first public company in Korea to join the United Nations Global Compact, an international voluntary initiative designed to hold a forum for corporations, United Nations agencies, labor and civic groups to promote reforms in economic, environmental and social policies. As part of our involvement with such initiative, we issue an annual report named the Sustainability Report to disclose our activities from the perspectives of economy, environment and society, in accordance with the reporting guidelines of the Global Reporting Initiative, the official collaborating center of the United Nations Environment Program that works in cooperation with United Nations Secretary General. In addition, in order to address the global issue of climate change, in May 2013, we obtained the Carbon Trust Standard, a certificate issued by Carbon Trust, an agency of the British government for excellence in demonstrated efforts to reduce carbon footprint in response to global climate changes. We are also a participant of the Carbon Disclosure Project, an international organization that promotes transparency in informational disclosure of carbon management process, and in 2014 we were recognized by the Carbon Disclosure Project for scoring the highest in the energy and utility sector in relation to climate change response. We aim to become a global leader in carbon management and reduction.

In term of other social contributions, we also seek to foster a culture of mutual understanding and appreciation with local communities by developing a common set of shared values with local communities and fine-tuning our business model to meet this goal. Examples include applying discounted electricity tariff rates to the handicapped, veterans, patriots and low-income households, emergency and disaster relief and medical assistance (such as eye surgery) to the needy. In part as a result of such efforts, in 2014 we were selected as the best company in the global electricity utility sector in the Dow Jones Sustainability Indices, which measures management performance in terms of contribution to sustainability.

The table below sets forth the number of emission control equipment installed at thermal power plants by our generation subsidiaries as of December 31, 2014.

	KOSEP	KOMIPO	KOWEPO	KOSPO	EWP
Flue Gas Desulphurization System	13	12	12	10	13
Selective Non-catalytic Reduction System		2			5
Selective Catalytic Reduction System	11	18	14	11	14
Electrostatic Precipitation System	15	20	12	10	15
Low NO2 Combustion System	16	28	28	28	30
Total	55	80	66	59	77

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The table below sets forth the amount of annual emission from all generating facilities of our generation subsidiaries for the periods indicated. The amount of CO2 emissions may increase in the near future due to the construction of additional coal thermal power plants but is expected to decrease in the long-term, principally due to an increased use of nuclear power and renewable energy.

<b>Year</b>	<b>Sox (g/MWh)</b>	<b>NOx (g/MWh)</b>	<b>Dust (g/MWh)</b>	<b>CO2 (kg/MWh)</b>
2012	165	297	8	471
2013	155	283	7	487
2014	154	263	7	471

In order to comply with the current and expected environmental standards and address related legal and social concerns, we intend to continue to install additional equipment, make related capital expenditures and undertake several environment-friendly measures to foster community goodwill. For example, in October 2004, we and our generation subsidiaries reached an agreement with the Ministry of Environment and civic organizations to completely remove polychlorinated biphenyl, or PCB, a toxin, from the insulating oil of our transformers by 2015. In addition, when constructing certain large new transmission and distribution facilities, we assess and disclose their environmental impact at the planning stage of such construction, as well as consult with local residents, environmental groups and technical experts to generate community support for such projects. We exercise additional caution in cases where such facilities are constructed near ecologically sensitive areas such as wetlands or preservation areas. We also make reasonable efforts to minimize any negative environmental impact, for example, by using more environment-friendly technology and hardware. In addition, we also undertake measures to minimize losses during the transmission and distribution process by making our power distribution network more energy-efficient in terms of loss of power, as well as to lower consumption of energy, water and other natural resources. In addition, we and our subsidiaries have acquired the ISO 14000 certification which is an environmental management system widely adopted internationally and have made it a high priority to make our electricity generation and distribution more environmentally friendly. In 2013, we further reinforced our environmental management system by acquiring the ISO 14001 certification as well as a domestic certification of the GMS (Green Management System), KS I 7001/7002, which relates to the management of resources, energy, green house effects and social responsibilities. Recently, we were awarded the 2014 presidential award for environmental contributions as a corporate citizen, after scoring the highest among 102 corporations that competed for the award.

Our environmental measures, including the use of environment-friendly but more expensive parts and equipment and allocation of capital expenditures for the installation of such facilities, may result in increased operating costs and liquidity requirement. The actual cost of installation and operation of such equipment and related liquidity requirement will depend on a variety of factors which may be beyond our control. There is no assurance that we will continue to be in material compliance with legal or social standards or requirements in the future in relation to the environment.

As part of our long-term strategic initiatives, we plan to take other measures designed to promote the generation and use of environmentally friendly, or green, energy. See Item 4B. Business Overview Strategy.

Some of our generation facilities are powered by renewable energy sources, such as solar energy, wind power and hydraulic power. While such facilities are currently insignificant as a proportion of our total generation capacity or generation volume of our generation subsidiaries, we expect that the portion will increase in the future, especially since we are required to comply with the Renewable Portfolio Standard policy as described below.



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The following table sets forth the generation capacity and generation volume in 2014 of our generation facilities that are powered by renewable energy sources.

	Generation Capacity (megawatts)	Generation Volume (gigawatt-hours)
Hydraulic Power	5,343	5,976
Wind Power	94	148
Solar Energy, Fuel Cells and Biogas	137	422
Subtotal	5,574	6,546
As percentage of total <sup>(1)</sup>	7.7%	1.5%

*Note:*

(1) As a percentage of the total generation capacity or total generation volume, as applicable, of us and our generation subsidiaries. In order to deal with shortage of fuel and other resources and also to comply with various environmental standards, in 2012 the Government adopted the Renewable Portfolio Standard program, which replaced the Renewable Portfolio Agreement which had been in effect from 2006 to 2011. Under the Renewable Portfolio Standard program, each generation subsidiary is required to generate a specified percentage of total electricity to be generated by such generation subsidiary in a given year in the form of renewable energy, with the target percentage being 2.5% in 2013 and 3.0% in 2014 and incrementally increasing to 10.0% by 2024. Fines are to be levied on any subsidiary that fails to do so in the prescribed timeline. In 2013, while one of our generation subsidiaries met 100% of its target, five others were unsuccessful to do so. Our six generation subsidiaries met, on average, 91.8% of the target for 2013 and accordingly were fined an aggregate amount of Won 44 billion. Compliance by our generation subsidiaries of the 2014 target is currently under evaluation, and if our generation subsidiaries are found to have failed to meet the target for 2014 or for subsequent years, our generation subsidiaries may become subject to additional fines or other penalties. The budgeted amount of capital expenditure for implementation of the Renewable Portfolio Standard program as currently planned for the period from 2014 to 2024 is approximately Won 14.8 trillion. We expect that such additional capital expenditure to be covered by a corresponding increase in electricity tariff. However, there is no assurance that the Government will in fact raise the electricity tariff to a level sufficient to fully cover such additional capital expenditures or at all.

As to how we plan to finance our capital expenditures related to our environmental programs, see [Capital Investment Program](#).

**Community Programs**

Building goodwill with local communities is important to us in light of concerns among the local residents and civic groups in Korea regarding construction and operation of generation units, particularly nuclear generation units. The Act for Supporting the Communities Surrounding Power Plants requires that the generation companies and the affected local governments carry out various activities up to a certain amount annually to address neighboring community concerns. Pursuant to this Act, we and our generation subsidiaries, in conjunction with the affected local and municipal governments, undertake various programs, including scholarships and financial assistance to low-income residents.

Under the Act for Supporting the Communities Surrounding Power Plants, activities required to be undertaken under the Act are funded partly by the Electric Power Industry Basis Fund (see [Sales and Customers Electricity Rates](#) ) and partly by KHNP as part of its budget. KHNP is required to make annual contributions to the affected local communities in an amount equal to Won 0.25 per kilowatt hour of electricity generated by its nuclear generation units during the one-year period before the immediately preceding fiscal year and Won 5 million per thousand kilowatts of hydroelectric generation capacity. In addition, under Korean tax law, KHNP is currently required to pay local tax levied on its nuclear generation units in an amount equal to

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Won 1 (effective January 1, 2015 reflecting an increase from Won 0.5 previously) per kilowatt hour of their generation volume in the affected areas and Won 2 per 10 cubic meters of water used for hydroelectric generation.

Prior to the construction of a generation unit, our generation subsidiaries perform an environmental impact assessment which is designed to evaluate public hazards, damage to the environment and concerns of local residents. A report reflecting this evaluation and proposing measures to address the problems identified must be submitted to and approved by the Ministry of Trade, Industry and Energy following agreement with related administrative bodies, including the Ministry of Environment prior to the construction of the unit. Our generation subsidiaries are then required to implement the measures reflected in the approved report. Despite these activities, civic community groups may still oppose the construction and operation of generation units (including nuclear units), and such opposition could adversely impact our construction plans for generation units (including nuclear units) and have a material adverse effect on our business, results of operations and cash flow.

### **Nuclear Safety**

KHNP takes nuclear safety as its top priority and continues to focus on ensuring the safe and reliable operation of nuclear power plants. KHNP also focuses on enhancing corporate ethics and transparency in the operation of its plants.

KHNP has a corporate code of ethics and is firmly committed to enhancing nuclear safety, developing new technologies and improving transparency. KHNP has also established the Statement of Safety Policy for Nuclear Power Plants to ensure the highest level of nuclear safety. Furthermore, KHNP invests approximately 5% of its total annual sales into research and development for the enhancement of nuclear safety and operational performance.

KHNP implements comprehensive programs to monitor, ensure and improve safety of nuclear power plants. In order to enhance nuclear safety through risk-informed assessment, KHNP conducts probabilistic safety assessments, including for low power-shutdown states, for all its nuclear power plants. In order to systematically verify nuclear safety and identify the potential areas for safety improvements, KHNP performs periodic safety reviews on a 10-year frequency basis for all its operating units. These reviews have been completed for Kori units 1, 2, 3 and 4, Hanbit units 1, 2, 3 and 4, Hanul units 1, 2, 3 and 4 and Wolsong units 1, 2, 3 and 4. Reviews for Hanbit units 5 and 6 and Hanul units 5 and 6 are in progress. In order to enhance nuclear safety and plant performance, KHNP has established a maintenance effectiveness monitoring program based on the maintenance rules issued by the United States Nuclear Regulatory Commission, which covers all of KHNP's nuclear power plants in commercial operation.

KHNP has developed the Risk Monitoring System for operating nuclear power plants, which it implements in all of its nuclear power plants. The Risk Monitoring System is intended to help ensure nuclear plant safety. In addition, KHNP has developed and implemented the Severe Accident Management Guidelines and is developing the Severe Accident Management Guidelines for Low Power-Shutdown States in order to manage severe accidents for all of its nuclear power plants.

KHNP conducts various activities to enhance nuclear safety such as quality assurance audits and reviews by the KHNP Nuclear Review. KHNP maintains a close relationship with international nuclear organizations in order to enhance nuclear safety. In particular, KHNP invites international safety review teams such as the World Association of Nuclear Operators ( WANO ) Peer Review Team and the Expert Mission Team to its nuclear plants for purposes of meeting international standards for independent review of its facilities. KHNP actively exchanges relevant operational information and technical expertise with its peers in other countries. For example, we conducted five WANO Peer Reviews for Wolsong #1, 2, Hanul #1, 2, Hanul #3, 4, Shin-Kori #1, 2 and Hanbit #5, 6 in 2014. We also invited WANO Follow-up Peer Review Team at Hanul #5, 6 in February 2014. The recommendations and findings from this event were shared with KHNP's other nuclear plants to implement improvements at such plants.

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The average level of radiation dose per unit amounted to a relatively low level of 0.36 man-Sv in 2014, which was substantially lower than the global average in 2014 of 0.73 man-Sv/year as reported in the WANO performance indicator report.

In response to the damage to the nuclear facilities in Japan as a result of the tsunami and earthquake in March 2011, the Government conducted additional safety inspections on nuclear power plants by a group of experts from governmental authorities, civic groups and academia. As a result of such inspections, the Government required KHNP to perform 50 comprehensive safety improvement measures. The Government also established the Nuclear Safety & Security Commission in October 2011 for neutral and independent safety appraisals. KHNP developed 10 additional measures through benchmarking overseas cases and the internal analysis of current operations. KHNP plans to implement these measures, which are expected to be completed by 2015, at total expected cost of approximately Won 1.0 trillion. As of December 31, 2014, KHNP had completed 39 of such measures.

Low and intermediate level waste, or LILW, and spent fuels are stored in temporary storage facilities at each nuclear site of KHNP. The temporary LILW storage facilities at the nuclear sites had been sufficient to accommodate all LILWs produced up to 2014. Korea Radioactive Waste Agency ( KORAD ) completed the construction of a LILW disposal facility in the city of Gyeongju and the government approval for its operations was obtained in December 2014. Starting from December 2010, LILW stored in temporary storage facilities at Hanul and Wolsong was transferred to a disposal facility in the city of Gyeongju.

In order to increase the storage capacity of temporary storage facilities for spent fuels, KHNP has been pursuing various projects, such as installing high-density racks in spent fuel pools and building dry storage facilities. Through these activities, we expect that the storage capacity for spent fuels in all nuclear sites will be sufficient to accommodate all the spent fuels produced by 2016. The policy for spent fuel management options is currently under development.

In 2009, the Radioactive Waste Management Act ( RWMA ) was enacted in an effort to centralize management of the disposal of spent fuel and LILW and enhance the security and efficiency of related management processes. The RWMA designates KORAD to manage the disposal of spent fuels and LILW. Pursuant to the RWMA, the Government has established the Radioactive Waste Management Fund. The management expense for LILW is paid when LILW is transferred to KORAD, and the charge for spent fuel is paid based on the quantity generated every quarter. LILW-related management costs and charges for spent fuel are reviewed by the Ministry of Trade, Industry and Energy every two years. In December 2012, such costs and charges were increased by a committee composed of Government officials, KHNP, Korea Radioactive Waste Management Corporation and experts in finance and accounting. This may result in an increase in future expenses that KHNP may incur in relation to radioactive waste.

All of KHNP's nuclear plants are currently in compliance with Korean law and regulations and the safety standards of the IAEA in all material respects. For a description of certain past incidents relating to quality assurance in respect of KHNP, see Item 3D. Risk Factors Recent findings of falsified testing results and bribery and the subsequent prolonged shutdowns of certain of our nuclear generation units may adversely hurt our reputation, business, results of operations and financial condition.

## **Decommissioning**

Decommissioning of a nuclear power unit is the process whereby the unit is shut down at the end of its life, the fuel is removed and the unit is eventually dismantled. KHNP implements a dismantling policy under which dismantling would take place five to ten years after the unit's closure. KHNP renewed the operating license of Kori-1, the first nuclear power plant constructed in Korea, which commenced operation in 1978, for an additional 10 years in 2007. In February 2015, KHNP also renewed the operation license of Wolsong-1 (which originally expired in November 2012) for an additional 10 years until 2020. Decommissioning of KHNP's nuclear power

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generation units is not expected to commence before 2017. While it does not carry a cash reserve for its decommissioning liability, KHNP retains full financial and operational responsibility for decommissioning its units.

KHNP has accumulated the decommissioning cost as a liability since 1983. The decommissioning costs of nuclear facilities are defined by the Radioactive-Waste Management Act, which requires KHNP to credit annual appropriations separately. These costs are estimated based on studies conducted by the relevant committees, and are reviewed by the Ministry of Trade, Industry and Energy every two years. In December 2012, estimated decommissioning costs were increased in consideration of overseas cases of decommissioning, inflation rate assumptions, changes in the operating environment and other criteria. As a result, KHNP was required to accrue additional provisions due to increased future decommissioning costs, and as of December 31, 2014, KHNP accrued Won 13,143 billion for the cost of dismantling and decontaminating existing nuclear power plants, which consisted of dismantling costs of nuclear plants of Won 10,311 billion and dismantling costs of spent fuel and radioactive waste of Won 2,812 billion. For accounting treatment of decommissioning costs, see Item 5A. Operating Results Critical Accounting Policies Decommissioning Costs.

**Overseas Activities**

We are engaged in a number of overseas activities. We believe that such activities help us diversify our revenue streams by leveraging the operational experience of us and our subsidiaries gathered from providing a full range of services, such as power plant construction and specialized engineering and maintenance services in Korea, as well as to establish strategic relationships with countries that are or may become providers of fuels.

The table set below summarizes our major overseas projects.

<b>Country</b>	<b>Project Period</b>	<b>Project Description</b>
<b>Generation Projects:</b> United Arab Emirates	December 2009 to May 2020	Construction, operation and support for four 1,400 megawatt nuclear power generation units
United Arab Emirates	March 2011 to July 2039	1,600 megawatt combined-cycle gas power plant project (BOO) <sup>(1)</sup>
Jordan	October 2009 to December 2035	373 megawatt combined-cycle power plant in Al Qatrana (BOO) <sup>(1)</sup>
Jordan	September 2012 to August 2039	573 megawatt diesel engine power plant in Almanakher (BOO) <sup>(1)</sup>
Jordan	July 2015 to February 2037	Construction and operation of a wind farm in Fujeij (BOO) <sup>(1)</sup>
Rabigh, Saudi Arabia	July 2009 to April 2033	1,204 megawatt oil-fired power plant (BOO) <sup>(1)</sup>
Shanxi, China	April 2007 to April 2056	6,887 megawatt coal-fired power plants (BOO) <sup>(1)</sup> and coal mine projects
Gansu, China	September 2005 to April 2029	99 megawatt wind power plants (BOO) <sup>(1)</sup>
Inner Mongolia, China	December 2006 to December 2032	991 megawatt wind power plants (BOO) <sup>(1)</sup>
Liaoning, China	July 2012 to July 2032	226 megawatt wind power plant (BOO) <sup>(1)</sup>

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<b>Country</b>	<b>Project Period</b>	<b>Project Description</b>
Vietnam	December 2014 to December 2043	1,200 megawatt coal-fired power plants project (BOT) <sup>(2)</sup>
Thailand	October 2013 to October 2038	110 megawatt combined-cycle power plant (BOO) <sup>(1)</sup>
Ilijan, Philippines	November 1997 to May 2022	1,200 megawatt combined-cycle power plant project (BOT) <sup>(2)</sup>
Naga, Philippines	Since February 2006	Acquisition of a 208.1 megawatt power plant
Cebu, Philippines	February 2008 to May 2036	200 megawatt CFBC <sup>(3)</sup> coal-fired power plant (BOO) <sup>(1)</sup>
India	February 2012 to December 2040	Construction, operation and management of a 388 megawatt combined-cycle power plant
United States	January 2012 to September 2041	Development, construction, operation and management of a 200 megawatt solar photovoltaic plant in Nevada (BOO) <sup>(1)</sup>
United States	Since September 2012	Construction and operation of a 80 megawatt Novus 1 wind farm project
United States	Since December 2012	Construction and operation of a 40 megawatt Novus 2 wind farm project
Mexico	September 2010 to May 2038	433 megawatt combined-cycle power plant project (BOO) <sup>(1)</sup>
Chile	June 2014 to October 2031	517 megawatt combined cycle gas turbine power plant (BOO) <sup>(1)</sup>
Nigeria	Since 2007	Acquisition of an equity interest in Egbin Power Plc for operation and maintenance of a 1,320 megawatt gas-fired power plant in Nigeria
<b>Exploration and Production Projects:</b>		
Indonesia	Since July 2009	Purchase of equity interest of PT Adaro Energy Tbk
Indonesia	Since August 2010	Purchase of equity interest of PT Bayan Resources Tbk
Indonesia	Since August 2011	Purchase of equity interest of LongDaliq mines
Australia	Since January 2008	Moolarben thermal coal mine development
Australia	Since November 2007	Share subscription of Cockatoo Coal Limited, a coal development company
Australia	Since July 2010	Bylong thermal coal mine development
Australia	Since June 2012	Acquisition of equity interest of Amber Energy Company, an operator of Decker and Black Cutte mines

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<b>Country</b>	<b>Project Period</b>	<b>Project Description</b>
Canada	Since June 2009	Share subscription of Denison Mines, a uranium development company
Canada	Since December 2007	Uranium exploration project in the Cree East
Canada	Since January 2008	Uranium exploration project in the Waterbury Lake
United States	Since July 2012	Acquisition of an equity interest in Energy Fuel Inc., a Denver-based uranium producer
Niger	Since December 2009	Share subscription of ANCE, a uranium development company
Nigeria	Since March 2006	Exploration of oil and gas for two offshore blocks
Nigeria	Since October 2008	Development of downstream projects in Nigeria
France	June 2009 to 2015	Construction and operation of a uranium enrichment plant
<b>Transmission and Distribution Projects:</b>		
India	September 2011 to May 2015	Feeder separation program
Kazakhstan	February 2011 to May 2015	Modernization of 17 substations in Actub, Kazakhstan
Dominican Republic	May 2011 to May 2014	Rehabilitation of electricity distribution network

*Notes:*

- (1) Represents build, own and operate projects.
- (2) Represents build, operate and transfer projects.
- (3) Represents circulating fluidized bed combustion projects.

While strategically important, we believe that our overseas activities, as currently being conducted, are not in the aggregate significant in terms of scope or amount compared to our domestic activities. In addition, a number of the overseas contracts currently being pursued are based on non-binding memoranda of understanding and the details of such projects may significantly change during the course of negotiating the definitive agreements.

A further description of the major overseas activities by us and our subsidiaries is provided below.

**Generation projects***United Arab Emirates*

In December 2009, following an international open bidding process, we entered into a prime contract with the Emirates Nuclear Energy Corporation (the ENEC), a state-owned nuclear energy provider of the United Arab Emirates (UAE), to design, build and help operate four civil nuclear power generation units to be located in Barakah, a region approximately 270 kilometers from Abu Dhabi, for the UAE's peaceful nuclear energy program. The contract amount for the project is US\$18.6 billion, with the term of the contract to last from December 27, 2009 to May 1, 2020. Under the contract, we and the subcontractors, some of which are our subsidiaries, are to perform various duties in connection with the project, including, among others, (i) designing and constructing four nuclear power generation units (each with a capacity of 1,400 megawatts), (ii) supplying nuclear fuel for three fuel cycles including initial loading (with each cycle currently projected to last for

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approximately 18 months), and (iii) providing technical support, training and education to the plant operation personnel. The target completion dates for the four units are set for May 2017, May 2018, May 2019 and May 2020.

In addition, in order to foster a long-term strategic partnership and stable management of the units post-construction, we currently plan to make an equity investment in a project company established by ENEC. Details of such investment, including its size and structure, remain subject to further negotiation at this time, and we plan to make further disclosures regarding such investment in due course and as appropriate.

In October 2010, a consortium, which included us, was selected by Abu Dhabi Water & Electricity Authority ( ADWEA ), a state-run utilities provider in the United Arab Emirates, as the preferred bidder in an international bidding for the construction and operation of the combined-cycle natural gas-fired electricity generation facilities in Shuweihat, UAE with an expected aggregate generation capacity of 1,600 megawatts. In February 2011, the consortium entered into a formal contract with ADWEA for the construction and operation of the generation facilities. This project involves three years of construction starting from March 2011, and 25 years of operation by us following its completion in July 2014. The total project cost is estimated to be US\$1.5 billion, of which approximately 20% will be financed through equity investments by the consortium members and the remaining 80% through project financing. Equity interests in the consortium are owned by ADWEA (60.0%), Sumitomo (20.4%) and us (19.6%). The total amount of our equity investment in the project is expected to be approximately US\$56 million, and we are participating in this project through a special purpose vehicle.

*Jordan*

In July 2008, a consortium consisting of us and Xenel was selected as the preferred bidder to build, own and operate a gas-fired power plant with installed capacity of 373 megawatts in Al Qatrania, near Amman, Jordan. After entering into definitive agreements in October 2009, construction of the power plant began in March 2010 and was completed in December 2011. The total cost of the project was approximately US\$460 million. Operation of the power plant will be for a period of 25 years until 2035. We and Xenel established a joint venture to oversee the project, with us and Xenel holding an 80:20 equity interest, respectively. We expect our total investment in the project to be approximately US\$96 million. We believe that this project will help us expand our business in the Middle East and position us as a competitive power producer in the global market.

In January 2012, a consortium consisting of us, Mitsubishi Corporation and Wartsila Development & Financial Services was selected by National Electric Power Corporation, a state-run electricity provider in Jordan, to construct and operate a diesel engine power project in Almanakher with an expected total generation capacity of 573 megawatts. In August 2012, we established a special-purpose vehicle for the purpose of carrying out the project and on September 24, 2012, the consortium entered into a power purchase agreement with the National Electric Power Company. The construction of the power plant began in September 2012 and was completed in October 2014. The total cost of the project was approximately US\$775 million. Operation of the power plant will be for a period of 25 years until 2039. We, Mitsubishi Corporation and Wartsila Development & Financial Services established a joint venture to overseas the project with 60:35:5 equity interest, respectively. We expect our total investment in the project to be approximately US\$104 million.

In January 2013, we were selected by Ministry of Energy and Mineral Resources of Jordan as an independent power producer to build, own and operate a wind farm with installed capacity of 89.1 megawatts in Fujeij, which is located on a plateau 150 kilometers south of Amman, Jordan. This project is currently in negotiations with the Ministry of Energy and Mineral Resources of Jordan, and we expect the construction to begin in 2015 for target completion in 2017. The project involves 20 months of construction and 20 years of operation. The total project cost is approximately US\$176 million, of which approximately 43% will be financed through equity investments solely from us, and we will be the 100% equity holder of the project and the remaining 57% through debt financing. We believe that this project will help us to further diversify our business portfolio in the Middle East from the existing focus on nuclear and thermal power plants to expand into renewable energy facilities.

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### *Saudi Arabia*

In December 2008, we formed a consortium with ACWA Power International of Saudi Arabia and submitted a bid for the 1,204 megawatt oil-fired power project in Rabigh, Saudi Arabia. In March 2009, we were selected as the preferred bidder, and in July 2009, we entered into a power purchase agreement with Saudi Electricity Company. Construction of the project was completed in April 2013, and we will participate in the operation of the plant for 20 years. This project has an estimated project cost of US\$2.5 billion. We currently hold a 40.0% equity interest in the joint venture entity, Rabigh Electricity Company, which will oversee the project.

### *China*

In April 2007, we formed a limited partnership with Shanxi International Electricity Group and Deutsche Bank in China to develop and operate power projects and coal mines in Shanxi province, China, which was approved by the Chinese government. As of December 31, 2014, total capital investment in these projects amounted to US\$1.33 billion of which KEPCO's capital investment was US\$0.45 billion. We are expected to participate in the operation of the project for a period of 50 years ending 2056. As of December 31, 2014, the total installed capacity was 5,946 megawatts and capacity under construction was 941 megawatts, and our equity interest in the partnership was 34%.

In September 2005 and April 2006, we and China Datang Corporation of the People's Republic of China formed joint ventures to build four wind-powered generation projects in China, consisting of one project in Gansu province with total capacity of 49.3 megawatts and three projects in Inner Mongolia with total capacity of 139.4 megawatts. Since then, one project with capacity of 49.5 megawatts has been added in Gansu and 15 projects with total capacity with 851.4 megawatts have been added in Inner Mongolia. In Liaoning province, we are developing five projects with total capacity of 226 megawatts under an understanding with the government of Chaoyang City. As of December 2014, 642.5 megawatts and 178.0 megawatts of the aforementioned projects had been developed in Inner Mongolia and Liaoning province, respectively. The joint ventures were capitalized with RMB 271 million for the Gansu projects, RMB 3,297 million for the Inner Mongolia projects and RMB 678 million for the Liaoning projects. One-third of the investment was funded with equity contribution and the remaining two-thirds with debt. We and China Datang Corporation hold 40% and 60% of equity interests, respectively, in each of the aforementioned joint ventures and we are participating in the projects through our wholly-owned subsidiaries. Of the 25 wind power generation projects in the aforementioned areas in China, 20 projects with a total capacity of 919 megawatts are currently in operation. The other five projects are still in the preparation stage.

### *Vietnam*

In March 2013, a consortium consisting of us and Marubeni, a Japanese corporation, was selected by the Ministry of Industry and Trade of Vietnam for the construction and operation of a 1,200 megawatt coal-fired power plant in Thanh Hoa province, Vietnam. The target date for commencing construction is December 2015 with target completion by December 2019, following which we will handle operation for 25 years. We are under negotiation with Electricity of Vietnam to finalize a power purchase agreement. Total project cost is expected to be US\$2.34 billion, of which 25% will be funded by capital contribution and the remaining 75% by debt financing. The share capital of the special purpose entity that will be in charge of this project will be US\$574 million, and KEPCO and Marubeni will each hold 50% equity interest in such entity.

### *Thailand*

In December 2011, KOMIPO agreed to purchase a 29% equity interest in Navanakorn Electric Co., a Thailand power company, to jointly develop a combined-cycle power plant project in Thailand with generation capacity of 111 megawatts. The total project cost is currently estimated to be US\$187 million, and KOMIPO expects to invest approximately US\$15.6 million into this project. Following the completion of construction in 2013, this project commenced commercial operation on October 31, 2013 for a period of 25 years.



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*Philippines*

We are currently engaged in three major power projects in the Philippines: (i) a build, operate and transfer of a 1,200-megawatt combined-cycle power plant project in Ilijan, construction of which began in November 1997 and was completed in June 2002, and operation by us until 2022 (the project cost of the Ilijan project was US\$721 million, for which project finance on a limited recourse basis was provided), and (ii) ownership of a 39.6% equity interest in SPC Power Corporation, an independent power producer which owns a 208.1-megawatt Naga power complex in Cebu, in which we initially acquired a 40.0% equity interest in February 2006 pursuant to a rehabilitation, operation, maintenance and management ( ROMM ) agreement, which was completed in March 25, 2012 followed by an approximately two-year operation and maintenance period thereafter. In September 2014, SPC Power Corporation acquired the ownership of Naga power plant complex from the Philippine government as the winning bidder of the sales of Naga Power Plant and (iii) a build, operate and own of a 200-megawatt CFBC coal power plant in Cebu for which construction began in February 2008 and was completed in May 2011, followed by operation thereof until 2036. The project cost of the Cebu project was US\$451 million, for which project financing on a limited recourse basis was provided.

*India*

In 2012, KOWEPO purchased a 40% equity interest in Pioneer Gas Power for a purchase price of approximately US\$35 million to construct a 388-megawatt combined-cycle power plant in Maharashtra, India. The total size of the project, which commenced in February 2012, is expected to be approximately US\$274 million and we expect the power facility to begin commercial operation in 2016.

*United States*

In December 2011, KOMIPO entered into a land lease agreement with the City of Boulder, Nevada to develop the solar power plant with generation capacity of 200 megawatts. The construction is scheduled to begin in the second half of 2015. The total project cost is currently estimated to be US\$500 million, and KOMIPO invested approximately US\$9.2 million into this project and plans to acquire a 20% equity interest. The project will be undertaken jointly with SunPower Corporation. All of the electricity generated will be sold to utility companies in Nevada and California under long-term electricity sales agreements.

In 2012, KOSEP completed construction of wind farm projects in Oklahoma, KODE Novus 1 LLC and KODE Novus 2 LLC. The two wind farm projects have generation capacities of 80 megawatts and 40 megawatts, respectively, and KOSEP commenced operation of these projects in December 2012 for a term of 20 years. The total project cost is expected to be US\$27.8 million, and KOSEP will hold a 50% and 49% equity interest in these wind farm projects, respectively.

*Mexico*

In August 2010, a consortium led by us was selected as the preferred bidder in an international auction for the construction and operation of the Norte II gas-fueled combined-cycle electricity generation facility in Chihuahua, Mexico, as ordered by the Commission Federal de Electricidad ( CFE ) of Mexico. The consortium established a special purpose vehicle, KST Electric Power Company ( KST ), to act as the operating entity, and in September 2010, KST entered into a power purchase agreement with CFE in relation to the construction and operation of a 433-megawatt combined-cycle power plant at Chihuahua in Mexico. In October 2010, KST was licensed by the Mexican government as an independent power producer, which allows it to produce and sell electricity to CFE during the specified contract period. The project will be undertaken on a build, own and operate basis. The total cost of the project is approximately US\$430 million. We hold a 56% equity interest in the consortium, with the remaining equity interests held by Samsung C&T (with a 34% equity interest) and Techint, a Mexico company (with a 10% equity interest). Approximately 22.5% of the total project costs will be financed through equity investments by the consortium and the remaining 77.5% through project financing. Commercial operation commenced in December 2013 following completion of the construction, and the

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operation period will run for 25 years until 2038. Our wholly-owned subsidiary, KEPCO Energy Service Company, currently manages the operation of the project.

*Chile*

In November 2013, Kelar S.A., a special purpose company owned by respective holding companies of KOSPO and Samsung C&T in Chile entered into a long-term contract with Tamakaya SpA, a special purpose company wholly owned by BHP Copper Inc., to build, own, operate and maintain a 517 megawatt combined cycle gas turbine power plant. Prior to entering into such contract, in order to facilitate project management, KOSPO established a wholly-owned subsidiary, KOSPO Chile SpA to own 65 % of the shares in Kelar S.A. In January 2014, an engineering, procurement and construction contract was entered between Kelar S.A. and Samsung Engineering Co. Ltd. Debt financing in the amount of US\$477 million was provided in November 2014. The total cost of the project is expected to be US\$602 million. Construction for this project began in February 2014 and is expected to be completed in October 2016.

*Nigeria*

In October 2007, we invested US\$9.1 million in KEPCO Energy Resource Nigeria Ltd., ( KERNL ), a joint venture with Energy Resource Ltd., a Nigerian company. We currently own 30.0% of KERNL 's equity capital. In May 2007, KERNL entered into a share purchase agreement with the Nigerian government for the purchase of 70% of the equity capital of Egbin Power Plc in Nigeria, which owns and operates the Egbin power plant, a 1,320-megawatt gas-fired power plant in Lagos, Nigeria for a consideration of approximately US\$407 million. The acquisition was completed in October 2013, and in June 2013, we entered into a contract with Egbin Power Plc for the operation and maintenance of the Egbin power plant. The contract price was US\$315 million. In November 2013, we commenced operation and maintenance services for a term of five years and will expire in October 2018.

***Exploration and Production Projects***

*Indonesia*

In July 2009, we, together with KOSEP, purchased a 1.5% equity interest in PT Adaro Energy Tbk ( Adaro ) for an aggregate purchase price of US\$47 million. Adaro is one of the largest coal producers in Indonesia and has produced a total of 56 million tons of coal in 2014. As part of this investment, we are entitled to an annual coal procurement of 3 million tons per year. In August 2010, we purchased a 20% equity interest in PT Bayan Resources Tbk ( Bayan ), an Indonesian mining company, for a purchase price of US\$518 million. Bayan is engaged in open cut mining of various coal qualities from mines located primarily in East and South Kalimantan, and has produced approximately 10 million tons of coal in 2014. In addition, because Bayan owns one of the largest coal terminals in Indonesia, we believe that the acquisition will improve our access to much-needed transportation infrastructure within Indonesia. As part of this investment, we are entitled to an annual coal procurement of 2 million tons per year between 2012 and 2014 and 7 million tons per year beginning in 2015. We expect that both of our investments in Indonesia will help us secure more stable supply of coal for power generation and help us hedge against fluctuations in fuel prices.

In August 2011, KOSPO entered into an agreement with PT. Kedap Sayaaq to acquire a 10% equity interest in LongDaliq mines located in western Kalimantan, Indonesia. KOSPO acquired such equity interest in 2013, and will secure up to three million tons of coal per year through a coal off-take agreement.

*Australia*

In January 2008, a consortium consisting of Korea Resources Corporation, a Government-controlled enterprise, Hanwha Corporation, us and four of our wholly owned generation subsidiaries, namely, KOSEP, KOMIPO, KOWEPO and KOSPO, entered into an agreement with Felix Resources Limited, an Australian coal

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mining company which was acquired by Yancoal Australia in December 2009, to develop the Moolarben coal mine located in Western Coal Fields, New South Wales, Australia. Under the terms of agreement, the consortium purchased a 10% equity interest in the Moolarben project, for a purchase price of A\$90 million, of which we and our four generation subsidiaries own an aggregate of 5%. Yancoal and Sojitz Coal Resources Pty hold 80% and 10% equity interests of the project respectively. In 2014, Moolarben produced 6.4 million tons of coal. Our four generation subsidiaries have coal off-take agreements for a total of 2.5 million tons of coal per annum.

In November 2007, we and EWP entered into a share subscription agreement with Cockatoo Coal Limited ( Cockatoo ), a coal exploration and mining company located in Australia. We and EWP currently hold a 1.1% equity interest, in aggregate, in Cockatoo after having made a total investment of A\$21.8 million. Cockatoo has several coal exploration projects in Queensland and New South Wales and one production project in Bowen Basin, Queensland, Australia.

In July 2010, KEPCO Australia Pty Ltd., our wholly-owned subsidiary, entered into an agreement with Anglo American Metallurgical Coal Pty Ltd. to acquire 100% of the equity interest in Anglo Coal (Bylong) Pty Ltd., a wholly-owned subsidiary of Anglo, for a purchase price of A\$403 million. Bylong owns a bituminous coal mine in New South Wales, Australia. From this acquisition, we expect to secure an average of 3.26 million tons of bituminous coal per year from this mine for over 40 years starting from 2018. We are currently undergoing a feasibility study for this project to explore and develop coal that is of export quality.

In June 2012, KOSPO entered into an agreement with Amber Energy Company, which is the operator of Decker and Black Cutte mines located in Brisbane, Australia. KOSPO is also entitled to secure up to two million tons of coal per year through a coal off-take agreement.

*Canada*

In June 2009, we and KHNP entered into a share subscription agreement with Denison Mines Corporation ( Denison ), which is a Canada-based uranium exploration and development company with projects in Canada, Zambia, Namibia, Mali and Mongolia. Denison owns 60% interest in the Wheeler River Project, 60% interest in the Waterbury Lake Project and a 22.5% ownership interest in the McClean Lake uranium mill. We and KHNP currently hold approximately 11.5% equity interest, in aggregate, in Denison.

In December 2007, a consortium consisting of four Korean companies, namely, us, Korea Resources Corporation, Hanwha Corporation and SK Networks Co., Ltd. (the Korean Consortium ), entered into an agreement with CanAlaska Uranium, Ltd., a uranium exploration company located in Canada ( CanAlaska ), to carry out a joint uranium exploration project to explore for uranium on the Cree East property in the Athabasca region in the province of Saskatchewan in Canada. We have invested C\$4.75 million and currently hold a 12.5% equity interest in the project.

In January 2008, a consortium consisting of us, KHNP, KEPCO Nuclear Fuel Co., Ltd., Hanwha Corporation and Gravis Capital Corp., a Canadian company, entered into an agreement with Fission Energy Corp., a uranium exploration company located in Canada, to carry out a joint uranium exploration project in Waterbury Lake, Saskatchewan, Canada. During the three-year exploration period, which ended in April 2010, we discovered a high grade uranium mineralization after drilling 20 out of 97 sites. In August 2010, the consortium entered into additional agreements consisting of a limited partnership agreement with Fission Energy Corp. and extended the exploration period to May 2013 in order to enlarge known mineralization and to produce a resource estimate. In April 2013, Denison mines Corp. acquired Fission's 60% interest in the Waterbury Lake uranium project. We have invested C\$11.2 million and currently hold a 16% equity interest of the project. Further exploration program in Waterbury Lake, which started in January 2014 and expected to be finished in 2016, is in progress.

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*United States*

On July 2, 2012, we and KHNP acquired equity interests in Energy Fuel Inc. ( *EFI* ), a Denver-based uranium producer as a result of a swap between Denison Mine's U.S. assets, which we invested in 2009, and *EFI*'s equity. In November 2013, we additionally acquired equity interests in *EFI* through *EFI*'s merger with Strathmore that we invested in 2012. We and KHNP made an off-take agreement with *EFI* by which we and KHNP are entitled to procure approximately 160 tons of uranium per year until 2015, and will renegotiate the next procurement beginning in 2016. We and KHNP currently hold 8.7% equity interest, in aggregate, in *EFI*.

*Niger*

In December 2009, we and KHNP entered into a definitive agreement with Areva NC Expansion ( *ANCE* ) to purchase 15.0% of the share capital of *ANCE* and 10% of the share capital of Imouraren SA, which is an *ANCE*-invested mine operating company. We and KHNP currently hold a 13.5% equity interest in *ANCE* and 9% Imouraren SA. We are entitled to procure up to approximately 9.0% of Imouraren SA's annual uranium production in Niger, which is estimated to be 626 metric tons based on *ANCE*'s annual production plan for 36 years starting from its production.

*Nigeria*

In August 2005, a consortium consisting of us, Korea National Oil Corporation ( *KNOC* ), a Government-owned entity, and Daewoo Shipbuilding & Marine Engineering won a bid from the federal government of Nigeria for exploration and production of oil in two off-shore blocks. The consortium, of which we hold a 8.8% equity interest, holds 60.0% of the equity interest in the special purpose vehicle established to carry out the project regarding these two blocks. In March 2006, the consortium entered into production sharing contracts with Nigerian National Petroleum Corporation in connection with this project. However, in January 2009, the government of Nigeria unilaterally decided to void allocation of the two blocks granted to the consortium based on a claim that the consortium failed to pay full amount of the consideration. *KNOC* filed a suit in the Nigerian court challenging this decision in August 2009, the final outcome of which is currently pending. In the meanwhile, our projects in Nigeria remain on hold.

*France*

In June 2009, KHNP acquired a 2.5% equity interest in Societe D. Enrichissement Du Tricastin ( *SET Holding* ), which was established by Areva for the purpose of constructing and operating a uranium enrichment plant in Tricastin, France. KHNP has invested approximately 129 million Euros for a 2.5% equity interest, and COGAC SAS and a group led by Japan France Enrichment Investing and Kansai Electric Power Co. have acquired a 5% and 4.5% equity interest, respectively, in *SET Holding*. The maximum production capability of the uranium enrichment plant is 7,500 ton Separative Work Unit or, SWU. We believe that this investment will help us secure a more stable and economical supply of enriched uranium.

***Transmission and Distribution Projects***

*India*

In September 2011, a joint venture company established by us and Megha Engineering & Infrastructures Ltd. ( *Megha* ) entered into an agreement with M.P. Paschim Kshetra Vidyut Vitaran Co. Ltd., Indore ( *Paschim* ) and M.P. Poorv Kshetra Vidyut Vitaran Co. Ltd., Jabalpur ( *Poorv* ), each a state-controlled electricity provider in India, to improve the overall power distribution network in Madhya Pradesh, India through a feeder separation program, including improvements of transmission lines and installation of power meters in seven rural areas. The joint venture company will be responsible for five of the projects in conjunction with *Megha*. In addition, we will be separately responsible for the remaining two projects. The total project cost is estimated to be US\$100 million, of which US\$32 million will be invested in the projects conducted by us and the remaining US\$68 million in the projects conducted in conjunction with *Megha*. Construction for the project began in September 2011 and is expected to be completed in May 2015.

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### *Kazakhstan*

On January 31, 2011, a consortium led by us, Hyundai Engineering and Hyundai Corporation won a power transmission project from Kazakhstan Electricity Grid Operating Company ( KEGOC ), a Kazakhstan state-run company. This US\$100 million project was conducted on an engineering, procurement and construction (EPC) basis, in connection with which are modernizing 17 substations in Kazakhstan. The project is expected to be completed in May 2015.

### *Dominican Republic*

In May 2011, we entered into an agreement with Corporación Dominicana de Empresas Eléctricas Estatales ( CDEEE ) to improve power distribution networks in three local districts in Dominican Republic. We constructed 1,294 kilometers of distribution lines and 12,644 electricity poles as part of the rehabilitation project. We were in charge of design, procurement and construction. The project was completed in May 2014, but there remains an unpaid balance to us. The total project cost is estimated to US\$48 million.

### *North Korea*

#### *Kaesong Complex*

Since 2005, we have provided electricity to the industrial complex located in Kaesong, North Korea, which was established pursuant to an agreement made during the summit meeting of the two Koreas in June 2000. The Kaesong complex is the largest economic project between the two Koreas and is designed to combine the Republic's capital and entrepreneurial expertise with the availability of land and labor of North Korea. In March 2005, we built a 22.9 kilovolt distribution line from Munsan substation in Paju, Gyeonggi Province to the Kaesong complex and became the first to supply electricity to pilot zones such as ShinWon Ebenezer. In April 2006, we started to construct a 154 kilovolt, 16 kilometer transmission line connecting Munsan substation to the Kaesong complex as well as Pyunghwa substation in the complex and began operations in May 2007.

As of December 31, 2014, we supplied electricity to 254 units, including administrative agencies, support facilities and resident corporations, using a tariff structure identical to that of South Korea. No assurance can be given that we will not experience any material losses from this project as a result of, among other things, a project suspension or failure of the project as a result of a breakdown or escalation of hostilities in the relationship between the Republic and North Korea. See Item 3D. Risk Factors Risks Relating to Korea and the Global Economy Tensions with North Korea could have an adverse effect on us and the market value of our shares.

#### *The Light Water Reactor Project*

The Korean Peninsula Development Organization, or KEDO, was chartered in March 1995 as an international consortium stipulated by the Agreed Framework, which was signed by the United States and North Korea in October 1994. KEDO signed an agreement with North Korea in December 1995 to construct two light water reactors in North Korea in return for certain nuclear nonproliferation steps to be taken by North Korea. However, when North Korea did not meet the conditions required for the continuation of the project, KEDO suspended the project in December 2003. Following the suspension, KEDO notified us of the termination of the project and the related turnkey contract between KEDO and us. In 2006, we entered into a transfer agreement with KEDO under which we assumed substantially all of KEDO's rights and obligations related to the light water reactor outside of North Korea. Following disposal of the transferred equipment in March 2012 we submitted to KEDO the Final Report on Resale in relation to such disposal as required under the transfer agreement and in January 2013, KEDO gave us a final notice of the termination of the transfer agreement.

## **Insurance**

We and our generation subsidiaries carry insurance covering against certain risks, including fire, in respect of key assets, including buildings, equipment, machinery, construction-in-progress and procurement in transit, as

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well as, in the case of KEPCO, directors and officers liability insurance. We and our generation subsidiaries maintain casualty and liability insurance against risks related to our business to the extent we consider appropriate. Other than KHNP, neither we nor our generation subsidiaries separately insure against terrorist attacks. These insurance and indemnity policies, however, cover only a portion of the assets that we own and operate and do not cover all types or amounts of loss that could arise in connection with the ownership and operation of these assets.

Substantial liability may result from the operations of our nuclear generation units, the use and handling of nuclear fuel and possible radioactive emissions associated with such nuclear fuel. KHNP maintains property and liability insurance against risks of its business to the extent required by the related law and regulations or considered as appropriate and otherwise self-insures against such risks. KHNP carries insurance for its generation units against certain risks, including property damage, nuclear fuel transportation and liability insurance for personal injury and property damage. KHNP carries property damage insurance covering up to US\$1 billion per accident for all properties within its plant complexes, which includes property insurance coverage for acts of terrorism up to US\$300 million and for breakdown of machinery up to US\$300 million. KHNP maintains nuclear liability insurance for personal injury and third-party property damage for coverage of up to 300 million Special Drawing Rights, or SDRs, which amounts to approximately US\$430 million, at the rate of 1 SDR = US\$ 1.433510 as posted on the Internet homepage of the International Monetary Fund on January 5, 2015 per plant complex, for a total coverage of 1.5 billion SDRs. KHNP is also the beneficiary of a Government indemnity with respect to such risks for damage claims of up to Won 300 million SDRs per nuclear plant complex, for a total coverage of 1.5 billion SDRs. Under the Nuclear Damage Compensation Act of 1969, as amended, KHNP is liable only up to 300 million SDRs, per single accident; provided that such limitation will not apply where KHNP intentionally causes harm or knowingly fails to prevent the harm from occurring. KHNP will receive the Government's support, subject to the approval of the National Assembly, if (i) the damages exceed the insurance coverage amount of 300 million SDRs and (ii) the Government deems such support to be necessary for the purposes of protecting damaged persons and supporting the development of nuclear energy business. While KHNP carries insurance for its generation units and nuclear fuel transportation, the level of insurance is generally adequate and is in compliance with relevant laws and regulations, and KHNP is the beneficiary of a certain Government indemnity which covers a portion of liability in excess of the insurance. Such insurance is limited in terms of amount and scope of coverage and does not cover all types or amounts of losses which could arise in connection with the ownership and operation of nuclear plants. Accordingly, material adverse financial consequences could result from a serious accident to the extent it is neither insured nor covered by the government indemnity.

See Item 3D. Risk Factors Risks Relating to KEPCO The amount and scope of coverage of our insurance are limited.

**Competition**

As of December 31, 2014, we and our generation subsidiaries owned approximately 77.6% of the total electricity generation capacity in Korea (excluding plants generating electricity for private or emergency use). New entrants to the electricity business will erode our market share and create significant competition, which could have a material adverse impact on our financial conditions and results of operation.

In particular, we compete with independent power producers with respect to electricity generation. The independent power generators accounted for 15.1% of total power generation in 2014 and 22.4% of total generation capacity as of December 31, 2014. As of December 31, 2014, there were 10 independent power generators in Korea, excluding renewable energy producers. Prior to December 2010, private enterprises had not been permitted to own and operate coal-fired power plants in Korea. However, the Fifth Basic Plan announced in December 2010 included for the first time a plan for independent power producers to own and operate coal-fired power plants, namely four generation units with aggregate capacity of 2,290 megawatts for completion in 2016. In addition, in connection with the Sixth Basic Plan announced in February 2013, the Ministry of Trade, Industry

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and Energy accepted additional applications from independent power producers for construction of coal-fired power plants. 15 independent power producers applied for construction of a total of 40 additional coal-fired generation units with aggregate generation capacity of 37,100 megawatts, of which the Government approved applications for the construction of six generation units with aggregate generation capacity of 6,000 megawatts. The Government also approved applications for construction of two additional generation units with aggregate generation capacity of 2,000 megawatts to prepare for the contingency of failed or delayed construction of the foregoing generation units. Construction for the six generation units is scheduled to be completed between 2018 and 2021. While it remains to be seen whether construction of these generation units will be completed as scheduled, if it were to be completed as scheduled and/or independent power producers are permitted to build additional generation capacity (whether coal-fired or not), our market share in Korea may decrease, which may have a material adverse effect on our results of operations and financial condition.

In addition, under the Community Energy System adopted by the Government in 2004, a minimal amount of electricity is supplied directly to consumers on a localized basis by independent power producers without having to undergo the cost-based pool system used by our generation subsidiaries and most independent power producers to distribute electricity nationwide. A supplier of electricity under the Community Energy System must be authorized by Korea Electricity Commission and be approved by the minister of the Ministry of Trade, Industry and Energy in accordance with the Electricity Business Act. The purpose of this system is to geographically decentralize electricity supply and thereby reduce transmission losses and improve the efficiency of energy use. These entities do not supply electricity on a national level but are licensed to supply electricity to limited geographic areas. As of March 31, 2015, the aggregate generation capacity of suppliers participating in the Community Energy System represented less than 1% of that of our generation subsidiaries in the aggregate. Accordingly, we currently do not expect the Community Energy System to be widely adopted, especially in light of the significant level of capital expenditure required for such direct supply. However, if the Community Energy System is widely adopted, it may erode our currently dominant market position in the generation and distribution of electricity in Korea, and may have a material adverse effect on our business, results of operations and financial condition.

The electric power industry, which began its liberalization process with the establishment of our power generation subsidiaries in April 2001, may become further liberalized in accordance with the Restructuring Plan. See Item 4B. Business Overview Restructuring of the Electric Power Industry in Korea.

In the residential sector, consumers may use natural gas, oil and coal for space and water heating and cooking. However, currently there is no practical substitute for electricity for lighting and other household appliances, which is available on commercially affordable terms.

In the commercial sector, electricity is the dominant energy source for lighting, office equipment and air conditioning. For its other uses, such as space and water heating, natural gas and, to a lesser extent, oil, provide competitive alternatives to electricity.

In the industrial sector, electricity is the dominant energy source for a number of industrial applications, including lighting and power for many types of industrial machinery and processes that are available on commercially affordable terms. For other uses, such as heating, electricity competes with oil and natural gas and potentially with gas-fired combined heating and power plants.

## **Regulation**

We are a statutory juridical corporation established under the KEPCO Act for the purpose of ensuring a stable supply of electric power and further contributing toward the sound development of the national economy through facilitating development of electric power resources and carrying out proper and effective operation of

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the electricity business. The KEPCO Act (including the amendment thereto) prescribes that we engage in the following activities:

1. development of electric power resources;
2. generation, transmission, transformation and distribution of electricity and other related business activities;
3. research and development of technology related to the businesses mentioned in items 1 and 2;
4. overseas businesses related to the businesses mentioned in items 1 through 3;
5. investments or contributions related to the businesses mentioned in items 1 through 4;
6. businesses incidental to items 1 through 5;
7. Development and operation of certain real estate held by us to the extent that:
  - a. it is necessary to develop certain real estate held by us due to external factors, such as relocation, consolidation, conversion to indoor or underground facilities or deterioration of our substation or office; or
  - b. it is necessary to develop certain real estate held by us to accommodate development of relevant real estate due to such real estate being incorporated into or being adjacent to an area under planned urban development; and
8. other activities entrusted by the Government.

The KEPCO Act currently requires that our profits be applied in the following order of priority:

first, to make up any accumulated deficit;

second, to set aside 20.0% or more of profits as a legal reserve until the accumulated reserve reaches one-half of our capital;

third, to pay dividends to shareholders;

fourth, to set aside a reserve for expansion of our business;

fifth, to set aside a voluntary reserve for the equalization of dividends; and



sixth, to carry forward surplus profit.

As of December 31, 2014, the legal reserve was Won 1,605 billion and the voluntary reserve was Won 22,999 billion, which consisted of reserve for business expansion of Won 17,182 billion, reserve for investment in social overhead capital of Won 5,277 billion, reserve for research and human development of Won 330 billion and reserve for equalizing dividends of Won 210 billion.

We are under the supervision of the Ministry of Trade, Industry and Energy, which has principal responsibility with respect to director and management appointments and rate approval.

Because the Government owns part of our capital stock, the Government's Board of Audit and Inspection may audit our books.

The Electricity Business Act requires that licenses be obtained in relation to generation, transmission, distribution and sales of electricity, with limited exceptions. We hold the license to generate, transmit, distribute and sell electricity. Each of our six generation subsidiaries holds an electricity generation license. The Electricity Business Act governs the formulation and approval of electricity rates in Korea. See Sales and Customers Electricity Rates above.

On January 28, 2014, the Act for Supporting the Communities Surrounding Power Plants was enacted, with effect from July 29, 2014, which prescribes the supports to be provided by the power generation or transmission

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companies to the communities surrounding power plants. Under this Act, those who own land or houses in the vicinity of power plants may claim compensation for damages, or compel purchase of such properties, by the power generation or transmission companies which are legally obligated in principle to pay for such damages or purchase such properties. See [Community Programs](#) above.

Our operations are subject to various laws and regulations relating to environmental protection and safety. See [Community Programs](#) above.

**Proposed Sale of Certain Power Plants and Equity Interests**

The following table summarizes our current plans for sale of certain of our assets. The consummation of these plans, however, is subject to, among others, related Government policies and market conditions.

Equity Holdings	Primary Business	Fair Value <sup>(2)</sup> as of December 31, 2014 (in billions of Won)	Ownership Percentage as of December 31, 2014	Ownership Percentage to be Sold
KEPCO Plant Service & Engineering Co., Ltd <sup>(1)</sup>	Utility plant maintenance	1,937	54.0%	1.5%
KEPCO Engineering & Construction Co., Inc	Architectural engineering for utility plants	1,300	66.3%	15.3%
Korea Electric Power Industrial Development Co., Ltd.	Electricity metering	61	29.0%	29.0%

*Notes:*

- (1) In April 2015, we further sold a 1.5% equity interest in this entity. As of the date of this annual report, our ownership in this entity amounted to 52.5%.
- (2) Fair value has been computed as the product of the closing share price on December 31, 2014 multiplied by the number of outstanding shares.

*KEPCO Plant Service & Engineering Co., Ltd.*

In December 2007, we completed the initial public offering of KEPCO Plant Service & Engineering Co., Ltd., or KPS, formerly our wholly-owned subsidiary, by listing approximately 20.0% of its equity interest on the Korea Stock Exchange. Pursuant to the Public Institution Reform Plan, we sold through block sales to third party investors an aggregate of 27.5% shares in KPS on various occasions during the period from December 2012 to April 2015. We currently hold a 52.5% equity interest in KPS.

*KEPCO Engineering & Construction Co., Inc.*

Pursuant to the Third Phase of the Public Institution Reform Plan announced by the Government in August 2008, we conducted the initial public offering of Korea Engineering and Construction Co., Inc., or KEPCO E&C formerly known as Korea Power Engineering Co., Ltd., in December 2009 for gross proceeds to us of Won 165 billion, following which we owned 77.9% of KEPCO E&C's shares. In furtherance of the Public Institution Reform Plan and to improve our financial profile, we sold our equity interests representing 3.1%, 4.0% and 4.5% of KEPCO E&C shares in November 2011, December 2013 and December 2014, respectively, in each case to third party investors. We currently hold a 66.3% equity interest in KEPCO E&C.

*Korea Electric Power Industrial Development Co., Ltd.*

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In 2003, we privatized Korea Electric Power Industrial Development, or KEPID, formerly our wholly-owned subsidiary, by selling 51.0% of its equity interest to Korea Freedom Federation. Pursuant to the Fifth

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Phase of the Public Institution Reform Plan announced by the Government in 2009, we sold 20% of the KEPID shares through additional listing. We currently plan to sell the remaining 29.0% of KEPID's equity interest based on, among others, considerations of economic and market conditions.

*LG Uplus Corp.*

In 2014, we sold our remaining 8.8% equity interest in LG Uplus Corp., a telecommunications and Internet access service provider in Korea. Pursuant to the Public Institution Reform Plan and in an effort to improve our financial profile, we sold through block sales to third party investors 4.4% of LG Uplus shares in August 2014 and the remaining 4.4% in December 2014.

**Item 4C. Organizational Structure**

As of December 31, 2014, we had 76 subsidiaries, 50 associates and 38 joint ventures (not including any special purpose entities).

**Subsidiaries**

Our wholly-owned six generation subsidiaries are KHNP, KOSEP, KOMIPO, KOWEPO, KOSPO and EWP. Our non-generation subsidiaries include KEPCO E&C, KEPCO KPS, KEPCO NF, and KEPCO KDN. For a full list of our subsidiaries, including foreign subsidiaries, and their respective jurisdiction of incorporation, please see Exhibit 8.1 attached to this annual report.

**Associates and Joint Ventures**

An associate is an entity over which we have significant influence and that is neither a subsidiary nor 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. According to 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, we have changed our accounting policy for our interests in joint arrangements. Under IFRS 11, we have classified our interests in joint arrangements as either joint operations (if we have rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if we have rights only to the net assets of an arrangement). When making this assessment, we 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. We have re-evaluated our involvement in our only joint arrangement and have reclassified the investment from a jointly controlled entity to a joint venture. See Note 17 of the notes to our financial statements.

The table below sets forth for each of our principal associates and joint ventures the name and our percentage shareholdings and their principal activities as of December 31, 2014.

	Ownership (Percent)	Principal Activities
<b>Associates:</b>		
Daegu Green Power Co., Ltd.	48	Power generation
Korea Gas Corporation <sup>(1)</sup>	20	Importing and wholesaling LNG
Korea Electric Power Industrial Development Co., Ltd.	29	Electricity metering
YTN Co., Ltd.	21	Broadcasting
Cheongna Energy Co., Ltd.	44	Generating and distributing
		vapor and hot/cold water
Gangwon Wind Power Co., Ltd. <sup>(2)</sup>	15	Wind power generation

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	<b>Ownership (Percent)</b>	<b>Principal Activities</b>
Hyundai Green Power Co., Ltd.	29	Power generation
Korea Power Exchange <sup>(6)</sup>	100	Management of power market
AMEC Partners Korea <sup>(3)</sup>	19	Resources development
Hyundai Energy Co., Ltd. <sup>(9)</sup>	29	Power generation
Ecollite Co., Ltd.	36	Artificial light-weight aggregate
Taebaek Wind Power Co., Ltd.	25	Power generation
Muju Wind Power Co., Ltd.	25	Power generation
Pyeongchang Wind Power Co., Ltd.	25	Power generation
Daeryun Power Co., Ltd. <sup>(3)(10)</sup>	13	Power generation
JinanJangsu Wind Power Co., Ltd.	25	Power generation
Changjuk Wind Power Co., Ltd.	30	Power generation
KNH Solar Co., Ltd.	27	Power generation
SPC Power Corporation	38	Power generation
Gemeng International Energy Co., Ltd.	34	Power generation
PT. Cirebon Electric Power	28	Power generation
KNOC Nigerian East Oil Co., Ltd. <sup>(4)</sup>	15	Resources development
KNOC Nigerian West Oil Co., Ltd. <sup>(4)</sup>	15	Resources development
Dolphin Property Limited <sup>(4)</sup>	15	Rental company
PT Wampu Electric Power	46	Power generation
PT. Bayan Resources TBK	20	Resources development
S-Power Co., Ltd.	40	Power generation
Pioneer Gas Power Limited <sup>(8)</sup>	40	Power generation
Eurasia Energy Holdings	40	Power generation and resources development
Xe-Pian Xe-Namnoy Power Co., Ltd.	25	Power generation
Busan Solar Co., Ltd. <sup>(3)</sup>	20	Power generation
Hadong Mineral Fiber Co., Ltd.	25	Recycling fly ashes
Green Biomass Co., Ltd.	34	Power generation
PT. Mutiara Jawa	29	Manufacturing and operating floating coal terminal
Samcheok Eco Material Co., Ltd. <sup>(3)(11)</sup>	3	Recycling fly ashes
Noeul Green Energy Co., Ltd.	20	Power generation
Naepo Green Energy Co., Ltd.	25	Power generation
Goseong Green Energy Co. Ltd.	10	Power generation
Gangneung Eco Power Co., Ltd.	6	Power generation
Shin Pyeongtaek Power Co., Ltd.	40	Power generation
Heang Bok Do Si Photovoltaic Power Co., Ltd.	28	Power generation
DS POWER Co., Ltd. <sup>(2)</sup>	11	Power generation
Dongducheon Dream Power Co., Ltd.	34	Power generation
KS Solar Corp. Ltd. <sup>(3)</sup>	19	Power generation
Yeongwol Energy Station Co., Ltd. <sup>(2)</sup>	10	Power generation
Jimbhuvish Power Generation <sup>(2)</sup>	5	Power generation
SE Green Energy Co., Ltd.	48	Power generation support
Daegu Photovoltaic Co., Ltd.	29	Power generation
Jeongam Wind Power Co., Ltd.	40	Power generation
Korea Power Engineering Service Co., Ltd.	29	Construction and service
<b>Joint Ventures:</b>		
KEPCO-Uhde Inc. <sup>(7)</sup>	66	Power generation
Eco Biomass Energy Sdn. Bhd. <sup>(7)</sup>	62	Power generation

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	Ownership (Percent)	Principal Activities
Datang Chaoyang Renewable Power Co., Ltd.	40	Power generation
Shuweiha Asia Power Investment B.V.	49	Holding company
Shuweiha Asia Operation & Maintenance Company <sup>(7)</sup>	55	Maintenance of utility plant
Waterbury Lake Uranium L.P.	40	Power generation
ASM-BG Investicii AD	50	Power generation
RES Technology AD	50	Power generation
KV Holdings, Inc.	40	Power generation
KEPCO SPC Power Corporation <sup>(7)</sup>	75	Construction and operation of utility plant
Canada Korea Uranium Limited Partnership <sup>(5)</sup>	13	Resources development
KEPCO Energy Resource Nigeria Limited	30	Holding company
Gansu Datang Yumen Wind Power Co., Ltd.	40	Power generation
Datang Chifeng Renewable Power Co., Ltd.	40	Power generation
Datang KEPCO Chaoyang Renewable Power Co., Ltd.	40	Power generation
Rabigh Electricity Company	40	Sales of electricity
Rabigh Operation & Maintenance Company	40	Maintenance of utility plant
Jamaica Public Service Company Limited	40	Power generation
KW Nuclear Components Co., Ltd.	43	R&D
Busan Shinho Solar Power Co., Ltd.	25	Power generation
GS Donghae Electric Power Co., Ltd. (Formally, STX Electric Power Co., Ltd.	34	Power generation
Global Trade Of Power System Co., Ltd.	29	Exporting products and technology of small or medium business by proxy
Expressway Solar-light Power Generation Co., Ltd	29	Power generation
KODE NOVUS 1 LLC.	50	Power generation
KODE NOVUS 2 LLC.	49	Power generation
Daejung Offshore Wind Power Co., Ltd.	50	Power generation
Amman Asia Electric Power Company <sup>(7)</sup>	60	Power generation
KEPCO-ALSTOM Power Electronics Systems, Inc. <sup>(7)</sup>	51	R&D
Dangjin Eco Power Co., Ltd. (Formally, Dongbu Power Dangjin Corporation	33	Power generation
Honam Wind Power Co., Ltd.	29	Power generation
Nepal Water & Energy Development Company Pty Ltd. <sup>(7)</sup>	60	Construction and operation of utility plant
Chun-cheon Energy Co., Ltd.	30	Power generation
Yeonggwangbaeksu Wind Power Co., Ltd. <sup>(3)</sup>	15	Power generation
Nghi Son 2 Power Ltd.	50	Power generation
Kelar S.A. <sup>(7)</sup>	65	Power generation
PT. Tanjung Power Indonesia	35	Power generation
Incheon New Power Co., Ltd.	29	Power generation
Seokmun Energy Co., Ltd.	34	Integrated energy business

*Notes:*

- (1) The effective percentage of ownership is 21.57% considering the treasury stocks.
- (2) We can exercise significant influence by virtue of our contractual right to appoint directors to the board of directors of this entity, and by strict decision criteria of our financial and operating policy of the board of directors.

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- (3) We can exercise significant influence by virtue of our contractual right to appoint a director to the board of directors of this entity.
- (4) We can exercise significant influence by virtue of our contractual right to appoint one out of four members of the steering committee of this entity. Moreover, we have significant financial transactions with this entity to the effect that we can exercise significant influence on this entity.
- (5) We have joint control on the associates by virtue of our contractual right to appoint directors to the board of directors of this entity, and by strict decision criteria of our financial and operating policy of the board of directors.
- (6) The Government regulates our ability to make operating and financial decisions over the entity, as the Government requires maintaining arms-length transactions between the Korea Power Exchange and our other subsidiaries. We can exercise significant influence by our right to nominate directors to the board of directors of this entity.
- (7) According to the shareholder agreement, all critical financial and operating decisions must be agreed to by all ownership parties. For these reasons, these entities are classified as joint ventures.
- (8) The reporting period of all associates and joint ventures ends in December 31, except for Pioneer Gas Power Limited whose reporting period ends on March 31.
- (9) As of December 31, 2014, 17.3% of ownership of Hyundai Energy Co., Ltd. was held by NH Power II Co., Ltd. and NH Bank . According to the shareholders agreement reached on March 2011, not only do we have a call option to acquire the investment in Hyundai Energy Co., Ltd. from NH Power II Co., Ltd. and NH Bank upon a certain rate of return, NH Power II Co., Ltd. and NH Bank also have put options to dispose of their investment to us. In connection with this agreement, we applied the equity method on our 46.3% equity investment in Hyundai Energy Co., Ltd.
- (10) Following the merger of Daeryun Energy Co., Ltd. into Daeryun Power Co., Ltd., its parent, our effective percentage of ownership decreased to 19.45% after accounting for stock purchase options.
- (11) Our effective percentage of ownership (excluding the redeemable convertible preferred shares) is 25.54%.

**Item 4D. Property, Plant and Equipment**

Our property consists mainly of power generation, transmission and distribution equipment and facilities in Korea. See Item 4B. Business Overview Power Generation, Transmission and Distribution and Capital Investment Program. In addition, we own our corporate headquarters building complex at 55 Jeollyeok-ro, Naju-si, Jeollanam-do, 520-350, Korea. As of December 31, 2014, the net book value of our property, plant and equipment was Won 135,812 billion. As of December 31, 2014, investment property, which is accounted for separately from our property, plant and equipment, amounted to Won 317 billion. No significant amount of our properties is leased. There are no material encumbrances on our properties, including power generation, transmission and distribution equipment and facilities.

In connection with the recent relocation of our headquarters in December 2014 pursuant to a government plan, in September 2014 we entered into a definitive agreement with a consortium consisting of Hyundai Motor Company, Kia Motor Company and Hyundai Mobis for the sale of the properties in our previous headquarters for a sale price of Won 10,550 billion. The sale was made following an open bidding, and the assessment value for such properties was approximately Won 3,335 billion. Under the sales agreement, the purchaser made a deposit equal to 10% of the purchase price on the date of the agreement, paid the first installment equal to 30% of the purchase price on January 15, 2015 and is obligated to pay the remaining proceeds in two equal installments on May 25 and September 25, 2015, and the title to the properties will transfer on the date the full purchase price is paid.

On December 30, 2014, we completed the sales of 49 properties (including residential properties, storage spaces, and substation lots that are located in Korea) which are not directly related to its operations for an aggregate sale price of approximately Won 55.9 billion, representing 0.04% of our total assets as of December 31, 2014. The foregoing sales reflect our plans to improve our financial soundness through debt reduction and enhance our management efficiency, selling noncore properties that have no direct relations to electricity facilities.

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### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

We do not have any unresolved comments from the SEC staff regarding our periodic reports under the Securities Exchange Act of 1934, as amended (the Exchange Act ).

### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*You should read the following discussion on our operating and financial review and prospects together with our consolidated financial statements and the related notes which appear elsewhere in this annual report. Our results of operations, financial condition and cash flows may materially change from time to time, for reasons including various policy initiatives (including changes to the Restructuring Plan) by the Government in relation to the Korean electric power industry, and accordingly our historical performance may not be indicative of our future performance. See Item 4B. Business Overview Restructuring of the Electric Power Industry in Korea and Item 3D. Risk Factors The Government may adopt policy measures to substantially restructure the Korean electric power industry or our operational structure, which may have a material adverse effect on our business, operations and profitability.*

#### **Item 5A. Operating Results**

##### **Overview**

We are a predominant market participant in the Korean electric power industry, and our business is heavily regulated by the Government, including with respect to the rates we charge to customers for the electricity we sell. In addition, our business requires a high level of capital expenditures for the construction of electricity generation, transmission and distribution facilities and is subject to a number of variable factors, including demand for electricity in Korea and fluctuations in fuel costs, which are in turn impacted by the movements in the exchange rates between the Won and other currencies.

Under the Electricity Business Law and the Price Stabilization Act, the Government generally establishes electricity rates at levels that are expected to permit us to recover our operating costs attributable to our basic electricity generation, transmission and distribution operations in addition to receiving a fair investment return on capital used in those operations. For a detailed description of the fair investment return, see Item 4B. Business Overview Sales and Customers Electricity Rates. From 2008 to 2012, we had consecutive net losses and, from time to time, operating losses, due to substantial increases in fuel prices which have more than offset the effect from the increases in the electricity tariff rates we charge to our customers. From 2013 to 2014, largely due to increases in electricity tariff rates, the general decline of fuel prices and the greater use of coal relative to LNG (the former being a cheaper source of fuel) as a proportion of the fuels used to produce electricity, our gross profit, operating profit and net profit increased significantly.

If fuel prices were to rise substantially and rapidly in the future, such rise may have a material adverse effect on our results of operations and profitability. In part to address these concerns, the Government from time to time increases the electricity tariff rates (most recently in January and November 2013). However, such increases may be insufficient to fully offset the adverse impact from the rise in fuel costs, and since such increases typically require lengthy public deliberations in order to be implemented, the tariff increases often occur with a significant time lag and as a result our results of operations and cash flows may suffer.

Further to the announcement by the Ministry of Trade, Industry and Energy in February 2010, a new electricity tariff system went into effect on July 1, 2011. This system was designed to overhaul the prior system for determining electricity tariff chargeable to customers by more closely aligning the tariff levels to movements in fuel prices, with the aim of providing more timely pricing signals to the market regarding the expected changes in electricity tariff levels and encouraging more efficient use of electricity by customers. Previously, the electricity tariff consisted of two components: (i) base rate and (ii) usage rate based on the cost of electricity and the amount of electricity consumed by the end-users. Under the new tariff system, the electricity tariff also has a



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third component of the FCPTA rate, which is to be added to or subtracted from the sum of the base rate and the usage rate on a monthly basis based on the three-month average movements of coal, LNG and oil prices. This system was intended to provide greater financial stability and ensure a minimum return on investment to electricity suppliers, such as us.

However, due to inflationary and other policy considerations relating to protecting the consumers from sudden and substantial rises in electricity tariff, the Ministry of Trade, Industry and Energy issued a hold order on July 29, 2011 suspending our billing and collecting of the FCPTA amount and eventually abolished the FCPTA system altogether on May 21, 2014 and generally reverted to the tariff system in place prior to the adoption of the FCPTA system.

For further discussion, including in relation to accounting, see Item 5A. Operating Results Critical Accounting Policies Correction of Accounting for Fuel Cost Pass-through Adjustment.

The results of our operations are largely affected by the following factors:

demand for electricity;

electricity rates we charge to our customers;

fuel costs; and

the exchange rates of Won against other foreign currencies, in particular the U.S. dollar.

***Demand for Electricity***

Our sales are largely dependent on the level of demand for electricity in Korea and the rates we charge for the electricity we sell.

Demand for electricity in Korea grew at a compounded average rate of 3.9% per annum for the five years ended December 31, 2014. According to the Bank of Korea, the compounded growth rate for real gross domestic product, or GDP, was approximately 3.7% during the same period. The GDP increased, on a year-on-year basis, by 2.3% in 2012, by 2.9% in 2013, and by 3.3% in 2014.

The table below sets forth, for the periods indicated, the annual rate of growth in Korea's gross domestic product, or GDP, and the annual rate of growth in electricity demand (measured by total annual electricity consumption).

	2010	2011	2012	2013	2014
Growth in GDP	6.5%	3.7%	2.3%	2.9%	3.3%
Growth in electricity consumption	10.1%	4.8%	2.5%	1.8%	0.6%

Demand for electricity may be categorized either by the type of its usage or by the type of customers. The following describes the demand for electricity by the type of its usage, namely, industrial, commercial and residential:

The industrial sector represents the largest segment of electricity consumption in Korea. Demand for electricity from the industrial sector was 272,552 gigawatt hours in 2014, representing a 2.7% increase from 2013, largely due to the continued export-led growth of the Korean economy.

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Demand for electricity from the commercial sector has increased in recent years, largely due to increased commercial activities in Korea and the rapid expansion of the service sector of the Korean economy, which has resulted in increased office building construction, office automation and use of air conditioners. However, demand for electricity from the commercial sector decreased to 100,761 gigawatt hours in 2014, representing a 1.4% decrease from 2013 largely due to decreased electricity usage for cooling and heating reflecting cooler summer and warmer winter in 2014 compared to 2013.

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In 2014, we distributed electricity to approximately 22 million households, which represent substantially all of the households in Korea. Demand for electricity from the residential sector is largely dependent on population growth and use of heaters, air conditioners and other electronic appliances. Demand for electricity from the residential sector decreased to 64,457 gigawatt hours in 2014, representing a 2.1% decrease compared to 2013, largely due to a decrease in electricity usage for air conditioning and heating resulting in part from cooler summer and warmer winter in 2014 compared to 2013.

For a discussion on demand by the type of customers, see Item 4B. [Business Overview](#) [Sales and Customers](#) [Demand by the Type of Usage](#).

Since our inception, we have had the predominant market share in terms of electricity generated in Korea. As for electricity we purchase from the market for transmission and distribution to our end-users, our generation subsidiaries accounted for 90.9%, 89.4% and 86.2% in 2012, 2013 and 2014, respectively, while the remainder was accounted for by independent power producers. As for transmission and distribution of electricity, we have historically handled, expect to continue to handle, substantially all of such activities in Korea.

We expect that we will continue to have a dominant market share in the generation, transmission and distribution of electricity in Korea for the foreseeable future, absent any substantial changes to the Restructuring Plan or other policy initiatives by the Government in relation to the Korean electric power industry, or an unexpected level of market penetration by independent power producers or localized electricity suppliers under the Community Energy System. See Item 4B. [Business Overview](#) [Competition](#).

***Electricity Rates***

Under the Electricity Business Law and the Price Stabilization Act, electricity rates are established at levels that will permit us to recover our operating costs attributable to our basic electricity generation, transmission and distribution operations in addition to receiving a fair investment return on capital used in those operations. For further discussion of fair investment return, see Item 4B. [Business Overview](#) [Sales and Customers](#) [Electricity Rates](#).

From time to time, our actual rate of return on invested capital may differ significantly from the fair rate of return on invested capital assumed for the purposes of electricity tariff approvals, for reasons, among others, related to movements in fuel prices, exchange rates and demand for electricity that differs from what is assumed for determining our fair rate of return. For example, between 1987 and 1990, the actual rate of return was above the fair rate of return due to declining fuel costs and rising demand for electricity. In contrast, depreciation of the Won against the U.S. dollar accounted for our actual rates of return being lower than the fair rate of return for the period from 1996 to 2000. Partly in response to the variance between our actual rates of return and the fair rate of return, the Government from time to time increases the electricity tariff rates, but there typically is a significant time lag for the tariff increase as such increase requires a series of deliberative processes and administrative procedures and the Government also has to consider other policy considerations, such as the inflationary effect of overall tariff increases and the efficiency of energy use through sector-specific tariff increases. For the period since 2006, our actual rate of return has been lower than the fair rate of return largely due to increases in fuel costs and additional facility investment costs, the effects of which were not offset by timely increases in the electricity tariff rates.

Recent increases to the electricity tariff rates by the Government involve the following, which were made principally in response to the rising fuel prices which hurt our profitability as well as to encourage a more efficient use of electricity by the different sectors:

effective August 6, 2012, a 4.9% overall increase in our average tariff rate, consisting of increases in the residential, commercial, educational, industrial, street lighting, agricultural and overnight power usage tariff rates by 2.7%, 4.4%, 3.0%, 6.0%, 4.9%, 3.0% and 4.9%, respectively.

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effective January 14, 2013, a 4.0% overall increase in our average tariff rate, consisting of increases in the residential, commercial, industrial, educational, agricultural, street lighting and overnight power usage tariff rates by 2.0%, 4.6%, 4.4%, 3.5%, 3.0%, 5.0% and 5.0%, respectively.

effective November 21, 2013, a 5.4% overall increase in our average tariff rate, consisting of increases in the residential, commercial, industrial, agricultural, street lighting and overnight power usage tariff rates by 2.7%, 5.8%, 6.4%, 3.0%, 5.4% and 5.4%, respectively, while making no change to the educational tariff.

### ***Fuel Costs***

Our results of operations are also significantly affected by the cost of producing electricity, which is subject to a variety of factors, including, in particular, the cost of fuel.

Cost of fuel in any given year is a function of the volume of fuels consumed and the unit fuel cost for the various types of fuel used for generation of electricity which affects the cost structure for both our generation subsidiaries and independent power producers from whom we purchase electric power. A significant change in the unit fuel costs materially impacts the costs of electricity generated by our generation subsidiaries, which mainly comprise our fuel costs under the cost of sales, as well as, to our knowledge, the costs of electricity generated by the independent power producers that sell their electricity to us (see Item 4A. Purchase of Electricity Cost-based Pool System ), which mainly comprise our purchased power costs under the cost of sales. We are however unable to provide a comparative analysis since the unit fuel cost information for independent power producers and their cost structures are proprietary information.

Fuel costs accounted for 48.5%, 45.1% and 36.1% of our sales and 49.2%, 47.8% and 41.4% of our cost of sales in 2012, 2013 and 2014, respectively. Substantially all of the fuel (except for anthracite coal) used by our generation subsidiaries is imported from outside of Korea at prices determined in part by prevailing market prices in currencies other than Won. In addition, our generation subsidiaries purchase a significant portion of their fuel requirements under contracts with limited quantity and duration. Pursuant to the terms of our long-term supply contracts, prices are adjusted from time to time subject to prevailing market conditions. See Item 4B. Business Overview Fuel.

Uranium accounted for 33.5%, 30.9% and 35.3% of our fuel requirements in 2012, 2013 and 2014, respectively. Coal accounted for 44.5%, 44.8% and 46.0% of our fuel requirements in 2012, 2013 and 2014, respectively. LNG accounted for 17.7%, 19.7% and 15.5% of our fuel requirements in 2012, 2013 and 2014 respectively. Oil accounted for 3.2%, 3.3% and 1.7% of our fuel requirements in 2012, 2013 and 2014, respectively. In each case, the fuel requirements are measured by the amount of electricity generated by us and our generation subsidiaries and do not include electricity purchased from independent power producers. In order to ensure stable supplies of fuel materials, our generation subsidiaries enter into long-term and medium-term contracts with various suppliers and supplement such supplies with fuel materials purchased on spot markets.

The price of bituminous coal, which represents our largest fuel requirement, fluctuates significantly from time to time. In 2014, approximately 84.5% of the bituminous coal requirements of our generation subsidiaries were purchased under long-term contracts and the remaining 15.5% purchased on the spot market. The average free on board Newcastle coal 6300 GAR spot price index published by Platts decreased from US\$85.1 per ton in 2013 to US\$70.7 per ton in 2014 and US\$56.4 per ton as of April 10, 2015. If the price of bituminous coal were to sharply rise, our generation subsidiaries may not be able to secure their respective bituminous coal supplies at prices commercially acceptable to them. In addition, any significant interruption or delay in the supply of fuel, bituminous coal in particular, from any of their suppliers could cause our generation subsidiaries to purchase fuel on the spot market at prices higher than contracted, resulting in an increase in fuel cost.

In recent years, the prices of oil and LNG have fallen significantly. The prices of oil and LNG are substantially dependent on the price of crude oil, and according to Bloomberg (Bloomberg Ticker:

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PGCRDUBA), the average daily spot price of Dubai crude oil per barrel decreased from US\$108.9 in 2012 to US\$105.4 in 2013 to US\$96.6 in 2014 and was US\$54.8 as of April 10, 2015.

Nuclear power has a stable and relatively low-cost structure and forms a significant portion of electricity supplied in Korea. Due to significantly lower unit fuel costs compared to those for thermal power plants, our nuclear power plants are generally operated at full capacity with only routine shutdowns for fuel replacement and maintenance, with limited exceptions. In case of shortage in electricity generation resulting from stoppages of the nuclear power plants, we seek to make up for such shortage with power generated by our thermal power plants.

Because the Government heavily regulates the rates we charge for the electricity we sell (see Item 4B. *Business Overview* *Sales and Customers* *Electricity Rates* ), our ability to pass on such cost increases to our customers is limited. For example, from 2008 to 2012 we had consecutive net losses and, from time to time, operating losses, largely due to sustained rises in fuel costs that were neither timely nor sufficiently offset by a corresponding rise in electricity tariff rates. If fuel prices substantially increase and the Government, out of concern for inflation or for other reasons, maintains the current level of electricity tariff and does not increase it to a level to sufficiently offset the impact of rising fuel prices, the price increases will negatively affect our profit margins or even cause us to suffer net losses and our business, financial condition, results of operations and cash flows would suffer.

***Movements of the Won against the U.S. Dollar and Other Foreign Currencies***

Korean Won fluctuates significantly against major currencies from time to time. For fluctuations in exchange rates, see Item 3A. *Selected Financial Data* *Currency Translations and Exchange Rates*. In particular, Korean Won underwent substantial fluctuations during the recent global financial crisis, and remains subject to significant volatility. The Noon Buying Rate per one U.S. dollar fluctuated from Won 1,063.2 on December 31, 2012 to Won 1,055.3 on December 31, 2013 and to Won 1,090.9 on December 31, 2014 and was Won 1,093.1 on April 10, 2015. In 2014, the Won generally depreciated against U.S. dollar and other foreign currencies, and such depreciation may result in a significant increase in the cost of fuel materials and equipment purchased from overseas as well as the cost of servicing our foreign currency debt. As of December 31, 2014, approximately 20.5% of our long-term debt (including the current portion but excluding issue discounts and premium) before accounting for swap transactions was denominated in foreign currencies, principally U.S. dollars. The prices for substantially all of the fuel materials and a significant portion of the equipment we purchase are stated in currencies other than Won, generally in U.S. dollars. Since a substantial portion of our revenues is denominated in Won, we must generally obtain foreign currencies through foreign currency-denominated financings or from foreign currency exchange markets to make such purchases or service such debt, fulfill our obligations under existing overseas investments and make new overseas investments. As a result, any significant depreciation of Won against U.S. dollar or other foreign currencies will have a material adverse effect on our profitability and results of operations. See Item 3D. *Risk Factors* *Risks Relating to KEPCO* The movement of Won against the U.S. dollar and other currencies may have a material adverse effect on us.

**Recent Accounting Changes**

***New Amendments Adopted***

New amendments to IFRS and other accounting standards are set forth below. These amendments had no impact on our consolidated financial statements included in this annual report.

Amendments to IAS 32 *Financial Instruments: Presentation*

Amendments to IFRIC 21 *Levies*

See Note 2 of the notes to our consolidated financial statements included in this annual report for further related information.

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### ***New Standards and Amendments Not Yet Adopted***

The following new standards and amendments to existing IFRS and other standards are effective for annual periods beginning after January 1, 2014; however, we have not adopted such amendments yet and are currently in the process of evaluating the impact on our consolidated financial statements upon the adoption of these amendments.

IFRS 9 Financial Instruments

IFRS 15 Revenue from contract with customers

Amendments to IAS 19 Employee benefits

See Note 2 of the notes to our consolidated financial statements included in this annual report for further related information.

### **Critical Accounting Policies**

The following discussion and analysis are based on our consolidated financial statements included in this annual report. The fundamental objective of financial reporting is to provide useful information that allows a reader to comprehend our business activities. To aid in that understanding, our management has identified critical accounting policies.

We make a number of estimates and judgments in preparing our consolidated financial statements. These estimates may differ from actual results and have a significant impact on our recorded assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We consider an estimate to be a critical accounting estimate if it requires a high level of subjectivity or judgment, and a significant change in the estimate would have a material impact on our financial condition or results of operations. Further discussion of these critical accounting estimates and policies is included in the notes to our consolidated financial statements included in this annual report.

The accounting policies set out below have been applied consistently by us and our subsidiaries to all periods presented in the consolidated annual financial statements, unless otherwise indicated.

#### ***Sale and Purchase of Electricity***

The Government approves the rates we charge to customers. Our utility rates are designed to recover our reasonable costs plus a fair investment return. We purchase electricity principally from our generation subsidiaries based on a competitive bidding process through the Korea Power Exchange.

We recognize electricity sales revenue based on power sold (transferred to the customer) up to the reporting date. To determine the amount of power sold, we make reasonable estimates on daily power volumes for residential, commercial, industrial and other uses. The differences between the current month's estimated amounts and actual (meter-read) amounts are adjusted (trued-up) during the next month period.

#### ***Correction of Accounting for Fuel Cost Pass-through Adjustment***

As of July 1, 2011, a new electricity tariff system approved by the Government took effect featuring a fuel cost pass-through adjustment (FCPTA). This system is intended to allow us to pass through fluctuations in fuel costs ultimately to customers. The FCPTA amount is determined based on a prior three-month period moving average of international fuel prices and other factors, and such amount is reflected two months later. On July 29, 2011, out of inflationary and other policy considerations, the Government issued a hold-order suspending us from billing or collecting the FCPTA amount from customers.

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Our accounting policy was to recognize unbilled fuel cost adjustments as assets under the IFRS Conceptual Framework when we concluded that it is probable that future economic benefits would flow to us. We had concluded that we controlled a resource as a result of past events from which future economic benefits were expected to flow to us. The Regulation for Electricity Service, which regulates the FCPTA system, provides a legal resource or right to bill where the costs we incur will result in future cash flows. The operation of the FCPTA system creates a right to charge rates in amounts that would permit us to recover the related costs, such amounts being subject to government approval. In addition, we relied on the authority of the Ministry of Trade, Industry and Energy, which regulates and approves the electricity tariff we charge to our customers, including the FCPTA system. As of December 31, 2011, we determined that it was probable that economic benefits associated with the unbilled fuel cost adjustments would be realizable based on the authority of the Ministry of Trade, Industry and Energy in setting and enforcing electricity rates for customers. Therefore, we concluded that as of December 31, 2011 it was probable that our unbilled FCPTA amount would be collected.

We previously recognized revenue and a receivable for the FCPTA amounts subject to the hold order in the amount of Won 357,085 million at December 31, 2011. However, we came to realize that our FCPTA rate regulatory scheme closely resembles a cost-of service scheme, and have therefore determined that the appropriate accounting for the unbilled FCPTA amounts is to reduce cost of sales by the unbilled FCPTA amounts and recognize a related non-financial asset by the same amount, which is more consistent with accounting policies for rate regulated assets of other standard setting bodies. In accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, we used judgment in developing and applying an accounting policy that results in information that is relevant and reliable. In making that judgment, management considered pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices. We have concluded that the aforementioned error is immaterial, and corrected the accounting for our unbilled FCPTA amounts in our consolidated financial statements as of and for the year ended December 31, 2011.

During the fourth quarter of 2012, we had further consultations with the Ministry of Trade, Industry and Energy as to the outlook for the lifting the hold-order. Furthermore, on January 11, 2013, the Ministry of Trade, Industry and Energy informed us that the FCPTA system needed to be reassessed in light of other factors such as the prolonged unbilled period since the announcement of the FCPTA system. We have therefore concluded that, in consideration of the prolonged unbilled period and recent consultations with, and information from, the Ministry, we would not be able to bill and collect the unbilled FCPTA amounts for the foreseeable future. As a result, we wrote off the entire unbilled FCPTA amounts of Won 1,877 billion recognized through December 31, 2012, including the unbilled FCPTA amounts as of December 31, 2011. As a result, there was no FCPTA amount remaining in the consolidated statement of financial position as of December 31, 2013.

On May 21, 2014, for inflationary and other various policy considerations, the Ministry of Trade, Industry and Energy abolished the FCPTA system altogether. As a result, there was no FCPTA amount remaining in the consolidated statement of financial position as of December 31, 2014.

As for the accumulated and unbilled FCPTA amount, on the next occasion on which the Government raises the electricity tariff rates, we plan to consult with the Government and consider whether to reflect such FCPTA amount in our consolidated financial statements by adjusting the total electricity cost.

### ***Derivative Instruments***

We recognize rights and obligations arising from derivative instruments as assets and liabilities, which are stated at fair value. The gains and losses that result from the change in the fair value of derivative instruments are reported in current earnings. However, for derivative instruments designated as hedging the exposure of variable cash flows, the effective portions of the gains or losses on the hedging instruments are recorded as accumulated other comprehensive income (loss) and credited or charged to operations at the time the hedged transactions affect earnings, and the ineffective portions of the gains or losses are credited or charged immediately to operations.

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Significant management judgment is involved in determining the fair value of estimated derivative instruments. The estimates and assumptions used by our management to determine fair value can be impacted by many factors, such as the estimated discount factor derived from observable market data, credit risk of the counterparty and the estimated cash flow based on settlement period, interest convention, and other contract information of the derivative instruments.

As of December 31, 2012, we had Won 376 billion of net amounts as assets, and as of December 31, 2013, we had Won 614 billion of net amounts as liabilities. As of December 31, 2014, we had Won 168 billion of net amounts as liabilities. Changes in the estimated discount factor or cash flow, or changes in the assumptions and judgments by management underlying these estimates, may cause material revisions to the estimated total gain or loss effect of derivative instruments, which could have a material effect on the recorded asset or liability.

***Decommissioning Costs***

We recognize the fair value of estimated decommissioning costs as a liability in the period in which we incur a legal obligation associated with retirement of long-lived assets that result from acquisition, construction, development and/or normal use of the assets. We also recognize a corresponding asset that is depreciated over the life of the asset. 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. Depreciation and accretion expenses are included in the cost of electric power in the accompanying consolidated statements of comprehensive income.

Significant management judgment is involved in determining the fair value of estimated decommissioning costs. The estimates and assumptions used by our management to determine fair value can be impacted by many factors, such as the estimated decommissioning costs based on engineering studies commissioned and approved by the Korean government, and changes in assumed dates of decommissioning, inflation rate, discount rate, decommissioning technology, regulation and the general economy.

As of December 31, 2012, 2013 and 2014, we had a liability for decommissioning costs in the amounts of Won 11,913 billion, Won 12,348 billion and Won 13,234 billion, respectively. Changes in the estimated costs or timing of decommissioning, or changes in the assumptions and judgments by management underlying these estimates, may cause material revisions to the estimated total cost to decommission these facilities, which could have a material effect on the recorded liability. We used discount rates of 4.49%, 4.49% and 4.49% and inflation rates of 2.93%, 2.93% and 2.93% when calculating the decommissioning cost liability recorded as of December 31, 2012, 2013 and 2014, respectively. In addition, the following is a sensitivity analysis of the potential impact on decommissioning costs from a 0.10% increase or decrease in each of the inflation rate and the discount rate, assuming that all other aforementioned assumptions remain constant:

	Sensitivity to inflation rate		Sensitivity to discount rate	
	+0.10%	-0.10%	+0.10%	-0.10%
	(in billions of Won)			
Increase (decrease) of liability for decommissioning costs	304	295	271	279

See Notes 26 and 45 of the notes to our consolidated financial statements included in this annual report for further related information.

***Provision for Decontamination of Transformer***

Under the Persistent Organic Pollutants Management Act which was enacted in 2007, we are required to remove the toxin polychlorinated biphenyls ( PCBs ) from our transformers insulating oil by 2015. We are also required to inspect the PCB levels in our transformers and dispose of any PCBs in excess of established safety standards.



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As of December 31, 2012, 2013 and 2014, we had liabilities of Won 220 billion, Won 220 billion and Won 200 billion, respectively, for inspection and disposal costs related to the decontamination of existing transformers.

The estimates and assumptions used by our management 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.

Changes in the estimated costs or changes in the assumptions and judgments underlying these estimates may cause material revisions to the estimated total costs, which could have a material effect on our recorded liability. When calculating the provision for the decontamination of our transformers, we used a discount rate of 4.92% and an inflation rate of 3.10% as of December 31, 2012, a discount rate of 4.92% and an inflation rate of 3.10% as of December 31, 2013 and a discount rate of 3.78% and an inflation rate of 2.79% as of December 31, 2014.

### ***Deferred Tax Assets***

In assessing the realizability of the deferred tax assets, our management considers whether it is probable that a portion or all of the deferred tax assets will not be realized. The ultimate realization of our deferred tax assets is dependent on whether we are able to generate future taxable income in specific tax jurisdictions during the periods in which temporary differences become deductible. Our management has scheduled the expected future reversals of the temporary differences and projected future taxable income in making this assessment. Based on these factors, our management believes that it is probable that we will realize the benefits of these temporary differences as of December 31, 2014. However, the amount of deferred tax assets that is realized may be different if we do not realize estimated future taxable income during the carry forward periods as originally expected.

In relation to the deferred tax assets recognized for tax loss, future taxable income is estimated considering the followings: (i) five-year mid-to long-term financial forecasts of earnings before tax approved by management and submitted to the Ministry of Strategy and Finance, and (ii) average amount of tax adjustments for the recent three years. Based on the estimated amount and timing of future taxable profit, our management determined that all cumulative tax losses as of December 31, 2014 could be recognized as an asset.

For tax credits carried forward, similar to deferred tax assets recognized for tax loss, our management estimates the probability timing of future taxable profits in determining the probability of utilization of tax credits carried forward. In addition, our management considers the possible carry forward period and available tax credit or deductible temporary differences within the tax laws of each country in which the tax credits originated.

Similarly, our management also estimates the probability of utilization of temporary differences considering the probability of generating future taxable profits in the periods that the deductible temporary differences reverse. We do not recognize deferred tax assets for certain temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures considering future dividends or disposals.

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities at each separate taxpaying entity. Under IFRS, a deferred tax asset is recognized for temporary difference that will result in deductible amounts in future years and for carry forwards. If, based on the weight of available evidence, it is more likely that some or the entire portion of the deferred tax asset will not be realized, that portion is deducted directly from the deferred tax asset.

We believe that the accounting estimate related to the realizability of deferred tax asset is a critical accounting estimate because: (i) it requires management to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning opportunities, and (ii) the difference between these assessments and the actual performance could have a material impact on the realization of tax benefits as reported in our results of operations. Management's assumptions require significant judgment because actual performance has fluctuated in the past and may continue to do so.

**Table of Contents*****Useful Lives of 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.

Economic useful life is the duration of time the asset is expected to be productively employed by us, which may be less than its physical life. Management's assumptions on the following factors, among others, affect the determination of estimated economic useful life: wear and tear, obsolescence, technical standards, changes in market demand and technological changes.

The estimated useful lives of our property, plant and equipment are as follows:

	<b>Useful lives (years)</b>
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. In 2012, we changed the estimated useful lives of certain buildings. As a result of the change in accounting estimate, depreciation expenses decreased by Won 57,378 million and Won 31,979 million in 2013 and 2014, respectively. In addition, we estimate that depreciation expense will decrease by Won 22,158 million in 2015.

***Impairment of Long-lived Assets***

At the end of each reporting period, we review the carrying amounts of tangible and intangible assets 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, we estimate 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 or value in use. In assessing value in use, the estimated future cash flows are discounted to their present values 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.

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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.

In the event that 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, ensuring that such carrying amount increase does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the 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.

The assessment of impairment is a critical accounting estimate, because significant management judgment is required to determine: (i) whether an indicator of impairment has occurred, (ii) how assets should be grouped, and (iii) the recoverable amount of the asset or asset group in the case of an impairment. If management's assumptions about these assets change as a result of events or circumstances, and management believes the assets may have declined in value, we may record impairment charges, resulting in lower profits. Our management uses its best estimate in making these evaluations and considers various factors, including the future prices of energy, fuel costs and other operating costs. However, actual market prices and operating costs could vary from those used in the impairment evaluations, and the impact of such variations could be material. We performed impairment tests on individual asset of Garorim Tidal Power Plant Co., Ltd., a 49% owned subsidiary. Accordingly, we recognized the amount by which the carrying amount exceeds its recoverable amount as impairment loss on our consolidated statements of comprehensive income. See Note 18 of the notes to our consolidated financial statements included in this annual report for further information.

### ***Accrual for Loss Contingencies for Legal Claims***

We are involved in legal proceedings regarding matters arising in the ordinary course of business. In relation to these matters, as of December 31, 2014, we were engaged in 652 lawsuits as a defendant and 157 lawsuits as a plaintiff. The total amount claimed against us was Won 563 billion and the total amount claimed by us was Won 314 billion as of December 31, 2014. As of December 31, 2014, our provisions for these legal claims amounted to Won 200 billion. These provisions are adjusted when events or circumstances cause these judgments or estimates to change.

Actual amounts of our liabilities as determined upon settlement of legal claims or by final decisions of the courts in relation thereto may be substantially different from the amounts of provisions recognized or contingent liabilities disclosed. If the actual amounts are higher than the amounts of related provisions, the resulting additional liabilities would adversely impact our results of operations, financial condition and cash flows.

## **Consolidated Results of Operations**

### ***2014 Compared to 2013***

In 2014, our consolidated sales, which is principally derived from the sale of electric power, increased by 6.3% to Won 57,123 billion from Won 53,713 billion in 2013, reflecting primarily a 4.7% increase in our average electricity tariff rates in 2014 compared to 2013 and a 0.58% increase in the volume of electricity sold from 474,849 gigawatt hours in 2013 to 477,592 gigawatt hours in 2014. For a discussion of the increase in our electricity tariff rates which are regulated by the Government, see Item 4B. Business Overview Sales and Customers Electricity Rates. The overall increase in the volume of electricity sold was primarily attributable to a 2.7% increase in the volume of electricity sold to the industrial sector, which represents the largest segment of electricity consumption in Korea, from 265,373 gigawatt hours in 2013 to 272,552 gigawatt hours in 2014, which was partially offset by a 1.4% decrease in the volume of electricity sold to the commercial sector from 102,196 gigawatt hours in 2013 to 100,761 gigawatt hours in 2014 and a 2.1% decrease in the volume of

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electricity sold to the residential sector from 65,815 gigawatt hours in 2013 to 64,457 gigawatt hours in 2014. The increase in the volume of electricity sold to the industrial sector was primarily due to the general increase in demand for electricity in this sector in Korea largely as a result of continued export-led growth of the Korean economy, which involved an increased industrial output and greater capacity utilization in industrial plants. The decreases in the volume of electricity sold to the commercial and residential sectors were largely due to weather conditions, including cooler summer and warmer winter in 2014 compared to 2013.

Our consolidated cost of sales, which is principally derived from the costs related to the purchase of fuels for generation of electricity and to a lesser extent, from the purchase of power from independent power producers, depreciation and salaries, decreased by 1.6% to Won 49,763 billion in 2014 from Won 50,596 billion in 2013, primarily due to a 14.9% decrease in fuel costs, which was partially offset by a 11.2% increase in purchased power, a 6.8% increase in depreciation, a 2.0% increase in salaries and a 18.2% increase in other cost of sales.

Fuel costs, which accounted for 41.4% and 47.8% of our consolidated cost of sales in 2014 and 2013, respectively, decreased by 14.9% to Won 20,595 billion in 2014 from Won 24,200 billion in 2013 largely due to a 13.7% decrease in unit fuel cost mainly resulting from the general decline in international market prices for our main fuel types, as well as an increased use of less expensive fuel sources such as nuclear power due to the resumption of three nuclear units in 2014. Purchased power, which accounted for 25.3% and 22.4% of our cost of sales in 2014 and 2013, respectively, increased by 11.2% to Won 12,602 billion in 2014 from Won 11,329 billion in 2013, primarily due to a 16.1% increase in the volume of power purchased from independent power producers (who generate electricity primarily through LNG-fired power plants), from 67,676 gigawatt hours in 2013 to 78,551 gigawatt hours in 2014, primarily due to an increase in installed generation capacity (such as from the Yulchon combined cycle unit) of independent power producers. Depreciation expense, excluding Won 957 billion and Won 825 billion in 2014 and in 2013, respectively arising from amortization of nuclear fuel charged to fuel costs aforementioned, increased by 5.6% to Won 6,763 billion in 2014 from Won 6,403 billion in 2013 primarily due to an increase of additional property, plant and equipment related to the construction of new generation facilities pursuant to our capital investment program.

Salaries recorded as cost of sales increased by 2.0% to Won 2,633 billion in 2014 from Won 2,583 billion in 2013 primarily due to an increase by base salary in tandem with the inflation rate. Other cost of sales increased by 17.9% to Won 7,169 billion in 2014 from Won 6,080 billion in 2013 primarily due to an increase in costs related to our nuclear complex construction projects in the United Arab Emirates.

As a cumulative result of the foregoing factors, our consolidated gross profit increased by 136.1% to Won 7,360 billion in 2014 from Won 3,117 billion in 2013, and our consolidated gross profit margin increased significantly to 12.9% in 2014 from 5.8% in 2013. The increases in our consolidated gross profit and consolidated gross profit margin were largely attributable to the 6.3% increase in our consolidated sales (which were primarily due to the 4.7% overall increase in the average electricity tariff rates) and the 1.7% decrease in our consolidated cost of sales (which was mainly due to the 14.9% decrease in fuel costs partially offset by the 11.2% increase in purchased power).

Our consolidated selling and administrative expenses slightly increased by 0.1% to Won 1,924 billion in 2014 from Won 1,923 billion in 2013, largely due to an increase in commission, which was substantially offset by a decrease in salaries recorded as selling and administrative expenses and a decrease in ordinary development expense.

Our consolidated other income, net of expenses, increased by 6.4% to Won 666 billion in 2014 from Won 626 billion in 2013, mainly as a result of an increase in compensation and reparation revenue and an increase in revenue related to the transfer of assets from customers, which were partially offset by a decrease in gains on electricity infrastructure development fund.

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Our consolidated net other gains decreased by 17.1% to Won 107 billion in 2014 from Won 129 billion in 2013, primarily as a result of an increase of impairment loss on property, plant and equipment. Impairment loss on property, plant and equipment increased largely due to impairment related to Garorim Tidal Power Plant Co., Ltd., a 49% owned subsidiary.

As a cumulative result of the foregoing factors, our consolidated operating profit increased more than threefold to Won 6,209 billion in 2014 from Won 1,948 billion in 2013, and our consolidated operating income margin increased significantly to 10.9% in 2014 from 3.6% in 2013. These increases were mainly due to the 6.3% increase in our consolidated sales and the 1.6% decrease in our consolidated cost of sales.

Our consolidated finance expenses, net, decreased by 2.0% to Won 2,255 billion in 2014 from Won 2,302 billion in 2013, primarily as a result of net gain on valuation of derivatives in 2014 compared to net loss in 2013 and net gain on foreign currency transaction in 2014 compared to net loss in 2013 which more than offset recording net losses in foreign currency translation in 2014 compared to net gains in 2013, which were largely as a result of the depreciation of Korean Won against the U.S. dollar in 2014.

We had consolidated profit of associates or joint ventures using equity method of Won 275 billion in 2014, compared to consolidated loss of associates or joint ventures using equity method of Won 42 billion in 2013, primarily as a result of an increase in profit of Korea Gas Corporation.

As a cumulative result of the foregoing factors, our consolidated income before income taxes increased significantly to Won 4,229 billion in 2014 from Won 396 billion in 2013.

Our income tax expense increased significantly to Won 1,430 billion in 2014 from Won 571 billion in 2013, largely as a result of an increase in our profit before income taxes, which was partially offset by an increase in adjustments related to unrealized deferred tax assets. See Note 41 to our financial statements included in this annual report. Our effective tax expense (benefit) rate, which represents tax expense (benefit) as a percentage of profit (loss) before income taxes, decreased from 144.0% in 2013 to 33.8% in 2014 primarily due to the effect of recognition of deferred tax assets in relation to amounts received from customers regarding installation and use of facilities required for electricity supply in 2013. In 2014, the effective tax rate was higher than the statutory rate of 24.2%, primarily due to the recognition of deferred tax liabilities regarding our investments in subsidiaries, associates and joint ventures primarily in connection with taxable temporary differences related to undistributed earnings.

As a cumulative result of the above factors, our consolidated profit increased significantly to Won 2,799 billion in 2014 from Won 174 billion in 2013. Our consolidated net profit margin also increased significantly to 4.9% in 2014 from 0.3% in 2013. Our profit attributable to the owners of the company was Won 2,687 billion in 2014 from Won 60 billion attributable to the owners of the company in 2013.

We had consolidated other comprehensive loss of Won 358 billion in 2014 compared to consolidated other comprehensive income of Won 186 billion in 2013, largely as a result of decreased actuarial gains on retirement benefit obligations, net of tax (related to changes in future salary increases), valuation gains on available-for-sale securities (primarily Korea District Heating Corp.) and gains on valuation of derivatives using cash flow hedge accounting, share in other comprehensive income of associates and joint ventures, net of tax.

As a cumulative result of the above factors, our consolidated total comprehensive income increased significantly Won 2,441 billion in 2014 from Won 360 billion in 2013.

***2013 Compared to 2012***

In 2013, our consolidated sales, which is principally derived from the sale of electric power, increased by 9.3% to Won 53,713 billion from Won 49,121 billion in 2012, reflecting primarily a 7.3% overall increase in our

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average electricity tariff rates in 2013 (as a result of a 4.0% increase effective January 14, 2013 and a 5.4% increase effective November 21, 2013) and a 1.8% increase in the volume of electricity sold from 466,593 gigawatt hours in 2012 to 474,849 gigawatt hours in 2013. The overall increase in the volume of electricity sold was primarily attributable to a 2.8% increase in the volume of electricity sold to the industrial sector, which represents the largest segment of electricity consumption in Korea, from 258,102 gigawatt hours in 2012 to 265,373 gigawatt hours in 2013, and, to a lesser extent, a 0.6% increase in the volume of electricity sold to the commercial sector from 101,593 gigawatt hours in 2012 to 102,196 gigawatt hours in 2013 and a 0.5% increase in the volume of electricity sold to the residential sector, from 65,484 gigawatt hours in 2012 to 65,815 gigawatt hours in 2013. The increase in the volume of electricity sold to the industrial sector was primarily due to the general increase in demand for electricity in this sector in Korea largely as a result of continued export-led growth of the Korean economy, which involved an increased industrial output and greater capacity utilization in industrial plants. For a discussion of the increase in our electricity tariff rates, see Item 4B. Business Overview Sales and Customers Electricity Rates.

Our consolidated cost of sales, which is principally derived from the costs related to the purchase of fuels for generation of electricity and to a lesser extent, from the purchase of power from independent power producers, depreciation and salaries, increased by 4.4% to Won 50,596 billion in 2013 from Won 48,459 billion in 2012, primarily due to a 1.6% increase in fuel costs, a 15.6% increase in purchased power and a 5.6% increase in depreciation, which were partially offset by a 3.0% decrease in salaries and a 1.4% decrease in other cost of sales.

Fuel costs, which accounted for 47.8% and 49.2% of our consolidated cost of sales in 2013 and 2012, respectively, increased to Won 24,200 billion in 2013 from Won 23,823 billion in 2012 largely due to an increased use of more expensive fuel sources such as LNG due to the extended suspension of three of our nuclear units related to quality assurance issues, which was partially offset by a 2.6% decrease in unit fuel cost mainly resulting from the general decline in international market prices for our main fuel types. Purchased power, which accounted for 22.4% and 20.2% of our cost of sales in 2013 and 2012, respectively, increased by 15.6% to Won 11,329 billion in 2013 from Won 9,801 billion in 2012, primarily due to a 12.1% increase in the volume of power purchased from independent power producers (who generate electricity primarily through LNG-fired power plants), from 60,392 gigawatt hours in 2012 to 67,676 gigawatt hours in 2013, primarily to compensate for the shortfall in the supply of electricity due to the higher than anticipated rise in demand for electricity in 2013 as well as extended suspension of three of our nuclear units related to quality assurance issues. Depreciation expense, excluding Won 825 billion and Won 771 billion in 2013 and in 2012, respectively arising from amortization of nuclear fuel charged to fuel costs aforementioned, increased by 5.4% to Won 6,403 billion in 2013 from Won 6,075 billion in 2012 primarily due to an increase of additional property, plant and equipment related to the construction of new generation facilities pursuant to our capital investment program.

Salaries recorded as cost of sales decreased by 3.0% to Won 2,583 billion in 2013 from Won 2,662 billion in 2012 primarily due to a decrease in performance pay. Other remaining items of our cost of sales decreased to Won 6,080 billion in 2013 from Won 6,098 billion in 2012 primarily due to a decrease in provision for decommissioning costs of our nuclear facilities.

As a cumulative result of the foregoing factors, our consolidated gross profit increased significantly to Won 3,117 billion in 2013 from Won 661 billion in 2012, and our consolidated gross profit margin increased significantly to 5.8% in 2013 from 1.3% in 2012. The increases in our consolidated gross profit and consolidated gross profit margin were largely attributable to the 9.3% increase in our consolidated sales (which were due to the 7.3% overall increase in the average electricity tariff rates and, to a lesser extent, the 1.8% increase in the volume of electricity sold), which was partially offset by the 4.4% increase in our consolidated cost of sales (which was mainly due to the 15.6% increase in purchased power and, to a lesser extent, the 1.6% increase in fuel costs and the 5.6% increase in depreciation expense).

Our consolidated selling and administrative expenses increased by 8.0% to Won 1,923 billion in 2013 from Won 1,780 billion in 2012, primarily as a result of increases in depreciation and commissions, which increased by Won 22 billion and Won 67 billion, respectively.

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Our consolidated other income, net of expenses, increased by 4.2% to Won 626 billion in 2013 from Won 600 billion in 2012, mainly as a result of an increase in insurance compensations and an increase in contributions from the Electric Power Industry Basis Fund, which was partially offset by an increase in donations for educational and other purposes.

We had consolidated other gains, net, of Won 129 billion in 2013 compared to consolidated other losses, net, of Won 1,782 billion in 2012, primarily as a result of a write-off in 2012 of our accumulated but unbilled fuel cost-based adjustment amounts. (See Item 5A. Operating Results Critical Accounting Policies Correction of Accounting for Fuel Cost Pass-through Adjustment ). Other profit is mainly composed of gain or loss from disposal of assets and inventories, among others.

As a cumulative result of the foregoing factors, we had consolidated operating profit of Won 1,948 billion in 2013 compared to consolidated operating loss of Won 2,300 billion in 2012, and our consolidated operating profit margin was 3.6% in 2013 compared to an operating loss margin of 4.7% in 2012. These turnarounds were mainly due to the 9.3% increase in our consolidated sales, which was partially offset by the 4.4% increase in our consolidated cost of sales.

Our consolidated finance expenses, net of income, increased by 18.7% to Won 2,302 billion in 2013 from Won 1,940 billion in 2012, primarily as a result of a decrease in net gains on foreign currency translation, and an increase in net interest expense, which was partially offset by a decrease in net losses on valuation of derivatives.

We had consolidated loss of associates or joint ventures using equity method of Won 42 billion in 2013, compared to consolidated profit of associates or joint ventures using equity method of Won 177 billion in 2012, primarily as a result of decreased profits from Korea Gas Corporation mainly due to an impairment loss on intangible assets.

As a cumulative result of the foregoing factors, our consolidated loss before income taxes significantly decreased to Won 396 billion in 2013 from Won 4,063 billion in 2012.

Our income tax benefit decreased by 42.1% to Won 571 billion in 2013 from Won 985 billion in 2012, largely as a result of a decrease in our loss before income taxes, which was partially offset by an increase in adjustments related to unrealized deferred tax assets. See Note 41 to our financial statements included in this annual report. Our effective tax benefit rate, which represents tax benefit as a percentage of loss before income taxes, increased from 24.3% in 2012 to 144.0% in 2013 primarily due to the effect of recognition of deferred tax assets in relation to amounts received from customers regarding installation and use of facilities required for electricity supply.

As a cumulative result of the above factors, we had consolidated profit of Won 174 billion in 2013, compared to consolidated loss of Won 3,078 billion in 2012. Our consolidated net profit margin was 0.3% in 2013 compared to consolidated net loss margin of 6.3% in 2012. Our profit attributable to the owners of the company was Won 60 billion in 2013, compared to loss of Won 3,167 billion attributable to the owners of the company in 2012.

We had consolidated other comprehensive income of Won 186 billion in 2013 compared to consolidated other comprehensive loss of Won 322 billion in 2012, largely as a result of positive changes in actuarial gains or losses on retirement benefit obligations, net of tax (related to changes in future salary increases), gains on valuation of derivatives using cash flow hedge accounting, share in other comprehensive income of associates and joint ventures, net of tax. Furthermore, there were valuation gains on available-for-sale securities of LG Uplus Corp. and Korea District Heating Corp. in 2013.

As a cumulative result of the above factors, we had consolidated total comprehensive income of Won 360 billion in 2013, compared to consolidated total comprehensive loss of Won 3,400 billion in 2012.

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### **Inflation**

The effects of inflation in Korea on our financial condition and results of operations are reflected primarily in construction costs as well as in labor expenses. Inflation in Korea has not had a significant impact on our results of operations in recent years. It is possible that inflation in the future may have an adverse effect on our financial condition or results of operations.

### **Segment Results**

We operate the following business segments: transmission and distribution, nuclear power generation and thermal power generation and all others. The transmission and distribution segment, which is operated by KEPCO, the parent company, consists of operations related to the transmission, distribution and sale to end-users of electricity purchased from our generation subsidiaries as well as from independent power producers. The power generation segment, which is operated by our one nuclear generation subsidiary and five thermal generation subsidiaries, consists of operations related to the generation of electricity sold to KEPCO through the Korea Power Exchange. The transmission and distribution segment and the power generation segment together represent our electricity business. The remainder of our operation is categorized as all others. The all other segment consists primarily of operations related to the plant maintenance and engineering service, information services, and sales of nuclear fuel, communication line leasing, overseas businesses and others. In 2012, 2013 and 2014 the unaffiliated revenues of the power generation segment (representing the six generation subsidiaries) and all our other revenues in the aggregate amounted to only 2.5%, 2.6% and 2.8% of our consolidated revenues, respectively, and the results of operations for our business segments substantially mirror our consolidated results of operations. For further information, see Note 4 of the notes to our consolidated financial statements included in this annual report.

### **Item 5B. Liquidity and Capital Resources**

*We expect that our capital requirements, capital resources and liquidity position may change in the course of implementing the Restructuring Plan. See Item 4B. Business Overview Restructuring of the Electric Power Industry in Korea and Item 3D. Risk Factors Risks Relating to KEPCO The Government may adopt policy measures to substantially restructure the Korean electric power industry or our operational structure, which may have a material adverse effect on our business, operations and profitability.*

### **Capital Requirements**

We anticipate that the following represent the major sources of our capital requirements in the short-term to intermediate future:

capital expenditures pursuant to our capital investment program;

working capital requirements, the largest component of which is fuel purchases;

payment of principal and interest on our existing debt; and

overseas investments.

In addition, if there were to occur unanticipated material changes to the Restructuring Plan, the Basic Plan or other major policy initiatives of the Government relating to the electric power industry, or natural disasters, such developments may require a significant amount of additional capital requirements.

### **Capital Expenditures**

We anticipate that capital expenditures will be the most significant use of our funds for the next several years. Our capital expenditures relate primarily to the construction of new generation units, maintenance of existing generation units and expansion of our transmission and distribution systems. Our capital expenditures





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generally follow budgets established under the Basic Plan Relating to the Long-Term Supply and Demand of Electricity, which contains projections relating to the supply and demand of electricity of Korea based on which we plan the construction of additional generation units and transmission systems. See Item 4B. *Business Overview* *Capital Investment Program* for a further description of our capital investment program.

Our total capital expenditures for the construction of generation, transmission and distribution facilities were Won 12,748 billion, Won 15,831 billion and Won 16,629 billion in 2012, 2013 and 2014, respectively, and under our current budgets, are estimated to be approximately Won 17,269 billion, Won 14,917 billion and Won 14,873 billion in 2015, 2016 and 2017, respectively. We plan to finance our capital expenditures primarily through issuance of securities in the capital markets, borrowings from financial institutions and construction grants.

In order to deal with shortage of fuel and other resources and also to comply with various environmental standards, in 2012 the Government has adopted the Renewable Portfolio Standard program, which replaces the Renewable Portfolio Agreement which was in effect from 2006 to 2011. Under the Renewable Portfolio Standard program, each generation subsidiary is required to generate a specified percentage of total electricity to be generated by such generation subsidiary in a given year in the form of renewable energy, with the target percentage being 2.5% in 2013 and 3.0% in 2014 and incrementally increasing to 10.0% by 2024. The current budgeted amount of capital expenditure for implementation of the Renewable Portfolio Standard program as currently planned for the period from 2014 to 2024 is approximately Won 14.8 trillion. We expect that such additional capital expenditure will be covered by a corresponding increase in electricity tariff. However, there is no assurance that the Government will in fact raise the electricity tariff to a level sufficient to fully cover such additional capital expenditures or at all. See Item 4B.

*Business Overview* *Environmental Programs* for a further description of the Renewable Portfolio Standard and our related past capital expenditures.

**Fuel Purchases**

We require significant funds to finance our operations, principally in relation to the purchase of fuels by our generation subsidiaries for generation of electricity. In 2012, 2013 and 2014, fuel costs accounted for 48.5%, 45.1% and 36.1% of our sales and 49.2%, 47.8% and 41.4% of our cost of sales, respectively. We plan to fund our fuel purchases primarily with net operating cash, although in cases of rapid increases in fuel prices as is the case from time to time, we may also rely on borrowings from financial institutions and issuance of debt securities in the capital markets.

**Repayment of Existing Debt**

Payments of principal and interest on indebtedness will require considerable resources. The table below sets forth the scheduled maturities of the outstanding interest-paying debt (excluding issue discounts and premium) before accounting for swap transactions of us and our six wholly-owned generation subsidiaries as of December 31, 2014 for each year from 2015 to 2019 and thereafter. As of December 31, 2014, such debt represented 97.7% of our outstanding debt on a consolidated basis.

Year ended December 31	Local Currency Borrowings	Foreign Currency Borrowings	Domestic Debentures (in billions of Won)	Foreign Debentures	Total
2015	1,034	13	4,400	1,595	7,042
2016	527		5,630	693	6,850
2017	561		5,950	1,999	8,510
2018	649		4,930	2,809	8,388
2019	312		4,290	1,432	6,034
Thereafter	72	17	21,350	3,261	24,700
<b>Total</b>	<b>3,155</b>	<b>30</b>	<b>46,550</b>	<b>11,789</b>	<b>61,524</b>

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We and our six wholly-owned generation subsidiaries incurred interest charges (including capitalized interest) in relation to our interest-paying debt of Won 2,927 billion, Won 3,084 billion and Won 3,121 billion in 2012, 2013 and 2014, respectively. We anticipate that interest charges will increase in future years because of, among other factors, anticipated increases in our long-term debt. See **Capital Resources** below. The weighted average rates of interest on our and our six wholly-owned generation subsidiaries' debt were 4.65%, 4.11% and 3.93% in 2012, 2013 and 2014, respectively.

### ***Overseas Investments***

As part of our revenue diversification and fuel procurement strategy, we plan to continue to make overseas investments on a selective basis, which will be funded primarily through foreign currency-denominated borrowings and debt securities issuances as well as net operating cash from such projects.

### **Capital Resources**

We have traditionally met our working capital and other capital requirements primarily from net cash provided by operating activities, issuance of debt securities and borrowings from financial institutions. Net cash provided by operating activities is primarily a function of electricity sales and fuel purchases and is also affected by increases and decreases in trade receivables, trade payables and inventory related to electricity sales and fuel purchases. Net cash provided by operating activities was Won 3,917 billion, Won 6,884 billion and Won 12,046 billion in 2012, 2013 and 2014, respectively.

As of December 31, 2012, 2013 and 2014, our long-term debt (excluding the current portion but including issue discounts and premium), before accounting for swap transactions, amounted to Won 45,525 billion, Won 52,801 billion and Won 55,720 billion, respectively, representing 89.1%, 102.6% and 101.6% of shareholders' equity, respectively, as of such dates. As of December 31, 2012, 2013 and 2014, the current portions of our long-term debt were Won 7,005 billion, Won 7,508 billion and Won 6,446 billion, respectively. As of December 31, 2012, 2013 and 2014, our short-term borrowings amounted to Won 689 billion, Won 579 billion and Won 659 billion, respectively. See Note 23 of the notes to our consolidated financial statements included in this annual report. Total long-term debt (including the current portion but excluding issue discounts and premium), before accounting for swap transactions, as of December 31, 2014 was Won 62,300 billion, of which Won 49,518 billion was denominated in Won and an equivalent of Won 12,782 billion was denominated in foreign currencies, primarily U.S. dollars. In addition, we, KHNP and KOWEPO also maintain U.S. dollar-denominated global medium-term note programs in the aggregate amount of US\$10 billion, of which approximately US\$3.3 billion remains currently available for future drawdown. KOSEP also maintains an A\$2 billion Australian dollar medium-term note program, of which approximately A\$1.7 billion remains current available for future drawdown.

Subject to the implementation of our capital expenditure plan and the sale of our interests in our generation subsidiaries and other subsidiaries, our long-term debt may increase or decrease in future years. Until recently, a significant portion of our long-term debt was raised through foreign currency-denominated borrowings. Our foreign currency-denominated long-term debt (including the current portion but excluding issue discounts and premium), before accounting for swap transactions, amounted to Won 12,648 billion and Won 12,782 billion as of December 31, 2013 and 2014, respectively.

Our ability to incur long-term debt in the future is subject to a variety of factors, many of which are beyond our control, including, the implementation of the Restructuring Plan and the amount of capital that other Korean entities may seek to raise in capital markets. Economic, political and other conditions in Korea may also affect investor demand for our securities and those of other Korean entities. In addition, our ability to incur debt will also be affected by the Government's policies relating to foreign currency borrowings, the liquidity of the Korean capital markets and our operating results and financial condition. In case of adverse developments in Korea, the price at which such financing may be available may not be acceptable to us.

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We incur our short-term borrowings primarily through commercial papers sold to domestic financial institutions. We have not had, and we do not expect to have, any material difficulties in obtaining short-term borrowings. In addition, in order to prepare for potential liquidity shortage, we maintain several credit facilities with domestic financial institutions amounting to Won 2,655 billion and US\$5,181 million, the full amount of which was available as of December 31, 2014.

We may raise capital from time to time through the issuance of equity securities. However, there are certain restrictions on our ability to issue equity, including limitations on shareholdings by foreigners. In addition, without changes in the existing KEPCO Act which requires that the Government, directly or pursuant to the Korea Development Bank Act, through Korea Development Bank, own at least 51% of our capital stock, it may be difficult or impossible for us to undertake any equity financing other than sales of treasury stock without the participation of the Government. Even if we are able to conduct equity financing with the participation of the Government, prevailing market conditions may be such that we may not be able to conduct equity financing on terms that are commercially acceptable to us. See Item 3D. Risk Factors Risks Relating to Korea and the Global Economy.

Our total shareholders' equity increased by 6.6% from Won 51,451 billion as of December 31, 2013 to Won 54,825 billion as of December 31, 2014, mainly as a result of an increase in total comprehensive income and a disposal of our treasury shares for an aggregate consideration of Won 856 billion.

### **Liquidity**

Our liquidity is substantially affected by our construction expenditures and fuel purchases. Construction in progress increased by 18.0% from Won 27,334 billion as of December 31, 2013 to Won 32,256 billion as of December 31, 2014. Fuel costs decreased by 14.9% to Won 20,595 billion in 2014 from Won 24,200 billion in 2013.

Our cash flows are also impacted by other factors. Our net cash provided by operating activities increased by 75.0% from Won 6,884 billion in 2013 to Won 12,046 billion in 2014. The increase in net cash provided by operating activities in 2014 compared to 2013 was mainly due to an increase in cash collected from our customers in tandem with increases in electricity tariff rates and the sales volume and in 2014 compared to 2013 and the decrease in the unit cost of coal, LNG and oil in 2014 compared to 2013, which in turn led to a decrease in cash paid for fuels. Our cash flows from investing activities are affected by acquisitions of property, plant and equipment. Our net cash used in investing activities remained largely stable from Won 14,503 billion in 2013 to Won 14,460 billion in 2014. Our cash flows from financing activities are mainly affected by borrowings and issuance of debt securities and repayment thereof, as well as dividends paid. Our net cash used in financing activities decreased by 75.0% from Won 7,933 billion in 2013 to Won 1,985 billion in 2014, largely due to reduced borrowing and increased repayments as part of our debt reduction program.

Due to the capital-intensive nature of our business as well as significant volatility in fuel prices, from time to time we operate with working capital deficits, and we may have substantial working capital deficits in the future. As of December 31, 2012, 2013 and 2014, we had a working capital deficit of Won 4,884 billion, Won 4,945 billion and Won 4,780 billion, respectively. We have traditionally met our working capital and other capital requirements primarily with net cash provided by operating activities, issuance of debt securities, borrowings from financial institutions and construction grants. We also incur short-term borrowings primarily through commercial papers sold to domestic financial institutions. We have not had, and we do not expect to have, any material difficulties in obtaining short-term borrowings. See Capital Resources.

We may face liquidity concerns in the case of sudden and sharp depreciation of the Won against major foreign currencies or depreciation over a sustained period of time. While substantially all of our revenues are denominated in Won, we pay for substantially all of our fuel purchases in foreign currencies and a substantial portion of our long-term debt is denominated in foreign currencies, and payment of principal and interest thereon is made in foreign currencies. In the past, we have incurred foreign currency debt principally due to the limited

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availability and the high cost of Won-denominated financing in Korea. However, in light of the increasing sophistication of the Korean capital markets and the recent increase in Won liquidity in the Korean financial markets, we plan to reduce the portion of our debt which is denominated in foreign currencies although we intend to continue to raise certain amounts of capital through long-term foreign currency debt for purposes of maintaining diversity in our funding sources as well as paying for overseas investments and fuel procurements in foreign currencies. As of December 31, 2014, approximately 20.5% of our long-term debt (including the current portion but excluding issue discounts and premium) before accounting for swap transactions was denominated in currencies other than Won.

We enter into currency swaps and other hedging arrangements with respect to our debt denominated in foreign currencies only to a limited extent due primarily to the limited size of the Korean market for such derivative arrangements. Such instruments include combined currency and interest rate swap agreements, interest rate swaps and foreign exchange agreements. We do not enter into derivative financial instruments in order to hedge market risk resulting from fluctuations in fuel costs. Our policy is to hold or issue derivative financial instruments for hedging purposes only. Our derivative financial instruments are entered into with major financial institutions, thereby minimizing the risk of credit loss. See Note 11 of the notes to our consolidated financial statements.

We did not pay dividends in respect of fiscal year 2012 as we did not have net income for such year. We paid dividends of Won 90 per share in respect of fiscal year 2013. On April 24, 2015, we paid dividends of Won 500 per share in respect of fiscal year 2014.

### **Other**

Our operations are materially affected by the policies and actions of the Government. See Item 4B. Business Overview Regulation.

### **Item 5C. Research and Development, Patents and Licenses, etc.**

#### **Research and Development**

Our research and development program is focused on developing advanced electric power, renewable energy, smart grid and customer-friendly electricity service technologies that will enable us to become a global leader in the energy industry. In order to achieve our corporate vision of becoming a Smart Energy Creator in 2014, we adopted the KEPCO Technology Strategy, which emphasizes enhanced technological convergence and customer service. As part of such strategy, we seek to develop (i) clean and smart energy technology, including in relation to low carbon emission in power generation, (ii) an efficient and intelligent power transmission and distribution grid system, (iii) technology that will enhance efficiency and responsiveness to consumer's electricity consumption patterns, and (iv) improvements in information, communication and technology ( ICT ) for enhanced customer service.

In 2015, consistent with the Government guidelines, we plan to invest approximately 0.54% of our annual revenue in the research and development of green and smart technologies, particularly with a focus on the following 12 areas: integrated gasification combined cycle for synthetic natural gas production, carbon capture and storage, offshore wind power, offshore energy development, high voltage direct currents, super conductor, smart grid, micro grid, demand responsive and energy efficiency applications, power ICT solutions, super-critical CO2 power generation systems and energy storage systems.

Our high-priority green and smart energy projects currently include the following:

acquiring integrated gasified process technology;

establishing high-tech smart grid and micro grid test beds in Jeju Island;

developing highly efficient absorbents for carbon capture;

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commercializing offshore wind power plants;

obtaining high-voltage direct currents technology suitable for domestic operation; and

experimental testing of large-scale electricity storage systems with capacities ranging from four to eight megawatts.

Our research and development activities also focus on the following:

in the thermal power generation sector, reducing the greenhouse effect, enhancing efficiency and reducing cost in power plant construction and operation as well as in our plant maintenance, including through improvements in damage analysis and environment-friendly inspections;

in the renewable energy sector, enhancing efficiency, lowering costs of power generation, identifying new energy sources and exploring new business opportunities;

in the electric power system sector, enhancing the stability and reliability in the operation of our electric power grid as well as enhancing efficiency in electricity distribution, including through build-out of large-sized electricity storage facilities and superconducting transmission cable grids, introducing preventive maintenance measures for substations and developing technologies related to system automation, power utilization and power line communication;

in the customer service sector, developing technologies enabling a greater range of business opportunities and heightened customer service in anticipation of the upcoming rollout of the smart grid system; and

in the technological convergence sector, identifying new business opportunities through convergence among technologies and businesses and maximizing synergy from such convergence in tandem with the promotion of creative economy in Korea as well as globally.

In addition, we cooperate closely with several other electric utility companies and research institutes, both foreign and domestic, on various projects to diversify the scope and scale of our research and development activities.

We invested Won 327 billion, Won 640 billion and Won 638 billion in 2012, 2013 and 2014, respectively, and currently plan to invest Won 861 billion in 2015, on research and development. Our current focus in research and development is primarily in the area of ICT-based smart energy technological development. We had 1,144 employees engaged in research and development activities as of December 31, 2014. As a result of our research, we currently have 2,845 registered patents and 2,244 patent applications outstanding in Korea and abroad. In addition, we plan to establish a management infrastructure that will facilitate the development of high value-added intellectual properties. We also seek opportunities to market our technologies overseas.

### **Item 5D. Trend Information**

Trends, uncertainties and events which could have a material impact on our sales, liquidity and capital resources are discussed above in Item 5A. Operating Results and Item 5B. Liquidity and Capital Resources.

### **Item 5E. Off-Balance Sheet Arrangements**

We had no significant off-balance sheet arrangements as of December 31, 2014.



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The following summarizes certain of the contractual obligations of us and our six wholly-owned generation subsidiaries as of December 31, 2014 and the effect such obligations are expected to have on liquidity and cash flow in future periods.

Contractual Obligations <sup>(1)</sup>	Total	Payments Due by Period			
		Less than 1 year	1 3 years (in billions of Won)	3 5 years	After 5 years
Long-term debt <sup>(2)</sup>	60,891	6,408	15,361	14,423	24,699
Short-term borrowings	633	633			
Interest payments <sup>(3)</sup>	13,239	2,184	3,386	2,449	5,220
Total	74,763	9,225	18,747	16,872	29,919

*Notes:*

- (1) We have several other contractual obligations, including finance lease agreements. We believe the remaining annual payments under capital and operating lease agreements as of December 31, 2014 were immaterial. Contractual obligations related to payment of debt of us and our six wholly-owned generation subsidiaries represented 97.7% of our outstanding debt as of December 31, 2014 on a consolidated basis.
- (2) Includes the current portion.
- (3) A portion of our debt carried a variable rate of interest. We used the interest rate in effect as of December 31, 2014 for the variable rate of interest in calculating the interest payments on debt for the periods indicated.

For a description of our commercial commitments and contingent liabilities, see Note 50 of the notes to our consolidated financial statements included in this annual report.

We entered into a power purchase agreement with GS EPS Co., Ltd. and three other independent power producers, under which we are required to purchase all electricity generated by these companies to the extent such electricity is traded through the Korea Power Exchange. The purchase prices for such electricity are predetermined under the power purchase agreements, subject to annual adjustments. We purchased power from these companies in the amounts of Won 2,988 billion, Won 2,897 billion and Won 1,980 billion in 2012, 2013 and 2014, respectively.

We have entered into contracts with domestic and foreign suppliers to purchase bituminous coal and anthracite coal. Although we meet our coal requirements primarily through purchases in spot markets, substantial amounts of such requirements are also met through purchases under long-term supply contracts. Under our long-term supply contracts, purchase prices are adjusted periodically based on prevailing market conditions. We currently purchase all our LNG requirements from Korea Gas Corporation, a related party. We have also entered into long-term transportation contracts with Hanjin Shipping Co., Ltd. and others.

We import all uranium ore concentrates from sources outside Korea (including the United Kingdom, Kazakhstan, France, Germany, Niger, Canada, Japan and Australia) through medium- to long-term contracts and pay for such concentrates with currencies other than Won, primarily U.S. dollars. Contract prices for processing of uranium are generally based on market prices. See Note 49 of the notes to our consolidated financial statements for further details of these contracts.

Under the Long-term Transmission and Substation Plan approved by the Ministry of Trade, Industry and Energy, we are liable for the construction of all of our power transmission facilities and the maintenance and repair expenses for such facilities.



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Payment guarantee and short-term credit facilities from financial institutions as of December 31, 2014 were as follows:

**Payment guarantee**

Description	Financial Institutions	Credit Lines (In millions of Won or thousands of USD, JPY, INR, GBP, SAR, NPR, AED and EUR)
Payment of import letter of credits	Woori Bank and others	USD 2,039,423
	Korea Exchange Bank	GBP 122,338
	Korea Exchange Bank and others	EUR 3,100
	Kookmin Bank and others	JPY 8,677,652
Inclusive credits	Korea Exchange Bank	KRW 501,500
	HSBC and others	USD 492,491
	Shinhan Bank and others	INR 47,489
Performance guarantees on guarantees	Shinhan Bank and others	KRW 158,649
	Korea Exchange Bank	AED 54,880
	Standard Chartered Bank and others	USD 760,907
	Kookmin Bank and others	EUR 37,082
Guarantees for bid	Hana Bank and others	INR 185,077
	SMBC and others	USD 10,450
Warranty bond and others	Shinhan Bank	EUR 1,088
	Kathmandu Bank and others	USD 209,195
	Kathmandu Bank and others	NPR 68,941
Trade finance	BNP Paribas and others	USD 850,000
Other guarantees	Korea Exchange Bank and others	KRW 11,250
	Korea Exchange Bank and others	SAR 82,700
	Shinhan Bank and others	USD 639,363
	Hana Bank	INR 157,830

**Overdraft and Others**

Description	Financial Institutions	Credit Lines (In millions of Won or thousands of USD)
Overdraft	Nonghyup Bank and others	KRW 1,950,000
Commercial paper	Korea Exchange Bank and others	KRW 950,000
Limit amount available for card	Hana Bank and others	KRW 83,524
Loan limit	The Export-Import Bank of Korea and others	KRW 147,084
	BNP Paribas and others	USD 2,526,059
Repayment guarantees for foreign currency debentures	Korea Development Bank and others	USD 423,009

We provide a performance guarantee related to a construction contract to Kookmin Bank. Such guarantee is not recognized as a provision for financial guarantee because such performance guarantee does not meet the definition of a financial guarantee contract under IFRS.

We have borrowings of Won 22.5 billion from Long Lasting Value ( LLV ) as of December 31, 2014. LLV obtains loans from major stockholders, such as Samsung Life Insurance, and lends the money to other third parties. We guarantee secured payments to the major stockholders of LLV, such as payment of principal, tax, commissions, etc., with a limit of Won 23.9 billion.

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In order to secure our status as a shareholder of Navanacom Electric Co., Ltd., we have signed a fund supplement contract. According to the contract, in case Navanacom Electric Co., Ltd. does not have sufficient funds for its operation or repayment of borrowings, we bear a payment obligation in proportion to our ownership.

Existing guarantees provided by us to our associates and joint ventures as of December 31, 2014 are as follows:

Primary Guarantor (Providing Company)	Secondary Guarantor (Provided Company)	Type of Guarantees	Foreign Currency	Credit Limit	Guarantee (Final Provided Company)
KEPCO	KEPCO SPC Power Corporation	Debt guarantees	USD	129,868	SMBC, The Export-import Bank of Korea and ADB
KEPCO	Shuweiha Asia O&M Co., Ltd.	Performance guarantees	USD	11,000	ADWEA
KEPCO	KNOC Nigerian East Oil Co., Ltd. and KNOC Nigerian West Oil Co., Ltd.	Performance guarantees	USD	34,650	Korea National Oil Corporation (Nigerian government)
KEPCO	Amman Asia Electric Power Company	Performance guarantees	USD	10,200	Standard Chartered Bank
KOWEPO	Cheongna Energy Co., Ltd.	Collateralized money invested	KRW	48,553	Korea Exchange Bank, Hana Bank and others
		Guarantees for supplemental funding <sup>(1)</sup>			
KOWEPO	Xe-Pian Xe-Namnoy Power Co., Ltd.	Payment guarantees for business reserve	USD	2,500	Krung Thai Bank
		Collateralized money invested	USD	21,345	
		Guarantees for supplemental funding <sup>(1)</sup>			
KOWEPO	Rabigh O&M Co., Ltd.	Performance guarantees	SAR	4,800	Saudi Arabia British Bank
KOWEPO	Deagu Photovoltaic Co., Ltd.	Collateralized money invested	KRW	1,230	Shinhan Capital Co., Ltd.
KOWEPO	Dongducheon Dream Power Co., Ltd. <sup>(2)</sup>	Collateralized money invested	KRW	111,134	Kookmin Bank
KOWEPO	PT Mutiara Jawa	Collateralized money invested	USD	2,610	Shinhan Bank Singapore
KOWEPO	Heangbok Do Si Photovoltaic Power Co., Ltd.	Collateralized money invested	KRW	194	Shinhan Capital Co., Ltd., Nonghyup Bank
KOWEPO	Shin Pyeongtaek Power Co., Ltd.	Collateralized money invested	KRW	40	Kookmin Bank
EWP	Busan Shinho Solar Power Co., Ltd.	Collateralized money invested	KRW	2,100	KT Capital Co., Ltd.
EWP	Seokmun Energy Co., Ltd.	Guarantees for supplemental funding <sup>(1)</sup>			Hanmaeum 2nd Securitization Co., Ltd.

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Primary Guarantor (Providing Company)	Secondary Guarantor (Provided Company)	Type of Guarantees	Foreign Currency	Credit Limit	Guarantee (Final Provided Company)
EWP	Chun-cheon Energy Co., Ltd.	Guarantees for supplemental funding <sup>(1)</sup>			Newstar TJ 1st Co., Ltd.
EWP	Honam Wind Power Co., Ltd.	Collateralized money invested	KRW	3,480	Shinhan Bank and others
EWP	GS-Donghae Electric Power Co., Ltd.	Guarantees for supplemental funding <sup>(1)</sup> Collateralized money invested	KRW	204,000	Korea Development Bank and others
EWP	Yeonggwangbaeksu Wind Power Co., Ltd.	Guarantees for supplemental funding <sup>(1)</sup> Collateralized money invested	KRW	3,000	Hyundai Marine & Fire Insurance Co., Ltd.
EWP	PT. Tanjung Power Indonesia	Guarantees for supplemental funding <sup>(1)</sup> Debt guarantees	USD	5,250	The Bank of Tokyo-Mitsubishi
KOSPO	KNH Solar Co., Ltd.	Collateralized money invested	KRW	1,296	Shinhan Bank, Kyobo Life Insurance Co., Ltd.
KOSPO	Daeryun Power Co., Ltd.	Performance guarantees and guarantees for supplemental funding <sup>(1)</sup> Collateralized money invested	KRW	25,477	Korea Development Bank, Daewoo Securities Co., Ltd. and others
KOSPO	Changjuk Wind Power Co., Ltd.	Guarantees for supplemental funding <sup>(1)</sup> Collateralized money invested	KRW	3,801	Shinhan Bank, Woori Bank
KOSPO	Busan Solar Co., Ltd.	Guarantees for supplemental funding <sup>(1)</sup> Collateralized money invested	KRW	793	Consus Asset Management Co., Ltd

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Primary Guarantor (Providing Company)	Secondary Guarantor (Provided Company)	Type of Guarantees	Foreign Currency	Credit Limit	Guarantee (Final Provided Company)
KOSPO	Daegu Green Power Co., Ltd.	Collateralized money invested	KRW	76,193	Korea Exchange Bank, Kookmin Bank
		Performance guarantees and guarantees for supplemental funding <sup>(1)</sup>			
KOSPO	KS Solar Corp. Ltd.	Collateralized money invested	KRW	637	Shinhan Capital Co., Ltd.
KOSPO	Kelar S.A.	Performance guarantees <sup>(1)</sup>			Korea Exchange Bank, SMBC, and others
		Debt guarantees	USD	132,600	SMBC, MIZUHO, and others
KOSPO	DS Power Co., Ltd.	Collateralized money invested	KRW	2,900	Korea Development Bank, Daewoo Securities Co., Ltd.
		Guarantees for supplemental funding <sup>(1)</sup>			
KOSPO	Pyoungchang Wind Power Co., Ltd.	Collateralized money invested	KRW	3,875	Woori Bank, Shinhan Bank
		Performance guarantees and guarantees for supplemental funding <sup>(1)</sup>			
KEPCO E&C	DS Power Co., Ltd.	Collateralized money invested	KRW	12,742	Korea Development Bank, Daewoo Securities Co., Ltd.
		Performance guarantees and guarantees for supplemental funding <sup>(1)</sup>			
KOMIPO	Hyundai Green Power Co., Ltd.	Collateralized money invested	KRW	87,003	Korea Development Bank and others
		Guarantees for supplemental funding <sup>(1)</sup>			
KOMIPO	PT. Cirebon Electric Power	Debt guarantees	USD	12,000	Nonghyup bank
KOMIPO	PT. Wampu Electric Power	Performance guarantees			Hana Bank

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Primary Guarantor (Providing Company)	Secondary Guarantor (Provided Company)	Type of Guarantees	Foreign Currency	Credit Limit	Guarantee (Final Provided Company)
KOMIPO	Gangwon Wind Power Co., Ltd.	Collateralized money invested	KRW	7,410	IBK and others
KOSEP	Hyundai Energy Co., Ltd.	Collateralized money invested	KRW	35,925	Korea Development Bank and others
		Performance guarantees and guarantees for supplemental funding <sup>(1)</sup>			
KOSEP	RES Technology AD	Collateralized money invested	KRW	15,595	Korea Development Bank and others
		Debt guarantees	EUR	4,271	
KOSEP	ASM-BG Investicii AD	Collateralized money invested	KRW	16,101	Korea Development Bank and others
		Debt guarantees	EUR	4,175	
KOSEP	Express Solar-light Power Generation Co., Ltd.	Guarantees for supplemental funding <sup>(1)</sup>			Woori Bank
KOSEP	S-Power Co., Ltd.	Collateralized money invested	KRW	108,000	Korea Development Bank and others
		Performance guarantees and guarantees for supplemental funding <sup>(1)</sup>			
KOSEP USA, INC.	KODE NOVUS II LLC	Guarantees for supplemental funding <sup>(1)</sup>			Korea Development Bank and others
KOSEP USA, INC.	KODE NOVUS I LLC	Guarantees for supplemental funding <sup>(1)</sup>			The Export-import Bank of Korea and others
KHNP	Yeong Wol Energy Station Co., Ltd.	Collateralized money invested	KRW	1,400	Daewoo Securities Co., Ltd. and others
KEPCO KPS	Incheon New Power Co., Ltd.	Collateralized money invested	KRW	6,800	Shinhan Bank
		Guarantees for supplemental funding <sup>(1)</sup>			

*Notes:*

- (1) We guarantee to provide supplemental funding for businesses with respect to excessive business expenses or insufficient repayment of borrowings.
- (2) Under the project financing agreement in relation to the Dongducheon Thermal power complex project, the shares in Dongducheon Dream Power Co., Ltd. held by us following the date of such agreement (including any additional shares to be issued to us as part of additional equity injection by us) are provided as collateral to the lenders in the project financing.

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Other than as described in this annual report and also in Notes 47 and 50 of the notes to our consolidated financial statements included in this annual report, we did not have any other material credit lines and guarantee commitments provided to any third parties as of December 31, 2014.

We are subject to legal proceedings. For a description of our legal proceedings, see Item 8A. Consolidated Statements and Other Financial Information Legal Proceedings.

## **ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

### **Item 6A. Directors and Senior Management**

#### **Board of Directors**

Under the KEPCO Act, the Public Agencies Management Act and our Articles of Incorporation, our board of directors, which is required to consist of not more than 15 directors, including the president, is vested with the authority over our management.

Pursuant to our Articles of Incorporation and the Public Agencies Management Act, we have two types of directors: standing directors (sangim-isa in Korean) and non-standing directors (bisangim-isa in Korean). The standing directors refer to our directors who serve their positions in full-time capacity. Many of our standing directors concurrently hold executive positions with us or our subsidiaries. The non-standing directors refer to our directors who do not serve their positions in full-time capacity. The non-standing directors currently do not hold any executive positions with us or our subsidiaries.

Under our Articles of Incorporation, there may not be more than seven standing directors, including our president, and more than eight non-standing directors. The number of standing directors, including our president, may not exceed the number of non-standing directors. A senior non-standing director appointed by 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. Our controller & auditor general is appointed by the President of the Republic upon the motion of the Ministry of Strategy and Finance 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 and controller & auditor general) are appointed by our president with the approval at the general meeting of our shareholders.

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 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 currently generally subject to the same system of regulations applicable to us.

The non-standing directors must be 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. Our president serves as our chief executive officer and represents us and administers

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our day-to-day business in all matters and bears the responsibility for the management's performance. The term of our president is three years, while that of our directors is two years. 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.

Attendance by a majority of the board members constitutes a voting quorum for our board meetings, and resolutions can be passed by a majority of the board members. In the event the president acts in violation of law or the Articles of Incorporation, is negligent in his duties, or otherwise is deemed to be significantly impeded in performing his official duties as chief executive officer, the board of directors may by resolution request the minister of the Ministry of Trade, Industry and Energy to dismiss or recommend the dismissal of the president.

Non-standing directors may request any information necessary to fulfill their duties from the chief executive officer, and except in special circumstances, the chief executive officer must comply with such request.

The names, titles and outside occupations, if any, of the directors as of March 31, 2015 and the respective years in which they took office are set forth below.

<b>Name</b>	<b>Age</b>	<b>Title</b>	<b>Outside Occupation</b>	<b>Position Held Since</b>
Cho, Hwan-Eik	(65)	President, Chief Executive Officer and Standing Director	None	December 17, 2012
Ahn, Hong-Ryoul	(56)	Standing Director and Member of the Audit Committee	Auditor at Korea Hemophilia Foundation	December 27, 2013
Park, Kyu-Ho	(57)	Standing Director and Executive Vice President of Domestic Operations	None	June 18, 2013
Park, Jung-Keun	(58)	Standing Director and Executive Vice President of Overseas Operations	None	October 29, 2013
Baek, Seung-Jung	(59)	Standing Director and Executive Vice President & Chief Strategy Officer	None	June 18, 2013
Kim, Byung-Sook	(57)	Standing Director and Executive Vice President & Chief Technology Officer	None	June 18, 2013
Chang, Jae-Won	(56)	Standing Director and Executive Vice President & Chief Power Grid Officer	None	March 31, 2015
Cho, Jeon-Hyeok	(54)	Non-Standing Director and Member of the Audit Committee	None	February 14, 2014
Lee, Kang-Hee	(72)	Non-Standing Director	Member of the Incheon City Advisory Committee	February 14, 2014
Chung, Hae-Joo	(72)	Non-Standing Director	Chairman of the Board, Korea Testing & Research Institute	June 30, 2011
Koo, Ja-Yoon	(64)	Non-Standing Director	Professor of Electronics & System Engineering, Hanyang University	September 2, 2014
Ahn, Choong-Yong	(74)	Non-Standing Director	Chaired Professor of Graduate School of International Studies, Chungang University	December 3, 2014
Choi, Gyo-II	(53)	Non-Standing Director	Attorney, Choi, Gyo-II Law Firm	March 14, 2014

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<b>Name</b>	<b>Age</b>	<b>Title</b>	<b>Outside Occupation</b>	<b>Position Held Since</b>
Sung, Tae-Hyun	(55)	Non-Standing Director	Professor of Electrical Engineering, Hanyang University	August 12, 2014
		and Member of the Audit Committee		
Choi, Ki-Ryun	(67)	Non-Standing Director	Professor of Energy Systems Research, Ajou University	August 12, 2014

*Cho, Hwan-Eik* has been our President, Chief Executive Officer and Standing Director since December 17, 2012. Prior to his current position, he served as Chair-professor at Hanyang University, President of the Korea Trade-Investment Promotion Agency, CEO of Korea Export Insurance Corporation and Vice Minister of the Ministry of Commerce. Mr. Cho received a Ph.D. in business administration from Hanyang University.

*Ahn, Hong-Ryoul* has been our Standing Director and member of the Audit Committee since December 27, 2013. Mr. Ahn currently serves as auditor of Korea Hemophilia Foundation. Prior to his current position, he served as attorney at Ahn, Hong-Ryoul Law Firm and public prosecutor at Busan District Public Prosecutor's Office. Mr. Ahn received a B.A. in law from Seoul National University.

*Park, Kyu-Ho* has been our Standing Director since June 18, 2013. Mr. Park also currently serves as our Executive Vice President of Domestic Operations and previously served as our Chief Financial Officer, Vice President of Busan District Division and Head of our Beijing office. Mr. Park received an M.B.A. from Korea University.

*Park, Jung-Keun* has been our Standing Director since October 29, 2013. Mr. Park also currently serves as our Executive Vice President of Overseas Operations and previously served as our Vice President of Personnel & General Affairs Department, Vice President of International Strategy Office and Vice President of Procurement & Contract Department. Mr. Park received a B.A. in economics from Chung-Ang University.

*Baek, Seung-Jung* has been our Standing Director since June 18, 2013. Mr. Baek also currently serves as our Executive Vice President and Chief Financial Officer and previously served as Chief Human Resources Officer, Vice President of Audit & Inspection Office and Vice President of Daegu-Gyeongbuk District Division. Mr. Baek received an M.A. in economics from Kyungpook National University.

*Kim, Byung-Sook* has been our Standing Director since June 18, 2013. Mr. Kim also currently serves as our Executive Vice President and Chief Technology Officer and previously served as the Vice President of KEPCO Research Institute, Vice President of Technology Policy & Planning Department and Vice President of Distribution Construction Department. Mr. Kim received a Ph.D in electrical engineering from Chonbuk National University.

*Chang, Jae-Won* has been our Standing Director since March 31, 2015. Mr. Chang also currently serves as our Executive Vice President and Chief Power Grid Officer and previously served as our Vice President of Transmission & Substation Construction, Vice President of Incheon District Division and Vice President of Transmission & Substation Operation Department. Mr. Chang received a Ph.D in electrical engineering from Rensselaer Polytechnic Institute.

*Cho, Jeon-Hyeok* has been our Non-Standing Director since February 14, 2014. Mr. Choi is currently Professor of Economics at College of Liberal Arts, Myungji University. Mr. Choi previously served as a Professor of the Department of Economics, National University of Incheon and Chief Executive Officer of Naeil Venture Capital. Mr. Cho received a Ph.D in economic theory and financial economics from University of Wisconsin at Madison.



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*Lee, Kang-Hee* has been our Non-Standing Director since February 14, 2014. Mr. Lee is currently a member of the Incheon City Advisory Committee. Mr. Lee previously served as a member of the National Assembly for two terms and a member of the Advisory Board on Democratic Peaceful Unification.

*Chung, Hae-Joo* has been our Non-Standing Director since June 30, 2011. Mr. Chung is currently the chairman of the board of Korea Testing & Research Institute. Mr. Chung received a B.A. in law from Seoul National University and completed a public policy course at Seoul National University Graduate School of Public Administration.

*Koo, Ja-Yoon* has been our Non-Standing Director since September 2, 2014. Mr. Koo is currently Professor of Electronics & System Engineering at Hanyang University and previously served as chairman of the Korean Electricity Regulatory Commission under the supervision of the Ministry of Trade, Industry and Energy of Korea. Mr. Koo received a B.S. in Electrical Engineering from Seoul National University and a Ph.D in Electrical Engineering from ENSIEG.

*Ahn, Choong-Yong* has been our Non-Standing Director since December 2, 2014. Mr. Ahn is currently Chaired Professor of Graduate School of International Studies at Chungang University and previously served as the foreign investment ombudsman for Korea Trade-Investment Promotion Agency (KOTRA). Mr. Ahn received a B.A in Economics from Kyoungpook National University and a Ph.D in Economics from Ohio State University.

*Choi, Gyo-Il* has been our Non-Standing Director since February 14, 2014. Mr. Choi is currently an attorney-at-law at Choi, Gyo-Il law Firm. Mr. Choi previously served as Chief Public Prosecutor at the Seoul Prosecutor's Office and Deputy Minister at the Ministry of Justice. Mr. Lee received an LL.B in law from Korea University.

*Sung, Tae-Hyun* has been our Non-Standing Director since August 12, 2014. Mr. Sung is currently Professor of Electrical Engineering at Hanyang University and previously served as senior researcher at KEPCO Research Institute. Mr. Sung received a B.S. in Material Engineering from Hanyang University and a Ph.D in Material Science and Engineering from Tokyo Institute of Technology.

*Choi, Ki-Ryun* has been our Non-Standing Director since August 12, 2014. Mr. Choi is currently Professor of Energy Systems Research at Ajou University and previously served as head of New & Renewable Energy Center of Korea Energy Management Corporation. Mr. Choi received a B.S. in Mining and Minerals Engineering from Seoul National University and a Ph.D in Energy Economics from University of Grenoble.

The business address of our directors is 55 Jeollyeok-ro, Naju-si, Jeollanam-do, 520-350, Korea.

## **Audit Committee**

Under the Public Agencies Management Act, which took effect as of April 1, 2007, we are designated as a market-oriented public enterprises and, as such, are required to establish an audit committee in lieu of the pre-existing board of auditors upon expiration of the term of the last remaining member of the board of auditors. In September 2007, we amended our Articles of Incorporation to establish, in lieu of the pre-existing board of auditors, an audit committee meeting the requirements under the Sarbanes-Oxley Act. Under the Public Agencies Management Act, the Korean Commercial Code and the amended Articles of Incorporation, we are required to maintain an audit committee consisting of three members, of which not less than two members are required to be the non-standing directors. The roles and responsibilities of our audit committee members are to perform the functions of an audit committee meeting the requirements under the Sarbanes-Oxley Act. Our audit committee was established on December 8, 2008.

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Our audit committee currently consists of Ahn, Hong-Ryoul, a standing director, and Cho, Jeon-Hyeok and Sung, Tae-Hyun, both non-standing directors. All such members of the audit committee are independent within the meaning of the Korea Stock Exchange listing standards, the regulations promulgated under the Korean Commercial Code and the New York Stock Exchange listing standards.

### **Item 6B. Compensation**

In 2014, the aggregate amount of remuneration paid to our directors and executive officers in the aggregate was Won 4,062 million. The aggregate amount accrued in 2014 to provide retirement and severance benefits for our directors and executive officers was Won 307 million.

### **Item 6C. Board Practices**

Under the Public Agencies Management Act and our Articles of Incorporation, the term of office for our directors and executive officers appointed after April 1, 2007 is three years for the president and two years for other executive officers. The officers and 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.

Our board currently does not maintain a compensation committee. See Item 16G. Corporate Governance. However, we currently maintain an audit committee meeting the requirements of the Sarbanes-Oxley Act to perform the roles and responsibilities of the compensation committee. Prior to the establishment of the audit committee on December 8, 2008 pursuant to the Public Agencies Management Act, we maintained a board of auditors, which performed the roles and responsibilities required of an audit committee under the Sarbanes-Oxley Act, including the supervision of the financial and accounting audit by the independent registered public accountants.

The president's management contract includes benefits upon termination of his employment. The amount for termination benefits payable equals the average value of compensation for one month times the number of years the president is employed by us, provided that the president is only eligible for termination benefits after more than one year of continuous service.

The termination benefits for standing directors are determined in accordance with our internal regulations for executive compensation. Standing directors are only eligible for benefits upon termination of employment or death following one year of continuous service.

See also Item 16G. Corporate Governance for a further description of our board practices.

### **Item 6D. Employees**

As of December 31, 2014, we and our generation subsidiaries had a total of 40,259 regular employees, almost all of whom are employed within Korea. Approximately 9.4% of our regular employees (including employees of our generation subsidiaries) are located at our head office.

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The following table sets forth the number of and other information relating to our regular employees, not including directors or senior management, as of December 31, 2014.

	KEPCO	KHNP	KOSEP	KOMIPO	KOWEPO	KOSPO	EWP	Total
<b>Regular Employees</b>								
Administrative	4,680	920	247	264	265	253	254	6,883
Engineers	9,641	7,856	1,580	1,801	1,654	1,615	1,898	26,045
Others	5,578	1,034	167	225	119	122	86	7,331
<b>Total</b>	<b>19,899</b>	<b>9,810</b>	<b>1,994</b>	<b>2,290</b>	<b>2,038</b>	<b>1,990</b>	<b>2,238</b>	<b>40,259</b>
<b>Head Office Employees</b>	<b>1,406</b>	<b>1,194</b>	<b>255</b>	<b>199</b>	<b>213</b>	<b>230</b>	<b>297</b>	<b>3,794</b>
% of total	7.1%	12.2%	12.8%	8.7%	10.5%	11.6%	13.27%	9.4%
<b>Members of Labor Union</b>	<b>14,988</b>	<b>6,132</b>	<b>1,564</b>	<b>1,555</b>	<b>1,272</b>	<b>1,308</b>	<b>1,501</b>	<b>28,320</b>
% of total	75.3%	62.5%	78.5%	67.9%	62.4%	65.7%	67.1%	70.3%

We and each of our generation subsidiaries have separate labor unions. Approximately 70.3% of our and our generation subsidiaries' employees in the aggregate are members of these labor unions, each of which negotiates a collective bargaining agreement for its members each year.

Under applicable Korean law, an employee-employer cooperation committee comprised of an equal number of representatives of management and labor (which shall be no less than three and no more than ten representatives from each of management and labor) is required to be established. Accordingly, an employee-employer cooperation committee composed of eight representatives of management and eight representatives of labor has been established at the holding company and at each of our generation subsidiaries. The committee meets periodically to discuss various labor issues.

Since our formation in 1981, our businesses had not been interrupted by any work stoppages or strikes except in early 2002, when employees belonging to our five thermal generation subsidiaries went on strike for six weeks to protest the Government's decision to privatize such thermal generation subsidiaries according to the Restructuring Plan, which privatization plan has since been suspended indefinitely. See Item 3D. Risk Factors Risks Relating to KEPCO The Government may adopt policy measures to substantially restructure the Korean electric power industry or our operational structure, which may have a material adverse effect on our business, operations and profitability.

We believe our relations with our employees are generally good.

**Item 6E. Share Ownership**

None of our directors and members of our administrative, supervisory or management bodies own more than 0.1% of our common stock.

**Table of Contents****ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****Item 7A. Major Shareholders**

The following table sets forth certain information relating to certain owners of our capital stock as of December 31, 2014, the date we last closed our shareholders registry:

<b>Title of Class</b>	<b>Identity of Person or Group</b>	<b>Shares Owned</b>	<b>Percentage of Class<sup>(1)</sup> (%)</b>
Common stock	Government	135,917,118	21.2
	Korea Development Bank <sup>(2)</sup>	192,170,340	29.9
	Subtotal	328,087,458	51.1
	National Pension Corporation	44,492,954	6.9
	Employee Stock Ownership Association		
	Directors and executive officers as a group		
	Public (non-Koreans)	184,891,161	28.8
	Common shares	152,720,483	23.8
	American depository shares	32,170,678	5.0
	Public (Koreans)	84,492,504	13.2
	Total	641,964,077	100.0

*Notes:*

(1) Percentages are based on issued shares of common stock.

(2) Korea Development Bank is a Government-controlled entity.

On October 24, 2014, we sold 18,929,995 treasury shares, which represented 2.95% of our total issued shares as of such date, through a block sale to third party investors.

All of our shareholders have equal voting rights. See Item 10B. Memorandum and Articles of Incorporation Description of Capital Stock Voting Rights.

**Item 7B. Related Party Transactions**

We are engaged in a variety of transactions with our affiliates. We have related party transactions with Government-controlled entities such as Korea Gas Corporation, our consolidated subsidiaries and our equity investees. In addition, we engage in related party transactions with Korea Development Bank, one of our major shareholders. See Note 47 of the Notes to our consolidated financial statements included in this annual report for a description of transaction and balances with our related parties.

In the past three years, our related party transactions principally consisted of purchases of LNG from Korea Gas Corporation, sales of electricity to Korea District Heating Co., Ltd., and long-term borrowings from Korea Development Bank. In 2012, 2013 and 2014, we and our generation subsidiaries purchased LNG from Korea Gas Corporation in the aggregate amount of Won 11,645 billion, Won 12,450 billion and Won 10,135 billion, respectively. As of December 31, 2014, we had long-term borrowings from Korea Development Bank in the aggregate amount of Won 1,500 billion.

We also engage in extensive transactions with our consolidated generation subsidiaries, including the purchase of electricity from them through Korea Power Exchange, sales of electricity to them, payment and receipt of commissions for services and receivables and payables transactions. These are eliminated in the consolidation process. We also provide guarantees for certain of our affiliates. See Item 5F. Tabular Disclosure of Contractual Obligations Overdraft and Others. We also have certain relationships with the Korea Power Exchange. See Item 4B. Business

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Overview Purchase of Electricity Cost-based Pool System.

For a further description of our transactions with our affiliates, see Note 47 of the Notes to our consolidated financial statements included in this annual report.

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**Item 7C. Interests of Experts and Counsel**

Not Applicable

**ITEM 8. FINANCIAL INFORMATION**

**Item 8A. Consolidated Statements and Other Financial Information**

We prepare our consolidated financial statements in compliance with requirements under Item 18. Financial Statements.

**Legal Proceedings**

As of December 31, 2014, we, including our generation subsidiaries, were engaged in 652 lawsuits as a defendant and 157 lawsuits as a plaintiff. As of the same date, the total amount of damages claimed against us was Won 563 billion, for which we have made a provision of Won 200 billion as of December 31, 2014, and the total amount claimed by us was Won 314 billion as of December 31, 2014. While the outcome of any of these lawsuits cannot presently be determined with certainty, our management currently believes that the final results from these lawsuits will not have a material adverse effect on our liquidity, financial position or results of operation.

The following are potentially significant claims pertaining to us and our subsidiaries.

In 2009, we entered into a contract with LS Cable & System Ltd. ( LS Cable ) under which LS Cable agreed to install submarine cables in an area between Jindo and Jeju Island. LS Cable & System Ltd. notified us of the completion of construction and requested the issuance of a certificate of completion. We however disagreed that LS Cable had completed construction in accordance with the conditions of the contract, rejected the goods delivered and refused to pay LS Cable the contracted amount. In October 2012, LS Cable filed for arbitration with the Korean Commercial Arbitration Board seeking damage in the aggregate amount of Won 194 billion from us in relation to unpaid invoices under the contract (which amounts to Won 120 billion) and extra payments relating to additional construction. In July 2014, we paid LS Cable Won 40 billion as a portion of the unpaid invoices, and recognized the remaining unpaid invoices, Won 80 billion, as a liability. However, since the amounts and timing of extra payments relating to the additional construction cannot be reasonably estimated, we had not made any additional provision in relation thereto as of December 31, 2014. The arbitration is currently under review by the Korean Commercial Arbitration Board, and the arbitral result may be unfavorable to us.

In September 2013, Hyundai Engineering & Construction Co., Ltd., SK Engineering & Construction Co., Ltd. and GS Engineering & Construction Co., Ltd. filed a lawsuit against KHNP seeking from KHNP extra contractual payments in the total amount of Won 133 billion on grounds of design change under the construction contract relating to New Hanwool 1 & 2 units. Due to inherent uncertainties relating to this lawsuit, we are unable to reliably estimate the amount of compensation, if any, and timing thereof, payable to the plaintiff. Consequently, we are unable to make a reasonable estimate of the economic impact from the ultimate resolution of this lawsuit and have not made any provision in relation thereto.

In January 2013, Korea Nuclear Technology Co., Ltd. ( KNT ) initiated litigation against KHNP based on the claim that KNT had a right to supply KHNP with passive autocatalytic recombiners ( PARs ), which had been developed under a cooperative research and development agreement between KNT and KHNP through a contract to be negotiated between the two parties without being required to undergo an open bidding process for a period of three years, but that KHNP selected a third party to supply the PARs following an open bidding process. The claimed amount of damages and compensation was Won 6.9 billion. In October 2013, the lower court ruled against KNT based on the principles of freedom of contract and the preference for competitive bidding. In December 2013, KNT filed for an appeal. In October 2014, the court rendered a final judgment against KNT by finding that KHNP was not legally obliged to enter into a contract with KNT for the supply of PARs.

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In December 2013, the Supreme Court of Korea ruled that regular bonuses fall under the category of ordinary wages on the condition that those bonuses are paid regularly and uniformly. The Supreme Court also ruled that employees shall not retroactively demand the difference in overtime pay as additional wages, in the event that the demand itself causes an unexpected increase in spending for their company, and thus lead the company to financial difficulty. In that case, the request is not acceptable, since it is unjust, and it is in breach of the principle of good faith. Prior to such ruling, we determined wages in accordance with budget instructions from the Ministry of Strategy and Finance, which excluded bonuses from ordinary wages and had the consent of our labor unions. Any request for the retroactive demand for the difference in overtime pay as additional wages may be limited based on the principle of good faith. On January 15, 2015, there was a lower court decision on ordinary wages of the labor union in KOSPO. According to this decision, basic bonus, incentives, and part of the subsidies paid regularly, uniformly, and steadily are to be included in the ordinary wages, and as a result of a related lawsuit, it was concluded that this case does not violate the principle of good faith since no significant difficulty in management or risk in the continuance and existence of the company were predicted. However, we decided to appeal this case. We believe that the possibility of economic outflow as a result of this lawsuit is probable. As a result, we recorded a provision of Won 174 billion in relation to this lawsuit as of December 31, 2014.

In addition, our generation subsidiaries, currently and from time to time, are involved in lawsuits incidental to the conduct of their business. A significant number of such lawsuits are based on the claim that the construction and operation of the electricity generation units owned by our generation subsidiaries have impaired neighboring fish farms. Our generation subsidiaries normally pay compensation to the members of fishery associations near our power plant complex for expected losses and damages arising from the construction and operation of their power plants in advance. Despite such compensation paid by us, a claim may still be filed against our generation subsidiaries challenging the compensation paid by us. We do not believe such claims or proceedings, individually or in the aggregate, have had or will have a material adverse effect on us and our generation subsidiaries. However, we cannot assure you that this will be the case in the future, given the possibility that we may become subject to more litigation and lawsuits arising from changes in the environmental laws and regulations applicable to us and our generation subsidiaries and people's growing demand for more compensation.

**Dividend Policy**

For our dividend policy, see Item 10B. Memorandum and Articles of Incorporation Description of Capital Stock Dividend Rights. For a description of the tax consequences of dividends paid to our shareholders, see Item 10E. Taxation Korean Taxes Shares or ADSs Dividends on the Shares of Common Stock or ADSs and Item 10E. Taxation U.S. Federal Income and Estate Tax Consideration for U.S. Persons Tax Consequences with Respect to Common Stock and ADSs Distributions on Common Stock or ADSs.

**Item 8B. Significant Changes**

Not Applicable

**ITEM 9. THE OFFER AND LISTING****Item 9A. Offer and Listing Details****Notes**

We have issued the following registered notes and debentures, which are traded principally in the over-the-counter market:

7.40% Amortizing Debentures, due April 1, 2016 (the 7.40% Debentures );

7.95% Zero-To-Full Debentures, due April 1, 2096 (the 7.95% Debentures );

6% Debentures due December 1, 2026, (the 6% Debentures );

7% Debentures due February 1, 2027 (the 7% Debentures ); and



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6-3/4% Debentures due August 1, 2027 (the 6-3/4% Debentures, and together with the 7.40% Debentures, the 7.95% Debentures, the 6% Debentures and the 7% Debentures, the Registered Debt Securities).

Sales prices for the Registered Debt Securities are not regularly reported on any United States securities exchange or other United States securities quotation service.

**Share Capital**

The principal trading market for our common stock is the Korea Exchange. Our common stock is also listed on the New York Stock Exchange in the form of ADSs. The ADSs have been issued by Citibank, N.A. as depositary and are listed on the New York Stock Exchange under the symbol KEP. One ADS represents one-half of one share of our common stock. As of December 31, 2014, the date we last closed our shareholders registry, 32,170,678 ADSs representing 5.01% shares of our common stock were outstanding.

**Common Stock**

Shares of our common stock are listed on the KRX KOSPI Market of the Korea Exchange. The table below shows the high and low closing prices on the KRX KOSPI Market of the Korea Exchange for our common stock since 2010.

Period	Price	
	High	Low
	(In Won)	
2010		
First Quarter	41,600	33,800
Second Quarter	36,600	30,700
Third Quarter	33,600	28,800
Fourth Quarter	32,700	27,700
2011		
First Quarter	30,050	25,800
Second Quarter	30,000	25,600
Third Quarter	28,400	20,450
Fourth Quarter	27,150	20,650
2012		
First Quarter	27,900	22,250
Second Quarter	25,850	21,450
Third Quarter	27,900	23,750
Fourth Quarter	30,450	26,200
2013		
First Quarter	34,850	29,000
Second Quarter	32,600	24,850
Third Quarter	30,700	26,350
Fourth Quarter	34,750	27,250
2014		
First Quarter	37,800	33,400
Second Quarter	41,900	37,050
Third Quarter	48,200	36,800
Fourth Quarter	49,450	40,350
2015		
First Quarter (through April 10)		
January	43,250	39,150
February	45,900	41,900
March	46,000	42,200
April (through April 10)	46,650	43,100

**Table of Contents****ADSs**

The table below shows the high and low trading prices on the New York Stock Exchange for the outstanding ADSs since 2010. Each ADS represents one-half of one share of our common stock.

Period	Price (In US\$)	
	High	Low
2010		
First Quarter	17.89	14.86
Second Quarter	16.55	12.70
Third Quarter	14.19	12.28
Fourth Quarter	14.54	11.91
2011		
First Quarter	13.48	11.39
Second Quarter	13.74	11.86
Third Quarter	13.35	8.50
Fourth Quarter	11.55	8.25
2012		
First Quarter	12.45	9.73
Second Quarter	11.18	9.36
Third Quarter	12.42	10.37
Fourth Quarter	13.97	11.65
2013		
First Quarter	16.35	13.04
Second Quarter	14.70	10.70
Third Quarter	14.59	11.45
Fourth Quarter	16.61	12.77
2014		
First Quarter	17.75	15.51
Second Quarter	20.56	17.66
Third Quarter	22.44	18.17
Fourth Quarter	22.87	18.90
2015		
First Quarter (through April 10)		
January	19.99	18.26
February	21.01	19.02
March	20.60	18.78
April (through April 10)	21.18	19.73

**Item 9B. Plan of Distribution**

Not Applicable

**Item 9C. Markets****The Korea Exchange**

The Korea Exchange began its operations in 1956, originally under the name of the Korea Stock Exchange. On January 27, 2005, pursuant to the Korea Securities and Futures Exchange Act, the Korea Exchange was officially created through the consolidation of the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or KOSDAQ, and the KOSDAQ Committee within the Korea Securities Dealers Association, which was in charge of the management of the KOSDAQ. The KRX KOSPI Market of the Korea Exchange, formerly the Korea Stock Exchange, has a single trading floor located in Seoul. The Korea Exchange



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is a limited liability company, the shares of which are held by (i) securities companies and futures companies that were the members of the Korea Stock Exchange or the Korea Futures Exchange and (ii) the shareholders of the KOSDAQ.

As of March 31, 2015 the aggregate market value of equity securities listed on the KOSPI of the Korea Exchange was approximately Won 1,272,317 billion. The average daily trading volume of equity securities for the first quarter of 2015 was approximately 354 million shares with an average transaction value of Won 4,633 billion.

The Korea Exchange has the power in some circumstances to suspend trading of shares of a given company or to de-list a security. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semi-annually and quarterly and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community which can have the intention or effect of depressing or boosting the market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to publicly offer their securities.

The Korea Exchange publishes the Korea Composite Stock Price Index, or KOSPI, every thirty seconds, which is an index of all equity securities listed on the KRX KOSPI Market of the Korea Exchange. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI in the past five years are set out in the following table:

	Opening	High	Low	Closing
2010	1,696.1	2,043.5	1,552.8	2,043.5
2011	2,070.1	2,228.9	1,706.2	1,825.7
2012	1,826.4	2,049.3	1,769.3	1,982.3
2013	2,031.1	2,059.6	1,780.6	2,011.3
2014	1,967.2	2,082.6	1,886.9	1,915.6
2015 (through April 10)	1,926.4	2,087.8	1,882.5	2,087.8

Source: The Korea Exchange

Shares are quoted ex-dividend on the first trading day of the relevant company's accounting period; since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Exchange to 15% of the previous day's closing price of the shares, rounded down as set out below:

Previous Day's Closing Price (Won)	Rounded Down to (Won)
less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000



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As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the securities companies. In addition, a securities transaction tax will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. A special agricultural and fishery tax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See Item 10E. **Taxation Korean Taxes.**

The number of companies listed on the KRX KOSPI Market of the Korea Exchange since 2009, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

Year	Number of Listed Companies	Total Market Capitalization on the Last Day for Each Period		Average Daily Trading Volume, Value		
		(Millions of Won)	(Thousands of U.S. dollars) <sup>(1)</sup>	(Thousands of Shares)	(Millions of Won)	(Thousands of U.S. dollars) <sup>(1)</sup>
2010	777	1,141,885,458	1,002,621,352	380,859	5,619,768	4,934,382
2011	791	1,041,999,162	903,493,594	353,759	6,883,146	5,968,218
2012	784	1,154,294,166	1,077,671,708	486,480	4,823,643	4,503,448
2013	777	1,185,973,724	1,123,826,138	328,325	3,993,422	3,784,158
2014	773	1,192,252,867	1,084,655,082	319,661	3,891,322	3,540,140
2015 (through April 10)	765	1,303,644,135	1,193,648,536	376,558	4,783,594	4,377,774

Source: The Korea Exchange

Note:

(1) Converted at the Concentration Base Rate of the Bank of Korea or the market average exchange rate as announced by Seoul Money Brokerage Services, Ltd. in Seoul, as the case may be, at the end of the periods indicated.

The Korean securities markets are principally regulated by the Financial Services Commission and the Financial Investment Services and Capital Markets Act. The law imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests.

**Protection of Customer's Interest in Case of Insolvency of Financial Investment Companies with a Brokerage License**

Under Korean law, the relationship between a customer and a financial investment company with a brokerage license in connection with a securities sell or buy order is deemed to be consignment, and the securities acquired by a consignment agent (i.e., the financial investment company with a brokerage license) through such sell or buy order are regarded as belonging to the customer insofar as the customer and the consignment agent's creditors are concerned. Therefore, in the event of bankruptcy or reorganization procedures involving a financial investment company with a brokerage license, the customer of such financial investment company is entitled to the proceeds of the securities sold by such financial investment company.

When a customer places a sell order with a financial investment company with a brokerage license which is not a member of the Korea Exchange and this financial investment company places a sell order with another

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financial investment company with a brokerage license which is a member of the Korea Exchange, the customer is still entitled to the proceeds of the securities sold received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Likewise, when a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company, because the purchased securities are regarded as belonging to the customer insofar as the customer and the non-member company's creditors are concerned.

Under the Financial Investment Services and Capital Markets Act, the Korea Exchange is obliged to indemnify any loss or damage incurred by counterparty as a result of a breach by its members. If a financial investment company with a brokerage license which is a member of the Korea Exchange breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member.

As the cash deposited with a financial investment company with a brokerage license is regarded as belonging to such financial investment company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the financial investment company with a brokerage license if a bankruptcy or reorganization procedure is instituted against such financial investment company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that Korean Deposit Insurance Corporation will, upon the request of the investors, pay investors up to Won 50 million per depositor per financial institution in case of the such financial investment company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events (collectively, the Insolvency Events). Pursuant to the Financial Investment Services and Capital Markets Act, subject to certain exceptions, financial investment companies with a brokerage license are required to deposit the cash received from their customers with the Korea Securities Finance Corporation, a special entity established pursuant to the Financial Investment Services and Capital Markets Act. Set-off or attachment of cash deposits by financial investment companies with a brokerage license is prohibited. The premiums related to this insurance under the Depositor Protection Act are paid by financial investment companies with a brokerage license.

### **Item 9D. Selling Shareholders**

Not Applicable

### **Item 9E. Dilution**

Not Applicable

### **Item 9F. Expenses of the Issue**

Not Applicable

## **ITEM 10. ADDITIONAL INFORMATION**

### **Item 10A. Share Capital**

Not Applicable

### **Item 10B. Memorandum and Articles of Incorporation**

Set forth below is information relating to our capital stock, including brief summaries of material provisions of our Articles of Incorporation, the KEPCO Act, the Financial Investment Services and Capital Markets Act, the Korean Commercial Code and certain related laws of Korea, all currently in effect. The following summaries are

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qualified in their entirety by reference to our Articles of Incorporation and the applicable provisions of the KEPCO Act, Financial Investment Services and Capital Markets Act, the Korean Commercial Code, the Public Agencies Management Act and certain related laws of Korea. In November 2013 we amended our Articles of Incorporation to reflect the amendments to a regulation promulgated under the Public Agencies Management Act.

### **Objects and Purposes**

We are a statutory juridical corporation established under the KEPCO Act for the purpose of ensuring stabilization of the supply and demand of electric power, and further contributing toward the sound development of the national economy through expediting development of electric power resources and carrying out proper and effective operation of the electricity business. The KEPCO Act and our Articles of Incorporation contemplate that we engage in the following activities:

1. development of electric power resources;
2. generation, transmission, transformation and distribution of electricity and other related business activities;
3. research and development of technology related to the businesses mentioned in items 1 and 2;
4. overseas businesses related to the businesses mentioned in items 1 through 3;
5. investments or contributions related to the businesses mentioned in items 1 through 4;
6. businesses incidental to items 1 through 5;
7. Development and operation of certain real estate held by us to the extent that:
  - a. it is necessary to develop certain real estate held by us due to external factors, such as relocation, consolidation, conversion to indoor or underground facilities or deterioration of our substation or office; or
  - b. it is necessary to develop certain real estate held by us to accommodate development of relevant real estate due to such real estate being incorporated into or being adjacent to an area under planned urban development; and
8. other activities entrusted by the Government.

Our registered name is Hankook Chollryuk Kongsae in Korean and Korea Electric Power Corporation in English. Our registration number in the commercial registry office is 114671-0001456.

### **Directors**

Under the KEPCO Act and our Articles of Incorporation, our board of directors consists of our president, standing directors and non-standing directors. A majority of the board members constitutes a voting quorum, and resolutions will be passed by a majority of the board members. Directors who have an interest in certain agenda proposed to the board may not vote on such issues.



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The standards of remuneration for our officers, including directors, shall be determined by a resolution of the board of directors, provided that the maximum amount of remuneration to be paid to our officers shall be determined by shareholder resolution and provided that the remuneration standards for the president and standing directors shall be determined by board resolution in accordance with the guideline thereon established by the minister of the Ministry of Strategy and Finance through review and resolution of our management committee. Directors who have an interest may not participate in the meeting of the board of directors for determining the remuneration for officers.

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Neither the KEPCO Act nor our Articles of Incorporation have provisions relating to (i) borrowing powers exercisable by the directors and how such borrowing powers can be varied, (ii) retirement or non-retirement of directors under an age limit requirement, or (iii) the number of shares required for a director's qualification.

### **Share Capital**

Currently, our authorized share capital is 1,200,000,000 shares, which consists of shares of common stock and shares of non-voting preferred stock, par value Won 5,000 per share. Under our Articles of Incorporation, we are authorized to issue up to 150,000,000 non-voting preferred shares. As of December 31, 2014, the last day on which the shareholder registry was closed for purposes of identifying shareholders of record, 641,964,077 common shares were issued and no non-voting preferred shares have been issued. All of the issued and outstanding common shares are fully-paid and non-assessable and are in registered form. Share certificates are issued in denominations of 1, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

### **Description of Capital Stock**

#### ***Dividend Rights***

Under the KEPCO Act, we are authorized to pay preferential dividends on our shares held by public shareholders as opposed to those held by the Government. Dividends to public shareholders are distributed in proportion to the number of shares of the relevant class of capital stock owned by each public shareholder following approval by the shareholders at a general meeting of shareholders. Korea Development Bank may receive dividends in proportion to the numbers of our shares held by them. Under the Korean Commercial Code and our Articles of Incorporation, we will pay full annual dividends on newly issued shares.

Under our Articles of Incorporation, holders of non-voting preferred shares (of which there are currently none) are entitled to receive an amount not less than 8% of their par value as determined by a resolution of the board of directors at the time of their issuance. However, if the dividends on our common shares exceed the dividends on our non-voting preferred shares, the holders of non-voting preferred shares will be entitled to participate in the distribution of such excess amount with the holders of the common shares at an equal rate.

We declare our dividend annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. The annual dividend is paid to the shareholders on record as of the end of the fiscal year preceding the annual shareholders' meeting. Annual dividends may be distributed either in cash or in our shares. However, a dividend of shares must be distributed at par value, and dividends in shares may not exceed one-half of the annual dividend.

Under the Korean Commercial Code and our Articles of Incorporation, we do not have an obligation to pay any annual dividend unclaimed for five years from the payment date.

The KEPCO Act provides that we shall not pay an annual dividend unless we have made up any accumulated deficit and set aside as a legal reserve an amount equal to 20.0% or more of our net profit until our accumulated reserve reaches one-half of our stated capital.

#### ***Distribution of Free Shares***

In addition to dividends in the form of shares to be paid out of retained or current earnings, the Korean Commercial Code permits us to distribute to our shareholders an amount transferred from our capital surplus or legal reserve to stated capital in the form of free shares.

#### ***Voting Rights***

Holders of our common shares are entitled to one vote for each common share, except that voting rights with respect to any common shares held by us or by a corporate shareholder, more than one-tenth of whose

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outstanding capital stock is directly or indirectly owned by us, may not be exercised. Any person (with certain exceptions) who holds more than 3% of our issued and outstanding shares cannot exercise voting rights with respect to the shares in excess of this 3% limit. See Limitation on Shareholdings. Pursuant to the Korean Commercial Code, cumulative voting is permissible in relation to the appointment of directors. Under the Korean Commercial Code, a cumulative vote can be requested by the shareholders of a corporation representing at least 1% of the total voting shares of such corporation if the relevant shareholders meeting is intended to elect more than two seats of the board of directors and the request for cumulative voting is made to the management of the corporation in writing at least six weeks in advance of the shareholders meeting. Under this new voting method, each shareholder will have multiple voting rights corresponding to the number of directors to be appointed in such voting and may exercise all such voting rights to elect one director. Shareholders are entitled to vote cumulatively unless the Articles of Incorporation expressly prohibit cumulative voting. Our current Articles of Incorporation do not prohibit cumulative voting. Except as otherwise provided by law or our Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by affirmative majority vote of the voting shares of the shareholders present or represented at a meeting, which must also represent at least one-fourth of the voting shares then issued and outstanding. The holders of our non-voting preferred shares (other than enfranchised preferred shares (as described below)) are not entitled to vote on any resolution or to receive notice of any general meeting of shareholders unless the agenda of the meeting includes consideration of a resolution on which such holders are entitled to vote. If we are unable to pay any dividend to holders of non-voting preferred shares as provided in our Articles of Incorporation, the holders of non-voting preferred shares will become enfranchised and will be entitled to exercise voting rights until such dividends are paid. The holders of these enfranchised preferred shares have the same rights as holders of our common shares to request, receive notice of, attend and vote at a general meeting of shareholders. Pursuant to the KEPCO Act and our Articles of Incorporation, the appointment of standing directors, the president and standing statutory auditor are subject to shareholder approval.

Under the Korean Commercial Code, for the purpose of electing our statutory auditor, a shareholder (together with certain related persons) holding more than 3% of the total shares having voting rights may not exercise voting rights with respect to shares in excess of such 3% limit.

The Korean Commercial Code provides that the approval by holders of at least two-thirds of those shares having voting rights present or represented at a meeting, where such shares also represent at least one-third of the total issued and outstanding shares having voting rights, is required in order to, among other things:

amend our Articles of Incorporation;

remove a director or statutory auditor;

effect any dissolution, merger, consolidation or spin-off of us;

transfer the whole or any significant part of our business;

effect the acquisition by us of all of the business of any other company;

effect the acquisition by us of the business of another company that may have a material effect on our business;

reduce capital; or

issue any new shares at a price lower than their par value.

Under our Articles of Incorporation, an approval by the Ministry of Trade, Industry and Energy is required in order to amend the Articles of Incorporation. Any change to our authorized share capital requires an amendment to our Articles of Incorporation.

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In addition, in the case of amendments to our Articles of Incorporation or any merger or consolidation of us or in certain other cases which affect the rights or interests of the non-voting preferred shares a resolution must

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be adopted by a meeting of the holders of non-voting preferred shares approving such event. This resolution may be adopted if approval is obtained from holders of at least two-thirds of those non-voting preferred shares present or represented at such meeting and such non-voting preferred shares also represent at least one-third of our total issued and outstanding non-voting preferred shares.

A shareholder may exercise his voting rights by proxy. The proxy shall present the power of attorney prior to the start of the general meeting of shareholders. Under the Financial Investment Services and Capital Markets Act and our Articles of Incorporation, no one other than us may solicit a proxy from shareholders.

Subject to the provisions of the deposit agreement, holders of our American Depositary Shares ( ADSs ) are entitled to instruct the depository, whose agent is the record holder of the underlying common shares, how to exercise voting rights relating to those underlying common shares.

### ***Preemptive Rights and Issuance of Additional Shares***

Authorized but unissued shares may be issued at such times and, unless otherwise provided in the Korean Commercial Code, upon such terms as our board of directors may determine. The new shares must be offered on uniform terms to all our shareholders who have preemptive rights and who are listed on the shareholders' register as of the record date. Subject to the limitations described under "Limitation on Shareholdings" below and with certain other exceptions, all our shareholders are entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. Under the Korean Commercial Code, we may vary, without shareholder approval, the terms of such preemptive rights for different classes of shares. Public notice of the preemptive rights to new shares and their transferability must be given not less than two weeks (excluding the period during which the shareholders' register is closed) prior to the record date. Our board of directors may determine how to distribute shares for which preemptive rights have not been exercised or where fractions of shares occur.

Our Articles of Incorporation provide that new shares that are (1) publicly offered pursuant to the Financial Investment Services and Capital Markets Act, (2) issued to members of our employee stock ownership association, (3) represented by depository receipts, (4) issued through offering to public investors, or (5) issued to investors in kind under the State Property Act may be issued pursuant to a resolution of the board of directors to persons other than existing shareholders, who in such circumstances will not have preemptive rights.

Under our Articles of Incorporation, we may issue convertible bonds or bonds with warrants each up to an aggregate principal amount of Won 2,000 billion and Won 1,000 billion, respectively, to persons other than existing shareholders. However, the aggregate principal amount of convertible bonds and bonds with warrants so issued to persons other than existing shareholders may not exceed Won 2,000 billion.

Under the Financial Investment Services and Capital Markets Act and our Articles of Incorporation, members of our employee stock ownership association, whether or not they are our shareholders, have a preemptive right, subject to certain exceptions, to subscribe for up to 20.0% of any shares publicly offered pursuant to the Financial Investment Services and Capital Markets Act. This right is exercisable only to the extent that the total number of shares so acquired and held by members of our employee stock ownership association does not exceed 20.0% of the total number of shares then outstanding.

### ***Liquidation Rights***

In the event of our liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among shareholders in proportion to the number of shares held. Holders of our non-voting preferred shares have no preference in liquidation.

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### ***Rights of Dissenting Shareholders***

In certain limited circumstances (including, without limitation, the transfer of the whole or any significant part of our business or the merger, or consolidation upon a split-off of us with another company), dissenting holders of shares have the right to require us to purchase their shares. To exercise such right, shareholders must submit a written notice of their intention to dissent to us prior to the general meeting of shareholders or the class meeting of holders of non-voting preferred shares, as the case may be. Within 20 days after the date on which the relevant resolution is passed at such meeting, such dissenting shareholders must request us in writing to purchase their shares. We are obligated to purchase the shares of dissenting shareholders within one month after the expiration of such 20-day period. The purchase price for such shares must be determined through negotiation between the dissenting shareholders and us. Under the Financial Investment Services and Capital Markets Act, if we cannot agree on a price through negotiation, the purchase price will be the average of (1) the weighted average of the daily share price on the Korea Exchange for a two-month period before the date of adoption of the relevant board resolution, (2) the weighted average of the daily share price on the Korea Exchange for the one month period before such date and (3) the weighted average of the daily share price on the Korea Exchange for the one week period before such date. However, if we or dissenting shareholders who requested us to purchase their shares oppose such purchase price, the determination of a purchase price may be filed with a court. Holders of ADSs will not be able to exercise dissenters rights unless they have withdrawn the underlying Common Stock and become our direct shareholders.

### **Transfer of Shares**

Under the Korean Commercial Code, the transfer of shares is effected by delivery of share certificates, but in order to assert shareholders rights against us, the transferee must have his name and address registered on our register of shareholders. For this purpose, shareholders are required to file one's name, address and seal with our transfer agent. Under our Articles of Incorporation, non-resident shareholders must appoint an agent authorized to receive notices on their behalf in Korea and file a mailing address in Korea. These requirements do not apply to the holders of ADSs. Under current Korean regulations, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized foreign custodians are authorized to act as agents and provide related services for foreign shareholders. Our transfer agent is Kookmin Bank, located at 9-1, Namdaemun-ro, 2-ga, Chung-ku, Seoul, Korea. Certain foreign exchange controls and securities regulations apply to the transfer of our shares by non-residents of Korea or non-Koreans. See Item 9. The Offer and Listing.

### **Acquisition of Our Own Shares**

Under the Korean Commercial Code, we may acquire our own shares through (1) purchases on a stock exchange or (2) purchase of the shares in proportion to the number of shares held by each shareholder on equal terms and conditions, by a resolution at a Shareholders meeting. The aggregate amount of the acquisition price shall not exceed the excess of our net assets, on a non-consolidated basis, over the sum of (1) our stated capital, (2) the total amount of our capital surplus reserve and earned surplus reserve which have accumulated up to the end of the previous fiscal year, (3) our earned surplus required to be accumulated for the then current fiscal year and (4) our net assets stated in the balance sheet as being increased as a result of the evaluation of the assets and liabilities in accordance with our accounting principles without being set off against any unrealized losses. In addition, under the Korean Commercial Code, we may not acquire our own shares if our net assets may fall short of the aggregate amount of the item (1) to (4) above, on a non-consolidated basis, as of the conclusion of the relevant business year of us. In general, our subsidiaries 50% or more of whose shares are owned by us may not acquire our shares.

### **General Meeting of Shareholders**

The ordinary general meeting of our shareholders is held within three months after the end of each fiscal year, and subject to board resolution or court approval, an extraordinary general meeting of our shareholders may be held as necessary or at the request of shareholders holding an aggregate of 1.5% or more of our outstanding

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common shares for at least six consecutive months. Under the Korean Commercial Code, an extraordinary general meeting of shareholders may be convened at the request of our audit committee, subject to a board resolution or court approval. Holders of non-voting preferred shares may only request a general meeting of shareholders once the non-voting preferred shares have become enfranchised as described under Description of Capital Stock Voting Rights above. Written notices setting forth the date, place and agenda of the meeting must be given to shareholders at least two weeks prior to the date of the general meeting of shareholders. However, pursuant to the Korean Commercial Code and our Articles of Incorporation, with respect to holders of less than 1% of the total number of our issued and outstanding shares which are entitled to vote, notice may be given by placing at least two public notices at least two weeks in advance of the meeting in at least two daily newspapers published in Seoul or by placing a public notice in the electrical disclosure system of the Financial Supervisory Service or the Korea Exchange, at least two weeks in advance of the meeting. Currently, for giving such notice, we use an electronic disclosure system available for access at a website maintained by the FSS (known as the Data Analysis, Retrieval and Transfer System, or DART). Shareholders not on the shareholders register as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at such meeting. Holders of the enfranchised preferred shares on the shareholders register as of the record date are entitled to receive notice of, and to attend and vote at, the general meetings. Otherwise, holders of non-voting preferred shares are not entitled to receive notice of general meetings of shareholders or vote at such meetings but may attend such meetings.

The general meeting of shareholders is held in Naju, Jeollanam-do.

## **Register of Shareholders and Record Dates**

Our transfer agent, Kookmin Bank, maintains the register of our shareholders at its office in Seoul, Korea. It registers transfers of our shares on the register of shareholders upon presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the holders of shares entitled to annual dividends, the register of shareholders may be closed from January 1 to January 31 of each year. Further, the Korean Commercial Code and our Articles of Incorporation permit us at least two weeks public notice to set a record date and/or close the register of shareholders for not more than three months for the purpose of determining the shareholders entitled to certain rights pertaining to our shares. The trading of our shares and the delivery of certificates in respect of them may continue while the register of shareholders is closed.

## **Annual Report**

At least one week prior to the annual general meeting of shareholders, our annual report and audited consolidated financial statements must be made available for inspection at our principal office and at all branch offices. Copies of annual reports, the audited non-consolidated financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

Under the Financial Investment Services and Capital Markets Act, we must file with the Financial Services Commission and the Korea Exchange an annual report within 90 days after the end of our fiscal year, a half-year report within 45 days after the end of the first six months of our fiscal year and quarterly reports within 45 days after the end of the first three months and nine months of our fiscal year. Following our adoption of IFRS starting in January 1, 2011 pursuant to regulatory requirements for listed companies in Korea, we are required to file half-year and quarterly reports containing interim financial statements and notes thereto on a consolidated basis as well as on a separate basis.

## **Limitation on Shareholdings**

No person other than the Government, our employee stock ownership association and persons who obtain an approval from the Financial Services Commission may hold for its account more than 3% of our total issued and

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outstanding shares. In calculating shareholdings for this purpose, shares held by your spouse and your certain relatives or by your certain affiliates (such spouses, relatives and affiliates are together referred to as Affiliated Holders ) are deemed to be held by you. If you hold our shares in violation of this 3% limit, you are not entitled to exercise the voting rights or preemptive rights of our shares in excess of such 3% limit and the Financial Services Commission may order you to take necessary corrective action. In addition, the KEPCO Act currently requires that the Government, directly or through Korea Development Bank, own not less than 51% of our capital. For other restrictions on shareholdings, see Item 9. The Offer and Listing.

### **Change of Control**

The KEPCO Act requires that the Government, directly or pursuant to the Korea Development Bank Act, through Korea Development Bank, own not less than 51% of our capital.

### **Disclosure of Share Ownership**

Under the Financial Investment Services and Capital Markets Act, any person whose direct or beneficial ownership of a listed company's shares with voting rights, equity-related debt securities including convertible bonds, bonds with warrants, exchangeable bonds, certificates representing the rights to subscribe for common shares, derivatives-linked securities and depository receipts of the aforementioned securities (collectively referred to as Equity Securities ), together with the Equity Securities directly or beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of our total outstanding Equity Securities is required to report the status and purpose (in terms of whether the purpose of shareholding is to participate in the management of the issuer) of the holdings and the material contents of the agreements relating to the Equity Securities and other matters prescribed by the Presidential Decree under the Financial Investment Services and Capital Markets Act to the Financial Services Commission of Korea and the Korea Exchange within five business days after reaching the 5% ownership interest threshold.

In addition, any change (i) in the purpose of the shareholding or in the ownership, (ii) the major terms and conditions of agreements relating to Equity Securities owned (such as trust agreements and collateral agreements) to the extent the number of relevant Equity Securities is 1% or more of the total outstanding Equity Securities, or (iii) the type of ownership (direct ownership or holding) to the extent the number of relevant Equity Securities is 1% or more of the total outstanding Equity Securities, must be reported to the Financial Services Commission of Korea and the Korea Exchange within five business days from the date of such change (or by the tenth day of the month following the month in which the change occurs, in the case of a person with no intent to seek management control). Notwithstanding the foregoing, certain professional investors designated by the Financial Services Commission may report such matters to the Financial Services Commission and the Korea Exchange by the tenth day of the month immediately following the end of the quarter in which such 5.0% ownership interest is reached or the change occurs.

When filing a report to the Financial Services Commission and the Korea Exchange in accordance with the reporting requirements described above, a copy of such report must be sent to the relevant listed company. Violation of these reporting requirements may subject a person to sanctions such as prohibition on the exercise of voting rights with respect to the Equity Securities for which the reporting requirement was violated or fines or imprisonment. Furthermore, the Financial Services Commission may order the disposal of the Equity Securities for which the reporting requirement was violated or may impose administrative fine.

A person reporting to the Financial Services Commission and the Korea Exchange that his purpose of holding the Equity Securities is to participate in the management of the listed company is prohibited from acquiring additional Equity Securities of the listed company and exercising voting rights during the period commencing from the date on which the event triggering the reporting requirements occurs to the fifth day from the date on which the report is made.



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### **Item 10C. Material Contracts**

Not applicable.

### **Item 10D. Exchange Controls**

#### **General**

The Foreign Exchange Transaction Act and the Presidential Decree and regulations under that Act and Decree, or collectively the Foreign Exchange Transaction Laws, regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Non-residents may invest in Korean securities pursuant to the Foreign Exchange Transaction Laws. The Financial Services Commission has also adopted, pursuant to its authority under the Financial Investment Services and Capital Markets Act, regulations that regulate investment by foreigners in Korean securities and issuance of securities outside Korea by Korean companies.

Subject to certain limitations, the Ministry of Strategy and Finance has the authority to take the following actions under the Foreign Exchange Transaction Laws: (i) if the Government deems it necessary on account of war, armed conflict, natural disaster or grave, sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the Ministry of Strategy and Finance may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit, safe-keep or sell any instruments of payment to the Bank of Korea or certain other governmental agencies or financial institutions, and (ii) if the Government concludes that the international balance of payments and international financial markets are experiencing or are likely to experience significant disruption or that the movement of capital between Korea and other countries are likely to adversely affect the Korean Won, exchange rates or other macroeconomic policies, the Ministry of Strategy and Finance may take action to require any person who intends to effect or effects a capital transaction to deposit all or a portion of the instruments of payment acquired in such transactions with the Bank of Korea or certain other governmental agencies or financial institutions.

#### **Government Review of Issuances of Debt Securities and ADSs and Report for Payments**

In order for us to issue debt securities of any series outside of the Republic, we are required to file a report with our designated foreign exchange bank or the Ministry of Strategy and Finance on the issuance of such debt securities, depending on the issuance amount. The Ministry of Strategy and Finance may at its discretion direct us to take measures as necessary to avoid undue exchange rate fluctuations before it accepts such report. Furthermore, in order for us to make payments of principal of or interest on the debt securities of any series and other amounts as provided in an indenture and such debt securities, we are required to present relevant documents to the designated foreign exchange bank at the time of each actual payment. The purpose of such presentation is to ensure that the actual remittance is consistent with the terms of the transaction reported to our designated foreign exchange bank or the Ministry of Strategy and Finance.

In order for us to offer for purchase shares of our common stock held in treasury in the form of ADSs or issue shares of our common stock represented by the ADSs, we are required to file a prior report of such offer or issuance with our designated foreign exchange bank or the Ministry of Strategy and Finance, depending on the offering amount. The Ministry of Strategy and Finance may at its discretion direct us to take measures as necessary to avoid undue exchange rate fluctuations before it accepts such report. No further Governmental approval is necessary for the initial offering and issuance of the ADSs.

In order for a depository to acquire any existing shares of our common stock from holders of these shares of common stock (other than from us) for the purpose of issuance of depository receipts representing these shares of common stock, the depository would be required to obtain our consent for the number of shares to be deposited

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in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us or with our consent for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock dividends or other distributions related to these ADSs) and (2) the number of shares on deposit with the depository at the time of such proposed deposit. We may not grant this consent for the deposit of shares of our common stock in the future, if our consent is required. Therefore, a holder of ADSs who surrenders ADSs and withdraws shares of our common stock may not be permitted subsequently to deposit such shares and obtain ADSs.

In addition, we are also required to notify the Ministry of Strategy and Finance upon receipt of the full proceeds from the offering of ADSs. No additional Governmental approval is necessary for the offering and issuance of ADSs.

## **Reporting Requirements for Holders of Substantial Interests**

Under the Financial Investment Services and Capital Markets Act, any person whose direct beneficial ownership of a listed company's Equity Securities, together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with such person, accounts for 5% or more of our total outstanding Equity Securities is required to report the status and purpose (namely, whether the purposes of the share ownership is to participate in the management of the issuer) of the holdings and the material contents of the agreements relating to the Equity Securities and other matters prescribed by the Presidential Decree under the Financial Investment Services and Capital Markets Act to the Financial Services Commission and the Korea Exchange within five business days after reaching the 5% ownership interest and any change in ownership interest subsequent to the report which equals or exceeds 1.0% of the total outstanding Equity Securities is required to be reported to the Financial Services Commission and the Korea Exchange within five business days from the date of the change.

In addition, any change (i) in the purpose of the shareholding or in the ownership, (ii) the major terms and conditions of agreements relating to Equity Securities owned (such as trust agreements and collateral agreements) to the extent the number of relevant Equity Securities is 1% or more of the total outstanding Equity Securities, or (iii) the type of ownership (direct ownership or holding) to the extent the number of relevant Equity Securities is 1% or more of the total outstanding Equity Securities, must be reported to the Financial Services Commission of Korea and the Korea Exchange within five business days from the date of such change (or by the tenth day of the month following the month in which the change occurs, in the case of a person with no intent to seek management control). Notwithstanding the foregoing, certain professional investors designated by the Financial Services Commission may report such matters to the Financial Services Commission and the Korea Exchange by the tenth day of the month immediately following the end of the quarter in which such 5.0% ownership interest is reached or the change occurs.

When filing a report to the Financial Services Commission and the Korea Exchange in accordance with the reporting requirements described above, a copy of such report must be sent to the relevant listed company. Violation of these reporting requirements may subject a person to sanctions such as prohibition on the exercise of voting rights with respect to the Equity Securities for which the reporting requirement was violated or fines or imprisonment. Furthermore, the Financial Services Commission may order the disposal of the Equity Securities for which the reporting requirement was violated or may impose administrative fine.

A person reporting to the Financial Services Commission and the Korea Exchange that his purpose of holding the Equity Securities is to participate in the management of the listed company is prohibited from acquiring additional Equity Securities of the listed company and exercising voting rights during the period commencing from the date on which the event triggering the reporting requirements occurs to the fifth day from the date on which the report is made.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our voting stock and/or depository receipts for our voting stock accounts for 10.0% or more of the total issued

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and outstanding voting stock, whom we refer to as a major shareholder, must file a report to the Securities and Futures Commission and to the Korea Exchange within five business days after the date on which the person reached such shareholding limit. In addition, such person must file a report to the Securities and Futures Commission and to the Korea Exchange regarding any subsequent change in his/her shareholding. Such report on subsequent change in shareholding must be filed within five business days of the occurrence of any such change. Violation of these reporting requirements may subject a person to criminal sanctions such as fines and imprisonment.

### **Restrictions Applicable to ADSs**

No Governmental approval is necessary for the sale and purchase of ADSs in the secondary market outside Korea or for the withdrawal of shares of our common stock underlying ADSs and the delivery inside Korea of the withdrawn shares. However, a foreigner who intends to acquire shares must obtain an Investment Registration Card from the Financial Supervisory Service as described below. The acquisition of shares by a foreigner must be reported by the foreigner or his standing proxy in Korea immediately to the Governor of the Financial Supervisory Service.

### **Special Reporting Requirement for Companies Whose Securities Are Listed on Foreign Exchanges**

Under the regulations of the Financial Services Commission amended on December 24, 2009, (i) if a company listed on the Korea Exchange has submitted a public disclosure of material matters to a foreign financial investment supervisory authority pursuant to the laws of the foreign jurisdiction, then it must submit a copy of the public disclosure and a Korean translation thereof to the Financial Services Commission of Korea and the Korea Exchange, and (ii) if a company listed on the Korea Exchange is approved for listing on a foreign stock market or determined to be de-listed from the foreign stock market or actually listed on, or de-listed from, a foreign stock market, then it must submit a copy of any document, which it submitted to or received from the relevant foreign government, foreign financial investment supervisory authority or the foreign stock market, and a Korean translation thereof to the Financial Services Commission of Korea and the Korea Exchange.

Persons who have acquired shares of our common stock as a result of the withdrawal of shares of common stock underlying ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares of our common stock without any further governmental approval.

### **Restrictions Applicable to Common Stock**

Under the Foreign Exchange Transaction Laws and the Regulations on Financial Investment Business (together, the Investment Rules ), foreigners are permitted to invest, subject to certain exceptions and procedural requirements, in all shares of Korean companies unless prohibited by specific laws. Foreign investors may trade shares listed on the Korea Exchange only through the Korea Exchange except for certain limited circumstances. These circumstances include, among others, (1) odd-lot trading of shares, (2) acquisition of shares by a foreign company as a result of a merger, (3) acquisition or disposal of shares in connection with a tender offer, (4) acquisition of shares by exercise of warrant, conversion right under convertible bonds, exchange right under exchangeable bonds or withdrawal right under depositary receipts issued outside of Korea by a Korean company, such shares being Converted Shares, (5) acquisition of shares through exercise of rights under securities issued outside of Korea, (6) acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders' rights (including preemptive rights or rights to participate in free distributions and receive dividends), (7) over-the-counter transactions between foreigners of a class of shares for which a ceiling on aggregate acquisition by foreigners (as explained below) exists and has been reached or exceeded, (8) acquisition of shares by direct investment under the Foreign Investment Promotion Law, (9) acquisition and disposal of shares on an overseas stock exchange market, if such shares are simultaneously listed on the KRX KOSPI Market or the KRX KOSDAQ Market of the Korea Exchange and such overseas stock exchange, and (10) arm's length transactions between foreigners in the event all such foreigners belong to an investment group

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managed by the same person. For over-the-counter transactions of shares listed on the Korea Exchange outside the Korea Exchange between foreigners of a class of shares for which a ceiling on aggregate acquisition by foreigners exists and has been reached or exceeded, a financial investment company with a brokerage license in Korea must act as an intermediary. Odd-lot trading of shares listed on the Korea Exchange outside the Korea Exchange must involve a financial investment company with a dealing license in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions with respect to shares subject to a ceiling on acquisition by foreigners.

The Investment Rules require a foreign investor who wishes to invest in or dispose of shares on the Korea Exchange (including Converted Shares) to register his/her identity with the Financial Supervisory Service prior to making any such investment or disposal unless he/she had previously registered. However, such registration requirement does not apply to foreign investors who acquire Converted Shares with the intention of selling them within three months from the date they were acquired. Upon registration, the Financial Supervisory Service will issue to the foreign investor an Investment Registration Card which must be presented each time the foreign investor opens a brokerage account with a financial investment company or financial institution in Korea. Foreigners eligible to obtain an Investment Registration Card include any foreign nationals who are individuals (with residence abroad for six months or more), foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by the Decree of the Financial Services and Capital Markets Act. All Korean branches of a foreign corporation as a group are treated as a separate foreigner from the head office of the foreign corporation. However, a foreign branch of a Korean securities company, a foreign corporation or a depository issuing depository receipts may obtain one or more Investment Registration Cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the Korea Exchange, no separate report by the investor is required because the Investment Registration Card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale of shares outside the Korea Exchange (as discussed above) must be reported by the foreign investor or his standing proxy to the Governor of the Financial Supervisory Service at the time of each acquisition or sale. However, a foreign investor must ensure that any acquisition or sale by it of shares outside the Korea Exchange in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the Governor of the Financial Supervisory Service by the Korea Securities Depository, financial investment companies with a dealing or brokerage license or securities finance companies engaged to facilitate such transactions. In the event a foreign investor desires to acquire or sell shares outside the Korea Exchange and the circumstances in connection with such sale or acquisition do not fall within the exceptions made for certain limited circumstances described above, then the foreign investor must obtain the prior approval of the Governor. In addition, in the event a foreign investor acquires or sells shares outside the Korea Exchange, a prior report to the Bank of Korea may also be required in certain circumstances. A foreign investor may appoint one or more standing proxies from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and certain eligible foreign custodians which will exercise shareholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the Governor of the Financial Supervisory Service in cases deemed inevitable by reason of conflict between the laws of Korea and those of the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and certain eligible foreign custodians are eligible to be a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits his shares with the Korea Securities Depository. Generally, a

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foreign investor may not permit any person, other than his/her standing proxy, to exercise rights relating to his shares or perform any tasks related thereto on his behalf. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the Governor of the Financial Supervisory Service in circumstances where compliance is made impracticable, including cases where such compliance would contravene the laws of the home country of the foreign investor.

Under the Investment Rules, with certain exceptions, a foreign investor may acquire shares of a Korean company without being subject to any single or aggregate foreign investment ceiling. However, certain designated public corporations are subject to a 40.0% ceiling on acquisitions of shares by foreigners in the aggregate and a ceiling on acquisitions of shares by a single foreign investor provided in the Articles of Incorporation of such corporations. Of the Korean companies listed on the Korea Exchange, we are so designated. The Financial Services Commission may impose other restrictions as it deems necessary for the protection of investors and the stabilization of the Korean securities and derivatives market. Generally, the ownership of Converted Shares constitutes foreign ownership for purposes of such aggregate foreign ownership limit. However, the acquisition of Converted Shares is one of the exceptions under which foreign investors may acquire shares of designated corporations in excess of the 40.0% ceiling.

In addition to the aggregate foreign investment ceiling set by the Financial Services Commission under authority of the Financial Investment Services and Capital Markets Act, our Articles of Incorporation set a 3% ceiling on acquisition by a single investor (whether domestic or foreign) of the shares of our common stock. Any person (with certain exceptions) who holds more than 3% of our issued and outstanding shares cannot exercise voting rights with respect to our shares in excess of this 3% limit.

The ceiling on aggregate investment by foreigners applicable to us may be exceeded in certain limited circumstances, including as a result of acquisition of:

shares by a depositary issuing depositary receipts representing such shares (whether newly issued shares or outstanding shares);

Converted Shares;

shares from the exercise of shareholders' rights; or

shares by gift, inheritance or bequest.

A foreigner who has acquired shares in excess of any ceiling described above may not exercise his voting rights with respect to the shares exceeding such limit and the Financial Services Commission may take necessary corrective action against him.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a securities company. Funds in the foreign currency account may be remitted abroad without any governmental approval.

Dividends on shares of our common stock are paid in Won. No governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor's securities company or the investor's Won account. Funds in the investor's Won account may be transferred to his foreign currency account or withdrawn for local living expenses, provided that any withdrawal of local living expenses in excess of a certain amount is reported to the tax authorities by the foreign exchange bank at which Won account is maintained. Funds in the

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investor's Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Financial investment companies with a securities dealing, brokerage or collective investment license are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, these securities companies and asset management companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors without the foreign investors having to open their own accounts with foreign exchange banks.

**Item 10E. Taxation**

**Korean Taxes**

The following summary describes the material Korean tax consequences of ownership of the Registered Debt Securities and ADSs. Persons considering the purchase of the Registered Debt Securities or ADSs should consult their own tax advisors with regard to the application of the Korean income tax laws to their particular situations as well as any tax consequences arising under the laws of any other taxing jurisdiction. Reference is also made to a tax treaty between the Republic and the United States entitled "Convention Between the Government of the Republic of Korea and the Government of the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and the Encouragement of International Trade and Investment," signed on June 4, 1976 and entered into force on October 20, 1979.

The following summary of Korean tax considerations applies to you so long as you are not:

a resident of Korea;

a corporation having its head office, principal place of business or place of effective management in Korea; or

engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

***Registered Debt Securities***

***Taxation of Interest***

Pursuant to the Special Tax Treatment Control Law ( STTCL ), when we make payments of interest to you on the Registered Debt Securities, no amount will be withheld from such payments for, or on account of, any income taxes of any kind imposed, levied, withheld or assessed by Korea or any political subdivision or taxing authority thereof or therein, provided that Registered Debt Securities are deemed to be foreign currency-denominated bonds issued outside of Korea for the purpose of the STTCL.

If the tax exemption under the STTCL referred to above were to cease to be in effect, the rate of income tax or corporation tax applicable to the interest on the Registered Debt Securities would be 14% of income for a non-resident without a permanent establishment in Korea. In addition, local income tax would be imposed at the rate of 10.0% of the income tax or corporation tax (which would increase the total tax rate to 15.4%), unless reduction is available under an applicable income tax treaty. If you are a qualified resident in a country that has entered into a tax treaty with Korea, you may qualify for an exemption or a reduced rate of Korean withholding tax. See the discussion under "Shares or ADSs Tax Treaties" below for an additional explanation on treaty benefits.

In order to obtain the benefits of an exemption or a reduced withholding tax rate under a tax treaty, you must submit to us, prior to the interest payment date, such evidence of tax residence as may be required by the Korean tax authorities in order to establish your entitlement to the benefits of the applicable tax treaty.



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Furthermore, Korean tax laws require the beneficial owner to submit an application for entitlement to a preferential tax rate together with evidence of tax residence (including a certificate of tax residence of the beneficial owner issued by a competent authority of the country of tax residence of the beneficial owner) to a withholding obligor paying Korean source income in order to benefit from the available reduced tax rate pursuant to the relevant tax treaty. Under Korean tax laws and subject to certain exceptions, an overseas investment vehicle (which is defined as an organization established in a foreign jurisdiction that manages funds collected through investment solicitation by acquiring, disposing or otherwise investing in proprietary targets and then distributes the proceeds thereof to investors) (the Overseas Investment Vehicle ) must obtain an application for a preferential tax rate from the beneficial owner and forward it to the withholding obligor along with an overseas investment vehicle report (prepared by the Overseas Investment Vehicle) which includes a detailed statement on the beneficial owner.

### *Taxation of Capital Gains*

Korean tax laws currently exclude from Korean taxation gains made by a non-resident without permanent establishment in Korea from the sale of a Registered Debt Security to another non-resident (except where a non-resident sells Registered Debt Securities to another non-resident who has permanent establishments in Korea, if any). In addition, capital gains realized from the transfer of Registered Debt Securities outside Korea by non-residents with or without permanent establishments in Korea are currently exempt from taxation by virtue of the STTCL, provided that the issuance of such Registered Debt Securities is deemed to be an overseas issuance of foreign currency-denominated bonds under the STTCL. If you sell or otherwise dispose of a Registered Debt Security through other ways than those mentioned above, any gain realized on the transaction will be taxable at ordinary Korean withholding tax rates (which is the lesser of 22.0% (including local income tax) of the net gain or 11.0% (including local income tax) of the gross sale proceeds, subject to the production of satisfactory evidence of the acquisition cost of such Registered Debt Securities and certain direct transaction costs attributable to the disposal of such Registered Debt Securities), unless an exemption is available under an applicable income tax treaty. See the discussion under Shares or ADSs Tax Treaties below for an additional explanation on treaty benefits.

### *Inheritance Tax and Gift Tax*

If you die while you are the holder of Registered Debt Securities, the subsequent transfer of the Registered Debt Securities by way of succession will be subject to Korean inheritance tax. Similarly, if you transfer Registered Debt Securities as a gift, the donee will be subject to Korean gift tax and you may be required to pay the gift tax if the donee fails to do so.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

### *Shares or ADSs*

#### *Dividends on the Shares of Common Stock or ADSs*

We will deduct Korean withholding tax from dividends (whether in cash or in shares) paid to you at a rate of 22% (inclusive of local income tax). If you are a qualified resident in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See the discussion under Tax Treaties below for an additional explanation on treaty benefits.

In order to obtain the benefits of a reduced withholding tax rate under a tax treaty, you must submit to us, prior to the dividend payment date, such evidence of tax residence as may be required by the Korean tax authorities in order to establish your entitlement to the benefits of the applicable tax treaty. Evidence of tax residence may be submitted to us through the ADS depository. If we distribute to you free shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in capital, such distribution may be subject to Korean withholding tax.



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Furthermore, Korean tax laws require the beneficial owner to submit an application for entitlement to a preferential tax rate together with evidence of tax residence (including a certificate of tax residence of the beneficial owner issued by a competent authority of the country of tax residence of the beneficial owner) to a withholding obligor paying Korean source income in order to benefit from the available reduced tax rate pursuant to the relevant tax treaty. Under Korean tax laws and subject to certain exceptions, the Overseas Investment Vehicle must obtain an application for entitlement to a preferential tax rate from the beneficial owner and forward it to the withholding obligor along with an overseas investment vehicle report (prepared by the Overseas Investment Vehicle) which includes a detailed statement on the beneficial owner.

If you hold common shares or ADSs and receive the dividend through an account at the Korea Securities Depository held by a foreign depository settlement institute, you are not required to submit the application for entitlement to a preferential tax rate. However, evidence of tax residence may need to be submitted to us through such foreign depository settlement institute.

*Taxation of Capital Gains*

As a general rule, capital gains earned by non-residents upon the transfer of the common shares or ADSs would be subject to Korean income tax at a rate equal to the lesser of (i) 11.0% (including local income tax) of the gross proceeds realized or (ii) 22.0% (including local income tax) of the net realized gain (subject to the production of satisfactory evidence of the acquisition costs and certain direct transaction costs arising out of the transfer of such common shares or ADSs), unless such non-resident is exempt from Korean income taxation under an applicable Korean tax treaty into which Korea has entered with the non-resident's country of tax residence. Please see the discussion under *Tax Treaties* below for an additional explanation on treaty benefits. Even if you do not qualify for any exemption under a tax treaty, you will not be subject to the foregoing income tax on capital gains if you qualify for the relevant Korean domestic tax law exemptions discussed in the following paragraphs.

You will not be subject to Korean income taxation on capital gains realized upon the transfer of our common stocks or ADSs through the Korea Exchange if you (i) have no permanent establishment in Korea and (ii) did not own or have not owned (together with any shares owned by any entity which you have a certain special relationship with and possibly including the shares represented by the ADSs) 25.0% or more of our total issued and outstanding shares at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

It should be noted that (i) capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from the transfer of ADSs outside Korea will be exempted from Korean income taxation provided that ADSs are deemed to have been issued overseas under the STTCL, but (ii) if and when an owner of the underlying shares of stock transfers ADSs after conversion of the underlying shares into ADSs, the exemption described in (i) is not applicable.

If you are subject to tax on capital gains with respect to the sale of ADSs, or of shares of common stock which you acquired as a result of a withdrawal, the purchaser or, in the case of the sale of shares of common stock on the Korea Exchange or through an investment dealer or investment broker under the Financial Investment Services and Capital Markets Act, an investment dealer or investment broker is required to withhold Korean tax from the sales price in an amount equal to 11.0% (including local income tax) of the gross realization proceeds and to make payment of these amounts to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law or produce satisfactory evidence of your acquisition cost and transaction costs for the shares of common stock or the ADSs.

However, if you transfer the ADSs following an exchange of the underlying shares of stock owned by you for ADSs to a purchaser who is a non-resident or a foreign company without permanent establishment in Korea, you are obligated to file an income tax return and pay tax on gain realized from such transfer unless exempt

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under an applicable tax treaty or domestic law. Further, if you transfer the shares of common stock outside of Korea (excluding a transfer on a foreign exchange) to non-residents or foreign companies without having permanent establishments in Korea, you are obligated to file an income tax return and pay income tax on capital gain realized from such transfer unless exempt under an applicable tax treaty or domestic law. If a purchaser or an investment dealer or investment broker, as the case may be, withholds and remits the tax on capital gains derived from transfer of shares of common stock or ADSs, your obligation to file an income tax return and pay income tax will be exempt.

In order to obtain the benefit of an exemption from tax pursuant to a tax treaty, you must submit to the purchaser or the investment dealer or the investment broker, or through the ADS depository, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty benefits. Please see the discussion under *Tax Treaties* below for an additional explanation on claiming treaty benefits. Furthermore, Korean tax laws require the beneficial owner to submit an application for tax exemption together with evidence of tax residence (including a certificate of tax residence of the beneficial owner issued by a competent authority of the country of tax residence of the beneficial owner) to a withholding obligor paying Korean source income in order to benefit from the available exemption pursuant to the relevant tax treaty. Under Korean tax laws and subject to certain exceptions, the Overseas Investment Vehicle must obtain an application for tax exemption from the beneficial owner and forward it to the withholding obligor along with an overseas investment vehicle report (prepared by the Overseas Investment Vehicle) which includes a detailed statement on the beneficial owner.

*Tax Treaties*

Korea has entered into a number of income tax treaties with other countries (including the United States), which would reduce or exempt Korean withholding tax on dividends on, and capital gains on transfer of, shares of our common stock or ADSs. For example, under the Korea-United States income tax treaty, reduced rates of Korean withholding tax of 16.5% or 11.0% (respectively, including local income tax, depending on your shareholding ratio) on dividends and an exemption from Korean withholding tax on capital gains are available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains. However, under Article 17 (Investment of Holding Companies) of the Korea-United States income tax treaty, such reduced rates and exemption do not apply if (i) you are a United States corporation, (ii) by reason of any special measures, the tax imposed on you by the United States with respect to such dividends or capital gains is substantially less than the tax generally imposed by the United States on corporate profits, and (iii) 25.0% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Korea-United States income tax treaty, the exemption on capital gains does not apply if you are an individual, and (a) you maintain a fixed base in Korea for a period or periods aggregating 183 days or more during the taxable year and your ADSs or shares of common stock giving rise to capital gains are effectively connected with such fixed base or (b) you are present in Korea for a period or periods of 183 days or more during the taxable year.

You should inquire for yourself whether you are entitled to the benefit of an income tax treaty with Korea. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser or the investment dealer or the investment broker, as applicable, a certificate as to his tax residence. In the absence of sufficient proof, we, the purchaser or the investment dealer or the investment broker, as applicable, must withhold tax at the normal rates. Further, in order for you to obtain the benefit of a tax exemption on certain Korean source income (e.g., interest, dividends and capital gains) under an applicable tax treaty, Korean tax laws require you (or your agent) to submit an application for tax exemption (if there is no change in the content of such application, it is not required to submit such application again within a period of three years thereafter) along with a certificate of your tax residence issued by a competent authority of your country of tax residence. Under Korean tax laws and subject to certain exceptions, the Overseas Investment Vehicle must obtain an application for tax exemption from the beneficial owner and forward it to the withholding

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obligor along with an overseas investment vehicle report (prepared by the Overseas Investment Vehicle) which includes a detailed statement on the beneficial owner. The withholding obligor must submit the application and the report to the relevant tax office by the ninth day of the month following the date of the first payment of such income.

Furthermore, the Korean tax laws require the beneficial owner to submit an application for entitlement to a preferential tax rate (if there is no change in the content of such application, it is not required to submit such application again within a period of three years thereafter) together with evidence of tax residence (including a certificate of tax residence of the beneficial owner issued by a competent authority of the country of tax residence of the beneficial owner) to a withholding obligor paying Korean source income in order to benefit from the available reduced tax rate pursuant to the relevant tax treaty. If you hold the shares of common stock or ADSs and receive the dividend through an account at the Korea Securities Depository held by a foreign depository settlement institute, you are not required to submit the application for entitlement to a preferential tax rate. However, evidence of tax residence may need to be submitted to us through such foreign depository settlement institute.

Under Korean tax laws and subject to certain exceptions, the Overseas Investment Vehicle must obtain an application for a preferential tax rate from the beneficial owner and forward it to the withholding obligor along with an overseas investment vehicle report (prepared by the Overseas Investment Vehicle) which includes a detailed statement on the beneficial owner.

### *Inheritance Tax and Gift Tax*

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the shares of common stock underlying the ADSs. If the tax authority interprets depository receipts as the underlying share certificates, you may be treated as the owner of the shares of common stock and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10.0% to 50.0%, depending on the value of the ADSs or shares of common stock.

If you die while holding a share of common stock or donate a share of common stock, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

### *Securities Transaction Tax*

If you transfer shares of common stock on the Stock Market of the Korea Exchange, you will be subject to securities transaction tax at the rate of 0.15% and an agriculture and fishery special surtax at the rate of 0.15% of the sale price of the shares of common stock. If your transfer of the shares of common stock is not made on the Stock Market of the Korea Exchange, subject to certain exceptions you will be subject to securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special surtax.

Under the Securities Transaction Tax Law, depository receipts (such as ADSs) constitute share certificates subject to the securities transaction tax. However, a transfer of depository receipts listed on the New York Stock Exchange, NASDAQ National Market or other qualified foreign exchanges will be exempt from the securities transaction tax although depository receipts, including ADSs, constitute share certificates subject to the securities transaction tax.

In principle, the securities transaction tax, if applicable, must be paid by the transferor of the shares or rights. When the transfer is effected through the Korea Securities Depository, the Korea Securities Depository is generally required to withhold and pay the tax to the tax authorities. When such transfer is made through an

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investment dealer or investment broker under the Financial Investment Services and Capital Markets Act only, such investment dealer or investment broker is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through the Korea Securities Depository or an investment dealer or investment broker, the transferee is required to withhold the securities transaction tax for payment to the Korean tax authority.

**U.S. Federal Income and Estate Tax Considerations for U.S. Persons**

The following is a summary of certain U.S. Federal income and estate tax consequences for beneficial owners of the Registered Debt Securities, common stock and ADSs that are U.S. Persons (as defined below). For purposes of this summary, you are a U.S. Person if you are any of the following for U.S. Federal income tax purposes:

an individual citizen or resident of the United States;

a corporation, or other entity treated as a corporation for U.S. Federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate the income of which is subject to U.S. Federal income taxation regardless of its source; or

a trust if (1) it is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) it has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary is based on current law, which is subject to change (perhaps retroactively), is for general purposes only and should not be considered tax advice. This summary does not represent a detailed description of the U.S. Federal income and estate tax consequences to you in light of your particular circumstances. The discussion set forth below is applicable to you if (i) you are a resident of the United States for purposes of the current income tax treaty between the United States and Korea (the Treaty), (ii) your Registered Debt Securities, common stock or ADSs are not, for purposes of the Treaty, effectively connected with a permanent establishment in Korea and (iii) you otherwise qualify for the full benefits of the Treaty. Except where noted, this summary deals only with Registered Debt Securities, common stock or ADSs held as capital assets, and it does not represent a detailed description of the U.S. Federal income and estate tax consequences applicable to you if you are subject to special treatment under the U.S. Federal income tax laws (including if you are a dealer in securities or currencies, a financial institution, a regulated investment company, a real estate investment trust, an insurance company, a tax-exempt organization, a person holding the Registered Debt Securities, common stock or ADSs as part of a hedging, integrated or conversion transaction, constructive sale or straddle, a person owning 10.0% or more of our voting stock, a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings, a person liable for the alternative minimum tax, an investor in a pass-through entity, or a U.S. Person whose functional currency is not the U.S. dollar). We cannot assure you that a change in law will not alter significantly the tax considerations that we describe in this summary.

If a partnership holds the Registered Debt Securities, common stock or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our Registered Debt Securities, common stock, or ADSs, you should consult your tax advisor.

Because of the 100-year maturity of the One Hundred Year 7.95% Zero-to-Full Debentures, due April 1, 2096 (the ZTF Debentures), it is not certain whether the ZTF Debentures will be treated as debt for U.S. Federal income tax purposes. The discussion below assumes that the ZTF Debentures (as well as the other Registered Debt Securities) will be treated as debt, except that a summary of the consequences to you if the ZTF Debentures were not treated as debt is provided under Tax Consequences with Respect to Registered Debt Securities Generally ZTF Debentures Treated as Equity below.

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The discussion of the tax consequences of ownership of common stock and ADSs below, is based, in part, upon representations made by the Depository to us and assumes that the deposit agreement, and all other related agreements, will be performed in accordance with their terms.

**You should consult your own tax advisor concerning the particular U.S. Federal income and estate tax consequences to you of the ownership of the Registered Debt Securities, common stock and ADSs, as well as the consequences to you arising under the laws of any other taxing jurisdiction.**

### *Tax Consequences with Respect to Registered Debt Securities Generally*

#### *Payments*

Except as provided below with regard to original issue discount (as defined below) on the ZTF Debentures, interest payments on a Registered Debt Security will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for tax purposes. Principal payments on an amortizing Registered Debt Security generally will constitute a tax-free return of capital to you.

Although interest payments to you are currently exempt from Korean taxation provided that Registered Debt Securities are deemed to be foreign currency-denominated bonds issued outside of Korea for the purpose of the STTCL, (See Korean Taxes Registered Debt Securities Taxation of Interest, above) if the Korean law providing for the exemption is repealed, then, in addition to interest payments on the Registered Debt Securities and original issue discount on the ZTF Debentures, you will be required to include in income any additional amounts and any Korean tax withheld from interest payments notwithstanding that you in fact did not receive such withheld tax. You may be entitled to deduct or credit such Korean tax (up to the Treaty rate), subject to applicable limitations in the Internal Revenue Code of 1986, as amended (the Code). Your election to deduct or credit foreign taxes will apply to all of your foreign taxes for a particular taxable year. Interest income on a Registered Debt Security (including additional amounts and any Korean taxes withheld in respect thereof) and original issue discount on a ZTF Debenture generally will constitute foreign source income and generally will be considered passive category income for purposes of computing the foreign tax credit. You will generally be denied a foreign tax credit for Korean taxes imposed with respect to the Registered Debt Securities where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

#### *Original Issue Discount*

The ZTF Debentures were issued with original issue discount (OID), for U.S. Federal income tax purposes equal to the difference between (i) the sum of all scheduled amounts payable on the ZTF Debentures (including the interest payable on such ZTF Debentures) and (ii) the issue price of the ZTF Debentures. The issue price of each ZTF Debenture is the first price at which a substantial amount of the ZTF Debentures was sold to the public (other than to an underwriter, broker, placement agent or wholesaler). If you hold ZTF Debentures, then you generally must include OID in gross income in advance of the receipt of cash attributable to that income, regardless of your method of accounting. However, you generally will not be required to include separately in income cash payments received on the ZTF Debentures, even if denominated as interest.

The amount of OID includible in income by the initial holder of a ZTF Debenture is the sum of the daily portions of OID with respect to the ZTF Debenture for each day during the taxable year or portion of the taxable year in which such holder held such ZTF Debenture, or accrued OID (for a discussion relevant to subsequent purchasers, see Market Discount and Bond Premium, below). The daily portion is determined by allocating to each day in any accrual period a pro rata portion of the OID allocable to that accrual period. The accrual period for a ZTF Debenture may be of any length and may vary in length over the term of the ZTF Debenture, provided that each accrual period is no longer than one year and each scheduled payment of principal

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or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period other than the final accrual period is an amount equal to the product of the ZTF Debenture's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period). OID allocable to a final accrual period is the difference between the amount payable at maturity and the adjusted issue price at the beginning of the final accrual period. The adjusted issue price of a ZTF Debenture at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (for subsequent purchasers, determined without regard to the amortization of any acquisition or bond premium, as described below) and reduced by any payments previously made on such ZTF Debenture. Under these rules, you will have to include in income increasingly greater amounts of OID in successive accrual periods. We are required to provide information returns stating the amount of OID accrued on ZTF Debentures held of record by persons other than corporations and other exempt holders.

As discussed above, although interest payments to you are currently exempt from Korean taxation provided that Registered Debt Securities are deemed to be foreign currency-denominated bonds issued outside of Korea for the purpose of the STTCL, (See Korean Taxes Registered Debt Securities Taxation of Interest, above) if the Korean law providing for the exemption is repealed, then Korean withholding tax may be imposed at times that differ from the times at which you are required to include interest or OID in income for U.S. Federal income tax purposes and this disparity may limit the amount of foreign tax credit available.

*Market Discount*

If you purchase a Registered Debt Security other than a ZTF Debenture for an amount that is less than its stated redemption price at maturity, or, in the case of a ZTF Debenture, its adjusted issue price, the amount of the difference will be treated as market discount for U.S. Federal income tax purposes, unless that difference is less than a specified de minimis amount. Under the market discount rules, you will be required to treat any payment, other than qualified stated interest (as defined in the Code), on, or any gain on the sale, exchange, retirement or other disposition of, a Registered Debt Security as ordinary income to the extent of the market discount that you have not previously included in income and are treated as having accrued on the Registered Debt Security at the time of its payment or disposition. In addition, you may be required to defer, until the maturity of the Registered Debt Security or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness attributable to the Registered Debt Security.

Any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the Registered Debt Security, unless you elect to accrue on a constant interest method. Your election to accrue market discount on a constant interest method is to be made for the taxable year in which you acquired the Registered Debt Security, applies only to that Registered Debt Security and cannot be revoked. You may elect to include market discount in income currently as it accrues, on either a ratable or constant interest method, in which case the rule described above regarding deferral of interest deductions will not apply. Your election to include market discount in income currently, once made, applies to all market discount obligations acquired by you on or after the first taxable year to which your election applies and may not be revoked without the consent of the Internal Revenue Service (the IRS). You should consult your own tax advisor before making this election.

*Bond Premium*

If you purchase a ZTF Debenture for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the ZTF Debenture after the purchase date, you will be considered to have purchased that ZTF Debenture at an acquisition premium. Under the acquisition premium rules, the amount of OID that you must include in gross income with respect to a ZTF Debenture for any taxable year will be reduced by the portion of the acquisition premium properly allocable to that year.

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If you purchase a Registered Debt Security for an amount in excess of the sum of all amounts payable on the Registered Debt Security after the purchase date other than qualified stated interest, you will be considered to have purchased the Registered Debt Security at a premium and, if such Registered Debt Security is a ZTF Debenture, you will not be required to include any OID in income. You generally may elect to amortize the premium over the remaining term of the Registered Debt Security on a constant yield method as an offset to interest when includible in income under your regular accounting method. In the case of instruments that provide for alternative payment schedules, bond premium is calculated by assuming that (a) you will exercise or not exercise options in a manner that maximizes your yield, and (b) we will exercise or not exercise options in a manner that minimizes your yield (except that we will be assumed to exercise call options in a manner that maximizes your yield). If you do not elect to amortize bond premium, that premium will decrease the gain or increase the loss you would otherwise recognize on disposition of a Registered Debt Security. Your election to amortize premium on a constant yield method will also apply to all debt obligations held or subsequently acquired by you on or after the first day of the first taxable year to which the election applies. You may not revoke the election without the consent of the IRS. You should consult your own tax advisor before making this election.

### *Sale, Exchange and Retirement of Registered Debt Securities*

When you sell, exchange or retire a Registered Debt Security, you will recognize gain or loss equal to the difference between the amount you receive (not including an amount equal to any accrued qualified stated interest, which will be taxable as ordinary income to the extent not previously included in income) and your adjusted tax basis in the Registered Debt Security. Your tax basis in a Registered Debt Security other than a ZTF Debenture will generally be your cost of obtaining the Registered Debt Security increased by any market discount included in income and reduced by payments of principal you receive and any bond premium that you elect to amortize. Your adjusted tax basis in a ZTF Debenture will, in general, be your cost therefor, increased by any market discount and OID previously included in income and reduced by any cash payments on the ZTF Debentures and any bond premium that you elect to amortize. Your gain or loss realized on selling, exchanging or retiring a Registered Debt Security will generally be treated as United States source income. Consequently, you may not be able to use the foreign tax credit arising from any Korean tax imposed on the disposition of Registered Debt Securities unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. Except as described above with respect to market discount, your gain or loss will be capital gain or loss and will be long-term capital gain or loss if, at the time of the sale, exchange or retirement of a Registered Debt Security, you have held the Registered Debt Security for more than one year. If you are an individual and the Registered Debt Security being sold, exchanged or retired is a capital asset that you held for more than one year, you may be eligible for reduced rates of taxation on any capital gain recognized. Your ability to deduct capital losses is subject to limitations.

### *ZTF Debentures Treated as Equity*

If the ZTF Debentures were treated as equity for U.S. Federal income tax purposes, amounts deemed paid with respect to the ZTF Debentures would be deemed dividends for U.S. Federal income tax purposes to the extent paid out of our current or accumulated earnings and profits (as determined for U.S. Federal income tax purposes).

You would include the amounts deemed paid by us on the ZTF Debentures (before reduction for Korean withholding tax, if any) as dividend income when actually or constructively paid by KEPCO. Section 305 of the Code, which would apply to the ZTF Debentures if they were treated as equity for U.S. Federal income tax purposes, requires current accrual of dividends under principles similar to the accrual of OID. Amounts treated as dividends will not be eligible for the dividends received deduction generally allowed to U.S. corporations.

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### ***Tax Consequences with Respect to Common Stock and ADSs***

In general, for U.S. Federal income tax purposes, holders of ADSs will be treated as the owners of the underlying common stock that is represented by such ADSs. Accordingly, deposits or withdrawals of common stock by holders of ADSs will not be subject to U.S. Federal income tax.

### ***Distributions on Common Stock or ADSs***

The gross amount of distributions (other than certain distributions of common stock or rights to subscribe for common stock) to holders of common stock or ADSs (including amounts withheld in respect of Korean withholding taxes) will be taxable dividends to such holders, to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. Federal income tax principles. Such income (including withheld taxes) will be includable in the gross income of a holder as ordinary income on the day actually or constructively received by the holder, in the case of common stock, or by the Depositary, in the case of ADSs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

With respect to non-corporate U.S. Persons, certain dividends paid by a qualified foreign corporation and received by such holders may be subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of an income tax treaty with the United States, if such treaty contains an exchange of information provision and the United States Treasury Department has determined that the treaty is satisfactory for purposes of the legislation. The United States Treasury Department has determined that the Treaty, which contains an exchange of information provision, is (in the absence of additional guidance) satisfactory for these purposes. In addition, we believe we are eligible for the benefits of the Treaty. However, a foreign corporation is also treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. Shares of our common stock will generally not be considered readily tradable for these purposes. However, United States Treasury Department guidance indicates that our ADSs, which are listed on the New York Stock Exchange, are readily tradable on an established securities market in the United States. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. Non-corporate U.S. Persons that do not meet a minimum holding period requirement during which they are not protected from a risk of loss or that elect to treat the dividend income as investment income pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. Holders should consult their own tax advisors regarding the application of the foregoing rules to their particular circumstances.

The amount of any dividend paid in Won will equal the United States dollar value of the Won received calculated by reference to the exchange rate in effect on the date the dividend is received by the holder, in the case of common stock, or by the Depositary, in the case of ADSs, regardless of whether the Won are converted into U.S. dollars. If the Won received as a dividend are not converted into U.S. dollars on the date of receipt, a holder will have a basis in the Won equal to their U.S. dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the Won will be treated as United States source ordinary income or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

The maximum rate of withholding tax on dividends paid to you pursuant to the Treaty is 16.5%. You will be required to properly demonstrate to us and the Korean tax authorities your entitlement to the reduced rate of withholding under the Treaty. Subject to certain conditions and limitations, Korean withholding taxes (up to the Treaty rate) will be treated as foreign taxes eligible for credit against your U.S. Federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the common stock or ADSs will be treated as foreign source income and will generally constitute passive category income. Further, in certain circumstances, if you have held common stock or ADSs for less than a specified minimum period during which you are not



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protected from risk of loss, or are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on common stock or ADSs. The rules governing the foreign tax credit are complex. Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances including the possible adverse impact on creditability to the extent you are entitled to a refund of any Korean tax withheld or a reduced rate of withholding.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under U.S. Federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the common stock or ADSs (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by the investor on a subsequent disposition of the common stock or ADSs), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange of property. Consequently, such distributions in excess of our current and accumulated earnings and profits would not give rise to foreign source income and you generally would not be able to use the foreign tax credit arising from any Korean withholding tax imposed on such distributions unless such credit can be applied (subject to applicable limitations) against U.S. tax due on other foreign source income in the appropriate category for foreign tax credit purposes. However, we do not expect to keep earnings and profits in accordance with U.S. Federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend (as discussed above).

Distributions of common stock or rights to subscribe for common stock that are received as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. Federal income tax. Consequently such distributions will not give rise to foreign source income and you generally will not be able to use the foreign tax credit arising from any Korean withholding tax unless such credit can be applied (subject to applicable limitations) against U.S. tax due on other income derived from foreign sources. The basis of the new common stock or rights so received will be determined by allocating your basis in the old common stock between the old common stock and the new common stock or rights received, based on their relative fair market value on the date of distribution. However, the basis of the rights will be zero if (i) the fair market value of the rights is less than 15% of the fair market value of the old common stock at the time of distribution, unless the taxpayer elects to determine the basis of the old common stock and of the rights by allocating between the old common stock and the rights the adjusted basis of the old common stock or (ii) the rights are not exercised and thus expire.

*Sale, Exchange or Other Disposition of ADSs or Common Stock*

Upon the sale, exchange or other disposition of ADSs or common stock, you generally will recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition and your adjusted tax basis in the ADSs or common stock. The capital gain or loss will be long-term capital gain or loss if at the time of sale, exchange or other disposition, the ADSs or common stock have been held by you for more than one year. Under current law, long-term capital gains of individuals are, under certain circumstances, taxed at lower rates than items of ordinary income. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as U.S. source gain or loss. Consequently, you may not be able to use the foreign tax credit arising from any Korean tax imposed on the disposition of ADSs or common stock unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

You should note that any Korean securities transaction tax will not be treated as a creditable foreign tax for U.S. Federal income tax purposes, although you may be entitled to deduct such taxes, subject to applicable limitations under the Code.

*Estate and Gift Taxation*

As discussed above in [Korean Taxes](#) [Registered Debt Securities](#) [Inheritance Tax and Gift Tax](#) and [Korean Taxes](#) [Shares or ADSs](#) [Inheritance Tax and Gift Tax](#), Korea may impose an inheritance tax on

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your heir who receives ADSs and will impose an inheritance tax on an heir who receives common stock or Registered Debt Securities. The amount of any inheritance tax paid to Korea may be eligible for credit against the amount of U.S. Federal estate tax imposed on your estate. Prospective purchasers should consult their personal tax advisors to determine whether and to what extent they may be entitled to such credit. Korea also imposes a gift tax on the donation of any property located within Korea. The Korean gift tax generally will not be treated as a creditable foreign tax for United States tax purposes.

### ***Information Reporting and Backup Withholding***

In general, information reporting requirements will apply to principal, interest, OID and premium payments on Registered Debt Securities and dividend payments in respect of the common stock or ADSs or the proceeds received on the sale, exchange or redemption of the Registered Debt Securities, common stock or ADSs paid within the United States (and in certain cases, outside of the United States) to holders other than certain exempt recipients, and a backup withholding tax may apply to such amounts if you fail to provide an accurate taxpayer identification number or to report interest and dividends required to be shown on your U.S. Federal income tax returns. The amount of any backup withholding from a payment to you will be allowed as a refund or a credit against your U.S. Federal income tax liability, provided the required information is furnished to the IRS.

### **Item 10F. Dividends and Paying Agents**

Not Applicable

### **Item 10G. Statements by Experts**

Not Applicable

### **Item 10H. Documents on Display**

We are subject to the information requirements of the Exchange Act, and, in accordance therewith, are required to file reports, including annual reports on Form 20-F, and other information with the U.S. Securities and Exchange Commission. You may inspect and copy these materials, including this annual report and the exhibits thereto, at SEC's Public Reference Room 100 Fifth Street, N.E., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are also required to make filings with the Commission by electronic means. Any filings we make electronically will be available to the public over the Internet at the Commission's web site at <http://www.sec.gov>.

### **Item 10I. Subsidiary Information**

Not Applicable

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our primary market risk exposures are to fluctuations in exchange rates, interest rates and fuel prices. We are exposed to foreign exchange risk related to foreign currency-denominated liabilities. As of December 31, 2014, approximately 20.5% of our long-term debt (including the current portion but excluding issue discounts and premium), before accounting for swap transactions, was denominated in foreign currencies, principally U.S. dollars. However, a substantial portion of our revenues is denominated in Won. As a result, changes in exchange rates, particularly between the Won and the U.S. dollar, significantly affect us due to our significant amounts of foreign currency-denominated debt and the effect of such changes on the amount of funds required by us to make interest and principal payments on such debt. In order to reduce the impact of foreign exchange rate fluctuations on our results of operations, we have recently been reducing and plan to continue to reduce the proportion of our debt which is denominated in foreign currencies.

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We are also exposed to foreign exchange risk related to our purchases of fuels since we obtain substantially all of our fuel materials (other than anthracite coal) directly or indirectly from sources outside Korea. Prices for such fuel materials are quoted based on prices stated in, and in many cases are paid for in, currencies other than Won. In 2014, fuel costs represented 36.1% of our sales.

We are exposed to interest rate risk due to significant amounts of debt. Upward fluctuations in interest rates increase the cost of additional debt and the interest cost of outstanding floating rate borrowings. We are also exposed to fluctuations in prices of fuel materials. In 2014, for electricity generation, uranium accounted for 35.3% of our fuel requirements, coal accounted for 46.0%, LNG accounted for 15.5% and oil accounted for 1.7%, measured in each case by the amount of electricity we generated. In 2013, measured on the same basis, uranium accounted for 30.9% of our fuel requirements, coal accounted for 44.8%, LNG accounted for 19.7% and oil accounted for 3.3%.

For additional discussions of our market risks, see Item 3D. Risk Factors and Item 5B. Liquidity and Capital Resources Liquidity.

We have entered into various swap contracts to hedge exchange rate risks arising from foreign currency-denominated debts. Details of currency swap contracts outstanding as of December 31, 2014 are as follows:

Type	Counterparty	Contract Year	Settlement Year	Contract amounts		Contract interest rate		Contract Exchange Rate
				Pay	Receive	Pay	Receive	
				(KRW in millions, USD in thousands)				
Trading	UBS	2011	2015	KRW 220,356	USD 200,000	3.90%	3.00%	1,101.78
	RBS	2011	2015	KRW 110,110	USD 100,000	3.90%	3.00%	1,101.10
	Barclays Bank PLC	2011	2015	KRW 108,390	USD 100,000	3.78%	3.00%	1,083.90
	Credit Suisse	2011	2015	KRW 108,390	USD 100,000	3.22%	3.00%	1,083.90
	Morgan Stanley	2011	2015	KRW 63,006	USD 60,000	4.06%	3.00%	1,050.10
	Goldman Sachs	2012	2015	KRW 156,643	USD 140,000	3.92%	3.00%	1,118.88
	Deutsche Bank	2013	2018	KRW 110,412	JPY 10,000,000	6.21%	4.19%	11.04
	IBK	2013	2018	KRW 111,800	USD 100,000	3.16%	2.79%	1,118.00
	Bank of America	2013	2018	KRW 103,580	JPY 10,000,000	7.05%	4.19%	10.36
	Credit Suisse	2014	2019	KRW 118,632	CHF 100,000	2.98%	1.50%	1,186.32
	Standard Chartered	2014	2019	KRW 114,903	CHF 100,000	4.00%	1.50%	1,149.03
	Standard Chartered	2014	2029	KRW 102,470	USD 100,000	3.14%	3.57%	1,024.70
	Standard Chartered	2014	2017	KRW 51,215	USD 50,000	2.24%	3M USD Libor + 0.55%	1,024.30
	Mizuho Corporate Bank	2014	2017	KRW 153,645	USD 150,000	2.35%	3M USD Libor + 0.65%	1,024.30
	Societe Generale	2014	2024	KRW 105,017	USD 100,000	4.92%	5.13%	1,050.17
	Morgan Stanley	2010	2015	KRW 118,800	USD 100,000	4.61%	3M Libor + 1.64%	1,188.00
	M-UFJ	2010	2015	KRW 116,100	USD 100,000	4.00%	3M Libor + 1.00%	1,161.00
	Citibank	2010	2015	KRW 116,080	USD 100,000	3.97%	3.13%	1,160.80
	Deutsche Bank	2010	2015	KRW 116,080	USD 100,000	3.98%	3.13%	1,160.80
	RBS	2010	2015	KRW 116,080	USD 100,000	3.97%	3.13%	1,160.80
	HSBC	2010	2015	KRW 116,080	USD 100,000	3.23%	3.13%	1,160.80
	UBS	2010	2015	KRW 116,080	USD 100,000	3.23%	3.13%	1,160.80
	Citibank	2012	2022	KRW 112,930	USD 100,000	2.79%	3.00%	1,129.30
	JP Morgan	2012	2022	KRW 112,930	USD 100,000	2.79%	3.00%	1,129.30
	Bank of America	2012	2022	KRW 112,930	USD 100,000	2.79%	3.00%	1,129.30
	Goldman Sachs	2012	2022	KRW 112,930	USD 100,000	2.79%	3.00%	1,129.30
	HSBC	2012	2022	KRW 111,770	USD 100,000	2.89%	3.00%	1,117.70
	Hana Bank	2012	2022	KRW 111,770	USD 100,000	2.87%	3.00%	1,117.70
	Standard Chartered	2012	2022	KRW 111,770	USD 100,000	2.89%	3.00%	1,117.70
	Deutsche Bank	2012	2022	KRW 55,885	USD 50,000	2.79%	3.00%	1,117.70

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Type	Counterparty	Contract Year	Settlement Year	Contract amounts		Contract interest rate		Contract Exchange Rate
				Pay	Receive	Pay	Receive	
				(KRW in millions, USD in thousands)				
							3M Libor	
	DBS	2013	2018	KRW 108,140	USD 100,000	2.63%	+0.84%	1,081.40
							3M Libor	
	DBS	2013	2018	KRW 108,140	USD 100,000	2.57%	+0.84%	1,081.40
							3M Libor	
	DBS	2013	2018	KRW 108,140	USD 100,000	2.57%	+0.84%	1,081.40
	HSBC	2013	2018	KRW 107,450	USD 100,000	3.41%	2.88%	1,074.50
	Standard Chartered	2013	2018	KRW 107,450	USD 100,000	3.44%	2.88%	1,074.50
	JP Morgan	2013	2018	KRW 107,450	USD 100,000	3.48%	2.88%	1,074.50
	Bank of America	2014	2018	KRW 107,450	USD 100,000	3.09%	2.88%	1,074.50
	Citibank	2014	2018	KRW 107,450	USD 100,000	3.09%	2.88%	1,074.50
							3M Libor	
	JP Morgan	2014	2017	KRW 102,670	USD 100,000	2.89%	+0.78%	1,026.70
							3M Libor	
	Deutsche Bank	2014	2017	KRW 102,670	USD 100,000	2.89%	+0.78%	1,026.70
	HSBC	2014	2019	KRW 105,260	USD 100,000	2.48%	2.38%	1,052.60
	Standard Chartered	2014	2019	KRW 105,260	USD 100,000	2.48%	2.38%	1,052.60
	RBS	2014	2019	KRW 105,260	USD 100,000	2.48%	2.38%	1,052.60
Cash flow hedge	Citibank	2006	2016	KRW 113,200	USD 100,000	1.05%	6.00%	1,132.00
	Barclays Bank PLC	2006	2016	KRW 113,200	USD 100,000	1.05%	6.00%	1,132.00
	Credit Suisse	2006	2016	KRW 113,200	USD 100,000	1.05%	6.00%	1,132.00
	Goldman Sachs	2011	2017	KRW 105,260	USD 100,000	3.99%	3.63%	1,052.60
	Barclays Bank PLC	2011	2017	KRW 105,260	USD 100,000	3.99%	3.63%	1,052.60
	Citibank	2011	2017	KRW 105,260	USD 100,000	3.99%	3.63%	1,052.60
							3M Libor	
	Citibank	2013	2018	KRW 54,570	USD 50,000	2.90%	+1.01%	1,091.40
							3M Libor	
	Standard Chartered	2013	2018	KRW 54,570	USD 50,000	2.90%	+1.01%	1,091.40
							3M Libor	
	Credit Suisse	2013	2018	KRW 111,410	USD 100,000	3.22%	+1.50%	1,114.10
	HSBC	2014	2020	KRW 99,901	AUD 100,000	3.52%	5.75%	999.01
	HSBC	2014	2020	KRW 100,482	AUD 100,000	3.48%	5.75%	1,004.82
							3M Libor	
	Standard Chartered	2013	2020	USD 117,250	AUD 125,000	+1.25%	5.75%	0.94
							3M Libor	
	Standard Chartered	2014	2020	KRW 126,032	USD 117,250	3.55%	+1.25%	1,074.90
	UBS AG	2006	2016	KRW 98,100	USD 100,000	5.48%	5.50%	981.00
	Credit Suisse	2006	2016	KRW 98,100	USD 100,000	5.48%	5.50%	981.00

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						3.25%		
JP Morgan	2014	2019	KRW 107,190	USD 100,000	+3%*n/N	2.75%	1,071.90	
						3.25%		
Morgan Stanley	2014	2019	KRW 107,190	USD 100,000	+3%*n/N	2.75%	1,071.90	
						3.25%		
Barclays Bank PLC	2014	2019	KRW 107,190	USD 100,000	+3%*n/N	2.75%	1,071.90	
Barclays Bank PLC	2006	2016	KRW 71,888	USD 75,000	4.81%	5.50%	958.50	
Deutsche Bank AG	2006	2016	KRW 71,888	USD 75,000	4.81%	5.50%	958.50	
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	
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	

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Type	Counterparty	Contract Year	Settlement Year	Contract amounts		Contract interest rate		Contract Exchange Rate
				Pay	Receive	Pay	Receive	
	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
	Standard Chartered	2014	2019	KRW 104,490	USD 100,000	2.77%	2.63%	1,044.90
	RBS	2014	2019	KRW 104,490	USD 100,000	2.77%	2.63%	1,044.90
	Barclays Bank PLC	2014	2019	KRW 104,490	USD 100,000	2.77%	2.63%	1,044.90
	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
							3M Libor	
	Standard Chartered	2014	2017	KRW 54,205	USD 50,000	2.93%	+1.05%	1,084.10
							3M Libor	
	Credit Agricole	2014	2017	KRW 54,205	USD 50,000	2.93%	+1.05%	1,084.10
							3M Libor	
	BTMU	2010	2015	KRW 55,900	USD 50,000	4.03%	+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
	Credit Agricole	2014	2020	KRW 110,680	USD 100,000	2.29%	2.50%	1,106.80
	Societe Generale	2014	2020	KRW 55,340	USD 50,000	2.16%	2.50%	1,106.80
	Hana Bank	2014	2020	KRW 55,340	USD 50,000	2.16%	2.50%	1,106.80
	Hana Bank	2014	2020	KRW 55,340	USD 50,000	2.21%	2.50%	1,106.80
	Standard Chartered	2014	2020	KRW 55,340	USD 50,000	2.21%	2.50%	1,106.80
	HSBC	2014	2020	KRW 55,340	USD 50,000	2.21%	2.50%	1,106.80
	Nomura	2014	2020	KRW 55,340	USD 50,000	2.21%	2.50%	1,106.80
	Barclays Bank PLC	2014	2020	KRW 55,340	USD 50,000	2.21%	2.50%	1,106.80
	RBS	2014	2020	KRW 55,340	USD 50,000	2.21%	2.50%	1,106.80

Under these currency swap contracts, we recognized net valuation gain of Won 168,987 million in 2014.



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Details of interest rate contracts outstanding as of December 31, 2014 are as follows:

Type	Counterparty	Contract Year	Settlement Year	Notional Amount (KRW in millions, USD in thousands)	Contract Interest Rate Per Annum Pay	Contract Interest Rate Per Annum 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	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%
Credit Suisse	2014	2018	KRW 200,000	2.98%	1Y CMT + 0.31%	
Korea Development Bank <sup>(1)</sup>	2014	2029	KRW 40,000	3M CD 0.03%	4.65%	
Cash flow hedge	BNP Paribas	2009	2027	USD 104,845	4.16%	6M USD Libor
	KFW	2009	2027	USD 104,845	4.16%	6M USD Libor
	Credit Agricole	2012	2033	USD 105,727	3.98% ~ 4.10%	6M USD Libor
	SMBC	2012	2033	USD 138,258	4.05% ~ 4.18%	6M USD Libor

Note:

- (1) This contract is an interest rate swap hedging on Electricity Bonds 885, and the bank would notify us of the early termination every year on the early termination nonfiction date (every year on April 28 from 2017 until 2028). The contract will be terminated if the early termination is notified.

Under these interest rate swap contracts, we recognized net valuation loss of Won 16,800 million in 2014.



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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, 2013 and 2014 were as follows:

Type	Assets		Liabilities	
	2013	2014	2013	2014
	(In thousands of USD, EUR, GBP and other foreign currencies)			
AUD	1,460	196	321,444	542,292
CAD	4	1	611	244
CNY	1			
EUR	27,946	2,097	33,398	4,087
IDR	546,902	273,738	2,973	17,288
MXN	5,064	7,637	426	122
PHP	248,623	196,696	22,954	17,962
SAR	1,565	1,044		
USD	627,504	1,211,513	11,207,483	7,415,050
INR	362,996	683,074	500,933	173,753
PKR	116,847	167,747	650	2,037
MGA	2,124,218	2,183,910	101,503	69,199
JPY	176,921	1,048,413	22,521,580	20,023,572
KZT	164,790	551,684	16,517	
GBP			4	90
CHF	143,120		400,012	399,634
AED	288	3,965	809	1,136
SEK				196
JOD	132	1,080	1	1
BDT	34,753	47,167	2,977	314
CLP	93			
ZAR		146		

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, 2014, we estimate that our unrealized foreign exchange translation losses will increase by Won 790 billion in 2015. Such sensitivity analysis is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency as of December 31, 2014 and 2013, 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 as of December 31, 2014, we estimate that our income before income taxes will decrease by Won 60.6 billion

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(not reflecting the fact that a portion of such interest may be capitalized under IFRS) in 2015. 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, 2014, we estimate that our income before income taxes will increase by Won 526.2 billion in 2015.

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, 2014, we estimate that our income before income taxes will decrease by Won 206 billion in 2015.

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 45 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**

Of the five debt securities issued by us that are registered under the Exchange Act as set forth in the cover page of this annual report, two debt securities, namely Twenty Year 7.40% Amortizing Debentures due April 1, 2016 and One Hundred Year 7.95% Zero-to-Full Debentures due April 1, 2096, are guaranteed by Korea Development Bank.

Korea Development Bank, a policy bank for the Korean government, is 100% beneficially owned by the Korean government. The voting rights in our equity interest held by Korea Development Bank are effectively exercised by the Korean government.

The guarantee by Korea Development Bank of our two above-mentioned registered debt securities is itself a security registered under the Securities Act. Korea Development Bank is a Schedule B issuer and it periodically files registration statements with the Commission. These registration statements typically include financial statements prepared in accordance with the applicable generally accepted accounting principles, currently the Korean International Financial Reporting Standards, and audited in accordance with generally accepted auditing standards in the Republic of Korea.

The guarantee by Korea Development Bank of these two debt securities will each expire on April 1, 2016. The guarantee for the Twenty Year 7.40% Amortizing Debentures due April 1, 2016 will expire by reason of the maturity of such debentures, while the guarantee for the One Hundred Year 7.95% Zero-to-Full Debentures due April 1, 2096 will expire by reason of the expiration of a put option period applicable to such debentures in accordance with the terms of such debentures.

### **Item 12B. Warrants and Rights**

Not applicable.

### **Item 12C. Other Securities**

Not applicable.

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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 Citibank, N.A. acting as depositary for our ADSs:

<b>Item</b>	<b>Services</b>	<b>Fees</b>
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 Depository), 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 Depository 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 Depository 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 Depository 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 Depository and the net proceeds distributed and (ii) the amount of such proceeds
8	Depository 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 Depository 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

Depository 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.

Depository 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.

***Depository Payments for the Fiscal Year 2014***

The following table sets forth our expenses incurred in 2014, which were reimbursed by JPMorgan Chase Bank, N.A. (the former depositary for our ADSs), and Citibank, N.A. (the current depositary for our ADSs) in the aggregate:

	<b>(In thousands of U.S.dollars)</b>
Reimbursement of legal fees	239
Reimbursement of accounting fees	341
Contributions towards our investor relations and other financing efforts (including investor conferences, non-deal roadshows and market information services)	1,373
Other	133
<b>Total</b>	<b>US\$ 2,086</b>

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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, 2014. 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, 2014 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, 2014 based on the framework established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). 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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Following the overhaul in May 2013 by the Committee of Sponsoring Organization of the Treadway ( COSO ) of the COSO Framework relating to internal controls and adoption of the 2013 Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework (2013) ), we have, effective January 1, 2014, adopted the COSO Framework (2013) and incorporated it into our internal control system for us and our subsidiaries in order to comply with the Sarbanes Oxley Act and to standardize our internal control system. 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, 2014 using criteria established by the COSO Framework (2013). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2014 based on the criteria established by the COSO Framework (2013).

### **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, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Our adoption of the COSO Framework (2013) did not have, and is not reasonably likely to have, any material effect on 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](http://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.

**Table of Contents****ITEM 16C. PRINCIPAL AUDITOR FEES AND SERVICES**

The following table sets forth the aggregate fees billed for each of the years ended December 31, 2013 and 2014 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. KPMG Samjong Accounting Corp., a Korean independent registered public accounting firm, was our principal auditors for the year ended December 31, 2014 and we currently expect KPMG Samjong Accounting Corp. to serve as our principal auditors for the year ended December 31, 2015.

Type of Services	Aggregate Fees Billed During		Nature of Services
	2013	2014	
	(In millions of Won)		
Audit Fees	2,979	3,044	Audit service for KEPCO and its subsidiaries.
Audit-Related Fees	94	155	Accounting advisory service.
Tax Fees	35	12	Tax return and consulting advisory service.
All Other Fees	496 <sup>(1)</sup>		All other services which do not meet the three categories above.
<b>Total</b>	<b>3,604</b>	<b>3,211</b>	

*Note:*

(1) Relates to services provided by KPMG Samjong Accounting Corp. prior to its engagement as our auditors. These services have been approved by our audit committee in compliance with paragraph (c)(7)(i)(c) of Rule 2-01 of Regulation S-X. 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.

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**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.

The consolidated financial statements for the year ended December 31, 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 for the year ended December 31, 2012. The audit report of Deloitte Anjin LLC on our consolidated financial statements for the year ended December 31, 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 for the year ended December 31, 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 for the year ended December 31, 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 28, 2015 is attached to this annual report as Exhibit 15.5.



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### **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 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

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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 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

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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 2014 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 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

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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 an insider reporting system in compliance with Section 301 of the Sarbanes-Oxley Act. The code of ethics applicable to our executive officers and financial officers are available on [www.kepco.co.kr](http://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 do not 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

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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 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, 2015

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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 statements of financial position of Korea Electric Power Corporation (the Company) and subsidiaries as of December 31, 2013 and 2014, and the related consolidated statements of comprehensive income (loss), changes in equity and cash flows, for the years then ended. 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 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 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 included for Korea East-West Power Co., Ltd., is based solely on the report of the other auditors. The accompanying consolidated statements of comprehensive loss, changes in equity and cash flows of Korea Electric Power Corporation and subsidiaries for the year ended December 31, 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 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 and the report of the other auditors 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 Electric Power Corporation and subsidiaries as of December 31, 2014 and 2013 and of their consolidated results of their operations and their cash flows for the years then ended, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have audited the retrospective presentation in 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 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 2012 consolidated financial statements taken as a whole.

We also have 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, 2014, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 30, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 30, 2015

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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, 2014, based on criteria established in Internal Control - Integrated Framework (2013) 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 Annual 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 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 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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Korea Electric Power Corporation and subsidiaries as of December 31, 2013 and 2014, and the related consolidated statements of comprehensive income (loss), changes in equity and cash flows, for the years then ended and our report dated April 30, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 30, 2015

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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 comprehensive loss, changes in equity, and cash flows of Korea Electric Power Corporation and subsidiaries (the Company) for the year ended December 31, 2012 (the 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 10.1 percent of consolidated total revenue for the year ended December 31, 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 results of operations of Korea Electric Power Corporation and subsidiaries and their cash flows for the year ended December 31, 2012, in conformity with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 an 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 of

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 the related consolidated statements of comprehensive income, changes in equity and cash flows for the year 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 the consolidated results of its financial performance, and its cash flows for each of the year 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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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholder of

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.

/s/ Ernst & Young Han Young

April 30, 2014

Seoul, Republic of Korea

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**Table of Contents****KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES****Consolidated Statements of Financial Position**

As of December 31, 2013 and 2014

	Note	2013	2014
		In millions of won	
<b>Assets</b>			
Current assets			
Cash and cash equivalents	5,6,7,45	2,232,313	1,796,300
Current financial assets, net	5,10,11,12,45	436,213	176,428
Trade and other receivables, net	5,8,14,20,45,46,47	7,526,311	7,697,862
Inventories, net	13	4,279,593	4,537,469
Income tax refund receivables		223,803	18,475
Current non-financial assets	15	570,845	502,511
Assets held-for-sale	42		2,090,810
<b>Total current assets</b>		15,269,078	16,819,855
Non-current assets			
Non-current financial assets, net	5,6,9,10,11,12,45	1,902,953	2,040,921
Non-current trade and other receivables, net	5,8,14,45,47	1,644,333	1,724,357
Property, plant and equipment, net	18,27,49	129,637,596	135,812,499
Investment properties, net	19,27	538,327	317,264
Goodwill	16	2,582	2,582
Intangible assets other than goodwill, net	21,27	810,664	821,060
Investments in associates	4,17	4,124,574	4,341,830
Investments in joint ventures	4,17	1,106,181	1,166,894
Deferred tax assets	41	359,535	526,934
Non-current non-financial assets	15	131,511	134,093
<b>Total non-current assets</b>		140,258,256	146,888,434
<b>Total Assets</b>	4	155,527,334	163,708,289
<b>Liabilities</b>			
Current liabilities			
Trade and other payables, net	5,22,24,45,47	5,892,763	6,128,604
Current financial liabilities, net	5,11,23,45,47	8,425,231	7,162,372
Income tax payables		51,407	570,550
Current non-financial liabilities	20,28,29	4,730,631	6,464,356
Current provisions	26,45	1,113,817	1,274,186
<b>Total current liabilities</b>		20,213,849	21,600,068
Non-current liabilities			
Non-current trade and other payables, net	5,22,24,45,47	3,971,519	3,806,735
Non-current financial liabilities, net	5,11,23,45,47	53,163,394	55,999,761
Non-current non-financial liabilities	28,29	6,985,641	6,946,410
Employee benefits liabilities, net	25,45	2,137,296	1,277,415
Deferred tax liabilities	41	5,002,585	5,723,880
Non-current provisions	26,45	12,602,314	13,529,010

<b>Total non-current liabilities</b>		83,862,749	87,283,211
<b>Total Liabilities</b>	4	104,076,598	108,883,279

(Continued)

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**Table of Contents****KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES****Consolidated Statements of Financial Position (Continued)**

As of December 31, 2013 and 2014

	Note	2013	2014
		In millions of won	
<b>Equity</b>			
Contributed capital	1,30,45		
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	1,604,910
Voluntary reserves		22,753,160	22,999,359
Unappropriated retained earnings		8,409,007	10,699,378
		32,766,086	35,303,647
Other components of equity	34		
Other capital surpluses		830,982	1,151,402
Accumulated other comprehensive income (loss)		55,538	(202,269)
Treasury stock		(741,489)	
Other equity		13,294,973	13,294,973
		13,440,004	14,244,106
Equity attributable to owners of the Company		50,259,668	53,601,331
Non-controlling interests	16, 33	1,191,068	1,223,679
<b>Total Equity</b>		<b>51,450,736</b>	<b>54,825,010</b>
<b>Total Liabilities and Equity</b>		<b>155,527,334</b>	<b>163,708,289</b>

See accompanying notes to the consolidated financial statements.



**Table of Contents****KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income (Loss)**

For the years ended December 31, 2012, 2013 and 2014

	Note	2012	2013	2014
		In millions of won, except per share information		
<b>Sales</b>	4,35,45,47			
Sales of goods		46,906,587	51,132,803	53,706,828
Sales of construction services	20	1,856,045	2,253,083	2,965,185
Sales of other services		357,877	326,619	451,013
		49,120,509	53,712,505	57,123,026
<b>Cost of sales</b>	13,25,43,47			
Cost of sales of goods		(46,293,591)	(47,983,987)	(46,509,555)
Cost of sales of construction services		(1,695,218)	(2,159,023)	(2,752,610)
Cost of sales of other services		(470,453)	(452,628)	(500,787)
		(48,459,262)	(50,595,638)	(49,762,952)
<b>Gross profit</b>		661,247	3,116,867	7,360,074
<b>Selling and administrative expenses</b>	25,36,43,47	(1,780,168)	(1,923,192)	(1,924,366)
<b>Other income</b>	37	675,000	725,457	754,186
<b>Other expenses</b>	37	(74,567)	(99,811)	(88,220)
<b>Other gains (losses), net</b>	38	(1,781,835)	128,514	107,396
<b>Operating profit (loss)</b>	4	(2,300,323)	1,947,835	6,209,070
<b>Finance income</b>	5,11,39	1,128,357	629,542	885,290
<b>Finance expenses</b>	5,11,40	(3,068,321)	(2,931,622)	(3,140,038)
<b>Equity method income (loss) of associates and joint ventures</b>	4,17			
Share in income of associates and joint ventures		205,987	170,399	319,506
Gain on disposal of investments in associates and joint ventures			1,725	87,521
Share in loss of associates and joint ventures		(20,127)	(140,984)	(78,493)
Loss on disposal of investments in associates and joint ventures		(162)	(45,291)	(1,271)
Impairment loss on investments in associates and joint ventures		(8,757)	(28,092)	(52,279)
		176,941	(42,243)	274,984
<b>Profit (loss) before income tax</b>		(4,063,346)	(396,488)	4,229,306
<b>Income tax (expense) benefit</b>	41	985,377	570,794	(1,430,339)
<b>Profit (loss) for the period</b>		(3,077,969)	174,306	2,798,967

(Continued)



**Table of Contents****KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income (Loss) (Continued)**

For the years ended December 31, 2012, 2013 and 2014

	Note	2012	2013	2014
		In millions of won, except per share information		
<b>Other comprehensive income (loss)</b>	5,11,25,31,34			
Items that will not be reclassified subsequently to profit or loss:				
Remeasurements of defined benefit liability, net of tax	25,31	(41,310)	132,457	(108,430)
Share in other comprehensive income (loss) of associates and joint ventures, net of tax	31	(846)	7,671	(1,899)
Items that are or 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	2,245	86,570	(97,251)
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	5,11,34	(63,850)	29,332	(84,793)
Foreign currency translation of foreign operations, net of tax	34	(121,892)	(108,625)	(70,576)
Share in other comprehensive income (loss) of associates and joint ventures, net of tax	34	(96,060)	38,366	5,228
<b>Other comprehensive income (loss), net of tax</b>		(321,713)	185,771	(357,721)
<b>Total comprehensive income (loss) for the period</b>		(3,399,682)	360,077	2,441,246
<b>Profit or loss attributable to:</b>				
Owners of the Company	44	(3,166,616)	60,011	2,686,873
Non-controlling interests		88,647	114,295	112,094
		(3,077,969)	174,306	2,798,967
<b>Total comprehensive income (loss) attributable to:</b>				
Owners of the Company		(3,447,949)	245,384	2,335,827
Non-controlling interests		48,267	114,693	105,419
		(3,399,682)	360,077	2,441,246
<b>Earnings (loss) per share</b>	44			
Basic and diluted earnings (loss) per share		(5,083)	96	4,290

See accompanying notes to the consolidated financial statements.

**Table of Contents****KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES****Consolidated Statements of Changes in Equity**

For the years ended December 31, 2012, 2013 and 2014

	Equity attributable to owners of the Company				Non-controlling Interests	Total equity
	Contributed capital	Retained earnings	Other components of equity	Subtotal		
<b>Balance at January 1, 2012</b>	4,053,578	35,769,094	13,447,624	53,270,296	533,654	53,803,950
<b>Total comprehensive income (loss) for the period</b>						
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:						
Remeasurements of defined benefit liability, 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)
<b>Transactions with owners of the Company, recognized directly in equity</b>						
Dividends paid					(55,254)	(55,254)
Issuance of share capital by subsidiaries					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
<b>Balance at December 31, 2012</b>	4,053,578	32,564,283	13,270,906	49,888,767	1,175,435	51,064,202

(Continued)

**Table of Contents****KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES****Consolidated Statements of Changes in Equity (Continued)****For the years ended December 31, 2012, 2013 and 2014**

	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					
<b>Balance at January 1, 2013</b>	4,053,578	32,564,283	13,270,906	49,888,767	1,175,435	51,064,202
<b>Total comprehensive income (loss) for the period</b>						
Profit for the period		60,011		60,011	114,295	174,306
Items that will not be reclassified subsequently to profit or loss:						
Remeasurements of defined benefit liability, 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
<b>Transactions with owners of the Company, recognized directly in equity</b>						
Dividends paid					(41,812)	(41,812)
Issuance of share capital by subsidiaries			(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
<b>Balance at December 31, 2013</b>	4,053,578	32,766,086	13,440,004	50,259,668	1,191,068	51,450,736

(Continued)

**Table of Contents****KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES****Consolidated Statements of Changes in Equity (Continued)**

For the years ended December 31, 2012, 2013 and 2014

	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					
<b>Balance at January 1, 2014</b>	4,053,578	32,766,086	13,440,004	50,259,668	1,191,068	51,450,736
<b>Total comprehensive income (loss) for the period</b>						
Profit for the period		2,686,873		2,686,873	112,094	2,798,967
Items that will not be reclassified subsequently to profit or loss:						
Remeasurements of defined benefit liability, net of tax		(91,340)		(91,340)	(17,090)	(108,430)
Share in other comprehensive loss of associates and joint ventures, net of tax		(1,899)		(1,899)		(1,899)
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			(97,263)	(97,263)	12	(97,251)
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax			(80,218)	(80,218)	(4,575)	(84,793)
Foreign currency translation of foreign operations, net of tax			(84,962)	(84,962)	14,386	(70,576)
Share in other comprehensive income of associates and joint ventures, net of tax			4,636	4,636	592	5,228
<b>Transactions with owners of the Company, recognized directly in equity</b>						
Dividends paid		(56,073)		(56,073)	(130,969)	(187,042)
Issuance of share capital by subsidiaries			(1,235)	(1,235)	7,453	6,218
Equity transaction in consolidated scope other than issuance of share capital			237,159	237,159	72,452	309,611
Disposal of treasury stocks			825,985	825,985		825,985
Changes in consolidation scope					(5,281)	(5,281)
Dividends paid (hybrid securities)					(16,463)	(16,463)
<b>Balance at December 31, 2014</b>	4,053,578	35,303,647	14,244,106	53,601,331	1,223,679	54,825,010

See accompanying notes to the consolidated financial statements.

**Table of Contents****KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES****Consolidated Statements of Cash Flows****For the years ended December 31, 2012, 2013 and 2014**

	2012	2013	2014
	In millions of won		
<b>Cash flows from operating activities</b>			
Profit (loss) for the period	(3,077,969)	174,306	2,798,967
Adjustments for:			
Income tax expense (benefit)	(985,377)	(570,794)	1,430,339
Depreciation	6,903,350	7,303,996	7,797,046
Amortization	93,360	88,379	76,413
Employee benefit expense	364,913	384,323	121,406
Bad debt expense	41,440	49,110	54,999
Interest expense	2,344,328	2,381,900	2,351,624
Loss on sale of financial assets		4,202	2,700
Loss on disposal of property, plant and equipment	39,942	58,852	50,152
Loss on abandonment of property, plant, and equipment	253,985	295,627	309,451
Impairment loss on property, plant and equipment	27,968	24,612	38,107
Impairment loss on intangible assets	459	267	42
Loss on disposal of intangible assets	44	1	18
Accretion expense to provisions, net	843,047	663,621	1,295,150
Gain (loss) on foreign currency translation, net	(766,863)	(195,571)	351,660
Valuation and transaction loss (gain) on derivative instruments, net	597,628	233,484	(143,239)
Share in income of associates and joint ventures, net	(185,860)	(29,414)	(241,013)
Gain on sale of financial assets	(189)	(107)	(98,065)
Gain on disposal of property, plant and equipment	(32,797)	(59,345)	(85,775)
Gain on disposal of intangible assets	(15)	(4)	(4)
Loss on disposal of other non-current assets	584		
Gain (loss) on disposal of investments in associates and joint ventures	162	43,566	(86,250)
Impairment loss on investments in associates and joint ventures	8,757	28,091	52,279
Interest income	(204,123)	(182,161)	(191,456)
Dividends income	(10,452)	(9,870)	(14,193)
Impairment loss on available-for-sale securities	40,156	12,592	79,618
Impairment loss on other non-current non-financial assets	1,877,371		
Others, net	(21,434)	(64,089)	(20,303)
	11,230,384	10,461,268	13,130,706
Changes in:			
Trade receivables	(781,099)	(330,494)	96,294
Non-trade receivables	(103,028)	20,853	9,063
Accrued income	(66,504)	563	(207,155)
Other receivables	377	(123)	(906)
Other current assets	(384,765)	98,724	75,410
Inventories	(672,979)	(1,206,676)	(1,146,221)
Other non-current assets	(1,521,249)	65,087	47,119
Trade payables	154,341	(40,416)	(257,614)
Non-trade payables	224,567	(195,191)	(102,526)
Accrued expenses	14,197	(240,901)	(107,277)
Other current liabilities	1,865,302	1,500,716	2,249,714
Other non-current liabilities	(262,590)	48,719	(317,437)

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Investments in associates and joint ventures	48,429	65,888	47,120
Provisions	78,581	(386,377)	(675,569)
Payments of employee benefit obligations	(186,274)	(132,179)	(860,179)
Plan assets	(94,763)	(101,720)	(231,342)
	(1,687,457)	(833,527)	(1,381,506)

(Continued)

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**Table of Contents****KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES****Consolidated Statements of Cash Flows (Continued)**

For the years ended December 31, 2012, 2013 and 2014

	2012	2013	2014
	In millions of won		
<b>Cash generated from operating activities</b>			
Dividends received	10,452	14,114	13,518
Interest paid	(2,386,125)	(2,460,247)	(2,460,457)
Interest received	153,414	160,830	167,269
Income taxes paid	(325,866)	(632,837)	(222,805)
<b>Net cash from operating activities</b>	<b>3,916,833</b>	<b>6,883,907</b>	<b>12,045,692</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposals of associates and joint ventures	8,988	44	232,228
Acquisition of associates and joint ventures	(404,761)	(321,476)	(248,223)
Proceeds from disposals of property, plant and equipment	100,573	119,464	111,260
Acquisition of property, plant and equipment	(11,446,834)	(14,259,050)	(14,547,499)
Proceeds from disposals of intangible assets	1,448	39	1,819
Acquisition of intangible assets	(67,715)	(69,007)	(68,624)
Proceeds from disposals of financial assets	650,757	610,847	1,060,117
Acquisition of financial assets	(637,620)	(545,992)	(975,104)
Increase in loans	(94,133)	(196,607)	(135,001)
Collection of loans	141,117	143,935	101,037
Increase in deposits	(120,425)	(55,594)	(335,518)
Decrease in deposits	66,670	51,882	227,354
Receipt of government grants	49,618	92,000	108,681
Usage of government grants	(3,686)	(31,027)	(36,464)
Net cash inflow (outflow) from business acquisitions	10,022	(41,809)	44,319
Other cash inflow (outflow) from investing activities, net	26,785	(921)	(715)
<b>Net cash used in investing activities</b>	<b>(11,719,196)</b>	<b>(14,503,272)</b>	<b>(14,460,333)</b>
<b>Cash flows from financing activities</b>			
Proceeds (Repayment) from short-term borrowings, net	(476,192)	(107,748)	59,421
Proceeds from long-term borrowings and debt securities	14,202,095	15,233,428	9,566,625
Repayment of long-term borrowings and debt securities	(5,895,384)	(7,315,752)	(8,119,325)
Payment of finance lease liabilities	(122,320)	(125,921)	(115,532)
Settlement of derivative instruments, net	(247)	38,844	(444,243)
Disposal of treasury stocks			852,962
Proceeds on disposal of partial interest in a subsidiary that does not involve loss of control	109,589	236,244	376,477
Change in non-controlling interest	116,020	47,019	12,595
Cash inflow from hybrid bond	498,660		
Dividends paid (hybrid bond)		(16,455)	(16,463)
Dividends paid	(55,254)	(41,812)	(186,985)
Other cash outflow from financing activities, net	(1,480)	(14,715)	(356)
<b>Net cash from financing activities</b>	<b>8,375,487</b>	<b>7,933,132</b>	<b>1,985,176</b>
<b>Net increase (decrease) in cash and cash equivalents before effect of exchange rate fluctuations</b>	<b>573,124</b>	<b>313,767</b>	<b>(429,465)</b>

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<b>Effect of exchange rate fluctuations on cash held</b>	(6,096)	(36,403)	(6,548)
<b>Net increase (decrease) in cash and cash equivalents</b>	567,028	277,364	(436,013)
<b>Cash and cash equivalents at January 1</b>	1,387,921	1,954,949	2,232,313
<b>Cash and cash equivalents at December 31</b>	1,954,949	2,232,313	1,796,300

See accompanying notes to the consolidated financial statements.

**Table of Contents****KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES****Notes to the Consolidated Financial Statements****December 31, 2014****1. Reporting Entity (Description of the controlling company)**

Korea Electric Power Corporation ( KEPCO ) 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. KEPCO also provides power plant construction services. KEPCO 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, 2014, KEPCO s share capital amounts to 3,209,820 million and KEPCO s shareholders are as follows:

	Number of shares	Percentage of ownership
Government of the Republic of Korea	135,917,118	21.17%
Korea Development Bank	192,170,340	29.94%
Foreign investors	184,891,161	28.80%
Other	128,985,458	20.09%
	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), KEPCO spun off its power generation divisions on April 2, 2001, resulting in the establishment of six power generation subsidiaries. KEPCO moved the headquarters to Naju, Jeollanam-do, in November 2014 as part of the government s plan to relocate state-run companies for balanced national development.

**2. Basis of Preparation**

The consolidated financial statements were authorized for issuance by the Board of Directors on February 27, 2015, which were submitted for approval at the shareholders meeting held on March 31, 2015.

**(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 is KEPCO's functional and presentation currency.

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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) Unbilled revenue**

Energy delivered but not metered nor 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, 2013 and 2014 is 1,678,327 million and 1,793,589 million, respectively.

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 17 Investments in Associates and Joint Ventures

Note 18 Property, plant and equipment

Note 45 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 taxes

Note 25 Employment benefits

### **(5) Changes in accounting policies**

#### **(i) IAS 32, Financial Instruments: Presentation**

The Company has adopted amendments to IAS 32, Financial Instruments: Presentation, since January 1, 2014. The amendments require that a financial asset and a financial liability are offset and the net amount is presented in the statement of financial position when an entity currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. According to the amendments, the right to set off should not be contingent on a future event, and legally enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The entity intends to settle on a net basis, if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle.

Upon adoption of the amendment, there is no impact on the Company's consolidated financial statements.

(ii) IFRIC 21, Levies

The Company has adopted IFRIC 21, Levies since January 1, 2014. The interpretation confirms that an entity recognizes a liability for a levy when the triggering event specified in the legislation occurs.

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An entity does not recognize a liability at an earlier date, even if it has no realistic opportunity to avoid the triggering event. If a levy is only payable once a specified amount has been reached, then no liability is recognized until this minimum threshold is reached.

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

Upon adoption of the amendment, there is no impact on the Company's consolidated financial statements.

### **(6) New standards and amendments not yet adopted**

The following new standards, interpretations and amendments to existing standards are effective for annual periods beginning after January 1, 2014; however the Company has not applied them yet. The management is in the process of evaluating the potential impact on the consolidated financial statements upon the adoption of the new standards, interpretation and the amendments.

#### **(i) IFRS 9, Financial Instruments**

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39, Financial Instruments: recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

#### **(ii) IFRS 15, Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2017, with early adoption permitted.

#### **(iii) IAS 19, Employee Benefits – Employee contributions**

Amendments to IAS 19 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. According to the amendments, the entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits. This amendments are effective for annual periods beginning on or after July 1, 2014.

**Table of Contents****(7) Reclassification of items**

From January 1, 2013, 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:

	Before	2012 After	Difference
	In millions of won		
<b>Consolidated statement of financial position</b>			
Trade and other payables	6,418,464	5,601,852	(816,612)
Current provisions	158,303	974,915	816,612
<b>Consolidated statement of cash flow</b>			
Changes in:			
Accretion expense to provisions, net	788,371	843,047	54,676
Provisions	(74,638)	78,581	153,219
Non-trade payables	573,517	224,567	(348,949)
Accrued expenses	(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 as of and for the year ended December 31, 2012.

**3. Significant Accounting Policies**

Except as described in note 2.(5), the Company applied the following significant accounting policies consistently for all periods presented.

**(1) Basis of consolidation**

The consolidated financial statements are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity. Subsidiaries are controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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





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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

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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.

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.

The assets and liabilities acquired under business combinations under common control are recognized at the carrying amounts recognized previously in the consolidated financial statements of the ultimate parent. The difference between consideration transferred and carrying amounts of net assets acquired is recognized as part of share premium.

### **(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 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 associate, 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

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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 on initial recognition as a financial asset in accordance with IAS 39. 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 the Company 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.

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### **(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.

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, which 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.

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### **(iv) Rental income**

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

### **(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.

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### (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.

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 (see note 3 (23))

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.

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### **(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.

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**

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).

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 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. However, if there is not a deep market, market yields on government bonds are used.

Net defined benefit liability's measurement is composed of actuarial gains and losses, return on plan assets excluding net interest on net defined benefit liability, and any change in the effect of the asset ceiling, excluding net interest, which are immediately recognized in other comprehensive income. The actuarial gains or losses recognized in other comprehensive income which will not be reclassified into net profit or loss for later periods are immediately recognized in retained earnings. Past service cost will be recognized as expenses upon the earlier of the date of change or reduction to the plan, or the date of recognizing termination benefits.

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





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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.

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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;

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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

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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.

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.

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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 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.

#### **(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.





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### (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) Provision for Polychlorinated Biphenyls ( PCBs )

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.

### (vi) 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.

### (vii) Renewable portfolio standard ( RPS ) provisions

Renewable portfolio standard ( RPS ) program is required to generate a specified percentage of total electricity to be generated in the form of renewable energy and provisions are recognized for the governmental regulations to require the production of energies from renewable energy sources such as solar, wind and biomass.

## **(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



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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 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 IAS No. 39, 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.

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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.

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.



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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.

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.

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**(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.

(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



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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.

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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.

### (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.

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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.

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

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

The Company's operating segments are its business components that generate discrete financial information that is reported to and regularly reviewed by the Company's 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.

Power generation maintenance is an operating segment that met the quantitative thresholds to be a reportable segment as of December 31, 2013. Accordingly, 2012's reportable segment information has been revised to show the Power generation maintenance information.

Segment operating profit (loss) is determined the same way that consolidated operating profit 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 equity method in the consolidated financial statements.

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(2) Financial information of the segments for the years ended December 31, 2012, 2013 and 2014 respectively are as follows:

Segment	2012										
	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 profit (loss)
	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 expense											(3,068,321)
Equity method income of associates joint ventures											176,941
Loss before income tax											(4,063,346)

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Segment	2013										
	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 profit (loss)
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	110,841
Consolidation adjustments	(36,949,622)	(36,949,622)		(31,953)	(15,339)	(13,412)		(24,953)		321	(22,416)
	53,712,505		53,712,505	7,392,375	182,161	2,381,900	(42,243)	384,323	295,627	663,621	1,947,835
Finance income											629,542
Finance expense											(2,931,622)
Equity method income of associates joint ventures											(42,243)
Loss before income tax											(396,488)

Segment	2014										
	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 profit (loss)
In millions of won											
Transmission and distribution	56,982,583	1,445,914	55,536,669	2,717,040	28,798	1,394,131	231,502	8,408	309,442	290,444	2,050,726
Electric power generation (Nuclear)	9,379,564	9,364,451	15,113	2,905,115	21,995	582,353	1,227	42,667		719,794	2,544,378
Electric power generation (Non-nuclear)	25,067,653	24,680,221	387,432	2,189,202	30,528	308,731	40,260	38,417		147,892	1,385,687
Plant maintenance & engineering service	2,620,713	1,887,954	732,759	70,374	16,033	223	1,995	39,983		139,965	335,076

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Others	537,578	86,525	451,053	26,983	109,427	79,175	1,026	9	33	95,803
Consolidation adjustments	(37,465,065)	(37,465,065)		(35,255)	(15,325)	(12,989)	(9,095)		(2,978)	(202,600)
	57,123,026	57,123,026	7,873,459	191,456	2,351,624	274,984	121,406	309,451	1,295,150	6,209,070
Finance income										885,290
Finance expense										(3,140,038)
Equity method income of associates joint ventures										274,984
Loss before income tax										4,229,306

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- (3) Information related to segment assets and segment liabilities as of and for the years ended December 31, 2013 and 2014 are as follows:

Segment	Segment assets	2013		Segment liabilities
		Investments in associates and joint ventures	Acquisition of non-current assets	
		In millions of won		
Transmission and distribution	98,249,927	3,895,266	4,458,291	56,590,381
Electric power generation (Nuclear)	46,717,706	908	2,412,782	26,482,646
Electric power generation (Non-nuclear)	36,455,090	1,275,330	6,882,630	19,832,122
Plant maintenance & engineering service	2,463,204	59,251	222,547	932,485
Others	5,617,304		429,626	2,008,541
Segment totals	189,503,231	5,230,755	14,405,876	105,846,175
Consolidation adjustments:				
Elimination of inter-segment amounts	(34,834,362)		(75,237)	(4,199,216)
Equity method adjustment	858,465			
Deferred taxes				2,429,639
	(33,975,897)		(75,237)	(1,769,577)
Consolidated totals	155,527,334	5,230,755	14,330,639	104,076,598
Segment	Segment assets	2014		Segment liabilities
		Investments in associates and joint ventures	Acquisition of non-current assets	
		In millions of won		
Transmission and distribution	99,719,106	4,173,139	4,979,968	56,338,038
Electric power generation (Nuclear)	49,237,136	1,929	2,211,783	27,588,281
Electric power generation (Non-nuclear)	41,413,556	1,274,761	7,071,376	24,185,126
Plant maintenance & engineering service	2,659,506	58,895	377,055	990,496
Others	5,681,070		120,667	2,098,115
Segment totals	198,710,374	5,508,724	14,760,849	111,200,056
Consolidation adjustments:				
Elimination of inter-segment amounts	(35,819,662)		(144,726)	(5,229,275)
Equity method adjustment	842,865			
Deferred taxes				2,907,841
Others	(25,288)			4,657
	(35,002,085)		(144,726)	(2,316,777)
Consolidated totals	163,708,289	5,508,724	14,616,123	108,883,279



**Table of Contents****(4) Geographic information**

The following information on revenue from external customers and non-current assets is determined by the location of the customers and of the assets:

Geographical unit	Revenue from external customers			Non-current assets(*2)		
	2012	2013	2014	2012	2013	2014
	In millions of won					
Domestic	46,981,903	51,314,639	53,893,877	124,433,063	131,876,535	136,053,940
Overseas(*1)	2,138,606	2,397,866	3,229,149	4,448,485	4,474,900	6,542,282
	49,120,509	53,712,505	57,123,026	128,881,548	136,351,435	142,596,222

(\*1) Middle East and other Asian countries make up the majority of overseas revenue and non-current assets.

(\*2) Amount excludes financial assets and deferred tax assets

**(5) Information on significant customers**

There is no individual customer comprising more than 10% of the Company's revenue for the years ended December 31, 2012, 2013 and 2014.

**Table of Contents****5. Classification of Financial Instruments**

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

	2013					Total
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Derivative assets (using hedge accounting)	
In millions of won						
<b>Current assets</b>						
Cash and cash equivalents		2,232,313				2,232,313
<b>Current financial assets</b>						
Held-to-maturity investments				168		168
Derivative assets	1,437					1,437
Other financial assets		434,608				434,608
Trade and other receivables		7,526,311				7,526,311
	1,437	10,193,232		168		10,194,837
<b>Non-current assets</b>						
<b>Non-current financial assets</b>						
Available-for-sale financial assets			1,256,765			1,256,765
Held-to-maturity investments				2,117		2,117
Derivative assets	2,681				82,376	85,057
Other financial assets		559,013				559,013
Trade and other receivables		1,644,333				1,644,333
	2,681	2,203,346	1,256,765	2,117	82,376	3,547,285
	4,118	12,396,578	1,256,765	2,285	82,376	13,742,122

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	2014					Total
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Derivative assets (using hedge accounting)	
	In millions of won					
<b>Current assets</b>						
Cash and cash equivalents		1,796,300				1,796,300
<b>Current financial assets</b>						
Held-to-maturity investments				265		265
Derivative assets	6,812				1,409	8,221
Other financial assets		167,942				167,942
Trade and other receivables		7,697,862				7,697,862
	6,812	9,662,104		265	1,409	9,670,590
<b>Non-current assets</b>						
<b>Non-current financial assets</b>						
Available-for-sale financial assets			715,151			715,151
Held-to-maturity investments				3,349		3,349
Derivative assets	59,037				102,867	161,904
Other financial assets		1,160,517				1,160,517
Trade and other receivables		1,724,357				1,724,357
	59,037	2,884,874	715,151	3,349	102,867	3,765,278
	65,849	12,546,978	715,151	3,614	104,276	13,435,868

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(2) Classification of financial liabilities as of December 31, 2013 and 2014 are as follows:

	2013			Total
	Financial liabilities at fair value through profit or loss	Financial liabilities recognized at amortized cost	Derivative liabilities (using hedge accounting)	
	In millions of won			
<b>Current liabilities</b>				
Borrowings		1,470,862		1,470,862
Debt securities		6,616,636		6,616,636
Derivative liabilities	304,699		33,034	337,733
Trade and other payables		5,892,763		5,892,763
	304,699	13,980,261	33,034	14,317,994
<b>Non-current liabilities</b>				
Borrowings		4,538,390		4,538,390
Debt securities		48,262,262		48,262,262
Derivative liabilities	186,336		176,406	362,742
Trade and other payables		3,971,519		3,971,519
	186,336	56,772,171	176,406	57,134,913
	491,035	70,752,432	209,440	71,452,907

	2014			Total
	Financial liabilities at fair value through profit or loss	Financial liabilities recognized at amortized cost	Derivative liabilities (using hedge accounting)	
	In millions of won			
<b>Current liabilities</b>				
Borrowings		1,113,354		1,113,354
Debt securities		5,991,398		5,991,398
Derivative liabilities	56,296		1,324	57,620
Trade and other payables		6,128,604		6,128,604
	56,296	13,233,356	1,324	13,290,976
<b>Non-current liabilities</b>				
Borrowings		3,475,206		3,475,206
Debt securities		52,244,369		52,244,369
Derivative liabilities	108,635		171,551	280,186
Trade and other payables		3,806,735		3,806,735
	108,635	59,526,310	171,551	59,806,496
	164,931	72,759,666	172,875	73,097,472

**Table of Contents****(3) Classification of comprehensive income (loss) from financial instruments for the years ended December 31, 2012, 2013 and 2014 are as follows:**

		2012	2013	2014
		In millions of won		
Cash and cash equivalents	Interest income	63,456	60,301	56,384
Available-for-sale financial assets	Dividends income	10,452	9,870	14,193
	Impairment loss on available-for-sale financial assets	(40,156)	(12,592)	(79,618)
	Gain (loss) on disposal of financial assets		(4,202)	95,365
	Interest income		1,150	382
Held-to-maturity investments	Interest income	69	64	89
Loans and receivables	Interest income	47,028	42,418	29,507
Trade and other receivables	Interest income	70,304	60,237	99,680
Other financial assets	Interest income		1,082	
Short-term financial instruments	Interest income	23,250	16,896	5,199
Long-term financial instruments	Interest income	16	13	215
Financial assets at fair value through profit or loss	Gain (loss) on valuation of derivatives	(42,364)	335	59,164
	Gain (loss) on transaction of derivatives	7,500	26,889	(24,746)
	Gain on disposal of financial assets	189	196	
Derivative assets (using hedge accounting)	Gain (loss) on valuation of derivatives	(127,277)	(13,945)	88,809
	Loss on valuation of derivatives (equity, before tax) (*)	(85)	(27,281)	(60,284)
	Gain on transaction of derivatives	3,064	29,662	818
Financial liabilities carried at amortized cost	Interest expense of borrowings and debt securities	(1,827,239)	(1,715,373)	(1,664,682)
	Loss on retirement of financial liabilities			(199)
	Interest expense of trade and other payables	(118,372)	(102,388)	(98,407)
	Interest expense of others	(398,717)	(564,139)	(588,535)
	Gain (loss) on foreign currency transactions and translations	832,360	133,638	(271,953)
Financial liabilities at fair value through profit or loss	Gain (loss) on valuation of derivatives	(275,490)	(167,485)	10,494
	Loss on transaction of derivatives	(23,031)	(46,639)	(38,909)
Derivative liabilities (using hedge accounting)	Gain (loss) on valuation of derivatives	(129,417)	(65,755)	51,788
	Gain (loss) on valuation of derivatives (equity, before tax) (*)	(61,920)	50,197	(76,013)
	Gain (loss) on transaction of derivatives	(10,613)	3,454	(4,180)

(\*) Items are included in other comprehensive income. All other income and gain amounts listed above are included in finance income, and all expense and loss amounts listed above are included in finance expenses in the accompanying consolidated statements of comprehensive income (loss).

**Table of Contents****6. Restricted Deposits**

Restricted deposits as of December 31, 2013 and 2014 are as follows:

		2013	2014
		In millions of won	
Cash and cash equivalents	Escrow accounts	61,873	100
	Deposits for government project	17,807	10,156
	Collateral provided for borrowings		12,926
	Collateral provided for lawsuit		367
Short-term financial instruments	Restriction on withdrawal related to win-win growth program for small and medium enterprises		5,000
Long-term financial instruments	Guarantee deposits for checking account	5	3
	Guarantee deposits for banking accounts at overseas branches	300	312
	Pledge		740
	Decommissioning costs of nuclear power plants		603,306
	Collateral provided for lawsuit	330	
		80,315	632,910

**7. Cash and Cash Equivalents**

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

		2013	2014
		In millions of won	
Cash		56	77
Cash equivalents		1,141,202	1,154,250
Short-term deposits classified as cash equivalents		1,073,789	340,119
Short-term investments classified as cash equivalents		17,266	301,854
		2,232,313	1,796,300

**8. Trade and Other Receivables**

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

	Gross amount	2013		Book value
		Allowance for doubtful accounts	Present value discount	
In millions of won				
<b>Current assets</b>				
Trade receivables	7,076,303	(65,024)	(136)	7,011,143
Other receivables	559,958	(42,729)	(2,061)	515,168

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7,636,261 (107,753) (2,197) 7,526,311

**Non-current assets**

Trade receivables 421,949 (8) 421,941

Other receivables 1,255,724 (27,158) (6,174) 1,222,392

1,677,673 (27,158) (6,182) 1,644,333

9,313,934 (134,911) (8,379) 9,170,644

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	Gross amount	2014 Allowance for doubtful accounts In millions of won	Present value discount	Book value
<b>Current assets</b>				
Trade receivables	7,243,064	(80,644)	(94)	7,162,326
Other receivables	583,991	(46,245)	(2,210)	535,536
	7,827,055	(126,889)	(2,304)	7,697,862
<b>Non-current assets</b>				
Trade receivables	412,222		(14)	412,208
Other receivables	1,341,398	(21,687)	(7,562)	1,312,149
	1,753,620	(21,687)	(7,576)	1,724,357
	9,580,675	(148,576)	(9,880)	9,422,219

(2) **Other receivables as of December 31, 2013 and 2014 are as follows:**

	Gross amount	2013 Allowance for doubtful accounts In millions of won	Present value discount	Book value
<b>Current assets</b>				
Non-trade receivables	233,714	(42,729)		190,985
Accrued income	47,310			47,310
Deposits	162,730		(2,061)	160,669
Finance lease receivables	4,569			4,569
Others	111,635			111,635
	559,958	(42,729)	(2,061)	515,168
<b>Non-current assets</b>				
Non-trade receivables	102,254	(8,608)		93,646
Accrued income	7,052			7,052
Deposits	230,083		(6,174)	223,909
Finance lease receivables	845,712			845,712
Others	70,623	(18,550)		52,073
	1,255,724	(27,158)	(6,174)	1,222,392
	1,815,682	(69,887)	(8,235)	1,737,560



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	Gross amount	2014 Allowance for doubtful accounts	Present value discount	Book value
	In millions of won			
<b>Current assets</b>				
Non-trade receivables	257,260	(46,245)		211,015
Accrued income	54,242			54,242
Deposits	196,537		(2,210)	194,327
Finance lease receivables	8,275			8,275
Others	67,677			67,677
	583,991	(46,245)	(2,210)	535,536
<b>Non-current assets</b>				
Non-trade receivables	117,604	(18,630)		98,974
Accrued income	303			303
Deposits	267,397		(7,562)	259,835
Finance lease receivables	877,479			877,479
Others	78,615	(3,057)		75,558
	1,341,398	(21,687)	(7,562)	1,312,149
	1,925,389	(67,932)	(9,772)	1,847,685

Trade and other receivables are classified as loans and receivables, and are measured using the effective interest method. No interest is accrued for trade receivables related to electricity for the duration between the billing date and the payment due dates. But once trade receivables are overdue, the Company imposes a monthly interest rate of 2.0% on the overdue trade receivables. The Company holds deposits of three months expected electricity usage for customers requesting temporary usage and customers with past defaulted payments.

**(3) Aging analysis of trade receivables as of December 31, 2013 and 2014 are as follows:**

	2013	2014
	In millions of won	
Trade receivables: (not overdue, not impaired)	7,350,705	7,516,233
Trade receivables: (overdue, not impaired)	292	1,061
Less than 60 days	292	1,061
Trade receivables: (impairment reviewed)	147,255	137,992
60 ~ 90 days	36,707	31,438
90 ~ 120 days	18,214	12,045
120 days ~ 1 year	38,066	42,736
Over 1 year	54,268	51,773
	7,498,252	7,655,286
Less allowance for doubtful accounts	(65,024)	(80,644)
Less present value discount	(144)	(108)
	7,433,084	7,574,534

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The Company assesses at the end of each reporting period whether there is any objective evidence that trade receivables are impaired, and provides allowances for doubtful accounts which includes impairment for trade receivables that are individually significant.

The Company considers receivables as overdue if the receivables are outstanding 60 days after the maturity and sets allowance based on past experience of collection.

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**Table of Contents****(4) Aging analysis of other receivables as of December 31, 2013 and 2014 are as follows:**

	2013	2014
	In millions of won	
Other receivables: (not overdue, not impaired)	1,667,837	1,729,807
Other receivables: (overdue, not impaired)	24,878	58,778
Less than 60 days	24,878	58,778
Other receivables: (impairment reviewed)	122,967	136,803
60 ~ 90 days	17,507	1,132
90 ~ 120 days	1,880	2,242
120 days ~ 1 year	23,996	18,857
Over 1 year	79,584	114,572
	1,815,682	1,925,389
Less allowance for doubtful accounts	(69,887)	(67,932)
Less present value discount	(8,235)	(9,772)
	1,737,560	1,847,685

**(5) Changes in the allowance for doubtful accounts for the years ended December 31, 2012, 2013 and 2014 are as follows:**

	2012		2013		2014	
	Trade receivables	Other receivables	Trade receivables	Other receivables	Trade receivables	Other receivables
	In millions of won					
<b>Beginning balance</b>	24,586	203,198	47,312	225,078	65,024	69,887
Bad debt expense	37,447	3,994	40,446	8,665	39,018	15,981
Write-off	(14,721)	(3,331)	(22,734)	(4,227)	(23,398)	(7,534)
Reversal		(152)				(241)
Others(*)		21,369		(159,629)		(10,161)
<b>Ending balance</b>	47,312	225,078	65,024	69,887	80,644	67,932

(\*) The amounts in 2012 represented allowance against loans to equity method investments which were reversed when the loans were converted to investment in associates during 2013.

**Table of Contents****9. Available-for-sale Financial Assets**

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

	Ownership	2013 In millions of won	2014
<b>Equity securities</b>			
<b>Listed</b>			
LG Uplus Corporation(*4)	0.00%	412,901	
Kwanglim Co., Ltd.(*1,3)	0.44%	150	128
Cockatoo Coal Limited (*1,3)	1.10%	1,875	628
Denison Mines Corp.	11.52%	74,498	62,339
Energy Fuels Inc.(*5)	8.70%	10,307	11,569
Fission 3.0	0.51%		61
Fission Uranium Corp.(formerly named Fission)	0.22%	848	651
PT Adaro Energy Tbk(*1)	1.50%	45,204	44,109
Sungjee Construction Co., Ltd.(*1,3)	0.01%	7	5
Ssangyong Motor Co., Ltd.(*3)	0.03%	291	357
Korea District Heating Corp.(*1)	19.55%	194,710	127,240
Namkwang Engineering & Construction Co., Ltd(*1)	0.01%	5	2
Pumyang Construction Co., Ltd.	0.00%	3	
ELCOMTEC Co., Ltd.(*1)	0.05%		48
PAN Ocean Co., Ltd.(*1)	0.00%		5
Borneo International Furniture Co., Ltd.	0.01%		4
TONGYANG Inc.	0.02%		66
TONGYANG Networks Inc.	0.01%		3
		740,799	247,215
<b>Unlisted</b>			
LIG E&C Co., Ltd.	0.00%	5	5
Dae Kwang Semiconductor Co., Ltd.	0.07%	6	6
Dongnam Co., Ltd.	0.46%	72	72
Mobo Co., Ltd.	0.00%	14	14
SAMBO AUTO. Co., Ltd.	0.02%	38	38
Woobang ENC Co., Ltd.	0.00%	22	22
Ginseng K Co., Ltd.	0.00%	8	
Areva Nc Expansion	13.49%	248,292	227,876
IBK-AUCTUS Green Growth Private Equity Firm(*1)	6.30%	6,054	2,325
K&C-Gyeongnam Youth Job Creation Investment Fund	10.00%	1,340	1,340
Navanakorn Electric Co., Ltd.(*6)	29.00%	16,163	16,836
PT. Kedap Saayq(*1)	10.00%	18,540	12,989
Set Holding(*7)	2.50%	170,514	167,832
Construction Guarantee(*8)	0.02%	790	795
Global Dynasty Overseas Resource Development Private Equity Firm	7.46%	1,517	2,233
Plant & Mechanical Contractors Financial Cooperative of Korea	0.01%	36	36
Fire Guarantee	0.02%	20	20
Korea Software Financial Cooperative	0.15%	301	301
Engineering Financial Cooperative	0.10%	60	60
Women s Venture Fund(*4)	0.00%	780	
Electric Contractors Financial Cooperative	0.03%	152	152
Korea Specialty Contractor Financial Cooperative	0.01%	417	417
Information & Communication Financial Cooperative	0.01%	10	10



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	Ownership	2013 In millions of won	2014
Troika Overseas Resource Development Private Equity Firm	3.66%	10,664	13,340
Korea Electric Engineers Association	0.26%	61	40
Korea Investment Korea EXIM Bank CERs Private Special Asset Investment Trust(*4)	14.18%	6,803	4,752
Hanwha-KOSEP New Renewable Energy Private Special Assets Investment Trust1	5.00%		498
Hanwha Electric Power Venture Fund	16.40%	1,804	1,804
Byucksan Engineering & Construction Co., Ltd.(*1)	0.00%	1	
Dongyang Engineering & Construction Corp.(*1)	0.00%	5	
Hwan Young Steel Co., Ltd.	0.14%	97	97
Intellectual Discovery, Ltd.	8.81%	5,000	5,000
Poonglim Industrial Co., Ltd.	0.01%	78	78
HANKOOK Silicon Co., Ltd.	10.44%	7,513	7,513
Pumyang Asset Management Co., Ltd.	0.00%		3
Sanbon Department Store	0.01%	124	124
Woori Ascon Co., Ltd.	0.34%	10	10
Miju Steel Mfg Co., Ltd.	0.23%	51	51
BnB Sungwon Co., Ltd.	0.01%		15
Hana Civil Engineering Co., Ltd.	0.00%		1
KC Development Co., Ltd.	0.02%		6
IMHWA Corp.	0.11%		5
IXELON Co., Ltd.	0.02%		23
DALIM Special Vehicle Co., Ltd.	0.08%		10
ASA KIMJE Co., Ltd.	1.11%		465
ASA JEONJU Co., Ltd.	1.34%		697
KYUNGWON Co., Ltd.	0.17%		14
Moonkyoung Silica Co., Ltd.	0.56%		
Yousung Remicon Co., Ltd.	0.26%		4
Sungkwang Timber Co., Ltd.	0.34%		4
Yongbo Co., Ltd.	0.20%		3
Korea Bio Fuel Co., Ltd.(*4)	0.00%	1,500	
Green & Sustainable Energy Investment Corp.(*2)	0.00%	13	
Kanan Hydroelectric Power Corp.(*2)	19.58%	17	
Siam Solar Power Co., Ltd.(*4)	0.00%	933	
3i Powergen Inc.(*2)	15.00%	1,486	
		501,311	467,936
<b>Debt securities</b>			
Ambre Energy Limited(*4)		14,655	
		1,256,765	715,151

(\*1) It has been determined that available-for-sale financial assets were impaired because the fair values of the securities of PT Adaro Energy Tbk, Korea District Heating Corp., IBK-AUCTUS green growth private equity firm, and others declined significantly below their respective acquisition cost during 2014. As such, the Company recognized 10,602 million of impairment loss on available-for-sale financial assets and cumulative losses of 67,503 million previously recognized in other comprehensive loss were reclassified to impairment loss on available-for-sale financial asset for the year ended December 31, 2014.

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- (\*2) Green & Sustainable Energy Investment Corp., Kanan Hydroelectric Power Corp., 3i Powergen Inc. ceased its operations and the Company recognized impairment loss on available-for-sale financial assets of 1,513 million for the year ended December 31, 2014.
  
  - (\*3) The fair values of the securities of Cockatoo Coal Limited and Kwanglim Co., Ltd. have declined below their respective acquisition costs for more than a year. As such, the Company recognized 12,117 million of impairment loss on available-for-sale financial assets and cumulative losses of 415 million previously recognized in other comprehensive loss were reclassified to impairment loss on available-for-sale financial assets for the year ended December 31, 2013.
  
  - (\*4) The Company recognized gain on disposal of available-for-sale financial assets of 95,365 million for the sales of shares of LG Uplus Corp., and Korea investment Korea EXIM Bank CERs Private Special Asset Investment Trust, Korea Bio Fuel Co., Ltd., Ambre Energy Limited, Siam Solar Power Co., Ltd. and from the liquidation of Korea Women's Venture Fund for the year ended December 31, 2014.
  
  - (\*5) Shares of Energy Fuels Inc. were acquired when Strathmore Minerals Corp. was merged into Energy Fuels Inc. during 2013. As a result of the exchange of the shares, a loss on disposal of available-for-sale financial assets amounting to 4,202 million was recognized for the year ended December 31, 2013.
  
  - (\*6) Although the Company holds more than 20% of the equity shares of these investments, the Company cannot exercise significant influence.
  
  - (\*7) The Company has estimated the fair value of SET Holding by using the discounted cash flow method and, has recognized the difference between its fair value and book value as gain or loss on valuation of available-for-sale financial assets in other comprehensive income during the year ended December 31, 2014.
  
  - (\*8) The Company has estimated the fair value of the investment in Construction Guarantee based upon the price which would be applied when the investment is returned. The Company has recognized the difference between its fair value and book value as a loss on valuation of available-for-sale financial assets in other comprehensive income or loss during the year ended December 31, 2014.
- Book values of unlisted equity securities held by the Company that were measured at cost as of December 31, 2013 and 2014 are 330,001 million and 299,308 million, respectively, as a quoted market price does not exist in an active market and its fair value cannot be measured reliably.

**10. Held-to-maturity Investments**

Held-to-maturity investments as of December 31, 2013 and 2014 are as follows:

	2013		2014	
	Current	Non-current	Current	Non-current
	In millions of won			
Government and municipal bonds and others	168	2,117	265	3,349

**Table of Contents****11. Derivatives**

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

	Current	2013 Non-current	Current	2014 Non-current
	In millions of won			
<b>Derivative assets</b>				
Currency option	963			
Currency forward	474	206	182	7,233
Currency swap		83,003	8,039	151,934
Interest rate swap		1,848		2,737
	1,437	85,057	8,221	161,904
<b>Derivative liabilities</b>				
Currency option	42,144			
Currency forward	2,166		466	
Currency swap	291,476	289,819	53,697	196,273
Interest rate swap	1,947	72,923	3,457	83,913
	337,733	362,742	57,620	280,186

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(2) Currency forward contracts which are not designated as hedge instruments, as of December 31, 2014 are as follows:

Counterparty	Contract Date	Maturity date	Contract amount		Contract exchange rate
			Pay	Receive	
In millions of won and thousands of foreign currencies					
Korea Exchange Bank	2014.04.10	2021.07.12	55,120	USD 52,000	1,060.00
Korea Exchange Bank	2014.04.28	2021.07.12	50,784	USD 48,000	1,058.00
Bank of America	2014.04.29	2021.07.12	105,400	USD 100,000	1,054.00
Korea Exchange Bank	2014.05.09	2021.07.12	104,600	USD 100,000	1,046.00
Citibank	2014.12.29	2015.01.05	34,914	USD 31,778	1,098.70
Deutsche Bank	2014.12.02	2015.01.07	5,544	USD 5,000	1,108.78
Barclays Bank PLC	2014.12.11	2015.01.16	5,498	USD 5,000	1,099.60
HSBC	2014.12.02	2015.01.07	5,539	USD 5,000	1,107.78
Credit Suisse	2014.12.10	2015.01.14	5,537	USD 5,000	1,107.43
Credit Suisse	2014.12.17	2015.01.21	5,450	USD 5,000	1,090.03
Credit Suisse	2014.12.24	2015.01.26	5,532	USD 5,000	1,106.44
Standard Chartered	2014.12.15	2015.01.19	5,524	USD 5,000	1,104.83
Standard Chartered	2014.12.26	2015.01.28	5,513	USD 5,000	1,102.60
Nova Scotia	2014.12.16	2015.01.09	5,486	USD 5,000	1,097.15
Nova Scotia	2014.12.23	2015.01.23	5,517	USD 5,000	1,103.35
RBS	2014.12.09	2015.01.12	5,575	USD 5,000	1,115.05
RBS	2014.12.16	2015.01.20	5,489	USD 5,000	1,097.70
RBS	2014.12.30	2015.01.30	5,504	USD 5,000	1,100.80
Citibank	2014.12.16	2015.01.02	2,190	USD 2,000	1,094.90
Citibank	2014.12.16	2015.01.02	3,287	USD 3,000	1,095.65
Deutsche Bank	2014.12.16	2015.01.02	5,446	USD 5,000	1,089.10
Deutsche Bank	2014.12.22	2015.01.06	9,878	USD 9,000	1,097.56
Standard Chartered	2014.12.26	2015.01.15	5,495	USD 5,000	1,099.05
Standard Chartered	2014.12.26	2015.01.15	4,402	USD 4,000	1,100.55
Mizuho Bank	2014.12.30	2015.01.02	13,624	USD 12,397	1,099.00
Mizuho Bank	2014.12.30	2015.01.02	341	USD 310	1,098.70
Nova Scotia	2014.12.10	2015.01.12	5,527	USD 5,000	1,105.30
Nova Scotia	2014.12.10	2015.01.12	5,511	USD 5,000	1,102.10
Nova Scotia	2014.12.24	2015.01.29	11,049	USD 10,000	1,104.85
Standard Chartered	2011.08.08	2015.01.26 ~ 2015.12.28	USD 10,790	11,842	1,093.10 ~ 1,100.30

**Table of Contents****(3) Currency swap contracts which are not designated as hedge instruments as of December 31, 2014 are as follows:**

Counterparty	Contract year	Contract amount		Contract interest rate		Contract exchange rate
		Pay	Receive	Pay (%)	Receive (%)	
In millions of won and thousands of foreign currencies						
UBS	2011~2015	220,356	USD 200,000	3.90%	3.00%	1,101.78
RBS	2011~2015	110,110	USD 100,000	3.90%	3.00%	1,101.10
Barclays Bank PLC	2011~2015	108,390	USD 100,000	3.78%	3.00%	1,083.90
Credit Suisse	2011~2015	108,390	USD 100,000	3.22%	3.00%	1,083.90
Morgan Stanley	2011~2015	63,006	USD 60,000	4.06%	3.00%	1,050.10
Goldman Sachs	2012~2015	156,643	USD 140,000	3.92%	3.00%	1,118.88
Deutsche Bank	2013~2018	110,412	JPY 10,000,000	6.21%	4.19%	11.04
IBK	2013~2018	111,800	USD 100,000	3.16%	2.79%	1,118.00
Bank of America	2013~2018	103,580	JPY 10,000,000	7.05%	4.19%	10.36
Credit Suisse	2014~2019	118,632	CHF 100,000	2.98%	1.50%	1,186.32
Standard Chartered	2014~2019	114,903	CHF 100,000	4.00%	1.50%	1,149.03
Standard Chartered	2014~2029	102,470	USD 100,000	3.14%	3.57%	1,024.70
Standard Chartered	2014~2017	51,215	USD 50,000	2.24%	3M USD Libor + 0.55%	1,024.30
Mizuho Bank	2014~2017	153,645	USD 150,000	2.35%	3M USD Libor + 0.65%	1,024.30
Societe Generale	2014~2024	105,017	USD 100,000	4.92%	5.13%	1,050.17
Morgan Stanley	2010~2015	118,800	USD 100,000	4.61%	3M Libor + 1.64%	1,188.00
M-UFJ	2010~2015	116,100	USD 100,000	4.00%	3M Libor + 1.00%	1,161.00
Citibank	2010~2015	116,080	USD 100,000	3.97%	3.13%	1,160.80
Deutsche Bank	2010~2015	116,080	USD 100,000	3.98%	3.13%	1,160.80
RBS	2010~2015	116,080	USD 100,000	3.97%	3.13%	1,160.80
HSBC	2010~2015	116,080	USD 100,000	3.23%	3.13%	1,160.80
UBS	2010~2015	116,080	USD 100,000	3.23%	3.13%	1,160.80
Citibank	2012~2022	112,930	USD 100,000	2.79%	3.00%	1,129.30
JP Morgan	2012~2022	112,930	USD 100,000	2.79%	3.00%	1,129.30
Bank of America	2012~2022	112,930	USD 100,000	2.79%	3.00%	1,129.30
Goldman Sachs	2012~2022	112,930	USD 100,000	2.79%	3.00%	1,129.30
HSBC	2012~2022	111,770	USD 100,000	2.89%	3.00%	1,117.70
Hana Bank	2012~2022	111,770	USD 100,000	2.87%	3.00%	1,117.70
Standard Chartered	2012~2022	111,770	USD 100,000	2.89%	3.00%	1,117.70
Deutsche Bank	2012~2022	55,885	USD 50,000	2.79%	3.00%	1,117.70
DBS	2013~2018	108,140	USD 100,000	2.63%	3M Libor+0.84%	1,081.40
DBS	2013~2018	108,140	USD 100,000	2.57%	3M Libor+0.84%	1,081.40
DBS	2013~2018	108,140	USD 100,000	2.57%	3M Libor+0.84%	1,081.40
HSBC	2013~2018	107,450	USD 100,000	3.41%	2.88%	1,074.50
Standard Chartered	2013~2018	107,450	USD 100,000	3.44%	2.88%	1,074.50
JP Morgan	2013~2018	107,450	USD 100,000	3.48%	2.88%	1,074.50
Bank of America	2014~2018	107,450	USD 100,000	3.09%	2.88%	1,074.50
Citibank	2014~2018	107,450	USD 100,000	3.09%	2.88%	1,074.50
JP Morgan	2014~2017	102,670	USD 100,000	2.89%	3M Libor+0.78%	1,026.70
Deutsche Bank	2014~2017	102,670	USD 100,000	2.89%	3M Libor+0.78%	1,026.70
HSBC	2014~2019	105,260	USD 100,000	2.48%	2.38%	1,052.60
Standard Chartered	2014~2019	105,260	USD 100,000	2.48%	2.38%	1,052.60
RBS	2014~2019	105,260	USD 100,000	2.48%	2.38%	1,052.60

**Table of Contents****(4) Currency swap contracts which are designated as hedge instruments as of December 31, 2014 are as follows:**

Counterparty	Contract year	Contract amount		Contract interest rate		Contract exchange rate
		Pay	Receive	Pay (%)	Receive (%)	
In millions of won and thousands of foreign currencies						
Citibank	2006~2016	113,200	USD 100,000	1.05%	6.00%	1,132.00
Barclays Bank PLC	2006~2016	113,200	USD 100,000	1.05%	6.00%	1,132.00
Credit Suisse	2006~2016	113,200	USD 100,000	1.05%	6.00%	1,132.00
Goldman Sachs	2011~2017	105,260	USD 100,000	3.99%	3.63%	1,052.60
Barclays Bank PLC	2011~2017	105,260	USD 100,000	3.99%	3.63%	1,052.60
Citibank	2011~2017	105,260	USD 100,000	3.99%	3.63%	1,052.60
Citibank	2013~2018	54,570	USD 50,000	2.90%	3M Libor+1.01%	1,091.40
Standard Chartered	2013~2018	54,570	USD 50,000	2.90%	3M Libor+1.01%	1,091.40
Credit Suisse	2013~2018	111,410	USD 100,000	3.22%	3M Libor+1.50%	1,114.10
HSBC	2014~2020	99,901	AUD 100,000	3.52%	5.75%	999.01
HSBC	2014~2020	100,482	AUD 100,000	3.48%	5.75%	1,004.82
Standard Chartered	2013~2020	USD 117,250	AUD 125,000	3M Libor+1.25%	5.75%	0.94
Standard Chartered	2014~2020	126,032	USD 117,250	3.55%	3M Libor+1.25%	1,074.90
UBS AG	2006~2016	98,100	USD 100,000	5.48%	5.50%	981.00
Credit Suisse	2006~2016	98,100	USD 100,000	5.48%	5.50%	981.00
JP Morgan	2014~2019	107,190	USD 100,000	3.25%+3%*n/N	2.75%	1,071.90
Morgan Stanley	2014~2019	107,190	USD 100,000	3.25%+3%*n/N	2.75%	1,071.90
Barclays Bank PLC	2014~2019	107,190	USD 100,000	3.25%+3%*n/N	2.75%	1,071.90
Barclays Bank PLC	2006~2016	71,888	USD 75,000	4.81%	5.50%	958.50
Deutsche Bank AG	2006~2016	71,888	USD 75,000	4.81%	5.50%	958.50
Barclays Bank PLC	2012~2017	142,500	USD 125,000	3.83%	3.13%	1,140.00
Morgan Stanley	2012~2017	142,500	USD 125,000	3.83%	3.13%	1,140.00
RBS	2012~2017	142,500	USD 125,000	3.83%	3.13%	1,140.00
JP Morgan	2012~2017	142,500	USD 125,000	3.83%	3.13%	1,140.00
RBS	2013~2019	118,343	CHF 100,000	3.47%	1.63%	1,183.43
Barclays Bank PLC	2013~2019	59,172	CHF 50,000	3.47%	1.63%	1,183.43
Nomura	2013~2019	59,172	CHF 50,000	3.47%	1.63%	1,183.43
Barclays Bank PLC	2013~2018	107,360	USD 100,000	3.34%	2.88%	1,073.60
RBS	2013~2018	107,360	USD 100,000	3.34%	2.88%	1,073.60
JP Morgan	2013~2018	161,040	USD 150,000	3.34%	2.88%	1,073.60
Standard Chartered	2013~2018	161,040	USD 150,000	3.34%	2.88%	1,073.60
Standard Chartered	2014~2019	104,490	USD 100,000	2.77%	2.63%	1,044.90
RBS	2014~2019	104,490	USD 100,000	2.77%	2.63%	1,044.90
Barclays Bank PLC	2014~2019	104,490	USD 100,000	2.77%	2.63%	1,044.90
Barclays Bank PLC	2013~2018	81,188	USD 75,000	2.65%	1.88%	1,082.50
RBS	2013~2018	81,188	USD 75,000	2.65%	1.88%	1,082.50
Deutsche Bank	2013~2018	81,188	USD 75,000	2.65%	1.88%	1,082.50
Citibank	2013~2018	81,188	USD 75,000	2.65%	1.88%	1,082.50
Standard Chartered	2014~2017	54,205	USD 50,000	2.93%	3M Libor+1.05%	1,084.10
Credit Agricole	2014~2017	54,205	USD 50,000	2.93%	3M Libor+1.05%	1,084.10
BTMU	2010~2015	55,900	USD 50,000	4.03%	3M Libor+1.20%	1,118.00
RBS	2012~2017	115,140	USD 100,000	3.38%	2.50%	1,151.40
BNP Paribas	2012~2017	115,140	USD 100,000	3.38%	2.50%	1,151.40
Hana Bank	2012~2017	115,140	USD 100,000	3.38%	2.50%	1,151.40
Barclays Bank PLC	2012~2017	57,570	USD 50,000	3.38%	2.50%	1,151.40
Standard Chartered	2012~2017	57,570	USD 50,000	3.38%	2.50%	1,151.40
Nomura	2012~2017	57,570	USD 50,000	3.38%	2.50%	1,151.40
Credit Agricole	2012~2017	57,570	USD 50,000	3.38%	2.50%	1,151.40
Societe Generale	2013~2018	106,190	USD 100,000	3.48%	2.63%	1,061.90
BNP Paribas	2013~2018	53,095	USD 50,000	3.48%	2.63%	1,061.90
Hana Bank	2013~2018	53,095	USD 50,000	3.48%	2.63%	1,061.90
Standard Chartered	2013~2018	106,030	USD 100,000	3.48%	2.63%	1,060.30
Barclays Bank PLC	2013~2018	53,015	USD 50,000	3.48%	2.63%	1,060.30
Hana Bank	2013~2018	31,809	USD 30,000	3.48%	2.63%	1,060.30
Societe Generale	2013~2018	21,206	USD 20,000	3.48%	2.63%	1,060.30
HSBC	2013~2018	53,015	USD 50,000	3.47%	2.63%	1,060.30
Nomura	2013~2018	53,015	USD 50,000	3.47%	2.63%	1,060.30
Credit Agricole	2014~2020	110,680	USD 100,000	2.29%	2.50%	1,106.80
Societe Generale	2014~2020	55,340	USD 50,000	2.16%	2.50%	1,106.80

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Hana Bank	2014~2020	55,340	USD 50,000	2.16%	2.50%	1,106.80
Hana Bank	2014~2020	55,340	USD 50,000	2.21%	2.50%	1,106.80
Standard Chartered	2014~2020	55,340	USD 50,000	2.21%	2.50%	1,106.80
HSBC	2014~2020	55,340	USD 50,000	2.21%	2.50%	1,106.80
Nomura	2014~2020	55,340	USD 50,000	2.21%	2.50%	1,106.80
Barclays Bank PLC	2014~2020	55,340	USD 50,000	2.21%	2.50%	1,106.80
RBS	2014~2020	55,340	USD 50,000	2.21%	2.50%	1,106.80

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**Table of Contents****(5) Interest rate swap contracts which are not designated as hedge instruments as of December 31, 2014 are as follows:**

Counterparty	Contract year	Contract amount	Contract interest rate per annum	
			Pay (%)	Receive (%)
In millions of won				
Nonghyup Bank	2010~2015	100,000	4.90%	3M CD + 1.05%
Nonghyup Bank	2010~2015	100,000	4.83%	3M CD + 0.90%
Nonghyup Bank	2010~2015	50,000	4.77%	3M CD + 0.90%
Korea Development Bank	2012~2016	200,000	3.57%	3M CD + 0.26%
Nonghyup Bank	2012~2016	100,000	3.49%	3M CD + 0.25%
Korea Development Bank	2012~2016	50,000	3.49%	3M CD + 0.25%
HSBC	2012~2016	50,000	3.49%	3M CD + 0.25%
Standard Chartered	2012~2016	200,000	3.55%	3M CD + 0.26%
Standard Chartered	2012~2017	160,000	3.57%	3M CD + 0.32%
JP Morgan	2013~2018	150,000	3.58%	3M CD + 0.31%
Korea Exchange Bank	2012~2015	100,000	3.58%	3M CD + 0.15%
Korea Exchange Bank	2012~2015	200,000	3.65%	3M CD + 0.10%
Korea Exchange Bank	2012~2015	100,000	2.86%	3M CD + 0.05%
Korea Exchange Bank	2013~2016	100,000	2.82%	3M CD + 0.04%
Korea Exchange Bank	2013~2016	200,000	2.57%	3M CD + 0.04%
Korea Exchange Bank	2013~2016	100,000	2.75%	3M CD + 0.03%
Credit Suisse	2014~2018	200,000	2.98%	1Y CMT + 0.31%
Korea Development Bank (*)	2014~2029	40,000	3M CD 0.03%	4.65%

(\*) The contract is an interest rate swap hedging on Electricity Bonds 885, and the bank would notify the Company of the early termination every year on the early termination nonfiction date (every year on April 28, from 2017 until 2028). The contract will be terminated if the early termination is notified.

**(6) Interest rate swap contracts which are designated as hedge instruments, as of December 31, 2014 are as follows:**

Counterparty	Contract year	Contract amount	Contract interest rate per annum	
			Pay (%)	Receive (%)
In thousands of U.S. dollars				
BNP Paribas	2009~2027	USD 104,845	4.16%	6M USD Libor
KFW	2009~2027	USD 104,845	4.16%	6M USD Libor
CA-CIB (Credit Agricole)	2014~2033	USD 105,727	3.98% ~ 4.10%	6M USD Libor
SMBC	2014~2033	USD 138,258	4.05% ~ 4.18%	6M USD Libor

**(7) Gain and loss on valuation and transaction of derivatives for the years ended December 31, 2013 and 2014 are as follows and included in finance income and costs in the accompanying consolidated statements of comprehensive income (loss):**

	Net income effects of valuation gain (loss)		Net income effects of transaction gain (loss)		Accumulated other comprehensive income (loss) (*)	
	2013	2014	2013	2014	2013	2014
In millions of won						
Currency option	(41,181)		13,765	16,535		
Currency forward	(1,420)	58,068	(3,952)	321	4,004	(30,072)
Currency swap	(217,361)	168,987	48,685	(79,484)	(19,086)	(90,990)
Interest rate swap	13,112	(16,800)	(5,806)	(3,680)	37,998	(15,235)

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Other derivatives			(39,326)	(709)		
	(246,850)	210,255	13,366	(67,017)	22,916	(136,297)

(\*) As of December 31, 2014, the accumulated net loss on valuation of derivatives using cash flow hedge accounting of 84,793 million, net of tax, is included in accumulated other comprehensive income (loss).

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**Table of Contents****12. Other Financial Assets****(1) Other financial assets as of December 31, 2013 and 2014 are as follows:**

	2013		2014	
	Current	Non-current	Current	Non-current
	<b>In millions of won</b>			
Loans and receivables	51,503	616,389	68,910	611,610
Present value discount	(1,094)	(58,559)	(1,067)	(55,456)
Long-term/short-term financial instruments	384,199	1,183	100,099	604,363
	434,608	559,013	167,942	1,160,517

**(2) Loans and receivables as of December 31, 2013 and 2014 are as follows:**

	Face value	2013	Book value
		Present value discount	
	<b>In millions of won</b>		
<b>Short-term loans and receivables</b>			
Loans for tuition	25,296	(1,094)	24,202
Loans for housing	12,505		12,505
Loans for related parties	890		890
Fisheries loan	6,000		6,000
Other loans	6,812		6,812
	51,503	(1,094)	50,409
<b>Long-term loans and receivables</b>			
Loans for tuition	352,554	(56,956)	295,598
Loans for housing	108,564		108,564
Loans for related parties	141,191		141,191
Fisheries loan	13,760	(1,603)	12,157
Other loans	320		320
	616,389	(58,559)	557,830
	667,892	(59,653)	608,239
	Face value	2014	Book value
		Present value discount	
	<b>In millions of won</b>		
<b>Short-term loans and receivables</b>			
Loans for tuition	25,828	(1,067)	24,761
Loans for housing	12,050		12,050
Fisheries loan	6,032		6,032
Other loans	25,000		25,000

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	68,910	(1,067)	67,843
<b>Long-term loans and receivables</b>			
Loans for tuition	379,797	(54,569)	325,228
Loans for housing	110,152		110,152
Loans for related parties	111,033		111,033
Fisheries loan	7,696	(887)	6,809
Other loans	2,932		2,932
	611,610	(55,456)	556,154
	680,520	(56,523)	623,997

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**Table of Contents****(3) Long-term and short-term financial instruments as of December 31, 2013 and 2014 are as follows:**

	2013		2014	
	Current	Non-current	Current	Non-current
In millions of won				
Time deposits	256,173	453	90,088	742
Installment deposits		93		
Deposit for treasury stock in trust	64,940			
Special money in trust	30,086		10,011	
Repurchase agreement	18,000			
CD	10,000			
MMT				303,306
MMDA				300,000
Others	5,000	637		315
	384,199	1,183	100,099	604,363

**13. Inventories**

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

	Acquisition cost	2013	Book value
		Valuation allowance	
In millions of won			
Raw materials	2,904,722	(46)	2,904,676
Merchandises	373		373
Work-in-progress	89,883		89,883
Finished goods	55,056		55,056
Supplies	683,699	(4,089)	679,610
Inventories in transit	541,154		541,154
Other inventories	8,841		8,841
	4,283,728	(4,135)	4,279,593

	Acquisition cost	2014	Book value
		Valuation allowance	
In millions of won			
Raw materials	3,039,422	(1,130)	3,038,292
Merchandises	212		212
Work-in-progress	93,498		93,498
Finished goods	59,222		59,222
Supplies	840,463	(2,685)	837,778
Inventories in transit	500,466		500,466
Other inventories	8,001		8,001
	4,541,284	(3,815)	4,537,469

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The reversal of the allowance for loss on inventory valuation due to increases in the net realizable value of inventory deducted from cost of sales were 5,568 million, 687 million and 3,029 million, for the years ended December 31, 2012, 2013 and 2014, respectively. The amounts of loss from inventory valuation included in other gains (losses) for the years ended December 31, 2012, 2013 and 2014 were 6,920 million, 261 million and 2,709 million, respectively.

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**Table of Contents****14. Finance Lease Receivables****(1) Finance lease contracts**

The Company entered into a power purchase agreement («PPA») with Jordan Electric Power Company to provide a 373MW level Qatrana gas combined power plant over a 25 year lease term, and accounts for the PPA as a finance lease. Also, the Company has fly-ash pipe conduit finance leases with an average lease term of 7 years. In addition the Company entered into a PPA with the Comision Federal de Electricidad in Mexico to provide for 25 years of all electricity generated from the power plant after completion of its construction and collect rates consisting of fixed costs (to recover the capital) and variable costs during the contracted period.

**(2) Finance lease receivables as of December 31, 2013 and 2014 are as follows and included in current and non-current trade and other receivables, net, in the accompanying consolidated statements of financial position:**

	2013		2014	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	In millions of won			
Less than 1 year	81,484	4,569	88,698	8,275
1 ~ 5 years	356,874	36,710	378,703	237,062
More than 5 years	1,782,639	809,002	1,675,685	640,417
	2,220,997	850,281	2,143,086	885,754

**(3) There are no impaired finance lease receivables as of December 31, 2013 and 2014.****(4) There are no changes in valuation allowance for finance lease receivables for the years ended December 31, 2013 and 2014.****15. Non-Financial Assets**

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

	2013		2014	
	Current	Non-current	Current	Non-current
	In millions of won			
Advance payment	110,541	12,760	109,112	12,516
Prepaid expenses	150,852	102,823	154,047	97,972
Others (*)	309,452	15,928	239,352	23,605
	570,845	131,511	502,511	134,093

(\*) Details of others as of December 31, 2013 and 2014 are as follows:

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	2013		2014	
	Current	Non-current	Current	Non-current
	<b>In millions of won</b>			
Tax refund receivables	228,857	1,349	182,564	1,037
Other quick assets and others	80,595	14,579	56,788	22,568
	309,452	15,928	239,352	23,605

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**Table of Contents****16. Consolidated Subsidiaries**

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

Subsidiaries	Key operation activities	Location	Percentage of ownership (%)	
			2013	2014
Korea Hydro & Nuclear Power Co., Ltd.	Power generation	KOREA	100.00%	100.00%
Korea South-East Power Co., Ltd.	Power generation	KOREA	100.00%	100.00%
Korea Midland Power Co., Ltd.	Power generation	KOREA	100.00%	100.00%
Korea Western Power Co., Ltd.	Power generation	KOREA	100.00%	100.00%
Korea Southern Power Co., Ltd.	Power generation	KOREA	100.00%	100.00%
Korea East-West Power Co., Ltd.	Power generation	KOREA	100.00%	100.00%
KEPCO Engineering & Construction Company, Inc. (*1)	Architectural engineering for utility plant and others	KOREA	70.86%	66.32%
KEPCO Plant Service & Engineering Co., Ltd.	Utility plant maintenance and others	KOREA	63.00%	54.00%
KEPCO Nuclear Fuel Co., Ltd.	Nuclear fuel	KOREA	96.36%	96.36%
KEPCO KDN Co., Ltd.	Electric Power information technology and others	KOREA	100.00%	100.00%
Garorim Tidal Power Plant Co., Ltd. (*2)	Power generation	KOREA	49.00%	49.00%
Korea Engineering & Power Services Co., Ltd.	Operation and maintenance of utility plant	KOREA	52.43%	
KEPCO International Hong Kong Ltd.	Holding company	HONG KONG	100.00%	100.00%
KEPCO International Philippines Inc.	Holding company	PHILIPPINES	100.00%	100.00%
KEPCO Gansu International Ltd.	Holding company	HONG KONG	100.00%	100.00%
KEPCO Philippines Holdings Inc.	Holding company	PHILIPPINES	100.00%	100.00%
KEPCO Philippines Corporation	Operation of utility plant	PHILIPPINES	100.00%	100.00%
KEPCO Ilijan Corporation	Utility plant rehabilitation and operation	PHILIPPINES	51.00%	51.00%
KEPCO Lebanon SARL	Operation of utility plant	LEBANON	100.00%	100.00%
KEPCO Neimenggu International Ltd.	Holding company	HONG KONG	100.00%	100.00%
KEPCO Shanxi International Ltd.	Holding company	HONG KONG	100.00%	100.00%
KOMIPO Global Pte Ltd.	Holding company	SINGAPORE	100.00%	100.00%
KEPCO Canada Energy Ltd.	Resources development	CANADA	100.00%	100.00%
KEPCO Netherlands B.V.	Holding company	NETHERLANDS	100.00%	100.00%
KOREA Imouraren Uranium Investment Corp.	Uranium mine development	FRANCE	100.00%	100.00%
KEPCO Australia Pty., Ltd.	Resources development	AUSTRALIA	100.00%	100.00%
KOSEP Australia Pty., Ltd.	Resources development	AUSTRALIA	100.00%	100.00%
KOMIPO Australia Pty., Ltd.	Resources development	AUSTRALIA	100.00%	100.00%
KOWEPO Australia Pty., Ltd.	Resources development	AUSTRALIA	100.00%	100.00%
KOSPO Australia Pty., Ltd.	Resources development	AUSTRALIA	100.00%	100.00%
KEPCO Middle East Holding Company	Holding company	BAHRAIN	100.00%	100.00%
Qatrana Electric Power Company	Construction and operation of utility plant	JORDAN	80.00%	80.00%
KHNP Canada Energy Ltd.	Resources development	CANADA	100.00%	100.00%
KEPCO Bylong Australia Pty., Ltd.	Resources development	AUSTRALIA	100.00%	100.00%
Korea Waterbury Uranium Limited Partnership	Resources development	CANADA	79.64%	79.64%
KEPCO Canada Uranium Investment Limited Partnership	Resources development	CANADA	100.00%	100.00%
Korea Electric Power Nigeria Ltd.	Operation of utility plant	NIGERIA	100.00%	100.00%
KEPCO Holdings de Mexico	Holding company	MEXICO	100.00%	100.00%
KST Electric Power Company	Construction and operation of utility plant	MEXICO	56.00%	56.00%

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Subsidiaries	Key operation activities	Location	Percentage of ownership (%)	
			2013	2014
KEPCO Energy Service Company	Operation of utility plant	MEXICO	100.00%	100.00%
KEPCO Netherlands S3 B.V.	Holding company	NETHERLANDS	100.00%	100.00%
PT. KOMIPO Pembangkitan Jawa Bali	Operation of utility plant	INDONESIA	51.00%	51.00%
PT. Cirebon Power Service (*2)	Operation of utility plant	INDONESIA	27.50%	27.50%
KOWEPO International Corporation	Operation of utility plant	PHILIPPINES	99.99%	99.99%
KOSPO Jordan LLC	Operation of utility plant	JORDAN	100.00%	100.00%
EWP Philippines Corporation	Operation of utility plant	PHILIPPINES	100.00%	100.00%
EWP Philippine Holdings Corporation	Holding company	PHILIPPINES	100.00%	
EWP America Inc.	Holding company	USA	100.00%	100.00%
EWP Renewable Co.	Holding company	USA	100.00%	100.00%
DG Fairhaven Power, LLC	Power generation	USA	100.00%	100.00%
DG Kings Plaza Holdings, LLC	Holding company	USA	100.00%	
DG Kings Plaza, LLC	Power generation	USA	100.00%	100.00%
DG Kings Plaza II, LLC	Holding company	USA	100.00%	
DG Whitefield, LLC	Power generation	USA	100.00%	100.00%
Springfield Power, LLC	Power generation	USA	100.00%	100.00%
KNF Canada Energy Limited	Resources development	CANADA	96.36%	96.36%
PT KEPCO Resource Indonesia	Resources development	INDONESIA	100.00%	100.00%
EWP Barbados 1 SRL	Holding company	BARBADOS	100.00%	100.00%
California Power Holdings, LLC	Power generation	USA	100.00%	100.00%
Gyeonggi Green Energy Co., Ltd.	Power generation	KOREA	62.01%	62.01%
PT. Tanggamus Electric Power	Power generation	INDONESIA	60.00%	60.00%
Gyeongju Wind Power Co., Ltd.	Power generation	KOREA	70.00%	70.00%
KOMIPO America Inc.	Holding company	USA	100.00%	100.00%
Boulder Solar Power, LLC	Solar photovoltaic power generation	USA	75.00%	82.14%
EWPRC Biomass Holdings, LLC	Holding company	USA	100.00%	100.00%
KOSEP USA, INC.	Power generation	USA	100.00%	100.00%
PT. EWP Indonesia	Holding company	INDONESIA	100.00%	100.00%
KOWEPO America LLC.	Solar photovoltaic power generation	USA	100.00%	100.00%
KEPCO Netherlands J3 B.V.	Holding company	NETHERLANDS	100.00%	100.00%
Korea Offshore Wind Power Co., Ltd.	Power generation	KOREA	100.00%	100.00%
Global One Pioneer B.V.	Holding company	NETHERLANDS	100.00%	100.00%
Global Energy Pioneer B.V.	Holding company	NETHERLANDS	100.00%	100.00%
KOSEP Wind Power, LLC.	Power generation	USA	100.00%	
Mira Power Limited (*3)	Power generation	PAKISTAN	76.00%	76.00%
KOSEP Material Co., Ltd. (*4)	Power generation	KOREA	77.04%	46.22%
Commerce and Industry Energy Co., Ltd.	Power generation	KOREA	59.03%	59.03%
KEPCO Singapore Holding Pte., Ltd.	Holding company	SINGAPORE	100.00%	100.00%
KOWEPO India Private Limited	Holding company	INDIA	100.00%	100.00%
KEPCO KPS Philippines Corp.	Utility plant maintenance and others	PHILIPPINES	100.00%	100.00%
KOSPO Chile SpA	Holding company	CHILE	100.00%	100.00%
PT. KOWEPO Sumsel Operation and Maintenance Services	Utility plant maintenance and others	INDONESIA		95.00%

(\*1) Considering treasury stocks, the effective percentage of ownership is 71.05%, 66.62%, as of December 31, 2013 and 2014, respectively.

(\*2) These subsidiaries are included in the consolidated financial statements as the Company obtains the majority of the voting power through the shareholders' agreement.

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(\*3) As of reporting date, the reporting period of all subsidiaries ends in December 31, except for Mira Power Limited which is November 30.

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(\*4) According to the shareholders' agreement reached in April 2014, Korea South-East Power Co., Ltd. ( KOSEP ) signed a contract with Long Lasting Value ( LLV ) to guarantee the principal and certain rate of return on LLV's shares in KOSEP Material Co., Ltd. Moreover, LLV has put options to sell their investment to KOSEP. Therefore, the Company accounted for this agreement as KOSEP acquiring the shares of KOSEP Material from LLV during the year ended December 31, 2014. As such, the effective percentage of ownership is 86.20% as of December 31, 2014.

**(2) Subsidiaries newly included in or excluded from consolidation for the year ended December 31, 2014 are as follows:**

(i) Subsidiaries newly included in consolidation

Subsidiary	Reason
PT. KOWEPO Sumsel Operation & Maintenance Services	New investment

(ii) Subsidiaries excluded from consolidation

Subsidiary	Reason
Korea Engineering & Power Services Co., Ltd.	Disposed
KOSEP Wind Power, LLC	Merged
EWP Philippine Holdings Corporation	Liquidated
DG Kings Plaza Holdings, LLC	Liquidated
DG Kings Plaza II, LLC	Liquidated



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- (3) Summary of financial information of consolidated subsidiaries as of and for the years ended December 31, 2013 and 2014 are as follows:

Subsidiaries	2013			
	Total assets	Total liabilities	Sales	Profit (loss) for the period
In millions of won				
Korea Hydro & Nuclear Power Co., Ltd.	46,717,706	26,482,646	6,378,280	(180,160)
Korea South-East Power Co., Ltd.	8,294,384	4,634,288	4,157,175	116,001
Korea Midland Power Co., Ltd.	6,189,836	3,266,269	5,658,612	40,815
Korea Western Power Co., Ltd.	7,160,956	4,010,759	5,762,386	106,829
Korea Southern Power Co., Ltd.	7,360,191	3,906,329	7,120,621	102,670
Korea East-West Power Co., Ltd.	7,449,723	4,014,477	5,368,299	27,021
KEPCO Engineering & Construction Company, Inc.	760,504	378,454	755,484	34,407
KEPCO Plant Service & Engineering Co., Ltd.	839,067	217,404	1,121,717	151,524
KEPCO Nuclear Fuel Co., Ltd.	509,057	221,023	233,638	15,401
KEPCO KDN Co., Ltd.	354,577	115,604	372,830	8,561
Garorim Tidal Power Plant Co., Ltd.	43,592	3,350		(2,502)
Korea Power Engineering & Power Services Co., Ltd.	15,555	4,781	29,066	5,764
KEPCO International Hong Kong Ltd.	243,898			12,746
KEPCO International Philippines Inc.	101,832	819		705
KEPCO Gansu International Ltd.	15,689	486		(10)
KEPCO Philippines Holdings Inc.	116,825	13		2,861
KEPCO Philippines Corporation	14,226	150		493
KEPCO Ilijan Corporation	705,425	76,329	140,782	71,194
KEPCO Lebanon SARL	6,836	9,417		(895)
KEPCO Neimenggu International Ltd.	177,649			1,255
KEPCO Shanxi International Ltd.	491,681	226,543		(4,526)
KOMIPO Global Pte Ltd.	131,874	30		14,423
KEPCO Canada Energy Ltd.	75,197	12,358		(164)
KEPCO Netherlands B.V.	209,885	21		2,844
KOREA Imouraren Uranium Investment Corp.	248,300	161		(45)
KEPCO Australia Pty., Ltd.	498,742	2,173	4,979	162,325
KOSEP Australia Pty., Ltd.	18,592	931	4,728	1,578
KOMIPO Australia Pty., Ltd.	18,190	537	4,728	1,574
KOWEPO Australia Pty., Ltd.	18,724	929	4,728	1,577
KOSPO Australia Pty., Ltd.	18,789	929	4,728	1,578
KEPCO Middle East Holding Company	107,858	122,440		(1,611)
Qatrana Electric Power Company	516,637	436,210	17,471	20,850
KHNP Canada Energy Ltd.	50,314	23		(51)
KEPCO Bylong Australia Pty., Ltd.	145,704	169,014		(136,027)
Korea Waterbury Uranium Limited Partnership	20,380	21		(70)
KEPCO Canada Uranium Investment Limited Partnership	81,945	25		(46)
Korea Electric Power Nigeria Ltd.	1,859	1,449	3,602	427
KEPCO Holdings de Mexico	10	9		(14)
KST Electric Power Company	498,705	483,339	456	4,616
KEPCO Energy Service Company	835	437	3,733	407
KEPCO Netherlands S3 B.V.	514	18		(64)
PT. KOMIPO Pembangkitan Jawa Bali	14,884	5,548	20,162	6,143
PT. Cirebon Power Service	1,646	642	7,143	406
KOWEPO International Corporation	1,897	31		
KOSPO Jordan, LLC.	15,938	9,790	7,817	2,389

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Subsidiaries	2013			
	Total assets	Total liabilities	Sales	Profit (loss) for the period
In millions of won				
EWP Philippines Corporation (Formerly, EWP Cebu Corporation)	7,067	290	212	(914)
EWP Philippine Holdings Corporation	211	1		(2)
EWP America Inc. (*)	104,186	77,105	53,087	(3,184)
KNF Canada Energy Limited	2,254	19		(71)
PT KEPCO Resource Indonesia	1,609			(84)
EWP Barbados 1 SRL	284,111	145	2,738	(21,771)
Gyeonggi Green Energy Co., Ltd.	338,394	263,608	26,944	(161)
PT. Tanggamus Electric Power	9,784	626		(3,640)
Gyeongju Wind Power Co., Ltd.	49,264	32,580	7,440	2,507
KOMIPO America Inc.	7,604	6		
Boulder Solar Power, LLC.	7,639	6		(2,131)
KOSEP USA, INC.	31,121	233		(757)
PT. EWP Indonesia	771	14		(334)
KOWEPO America, LLC.	6,057	21		(1,295)
KEPCO Netherlands J3 B.V.	102,295	31		(86)
Korea Offshore Wind Power Co., Ltd.	4,052	1,598		(2,436)
Global One Pioneer B.V.	46	19		(44)
Global Energy Pioneer B.V.	47	19		(42)
KOSEP Wind Power, LLC.	1,219	688	2,053	332
Mira Power Limited	13,607	244		(742)
KOSEP Material Co., Ltd.	13,349	280		(431)
Commerce and Industry Energy Co., Ltd.	104,739	87,628	13,450	(2,959)
KEPCO Singapore Holding Pte., Ltd.		11		(11)
KOWEPO India Private Limited	1,370	4		(377)
KEPCO KPS Philippines Corp.	4,396	3,409	5,923	659
KOSPO Chile SpA	4,180	4,180		

(\*) Financial information of EWP America Inc. includes that of nine other subsidiaries, EWP Renewable Co., Ltd., DG Fairhaven Power, LLC., DG Kings Plaza Holdings, LLC., DG Kings Plaza, LLC., DG Whitefield, LLC., Springfield Power, LLC., California Power Holdings, LLC., EWPRC Biomass Holdings, LLC. and DG Kings Plaza II, LLC.

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Subsidiaries	2014			
	Total assets	Total liabilities	Sales	Profit (loss) for the period
In millions of won				
Korea Hydro & Nuclear Power Co., Ltd.	49,237,136	27,588,281	9,379,564	1,446,060
Korea South-East Power Co., Ltd.	9,026,146	5,068,092	4,469,415	383,233
Korea Midland Power Co., Ltd.	7,074,578	4,073,784	5,041,682	110,533
Korea Western Power Co., Ltd.	8,245,105	5,008,954	4,840,007	151,662
Korea Southern Power Co., Ltd.	8,703,362	5,229,934	6,209,536	68,481
Korea East-West Power Co., Ltd.	8,370,732	4,805,302	4,507,011	168,534
KEPCO Engineering & Construction Company, Inc.	777,612	370,482	841,917	54,759
KEPCO Plant Service & Engineering Co., Ltd.	922,843	226,774	1,078,526	166,847
KEPCO Nuclear Fuel Co., Ltd.	568,370	257,899	241,310	32,588
KEPCO KDN Co., Ltd.	390,681	135,341	458,960	20,228
Garorim Tidal Power Plant Co., Ltd.	772	387		(39,856)
KEPCO International HongKong Ltd.	182,703			6,221
KEPCO International Philippines Inc.	101,864	405		98,878
KEPCO Gansu International Ltd.	16,330	506		(11)
KEPCO Philippines Holdings Inc.	124,418	40		5,987
KEPCO Philippines Corporation	13,670	139		(959)
KEPCO Ilijan Corporation	585,190	53,212	127,871	76,627
KEPCO Lebanon SARL	6,990	9,832		(164)
KEPCO Neimenggu International Ltd.	182,140			(172)
KEPCO Shanxi International Ltd.	523,357	245,170		1,935
KOMIPO Global Pte Ltd.	157,441	3,636		9,470
KEPCO Canada Energy Ltd.	69,507	113		(18)
KEPCO Netherlands B.V.	189,121	14		367
KOREA Imouraren Uranium Investment Corp.	227,897	207		(48)
KEPCO Australia Pty., Ltd.	539,961	2,572	4,532	799
KOSEP Australia Pty., Ltd.	19,771	935	4,786	2,413
KOMIPO Australia Pty., Ltd.	18,779	542	4,786	1,786
KOWEPO Australia Pty., Ltd.	19,990	1,004	4,786	2,434
KOSPO Australia Pty., Ltd.	18,983	932	4,439	2,007
KEPCO Middle East Holding Company	116,615	133,338		(1,470)
Qatrana Electric Power Company	553,134	462,329	17,079	15,724
KHNP Canada Energy Ltd.	47,982	58		(17)
KEPCO Bylong Australia Pty., Ltd.	169,209	200,443		(20,958)
Korea Waterbury Uranium Limited Partnership	22,058	35		(59)
KEPCO Canada Uranium Investment Limited Partnership	70,778	25		(30)
Korea Electric Power Nigeria Ltd.	1,112	786	23,863	204
KEPCO Holdings de Mexico	11	21		(12)
KST Electric Power Company	512,793	496,780	16,668	13,496
KEPCO Energy Service Company	374	535	5,032	40
KEPCO Netherlands S3 B.V.	62,583	30		812
PT. KOMIPO Pembangkitan Jawa Bali	17,282	6,034	21,276	8,929
PT. Cirebon Power Service	1,630	402	6,694	354
KOWEPO International Corporation				(1,861)

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Subsidiaries	2014			
	Total assets	Total liabilities	Sales	Profit (loss) for the period
	In millions of won			
KOSPO Jordan, LLC.	10,270	1,742	29,682	2,512
EWP Philippines Corporation	6,570	283		(848)
EWP America Inc. (*)	104,855	76,669	57,251	(21)
KNF Canada Energy Limited	2,118	48		(65)
PT KEPCO Resource Indonesia	1,366	13		(267)
EWP Barbados 1 SRL	296,278	162	2,633	322
Gyeonggi Green Energy Co., Ltd.	334,074	264,278	124,181	(4,989)
PT. Tanggamus Electric Power	24,120	8,339	20,089	(3,125)
Gyeongju Wind Power Co., Ltd.	48,570	30,225	7,871	2,590
KOMIPO America Inc.	10,118	7		
Boulder Solar Power, LLC.	8,457	7		(712)
KOSEP USA, INC.	35,062	1,581	2,315	(119)
PT. EWP Indonesia	902	15		(278)
KOWEPO America, LLC.	5,813	137		(1,006)
KEPCO Netherlands J3 B.V.	113,818	44		(61)
Korea Offshore Wind Power Co., Ltd.	11,762	2,287		(3,424)
Global One Pioneer B.V.	40	24		(60)
Global Energy Pioneer B.V.	42	29		(64)
Mira Power Limited	32,977	221		(1,109)
KOSEP Material Co., Ltd.	42,766	23,226		(2,463)
Commerce and Industry Energy Co., Ltd.	103,346	87,047	23,645	(881)
KEPCO Singapore Holding Pte., Ltd.	1,012			(20)
KOWEPO India Private Limited	997	11		(397)
KEPCO KPS Philippines Corp.	5,147	2,150	9,263	1,912
KOSPO Chile SpA	3,143	4,354		(1,640)
PT. KOWEPO Sumsel Operation & Maintenance Services	1,628	1,386		(408)

(\*) Financial information of EWP America Inc. includes that of seven other subsidiaries, EWP Renewable Co., Ltd., DG Fairhaven Power, LLC., DG Kings Plaza, LLC., DG Whitefield, LLC., Springfield Power, LLC., California Power Holdings, LLC., and EWPRC Biomass Holdings, LLC.

(4) **Significant restrictions on abilities to subsidiaries are as follows:**

**Company**

Gyeonggi Green Energy Co., Ltd.

**Nature and extent of any significant restrictions**

Acquisition or disposal of assets more than 35 billion, change in the capacity of cogeneration units (except for the change due to performance improvement of equipment, maintenance) will require unanimous consent of all directors.

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- (5) Details of non-controlling interest prior to intra-group eliminations as of and for the years ended December 31, 2013 and 2014 are as follows:

Description	2013					Others	Total
	KEPCO Ilijan Corporation	KEPCO Plant Service & Engineering Co., Ltd.	Dongducheon Dream Power Co., Ltd.	KEPCO Engineering & Construction Company, Inc. In millions of won	Garorim Tidal Power Plant Co., Ltd.		
Percentage of ownership	49.00%	37.00%	51.00%	28.95%	51.00%		
Current assets	251,147	438,272		478,851	7,002	476,286	1,651,558
Non-current assets	454,278	400,794		281,653	36,591	1,644,436	2,817,752
Current liabilities	(44,046)	(182,871)		(336,046)	(3,272)	(243,826)	(810,061)
Non-current liabilities	(32,282)	(34,533)		(42,407)	(78)	(1,296,242)	(1,405,542)
Net assets	629,097	621,662		382,051	40,243	580,654	2,253,707
Book value of non-controlling interest	308,257	230,015		110,603	20,523	599,434	1,268,832
Sales	140,782	1,121,717		755,484		361,692	2,379,675
Profit (loss) for the period	71,194	151,524		34,407	(2,502)	55,763	310,386
Profit (loss) for the period attributable to non-controlling interest	34,885	45,457		8,650	(1,276)	33,989	121,705
Cash flows from operating activities	57,785	40,805		11,367	(665)	(4,871)	104,421
Cash flows from investing activities	(2,524)	(21,412)	(20,006)	4,854	(186)	(126,946)	(166,220)
Cash flows from financing activities before dividends to non-controlling interest	(22,735)	2,657		1,716	3,475	189,313	174,426
Dividends to non-controlling interest		(19,440)		(18,564)		(20,037)	(58,041)
Effect of exchange rate fluctuation	(1,953)	(220)		(33)		(2,529)	(4,735)
Net increase (decrease) of cash and cash equivalents	30,573	2,390	(20,006)	(660)	2,624	34,930	49,851

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Description	2014					Total
	KEPCO Ilijan Corporation	KEPCO Plant Service & Engineering Co., Ltd.	KEPCO Engineering & Construction Company, Inc.	Garorim Tidal Power Plant Co., Ltd.	Others	
	In millions of won					
Percentage of ownership	49.00%	46.00%	33.37%	51.00%		
Current assets	143,229	461,750	355,292	729	605,778	1,566,778
Non-current assets	441,961	461,093	422,320	43	2,301,291	3,626,708
Current liabilities	(19,022)	(181,871)	(315,766)	(387)	(391,393)	(908,438)
Non-current liabilities	(34,190)	(44,903)	(54,716)		(1,765,520)	(1,899,328)
Net assets	531,978	696,069	407,130	385	750,156	2,385,718
Book value of non-controlling interest	260,669	320,192	135,859	197	616,443	1,333,360
Sales	127,871	1,078,526	841,917		531,983	2,580,297
Profit (loss) for the period	76,627	166,847	54,759	(39,856)	54,875	313,252
Profit (loss) for the period attributable to non-controlling interest	37,547	61,734	15,853	(20,326)	24,014	118,822
Cash flows from operating activities	111,248	183,865	16,226	(4,818)	53,990	360,511
Cash flows from investing activities	(3,221)	(70,186)	(14,066)	(1,454)	(64,720)	(153,647)
Cash flows from financing activities before dividends to non-controlling interest	(116,956)	(43,092)	(19,258)		35,825	(143,481)
Dividends to non-controlling interest	(96,533)	(25,308)	(4,905)		(4,224)	(130,970)
Effect of exchange rate fluctuation	2,456	70	(147)	69	5,858	8,306
Net increase (decrease) of cash and cash equivalents	(103,006)	45,349	(22,150)	(6,203)	26,729	(59,281)

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**Table of Contents****(6) Business combination**

On April 29, 2013, the Company obtained control of Commerce and Industry Energy Co., Ltd. which engages in the integrated commerce and industry energy business, by acquiring an additional 29.5% of its equity shares. As a result, the Company's ownership for Commerce and Industry Energy Co., Ltd. increased from 29.5% to 59.0%. The acquisition was accounted for as follows:

	<b>Amount</b> <b>In millions of won</b>
<b>I. Fair value of consideration transferred</b>	
Carrying value of the equity method investees previously owned	5,829
Fair value adjustment(*1)	(1,022)
Cash and cash equivalents paid	2
Fair value of related commitments(*2)	4,806
	9,615
<b>II. Fair value of non-controlling interest(*3)</b>	
	4,882
	14,497
<b>III. Recognized amounts of identifiable assets acquired and liabilities assumed</b>	
<Assets>	
Cash and cash equivalents	7,292
Trade and other receivables	1,631
Inventories	515
Property, plant & equipment	82,733
Other assets	3,460
<Liabilities>	
Trade and other payables	(1,777)
Borrowings	(81,752)
Other liabilities	(187)
Fair value of net assets	11,915
<b>IV. Goodwill</b>	
	2,582

(\*1) Prior to the business combination, 29.5% of the Company's equity shares was re-measured to fair value. As a result, the differences incurred from the re-measurement amounted to 1,022 million is recognized as a loss on the disposal of its interest in associates and joint ventures.

(\*2) The Company guarantees a certain rate of return to investors of Commerce and Industry Energy Co., Ltd., including Hana Power Co., Ltd., a financial investor, holding 39.3% of the 2,260,000 shares of equity in Commerce and Industry Energy Co., Ltd. The investors may request the Company to purchase their investment shares after 58 months have elapsed from the date of investment. The Company has included the fair value valuation of the purchase commitment in consideration transferred.

(\*3) Non-controlling interest is measured by proportionate share of non-controlling of the identifiable net assets.

If the Company had acquired the equity shares of Commerce and Industry Energy Co., Ltd. on January 1, 2013, the sales and profit for the 2013 would have been 54,044,024 million and 182,218 million, respectively. From the date of the acquisition, the subsidiary incurred sales and loss

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for the period 13,450 million and 2,959 million, respectively.

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The net cash outflows from the business combination for the year ended December 31, 2013 are as follows:

	In millions of won
Consideration paid in cash	2
Less: acquired cash and cash equivalents.	(7,292)
	(7,290)

**(7) Changes in goodwill**

(i) Details of goodwill as of December 31, 2013 and 2014 are as follows:

	2013	2014
	In millions of won	
Acquisition cost	2,582	2,582
Accumulated impairment		
Carrying book value	2,582	2,582

(ii) Changes in goodwill for the year ended December 31, 2013 and 2014 are as follows:

	2013	2014
	In millions of won	
Beginning balance		2,582
Changes		
Newly recognized	2,582	
Ending balance	2,582	2,582

**(8) Disposals of subsidiaries**

The Company disposed the shares of Korea Engineering & Power Services Co., Ltd. and liquidated EWP Philippine Holdings Corporation for the year ended December 31, 2014. The Company also reclassified the shares of Nepal Water & Energy Development Company Pty Ltd. and Dongducheon Dream Power Co., Ltd. from subsidiaries to investments in associates and liquidated EWP Barbados 2 SRL for the year ended December 31, 2013.

(i) The fair value of sales price as of December 31, 2013 and 2014 are as follows:

2013	2014
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	<b>In millions of won</b>	
Consideration received in cash	44	46,476
The fair value of remaining shares after disposal	150,629	
<b>Total</b>	<b>150,673</b>	<b>46,476</b>

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- (ii) The carrying value of assets and liabilities of subsidiaries as at the date the Company lost its control during the years ended December 31, 2013 and 2014 are as follows:

	<b>2013</b>	<b>2014</b>
	<b>In millions of won</b>	
<b>Current assets</b>		
Cash and cash equivalents	4,934	2,187
Current financial assets, net		4,781
Trade and other receivables, net	17,237	5,460
Current non-financial assets	3,413	232
Other	50	
<b>Non-current assets</b>		
Non-current financial assets, net	359	144
Non-current trade and other receivables, net	2,031	351
Property, plant and equipment, net	283,107	934
Intangible assets other than goodwill, net	14	
Other	3,183	50
<b>Current liabilities</b>		
Trade and other payables, net	(10,032)	(1,655)
Current non-financial liabilities	(549)	(161)

	<b>2013</b>	<b>2014</b>
	<b>In millions of won</b>	
<b>Non-current liabilities</b>		
Employee benefits obligations, net	(128)	
	303,619	12,323

- (iii) Gain from disposals of subsidiaries for the years ended December 31, 2013 and 2014 are as follows:

	<b>2013</b>	<b>2014</b>
	<b>In millions of won</b>	
The fair value of sale price	150,673	46,476
Net assets disposed	(303,619)	(12,323)
Non-controlling interests	154,637	5,765
Realization of unrealized gain	640	534
Other comprehensive loss	(872)	(20)
Gain from disposals of subsidiaries	1,459	40,432

- (iv) Net cash flow from sales of subsidiaries for the years ended December 31, 2013 and 2014 are as follows:

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	2013	2014
	In millions of won	
Consideration received in cash	44	46,476
Less: Cash in disposed subsidiaries	(4,934)	(2,187)
Net cash flow	(4,890)	44,289

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(9) Cash dividends received from subsidiaries for the years ended December 31, 2012, 2013 and 2014 respectively are as follows:

Subsidiaries	2012	2013	2014
Korea Hydro & Nuclear Power Co., Ltd.	463,308	63,035	
Korea South-East Power Co., Ltd.	98,879	89,569	34,800
Korea Midland Power Co., Ltd.	40,940	66,153	12,244
Korea Western Power Co., Ltd.	31,386	59,160	32,048
Korea Southern Power Co., Ltd.	47,120	51,680	30,800
Korea East-West Power Co., Ltd.	69,400	82,200	8,100
KEPCO Plant Service & Engineering Co., Ltd.	60,831	55,280	43,095
KEPCO Nuclear Fuel Co., Ltd.	54,678	45,363	5,936
KEPCO KDN Co., Ltd.	15,891	16,346	
Korea Electric Power Data Network Co., Ltd.			3,424
Korea Engineering & Power Services Co., Ltd.	6,279	2,043	1,573
Korea Power Engineering & Power Services Co., Ltd.	540	1,458	10,996
KEPCO International HongKong Ltd.	42,750	12,132	74,927
KEPCO International Philippines Inc.	25,100		100,122
KEPCO Philippines Corporation	14,762	1,986	
KEPCO Ilijan Corporation	12,644		101,647
KEPCO Philippines Holdings Inc.	1,502	6,678	2,811
KEPCO Neimenggu International Ltd.		3,629	6,308
KEPCO Netherlands B.V.	8,453	8,923	
KOSPO Jordan LLC	358	129	446
PT. KOMIPO Pembangkitan Jawa Bali	2,074	1,663	2,827
Gyeongju Wind Power Co., Ltd.			651
	996,895	567,427	472,755

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

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

Investees	Key operation activities	Location	Percentage of ownership	2013	
				Acquisition cost	Book value
In millions of won					
<b>&lt;Associates&gt;</b>					
Daegu Green Power Co., Ltd.	Power generation	KOREA	47.80%	76,193	74,878
Korea Gas Corporation (*1)	Importing and wholesaling LNG	KOREA	20.47%	94,500	1,926,800
Korea Electric Power Industrial Development Co., Ltd.	Electricity metering	KOREA	29.00%	4,727	22,450
YTN Co., Ltd.	Broadcasting	KOREA	21.43%	59,000	38,426
Cheongna Energy Co., Ltd.	Generating and distributing vapor and hot/cold water	KOREA	43.90%	43,900	28,114
Gangwon Wind Power Co., Ltd. (*2)	Wind power generation	KOREA	15.00%	5,725	13,185
Hyundai Green Power Co., Ltd.	Power generation	KOREA	29.00%	88,885	110,157
Korea Power Exchange (*6)	Management of power market	KOREA	100.00%	127,839	189,544
AMEC Partners Korea (*3)	Resources development	KOREA	19.00%	707	189
Hyundai Energy Co., Ltd. (*9)	Power generation	KOREA	29.00%	71,070	43,386
Ecollite Co., Ltd.		KOREA	36.10%	1,516	

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	Artificial light-weight aggregate				
Taeback Wind Power Co., Ltd.	Power generation	KOREA	25.00%	3,810	5,553

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Investees	2013				
	Key operation activities	Location	Percentage of ownership	Acquisition cost	Book value
				In millions of won	
Alternergy Philippine Investments Corporation	Power generation	PHILIPPINES	50.00%	3,881	1,500
Muju Wind Power Co., Ltd.	Power generation	KOREA	25.00%	2,850	2,707
Pyeongchang Wind Power Co., Ltd.	Power generation	KOREA	25.00%	638	600
Daeryun Power Co., Ltd.	Power generation	KOREA	19.80%	25,477	24,599
JinanJangsu Wind Power Co., Ltd.	Power generation	KOREA	25.00%	100	77
Changjuk Wind Power Co., Ltd.	Power generation	KOREA	30.00%	3,801	6,344
KNH Solar Co., Ltd.	Power generation	KOREA	27.00%	1,296	1,372
SPC Power Corporation	Power generation	PHILIPPINES	38.00%	20,635	47,661
Gemeng International Energy Co., Ltd.	Power generation	CHINA	34.00%	413,153	608,674
PT. Cirebon Electric Power	Power generation	INDONESIA	27.50%	39,217	32,826
KNOC Nigerian East Oil Co., Ltd.(*4)	Resources development	NIGERIA	14.63%	12	
KNOC Nigerian West Oil Co., Ltd.(*4)	Resources development	NIGERIA	14.63%	12	
Dolphin Property Limited(*4)	Rental company	NIGERIA	15.00%	12	
E-Power S.A.	Operation of utility plant and sales of electricity	HAITI	30.00%	3,779	5,284
PT Wampu Electric Power	Power generation	INDONESIA	46.00%	18,935	15,121
PT. Bayan Resources TBK	Resources development	INDONESIA	20.00%	615,860	579,534
S-Power Co., Ltd.	Power generation	KOREA	40.00%	108,000	107,264
Pioneer Gas Power Limited(*8)	Power generation	INDIA	40.00%	48,709	43,666
Eurasia Energy Holdings	Power generation and resources development	RUSSIA	40.00%	461	
Xe-Pian Xe-Namnoy Power Co., Ltd.	Power generation	LAOS	25.00%	18,928	18,058
Busan Solar Co., Ltd.(*3)	Power generation	KOREA	19.80%	793	741
Hadong Mineral Fiber Co., Ltd.	Recycling fly ashes	KOREA	25.00%	50	3
Green Biomass Co., Ltd.	Power generation	KOREA	34.00%	714	171
Gumi-ochang Photovoltaic Power Co., Ltd.(*2)	Power generation	KOREA	10.00%	288	389
Chungbuk Photovoltaic Power Co., Ltd.(*2)	Power generation	KOREA	10.00%	166	184
Cheonan Photovoltaic Power Co., Ltd.(*2)	Power generation	KOREA	10.00%	122	148
PT. Mutiara Jawa	Manufacturing and operating floating coal terminal	INDONESIA	29.00%	2,978	1,666
Hyundai Asan Solar Power Co., Ltd.	Power generation	KOREA	10.00%	471	462
Heang Bok Do Si Photovoltaic Power Co., Ltd.	Power generation	KOREA	28.00%	92	91
Jeonnam Solar Co., Ltd.	Power generation	KOREA	10.00%	700	696
DS POWER Co., Ltd.	Power generation	KOREA	10.91%	17,900	17,900
D Solarenergy Co., Ltd.(*2)	Power generation	KOREA	10.00%	400	364
Dongducheon Dream Power Co., Ltd.	Power generation	KOREA	43.61%	140,079	134,398
KS Solar Corp. Ltd.(*3)	Power generation	KOREA	19.00%	637	537
KOSCON Photovoltaic Co., Ltd.(*2)	Power generation	KOREA	19.00%	245	315
Yeongwol Energy Station Co., Ltd.(*2)	Power generation	KOREA	13.30%	1,862	908
Yeonan Photovoltaic Co., Ltd.(*2)	Power generation	KOREA	19.00%	157	123
Q1 Solar Co., Ltd	Power generation	KOREA	28.00%	1,005	983
Jinhuvish Power Generation Pvt. Ltd.(*2)	Power generation	INDIA	5.16%	9,000	8,495
Best Solar Energy Co., Ltd.	Power generation	KOREA	23.00%	1,242	898
Seokcheon Solar Power Co., Ltd.(*2)	Power generation	KOREA	9.73%	970	1,046
SE Green Energy Co., Ltd.	Power generation support	KOREA	47.76%	3,821	3,745
Daegu Photovoltaic Co., Ltd.	Power generation	KOREA	29.00%	1,230	1,334
Jeongam Wind Power Co., Ltd.	Power generation	KOREA	40.00%	800	324
Korea Power Engineering Service Co., Ltd.	Construction and service	KOREA	29.00%	290	585
Golden Route J Solar Power Co., Ltd.(*2)	Photovoltaic power generation	KOREA	10.00%	82	99
				2,089,722	4,124,574

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Investees	2013				
	Key operation activities	Location	Percentage of ownership	Acquisition cost In millions of won	Book value
<b>&lt;Joint ventures&gt;</b>					
KEPCO-Uhde Inc.(*7)	Power generation	KOREA	66.00%	11,355	9,537
Eco Biomass Energy Sdn. Bhd.(*7)	Power generation	MALAYSIA	61.53%	9,661	
Datang Chaoyang Renewable Power Co., Ltd.	Power generation	CHINA	40.00%	27,660	28,161
Shuweihaat Asia Power Investment B.V.	Holding company	NETHERLANDS	49.00%	507	64
Shuweihaat Asia Operation & Maintenance Company(*7)	Maintenance of utility plant	CAYMAN	55.00%	30	29
Waterbury Lake Uranium L.P.	Power generation	CANADA	40.00%	25,839	23,042
ASM-BG Investicii AD	Power generation	BULGARIA	50.00%	16,101	20,088
RES Technology AD	Power generation	BULGARIA	50.00%	15,595	16,045
KV Holdings, Inc.	Power generation	PHILIPPINES	40.00%	2,103	1,842
KEPCO SPC Power Corporation(*7)	Construction and operation of utility plant	PHILIPPINES	75.20%	94,579	143,294
Canada Korea Uranium Limited Partnership(*5)	Resources development	CANADA	12.50%	5,404	
KEPCO Energy Resource Nigeria Limited	Holding company	NIGERIA	30.00%	8,463	2,202
Gansu Datang Yumen Wind Power Co., Ltd.	Power generation	CHINA	40.00%	16,621	19,237
Datang Chifeng Renewable Power Co., Ltd.	Power generation	CHINA	40.00%	121,928	166,330
Datang KEPCO Chaoyang Renewable Power Co., Ltd.	Power generation	CHINA	40.00%	10,858	10,604
Rabigh Electricity Company	Sales of electricity	SAUDI ARABIA	40.00%	109,743	
Rabigh Operation & Maintenance Company	Maintenance of utility plant	SAUDI ARABIA	40.00%	70	4,082
Jamaica Public Service Company Limited	Power generation	JAMAICA	40.00%	301,910	268,022
KW Nuclear Components Co., Ltd.	R&D	KOREA	43.36%	833	2,476
Busan Shinho Solar power Co., Ltd.	Power generation	KOREA	25.00%	2,100	2,871
STX Electric Power Co., Ltd.	Power generation	KOREA	49.00%	176,400	173,915
YEONGAM Wind Power Co., Ltd.	Power generation	KOREA	49.00%	11,584	11,424
Global Trade Of Power System Co., Ltd.	Exporting products and technology of small or medium business by proxy	KOREA	29.00%	290	249
Expressway Solar-light Power Generation Co., Ltd.	Power generation	KOREA	29.00%	3,132	1,863
KODE NOVUS 1 LLC.	Power generation	USA	50.00%	19,213	14,237
KODE NOVUS 2 LLC.	Power generation	USA	49.00%	12,498	9,510
Daejung Offshore Wind Power Co., Ltd.	Power generation	KOREA	49.90%	4,990	4,135
Amman Asia Electric Power Company(*7)	Power generation	JORDAN	60.00%	104,721	111,315
KEPCO-ALSTOM Power Electronics Systems, Inc.(*7)	R&D	KOREA	51.00%	5,629	4,758
Dongbu Power Dangjin Corporation	Power generation	KOREA	40.00%	40,000	39,102
Honam Wind Power Co., Ltd.	Power generation	KOREA	29.00%	3,600	1,933
Nepal Water & Energy Development Company Pty Ltd.	Power generation	NEPAL	43.57%	10,550	10,409
Kelar S.A(*7)	Power generation	CHILE	65.00%	4,180	4,180
PT. Tanjung Power Indonesia	Power generation	INDONESIA	35.00%	388	361
Incheon New Power Co., Ltd.	Power generation	KOREA	29.00%	461	449
Seokmun Energy Co., Ltd.	Integrated energy business	KOREA	34.00%	680	415
				1,179,676	1,106,181
				3,269,398	5,230,755

(\*1) The effective percentage of ownership is 21.57% considering the treasury stocks.





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- (\*2) The Company can exercise significant influence by virtue of its contractual right to appoint directors to the board of directors of the entity, and by strict decision criteria of the Company's financial and operating policy of the board of directors.
- (\*3) The Company can exercise significant influence by virtue of its contractual right to appoint a director to the board of directors of the entity.
- (\*4) The Company can exercise significant influence by virtue of its contractual right to appoint one out of four members of the steering committee of the entity. Moreover, the Company has significant financial transactions with the associate which can affect its influence on the entity.
- (\*5) The Company has joint control over the associates by virtue of its contractual right to appoint directors to the board of directors of the entity, and by strict decision criteria of the Company's financial and operating policy of the board of directors.
- (\*6) The Government regulates the Company's ability to make operating and financial decisions over the entity, as the Government requires maintaining arms-length transactions between KPX and the Company's other subsidiaries. The Company can exercise significant influence by its right to nominate directors to the board of directors of the entity.
- (\*7) According to the shareholder agreement, all critical financial and operating decisions must be agreed to by all ownership parties. For these reasons, the entities are classified as joint ventures.
- (\*8) As of reporting date, the reporting period of all associates and joint ventures ends in December 31, except for Pioneer Gas Power Limited whose reporting period ends on March 31.
- (\*9) As of December 31, 2013, 16% of ownership of Hyundai Energy Co., Ltd. is held by NH Power II Co., Ltd. and NH Bank. According to the shareholders agreement reached on March 2011, not only does the Company have a call option to acquire the investment in Hyundai Energy Co., Ltd. from NH Power II Co., Ltd. And NH Bank with a certain rate of return, NH Power II Co., Ltd. and NH Bank also have put options to dispose of their investment to the Company. In connection with this agreement, the Company applied the equity method on the investment in Hyundai Energy Co., Ltd. with 45.26% of ownership.

Investees	Key operation activities	Location	Percentage of ownership	2014	
				Acquisition cost In millions of won	Book value
<b>&lt;Associates&gt;</b>					
Daegu Green Power Co., Ltd.	Power generation	KOREA	47.80%	76,193	71,387
Korea Gas Corporation(*1)	Importing and wholesaling LNG	KOREA	20.47%	94,500	2,097,539
Korea Electric Power Industrial Development Co., Ltd.	Electricity metering	KOREA	29.00%	4,727	21,622
YTN Co., Ltd.	Broadcasting	KOREA	21.43%	59,000	39,889
Cheongna Energy Co., Ltd.	Generating and distributing vapor and hot/cold water	KOREA	44.00%	49,607	28,771
Gangwon Wind Power Co., Ltd.(*2)	Wind power generation	KOREA	15.00%	5,725	12,385
Hyundai Green Power Co., Ltd.	Power generation	KOREA	29.00%	88,885	113,033
Korea Power Exchange(*6)	Management of power market	KOREA	100.00%	127,839	198,021
AMEC Partners Korea(*3)	Resources development	KOREA	19.00%	707	200
Hyundai Energy Co., Ltd.(*9)	Power generation	KOREA	29.00%	71,070	35,925
Ecollite Co., Ltd.	Artificial light-weight aggregate	KOREA	36.10%	1,516	

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Taebaek Wind Power Co., Ltd.	Power generation	KOREA	25.00%	3,810	5,525
Muju Wind Power Co., Ltd.	Power generation	KOREA	25.00%	2,850	2,706
Pyeongchang Wind Power Co., Ltd.	Power generation	KOREA	25.00%	3,876	3,693
Daeryun Power Co., Ltd.(*3,10)	Power generation	KOREA	13.13%	25,477	41,951
JinanJangsu Wind Power Co., Ltd.	Power generation	KOREA	25.00%	100	77

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Investees	Key operation activities	Location	Percentage of ownership	2014	
				Acquisition cost	Book value
In millions of won					
Changjuk Wind Power Co., Ltd.	Power generation	KOREA	30.00%	3,801	6,486
KNH Solar Co., Ltd.	Power generation	KOREA	27.00%	1,296	1,744
SPC Power Corporation	Power generation	PHILIPPINES	38.00%	20,635	47,799
Gemeng International Energy Co., Ltd.	Power generation	CHINA	34.00%	413,153	667,578
PT. Cirebon Electric Power	Power generation	INDONESIA	27.50%	40,365	43,335
KNOC Nigerian East Oil Co., Ltd.(*4)	Resources development	NIGERIA	14.63%	12	
KNOC Nigerian West Oil Co., Ltd.(*4)	Resources development	NIGERIA	14.63%	12	
Dolphin Property Limited(*4)	Rental company	NIGERIA	15.00%	12	61
PT Wampu Electric Power	Power generation	INDONESIA	46.00%	18,935	16,071
PT. Bayan Resources TBK	Resources development	INDONESIA	20.00%	615,860	540,011
S-Power Co., Ltd.	Power generation	KOREA	40.00%	108,000	104,244
Pioneer Gas Power Limited(*8)	Power generation	INDIA	40.00%	49,831	50,668
Eurasia Energy Holdings	Power generation and resources development	RUSSIA	40.00%	461	
Xe-Pian Xe-Namnoy Power Co., Ltd.	Power generation	LAOS	25.00%	23,474	22,152
Busan Solar Co., Ltd.(*3)	Power generation	KOREA	19.80%	793	853
Hadong Mineral Fiber Co., Ltd.	Recycling fly ashes	KOREA	25.00%	50	3
Green Biomass Co., Ltd.	Power generation	KOREA	34.00%	714	
PT. Mutiara Jawa	Manufacturing and operating floating coal terminal	INDONESIA	29.00%	2,978	818
Samcheok Eco Material Co., Ltd.(*3, 11)	Recycling fly ashes	KOREA	2.67%	686	212
Noeul Green Energy Co., Ltd.	Power generation	KOREA	20.00%	200	189
Naepo Green Energy Co., Ltd.	Power generation	KOREA	25.00%	29,200	28,064
Goseong Green Energy Co., Ltd.	Power generation	KOREA	9.67%	2,900	2,586
Gangneung Eco Power Co., Ltd.	Power generation	KOREA	6.04%	2,900	2,783
Shin Pyeongtaek Power Co., Ltd.	Power generation	KOREA	40.00%	40	
Heang Bok Do Si Photovoltaic Power Co., Ltd.	Power generation	KOREA	28.00%	193	221
DS POWER Co., Ltd.(*2)	Power generation	KOREA	10.91%	17,900	15,642
Dongducheon Dream Power Co., Ltd.	Power generation	KOREA	33.61%	107,958	100,545
KS Solar Corp. Ltd.(*3)	Power generation	KOREA	19.00%	637	325
Yeongwol Energy Station Co., Ltd.(*2)	Power generation	KOREA	10.00%	1,400	1,741
Jimbhuvish Power Generation Pvt. Ltd.(*2)	Power generation	INDIA	5.16%	9,000	8,344
SE Green Energy Co., Ltd.	Power generation support	KOREA	47.76%	3,821	3,623
Daegu Photovoltaic Co., Ltd.	Power generation	KOREA	29.00%	1,230	1,581
Jeongam Wind Power Co., Ltd.	Power generation	KOREA	40.00%	800	93

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Investees	Key operation activities	Location	Percentage of ownership	2014	
				Acquisition cost In millions of won	Book value
Korea Power Engineering Service Co., Ltd.	Construction and service	KOREA	29.00%	290	1,334
				2,095,419	4,341,830
<b>&lt;Joint ventures&gt;</b>					
KEPCO-Uhde Inc.(*7)	Power generation	KOREA	66.00%	11,355	9,042
Eco Biomass Energy Sdn. Bhd.(*7)	Power generation	MALAYSIA	61.53%	9,661	
Datang Chaoyang Renewable Power Co., Ltd.	Power generation	CHINA	40.00%	27,660	27,514
Shuweihat Asia Power Investment B.V.	Holding company	NETHERLANDS	49.00%	60,083	16,241
Shuweihat Asia Operation & Maintenance Company(*7)	Maintenance of utility plant	CAYMAN	55.00%	30	345
Waterbury Lake Uranium L.P.	Power generation	CANADA	40.00%	26,601	22,010
ASM-BG Investicii AD	Power generation	BULGARIA	50.00%	16,101	19,608
RES Technology AD	Power generation	BULGARIA	50.00%	15,595	14,725
KV Holdings, Inc.	Construction and operation of utility plant	PHILIPPINES	40.00%	2,103	1,902
KEPCO SPC Power Corporation(*7)	Resources development	PHILIPPINES	75.20%	94,579	190,519
Canada Korea Uranium Limited Partnership(*5)	Holding company	CANADA	12.50%	5,404	
KEPCO Energy Resource Nigeria Limited	Power generation	NIGERIA	30.00%	8,463	
Gansu Datang Yumen Wind Power Co., Ltd.	Power generation	CHINA	40.00%	16,621	17,467
Datang Chifeng Renewable Power Co., Ltd.	Power generation	CHINA	40.00%	121,928	169,496
Datang KEPCO Chaoyang Renewable Power Co., Ltd.	Power generation	CHINA	40.00%	10,858	10,539
Rabigh Electricity Company	Sales of electricity	SAUDI ARABIA	40.00%	109,743	8,121
Rabigh Operation & Maintenance Company	Maintenance of utility plant	SAUDI ARABIA	40.00%	70	4,628
Jamaica Public Service Company Limited	Power generation	JAMAICA	40.00%	301,910	226,892
KW Nuclear Components Co., Ltd.	R&D	KOREA	43.36%	833	2,899
Busan Shinho Solar power Co., Ltd.	Power generation	KOREA	25.00%	2,100	3,284
GS Donghae Electric Power Co., Ltd. (Formerly, STX Electric Power Co., Ltd.)	Power generation	KOREA	34.00%	204,000	201,409

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Investees	Key operation activities	Location	Percentage of ownership	2014	
				Acquisition cost In millions of won	Book value
Global Trade Of Power System Co., Ltd.	Exporting products and technology of small or medium business by proxy	KOREA	29.00%	290	343
Expressway Solar-light Power Generation Co., Ltd.	Power generation	KOREA	29.00%	1,856	2,087
KODE NOVUS 1 LLC.	Power generation	USA	50.00%	19,213	12,207
KODE NOVUS 2 LLC.	Power generation	USA	49.00%	12,498	8,248
Daejung Offshore Wind Power Co., Ltd.	Power generation	KOREA	49.90%	4,990	3,711
Amman Asia Electric Power Company(*7)	Power generation	JORDAN	60.00%	111,476	122,391
KEPCO-ALSTOM Power Electronics Systems, Inc.(*7)	R&D	KOREA	51.00%	5,629	4,617
Dangjin Echo Power Co., Ltd. (Formerly, Dongbu Power Dangjin Corporation)	Power generation	KOREA	33.10%	40,000	37,837
Honam Wind Power Co., Ltd.	Power generation	KOREA	29.00%	3,600	3,555
Nepal Water & Energy Development Company Pty Ltd.(*7)	Construction and operation of utility plant	NEPAL	59.61%	18,568	17,872
Chun-cheon Energy Co., Ltd.	Power generation	KOREA	29.90%	15	
Yeonggwangbaeksu Wind Power Co., Ltd.(*3)	Power generation	KOREA	15.00%	3,000	2,962
Nghi Son 2 Power Ltd.	Power generation	VIETNAM	50.00%	350	102
Kelar S.A(*7)	Power generation	CHILE	65.00%	4,180	3,156
PT. Tanjung Power Indonesia	Power generation	INDONESIA	35.00%	747	700
Incheon New Power Co., Ltd.	Power generation	KOREA	29.00%	461	465
Seokmun Energy Co., Ltd.	Integrated energy business	KOREA	34.00%	680	
				1,273,251	1,166,894
				3,368,670	5,508,724

(\*1) The effective percentage of ownership is 21.57% considering the treasury stock.

(\*2) The Company can exercise significant influence by virtue of its contractual right to appoint directors to the board of directors of the entity, and by strict decision criteria of the Company's financial and operating policy of the board of directors.

(\*3) The Company can exercise significant influence by virtue of its contractual right to appoint a director to the board of directors of the entity.

(\*4) The Company can exercise significant influence by virtue of its contractual right to appoint one out of four members of the steering committee of the entity. Moreover, the Company has significant financial transactions with the entity to the effect that the Company can exercise significant influence on the entity.

(\*5) The Company has joint control over the associates by virtue of its contractual right to appoint directors to the board of directors of the entity, and by strict decision criteria of the Company's financial and operating policy of the board of directors.

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- (\*6) The Government regulates the Company's ability to make operating and financial decisions over the entity, as the Government requires maintaining arms-length transactions between KPX and the Company's other subsidiaries. The Company can exercise significant influence by its right to nominate directors to the board of directors of the entity.
- (\*7) According to the shareholders' agreement, all critical financial and operating decisions must be agreed to by all ownership parties. For these reasons, the entities are classified as joint ventures.
- (\*8) As of reporting date, the reporting period of all associates and joint ventures ends in December 31, except for Pioneer Gas Power Limited whose reporting period ends on March 31.
- (\*9) As of December 31, 2014, 17.3% of ownership of Hyundai Energy Co., Ltd. is held by NH Power II Co., Ltd. and NH Bank. According to the shareholders' agreement reached on March 2011, not only does the Company have a call option to acquire the investment in Hyundai Energy Co., Ltd. from NH Power II Co., Ltd. and NH Bank with a certain rate of return, NH Power II Co., Ltd. and NH Bank also have put options to dispose of their investment to the Company. In connection with this agreement, the Company applied the equity method on the investment in Hyundai Energy Co., Ltd. with 46.30% of ownership.
- (\*10) The Company's percentage of ownership has decreased due to the acquisitions of Daeryun Energy Co., Ltd. and the effective percentage of ownership is 19.45% considering stock purchase options.
- (\*11) The Company's effective percentage of ownership excluding the redeemable convertible preferred stock is 25.54%.
- (2) **The fair value of associates which are actively traded on the open market and have a readily available market value as of December 31, 2013 and 2014 are as follows:**

Investees	2013	2014
	In millions of won	
<b>&lt;Associates&gt;</b>		
Korea Electric Power Industrial Development Co., Ltd.	39,423	60,506
Korea Gas Corporation (*)	1,258,740	936,495
YTN Co., Ltd.	25,110	23,940
SPC Power Corporation	65,807	65,888
PT. Bayan Resources TBK	489,600	391,463

- (\*) The carrying amount of Korea Gas Corporation ( KOGAS ) is 2,097,539 million as of December 31, 2014 and management has determined that there is objective evidence of impairment. As a result of the impairment test, the Company has not recognized any impairment loss as the value in use is greater than the carrying amount. The recoverable amount of KOGAS based on its value in use is calculated by considering the long-term natural gas supply and demand programs of future cash flows approved by Ministry of Trade, Industry & Energy and the discount rate of 4.50%.

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

Investees	Beginning balance	Acquisition	Disposal	2013			Ending balance	
				Dividends received	Share of income (loss)	Other comprehensive income (loss)		
				In millions of won				
<b>&lt;Associates&gt;</b>								
Daegu Green Power Co., Ltd.	56,007	18,833			160	(91)	(31)	74,878
Korea Gas Corporation	2,049,340			(30,996)	(26,848)	1,541	(66,237)	1,926,800
Korea Electric Power Industrial Development Co., Ltd.	18,936			(255)	3,477		292	22,450
YTN Co., Ltd.	37,876			(90)	472	40	128	38,426
Cheongna Energy Co., Ltd.	33,379				(5,217)		(48)	28,114
Gangwon Wind Power Co., Ltd.	12,113			(1,988)	3,005	55		13,185
Hyundai Green Power Co., Ltd.	110,346			(8,107)	8,038		(120)	110,157
Korea Power Exchange	176,264				10,283		2,997	189,544
AMEC Partners Korea	141				48			189
Hyundai Energy Co., Ltd.	49,463	13,920			(19,834)		(163)	43,386
Ecolite Co., Ltd.(*1)	1,266	1,349			(896)		(1,719)	
Taebaek Wind Power Co., Ltd.	3,728				1,825			5,553
Alternergy Philippine Investments Corporation	1,600	569			(508)	(161)		1,500
Muju Wind Power Co., Ltd.	2,711				(4)			2,707
Pyeongchang Wind Power Co., Ltd.	613				(13)			600
Daeryun Power Co., Ltd.	25,017				(270)	(19)	(129)	24,599
JinanJangsu Wind Power Co., Ltd.	78				(1)			77
Changjuk Wind Power Co., Ltd.	3,926				2,418			6,344
Commerce and industry energy Co., Ltd	7,066				(1,237)		(5,829)	
KNH Solar Co., Ltd.	1,089				290		(7)	1,372
SPC Power Corporation	36,760				15,599	(4,501)	(197)	47,661
Gemengai International Energy Co., Ltd.	549,730				53,120	5,824		608,674
PT. Cirebon Electric Power	17,022				10,300	6,361	(857)	32,826
KNOC Nigerian East Oil Co., Ltd.					(348)	127	221	
KNOC Nigerian West Oil Co., Ltd.					(933)	113	820	
Dolphin Property Limited					344	(3)	(341)	
E-Power S.A.	5,646			(1,878)	(359)	(28)	1,903	5,284
PT Wampu Electric Power	15,644				(303)		(220)	15,121
PT. Bayan Resources TBK(*2)	642,636				(54,399)	(8,703)		579,534
S-Power Co., Ltd.	81,679	26,000			(158)	(125)	(132)	107,264
Pioneer Gas Power Limited	37,875	8,811			377	(3,316)	(81)	43,666
Eurasia Energy Holdings					(171)	57	114	
Xe-Pian Xe-Namnoy Power Co., Ltd	27	18,898			(363)	(504)		18,058
Busan Solar Co., Ltd.	546	150			45			741
Hadong Mineral Fiber Co., Ltd.	5				(1)		(1)	3
Green Biomass Co., Ltd.	637				(466)			171
Gumi-ochang Photovoltaic Power Co., Ltd.	282				107			389
Chungbuk Photovoltaic Power Co., Ltd.	159				25			184
Cheonan Photovoltaic Power Co., Ltd.	109				39			148
PT. Mutiara Jawai	2,624				(573)	(456)	71	1,666



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Investees	Beginning balance	Acquisition	Disposal	2013			Ending balance
				Dividends received	Share of income (loss)	Other comprehensive income (loss)	
In millions of won							
Hyundai Asan Solar Power Co., Ltd.		471			(9)		462
Heang Bok Do Si Photovoltaic Power Co., Ltd.		92			1	(2)	91
Jeonnam Solar Co., Ltd.		700				(4)	696
DS POWER Co., Ltd.		17,900					17,900
D Solarenergy Co., Ltd.		400			(36)		364
Dongducheon Dream Power Co., Ltd.					(5,677)	52	134,398
KS Solar Corp. Ltd.		637			(100)		537
KOSCON Photovoltaic Co., Ltd.		245			70		315
Yeongwol Energy Station Co., Ltd.		1,862			(926)	(28)	908
Yeonan Photovoltaic Co., Ltd.		157			(34)		123
Q1 Solar Co., Ltd.		1,005			(10)	(12)	983
Jinbhuvish Power Generation Pvt. Ltd.		9,000			(145)	(360)	8,495
Best Solar Energy Co., Ltd.		1,242			(344)		898
Seokcheon Solar Power Co., Ltd.		970			76		1,046
SE Green Energy Co., Ltd.		3,821			(57)	(19)	3,745
Daegu Photovoltaic Co., Ltd.		1,230			111	(7)	1,334
Jeongam Wind Power Co., Ltd.		800			(476)		324
Korea Power Engineering Service Co., Ltd.		290			295		585
Golden Route J Solar Power Co., Ltd.		82			17		99
	3,982,340	129,434		(43,314)	(10,174)	(4,157)	70,445
							4,124,574
<b>&lt;Joint ventures&gt;</b>							
KEPCO-Uhde Inc.	10,269				(751)	19	9,537
Eco Biomass Energy Sdn. Bhd.							
Datang Chaoyang Renewable Power Co., Ltd.	28,705			(1,300)	549	395	(188)
Shuweiht Asia Power Investment B.V.		109			(42)	(7)	4
Shuweiht Asia Operation & Maintenance Company	29						29
Waterbury Lake Uranium L.P.	24,906					(1,374)	(490)
ASM-BG Investicii AD	16,024	1,371			2,301	392	
RES Technology AD	14,637	897			157	354	
KV Holdings, Inc.	2,023			(319)	307	(169)	
KEPCO SPC Power Corporation	121,737			(2,304)	20,196	3,665	
Canada Korea Uranium Limited Partnership(*3)	5,083						(5,083)
KEPCO Energy Resource Nigeria Limited	5,663				(3,386)	(75)	
Gansu Datang Yumen Wind Power Co., Ltd.	20,381				(1,365)	221	
Datang Chifeng Renewable Power Co., Ltd.	156,449			(3,545)	11,837	1,838	(249)
Datang KEPCO Chaoyang Renewable Power Co., Ltd.	10,125			(506)	893	155	(63)
Rabigh Electricity Company(*4)		108,385			15,539	41,458	(165,382)
Rabigh Operation & Maintenance Company	814			(1,831)	5,188	(89)	

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Investees	2013							Ending balance
	Beginning balance	Acquisition	Disposal	Dividends received	Share of income (loss)	Other comprehensive income (loss)	Others	
	In millions of won							
Jamaica Public Service Company Limited(*5)	293,007				(2,242)	(3,544)	(19,199)	268,022
KW Nuclear Components Co., Ltd.	1,222			(457)	1,711			2,476
Busan Shinho Solar power Co., Ltd.	2,056				815			2,871
STX Electric Power Co., Ltd.	96,698	78,400			(806)	(377)		173,915
YEONGAM Wind Power Co., Ltd.	11,563				(76)		(63)	11,424
Global Trade Of Power System Co., Ltd	213				36			249
Expressway Solar-light Power Generation Co., Ltd.	3,132				(1,257)	(12)		1,863
Yeongam F1 Solar Power Plant	1,673		(2,002)		329			
KODE NOVUS 1 LLC.	17,691				(3,661)	(64)	271	14,237
KODE NOVUS 2 LLC.	11,550				(1,940)	(100)		9,510
Daejung Offshore Wind Power Co., Ltd.	4,844				(709)			4,135
Amman Asia Electric Power Company	687	103,740			(1,501)	10,685	(2,296)	111,315
KEPCO-ALSTOM Power Electronics Systems, Inc.	5,629				(871)			4,758
Dongbu Power Dangjin Corporation	40,000				(980)		82	39,102
Honam Wind Power Co., Ltd.	1,783	1,817			(395)	(1,272)		1,933
Nepal Water & Energy Development Company Pty Ltd.					(10)	(131)	10,550	10,409
Kelar S.A		4,180						4,180
PT. Tanjung Power Indonesia		388			(9)	(18)		361
Incheon New Power Co., Ltd.		461			(4)	(23)	15	449
Seokmun Energy Co., Ltd.		680			(265)			415
	908,593	300,428	(2,002)	(10,262)	39,588	51,908	(182,072)	1,106,181
	4,890,933	429,862	(2,002)	(53,576)	29,414	47,751	(111,627)	5,230,755

(\*1) The Company recognized the difference between the carrying amount and the recoverable amount of 1,719 million as impairment losses on investments in associates and joint ventures due to discontinued operation during 2013.

(\*2) In accordance with IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, 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. 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 2013.

(\*3) Canada Korea Uranium Limited Partnership could not find a mining area in which the economic feasibility was proven and seeks an exit strategy. As a result, the Company recognizes impairment losses on investments in associates and joint ventures of 4,680 million in profit or loss during 2013.

(\*4) During 2013, a portion of the loans to Rabigh Electricity Company was converted to equity, causing the investment to increase by 108,385 million.

(\*5) It has been determined that there is objective evidence of impairment as a result of one or more events including that a financial institution granted Jamaica Public Service Company Limited ( JPS ) a concession that the financial institution would not otherwise consider. As of December 31, 2013, as a result of the impairment test, the recoverable amount of JPS is less than its carrying amount and an impairment loss of 19,199 million is recognized as profit or loss. The recoverable amount of JPS is based on value in use calculated based on the most recent financial budget of future cash flow for a period of 9 years approved by management and the discount rate used to calculate the value in use is 10.27%.



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Investees	2014							Ending balance
	Beginning balance	Acquisition	Disposal	Dividends received	Share of income (loss)	Other comprehensive income (loss)	Others	
<b>&lt;Associates&gt;</b>								
Daegu Green Power Co., Ltd.	74,878				(3,494)	3		71,387
Korea Gas Corporation	1,926,800				96,457	69,489	4,793	2,097,539
Korea Electric Power Industrial Development Co., Ltd.	22,450			(1,872)	2,275		(1,231)	21,622
YTN Co., Ltd.	38,426			(90)	2,423	(26)	(844)	39,889
Cheongna Energy Co., Ltd.	28,114	5,707			(5,023)	(27)		28,771
Gangwon Wind Power Co., Ltd.	13,185			(1,988)	1,155	33		12,385
Hyundai Green Power Co., Ltd.	110,157			(8,889)	11,764		1	113,033
Korea Power Exchange	189,544				13,274		(4,797)	198,021
AMEC Partners Korea	189				11			200
Hyundai Energy Co., Ltd.	43,386				(7,461)			35,925
Ecollite Co., Ltd.								
Taebaek Wind Power Co., Ltd.	5,553			(991)	963			5,525
Alternergy Philippine Investments Corporation	1,500		(1,497)		(7)	228	(224)	
Muju Wind Power Co., Ltd.	2,707						(1)	2,706
Pyeongchang Wind Power Co., Ltd.	600	3,238			(128)	(17)		3,693
Daeryun Power Co., Ltd.	24,599				(1,748)		19,100	41,951
JinanJangsu Wind Power Co., Ltd.	77							77
Changjuk Wind Power Co., Ltd.	6,344			(1,292)	1,434			6,486
KNH Solar Co., Ltd.	1,372				372			1,744
SPC Power Corporation	47,661				(1,800)	335	1,603	47,799
Gemeng International Energy Co., Ltd.	608,674			(6,905)	54,368	11,441		667,578
PT. Cirebon Electric Power	32,826	1,148			6,303	3,058		43,335
KNOC Nigerian East Oil Co., Ltd.								
KNOC Nigerian West Oil Co., Ltd.								
Dolphin Property Limited					184	(8)	(115)	61
E-Power S.A.	5,284		(5,041)	(1,431)	1,173	15		
PT Wampu Electric Power	15,121				308	642		16,071
PT. Bayan Resources TBK	579,534				(30,565)	(8,958)		540,011
S-Power Co., Ltd.	107,264				(3,020)			104,244
Pioneer Gas Power Limited	43,666	1,122			298	5,582		50,668
Eurasia Energy Holdings								
Xe-Pian Xe-Namnoy Power Co., Ltd	18,058	4,546			(915)	753	(290)	22,152
Busan Solar Co., Ltd.	741				112			853
Hadong Mineral Fiber Co., Ltd.	3							3
Green Biomass Co., Ltd.	171				(171)			
Gumi-ochang Photovoltaic Power Co., Ltd.	389		(399)	(14)	24			
Chungbuk Photovoltaic Power Co., Ltd.	184		(192)		8			
Cheonan Photovoltaic Power Co., Ltd.	148		(138)		(10)			
PT. Mutiara Jawai	1,666				(885)	37		818
Samcheok Eco Material Co., Ltd.		686			(474)			212
Noeul Green Energy Co., Ltd.		200			(11)			189
Naepo Green Energy Co., Ltd.		29,200			(995)	(141)		28,064
Goseong Green Energy Co. Ltd.		2,900			(311)		(3)	2,586
Gangneung Eco Power Co., Ltd.		2,900			(117)			2,783
Shin Pyeongtaek Power Co., Ltd.		40			(40)			
Hyundai Asan Solar Power Co., Ltd.	462		(430)		(32)			
Heang Bok Do Si Photovoltaic Power Co., Ltd.	91	101			31	(2)		221
Jeonnam Solar Co., Ltd.	696		(941)		241	4		
DS POWER Co., Ltd.	17,900				(2,258)			15,642
D Solarenergy Co., Ltd.	364		(418)		54			
Dongducheon Dream Power Co., Ltd.	134,398		(29,782)		(4,071)			100,545
KS Solar Corp. Ltd.	537				(202)	(10)		325
KOSCON Photovoltaic Co., Ltd.	315		(351)		36			

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Investees	2014							Ending balance
	Beginning balance	Acquisition	Disposal	Dividends received	Share of income (loss)	Other comprehensive income (loss)	Others	
In millions of won								
Yeongwol Energy Station Co., Ltd.	908		(410)		1,239	3	1	1,741
Yeonan Photovoltaic Co., Ltd.	123		(128)		5			
Q1 Solar Co., Ltd.	983		(1,123)		140			
Jinbhuvish Power Generation Pvt. Ltd.	8,495				(197)	46		8,344
Best Solar Energy Co., Ltd.	898		(1,242)		344			
Seokcheon Solar Power Co., Ltd.	1,046		(1,041)	(49)	48	1	(5)	
SE Green Energy Co., Ltd.	3,745				(122)			3,623
Daegu Photovoltaic Co., Ltd.	1,334				247			1,581
Jeongam Wind Power Co., Ltd.	324				(231)			93
Korea Power Engineering Service Co., Ltd.	585				787		(38)	1,334
Golden Route J Solar Power Co., Ltd.	99		(75)		(24)			
	4,124,574	51,788	(43,208)	(23,521)	131,766	82,481	17,950	4,341,830
<b>&lt;Joint ventures&gt;</b>								
KEPCO-Uhde Inc.	9,537				(493)		(2)	9,042
Eco Biomass Energy Sdn. Bhd.								
Datang Chaoyang Renewable Power Co., Ltd.	28,161			(740)	(346)	439		27,514
Shuweiha Asia Power Investment B.V.	64	59,576			6,077	(49,428)	(48)	16,241
Shuweiha Asia Operation & Maintenance Company	29			(869)	1,172	14	(1)	345
Waterbury Lake Uranium L.P.	23,042	762				1,285	(3,079)	22,010
ASM-BG Investicii AD	20,088				1,131	(1,611)		19,608
RES Technology AD	16,045				(78)	(1,242)		14,725
KV Holdings, Inc.	1,842					60		1,902
KEPCO SPC Power Corporation	143,294			(8,069)	48,623	6,640	31	190,519
Canada Korea Uranium Limited Partnership								
KEPCO Energy Resource Nigeria Limited	2,202				(2,190)	(12)		
Gansu Datang Yumen Wind Power Co., Ltd.	19,237				(2,012)	242		17,467
Datang Chifeng Renewable Power Co., Ltd.	166,330			(8,951)	9,144	2,973		169,496
Datang KEPCO Chaoyang Renewable Power Co., Ltd.	10,604			(788)	531	192		10,539
Rabigh Electricity Company					25,040	(18,709)	1,790	8,121
Rabigh Operation & Maintenance Company	4,082			(2,546)	2,945	147		4,628
Jamaica Public Service Company Limited (*)	268,022						(41,130)	226,892
KW Nuclear Components Co., Ltd.	2,476			(1,399)	1,821		1	2,899
Busan Shinho Solar power Co., Ltd.	2,871				423	(10)		3,284
GS Donghae Electric Power Co., Ltd. (Formerly, STX Electric Power Co., Ltd.)	173,915	117,600	(88,962)		(580)	(161)		