

KOREA MIDLAND POWER CO., LTD.
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

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

Opinion

We have audited the accompanying consolidated financial statements of Korea Midland Power Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Public Corporation and Quasi-governmental Institution Accounting Regulations and Standard.

Basis for Opinion

We conducted our audit in accordance with Korean Standards on Auditing (KSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without qualifying our opinion, users of this audit report need to pay attention to the following matter.

As explained in Note 2 to the financial statements, for those matters not specified in Public Corporation and Quasi-governmental Institution Accounting Regulations and Standards, the accompanying consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS").

Other Matter

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Public Corporation and Quasi-governmental Institution Accounting Regulations and Standard, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with KSAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with KSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used in the preparation of the consolidated financial statements and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



KPMG Samjory Accounting Corp.

Seoul, Korea
March 6, 2019

This report is effective as of March 6, 2019, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
 Consolidated Statements of Financial Position
 As of December 31, 2018 and 2017

In won

	<u>Note</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Assets			
Cash and cash equivalents	5,6,8,35,36	₩ 77,497,931,117	108,535,949,777
Current financial assets	5,7,8,10,35	20,850,568,630	13,435,488,902
Trade and other receivables	5,11,35,36	729,775,625,852	676,390,227,497
Inventories	12,38	580,421,292,414	430,469,096,239
Current tax assets	32	27,003,709,833	39,667,503,847
Current non-financial assets	13	92,918,748,736	87,025,650,763
Current assets		<u>1,528,467,876,582</u>	<u>1,355,523,917,025</u>
Non-current financial assets	5,7,9,10,35,36	292,909,024,011	208,187,187,937
Non-current trade and other receivables	5,11,35,36	239,377,733,251	205,788,836,323
Property, plant and equipment	14,18,38	8,787,375,373,191	8,105,998,632,845
Intangible assets	15,40	31,884,993,250	26,583,160,807
Investments in associates and joint ventures	16,36	349,962,297,475	321,012,458,249
Deferred tax assets	32	4,038,212,977	4,022,036,372
Non-current non-financial assets	13	26,260,247,255	22,418,006,078
Non-current assets		<u>9,731,807,881,410</u>	<u>8,894,010,318,611</u>
Total assets		<u>₩ 11,260,275,757,992</u>	<u>10,249,534,235,636</u>

See accompanying notes to the consolidated financial statements.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position, Continued
As of December 31, 2018 and 2017

<i>In won</i>	<u>Note</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Liabilities			
Trade and other payables	5,17,18,35,36 ₩	581,533,006,988	512,999,924,688
Current financial liabilities	5,10,14,19,35		
Short-term borrowings		592,099,988,705	141,300,000,000
Current portion of long-term borrowings		25,663,712,571	351,300,000
Current portion of bonds		485,299,646,891	429,807,410,826
Derivative liabilities		379,180,000	830,700,000
Current tax liabilities	32	3,679,246,998	3,058,197,874
Current non-financial liabilities	20	8,256,630,507	9,654,527,272
Current provisions	21	63,032,250,735	148,418,399,960
Current liabilities		<u>1,759,943,663,395</u>	<u>1,246,420,460,620</u>
Non-current trade and other payables	5,17,18,35,36	9,777,817,395	10,246,271,711
Non-current financial liabilities	5,10,14,19,35		
Long-term borrowings		230,511,390,381	245,408,027,374
Bonds		4,992,093,964,871	4,461,948,760,487
Derivative liabilities		43,678,766,180	62,047,552,930
Non-current non-financial liabilities	20	548,980,119	4,900,424,191
Employee benefits obligations	22,35	126,759,376,378	128,178,633,733
Deferred tax liabilities	32	241,740,413,913	269,552,971,876
Non-current liabilities		<u>5,645,110,709,237</u>	<u>5,182,282,642,302</u>
Total liabilities		<u>7,405,054,372,632</u>	<u>6,428,703,102,922</u>
Equity			
Contributed capital	23	1,270,930,147,572	1,270,930,147,572
Retained earnings	24	2,779,675,500,801	2,821,515,891,977
Other components of equity	5,10,23,25	(223,317,709,618)	(297,452,905,095)
Equity attributable to owner of the Company		<u>3,827,287,938,755</u>	<u>3,794,993,134,454</u>
Non-controlling interests		<u>27,933,446,605</u>	<u>25,837,998,260</u>
Total equity		<u>3,855,221,385,360</u>	<u>3,820,831,132,714</u>
Total liabilities and equity		<u>₩ 11,260,275,757,992</u>	<u>10,249,534,235,636</u>

See accompanying notes to the consolidated financial statements.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (loss)
For the years ended December 31, 2018 and 2017

<i>In won</i>	Note	2018	2017
Sales	4,26,36	₩ 4,458,298,945,430	4,260,671,763,481
Cost of sales	33,36	(4,326,646,775,499)	(3,950,178,751,501)
Gross profit		<u>131,652,169,931</u>	<u>310,493,011,980</u>
Selling and administrative expenses	27,33	(109,519,576,266)	(114,885,507,893)
Operating profit		<u>22,132,593,665</u>	<u>195,607,504,087</u>
Other non-operating income	28	15,515,919,626	4,922,410,205
Other non-operating expenses	28	(4,389,212,623)	(2,957,507,277)
Other profit (loss), net	5,29	17,032,869,503	(10,429,242,086)
Finance income	5,10,30	62,093,405,242	106,482,635,898
Finance costs	5,10,31	(165,263,846,898)	(169,694,206,161)
Income related to associates and joint ventures	16	32,014,339,785	28,661,111,775
Profit (loss) before income tax		<u>(20,863,931,700)</u>	<u>152,592,706,441</u>
Income tax benefit (expense)	32	2,034,051,801	(35,256,769,212)
Profit (loss) for the year		<u>(18,829,879,899)</u>	<u>117,335,937,229</u>
Other comprehensive income (loss)			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability, net of tax	22,24	5,938,140,383	7,464,749,041
Share in other comprehensive income (loss) of associates and joint ventures, net of tax	16	(24,425,909)	-
Equity investments at fair value through OCI ("FVOCI") –net change in fair value, net of tax	25	69,638,671,712	-
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	5	-	29,721,418,105
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	5,10,25	(5,547,364,223)	7,681,787,123
Share in other comprehensive income of associates and joint ventures, net of tax	16	1,883,683,132	2,010,224,311
Foreign currency translation of foreign operations, net of tax		8,758,616,267	(31,463,739,123)
Other comprehensive income for the period, net of tax		<u>80,647,321,362</u>	<u>15,414,439,457</u>
Total comprehensive income for the year		<u>₩ 61,817,441,463</u>	<u>132,750,376,686</u>
Profit (loss) attributable to			
Owner of the Company		(21,656,140,969)	114,119,552,475
Non-controlling interests		2,826,261,070	3,216,384,754
Profit (loss) for the year		<u>₩ (18,829,879,899)</u>	<u>117,335,937,229</u>
Total comprehensive income attributable to:			
Owner of the Company		58,733,307,589	131,856,865,849
Non-controlling interests		3,084,133,874	893,510,837
Total comprehensive income for the year		<u>₩ 61,817,441,463</u>	<u>132,750,376,686</u>
Earnings (loss) per share			
Basic earnings (loss) per share	34	₩ (758)	3,993

See accompanying notes to the consolidated financial statements.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the year ended December 31, 2017

In won

	Equity attributable to owners of the Company					
	Contributed capital	Retained earnings	Other components of equity	Subtotal	Non-controlling interests	Total equity
Balance at January 1, 2017	₩ 1,270,930,147,572	2,754,169,274,784	(307,658,645,751)	3,717,440,776,605	23,661,849,676	3,741,102,626,281
Total comprehensive income for the year:						
Profit for the year	-	114,119,552,475	-	114,119,552,475	3,216,384,754	117,335,937,229
Items that will not be reclassified to profit or loss:						
Remeasurements of defined benefit liability, net of tax	-	7,531,572,718	-	7,531,572,718	(66,823,677)	7,464,749,041
Items that are or may be reclassified subsequently to profit or loss:						
Net changes in the unrealized fair value of available-for-sale financial assets, net of tax	-	-	29,721,418,105	29,721,418,105	-	29,721,418,105
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	-	-	7,681,787,123	7,681,787,123	-	7,681,787,123
Share in other comprehensive income of associates and joint ventures, net of tax	-	-	2,010,224,311	2,010,224,311	-	2,010,224,311
Foreign currency translation of foreign operations, net of tax	-	-	(29,207,688,883)	(29,207,688,883)	(2,256,050,240)	(31,463,739,123)
Transactions with owner of the Company, recognized directly in equity:						
Dividends paid	-	(54,304,508,000)	-	(54,304,508,000)	(3,063,132,253)	(57,367,640,253)
Changes in consolidation scope	-	-	-	-	4,345,770,000	4,345,770,000
Balance at December 31, 2017	₩ 1,270,930,147,572	2,821,515,891,977	(297,452,905,095)	3,794,993,134,454	25,837,998,260	3,820,831,132,714

See accompanying notes to the consolidated financial statements.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity, Continued
For the year ended December 31, 2018

In won

	Equity attributable to owners of the Company					
	Contributed capital	Retained earnings	Other components of equity	Subtotal	Non-controlling interests	Total equity
Balance at January 1, 2018	₩ 1,270,930,147,572	2,821,515,891,977	(297,452,905,095)	3,794,993,134,454	25,837,998,260	3,820,831,132,714
Adjustment on initial application of K-IFRS 1109 (net of tax)	-	380,479,386	(380,479,386)	-	-	-
Adjusted balance at January 1, 2018	₩ 1,270,930,147,572	2,821,896,371,363	(297,833,384,481)	3,794,993,134,454	25,837,998,260	3,820,831,132,714
Total comprehensive income for the year:						
Profit (loss) for the year	-	(21,656,140,969)	-	(21,656,140,969)	2,826,261,070	(18,829,879,899)
Items that will not be reclassified to profit or loss:						
Remeasurements of defined benefit liability, net of tax	-	6,040,323,916	-	6,040,323,916	(102,183,533)	5,938,140,383
Share in other comprehensive income (loss) of associates and joint ventures, net of tax	-	(24,425,909)	-	(24,425,909)	-	(24,425,909)
Changes in fair value of financial assets measured at FVOCI, net of tax	-	-	69,638,671,712	69,638,671,712	-	69,638,671,712
Items that are or may be reclassified subsequently to profit or loss:						
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	-	-	(5,547,364,223)	(5,547,364,223)	-	(5,547,364,223)
Share in other comprehensive income of associates and joint ventures, net of tax	-	-	1,883,683,132	1,883,683,132	-	1,883,683,132
Foreign currency translation of foreign operations, net of tax	-	-	8,398,559,930	8,398,559,930	360,056,337	8,758,616,267
Transactions with owner of the Company, recognized directly in equity:						
Dividends paid	-	(26,580,627,600)	-	(26,580,627,600)	(3,066,686,217)	(29,647,313,817)
Issuance of shares of capital by subsidiaries	-	-	142,124,312	142,124,312	2,078,000,688	2,220,125,000
Balance at December 31, 2018	₩ 1,270,930,147,572	2,779,675,500,801	(223,317,709,618)	3,827,287,938,755	27,933,446,605	3,855,221,385,360

See accompanying notes to the consolidated financial statements.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017

In won

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Profit (loss) for the year	₩ (18,829,879,899)	117,335,937,229
Adjustments for:		
Employee benefit expense	17,420,829,502	16,500,254,044
Depreciation	608,213,110,916	484,837,829,081
Amortization	5,268,901,410	4,456,783,743
Income tax expense (benefit)	(2,034,051,801)	35,256,769,212
Loss on disposal of inventories	98,824,481	1,541,247,441
Impairment loss on property, plant and equipment	-	11,411,032,724
Loss on disposal of property, plant and equipment	1,794,213,559	1,431,333,621
Loss on disposal of intangible assets	-	78,424,800
Loss on foreign currency translation	28,108,035,261	4,818,689,770
Valuation loss on derivative instruments	2,771,674,808	87,123,922,366
Transaction loss on derivative instruments	6,438,935,660	1,044,374,998
Reversal of provisions of RPS, net	(3,762,565,820)	(51,335,929,988)
Increase in (reversal of) provisions of greenhouse gas emission, net	(87,079,635,584)	90,439,398,384
Interest expense	127,996,852,985	76,124,048,879
Loss on valuation of associates and joint ventures	1,300,469,108	876,392,994
Gain on disposal of inventories	(250,158,302)	(392,765,528)
Gain on disposal of property, plant and equipment	(414,096,667)	(860,501,653)
Interest income	(13,165,423,291)	(15,944,864,461)
Gain on foreign currency translation	(3,648,927,352)	(88,011,751,678)
Valuation gain on derivative instruments	(30,842,755,091)	(2,663,807,456)
Transaction gain on derivative instruments	(8,803,648,114)	(3,359,115,003)
Gain on valuation of associates and joint ventures	(33,314,808,893)	(29,537,504,769)
Dividends income	(6,720,930,336)	-
Gain on assets contributed	(8,800,001,075)	-
Others, net	(614,195,766)	1,074,359,587
	<u>599,960,649,598</u>	<u>624,908,621,108</u>
Changes in:		
Trade receivables	102,219,597,606	10,271,120,733
Other receivables	7,624,525,402	(98,107,199,281)
Accrued income	(160,006,201,555)	133,038,441,646
Prepayments	96,055,441	(586,852,365)
Prepaid expenses	870,016,692	4,798,145,412
Inventories	(150,111,878,292)	(84,540,945,052)
Long-term trade receivables	(18,206,675,950)	-
Long-term prepayments	557,889,635	6,353,418,702
Long-term prepaid expenses	(3,938,769,062)	(3,350,018,413)
Trade payables	77,352,596,383	(2,297,594,726)
Other payables	(28,305,882,432)	48,320,112,023
Accrued expenses	4,432,775,464	(72,166,285)
Advances from customers	(103,633,246)	-
Deferred income	721,593	(14,067,231)
Withholdings	3,544,474,644	(150,833,284)
Other withholdings	(1,578,441,537)	(6,945,461,377)
Payments of employee benefit obligations	(1,611,344,790)	(2,117,814,160)
Plan assets	(4,673,223,870)	(5,223,304,425)
Provisions for employee benefits	5,699,251,379	(1,157,562,721)
Provisions for wage litigation	(286,530,615)	(7,471,909,415)
Provisions for financial guarantee contract	43,331,415	39,528,316
Other long-term employee benefit liabilities	(73,998,993)	(90,392,739)
Settlement of derivatives	2,649,228,821	2,427,365,000
Others, net	(23,238,197,702)	(37,895,364,054)
	<u>₩ (187,044,313,569)</u>	<u>(44,773,353,696)</u>

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued
For the years ended December 31, 2018 and 2017

In won

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Interest received	₩ 5,174,626,886	6,656,323,897
Interest paid	(150,026,579,191)	(134,204,966,352)
Dividends received	22,312,997,498	10,289,971,366
Income taxes paid	(34,157,496,403)	(106,083,551,955)
Net cash provided by operating activities	<u>237,390,004,920</u>	<u>474,128,981,597</u>
Cash flows from investing activities		
Decrease in short-term financial instruments	390,318,643,876	-
Decrease in long-term financial instruments	25,000,000,000	-
Collection of short-term loans	2,334,132,160	2,354,199,783
Collection of long-term loans	9,285,673,422	7,319,371,354
Proceeds from disposal of other investment assets	-	770,418,750
Decrease in deposits	2,274,985,610	2,143,139,311
Proceeds from disposal of property, plant and equipment	2,381,445,935	5,304,607,295
Proceeds from disposal of intangible assets	-	374,524,044
Receipt of government grants	-	14,000,000
Increase in short-term loans	(280,723,346)	(25,037)
Increase in long-term loans	(6,522,191,501)	(5,570,748,690)
Increase in short-term financial instruments	(390,200,000,000)	(643,876)
Increase in long-term financial instruments	(25,000,000,000)	-
Increase in deposits	(5,677,990,923)	(11,459,344,045)
Acquisition of associates and joint ventures	(5,023,280,000)	(20,160,000,000)
Acquisition of property, plant and equipment	(50,096,286,465)	(45,727,989,370)
Acquisition of construction-in-progress	(1,191,999,659,810)	(1,004,125,909,751)
Acquisition of intangible assets	(4,653,434,175)	(36,418,198,731)
Net cash used in investing activities	<u>(1,247,858,685,217)</u>	<u>(1,105,182,598,963)</u>
Cash flows from financing activities		
Payment of finance lease liabilities	(1,394,515,571)	(1,103,208,063)
Proceeds from short-term borrowings, net	450,799,988,705	104,300,000,000
Repayment of long-term borrowings	(6,142,827,630)	(1,742,360,288)
Proceeds from long-term borrowings	5,409,692,697	7,133,717,100
Repayment of bonds	(430,000,000,000)	(400,000,000,000)
Issuance of bonds	987,352,246,794	1,009,170,268,750
Settlement of derivatives	(1,102,766,367)	(112,624,995)
Payment of cash dividends	(28,718,228,667)	(57,367,640,253)
Issuance of shares of capital by subsidiaries	2,220,125,000	4,345,770,000
Net cash provided by financing activities	<u>978,423,714,961</u>	<u>664,623,922,251</u>
Effect of exchange rate fluctuations on cash held	<u>1,006,946,676</u>	<u>(9,885,868,329)</u>
Net increase (decrease) in cash and cash equivalents	<u>(31,038,018,660)</u>	<u>23,684,436,556</u>
Cash and cash equivalents at January 1	<u>108,535,949,777</u>	<u>84,851,513,221</u>
Cash and cash equivalents at December 31	<u>₩ 77,497,931,117</u>	<u>108,535,949,777</u>

See accompanying notes to the consolidated financial statements.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

1. Reporting Entity

(1) Description of controlling company

Korea Midland Power Co., Ltd. ("KOMIPO" or the "Company") was incorporated on April 2, 2001 through the spin-off of the power generation division of Korea Electric Power Corporation ("KEPCO") in accordance with the restructuring plan, dated January 21, 1999, for the electricity industry in the Republic of Korea announced by the Ministry of Knowledge Economy and the Law on Promotion of Restructuring of the Electricity Industry published on December 23, 2000. KOMIPO and its subsidiaries (collectively, the "Group") are engaged in the generation of electricity and development of electric power resources and sell all generated electricity to KEPCO through the Korea Power Exchange ("KPX") in accordance with Article 31 of the Electricity Business Law. As of December 31, 2018, the Company operates five power plants with a generating capacity in the aggregate of 9,836MW.

The Company's head office is located in Boryeong-si, Chungcheongnam-do. As of December 31, 2018, the Company's issued and outstanding shares are wholly owned by KEPCO.

(2) Status of subsidiaries

(i) Subsidiaries as of December 31, 2018 and 2017 are as follows:

Company	Key operating activities	Location	Percentage of ownership (%)	
			2018	2017
KOMIPO Global Pte Ltd.	Construction and operation of utility plant	Singapore	100.0	100.0
KOMIPO Australia Pty., Ltd.	Resources development	Australia	100.0	100.0
PT KPJB	Operation of utility plant	Indonesia	51.0	51.0
PT Cirebon Power Services (*1)	Operation of utility plant	Indonesia	27.5	27.5
PT Tanggamus Electric Power	Hydropower	Indonesia	52.5	52.5
KOMIPO America Inc.	Holding Company	USA	100.0	100.0
Commerce and Industry Energy Co., Ltd.	RDF Power generation	Korea	59.0	59.0
KOMIPO Bylong Australia Pty., Ltd. (*2)	Overseas resources development	Australia	100.0	100.0
PT Siborpa Eco Power (*3)	Hydropower	Indonesia	55.0	64.7
PT KOMIPO Energy Indonesia	Overseas operation maintenance	Indonesia	95.0	-
KOMIPO Service., Ltd.	Service business	Korea	100.0	-

(*1) The Group is able to exercise majority voting rights of the Board of Directors according to the shareholders agreement, even though the Company's ownership interest is less than 50%. As such, the entity is included in the Group's scope of consolidation.

(*2) Ratio of ownership is ratio of common stock except for preferred stock which have no voting rights.

(*3) There is change in the percentage of ownership due to additional disproportionate capital increase for the year ended December 31, 2018.

(ii) Changes in subsidiaries

PT KOMIPO Energy Indonesia and KOMIPO Service., Ltd. are newly established during the year ended December 31, 2018.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

1. Reporting Entity, Continued

(2) Status of subsidiaries, continued

(iii) Summary financial information of subsidiaries as of and for the years ended December 31, 2018 and 2017 are as follows:

In millions of won

Company	2018					
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Sales	Net income (loss)
KOMIPO Global Pte Ltd.	₩ 27,379	223,078	249	712	-	11,478
KOMIPO Australia Pty., Ltd.	16,507	22,559	4,348	311	20,294	7,193
PT KPJB	9,324	2,082	5,205	268	20,320	3,925
PT Cirebon Power Services	1,571	16	207	66	7,228	177
PT Tanggamus Electric Power	20,834	195,487	39,053	148,448	26,832	9,338
KOMIPO America Inc.	8,657	1,435	13	559	-	(885)
Commerce and Industry Energy Co., Ltd.	13,694	79,178	9,895	78,114	27,937	(6,091)
KOMIPO Bylong Australia Pty., Ltd.	2	5,542	26	-	-	(25)
PT Siborpa Eco Power	2,299	10,065	141	-	-	(1,771)
PT KOMIPO Energy Indonesia	2,236	-	-	-	-	-
KOMIPO Service., Ltd.	532	43	17	-	-	(41)

In millions of won

Company	2017					
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Sales	Net income (loss)
KOMIPO Global Pte Ltd.	₩ 15,420	209,991	333	1,164	-	21,858
KOMIPO Australia Pty., Ltd.	8,575	22,866	4,447	244	12,096	1,133
PT KPJB	11,102	159	2,374	2,395	20,956	4,666
PT Cirebon Power Services	2,642	167	146	9	7,439	592
PT Tanggamus Electric Power	15,771	163,546	5,947	154,197	34,281	4,640
KOMIPO America Inc.	9,130	1,375	521	-	-	2,071
Commerce and Industry Energy Co., Ltd.	15,767	83,362	2,344	85,582	30,577	(749)
KOMIPO Bylong Australia Pty., Ltd.	-	5,875	-	-	-	-
PT Siborpa Eco Power	6,105	5,457	214	-	-	(518)

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

1. Reporting Entity, Continued

(2) Status of subsidiaries, continued

(iv) Details of non-controlling interest (NCI) prior to intra-group eliminations as of and for the years ended December 31, 2018 and 2017 are as follows:

In millions of won

	PT KPJB	2018						
		PT Cirebon Power Service	PT Tanggamus Electric Power	Commerce and Industry Energy Co., Ltd.	KOMIPO Bylong Pty., Ltd.	PT Siborpa Eco Power	PT KOMIPO Energy Indonesia	
Current assets	₩	9,324	1,571	20,834	13,694	2	2,299	2,236
Non-current assets		2,082	16	195,487	79,178	5,542	10,065	-
Current liabilities		5,205	207	39,053	9,895	26	141	-
Non-current liabilities		268	66	148,448	78,114	-	-	-
Net assets		5,933	1,314	28,820	4,863	5,518	12,223	2,236
Book value of NCI		2,904	953	13,689	(743)	5,518	5,500	112
Sales		20,320	7,228	26,832	27,937	-	-	-
Profit (loss) for the year		3,925	177	9,338	(6,091)	(25)	(1,771)	-
Profit (loss) for the year attributable to NCI		1,874	(32)	4,119	(2,389)	(25)	(721)	-
Cash flows from operating activities		5,738	198	(10,414)	(4,777)	-	(6,073)	-
Cash flows from investing activities		(1,988)	-	(667)	(85)	-	2	-
Cash flows from financing activities, before dividends to NCI		(2,338)	(382)	1,905	-	-	2,107	2,252
Cash flows from financing activities - cash dividends to NCI		(1,132)	(1,006)	-	-	-	-	-
Effect of exchange rate fluctuations on cash held		(203)	53	393	-	-	237	(16)
Net increase (decrease) in cash and cash equivalents		77	(1,137)	(8,783)	(4,862)	-	(3,727)	2,236

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

1. Reporting Entity, Continued

(2) Status of subsidiaries, continued

(iv) Details of non-controlling interest (NCI) prior to intra-group eliminations as of and for the years ended December 31, 2018 and 2017 are as follows, continued:

In millions of won

		2017					
		PT KPJB	PT Cirebon Power Service	PT Tanggamus Electric Power	Commerce and Industry Energy Co., Ltd.	KOMIPO Bylong Pty., Ltd.	PT Siborpa Eco Power
Current assets	₩	11,102	2,642	15,771	15,767	-	6,105
Non-current assets		159	167	163,546	83,362	5,875	5,457
Current liabilities		2,374	146	5,947	2,344	-	214
Non-current liabilities		2,395	9	154,197	85,582	-	-
Net assets		6,492	2,654	19,173	11,203	5,875	11,348
Book value of NCI		3,178	1,924	9,107	1,906	5,875	3,848
Sales		20,956	7,439	34,281	30,577	-	-
Profit (loss) for the year		4,666	592	4,640	(749)	-	(518)
Profit (loss) for the year attributable to NCI		1,109	521	1,952	(183)	-	(183)
Cash flows from operating activities		3,765	565	(34,883)	3,646	-	(5,840)
Cash flows from investing activities		(74)	-	(131)	(941)	-	(304)
Cash flows from financing activities, before dividends to NCI		(4,390)	-	8,609	-	-	12,313
Cash flows from financing activities - cash dividends to NCI		(3,063)	-	-	-	-	-
Effect of exchange rate fluctuations on cash held		(1,297)	(174)	(3,403)	-	-	(152)
Net increase (decrease) in cash and cash equivalents		(5,059)	391	(29,808)	2,705	-	6,017

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

2. Basis of Preparation

(1) Statement of compliance

The consolidated financial statements have been prepared in accordance with Public Corporation and Quasi-governmental Institution Accounting Regulations and Standard. In compliance with Article 2, Paragraph 5 of the regulations above, for those matters not specified in the regulations and standard above, the consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *the Act on External Audits of Corporations in the Republic of Korea*.

(2) Basis of measurement

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

- ✓ Derivative financial instruments are measured at fair value
- ✓ Financial instruments at fair value through profit or loss 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

The financial statements of the parent and each subsidiary are prepared in functional currency of the respective operation. These consolidated financial statements are presented in Korean won, which is the Company's functional currency that is the currency of the primary economic environment in which the Company operates.

(4) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period prospectively.

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 1: Consolidation – status of subsidiaries
- ✓ Note 16: Investments in Associates and Joint Ventures

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

- ✓ Note 21: Provisions
- ✓ Note 22: Employee Benefits Obligations
- ✓ Note 39: Contingencies and Commitments

(5) Measurement of fair values

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

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

2. Basis of Preparation, Continued

(5) Measurement of fair values, continued

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

3. Changes in Accounting Policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 4 to all periods presented in these consolidated financial statements.

The Group has adopted the following amendments to standards and new interpretation with a date of initial application of January 1, 2018.

The details of changes in accounting policies are as follows:

- ✓ K-IFRS 1115, 'Revenue from Contracts with Customers'

K-IFRS 1115 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including K-IFRS 1018 'Revenue', K-IFRS 1011 'Construction Contracts', K-IFRS 2031 'Revenue Barter transactions involving advertising services', K-IFRS 2113 'Customer Loyalty Programs', K-IFRS 2115 'Agreements for the construction of real estate', K-IFRS 2118 'Transfers of assets from customers'.

Under K-IFRS 1115, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgment.

The Group has adopted K-IFRS 1115 using the cumulative effect methods, with the effect of initially applying this standard recognized at the date of initial application January 1, 2018. Therefore, the information presented for 2017 has not been restated. The adoption of K-IFRS 1115 has no material effect on the Group's consolidated financial statements.

- ✓ K-IFRS 1109, ' Financial Instruments '

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

The Group has initially adopted K-IFRS 1109, 'Financial Instruments' from January 1, 2018 and did not restate its financial statements in accordance with the transition rules. The adoption of K-IFRS 1109 has no material effect on the Group's consolidated financial statements, except for the change in classification of existing financial assets.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

The following table summarizes the impact, net of tax, of transition to K-IFRS 1109 on the beginning balance of retained earnings and other components of equity.

In millions of won

January 1, 2018

Other component of equity

Classification changes in impairment loss on available-for-sale securities	₩	(502)
Income tax effect		122
Impact at January 1, 2018		(380)

Retained earnings

Classification changes in impairment loss on available-for-sale securities		502
Income tax effect		(122)
Impact at January 1, 2018		380

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

3. Changes in Accounting Policies, Continued

(i) Classification and measurement of financial assets and financial liabilities

K-IFRS 1109 contains three principal classification categories for financial assets; measured at amortized cost, FVOCI and FVTPL. The classification of financial assets under K-IFRS 1109 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. K-IFRS 1109 eliminates the previous K-IFRS 1039 categories of held to maturity, loans and receivables and available for sale. Under K-IFRS 1109, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

K-IFRS 1109 largely retains the existing requirements in K-IFRS 1039 for the classification and measurement of financial liabilities. The adoption of K-IFRS 1109 has no material effect on the Group's accounting policies related to financial liabilities and derivative financial instruments.

The following table explains the original measurement categories under K-IFRS 1039 and the new measurement categories under K-IFRS 1109 for each class of the Group's financial assets as at January 1, 2018.

In millions of won

	Original classification under K-IFRS 1039	New classification under K-IFRS 1109	Original carrying amount under K-IFRS 1039	New Carrying amount under K-IFRS 1109
Cash and cash equivalents	Loans and receivables	Amortized cost	₩ 108,536	108,536
Financial instruments	Loans and receivables	Amortized cost	10,119	10,119
	Loans and receivables	Financial assets measured at FVTPL	-	-
Loans	Loans and receivables	Amortized cost	52,282	52,282
Trade and other receivables	Loans and receivables	Amortized cost	882,179	882,179
Available-for-sale financial assets	Available-for-sale - equity securities	Financial assets measured at FVOCI - equity instrument	152,600	152,600
	Available-for-sale - debt securities	Financial assets measured at FVOCI - debt instrument	2	2
Derivative financial assets	Financial assets at fair value through profit or loss	Financial assets measured at FVTPL	12	12
	Fair value – hedging instrument	Fair value – hedging instrument	6,607	6,607
Total financial assets			₩ <u>1,212,337</u>	<u>1,212,337</u>

The Company has elected to measure the equity securities classified as available-for-sale financial assets as FVOCI under K-IFRS 1109. Accordingly, from January 1, 2018, gains and losses from changes of fair value of the equity securities are recognized in other comprehensive income, impairment losses are not recognized in profit or loss, and gains and losses are not reclassified at disposal.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

3. Changes in Accounting Policies, Continued

(ii) Impairment of financial assets

K-IFRS 1109 replaces the 'incurred loss' model in K-IFRS 1039 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under K-IFRS 1109, credit losses are recognized earlier than under K-IFRS 1039.

Applying K-IFRS 1109's impairment requirements did not have significant impact on the Group's consolidated financial statements at January 1, 2018.

Changes in accounting policies resulting from the adoption of K-IFRS 1109 have been applied retrospectively, except as described below.

- The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore the information presented for 2017 does not generally reflect the requirements of K-IFRS 1109 but rather those of K-IFRS 1039.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - ✓ The determination of the business model within which a financial asset is held.
 - ✓ The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - ✓ The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If an investment in a debt security had low credit risk at the date of initial application of K-IFRS 1109, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

4. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the changes in accounting policies as explained in Note 3.

(1) Segment Information

Substantially all of the Group's revenue are derived from non-current assets located in Korea. The Group's chief operating decision maker ("CODM") does not receive and therefore does not review discrete financial information for any component of the Group, therefore it does not report segment information. All of the Group's electricity sales for the years ended December 31, 2018 and 2017 amounted to ₩4,213,931 million (including trial run revenue related to Jeju units amounted to ₩7,344 million) and ₩4,408,183 million (including trial run revenue related to Shinboryeong units amounted to ₩413,580 million), respectively, and are made to KEPCO, who owns 100 percent of the Company.

(2) Consolidation

(i) Business combination

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

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

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

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

(ii) Non-controlling interests

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

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

(iii) Subsidiaries

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

(iv) Loss of control

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

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

4. Significant Accounting Policies, Continued

(2) Consolidation, continued

(v) Interests in equity-accounted investees

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

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

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

(vi) Transactions eliminated on consolidation

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

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares when it has a short maturity with a specified redemption date.

(4) Inventories

The cost of inventories is based on the weighted average principle (Supplies: moving average principle, Inventory-in-transit: specific identification principle) and includes expenditures for acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Inventories are measured at the lower of cost and net realizable value. 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.

(5) Non-derivative financial assets

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

4. Significant Accounting Policies, Continued

(5) Non-derivative financial assets, continued

(ii) Policy applicable from January 1, 2018

(a) Classification and subsequent measurement

On initial recognition, a financial asset is classified as financial assets at amortized cost, debt instruments at FVOCI, equity investments at FVOCI, financial assets at FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Once, the Group designates a financial asset as at FVTPL, the Group will not reclassify those items in FVOCI subsequently.

(b) Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

4. Significant Accounting Policies, Continued

(5) Non-derivative financial assets, continued

(ii) Policy applicable from January 1, 2018, continued

(c) Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- terms that limit the Group’s claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

(d) Financial assets – Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

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4. Significant Accounting Policies, Continued

(5) Non-derivative financial assets, continued

(iii) Policy applicable before January 1, 2018

(a) Financial assets

The Group classified its financial assets into one of the following categories:

- Loans and receivables
- Held to maturity
- Available for sale
- Financial assets at fair value through profit or loss
- Derivative financial instruments

(b) Financial assets – Subsequent measurement and gains and losses

Financial assets at fair value through profit or loss	Measured at fair value and changes therein, including any interest or dividend income, were recognized in profit or loss.
Held-to-maturity financial assets	Measured at amortized cost using the effective interest method
Loans and receivables	Measured at amortized cost using the effective interest method
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognized in OCI and accumulated in the fair value reserve. When these assets were derecognized, the gain or loss accumulated in equity was reclassified to profit or loss.

(iv) Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(6) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(i) Hedge accounting

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

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4. Significant Accounting Policies, Continued

(6) Derivative financial instruments, including hedge accounting, continued

(i) Hedge accounting, continued

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

Fair value hedge

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

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

Cash flow hedge

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

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

(ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(iii) Other derivative financial instruments

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

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4. Significant Accounting Policies, Continued

(7) Impairment of financial assets

(i) Policy applicable from January 1, 2018

(a) Financial instruments and contract assets

The Group recognizes loss allowances for ECLs on:

- financial assets measured at amortized cost
- debt investments measured at FVOCI; and
- contract assets defined by K-IFRS 1115.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- Debt securities that are determined to have low credit risk at the reporting date
- Other debt securities and bank deposit for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Group measured loss allowances for lifetime ECLs on trade receivables and contract assets.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

(b) Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

(c) Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

(d) Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognized in OCI.

(e) Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

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4. Significant Accounting Policies, Continued

(7) Impairment of financial assets, continued

(ii) Policy applicable before January 1, 2018

Non-derivative financial assets.

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

Financial assets measured at amortized cost	The Group considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.
	In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.
	An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognized in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss was reversed through profit or loss.
Available-for-sale financial assets	Impairment losses on available-for-sale financial assets were recognized by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss previously recognized in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognized, then the impairment loss was reversed through profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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4. Significant Accounting Policies, Continued

(8) Property, plant and equipment

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

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

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

Property, plant and equipment, except for land, are depreciated over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed on a straight-line basis.

A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

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

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

	<u>Useful lives (years)</u>	<u>Depreciation method</u>
Buildings	8 ~ 30	
Structures	8 ~ 30	
Machinery	2 ~ 24	
Vehicles	4 ~ 5	Straight-line method
Vessels	9	
Finance lease	8 ~ 30	
Other property, plant and equipment ("Other PP&Es")	4	

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

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4. Significant Accounting Policies, Continued

(9) Intangible assets

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

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

	<u>Useful lives (years)</u>
Computer software	4
Development costs	5
Other intangible assets	20

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

(i) Research and development

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

(ii) Subsequent expenditures

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

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4. Significant Accounting Policies, Continued

(10) Borrowing costs

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

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

(11) Government grants

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

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

(12) Impairment of non-financial assets

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets ("CGUs"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

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

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

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4. Significant Accounting Policies, Continued

(13) Leases

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

(14) Construction work in progress

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost incurred plus profit recognized to date less progress billings and recognized losses. Cost incurred includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

(15) Non-derivative financial liabilities

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

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

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

(ii) Other financial liabilities

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

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

(16) Employee benefits

(i) Short-term employee benefits

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

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are expected to be settled beyond 12 months after the end of the annual reporting period in which the employees render the related service. The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

(iii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability, after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

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4. Significant Accounting Policies, Continued

(16) Employee benefits, continued

(iv) Retirement benefits: defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(17) Provisions

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

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

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

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

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4. Significant Accounting Policies, Continued

(18) Emissions rights

The Group accounts for greenhouse gases emission right and the relevant liability as below pursuant to the *Act on Allocation and Trading of Greenhouse Gas Emission* which became effective in 2015.

(i) Greenhouse gases emission right

Greenhouse gases emission right consists of emission allowances which are allocated from the government free of charge or purchased from the market. The cost includes any directly attributable costs incurred during the normal course of business. The Group held emission rights for the purpose of performing the legal obligation. Emission right is classified as an intangible asset and classified as an current asset which is submitted in less than one year. Emission right is initially measured at cost and after initial recognition, is carried at cost less accumulated impairment losses. The Group derecognizes an emission right asset when the emission allowance is unusable, disposed or submitted to government in which the future economic benefits are no longer expected to be probable.

(ii) Emission liability

Emission liability is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gas. Emission liability is recognized when there is a high possibility of outflows of resources in performing the obligation and the costs required to perform the obligation are reliably estimable. Emission liability is an amount of estimated obligations for emission rights to be submitted to the government for the performing period. The emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market as of the end of the reporting period.

(19) Foreign currencies

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

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

(20) Contributed capital

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

(21) Revenue from contracts with customers

The Group recognizes revenue by applying the five-step approach (Step 1: Identify the contract(s) with a customer, Step 2: Identify the performance obligations in the contract, Step 3: Determine the transaction price, Step 4: Allocate the transaction price to the performance obligations in the contract, Step 5: Recognize revenue when the entity satisfied a performance obligation). The Group recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties. Also, the Group recognizes revenue when the Group satisfies a performance obligation by transferring a promised good or service to a customer.

(i) Identify the performance obligations in the contract

The Group is engaged in the generation of electricity and development of electric power resources, and electricity sales revenue accounts for 96.05% of consolidated revenue for the year ended December 31, 2018.

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4. Significant Accounting Policies, Continued

(21) Revenue from contracts with customers, continued

(i) Identify the performance obligations in the contract, continued

Under K-IFRS 1115, supplying electricity is a series of distinct goods or services identified as a single performance obligation. The Group is also engaged in contracts with customers for Heat supply, sales of byproducts, O&M, etc. that are identified as separate performance obligations for each contract.

(ii) Variable consideration

The Group may be subject to a variation of consideration paid by the customer due to contracts with customers. The Group estimates an amount of variable consideration by using the expected value method that the Group expects to better predict the amount of consideration to which it will be entitled, and includes in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(iii) Performance obligations satisfied over time

The Group satisfies its performance obligations for contracts such as O&M, etc. over time. The Group recognizes revenue based on the percentage-of-completion on a reasonable basis.

The Group recognizes revenue over time if one of the following criteria is met:

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

(22) Finance income and finance costs

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

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

(23) 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.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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4. Significant Accounting Policies, Continued

(23) Income taxes, continued

(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 taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

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.

(24) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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4. Significant Accounting Policies, Continued

(25) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2018 and the Group has not early adopted them.

✓ K-IFRS 1116, 'Leases'

K-IFRS 1116, 'Lease' replaces existing leases guidance, including K-IFRS 1017, 'Leases', K-IFRS 2104, 'Determining whether an Arrangement contains a Lease', K-IFRS 2015, 'Operating Leases – Incentives' and K-IFRS 2027, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

The Group is required to adopt K-IFRS 1116, 'Lease' from January 1, 2019.

K-IFRS 1116 introduces a single accounting model that requires a lessee to recognize lease related asset and liability in the financial statements. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The actual impact of applying K-IFRS 1116 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at January 1, 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

The adoption of K-IFRS 1116 will change the nature of the costs associated with the lease as operating leases recognized as a straight line are replaced with depreciation expense for the right-of-use asset and interest expense for the lease liability.

The Group has been analyzing the impact of the adoption of K-IFRS 1116 on its consolidated financial statements. However, it is practically difficult to provide reasonable estimates of the impact until the Group has completed such analysis.

✓ Other new standards, interpretations and amendments to existing standards

The following new standards, interpretations and amendments to existing standards are not expected to have a significant impact on the Group's consolidated financial statements.

- K-IFRS 2123 'Uncertainty over Tax Treatments'
- Amendments to K-IFRS 1028 'Long-term Interests in Associates and Joint Ventures'
- Amendments to K-IFRS 1019 'Plan Amendment, Curtailment or Settlement'
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in K-IFRS Standards.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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5. Classification of Financial Instruments

(1) Classification of financial assets as of December 31, 2018 and 2017 are as follows:

In millions of won

		December 31, 2018					
		Financial assets measured at FVTPL	FVOCI - equity instruments	FVOCI - debt instruments	Financial assets at amortized cost	Fair value- hedging instruments	Total
Current assets							
Cash and cash equivalents	₩	-	-	-	77,498	-	77,498
Current financial assets		36	-	-	12,704	8,111	20,851
Trade and other receivables		-	-	-	729,776	-	729,776
		<u>36</u>	<u>-</u>	<u>-</u>	<u>819,978</u>	<u>8,111</u>	<u>828,125</u>
Non-current assets							
Non-current financial assets		765	244,959	2	46,769	414	292,909
Trade and other receivables		-	-	-	239,378	-	239,378
		<u>765</u>	<u>244,959</u>	<u>2</u>	<u>286,147</u>	<u>414</u>	<u>532,287</u>
	₩	<u><u>801</u></u>	<u><u>244,959</u></u>	<u><u>2</u></u>	<u><u>1,106,125</u></u>	<u><u>8,525</u></u>	<u><u>1,360,412</u></u>

In millions of won

		December 31, 2017				
		Loans and receivables	Available-for- sale financial assets	Derivative assets (using hedge accounting)	Financial assets at fair value through profit or loss	Total
Current assets						
Cash and cash equivalents	₩	108,536	-	-	-	108,536
Current financial assets		13,423	-	-	12	13,435
Trade and other receivables		676,390	-	-	-	676,390
		<u>798,349</u>	<u>-</u>	<u>-</u>	<u>12</u>	<u>798,361</u>
Non-current assets						
Non-current financial assets		48,978	152,602	6,607	-	208,187
Trade and other receivables		205,789	-	-	-	205,789
		<u>254,767</u>	<u>152,602</u>	<u>6,607</u>	<u>-</u>	<u>413,976</u>
	₩	<u><u>1,053,116</u></u>	<u><u>152,602</u></u>	<u><u>6,607</u></u>	<u><u>12</u></u>	<u><u>1,212,337</u></u>

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

5. Classification of Financial Instruments, Continued

(2) Classification of financial liabilities as of December 31, 2018 and 2017 are as follows:

In millions of won

		December 31, 2018			
		Financial liabilities measured at FVTPL (*)	Financial liabilities recognized at amortized cost	Fair value- hedging instruments	Total
Current liabilities					
Trade and other payables	₩	-	581,533	-	581,533
Current financial liabilities		379	1,103,064	-	1,103,443
		<u>379</u>	<u>1,684,597</u>	<u>-</u>	<u>1,684,976</u>
Non-current liabilities					
Trade and other payables		-	9,778	-	9,778
Non-current financial liabilities		-	5,222,606	43,678	5,266,284
		<u>-</u>	<u>5,232,384</u>	<u>43,678</u>	<u>5,276,062</u>
	₩	<u>379</u>	<u>6,916,981</u>	<u>43,678</u>	<u>6,961,038</u>

(*) Financial liabilities measured at FVTPL consist of derivative liabilities that are financial liabilities.

In millions of won

		December 31, 2017			
		Financial liabilities at fair value through profit or loss (*)	Financial liabilities recognized at amortized cost	Derivative liabilities (using hedge accounting)	Total
Current liabilities					
Trade and other payables	₩	-	513,000	-	513,000
Current financial liabilities		831	571,458	-	572,289
		<u>831</u>	<u>1,084,458</u>	<u>-</u>	<u>1,085,289</u>
Non-current liabilities					
Trade and other payables		-	10,246	-	10,246
Non-current financial liabilities		2,063	4,707,356	59,985	4,769,404
		<u>2,063</u>	<u>4,717,602</u>	<u>59,985</u>	<u>4,779,650</u>
	₩	<u>2,894</u>	<u>5,802,060</u>	<u>59,985</u>	<u>5,864,939</u>

(*) Financial liabilities at fair value through profit or loss consist of derivative liabilities that are financial liabilities.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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December 31, 2018 and 2017

5. Classification of Financial Instruments, Continued

- (3) Classification of comprehensive income (loss) from financial instruments for the years ended December 31, 2018 and 2017 are as follows:

In millions of won

		<u>2018</u>
Financial assets at amortized cost	Gain on fluctuation of exchange rates from cash and cash equivalents	₩ 1,007
	Interest income from cash and cash equivalents	2,655
	Interest income from loans	206
	Gain on fluctuation of exchange rates from trade and other receivables	30
	Interest income from trade and other receivables	10,304
Financial assets measured at FVTPL	Gain on valuation of derivative (profit or loss)	2,908
Fair value-hedging instruments	Gain on valuation of derivatives (profit or loss)	11,619
	Gain on valuation of derivatives (equity, before tax)	1,323
	Loss on transaction of derivatives	(1,367)
FVOCI-equity instruments	Dividends income	6,721
	Gain on valuation of FVOCI-equity instruments (equity, before tax)	91,872
Financial liabilities recognized at amortized cost	Loss on fluctuation of exchange rates	(26,685)
	Interest expense from borrowing and bonds	(127,543)
	Interest expense from trade and other payables	(454)
Financial liabilities measured at FVTPL	Loss on valuation of derivatives (profit or loss)	(379)
	Gain on transaction of derivatives	3,468
Fair value-hedging instruments	Gain on valuation of derivatives (profit or loss)	13,923
	Loss on valuation of derivatives (equity, before tax)	(8,641)
	Gain on valuation of derivatives	264

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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5. Classification of Financial Instruments, Continued

- (3) Classification of comprehensive income (loss) from financial instruments for the years ended December 31, 2018 and 2017 are as follows, continued:

In millions of won

		<u>2017</u>
Loans and receivables	Loss on fluctuation of exchange rates from cash and cash equivalents	₩ (9,886)
	Interest income from cash and cash equivalents	2,442
	Interest income from loans	225
	Interest income from trade and other receivables	13,278
	Loss on fluctuation of exchange rates from loans	(268)
Financial assets at fair value through profit or loss	Gain on valuation of derivative (profit or loss)	12
Derivative assets (using hedge accounting)	Loss on valuation of derivatives (profit or loss)	(41,072)
	Gain on transaction of derivatives	932
Available-for-sale financial assets	Gain on valuation of available-for-sale financial assets (equity, before tax)	39,210
Financial liabilities recognized at amortized cost	Gain on fluctuation of exchange rates	94,076
	Interest expense from borrowing and bonds	(75,200)
	Interest expense from trade and other payables	(924)
Financial liabilities at fair value through profit or loss	Loss on valuation of derivatives (profit or loss)	(356)
	Gain on transaction of derivatives	2,427
Derivative liabilities (using hedge accounting)	Loss on valuation of derivatives (profit or loss)	(43,044)
	Gain on valuation of derivatives (equity, before tax)	10,134
	Loss on transaction of derivatives	(1,044)

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6. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash	₩	73,111	102,550
Cash equivalents		4,387	5,986
	₩	<u>77,498</u>	<u>108,536</u>

7. Financial Assets

(1) Financial assets as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>December 31, 2018</u>		<u>December 31, 2017</u>	
		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Loans	₩	2,792	48,008	3,395	50,145
Present value discount		(88)	(1,239)	(91)	(1,167)
		<u>2,704</u>	<u>46,769</u>	<u>3,304</u>	<u>48,978</u>
Short-term financial instruments		10,000	-	10,119	-
Derivative assets		8,147	1,179	12	6,607
Available-for-sale financial assets		-	-	-	152,602
Financial assets measured at FVOCI		-	244,961	-	-
	₩	<u>20,851</u>	<u>292,909</u>	<u>13,435</u>	<u>208,187</u>

(2) Loans as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>December 31, 2018</u>		<u>December 31, 2017</u>	
		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Loans for tuition (*1)	₩	1,749	16,328	2,690	14,202
Present value discount		(88)	(1,239)	(91)	(1,167)
		<u>1,661</u>	<u>15,089</u>	<u>2,599</u>	<u>13,035</u>
Housing fund loans (*2)		872	7,991	705	7,060
Loans to affiliates (*3)		171	23,576	-	28,726
Other loans		-	113	-	157
	₩	<u>2,704</u>	<u>46,769</u>	<u>3,304</u>	<u>48,978</u>

(*1) The Group makes loans to employees interest free for the purpose of supporting school expenses of their children. Loans are collected quarterly in equal installment payment through deduction from salary payment.

(*2) The Group makes loans to employees who do not own a house for the purpose of improving residential stability of employees. The interest rate is 95% of weighted average borrowing rate of the Group. Loan terms are 20 years with installment payments.

(*3) The Group lends to PT Cirebon Electric Power and PT Wampu Electric Power at interest rates of 7~11% per annum. No bad debt expense is recognized related to this loan.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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December 31, 2018 and 2017

7. Financial Assets, Continued

(3) Financial instruments as of December 31, 2018 and 2017 are as follows.

<i>In millions of won</i>		<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fixed deposit and bidding guarantees	₩	10,000	10,119

8. Restriction of Deposit

Restricted deposits as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash and cash equivalents (*1)	₩	6,838	11,642
Fixed deposit (*2)		10,000	10,000
Bidding guarantees		-	119

(*1) As explained in Note 14, this amount is provided as collateral for the long-term borrowings of Commerce and Industry Energy Co., Ltd., a subsidiary of KOMIPO.

(*2) Restriction on withdrawal related to 'win-win growth program' for small and medium enterprises.

9. Financial Assets Measured at FVOCI

(1) Financial assets measured at FVOCI as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	<u>Ownership (%)</u>		<u>December 31, 2018</u>	<u>December 31, 2017(*1)</u>
Equity securities				
Listed				
PT Bayan Resources Tbk	4.00	₩	203,520	111,653
Unlisted				
Korea Power Exchange	7.14		15,857	15,852
KEPCO-Uhde Inc.	2.40		14	14
HeeMang Sunlight Power Co., Ltd.	8.33		393	393
PT Cirebon Energi Prasarana	10.00		2,508	2,403
Navanakorn Electric Co., Ltd. (*2)	26.93		17,125	16,410
KEPCO Bylong Australia Pty., Ltd.	2.00		5,542	5,875
			<u>244,959</u>	<u>152,600</u>
Debt securities				
Housing bond			2	2
		₩	<u>244,961</u>	<u>152,602</u>

(*1) The carrying amount is classified as an available-for-sale financial assets as of December 31, 2017.

(*2) Navanakorn Electric Co., Ltd. is not accounted for as an associate since the Group does not hold any voting rights in board meeting and therefore the Group does not exercise significant influence on the investments, even though the Group owns over 20% of the equity shares of the entity.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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9. Financial Assets Measured at FVOCI, Continued

- (2) Changes in financial assets measured at FVOCI (equity securities) for the years ended December 31, 2018 and 2017 are as follows:

In millions of won

		2018			
		Beginning balance	Valuation	Others	Ending balance
PT Bayan Resources Tbk	₩	111,653	91,867	-	203,520
Korea Power Exchange		15,852	5	-	15,857
KEPCO-Uhde Inc.		14	-	-	14
HeeMang Sunlight Power Co., Ltd.		393	-	-	393
PT Cirebon Energi Prasarana		2,403	-	105	2,508
Navanakorn Electric Co., Ltd.		16,410	-	715	17,125
KEPCO Bylong Australia Pty., Ltd.		5,875	-	(333)	5,542
	₩	<u>152,600</u>	<u>91,872</u>	<u>487</u>	<u>244,959</u>

In millions of won

		2017			
		Beginning balance	Valuation	Others	Ending balance
PT Bayan Resources Tbk	₩	71,840	39,813	-	111,653
Korea Power Exchange		16,455	(603)	-	15,852
KEPCO-Uhde Inc.		14	-	-	14
HeeMang Sunlight Power Co., Ltd.		393	-	-	393
PT Cirebon Energi Prasarana		2,710	-	(307)	2,403
Navanakorn Electric Co., Ltd.		18,510	-	(2,100)	16,410
KEPCO Bylong Australia Pty., Ltd.		6,135	-	(260)	5,875
	₩	<u>116,057</u>	<u>39,210</u>	<u>(2,667)</u>	<u>152,600</u>

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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10. Derivatives

(1) Derivatives as of December 31, 2018 and 2017 are as follows:

In millions of won

	December 31, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Derivative assets				
Currency swap	₩ 8,111	414	-	6,607
Currency forward	36	-	12	-
Interest rate swap	-	765	-	-
	<u>8,147</u>	<u>1,179</u>	<u>12</u>	<u>6,607</u>
Derivative liabilities				
Currency swap	-	43,678	-	59,985
Currency forward	379	-	831	-
Interest rate swap	-	-	-	2,063
	<u>₩ 379</u>	<u>43,678</u>	<u>831</u>	<u>62,048</u>

(2) Currency swap contracts which are designated as hedging instruments as of December 31, 2018 are as follows:

In millions of won and thousands of foreign currencies, except for contract exchange rate

Counterparty	Terms of the contract	Contract amount		Contract interest rate (%)		Contract exchange rate (in won)
		Pay	Receive	Pay	Receive	
JP Morgan	2014.02.05.~2019.02.10.	₩ 107,190	USD 100,000	3.25+ floating rate	2.75	₩1,071.90
Morgan Stanley	2014.02.05.~2019.02.10.	107,190	100,000	3.25+ floating rate	2.75	₩1,071.90
Deutsche Bank	2014.02.05.~2019.02.10.	107,190	100,000	3.25+ floating rate	2.75	₩1,071.90
Korea Development Bank	2016.01.21.~2021.07.21.	121,000	100,000	2.15	2.50	₩1,210.00
Morgan Stanley	2016.01.21.~2021.07.21.	121,000	100,000	2.10+ floating rate	2.50	₩1,210.00
BNP Paribas	2016.01.21.~2021.07.21.	121,000	100,000	2.10+ floating rate	2.50	₩1,210.00
Nomura	2017.10.24.~2037.10.30.	52,457	EUR 40,000	2.60	1.70	₩1,311.42
	2017.11.09.~2037.11.16.	59,423	SEK 450,000	2.62	2.36	₩132.05

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December 31, 2018 and 2017

10. Derivatives, Continued

(3) Currency forward contracts which are designated as hedging instruments as of December 31, 2018 are as follows:

In millions of won and thousands of U.S. dollars, except for contract exchange rate

Counterparty	Terms of the contract		Contract amount		Contract exchange rate (in won)	
			Pay	Receive		
Societe Generale	2018.11.29.~2019.01.04.	₩	11,206	USD	10,000	₩1,120.60
Mizuho	2018.12.06.~2019.01.04.		11,167		10,000	₩1,116.67
Nova Scotia	2018.12.07.~2019.01.10.		14,518		13,000	₩1,116.80
Korea Development Bank	2018.12.13.~2019.01.10.		4,490		4,000	₩1,122.60
ING	2018.12.20.~2019.01.15.		11,279		10,000	₩1,127.89
Korea Development Bank	2018.12.21.~2019.01.15.		10,103		9,000	₩1,122.50
	2018.12.24.~2019.01.10.		13,497		12,000	₩1,124.74
ING	2018.12.26.~2019.01.23.		11,248		10,000	₩1,124.77
Korea Development Bank	2018.12.27.~2019.01.23.		11,207		10,000	₩1,120.68
Credit Agricole	2018.12.27.~2019.01.23.		11,208		10,000	₩1,120.75
Korea Development Bank	2018.12.28.~2019.01.23.		13,412		12,000	₩1,117.64

(4) Interest rate swap contracts which are designated as hedging instruments as of December 31, 2018 are as follows:

In millions of won and thousands of U.S. dollars, except for contract exchange rate

Counterparty	Terms of the contract		Contract amount	Contract interest rate (%)		Contract exchange rate (in won)
				Pay	Receive	
Societe Generale	2017.03.28.~2022.06.28.	₩	200,000	3.44+ floating rate	3.77	-
The Export-Import Bank of Korea	2015.02.12.~2031.12.29.	USD	15,893	2.67	Libor(6M)	₩1,071.90
ING Bank N.V.	2015.02.12.~2031.12.29.		7,861	2.67	Libor(6M)	₩1,071.90
BNP Paribas	2015.02.17.~2031.12.29.		7,861	2.67	Libor(6M)	₩1,210.00

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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10. Derivatives, Continued

(5) Gain and loss on valuation and transactions of derivatives for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		Net income effects of valuation gain (loss)		Net income effects of transaction gain (loss)		Accumulated other comprehensive loss (*)	
		2018	2017	2018	2017	2018	2017
		Currency swap	₩ 25,542	(84,116)	(1,103)	(112)	(7,318)
Currency forward	(342)	(818)	3,468	2,427	-	-	
Interest rate swap	2,871	474	-	-	-	-	
	₩	<u>28,071</u>	<u>(84,460)</u>	<u>2,365</u>	<u>2,315</u>	<u>(7,318)</u>	<u>10,134</u>

(*) Loss on valuation of derivatives recorded in accumulated other comprehensive loss in the amounts of ₩12,854 million and ₩7,306 million as of December 31, 2018 and 2017, respectively, are net of tax.

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December 31, 2018 and 2017

11. Trade and Other Receivables

(1) Trade and other receivables as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>December 31, 2018</u>	<u>December 31, 2017</u>
Current assets			
Trade receivables	₩	349,064	449,623
Other receivables		380,712	226,767
		<u>729,776</u>	<u>676,390</u>
Non-current assets			
Trade receivables		187,880	156,483
Other receivables		51,498	49,306
		<u>239,378</u>	<u>205,789</u>
	₩	<u>969,154</u>	<u>882,179</u>

(2) Other receivables as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>December 31, 2018</u>	<u>December 31, 2017</u>
Current assets			
Non-trade receivables	₩	171,968	179,029
Other current receivables		207,979	47,649
Deposits		639	89
Other current receivables		126	-
		<u>380,712</u>	<u>226,767</u>
Non-current assets			
Non-trade receivables		21,978	23,213
Deposits		20,124	16,697
Other non-current receivables		9,396	9,396
		<u>51,498</u>	<u>49,306</u>
	₩	<u>432,210</u>	<u>276,073</u>

(3) The Group has no trade receivables or other receivables which are impaired as of December 31, 2018 and 2017.

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Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

12. Inventories

(1) Inventories as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Raw materials	₩ 230,552	186,974
Supplies	82,457	91,707
Inventories in transit	267,090	151,461
Other inventories	322	327
	<u>₩ 580,421</u>	<u>430,469</u>

(2) The Group has no gain and loss on valuation of inventories for the years ended December 31, 2018 and 2017.

13. Non-Financial Assets

Non-financial assets as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	<u>December 31, 2018</u>		<u>December 31, 2017</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Advance payment	₩ 729	765	686	44
Prepaid expenses	10,182	24,875	11,204	20,372
Others				
VAT receivables	48,551	-	26,458	-
Greenhouse gas emissions rights	24,606	-	40,562	-
Other receivables	8,851	620	8,116	2,002
	<u>₩ 92,919</u>	<u>26,260</u>	<u>87,026</u>	<u>22,418</u>

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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14. Property, Plant and Equipment

(1) Property, plant and equipment as of December 31, 2018 and 2017 are as follows:

In millions of won

		December 31, 2018				
		<u>Acquisition cost</u>	<u>Government grants</u>	<u>Accumulated depreciation</u>	<u>Accumulated impairment losses</u>	<u>Book value</u>
Land	₩	802,498	-	-	-	802,498
Buildings		1,515,142	(17,567)	(473,448)	(478)	1,023,649
Structures		1,063,592	-	(363,688)	(6,797)	693,107
Machinery		7,172,141	(6,990)	(3,071,694)	(3,998)	4,089,459
Ships		36	-	(36)	-	-
Vehicles		11,059	(31)	(9,451)	(116)	1,461
Equipment		92,048	-	(63,823)	-	28,225
Tools		24,998	-	(18,260)	(32)	6,706
Construction-in-progress		2,026,837	-	-	-	2,026,837
Finance lease assets		159,929	-	(44,496)	-	115,433
	₩	<u>12,868,280</u>	<u>(24,588)</u>	<u>(4,044,896)</u>	<u>(11,421)</u>	<u>8,787,375</u>

In millions of won

		December 31, 2017				
		<u>Acquisition cost</u>	<u>Government grants</u>	<u>Accumulated depreciation</u>	<u>Accumulated impairment losses</u>	<u>Book value</u>
Land	₩	762,921	-	-	-	762,921
Buildings		1,351,173	(18,717)	(398,328)	(480)	933,648
Structures		1,067,779	-	(328,990)	(6,797)	731,992
Machinery		6,701,335	(7,233)	(2,594,346)	(3,998)	4,095,758
Ships		36	-	(33)	-	3
Vehicles		12,260	(20)	(10,204)	(127)	1,909
Equipment		79,983	-	(52,148)	-	27,835
Tools		20,594	-	(16,486)	(32)	4,076
Construction-in-progress		1,431,693	-	-	-	1,431,693
Finance lease assets		152,563	-	(36,399)	-	116,164
	₩	<u>11,580,337</u>	<u>(25,970)</u>	<u>(3,436,934)</u>	<u>(11,434)</u>	<u>8,105,999</u>

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

14. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment for the years ended December 31, 2018 and 2017 are as follows:

In millions of won

		2018					
		Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
Land	₩	762,921	1,892	-	-	37,685	802,498
Buildings		933,648	2,893	(1)	(72,908)	160,017	1,023,649
Structures		731,992	-	-	(35,339)	(3,546)	693,107
Machinery		4,095,758	53,354	(3,374)	(477,885)	421,606	4,089,459
Ships		3	-	-	(3)	-	-
Vehicles		1,909	89	(379)	(858)	700	1,461
Equipment		27,835	436	(7)	(11,363)	11,324	28,225
Tools		4,076	233	-	(1,825)	4,222	6,706
Construction-in-progress		1,431,693	1,205,913	-	-	(610,769)	2,026,837
Finance lease assets		116,164	-	-	(8,032)	7,301	115,433
	₩	<u>8,105,999</u>	<u>1,264,810</u>	<u>(3,761)</u>	<u>(608,213)</u>	<u>28,540</u>	<u>8,787,375</u>

(*) The amounts are composed of transfers from construction-in-progress to depreciable assets, borrowing costs capitalization, retirement benefit expenses capitalization, and effect of exchange rate fluctuations.

In millions of won

		2017						
		Beginning balance	Acquisition	Disposal	Depreciation	Impairment	Others (*)	Ending balance
Land	₩	763,390	3	(807)	-	-	335	762,921
Buildings		540,121	133	(4,848)	(49,255)	(480)	447,977	933,648
Structures		489,570	165	(176)	(29,641)	(6,797)	278,871	731,992
Machinery		2,233,694	43,105	(45)	(388,411)	(3,975)	2,211,390	4,095,758
Ships		7	-	-	(4)	-	-	3
Vehicles		2,038	181	-	(760)	(127)	577	1,909
Equipment		17,300	1,838	-	(8,711)	-	17,408	27,835
Tools		1,856	303	-	(1,480)	(32)	3,429	4,076
Construction-in-progress		3,396,352	1,015,405	-	-	-	(2,980,064)	1,431,693
Finance lease assets		47,941	-	-	(6,576)	-	74,799	116,164
	₩	<u>7,492,269</u>	<u>1,061,133</u>	<u>(5,876)</u>	<u>(484,838)</u>	<u>(11,411)</u>	<u>54,722</u>	<u>8,105,999</u>

(*) The amounts are composed of transfers from construction-in-progress to depreciable assets, borrowing costs capitalization, retirement benefit expenses capitalization, and effect of exchange rate fluctuations.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

14. Property, Plant and Equipment, Continued

(3) Government grants as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>December 31, 2018</u>	<u>December 31, 2017</u>
Buildings	₩	17,567	18,717
Machinery		6,990	7,233
Vehicles		31	20
	₩	<u>24,588</u>	<u>25,970</u>

(4) Changes in government grants for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>2018</u>			
		<u>Beginning balance</u>	<u>Acquisition</u>	<u>Depreciation</u>	<u>Ending balance</u>
Buildings	₩	18,717	571	(1,721)	17,567
Machinery		7,233	390	(633)	6,990
Vehicles		20	23	(12)	31
	₩	<u>25,970</u>	<u>984</u>	<u>(2,366)</u>	<u>24,588</u>

<i>In millions of won</i>		<u>2017</u>			
		<u>Beginning balance</u>	<u>Acquisition</u>	<u>Depreciation</u>	<u>Ending balance</u>
Buildings	₩	20,418	-	(1,701)	18,717
Machinery		7,839	-	(606)	7,233
Vehicles		18	14	(12)	20
	₩	<u>28,275</u>	<u>14</u>	<u>(2,319)</u>	<u>25,970</u>

(5) Collateral assets of the Group as of December 31, 2018 are as follows:

<i>In millions of won</i>						
<u>Collateral assets</u>		<u>Book value</u>	<u>Established amount of collateral</u>	<u>Type of borrowing</u>	<u>Balance of borrowing (*2)</u>	<u>Bank that the borrowing is made</u>
Land, buildings, structure and machinery (*1)	₩	78,201	110,500	Long-term borrowings	85,000	Industrial Bank of Korea and others

(*1) Property, plant and equipment of Commerce and Industry Energy Co., Ltd. is provided as collateral. Cash and cash equivalents and benefit of property insurance are also provided as collateral.

(*2) Balance of borrowing is related to Commerce and Industry Energy Co., Ltd.'s long term borrowing, presented above at its face value.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

15. Intangible Assets

(1) Intangible assets as of December 31, 2018 and 2017 are as follows:

In millions of won

	December 31, 2018		
	Acquisition cost	Accumulated amortization	Book value
Software	₩ 35,315	(21,333)	13,982
Development expenditures	36,410	(33,200)	3,210
Mining rights	15,386	(4,441)	10,945
Others	2,138	(972)	1,166
Goodwill	2,582	-	2,582
	₩ 91,831	(59,946)	31,885

In millions of won

	December 31, 2017		
	Acquisition cost	Accumulated amortization	Book value
Software	₩ 30,598	(18,042)	12,556
Development expenditures	33,939	(32,036)	1,903
Mining rights	12,281	(3,984)	8,297
Others	2,120	(875)	1,245
Goodwill	2,582	-	2,582
	₩ 81,520	(54,937)	26,583

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

15. Intangible Assets, Continued

(2) Changes in intangible assets for the years ended December 31, 2018 and 2017 are as follows:

In millions of won

		2018				
		Beginning balance	Acquisition	Amortization	Others (*)	Ending balance
Software	₩	12,556	18	(3,292)	4,700	13,982
Development expenditures		1,903	596	(1,164)	1,875	3,210
Mining rights		8,297	3,968	(756)	(564)	10,945
Others		1,245	71	(57)	(93)	1,166
Goodwill		2,582	-	-	-	2,582
	₩	<u>26,583</u>	<u>4,653</u>	<u>(5,269)</u>	<u>5,918</u>	<u>31,885</u>

(*) Others consist of transfer from construction-in-progress to depreciable assets, transfer from amortization cost to construction-in-progress and effect of exchange rate fluctuations.

On the other hand, greenhouse gases emission right allocated free of charge from the government is classified as intangible assets and measured as nil.

In millions of won

		2017					
		Beginning balance	Acquisition	Disposal	Amortization	Others (*)	Ending balance
Software	₩	2,969	1,644	-	(1,828)	9,771	12,556
Development expenditures		10,683	299	-	(1,345)	(7,734)	1,903
Mining rights		10,142	-	(272)	(1,198)	(375)	8,297
Others		7,559	34,475	(181)	(86)	(40,522)	1,245
Goodwill		2,582	-	-	-	-	2,582
	₩	<u>33,935</u>	<u>36,418</u>	<u>(453)</u>	<u>(4,457)</u>	<u>(38,860)</u>	<u>26,583</u>

(*) Others consist of transfer from construction-in-progress to depreciable assets, transfer from amortization cost to construction-in-progress, transfer of greenhouse gases emission right from non-current to current and effect of exchange rate fluctuations.

On the other hand, greenhouse gases emission right allocated free of charge from the government is classified as intangible assets and measured as nil.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

16. Investments in Associates and Joint Ventures

(1) Investments in associates and joint ventures as of December 31, 2018 and 2017 are as follows:

Investees	Key operation activities	Location	Percentage of ownership (%)	
			December 31, 2018	December 31, 2017
<Associates>				
KEPCO Lebanon S.A.R.L.	Operation of utility plant	Lebanon	49.0	49.0
Gangwon Wind Power Co., Ltd. (*1)	Wind power generation	Korea	15.0	15.0
Hyundai Green Power Co., Ltd.	Byproduct gas power generation	Korea	29.0	29.0
PT Cirebon Electric Power	Coal thermal power generation	Indonesia	27.5	27.5
PT Wampu Electric Power	Water power generation	Indonesia	46.0	46.0
Korea Offshore Wind Power Co., Ltd. (*1)	Wind power generation	Korea	12.5	12.5
Gunsan Bio Energy Co.,Ltd. (*1)	Bio energy power generation	Korea	18.9	18.9
Solar School Plant Co., Ltd. (*1)	Solar school business	Korea	8.3	8.3
KEPCO Energy Solution Co., Ltd. (*1)	Energy saving business	Korea	8.3	8.3
YaksuESS Co., Ltd.	Installing ESS related equipment	Korea	29.0	29.0
Jeju Hanlim Offshore Wind Power Co., Ltd.	Wind power generation	Korea	26.1	28.0
YeongGwang Yaksu Wind Electric. Co., Ltd. (*1)	Wind power generation	Korea	9.6	-
<Joint ventures>				
Eco Biomass Energy Sdn. Bhd. (*2)	Bio energy power generation	Malaysia	61.5	61.5

(*1) Although the Group owns less than 20% of the equity shares of the entity, the Group participates in the directors' meetings and exercises significant influence. As such, it is classified as investments in associates.

(*2) The Group holds more than 50% of the equity shares of the entity. However, according to the shareholder agreement, all critical financial and operating decisions must be agreed upon by all shareholders. As a result, the entity is classified as joint venture.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

16. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and joint ventures for the years ended December 31, 2018 and 2017 are as follows:

In millions of won

Investees	2018						
	Beginning balance	Acquisition	Dividends received	Share of income (loss)	Other comprehensive income (loss)	Others	Ending balance
<Associates>							
KEPCO Lebanon S.A.R.L. ₩	-	-	-	-	-	-	-
Gangwon Wind Power Co., Ltd.	13,855	-	(2,272)	1,637	-	-	13,220
Hyundai Green Power Co., Ltd.	114,806	-	(8,888)	21,242	-	-	127,160
PT Cirebon Electric Power	97,409	-	(4,432)	9,384	1,909	4,357	108,627
PT Wampu Electric Power	29,403	-	-	408	(2)	1,288	31,097
Korea Offshore Wind Power Co., Ltd.	23,525	-	-	(1,058)	-	-	22,467
Gunsan Bio Energy Co., Ltd.	-	-	-	-	-	-	-
Solar School Plant Co., Ltd.	16,724	-	-	169	-	-	16,893
KEPCO Energy Solution Co., Ltd.	25,085	-	-	208	-	(24)	25,269
YaksuESS Co., Ltd.	195	-	-	265	-	-	460
Jeju Hanlim Offshore Wind Power Co., Ltd. (*)	10	4,490	-	(241)	(23)	-	4,236
YeongGwang Yaksu Wind Electric.Co., Ltd.	-	533	-	-	-	-	533
<Joint venture>							
Eco Biomass Energy Sdn. Bhd.	-	-	-	-	-	-	-
₩	<u>321,012</u>	<u>5,023</u>	<u>(15,592)</u>	<u>32,014</u>	<u>1,884</u>	<u>5,621</u>	<u>349,962</u>

(*) There is a change in the percentage of ownership to 26.1% (28% as of December 31, 2017) due to additional disproportionate capital increase for the year ended December 31, 2018.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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16. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and joint ventures for the years ended December 31, 2018 and 2017 are as follows, continued:

In millions of won

Investees	2017						
	Beginning balance	Acquisition	Dividends received	Share of income (loss)	Other comprehensive income (loss)	Others	Ending balance
<Associates>							
KEPCO Lebanon S.A.R.L. (*1)	₩ -	-	-	-	-	-	-
Gangwon Wind Power Co., Ltd.	13,069	-	(852)	1,638	-	-	13,855
Hyundai Green Power Co., Ltd.	115,998	-	(8,888)	7,696	-	-	114,806
PT Cirebon Electric Power	96,658	-	(550)	10,685	2,232	(11,616)	97,409
PT Wampu Electric Power	23,188	-	-	9,336	-	(3,121)	29,403
Korea Offshore Wind Power Co., Ltd.	4,472	20,150	-	(875)	(222)	-	23,525
Gunsan Bio Energy Co., Ltd.	-	-	-	-	-	-	-
Solar School Plant Co., Ltd.	16,651	-	-	73	-	-	16,724
KEPCO Energy Solution Co., Ltd.	24,975	-	-	110	-	-	25,085
YaksuESS Co., Ltd.	197	-	-	(2)	-	-	195
Jeju Hanlim Offshore Wind Power Co., Ltd.	-	10	-	-	-	-	10
<Joint venture>							
Eco Biomass Energy Sdn. Bhd. (*2)	-	-	-	-	-	-	-
	₩ <u>295,208</u>	<u>20,160</u>	<u>(10,290)</u>	<u>28,661</u>	<u>2,010</u>	<u>(14,737)</u>	<u>321,012</u>

(*1) Equity method is no longer applied to KEPCO Lebanon S.A.R.L. since its book value has been reduced to zero.

(*2) The Group made payment to preferred shareholders, who are the co-owners of the joint venture, ECO Biomass Energy Sdn. Bhd., when the latter exercised its put option of the shares in the joint venture. The Group recorded the payment made as acquisition costs and wrote off the balance in 2014 as the amount is deemed to be not recoverable.

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16. Investments in Associates and Joint Ventures, Continued

(3) Summary of financial information of associates and joint ventures as of and for the years ended December 31, 2018 and 2017 are as follows:

In millions of won

Investees	December 31, 2018							
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
<Associates>								
KEPCO Lebanon S.A.R.L. ₩	-	-	-	-	-	-	-	-
Gangwon Wind Power Co., Ltd.	34,719	54,895	1,805	-	25,407	10,926	-	10,926
Hyundai Green Power Co., Ltd.	274,570	852,650	222,924	465,814	501,798	66,925	-	66,925
PT Cirebon Electric Power	217,108	658,961	123,916	357,144	274,962	33,144	6,754	39,898
PT Wampu Electric Power	53,413	169,596	18,571	136,835	13,463	4,624	(4)	4,620
Korea Offshore Wind Power Co., Ltd.	19,751	196,363	1,334	35,043	-	(8,473)	-	(8,473)
Gunsan Bio Energy Co., Ltd.	3,885	5,104	20,610	50	-	(4,420)	-	(4,420)
Solar School Plant Co., Ltd.	193,405	10,877	1,036	330	1,149	2,033	-	2,033
KEPCO Energy Solution Co., Ltd.	245,502	58,601	665	207	5,584	2,509	(10)	2,499
YaksuESS Co., Ltd.	1,142	6,382	39	5,905	2,094	1,259	-	1,259
Jeju Hanlim Offshore Wind Power Co., Ltd.	9,290	7,267	328	-	-	(925)	-	(925)
YeongGwang Yaksu Wind Electric.Co., Ltd.	581	45,446	801	42,805	7,604	(493)	-	(493)
<Joint ventures>								
Eco Biomass Energy Sdn. Bhd.	-	-	-	-	-	-	-	-

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

16. Investments in Associates and Joint Ventures, Continued

- (3) Summary of financial information of associates and joint ventures as of and for the years ended December 31, 2018 and 2017 are as follows, continued:

In millions of won

Investees	December 31, 2017							
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
<Associates>								
KEPCO Lebanon S.A.R.L. ₩	-	-	-	-	-	-	-	-
Gangwon Wind Power Co., Ltd.	31,482	62,799	2,243	-	25,963	11,121	-	11,121
Hyundai Green Power Co., Ltd.	249,138	901,591	216,915	537,931	477,373	26,543	-	26,543
PT Cirebon Electric Power	206,420	697,009	106,402	442,810	280,452	38,448	8,116	46,564
PT Wampu Electric Power	19,629	192,466	8,177	140,000	779	8,114	-	8,114
Korea Offshore Wind Power Co., Ltd.	110,027	80,168	1,969	16	-	(6,997)	-	(6,997)
Gunsan Bio Energy Co., Ltd.	5,201	4,447	16,462	-	-	(6,109)	-	(6,109)
Solar School Plant Co., Ltd.	195,899	5,583	444	155	67	874	-	874
KEPCO Energy Solution Co., Ltd.	289,313	24,087	12,122	253	5,544	1,325	-	1,325
YaksuESS Co., Ltd.	57	7,048	30	6,407	381	(6)	-	(6)
Jeju Hanlim Offshore Wind Power Co., Ltd.	36	-	-	-	-	-	-	-
<Joint ventures>								
Eco Biomass Energy Sdn. Bhd.	-	-	-	-	-	-	-	-

- (4) As of December 31, 2018 and 2017, unrecognized equity interest in investments in associates and joint ventures whose book value has been reduced to zero due to accumulated losses are as follows:

In millions of won

	December 31, 2018		December 31, 2017	
	Unrecognized equity interest	Accumulated unrecognized equity interest	Unrecognized equity interest	Accumulated unrecognized equity interest
Gunsan Bio Energy Co., Ltd. ₩	916	2,202	1,156	1,286

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December 31, 2018 and 2017

17. Trade and Other Payables

Trade and other payables as of December 31, 2018 and 2017 are as follows:

		December 31, 2018		December 31, 2017	
		Current	Non-current	Current	Non-current
Trade payables	₩	319,649	-	242,650	-
Non-trade payables		174,137	559	183,700	-
Accrued expenses		70,996	-	68,870	-
Other deposits received		14,807	-	16,385	-
Dividends payable		916	-	-	-
Finance lease liabilities (*)		1,028	9,219	1,395	10,246
	₩	<u>581,533</u>	<u>9,778</u>	<u>513,000</u>	<u>10,246</u>

(*) Refer to note 18 for the details of finance lease liabilities.

18. Finance Lease Liabilities

(1) The Group has entered into a finance lease agreement for its power transmission facility. Pursuant to the agreement, the lease term ranges from 8 to 30 years, no bargain purchase option exists at the end of the lease term, and the legal ownership of the leased assets (carrying amount: ₩115,433 million and ₩116,164 million as of December 31, 2018 and 2017, respectively) is retained by the lessor.

(2) Finance lease liabilities as of December 31, 2018 and 2017 are as follows:

		December 31, 2018		December 31, 2017	
		Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Less than 1 year	₩	1,373	1,028	1,832	1,395
1 ~ 5 years		5,127	4,110	5,590	4,286
More than 5 years		5,555	5,109	6,661	5,960
	₩	<u>12,055</u>	<u>10,247</u>	<u>14,083</u>	<u>11,641</u>

(3) The Group does not have any irrevocable operating lease contracts as of December 31, 2018.

(4) Changes in finance lease liabilities for the year ended December 31, 2018 are as follows:

		2018			
		Beginning balance	Cash Flow	Acquisition	Ending balance
Finance lease liabilities	₩	11,641	(1,394)	-	10,247

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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19. Financial Liabilities

(1) Financial liabilities as of December 31, 2018 and 2017 are as follows:

		December 31, 2018		December 31, 2017	
		Current	Non-current	Current	Non-current
Borrowings	₩	617,764	230,512	141,651	245,408
Bonds		485,300	4,992,094	429,807	4,461,948
Derivative liabilities (*)		379	43,678	831	62,048
	₩	<u>1,103,443</u>	<u>5,266,284</u>	<u>572,289</u>	<u>4,769,404</u>

(*) Details of derivative liabilities are described in Note 10.

(2) Borrowings and bonds issued as of December 31, 2018 and 2017 are as follows:

		December 31, 2018	December 31, 2017
Current liabilities			
Short-term borrowings	₩	592,100	141,300
Current portion of long-term borrowings		25,664	351
Current portion of bonds issued		485,430	430,000
Less: current portion of discount on bonds		(130)	(193)
		<u>1,103,064</u>	<u>571,458</u>
Non-current liabilities			
Long-term borrowings		238,497	251,158
Less: discount on long-term borrowings		(7,985)	(5,750)
Bonds issued		5,002,657	4,472,465
Less: discount on bonds		(10,563)	(10,517)
		<u>5,222,606</u>	<u>4,707,356</u>
	₩	<u>6,325,670</u>	<u>5,278,814</u>

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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19. Financial Liabilities, Continued

(3) Short-term borrowings as of December 31, 2018 and 2017 are as follows:

In millions of won

Type	Creditor	Interest rate (%)		Maturity	December 31, 2018	December 31, 2017
Short-term borrowings	Woori Investment Bank Co., Ltd.	-	-	-	₩ -	80,000
	Golden Bridge Investment & Securities Co., Ltd.	-	-	-	-	10,000
	KB Securities Co., Ltd.	Fixed rate	2.31	2019-01-04	60,000	-
	DB Financial Investment Co., Ltd.	Fixed rate	2.31	2019-01-04	20,000	-
	SK Securities Co., Ltd.	Fixed rate	2.31	2019-01-04	20,000	-
	KB Securities Co., Ltd.	Fixed rate	2.39	2019-01-10	60,000	-
	SK Securities Co., Ltd.	Fixed rate	2.39	2019-01-10	30,000	-
	HI Investment & Securities Co., Ltd.	Fixed rate	2.39	2019-01-10	10,000	-
	Golden Bridge Investment & Securities Co., Ltd.	Fixed rate	2.30	2019-01-15	40,000	-
	BNK Securities Co., Ltd.	Fixed rate	2.30	2019-01-15	30,000	-
	HI Investment & Securities Co., Ltd.	Fixed rate	2.30	2019-01-15	10,000	-
	NH Investment & Securities Co., Ltd.	Fixed rate	2.30	2019-01-15	20,000	-
	DB Financial Investment Co., Ltd.	Fixed rate	2.51	2019-01-23	70,000	-
	KB Securities Co., Ltd.	Fixed rate	2.51	2019-01-23	30,000	-
	Golden Bridge Investment & Securities Co., Ltd.	Fixed rate	2.05	2019-01-23	20,000	-
	BNK Securities Co., Ltd.	Fixed rate	2.05	2019-01-23	20,000	-
	HI Investment & Securities Co., Ltd.	Fixed rate	2.36	2019-01-29	30,000	-
	BNK Securities Co., Ltd.	Fixed rate	2.36	2019-01-29	10,000	-
	KB Securities Co., Ltd.	Fixed rate	2.36	2019-01-29	10,000	-
Bank overdraft	Nonghyup Bank	Fixed rate	3.09	2019-01-10 ~ 2019-01-15	102,100	51,300
					₩ <u>592,100</u>	<u>141,300</u>

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

19. Financial Liabilities, Continued

(4) Long-term borrowings as of December 31, 2018 and 2017 are as follows:

In millions of won and thousands of foreign currencies

						December 31, 2018	
Type		Interest rate (%)		Maturity	Foreign currency	Local currency	
Korea Resources Corporation	Resources development loan	Floating rate	3yr KTB (*1) rate -2.25	2023-03-15		₩ 1,273	
	Resources development loan	Floating rate	3yr KTB (*1) rate -2.25	2023-06-15		50	
	Resources development loan	Floating rate	3yr KTB (*1) rate -2.25	2024-06-15		65	
	Resources development loan	Floating rate	3yr KTB (*1) rate -2.25	2024-09-15		166	
Industrial Bank of Korea	PF Refinancing loan	Floating rate	CD +1.25	2030-10-30		22,500	
Hyundai Life Insurance Co., Ltd.	PF Refinancing loan	Fixed rate	4.10	2030-10-30		30,000	
Dongbu Insurance Co., Ltd.	PF Refinancing loan	Fixed rate	4.10	2030-10-30		32,500	
Hana Power, Ltd. and others	Development	Fixed rate	4.50	2022-04-29		22,347	
PT PJB	Shareholder's loan	Fixed rate	12.75	2019-12-29	IDR (*2)	5,582,325	
POSCO	Shareholder's loan	Fixed rate	8.00	2023-03-28	USD	2,356	
PT BS Energy	Shareholder's loan	Fixed rate	8.00	2023-03-28	USD	5,164	
The Export-Import Bank of Korea	Shareholder's loan	Fixed rate	8.00	2023-03-28	USD	4,160	
The Export-Import Bank of Korea	Facility	Floating rate	LIBOR(6M) +2.50	2032-02-29	USD	59,187	
BNP Paribas, Seoul Branch	Facility	Floating rate	LIBOR(6M) +1.70	2032-02-29	USD	29,400	
ING Bank N.V., Singapore Branch	Facility	Floating rate	LIBOR(6M) +1.70	2032-02-29	USD	29,400	
BNP Paribas, Singapore Branch	Facility	Floating rate	LIBOR(6M) +2.50	2032-02-29	USD	4,406	
ING Bank N.V., Singapore Branch	Facility	Floating rate	LIBOR(6M) +2.50	2032-02-29	USD	4,406	
						264,161	
Less: discount on long-term borrowings						(7,985)	
Less: current portion of long-term borrowings						(25,664)	
						₩ 230,512	

(*1) Korea Treasury Bond

(*2) Indonesia Rupiah

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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19. Financial Liabilities, Continued

(4) Long-term borrowings as of December 31, 2018 and December 31, 2017 are as follows, continued:

In millions of won and thousands of foreign currencies

							December 31, 2017	
Type		Interest rate (%)		Maturity	Foreign currency		Local currency	
Korea Resources Corporation	Resources development loan	Floating rate	3yr KTB (*1) rate -2.25	2023-03-15			₩	1,571
	Resources development loan	Floating rate	3yr KTB (*1) rate -2.25	2023-06-15				62
	Resources development loan	Floating rate	3yr KTB (*1) rate -2.25	2024-06-15				77
	Resources development loan	Floating rate	3yr KTB (*1) rate -2.25	2024-09-15				195
Industrial Bank of Korea	PF Refinancing loan	Floating rate	3M CD +1.25	2030-10-30				22,500
Hyundai Life Insurance Co., Ltd.	PF Refinancing loan	Fixed rate	4.10	2030-10-30				30,000
Dongbu Insurance Co., Ltd.	PF Refinancing loan	Fixed rate	4.10	2030-10-30				32,500
Hana Power, Ltd. and others	Development	Fixed rate	4.50	2022-04-29				22,347
PT PJB	Shareholder's loan	Fixed rate	12.75	2019-12-29	IDR (*2)	10,932,568		864
POSCO	Shareholder's loan	Fixed rate	8.00	2023-03-28	USD	1,920		2,056
PT BS Energy	Shareholder's loan	Fixed rate	8.00	2023-03-28	USD	3,635		3,895
The Export-Import Bank of Korea	Shareholder's loan	Fixed rate	8.00	2023-03-28	USD	3,162		3,388
The Export-Import Bank of Korea	Facility	Floating rate	LIBOR(6M) +2.50	2032-02-29	USD	55,706		59,684
BNP Paribas, Seoul Branch	Facility	Floating rate	LIBOR(6M) +1.70	2032-02-29	USD	29,353		31,449
ING Bank N.V., Singapore Branch	Facility	Floating rate	LIBOR(6M) +1.70	2032-02-29	USD	29,353		31,449
BNP Paribas, Singapore Branch	Facility	Floating rate	LIBOR(6M) +2.50	2032-02-29	USD	4,420		4,736
ING Bank N.V., Singapore Branch	Facility	Floating rate	LIBOR(6M) +2.50	2032-02-29	USD	4,420		4,736
								251,509
Less: discount on long-term borrowings								(5,750)
Less: current portion of long-term borrowings								(351)
							₩	245,408

(*1) Korea Treasury Bond

(*2) Indonesia Rupiah

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

19. Financial Liabilities, Continued

(5) Local bonds as of December 31, 2018 and 2017 are as follows:

In millions of won

Type	Issue date	Maturity	Interest rate (%)		December 31, 2018	December 31, 2017
Debenture	2012-02-28	2019-02-28	Fixed rate	3.89 ₩	50,000	50,000
	2012-06-28	2022-06-28	Fixed rate	3.77	200,000	200,000
	2013-02-22	2020-02-22	Fixed rate	3.01	100,000	100,000
	2013-02-22	2023-02-22	Fixed rate	3.13	100,000	100,000
	2013-04-05	2020-04-05	Fixed rate	2.79	100,000	100,000
	2013-04-05	2023-04-05	Fixed rate	2.91	100,000	100,000
	2013-10-15	2018-10-15	Fixed rate	-	-	200,000
	2013-11-13	2018-11-13	Fixed rate	-	-	100,000
	2014-04-18	2021-04-18	Fixed rate	3.49	110,000	110,000
	2014-04-18	2024-04-18	Fixed rate	3.67	190,000	190,000
	2014-07-09	2021-07-09	Fixed rate	3.08	80,000	80,000
	2014-07-09	2024-07-09	Fixed rate	3.26	180,000	180,000
	2014-08-29	2029-08-29	Fixed rate	4.11	50,000	50,000
	2014-11-12	2021-11-12	Fixed rate	2.58	50,000	50,000
	2015-03-23	2020-03-23	Fixed rate	1.93	70,000	70,000
	2015-03-23	2025-03-23	Fixed rate	2.26	130,000	130,000
	2015-04-29	2020-04-29	Fixed rate	2.07	60,000	60,000
	2015-04-29	2022-04-29	Fixed rate	2.24	80,000	80,000
	2015-04-29	2025-04-29	Fixed rate	2.46	160,000	160,000
	2015-06-16	2018-06-16	Fixed rate	-	-	130,000
	2015-06-16	2020-06-16	Fixed rate	2.27	70,000	70,000
	2015-06-16	2025-06-16	Fixed rate	2.73	100,000	100,000
	2015-07-30	2022-07-30	Fixed rate	2.32	70,000	70,000
	2015-07-30	2030-07-30	Fixed rate	2.67	130,000	130,000
	2016-03-11	2026-03-11	Fixed rate	1.94	60,000	60,000
	2016-03-11	2031-03-11	Fixed rate	2.01	130,000	130,000
	2016-07-06	2026-07-06	Fixed rate	1.60	160,000	160,000
	2016-07-06	2031-07-06	Fixed rate	1.62	90,000	90,000
	2016-11-09	2019-11-09	Fixed rate	1.63	100,000	100,000
	2016-11-09	2031-11-09	Fixed rate	1.99	100,000	100,000
	2017-03-29	2027-03-29	Fixed rate	2.40	150,000	150,000
	2017-03-29	2032-03-29	Fixed rate	2.43	50,000	50,000
	2017-05-25	2022-05-25	Fixed rate	2.06	100,000	100,000
	2017-05-25	2027-05-25	Fixed rate	2.49	100,000	100,000
	2017-05-25	2032-05-25	Fixed rate	2.60	100,000	100,000
	2017-08-03	2027-08-03	Fixed rate	2.35	20,000	20,000
	2017-08-03	2032-08-03	Fixed rate	2.44	70,000	70,000
	2017-08-03	2037-08-03	Fixed rate	2.47	130,000	130,000
	2017-11-10	2027-11-10	Fixed rate	2.74	90,000	90,000
	2017-11-10	2037-11-10	Fixed rate	2.69	90,000	90,000
	2018-02-20	2023-02-20	Fixed rate	2.72	60,000	-
	2018-02-20	2028-02-20	Fixed rate	2.92	130,000	-

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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December 31, 2018 and 2017

19. Financial Liabilities, Continued

(5) Local bonds as of December 31, 2018 and 2017 are as follows, continued:

In millions of won

Type	Issue date	Maturity	Interest rate (%)		December 31, 2018	December 31, 2017	
Debenture	2018-03-27	2023-03-27	Fixed rate	2.66	₩	50,000	-
	2018-03-27	2028-03-27	Fixed rate	2.79		50,000	-
	2018-06-15	2028-06-15	Fixed rate	2.79		70,000	-
	2018-06-15	2033-06-15	Fixed rate	2.80		110,000	-
	2018-07-09	2033-07-09	Fixed rate	2.66		20,000	-
	2018-07-09	2038-07-09	Fixed rate	2.70		180,000	-
	2018-09-10	2038-09-10	Fixed rate	2.30		90,000	-
	2018-09-10	2048-09-10	Fixed rate	2.26		110,000	-
	2018-10-31	2038-10-31	Fixed rate	2.24		90,000	-
	2018-10-31	2048-10-31	Fixed rate	2.17		30,000	-
					4,710,000	4,150,000	
Less: discount on local bonds					(8,427)	(7,205)	
Less: current portion of local bonds					(150,000)	(430,000)	
Add: current portion of discount on local bonds					82	193	
				₩	4,551,655	3,712,988	

(6) Foreign bonds as of December 31, 2018 and 2017 are as follows:

In millions of won and thousands of foreign currencies

Issue date	Maturity	Interest rate (%)	December 31, 2018		December 31, 2017		
			Foreign currency	Local currency	Foreign currency	Local currency	
2014-02-11	2019-02-11	Fixed rate	2.75	USD 300,000	₩ 335,430	USD 300,000	₩ 321,420
2016-01-21	2021-07-21	Fixed rate	2.50	USD 300,000	₩ 335,430	USD 300,000	₩ 321,420
2017-10-30	2037-10-30	Fixed rate	1.70	EUR 40,000	₩ 51,166	EUR 40,000	₩ 51,170
2017-11-16	2037-11-16	Fixed rate	2.36	SEK 450,000	₩ 56,061	SEK 450,000	₩ 58,455
					778,087		752,465
Less: discount on foreign bonds					(2,266)		(3,505)
Less: current portion of foreign bonds					(335,430)		-
Add: current portion of discount on foreign bonds					48		-
				₩	440,439	₩	748,960

(7) Repayment schedules of borrowings and bonds as of December 31, 2018 are as follows:

In millions of won

	Borrowings	Bonds
Less than 1 year	₩ 617,764	485,430
1-5 years	98,783	1,735,430
More than 5 years	139,714	3,267,227
	₩ 856,261	5,488,087

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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December 31, 2018 and 2017

19. Financial Liabilities, Continued

(8) Changes in borrowings and bonds for the year ended December 31, 2018 are as follows:

In millions of won

		2018				Ending balance
		Beginning balance	Cash flow	Changes in exchange rates	Others	
Borrowings and Bonds	₩	5,278,814	1,007,419	34,456	4,981	6,325,670

20. Non-Financial Liabilities

Non-financial liabilities as of December 31, 2018 and 2017 are as follows:

In millions of won

		December 31, 2018		December 31, 2017	
		Current	Non-current	Current	Non-current
Advance received	₩	13	-	117	-
Unearned revenue		161	-	154	-
Withholdings		6,833	-	3,289	-
Others (*)		1,249	549	6,095	4,900
	₩	<u>8,256</u>	<u>549</u>	<u>9,655</u>	<u>4,900</u>

(*) Others consist of the government grant, which may need to be repaid to government under certain conditions.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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December 31, 2018 and 2017

21. Provisions

(1) Provisions as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	December 31, 2018		December 31, 2017	
		Current		Current
Provisions for wage litigation (*1)	₩	941		1,228
Provisions for employee benefits		34,365		28,665
Provisions for greenhouse gas emission (*2)		12,527		99,607
Provisions for financial guarantee contract		84		40
Provisions for RPS		15,115		18,878
	₩	63,032		148,418

(*1) As of December 31, 2018, the Group recognized a provision for the litigation of ordinary wage as an outflow of resources embodying economic benefits is probable and reliably estimable.

(*2) Provisions for greenhouse gas emission

The Group's greenhouse gas emission right which are allocated free of charge from the government according to the Act on Allocation and Trading of Greenhouse Gas Emission as of December 31, 2018 are as follows:

<i>In thousands of tons</i>	Implementation year			Total amounts in planning term
	2018	2019	2020	
Quantity of emission right allocated free of charge from the government	35,077	27,504	27,504	90,085

The Group has not provided emission right allocated free of charge from the government as collateral.

In accordance with the Act on Allocation and Trading of Greenhouse Gas Emission, the Group has present obligation of submitting emission rights to the government when it is probable that there will be outflows of resources in performing the obligation. Therefore, a provision for emission liability was recognized. The provision is derecognized when the emission right is submitted to government.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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December 31, 2018 and 2017

21. Provisions, Continued

(2) Changes in provisions for the years ended December 31, 2018 and 2017 are as follows:

In millions of won

		2018				Ending balance
		Beginning balance	Increase in provision	Reversal	Payments	
Provisions for wage litigation	₩	1,228	-	-	(287)	941
Provisions for employee benefits		28,665	52,686	-	(46,986)	34,365
Provisions of greenhouse gas emission		99,607	-	(87,080)	-	12,527
Provisions for financial guarantee contract		40	85	-	(41)	84
Provisions for RPS		18,878	-	(3,763)	-	15,115
	₩	<u>148,418</u>	<u>52,771</u>	<u>(90,843)</u>	<u>(47,314)</u>	<u>63,032</u>

In millions of won

		2017				Ending balance
		Beginning balance	Increase in provision	Reversal	Payments	
Provisions for wage litigation	₩	8,700	1,421	-	(8,893)	1,228
Provisions for employee benefits		29,823	36,568	-	(37,726)	28,665
Provisions of greenhouse gas emission		9,167	90,440	-	-	99,607
Provisions for financial guarantee contract		-	41	-	(1)	40
Provisions for RPS		70,214	-	(51,336)	-	18,878
	₩	<u>117,904</u>	<u>128,470</u>	<u>(51,336)</u>	<u>(46,620)</u>	<u>148,418</u>

22. Employment Benefits Obligations

(1) Employment benefits obligations as of December 31, 2018 and 2017 are as follows:

In millions of won

		December 31, 2018	December 31, 2017
Net employee benefits liabilities	₩	126,139	127,563
Other long-term employee benefits liabilities		620	616
	₩	<u>126,759</u>	<u>128,179</u>

(2) Defined contribution plan

The Group operates a defined contribution plan which is subject to the employees' choice. A defined contribution fund is separately managed by the plan's administrator. When employees terminate their employment before the benefits have vested, the Group's obligation to make contributions to the plan decreases on a pro rata basis. The Group contributed ₩5,328 million and ₩4,803 million for the years ended December 31, 2018 and 2017, respectively.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

22. Employment Benefits Obligations, Continued

(3) Defined benefit plan

(i) Principal assumptions on actuarial valuation as of December 31, 2018 and 2017 are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Discount rate	2.26% ~ 2.90%	2.77% ~ 3.77%
Expected salary increasing rate	3.49% ~ 8.38%	3.21% ~ 7.98%

(ii) Details of expense relating to defined benefit plans for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	<u>2018</u>	<u>2017</u>
Current service cost	₩ 17,165	17,419
Interest cost	4,228	3,780
Expected return on plan assets	(826)	(600)
Gain on change from defined benefit plan to defined contribution plan	(693)	(715)
	<u>₩ 19,874</u>	<u>19,884</u>

The expense is recognized as retirement benefit expense in the accompanying consolidated statements of comprehensive income. Among the total of ₩19,874 million of 2018, ₩15,229 million is included in cost of goods sold, ₩1,499 million in selling and administrative expenses, and ₩3,146 million in construction in progress. For the year ended December 31, 2017, ₩14,181 million, ₩1,605 million and ₩4,098 million are recognized in cost of goods sold, selling and administrative expenses and construction in progress, respectively.

(iii) Employee benefit liabilities as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefit obligations	₩ 159,141	155,384
Fair value of plan assets	(33,002)	(27,821)
Net employee benefits liabilities from defined benefit plans	<u>₩ 126,139</u>	<u>127,563</u>

(iv) Changes in the present value of defined benefit obligations for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	<u>2018</u>	<u>2017</u>
Beginning balance	₩ 155,384	155,738
Current service cost	17,165	17,419
Interest cost	4,228	3,780
Actual payments	(1,611)	(2,118)
Remeasurement component	(8,232)	(10,080)
Payment due to change of plan to defined contribution plan	(7,097)	(8,555)
Gain on change from defined benefit plan to defined contribution plan	(693)	(715)
Others	(3)	(85)
Ending balance	<u>₩ 159,141</u>	<u>155,384</u>

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

22. Employment Benefits obligations, Continued

(3) Defined benefit plan, continued

(v) Changes in the present value of plan assets for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>2018</u>	<u>2017</u>
Beginning balance	₩	27,821	22,178
Expected return on plan assets		826	600
Contributions by the employers		4,685	5,275
Actual payments		(11)	(52)
Remeasurement component		(319)	(180)
Ending balance	₩	<u>33,002</u>	<u>27,821</u>

(vi) Details of the fair value of plan assets as of December 31, 2018 are as follows:

<i>In millions of won</i>		<u>December 31, 2018</u>
Derivative linked instruments	₩	1,231
Guaranteed insurance for interest rates		31,771
	₩	<u>33,002</u>

(vii) Remeasurements gains or losses recognized as other comprehensive income/loss are as follows:

<i>In millions of won</i>		<u>2018</u>	<u>2017</u>
Remeasurements gain or loss by financial assumptions	₩	(6,641)	11,314
Experience adjustments		14,873	(1,234)
Income from plan assets		(319)	(180)
	₩	<u>7,913</u>	<u>9,900</u>

(4) Other long-term employee benefit liabilities as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other payables of long-term employee vacation obligations	₩	620	616

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23. Contributed Capital

(1) Details of contributed capital as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>December 31, 2018</u>	<u>December 31, 2017</u>
Share capital	₩	142,907	142,907
Share premium		1,128,023	1,128,023
	₩	<u>1,270,930</u>	<u>1,270,930</u>

(2) Details of shares issued as of December 31, 2018 and 2017 are as follows:

<i>In shares</i>		<u>December 31, 2018</u>	<u>December 31, 2017</u>
Number of shares authorized		100,000,000	100,000,000
Number of shares issued		28,581,320	28,581,320
Par value per share (in won)	₩	5,000	5,000
Common shares (in millions of won)		142,907	142,907

There are no changes in number of outstanding capital stock for the years ended December 31, 2018 and 2017.

(3) Share Premium

As of January 1, 2011, the Group spun off its pumped storage power plant which was subsequently merged into a related party, resulting in an decrease in shares issued (capital) of ₩15,610 million and share premium (additional paid-in-capital) of ₩119,697 million. In addition, loss on reduction of capital in the amount of ₩279,193 million was incurred.

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24. Retained Earnings and Dividends Paid

(1) Details of retained earnings as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>December 31, 2018</u>	<u>December 31, 2017</u>
Legal reserve (*)	₩	77,550	77,550
Voluntary reserves		1,972,212	1,894,202
Unappropriated retained earnings		729,914	849,764
Retained earnings	₩	<u>2,779,676</u>	<u>2,821,516</u>

(*) The Commercial Code requires the Company to appropriate a legal reserve equal to at least 10 percent of dividends for each accounting period until the reserve equals 50 percent of the Company's common stock. The legal reserve is not available for cash dividends; however, this reserve may be credited to paid-in capital or offset against accumulated deficit upon the resolution of the shareholders.

(2) Details of voluntary reserves as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>December 31, 2018</u>	<u>December 31, 2017</u>
Reserve for business stabilization (*)	₩	120	120
Reserve for investment on social overhead capital		70,184	70,184
Others		1,901,908	1,823,898
	₩	<u>1,972,212</u>	<u>1,894,202</u>

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

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24. Retained Earnings and Dividends Paid, Continued

(3) Changes in retained earnings for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>2018</u>	<u>2017</u>
Beginning balance	₩	2,821,516	2,754,169
Adjustment on initial application of K-IFRS 1109 (net of tax)		380	-
Profit (loss) for the year attributed to owner of the Company		(21,655)	114,120
Dividends paid		(26,581)	(54,305)
Share in other comprehensive loss of associates and joint ventures, net of tax		(24)	-
Remeasurements of defined benefit liability, net of tax		6,040	7,532
Ending balance	₩	<u>2,779,676</u>	<u>2,821,516</u>

(4) Dividends paid for the years ended December 31, 2018 and 2017 are as follows:

<i>In shares</i>	<u>2018</u>			
	<u>Number of shares issued</u>	<u>Number of shares eligible for dividends</u>	<u>Dividends paid per share (in won)</u>	<u>Dividends paid (in millions of won)</u>
Common shares	28,581,320	28,581,320	930.00	26,581

<i>In shares</i>	<u>2017</u>			
	<u>Number of shares issued</u>	<u>Number of shares eligible for dividends</u>	<u>Dividends paid per share (in won)</u>	<u>Dividends paid (in millions of won)</u>
Common shares	28,581,320	28,581,320	1,900.00	54,305

(5) Changes in remeasurement components related to employee benefit obligations for the years ended December 31, 2018 and 2017 are as follows :

<i>In millions of won</i>		<u>2018</u>	<u>2017</u>
Beginning balance	₩	(20,546)	(28,077)
Changes		8,015	9,966
Income tax effect		(1,975)	(2,435)
Ending balance	₩	<u>(14,506)</u>	<u>(20,546)</u>

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25. Other Components of Equity

(1) Other components of equity of the parent as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accumulated other comprehensive income (loss)	₩	67,609	(6,384)
Other equity		(290,927)	(291,069)
	₩	<u>(223,318)</u>	<u>(297,453)</u>

(2) Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>2018</u>			
		<u>Financial assets measured at FVOCI valuation reserve</u>	<u>Reserve for gain (loss) on valuation of derivatives</u>	<u>Share in other comprehensive income (loss) of associates and joint ventures</u>	<u>Reserve for gain (loss) on translation of overseas operations</u>
Beginning balance	₩	28,683	(7,306)	(5,168)	(22,593)
Adjustment on initial application of K-IFRS 1109 (net of tax)		(380)	-	-	-
Changes in financial assets measured at FVOCI valuation reserve		91,872	-	-	-
Net change in the unrealized fair value of derivatives using cash flow hedge accounting		-	(7,318)	-	-
Share in other comprehensive income of associates and joint ventures		-	-	1,884	-
Foreign currency translation of foreign operations		-	-	-	8,398
Tax effect		(22,234)	1,771	-	-
Ending balance	₩	<u>97,941</u>	<u>(12,853)</u>	<u>(3,284)</u>	<u>(14,195)</u>

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25. Other Components of Equity, Continued

- (2) Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2018 and 2017 are as follows, continued:

In millions of won

		2017			
		Available-for-sale financial assets valuation reserve	Reserve for gain (loss) on valuation of derivatives	Share in other comprehensive income (loss) of associates and joint ventures	Reserve for gain (loss) on translation of overseas operations
Beginning balance	₩	(1,038)	(14,988)	(7,178)	6,614
Changes in the unrealized fair value of available-for- sale financial assets		39,210	-	-	-
Net change in the unrealized fair value of derivatives using cash flow hedge accounting		-	10,135	-	-
Share in other comprehensive income of associates and joint ventures		-	-	2,010	-
Foreign currency translation of foreign operations		-	-	-	(29,207)
Tax effect		(9,489)	(2,453)	-	-
Ending balance	₩	<u>28,683</u>	<u>(7,306)</u>	<u>(5,168)</u>	<u>(22,593)</u>

- (3) Details of other equity as of December 31, 2018 and 2017 are as follows:

In millions of won

		December 31, 2018	December 31, 2017
Loss on capital reduction	₩	(279,193)	(279,193)
Other capital adjustment		(11,734)	(11,876)
	₩	<u>(290,927)</u>	<u>(291,069)</u>

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26. Sales

(1) Details of sales for the year ended December 31, 2018 are as follows:

<i>In millions of won</i>		Domestic	Overseas
Revenue from Contracts with Customers	Sales of goods		
	Electricity sales revenue	₩ 4,170,811	8,625
	Revenues from the Heat Supply Business	82,927	-
	By-product sales revenue	12,991	-
	Other revenue	42,963	20,294
	Sales of service		
	Revenue from the Service Business	11,709	47,997
		4,321,401	76,916
Others	Subsidy revenue	59,982	-
		₩ 4,381,383	76,916

(2) Details of sales for the year ended December 31, 2017 are as follows:

<i>In millions of won</i>		Domestic	Overseas
Revenue from Contracts with Customers	Sales of goods		
	Electricity sales revenue	₩ 3,944,078	-
	Revenues from the Heat Supply Business	78,478	-
	By-product sales revenue	11,536	-
	Other revenue	60,504	12,096
	Sales of service		
	Revenue from the Service Business	10,758	65,603
		4,105,354	77,699
Others	Subsidy revenue	77,619	-
		₩ 4,182,973	77,699

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27. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	2018	2017
Salaries	₩ 28,975	24,703
Employee benefit expense	2,665	2,386
Welfare and benefit expense	5,942	18,185
Insurance expense	280	206
Depreciation	13,374	9,469
Amortization	4,342	3,082
Commission	15,187	18,625
Advertising expense	646	5,701
Training expense	246	578
Vehicle maintenance expense	164	157
Publishing expense	197	183
Business promotion expense	227	177
Rent expense	1,365	1,323
Telecommunication expense	1,672	1,346
Taxes and dues	4,001	2,347
Expendable supplies expense	322	413
Water, light and heating expense	230	143
Repairs and maintenance expense	10,682	5,922
Ordinary development expense	15,572	15,282
Travel expense	680	650
Clothing expense	108	148
Survey and analysis expense	44	48
Sales promotion expense	11	5
Others	2,588	3,807
	₩ <u>109,520</u>	<u>114,886</u>

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28. Other Non-operating Income and Other Non-operating Expenses

(1) Other non-operating income for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>2018</u>	<u>2017</u>
Gain on assets contributed	₩	8,800	-
Compensation and other revenue		3,938	2,095
Rental income		2,778	2,827
	₩	<u>15,516</u>	<u>4,922</u>

(2) Other non-operating expenses for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>2018</u>	<u>2017</u>
Donations	₩	4,389	2,958

29. Other Profit (Loss)

Details of other profit (loss) for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		<u>2018</u>	<u>2017</u>
Other profit			
Gain on disposal of property, plant and equipment	₩	414	861
Gain on foreign currency translations (*)		1,132	3,497
Gain on foreign currency transactions (*)		10,452	4,822
Others		21,186	9,084
Other loss			
Loss on disposal of property, plant and equipment		(1,794)	(1,431)
Impairment loss on property, plant and equipment		-	(11,411)
Loss on disposal of intangible assets		-	(78)
Loss on foreign currency translations (*)		(72)	(1,967)
Loss on foreign currency transactions (*)		(11,664)	(1,544)
Others		(2,621)	(12,262)
	₩	<u>17,033</u>	<u>(10,429)</u>

(*) These represent gain (loss) on foreign currency translations and transactions arising from operating activities.

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30. Finance Income

(1) Finance income for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	<u>2018</u>	<u>2017</u>
Interest income	₩ 13,165	15,945
Dividends income	6,721	-
Gain on valuation of derivative	30,843	2,664
Gain on derivative transactions	8,804	3,359
Gain on foreign currency translations (*)	2,517	84,515
Gain on foreign currency transactions (*)	43	-
	<u>₩ 62,093</u>	<u>106,483</u>

(*) These represent gains on foreign currency translations and transactions arising from financing activities.

(2) Interest income included in finance income for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	₩ 2,655	2,442
Trade and other receivables	10,304	13,278
Loans	206	225
	<u>₩ 13,165</u>	<u>15,945</u>

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31. Finance Costs

(1) Finance costs for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	<u>2018</u>	<u>2017</u>
Interest expense	₩ 127,997	76,124
Loss on valuation of derivative instruments	2,772	87,124
Loss on derivative transactions	6,439	1,044
Loss on foreign currency translations (*)	28,036	2,852
Loss on foreign currency transactions (*)	20	2,550
	<u>₩ 165,264</u>	<u>169,694</u>

(*) These represent loss on foreign currency translations and transactions arising from financing activities.

(2) Interest expense included in finance costs for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	<u>2018</u>	<u>2017</u>
Trade and other payables	₩ 454	924
Short-term borrowings	3,071	2,030
Long-term borrowings	13,361	11,028
Bonds	143,216	124,186
	<u>160,102</u>	<u>138,168</u>
Less: capitalized borrowing costs	(32,105)	(62,044)
	<u>₩ 127,997</u>	<u>76,124</u>

Capitalization rates for 2018 and 2017 are 2.60% and 2.70%, respectively.

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32. Income Tax Expense

(1) Income tax expense for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	<u>2018</u>	<u>2017</u>
Current income tax expense		
Current tax expense	₩ 6,484	12,223
Adjustment for prior years	41,748	(3,396)
Income tax directly recognized in equity	(22,437)	(14,377)
	<u>25,795</u>	<u>(5,550)</u>
Deferred income tax expense		
Generation and realization of temporary differences	51,098	38,728
Changes in deferred tax on tax loss carryforwards	(35,280)	-
Tax credit carryforwards	-	4,383
Adjustment of temporary differences for prior periods	(43,647)	(2,304)
	<u>(27,829)</u>	<u>40,807</u>
Income tax expense (benefit)	₩ <u>(2,034)</u>	<u>35,257</u>

(2) Reconciliation between income tax expense and accounting income for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	<u>2018</u>	<u>2017</u>
Profit (loss) before income tax	₩ (20,864)	152,593
Income tax expense computed at applicable statutory tax rate	(5,049)	36,927
Adjustments:		
Effect of applying gradual tax rate	-	(462)
Adjustment recognized in the period for current tax of prior period	41,748	(3,396)
Effect of non-taxable revenue	(1,254)	(1,484)
Effect of non-deductible expenses	536	1,203
Effects of tax credits and deduction	-	2,982
Adjustment of temporary differences for prior periods	(43,647)	(2,304)
Investment in subsidiaries and associates	5,632	1,791
	<u>3,015</u>	<u>(1,670)</u>
Income tax expense (benefit)	₩ <u>(2,034)</u>	<u>35,257</u>
Effective tax rate	(*)	23.11%

(*) The effective tax rate for the year ended December 31, 2018 is not calculated due to income tax benefit.

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32. Income Tax Expense, Continued

- (3) Income tax recognized in other comprehensive income (loss) for the years ended December 31, 2018 and 2017 are as follows:

In millions of won

	<u>2018</u>	<u>2017</u>
Income tax recognized as accumulated other comprehensive income (loss)		
Loss (gain) on valuation of FVOCI-financial assets	₩ (22,233)	-
Loss (gain) on valuation of available-for-sale financial assets, net	-	(9,489)
Loss (gain) on valuation of derivative instruments, net	1,771	(2,453)
Remeasurements of defined benefit obligation, net	(1,975)	(2,435)
Income tax benefit	₩ <u>(22,437)</u>	<u>(14,377)</u>

- (4) Deferred income tax assets (liabilities) recognized in the statement of financial position for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>			
	<u>Beginning balance</u>	<u>Amounts recognized in profit or loss</u>	<u>Amounts recognized in other comprehensive income (loss)</u>	<u>Ending balance</u>
<i>In millions of won</i>				
Deferred income tax on temporary differences				
Long-term employee benefits	₩ 4,238	29,964	(1,975)	32,227
Cash flow hedges	16,057	(7,683)	1,771	10,145
Investments in subsidiaries and associates	(29,190)	(8,842)	-	(38,032)
Property, plant and equipment	(278,841)	36,213	-	(242,628)
Financial assets measured at FVOCI	(10,069)	-	(22,233)	(32,302)
Provisions	64,604	(49,350)	-	15,254
Foreign currency translation	(10,117)	5,641	-	(4,476)
Others	(22,213)	9,043	-	(13,170)
	<u>(265,531)</u>	<u>14,986</u>	<u>(22,437)</u>	<u>(272,982)</u>
Deferred income tax on unused tax loss				
Unused tax loss	-	35,280	-	35,280
	₩ <u>(265,531)</u>	<u>50,266</u>	<u>(22,437)</u>	<u>(237,702)</u>

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32. Income Tax Expense, Continued

- (4) Recognized in the statement of financial position of deferred income tax assets (liabilities) for the years ended December 31, 2018 and 2017 are as follows, continued:

<i>In millions of won</i>		2017			
		Beginning balance	Amounts recognized in profit or loss	Amounts recognized in other comprehensive income (loss)	Ending balance
Deferred income tax on temporary differences					
Long-term employee benefits	₩	3,275	963	-	4,238
Cash flow hedges		(2,396)	20,906	(2,453)	16,057
Investments in subsidiaries and associates		(27,021)	(2,169)	-	(29,190)
Property, plant and equipment		(262,950)	(15,891)	-	(278,841)
Available-for-sale financial assets		(580)	-	(9,489)	(10,069)
Provisions		66,818	221	(2,435)	64,604
Foreign currency translation		10,634	(20,751)	-	(10,117)
Others		(16,887)	(5,326)	-	(22,213)
		<u>(229,107)</u>	<u>(22,047)</u>	<u>(14,377)</u>	<u>(265,531)</u>
Deferred income tax on tax credit					
Tax credit		4,383	(4,383)	-	-
	₩	<u>(224,724)</u>	<u>(26,430)</u>	<u>(14,377)</u>	<u>(265,531)</u>

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33. Expenses by Nature

(1) Expenses by nature for the year ended December 31, 2018 are as follows:

In millions of won

	2018		
	Selling and administrative expenses	Cost of sales	Total
Raw materials used	₩ -	3,339,881	3,339,881
Salaries	28,975	178,167	207,142
Employee benefit expense	2,665	18,615	21,280
Welfare and benefit expense	5,942	16,724	22,666
Insurance expense	280	7,736	8,016
Depreciation	13,374	594,839	608,213
Amortization	4,342	927	5,269
Commission	15,187	24,485	39,672
Advertising expense	646	725	1,371
Training expense	246	497	743
Vehicle maintenance expense	164	289	453
Publishing expense	197	108	305
Business promotion expense	227	180	407
Rent expense	1,365	13,026	14,391
Telecommunication expense	1,672	160	1,832
Transportation expense	-	16	16
Taxes and dues	4,001	20,425	24,426
Expendable supplies expense	322	2,056	2,378
Water, light and heating expense	230	1,071	1,301
Repairs and maintenance expense	10,682	136,014	146,696
Ordinary development expense	15,572	14,728	30,300
Travel expense	680	945	1,625
Clothing expense	108	231	339
Survey and analysis expense	44	440	484
Other income related to RPS	-	(38,840)	(38,840)
Other income related to provisions of greenhouse gas emission debt	-	(39,229)	(39,229)
Sales promotion expense	11	-	11
Others	2,588	32,431	35,019
	₩ 109,520	4,326,647	4,436,167

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33. Expenses by Nature, Continued

(2) Expenses by nature for the year ended December 31, 2017 are as follows:

In millions of won

	2017		
	Selling and administrative expenses	Cost of sales	Total
Raw materials used	₩ -	2,903,895	2,903,895
Salaries	24,703	162,890	187,593
Employee benefit expense	2,386	17,133	19,519
Welfare and benefit expense	18,185	15,493	33,678
Insurance expense	206	8,829	9,035
Depreciation	9,469	475,368	484,837
Amortization	3,082	1,375	4,457
Commission	18,625	19,197	37,822
Advertising expense	5,701	437	6,138
Training expense	578	441	1,019
Vehicle maintenance expense	157	227	384
Publishing expense	183	111	294
Business promotion expense	177	145	322
Rent expense	1,323	11,439	12,762
Telecommunication expense	1,346	129	1,475
Transportation expense	-	18	18
Taxes and dues	2,347	18,430	20,777
Expendable supplies expense	413	1,774	2,187
Water, light and heating expense	143	738	881
Repairs and maintenance expense	5,922	124,916	130,838
Ordinary development expense	15,282	9,900	25,182
Travel expense	650	846	1,496
Clothing expense	148	232	380
Survey and analysis expense	48	282	330
Reversal of provisions of RPS, net	-	(51,336)	(51,336)
Other expense related to RPS	-	77,165	77,165
Sales promotion expense	5	-	5
Others	3,807	150,104	153,911
	₩ 114,886	3,950,178	4,065,064

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34. Earnings (loss) Per Share

(1) Basic earnings (loss) per share for the years ended December 31, 2018 and 2017 are as follows:

<i>In won</i>	<u>2018</u>	<u>2017</u>
Basic earnings (loss) per share	₩ (758)	3,993

(2) Basic earnings (loss) per share

Profit (loss) for the year and weighted average number of common shares used in the calculation of basic earnings (loss) per share for the years ended December 31, 2018 and 2017 are as follows:

<i>In won, except for share data</i>	<u>2018</u>	<u>2017</u>
Profit (loss) used in the calculation of total basic earnings per share	₩ (21,656,140,969)	114,119,552,475
Weighted average number of common shares	28,581,320	28,581,320

(3) Diluted earnings per share

The Group has no potential dilutive instruments as of December 31, 2018 and 2017.

35. Risk Management

(1) Capital risk management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder's value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment, capital return to shareholders or issue new shares.

The Group manages capital based on a gearing ratio which is net debt divided by total equity. The Group calculates net debt as interest bearing loans, borrowings and bonds payable, less cash and cash equivalents.

Details of the Group's capital management accounts as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Total borrowings and bonds	₩ 6,325,670	5,278,814
Cash and cash equivalents	77,498	108,536
Net borrowings and bonds	<u>6,248,172</u>	<u>5,170,278</u>
Total equity	3,855,221	3,820,831
Net debt to equity ratio	162.07%	135.32%

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35. Risk Management, Continued

(2) Financial risk management

The Group's board of directors is responsible to establish and monitor its risk management structure. The risk management policy of the Group has been established to identify and analyze encountered risks of the Group, set up the adequate risk limit and control the risk below the pre-established limit. The risk management policy and system are periodically monitored to reflect the Group's change of activities. The Group's goal is to build strict and organizational control environment in which all employees can understand their roles and obligations through training on control standards and procedures.

The Group's internal auditor monitors senior management on whether the risk management policy and procedures have been complied with and reviews the Group's risk management controls and procedures.

The Group's overall financial risk management strategy remains consistent from that of the prior year.

(i) Credit risk

Credit risk is the risk of finance loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Group's debt securities and derivative instruments. In addition, credit risk exposure may exist within financial guarantees and unused line of credits. As these financial institutions the Group makes transactions with are reputable financial institutions, the credit risk from them are considered limited. The Group decides credit transaction limits based on evaluation of client's credit, through information obtained from the credit bureau and disclosed financial position at committing contracts.

a) Credit risk management

The Group uses publicly available information and its own internal data related to accounts receivables, to rate its major customers and to measure the credit risk that a counter party will default on a contractual obligation. As the majority of the Group's accounts receivables are due from governmental entities, the Group does not have significant credit risk exposure. Regarding its debt securities, the Group continuously reviews credit ratings issued by credit agencies, and the Group's working capital (i.e. cash) is deposits at a financial institution with a high credit rating.

b) Accounting policies over impairment & allowance accounts

In accordance with the Group policies, individual material financial assets are assessed on a regular basis, trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Value of the acquired collateral (including the confirmation of feasibility) and estimated collectable amounts are included in this assessment.

Allowance for bad debts assessed on a collective basis are recognized for (i) the group of assets which individually are not material and (ii) incurred but not recognized losses that are assessed using statistical methods, judgment and historical experience.

Book values of the financial assets represent the maximum exposed amounts of the credit risk. Details of the Group's level of maximum exposure to credit risk as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Loans and receivables	₩ -	1,053,116
Financial assets at amortized cost	1,106,125	-
Available-for-sale financial assets	-	2
Financial assets measured at FVOCI- debt instrument	2	-
Fair value-hedging instruments	8,525	6,607
Derivative financial assets held for trading	801	12

There are no financial assets or non-financial assets acquired by exercising a lien or other credit enhancement as of December 31, 2018 and 2017.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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35. Risk Management, Continued

(2) Financial risk management, continued

(ii) Market risk

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

(iii) Sensitivity analysis

- Significant assets and liabilities with uncertainties in underlying assumptions

① Defined benefit obligations

The following is a sensitivity analysis of defined benefit obligations assuming a 1% increase and decrease in the actuarial valuation assumptions as of December 31, 2018 and 2017:

In millions of won

Type	Accounts	December 31, 2018		December 31, 2017	
		1% Increase	1% Decrease	1% Increase	1% Decrease
Future salary increases	Defined benefit obligation	₩ 13,268	(11,751)	12,228	(10,956)
Discount rate	Defined benefit obligation	(12,457)	14,437	(11,538)	13,266

- Management judgment is affected by uncertainties in underlying assumptions.

② Foreign currency risk

The Group is exposed to currency risk, because the transaction is denominated in foreign currencies. The details of monetary liabilities denominated in foreign currencies as of December 31, 2018 and 2017 are as follows:

In thousands of foreign currency

	Assets		Liabilities	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
USD	792	32,010	745,530	686,940
EUR	-	-	39,870	39,900
SEK	-	-	449,042	449,002
IDR	-	-	68,487	-

Applied exchange rates are as follows:

In won

	Average rate		Reporting date spot rate	
	2018	2017	2018	2017
USD	₩ 1,100.30	1,130.84	1,118.10	1,071.40
EUR	1,298.63	1,276.39	1,279.16	1,279.25
SEK	126.65	132.45	124.58	129.90
IDR	0.08	0.08	0.08	0.08

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35. Risk Management, Continued

(2) Financial risk management, continued

(iii) Sensitivity analysis, continued

② Foreign currency risk, continued

A sensitivity analysis on the Group's profit for the periods assuming a 10% increase and decrease in currency exchange rates with all other variables held constant as of December 31, 2018 and 2017 is as follows:

<i>In millions of won</i>	December 31, 2018		December 31, 2017	
	10% Increase	10% Decrease	10% Increase	10% Decrease
Increase (decrease) of profit before income tax	₩ (93,964)	93,964	(81,106)	81,106
Increase (decrease) of shareholder's equity (*)	(93,964)	93,964	(81,106)	81,106

(*) The effect of income tax is not considered.

Sensitivity analysis above is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency, without consideration of hedge effect of related derivatives, as of December 31, 2018 and 2017.

To manage its foreign currency risk related to foreign currency denominated in long-term borrowings and bonds, the Group has a policy to enter into currency forward agreements. In addition, to manage its foreign currency risk related to foreign currency denominated purchase transactions, the Group enters into cross-currency swap agreements.

③ Interest rate risk

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

The Group's borrowings and bonds with floating interest rates as of December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	December 31, 2018		December 31, 2017
Long-term borrowings	₩	165,826	156,459

A sensitivity analysis on the Group's borrowings and bonds assuming a 1% increase and decrease in interest rates with all other variables held constant as of December 31, 2018 and 2017 is as follows:

<i>In millions of won</i>	December 31, 2018		December 31, 2017	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Increase (decrease) of profit before income tax	₩ (1,658)	1,658	(1,565)	1,565
Increase (decrease) of shareholder's equity (*)	(1,658)	1,658	(1,565)	1,565

(*) The effect of income tax is not considered.

To manage its interest rate risks, the Group enters into certain interest swap agreements or maintains an appropriate mix of fixed and floating rate borrowings. Sensitivity analysis above is conducted without consideration of hedge effect of related derivatives.

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35. Risk Management, Continued

(2) Financial risk management, continued

(iii) Sensitivity analysis, continued

④ Liquidity risk

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

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

The following table shows the details of maturities of non-derivative financial liabilities based on contractual undiscounted payments:

In millions of won

Type	December 31, 2018				
	Less than 1 year	1~2 years	2~5 years	More than 5 years	Total
Borrowings and bonds (cash flows of principal)	₩ 1,103,194	419,195	1,415,018	3,406,941	6,344,348
Borrowings and bonds (cash flows of estimated interest)	148,515	134,004	326,268	602,698	1,211,485
	<u>1,251,709</u>	<u>553,199</u>	<u>1,741,286</u>	<u>4,009,639</u>	<u>7,555,833</u>
Trade and other payables	581,879	1,896	3,790	5,555	593,120
Financial guarantee contract (*)	-	-	6,485	-	6,485
	<u>581,879</u>	<u>1,896</u>	<u>10,275</u>	<u>5,555</u>	<u>599,605</u>
	<u>₩ 1,833,588</u>	<u>555,095</u>	<u>1,751,561</u>	<u>4,015,194</u>	<u>8,155,438</u>

(*) The total amount of guarantees that the Group will incur in the event of a financial guarantee. As of December 31, 2018, the Group has recognized ₩84 million as guarantee provision for financial guarantee contracts.

In millions of won

Type	December 31, 2017				
	Less than 1 year	1~2 years	2~5 years	More than 5 years	Total
Borrowings and bonds (cash flows of principal)	₩ 571,651	499,019	1,474,701	2,749,903	5,295,274
Borrowings and bonds (cash flows of estimated interest)	137,468	127,789	296,407	346,547	908,211
	<u>709,119</u>	<u>626,808</u>	<u>1,771,108</u>	<u>3,096,450</u>	<u>6,203,485</u>
Trade and other payables	513,437	1,477	4,113	6,661	525,688
Financial guarantee contract (*)	6,214	-	-	-	6,214
	<u>519,651</u>	<u>1,477</u>	<u>4,113</u>	<u>6,661</u>	<u>531,902</u>
	<u>₩ 1,228,770</u>	<u>628,285</u>	<u>1,775,221</u>	<u>3,103,111</u>	<u>6,735,387</u>

(*) The total amount of guarantees that the Group will incur in the event of a financial guarantee. As of December 31, 2017, the Group has recognized ₩40 million as guarantee provision for financial guarantee contracts.

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35. Risk Management, Continued

(2) Financial risk management, continued

(iv) Sensitivity analysis, continued

④ Liquidity risk, continued

The expected maturities for non-derivative financial assets as of December 31, 2018 and 2017 in detail are as follows:

In millions of won

Type	December 31, 2018				
	Less than 1 year	1~5 years	More than 5 years	Others	Total
Cash and cash equivalents	₩ 77,498	-	-	-	77,498
Short-term financial instruments	10,000	-	-	-	10,000
Financial assets measured at FVOCI	-	-	-	244,961	244,961
Loans	2,792	29,565	6,016	12,427	50,800
Trade and other receivables	729,776	217,400	-	21,978	969,154
	₩ 820,066	246,965	6,016	279,366	1,352,413

In millions of won

Type	December 31, 2017				
	Less than 1 year	1~5 years	More than 5 years	Others	Total
Cash and cash equivalents	₩ 108,536	-	-	-	108,536
Short-term financial instruments	10,119	-	-	-	10,119
Available-for-sale financial assets	-	-	-	152,602	152,602
Loans	3,395	32,892	7,259	9,994	53,540
Trade and other receivables	676,390	183,811	-	21,978	882,179
	₩ 798,440	216,703	7,259	184,574	1,206,976

Derivative liabilities classified by maturity periods from reporting date to maturity date of contract as of December 31, 2018 and 2017 are as follows:

In millions of won

Type	December 31, 2018				
	Less than 1 year	1~2 years	2~5 years	More than 5 years	Total
Gross settlement					
- Hedging (after discount)	₩ -	-	43,678	-	43,678
- Hedging (before discount)	-	-	46,780	-	46,780
- Trading (after discount)	379	-	-	-	379
- Trading (before discount)	379	-	-	-	379

In millions of won

Type	December 31, 2017				
	Less than 1 year	1~2 years	2~5 years	More than 5 years	Total
Gross settlement					
- Hedging (after discount)	₩ -	10,284	49,701	-	59,985
- Hedging (before discount)	-	10,435	52,877	-	63,312
- Trading (after discount)	831	-	-	2,063	2,894
- Trading (before discount)	831	-	-	2,430	3,261

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35. Risk Management, Continued

(3) Fair value risk

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

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

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

(i) Fair value and book value of financial assets and liabilities as of December 31, 2018 and 2017 are as follows:

In millions of won

Type	December 31, 2018		December 31, 2017	
	Book value	Fair value	Book value	Fair value
Assets recognized at fair value				
Derivative assets (using hedge accounting)	₩ 8,525	8,525	6,607	6,607
Derivative financial assets held (for trading)	36	36	12	12
Interest rate swap (for trading)	765	765	-	-
Financial assets measured at FVOCI	244,961	244,961	-	-
Available-for-sale financial assets	-	-	127,507	127,507
	₩ 254,287	254,287	134,126	134,126
Assets carried at amortized cost				
Cash and cash equivalents	₩ 77,498	77,498	108,536	108,536
Loans	49,473	49,473	52,282	52,282
Short-term financial instruments	10,000	10,000	10,119	10,119
Trade and other receivables	969,154	969,154	882,179	882,179
	₩ 1,106,125	1,106,125	1,053,116	1,053,116
Liabilities recognized at fair value				
Derivative liabilities (using hedge accounting)	₩ 43,678	43,678	59,985	59,985
Derivative liabilities (for trading)	379	379	831	831
Interest rate swap (for trading)	-	-	2,063	2,063
	₩ 44,057	44,057	62,879	62,879
Liabilities carried at amortized cost				
Trade and other payables	₩ 591,311	591,311	523,246	523,246
Unsecured borrowings (*)	746,176	746,176	335,759	335,759
Unsecured bond	5,477,394	5,557,933	4,891,755	4,836,376
Bank overdraft	102,100	102,100	51,300	51,300
	₩ 6,916,981	6,997,520	5,802,060	5,746,681

(*) Commerce and Industry Energy Co., Ltd.'s shares that the Group own are provided as collateral for the borrowings of ₩85,000 million (December 31, 2017: ₩85,000 million).

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35. Risk Management, Continued

(3) Fair value risk, continued

(ii) Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread.

The discount rate used for calculating fair value as of December 31, 2018 and 2017 are as follows:

Type	December 31, 2018 (%)	December 31, 2017 (%)
Derivatives	0.02 ~ 2.85	0.05 ~ 2.18
Borrowings and bonds	1.90 ~ 2.47	1.87 ~ 2.96
Finance lease	3.57	3.97

(iii) Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, classified as Level 1, 2, or 3, based on the degree to which the fair value is observable.

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs that are not based on observable market data.

Fair values of financial instruments by hierarchy level as of December 31, 2018 and 2017 are as follows:

In millions of won

Type	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets measured at FVOCI (*)	₩ 203,520	2	41,439	244,961
Derivative assets	-	9,326	-	9,326
	₩ <u>203,520</u>	<u>9,328</u>	<u>41,439</u>	<u>254,287</u>
Financial liabilities at fair value				
Derivative liabilities	₩ -	44,057	-	44,057

(*) Financial assets measured at FVOCI measured at cost amount ₩25,582 million as of December 31, 2018 included in the above disclosure since their fair value cannot be reliably measured.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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35. Risk Management, Continued

(3) Fair value risk, continued

(iii) Fair value hierarchy, continued

Fair values of financial instruments by hierarchy level as of December 31, 2018 and 2017 are as follows, continued:

In millions of won

Type	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Available-for-sale financial assets (*) ₩	111,653	2	15,852	127,507
Derivative assets	-	6,619	-	6,619
	₩ 111,653	6,621	15,852	134,126
Financial liabilities at fair value				
Derivative liabilities ₩	-	62,879	-	62,879

(*) Available-for-sale financial assets measured at cost amount ₩25,095 million as of December 31, 2017 are excluded from the above disclosure since their fair value cannot be reliably measured.

The fair value of unquoted financial assets measured at FVOCI is calculated using the valuation results from an external pricing service in which weighted average borrowing rates of interest of evaluated companies are used as a discount rate. The fair value of derivatives is measured using valuation model which is determined at the present value of estimated future cash flows discounted at current market interest rate.

There is no change between level 1 and level 2 for the years ended December 31, 2018 and 2017.

Changes of financial assets and liabilities which are classified as level 3 for the year ended December 31, 2018 are as follows:

In millions of won

Type	2018			
	Beginning balance	Changes in accounting policy	Valuation	Ending balance
Financial assets at fair value				
Financial assets measured at FVOCI ₩	15,852	25,582	5	41,439

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36. Related Parties

(1) Related parties of the Group as of December 31, 2018 are as follows:

Type	Related party
Parent	KEPCO
Associates	KEPCO Lebanon S.A.R.L. Gangwon Wind Power Co., Ltd. Hyundai Green Power Co., Ltd. Korea Offshore Wind Power Co., Ltd. PT Cirebon Electric Power PT Wampu Electric Power Gunsan Bio Energy Co., Ltd. Solar School Plant Co., Ltd. KEPCO Energy Solution Co., Ltd. YaksuESS Co., Ltd. Jeju Hanlim Offshore Wind Power Co., Ltd. YeongGwang Yaksu Wind Electric.Co., Ltd.
Joint ventures	Eco Biomass Energy Sdn. Bhd.
Others	Korea Hydro & Nuclear Power Co., Ltd. Korea East-West Power Co., Ltd. Korea Western Power Co., Ltd. Korea Southern Power Co., Ltd. Korea South-East Power Co., Ltd. KEPCO Engineering & Construction Company INC. KEPCO Plant Service & Engineering Co., Ltd. KEPCO KDN Co., Ltd. Korea Gas Corporation Korea Electronic Power Industrial Development Co., Ltd. Korea Power Exchange Korea Development Bank and Others

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES
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36. Related Parties, Continued

(2) Related party transactions for the years ended December 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		Sales and others		Purchase and others	
Company name	Transaction type	2018	2017	2018	2017
Korea Electric Power Corporation	Electricity trading and others	₩ 4,268,003	4,535,829	69,050	100,542
Korea Hydro & Nuclear Power Co., Ltd.	Commission expenses	-	-	26	8
Korea South-East Power Co., Ltd.	Commission expenses and others	-	-	7	4
Korea East-West Power Co., Ltd.	Commission income and others	185	25	58	298
Korea Southern Power Co., Ltd.	Commission income and others	270	71	27	153
Korea Western Power Co., Ltd.	Commission income and others	382	-	1	43
KEPCO Engineering & Construction Company INC.	Commission expenses	-	-	25,702	31,353
KEPCO Plant Service & Engineering Co., Ltd.	Rental and services	610	457	84,445	86,086
KEPCO KDN Co., Ltd.	Rental and services	1	7	15,316	20,675
Solar School Plant Co., Ltd.	Sales of services	96	119	-	-
KEPCO Energy Solution Co., Ltd.	Sales of services	78	110	-	-
Korea Gas Corporation	Raw material purchase and others	417	415	697,164	634,513
Korea Electronic Power Industrial Development Co., Ltd.	Rental and services	59	62	28,630	30,625
Gangwon Wind Power Co., Ltd.	Dividend income	2,272	852	-	5
Hyundai Green Power Co., Ltd.	Dividend income and others	11,397	11,281	-	-
PT Cirebon Electric Power	Dividend income	4,432	-	-	-
Korea Power Exchange	Commission expenses	-	-	4,528	4,987
Gunsan Bio Energy Co., Ltd.	Sales of services and others	3,611	-	-	-

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36. Related Parties, Continued

(3) Receivables and payables arising from related party transactions as of December 31, 2018 and 2017 are as follows:

In millions of won

Company name	Transaction type	Receivables		Payables	
		2018	2017	2018	2017
KEPCO	Trade receivables	₩ 325,726	422,100	-	-
	Other receivables	270,618	133,832	-	-
	Trade payables	-	-	15,044	14,641
	Other payables	-	-	40	509
Korea South-East Power Co., Ltd	Other receivables	22	120	-	-
	Other payables	-	-	-	295
Korea East-West Power Co., Ltd.	Other receivables	22	168	-	-
Korea Southern Power Co., Ltd.	Other receivables	22	120	-	-
	Other payables	-	-	321	-
Korea Western Power Co., Ltd.	Other receivables	160	120	-	-
KEPCO Engineering & Construction Company INC.	Other payables	-	-	-	2,359
KEPCO KDN Co., Ltd.	Other payables	-	-	2,436	2,545
KEPCO Plant Service & Engineering Co., Ltd.	Other receivables	3	-	-	-
	Other payables	-	-	11,058	14,143
Korea Electronic Power Industrial Development Co., Ltd.	Other payables	-	-	-	1,285
Solar School Plant Co., Ltd.	Other receivables	-	29	-	-
Korea Gas Corporation	Trade payables	-	-	78,942	114,020
PT Cirebon Electric Power	Loans	8,696	15,436	-	-
PT Wampu Electric Power	Loans and others	14,880	13,290	-	-
Gunsan Bio Energy Co., Ltd.	Loans and others	12,855	9,396	-	-
Hyundai Green Power Co., Ltd.	Trade receivables	247	214	-	-
Korea Development Bank	Derivatives	6	3	14,007	16,837

(4) Loans arising from related party transactions as of December 31, 2018 and 2017 are as follows:

In millions of won

Type	Company name	December 31, 2017	Increase	Decrease	Others	December 31, 2018
Associates	PT Cirebon Electric Power	₩ 15,436	1,283	(8,522)	499	8,696
Associates	PT Wampu Electric Power	13,290	970	-	620	14,880
Associates	Gunsan Bio Energy Co., Ltd.	9,396	-	-	-	9,396

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36. Related Parties, Continued

(5) Payment guarantees provided to an associates or joint ventures as of December 31, 2018 are as follows:

In thousands of USD

Primary guarantor	Secondary guarantor	Type of guarantees	Credit limit	Guarantee
Korea Midland Power Co., Ltd.	PT Cirebon Electric Power	Payment guarantee for debt	USD 11,825	Mizuho Bank
Korea Midland Power Co., Ltd.	PT Wampu Electric Power	Payment guarantee for debt	USD 4,854	SMBC
Korea Midland Power Co., Ltd.	KEPCO Bylong Australia Pty., Ltd.	Payment guarantee for debt	USD 5,800	The Export-Import Bank of Korea

(6) Payment collaterals provided to an associates or joint ventures as of December 31, 2018 are as follows:

In millions of won

Primary guarantor	Secondary guarantor	Type of guarantees	Collateral limit	Guarantee
Korea Midland Power Co., Ltd.	Hyundai Green Power Co., Ltd.	Collateralized money invested	₩ 127,160	Industrial Bank of Korea and Others
Korea Midland Power Co., Ltd.	YaksuESS Co., Ltd.	Collateralized money invested	460	Hanwha Life Insurance Co., Ltd.
Korea Midland Power Co., Ltd.	Korea Offshore Wind Power Co., Ltd.	Collateralized money invested	22,467	Woori Bank
Korea Midland Power Co., Ltd.	YeongGwang Yaksu Wind Electric.Co., Ltd.	Collateralized money invested	533	Hanwha Life Insurance Co., Ltd.

(7) Other Commitments

(i) Hyundai Green Power Co., Ltd.

As of December 31, 2018, Hyundai Green Power Co., Ltd., an associate of the Group, which engages in the by-product gas power generating industry, carries long-term borrowings for project financing amounting to ₩852 billion (₩541 billion as of December 31, 2018) from Korea Development Bank and others. In connection with these borrowings, the Group pledged its investment securities in Hyundai Green Power Co. Ltd.

On the other hand, the Group has the right to request the financial investors to sell their equity and the obligation to buy their equities upon their request during a specified future period.

In addition, if the specific condition in the shareholder agreement is satisfied, the Group will have the right to request HYUNDAI STEEL COMPANY (operating investor) and a third party designated by HYUNDAI STEEL COMPANY to buy its equity and have the obligation to sell its equity to HYUNDAI STEEL COMPANY at its request.

(ii) Commerce and Industry Energy Co., Ltd.

As of December 31, 2018, Commerce & Industry Energy Co., Ltd. carries long-term borrowings for project financing amounting to ₩85 billion from Industrial Bank of Korea and others. In connection with these borrowings, the Group pledged its investment securities in Commerce & Industry Energy Co., Ltd..

According to the shareholders agreement, the Group guarantees for a fixed return on investment to ABFT infrastructure development co., Ltd, which own 39.2%, 2,260,000 shares of Commerce and Industry Energy Co., Ltd.'s shares. The investors can request the Group to acquire its investment securities 84 months after the investment date. The Group decreased guaranteed yield from 9.0% to 4.5% and extended maturity by changing contract, therefore the effect is reflected in long term borrowing and other capital adjustments.

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36. Related Parties, Continued

(7) Other Commitments, continued

(iii) YaksuESS Co., Ltd.

As of December 31, 2018, YaksuESS Co., Ltd. a related party of the Group, is in the process of constructing and operating an energy storage system (ESS) linked to wind power plants in Yeonggwang, Jeonnam. YaksuESS Co., Ltd. carries long-term borrowings for project financing amounting to ₩6.53 billion from Hanwha Life Insurance Co.,Ltd.. In connection with these borrowings, the Group pledged its investment securities in YaksuESS Co., Ltd.. In addition, the Group has entered into additional funding agreements related to the excess operating expenses of the project.

(iv) Korea Offshore Wind Power Co., Ltd.

As of December 31, 2018, Korea Offshore Wind Power Co., a related party of the Group, is in the process of constructing and operating offshore wind power plants in Buan and Gochang County, North Jeolla Province. Korea Offshore Wind Power Co., Ltd carries long-term borrowings for project financing amounting to ₩244.5 billion from Woori Bank and others. In connection with these borrowings, the Group pledged its investment securities in Korea Offshore Wind Power Co., Ltd.. In addition, the Group has entered into additional funding agreements related to the excess operating expenses of the project.

(v) YeongGwang Yaksu Wind Electric.Co., Ltd.

As of December 31, 2018, YeongGwang Yaksu Wind Electric. Co., Ltd., a related party of the Group, is conducting a wind power project in Yeonggwang, South Jeolla Province. YeongGwang Yaksu Wind Electric.Co., Ltd. carries long-term borrowings for project financing amounting to ₩46.8 billion from Hanwha Life Insurance Co.,Ltd.. In connection with these borrowings, the Group pledged its investment securities in YeongGwang Yaksu Wind Electric.Co., Ltd..

(8) Salaries and other compensations to the key members of management of the Group for the years ended December 31, 2018 and 2017 are as follows:

In millions of won

Type	2018	2017
Salaries	₩ 399	405
Employee benefits	70	18
	₩ 469	423

(9) Housing and tuition loans to employees as of December 31, 2018 and 2017 are as follows:

In millions of won

Type	December 31, 2018	December 31, 2017
Short-term loans	₩ 2,533	3,304
Long-term loans	23,080	20,095
	₩ 25,613	23,399

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37. Non-Cash Transactions

Significant non-cash investment and finance transactions excluded from statements of cash flows for the years ended December 31, 2018 and 2017 are as follows:

In millions of won

Transactions	2018	2017
Transfer from construction-in-progress to depreciable assets ₩	650,785	3,049,890
Transfer of long-term borrowings and bonds from non-current to current	485,651	430,158
Non-trade payables related to acquisition of property, plant and equipment	13,914	11,280

38. Commitments for Expenditure

(1) The agreements for acquisition of property, plant and equipment as of December 31, 2018 and 2017 are as follows:

In millions of won

Contracts	December 31, 2018		December 31, 2017	
	Amounts	Balance	Amounts	Balance
Construction of Jeju units ₩	166,287	11,272	166,287	15,409
Construction of Seoul units	681,050	83,034	618,884	170,216
Construction of Shinboryeong units	1,468,339	20,043	1,479,609	80,869
Construction of Shinseocheon units	627,459	306,721	606,885	503,070

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38. Commitments for Expenditure, Continued

(2) Long-term marine transportation commitments

The long-term marine transportation commitments for bituminous coal as of December 31, 2018 and the details are as follows:

Company name	Vessel	Contract periods
NYK Bulkship Korea	Twinkle Salute	2009.12. ~ 2020.11.
SK Shipping	K. Phoenix	2011.09. ~ 2021.08.
SW Shipping	Sea Future	2018.09. ~ 2033.09.
	KG ASIA	2017.09. ~ 2032.08.
Dooyang Limited	Dooyang Jeju	2018.10. ~ 2033.10.
Korea Shipping Corporation	SM Samarinda	2015.12. ~ 2030.11.
H-LINE Shipping Co., Ltd.	HL Tacoma	2010.06. ~ 2025.05.
	HL Richards Bay	2010.08. ~ 2025.07.
	HL Boryeong	2017.07. ~ 2035.06.
	HL Atlas	2011.10. ~ 2023.06.
	Hyundai Komipo	2017.01. ~ 2031.12.
	HL Shinboryeong	2018.09. ~ 2033.09.
Pan Ocean Co., Ltd.	Pan Komipo	2016.07. ~ 2034.06.
Five Ocean	Ricsea	2010.08. ~ 2025.08.

(3) Contracts for raw materials purchase

Details of contracts for raw materials purchase as of December 31, 2018 are as follows:

In thousands of tons, except for kiloliter

Company name	Contract periods	Amount
Coal:		
Australia(Moolarben)	2009.07. ~ End of mining production	625
Australia(Glencore and others)	2015.12. ~ 2022.12.	7,690
Russia	2013.01. ~ 2021.12.	2,550
Indonesia	2013.04. ~ 2022.12.	5,440
U.S.	2010.07. ~ 2022.12.	1,230
Columbia	2018.10. ~ 2021.12.	520
Oil:		
S-Oil	2018.01. ~ 2018.12.	49,509 kℓ
SK Energy and others	2018.01. ~ 2018.12.	246,676 kℓ
LNG:		
Korea Gas Corporation	2007.01. ~ 2026.12.	Renegotiated annually
Vitol S.A.	2011.12. ~ 2024.12.	380

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39. Contingencies and Commitments

(1) Ongoing litigations related with contingent liabilities and assets as of December 31, 2018 and 2017 are as follows:

In millions of won, except for number of cases

	December 31, 2018		December 31, 2017	
	Number of cases	Claim amount(*)	Number of cases	Claim amount
Litigations (Defendant case)	20	₩ 25,929	14	₩ 15,826
Litigations (Plaintiff case)	7	5,817	4	1,703

(*) The claim amount includes a case in which the Group and four other related parties are co-defendants with claim amounts of ₩7,148 million as of December 31, 2018. In addition, the provision for wage litigations is ₩941 million as disclosed in Note 21. Except for the lawsuits that resulted in litigation provisions, the outcome of the other litigations cannot be determined. However, management of the Group believes that the ultimate outcomes will not have a significant impact on the Group's results of operations and financial position.

As of December 31, 2018, the total number of arbitration cases other than ongoing litigation in the Group is five. One of the significant arbitration cases is that GS E&C and three other companies applied for arbitration with KOMIPO as a commercial arbitration center for the payment of additional construction expenses. The Group did not recognize the provision for these arbitration cases as it is considered that the outflow of economic benefits is not probable and the related amount can not be reliably measured.

(2) Credit lines provided by financial institutions as of December 31, 2018 are as follows:

In millions of won and thousands of USD

Commitments	Financial institutions	Currency	Limited Amount	Exercised Amount
Commitments on bank-overdraft	Nonghyup Bank	KRW	150,000	102,100
Certification of payment on L/C	Nonghyup Bank and others	USD	148,000	41,791
Loan limit	Credit Agricole and others	USD	170,000	-
Others	Woori Bank and others	KRW	20,000	-
	Deutsche Bank	USD	10,000	-

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39. Contingencies and Commitments, Continued

- (3) In order to secure its status as a shareholder of Navanacom Electric Co., Ltd., the Group has 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, the Group bears a payment obligation in proportion to its ownership.
- (4) The Group has provided PT Perusahaan Listrik Negara ("PLN") performance guarantee up to USD 2,293 thousand in proportion to its ownership in the electricity purchase contract with PT Cirebon Energi Prasarana in relation to the second electric power generation business in Cirebon, Indonesia. Also, The Group has provided guarantee an investment of USD 43,500 thousand, which is equivalent to the ownership interest of the Group, to Mizuho Bank, Ltd..
- (5) The Group has provided borrowing guarantee of USD 41,258 thousand, which is the equity interest of the Group, to MUFG Bank, Ltd. (MUFG) in order to guarantee Equity Bridge Loan (EBL) of Indonesia Cirebon 2 Power Generation Project of PT Cirebon Energi Prasarana.
- (6) The Company has provided the Export-Import Bank of Korea and SMBC guarantee of mutual investment of USD 401 thousand, which is equivalent to the ownership interest of PT Mega Power Mandiri, in order to guarantee the expenses related to hydroelectric power business of PT Wampu Electric Power, an associate of the Company.
- (7) The Company has provided the Export-Import Bank of Korea, BNP Paribas and ING Bank guarantee of mutual investment of USD 2,192 thousand, which is equivalent to the ownership interest of PT BS Energy and PT Nusantara Hydro Alam, in order to guarantee the expenses related to hydroelectric power business of Tanggamus, Indonesia.

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40. Service Concession Arrangements

(1) Significant terms and concession period of the arrangement

The Group has entered into a contract with PLN whereby the Group provides electricity generated and charge tariff rates designed to recover capital cost, fixed O&M cost, water usage cost, variable O&M cost and special facilities cost during the concession period after building, rehabilitating, and operating the power plant for approximately 30 years (2018~2048) subsequent to the completion of plant construction.

(2) Rights and classification of the arrangement

The Group has the rights to use and own the power plant during the concession period from 2018 to 2048. At the end of the concession period, PLN has an option to take over the ownership of the power plant from the Group. This project is a way for PLN to acquire ownership of the power plant after the end of the contract period after the plant is established.

(3) The Group's expected future collections of service concession arrangement as of December 31, 2018 are as follows:

In millions of won

	<u>Amount</u>
Less than 1 year	₩ 27,803
1 ~ 2 years	27,929
2 ~ 3 years	27,863
Over 3 years	595,706
	<u>₩ 679,301</u>

(4) Cost incurred and profit recognized related to service concession arrangement in process as of December 31, 2018 are ₩163,309 million and ₩9,673 million, respectively. There are no amounts of progress billings and advance received on construction contract.

41. Subsequent Event

The Group issued local bonds subsequent to December 31, 2018 to fund the investments in domestic and overseas facilities.

In millions of won and thousands of USD

<u>Type</u>	<u>Amount</u>	<u>Interest rate (%)</u>	<u>Issue date</u>	<u>Maturity</u>
Foreign bond	USD 300,000	3.38	2019-01-22	2022-01-22
Local bond (Debenture)	₩ 160,000	2.19	2019-02-08	2039-02-08
	₩ 120,000	2.17	2019-02-08	2049-02-08