KOREA ELECTRIC POWER CORP
Form 6-K
March 11, 2019
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SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the Month of March 2019

KOREA ELECTRIC POWER CORPORATION

(Translation of registrant s name into English)

55 Jeollyeok-ro, Naju-si, Jeollanam-do, 58217, Korea

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- .

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On March 11, 2019, Korea Electric Power Corporation filed its audit report for the fiscal year 2018 prepared in accordance with Korean International Financial Reporting Standards (K-IFRS) as attached. The financial statements in such report have not been approved by the shareholders of Korean Electric Power Corporation and remain subject to change.

SIGNATURES

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

By: /s/ Kim, Kab-soon

Name: Kim, Kab-soon
Title: Vice President

Date: March 11, 2019

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KOREA ELECTRIC POWER CORPORATION

AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2018

(With Independent Auditors   Report Thereon)

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Independent Auditors Report

Based on a report originally issued in Korean

To the Shareholders and Board of Directors of

Korea Electric Power Corporation:

Opinion

We have audited the consolidated statement of financial statements of Korea Electric Power Corporation and its subsidiaries (the Company), 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 Company 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 Korean International Financial Reporting Standards (K-IFRS).

Basis for Opinion

We conducted our audits 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 Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as of and for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(1) Assessment of impairment of property, plant and equipment (PP&E) in electricity transmission and distribution business

As discussed in note 3.(18) to the consolidated financial statements, at each reporting date, the Company assesses if any indicator of impairment for its PP&E exists. If there is an impairment indicator for a cash-generating unit (CGU), the Company compares recoverable amount of the CGU with its carrying value to determine if the PP&E which are allocated to the respective CGU are impaired.

The Company is comprised of a number of cash-generating units (CGUs). In view of the significant difference between the Company s market capitalization and its consolidated net assets carrying amount, management considered that an indicator of impairment of the Company s PP&E existed as of December 31, 2018, which is attributed to the CGU of electricity transmission and distribution business.

Management performed impairment assessment of the Company s PP&E allocated to its electricity transmission and distribution CGU by comparing the carrying amount of the CGU with its value-in-use (VIU) determined based on discounted cash flow forecasts. Preparing the VIU estimation requires management to exercise significant judgment, particularly in relation to estimating future sales volumes, unit sales price, cost of power purchase, and discount rate. We have identified assessment of impairment of PP&E in the electricity transmission and distribution business as a key audit matter because the carrying value of these assets are significant to the consolidated financial statements and also because estimation using a discounted cash flow forecast is complex and involves the exercise of significant management judgment in estimating the variable inputs, which can be inherently uncertain and could be subject to management bias.

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The primary audit procedures we performed to address this key audit matter included:

- Testing certain internal controls relating to the Company s assessment of impairment of PP&E.
- Assessing management s identification of CGU and the allocation of assets to each CGU with reference to our understanding of the Company s business and the requirements of the prevailing accounting standards.
- Comparing the forecasts included in discounted cash flow forecasts prepared in prior year with the current year s performance to assess the Group s ability to accurately forecast.
- Engaging our internal valuation specialists to assist us in assessing the discount rate applied by management by comparison with our recalculated rate using market data.
- Obtaining the Company s business plan and external data for major unobservable inputs such as future sales volumes, unit sales price and cost of power purchase, used in estimating VIU, and examine whether there were any indicators of management bias.
- Obtaining from the Company sensitivity analyses on the discount rate applied to the discounted cash flow forecasts and assessing the impact of changes in the key assumptions to the conclusions reached in the impairment assessments and whether there were any indicators of management bias.

(2) Recognition of construction contract revenue

As discussed in note 3.(7) and note 23 to the consolidated financial statements, the Company derives revenue from construction of UAE nuclear power plant business for which the related performance obligation is satisfied over time and revenue is measured based on percentage of completion. In relation to the construction service revenue for the UAE project, we have performed audit procedures over application of input method, estimation of total contract costs, assessment of percentage-of-completion, recoverability of due from customers for contract work and accounting for the variation of construction contract.

The following summarizes the considerations we had in identifying recognition of construction contract revenue as a key audit matter, and the primary audit procedures we performed to address the key audit matter.

(a) Uncertainty of estimated total contract costs

Construction contracts are generally performed over a long term, and the total contract costs are estimated based on estimated future amounts such as material costs, labor costs, outsourcing costs and others which are expected to be incurred during construction period. The actual total contract costs can vary from the Company s original estimates because of changes in condition. Total estimated contract costs changed by ₩817,393 million during the year ended December 31, 2018 as described in note 23.(5) to the consolidated financial statements. Considering the high degree of uncertainty on total contract costs and its significant impact on revenue recognized during 2018, we have identified the changes in estimation of total contract costs as a key audit matter.

The primary audit procedures we performed to address this included:

- Testing certain internal controls relating to the Company s process of estimation of total contract cost.
- Inquiring and inspecting relevant documents regarding the variation on significant and main components of total contract costs.

(b) Accounting for the variation of construction contract

As described in note 23.(5) to the consolidated financial statements, variation of construction contracts occurred during the year ended December 31, 2018 and had significant impact on profits or loss of the construction contract. Therefore, we have identified the accounting for the variation of construction contract as a key audit matter.

The primary audit procedures we performed to address this included:

- Testing certain internal controls relating to the process of changes in construction contracts.
- Inspecting documents supporting the changes in contract for selected samples. In addition, we also assessed on a sample basis whether additional contract costs according to changes in construction work were reflected in the estimated total contract costs by inspecting supporting documents.
- Assessing whether the disclosure of changes in construction contract are made appropriately in the notes to the consolidated financial statements in accordance with K-IFRS.

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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 K-IFRS, 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 Company 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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company 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 Company 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 Company 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 Company 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 Company 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.

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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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors   report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors   report is Ju Han Lee.

KPMG Samjong Accounting Corp.

Seoul, Korea

March 11, 2019

This report is effective as of March 11, 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.

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Consolidated Statements of Financial Position

As of December 31, 2018 and 2017

In millions of won	***Note***		**2018**	**2017**
Assets				
Current assets				
Cash and cash equivalents	5,6,7,48	₩	1,358,345	2,369,739
Current financial assets, net	5,9,12,13,14,15,48		2,359,895	1,958,357
Trade and other receivables, net	5,8,17,23,48,49,50		7,793,592	7,928,972
Inventories, net	16		7,188,253	6,002,086
Income tax refund receivables	44		143,214	100,590
Current non-financial assets	18		878,888	753,992
Assets held-for-sale	45		22,881	27,971
Total current assets			19,745,068	19,141,707
Non-current assets				
Non-current financial assets, net	5,6,9,10,11,12,13,14,15,48		2,113,613	2,038,913
Non-current trade and other receivables, net	5,8,17,48,49,50		1,819,845	1,754,797
Property, plant and equipment, net	21,30,52		152,743,194	150,882,414
Investment properties, net	22,30		159,559	284,714
Goodwill	19		2,582	2,582
Intangible assets other than goodwill, net	24,30,49		1,225,942	1,187,121
Investments in associates	4,20		4,064,820	3,837,421
Investments in joint ventures	4,20		1,813,525	1,493,275
Deferred tax assets	44		1,233,761	919,153
Non-current non-financial assets	18		327,152	246,818
Total non-current assets			165,503,993	162,647,208
Total Assets	4	₩	185,249,061	181,788,915

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Consolidated Statements of Financial Position, Continued

As of December 31, 2018 and 2017

In millions of won	***Note***	**2018**	**2017**
Liabilities			
Current liabilities			
Trade and other payables, net	5,25,27,48,50	₩ 6,405,395	5,999,521
Current financial liabilities, net	5,14,26,48,50	7,981,879	9,194,552
Income tax payables	44	285,420	508,402
Current non-financial liabilities	23,31,32	5,574,041	5,584,308
Current provisions	29,48	1,594,798	2,137,498
Total current liabilities		21,841,533	23,424,281
Non-current liabilities			
Non-current trade and other payables, net	5,25,27,48,50	2,941,696	3,223,480
Non-current financial liabilities, net	5,14,26,48,50	53,364,911	45,980,899
Non-current non-financial liabilities	31,32	8,160,033	8,072,434
Employee benefits liabilities, net	28,48	1,645,069	1,483,069
Deferred tax liabilities	44	9,617,309	10,415,397
Non-current provisions	29,48	16,585,748	16,224,714
Total non-current liabilities		92,314,766	85,399,993
Total Liabilities	4	₩ 114,156,299	108,824,274
Equity			
Contributed capital	1,33,48		
Share capital		₩ 3,209,820	3,209,820
Share premium		843,758	843,758
		4,053,578	4,053,578
Retained earnings	34		
Legal reserves		1,604,910	1,604,910
Voluntary reserves		35,906,267	34,833,844
Unappropriated retained earnings		14,007,942	16,931,804
		51,519,119	53,370,558
Other components of equity	37		
Other capital surplus		1,234,825	1,233,793
Accumulated other comprehensive loss		(358,570)	(271,457)
Other equity		13,294,973	13,294,973

		14,171,228	14,257,309
Equity attributable to owners of the controlling company		69,743,925	71,681,445
Non-controlling interests	19,36	1,348,837	1,283,196
Total Equity		₩ 71,092,762	72,964,641
Total Liabilities and Equity		₩ 185,249,061	181,788,915

See accompanying notes to the consolidated financial statements.

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2018 and 2017

In millions of won, except per share information	*Note*	2018	2017
Sales	4,38,48,50		
Sales of goods		₩ 57,897,804	55,772,548
Sales of services		392,867	351,157
Sales of construction services	23	1,742,391	3,212,184
Revenue related to transfer of assets from customers		594,548	478,973
		60,627,610	59,814,862
Cost of sales	16,28,46,50		
Cost of sales of goods		(55,976,628)	(48,454,036)
Cost of sales of services		(592,224)	(597,423)
Cost of sales of construction services		(1,638,869)	(3,047,396)
		(58,207,721)	(52,098,855)
Gross profit		2,419,889	7,716,007
Selling and administrative expenses	28,39,46,50	(2,627,890)	(2,762,855)
Operating profit (loss)	4	(208,001)	4,953,152
Other non-operating income	40	375,346	390,145
Other non-operating expense	40	(231,330)	(180,055)
Other gains (losses), net	41	(621,124)	156,627
Finance income	5,14,42	796,870	1,530,618
Finance expenses	5,14,43	(2,470,743)	(3,127,952)
Profit (loss) related to associates, joint ventures and subsidiaries	4,20		
Share in profit of associates and joint ventures		473,269	241,537
Gain on disposal of investments in associates and joint ventures		5,079	609
Gain on disposal of investments in subsidiaries		73	
Share in loss of associates and joint ventures		(110,168)	(323,225)
Loss on disposal of investments in associates and joint ventures		(2,183)	
Impairment loss on investments in associates and joint ventures	20	(7,907)	(27,238)
		358,163	(108,317)
Profit (loss) before income tax		(2,000,819)	3,614,218
Income tax benefit (expense)	44	826,321	(2,172,824)
Profit (loss) for the period		₩ (1,174,498)	1,441,394

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss), Continued

For the years ended December 31, 2018 and 2017

In millions of won, except per share information	***Note***		**2018**	**2017**
Other comprehensive income (loss)	5,14,28,34,37			
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit liability, net of tax	28,34	₩	(108,169)	170,337
Share in other comprehensive income (loss) of associates and joint ventures, net of tax	34		(1,153)	10,067
Net change in fair value of equity investments at fair value through other comprehensive income (loss)	37		(34,185)	
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	37			(7,098)
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	5,14,37		211	20,868
Foreign currency translation of foreign operations, net of tax	37		(20,717)	(134,196)
Share in other comprehensive income (loss) of associates and joint ventures, net of tax	37		57,088	(154,694)
Other comprehensive loss, net of tax			(106,925)	(94,716)
Total comprehensive income (loss) for the period		₩	(1,281,423)	1,346,678
Profit (loss) attributable to:				
Owners of the controlling company	47	₩	(1,314,567)	1,298,720
Non-controlling interests			140,069	142,674
		₩	(1,174,498)	1,441,394
Total comprehensive income (loss) attributable to:				
Owners of the controlling company		₩	(1,426,477)	1,230,194
Non-controlling interests			145,054	116,484
		₩	(1,281,423)	1,346,678
Earnings (loss) per share (in won)	47			
Basic and diluted earnings (loss) per share		₩	(2,048)	2,023

See accompanying notes to the consolidated financial statements.

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

In millions of won	**Equity attributable to owners of the controlling company**					
	Contributed capital	**Retained earnings**	**Other components of equity**	**Subtotal**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2017	₩ 4,053,578	53,173,871	14,496,244	71,723,693	1,326,852	73,050,545
Total comprehensive income (loss) for the period						
Profit for the period		1,298,720		1,298,720	142,674	1,441,394
Items that will not be reclassified subsequently to profit or loss:						
Remeasurement of defined benefit liability, net of tax		158,991		158,991	11,346	170,337
Share in other comprehensive income of associates and joint ventures, net of tax		10,065		10,065	2	10,067
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			(7,102)	(7,102)	4	(7,098)
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax			19,614	19,614	1,254	20,868
Foreign currency translation of foreign operations, net of tax			(95,103)	(95,103)	(39,093)	(134,196)
Share in other comprehensive income (loss) of associates and joint ventures, net of tax			(154,991)	(154,991)	297	(154,694)
Transactions with owners of the Company, recognized directly in						

equity						
Dividends paid		(1,271,089)		(1,271,089)	(70,252)	(1,341,341)
Issuance of shares of capital by subsidiaries and others			(1,378)	(1,378)	18,381	17,003
Changes in consolidation scope					7,337	7,337
Dividends paid (hybrid securities)					(15,856)	(15,856)
Repayment of hybrid securities					(99,750)	(99,750)
Others			25	25		25
Balance at December 31, 2017	₩ 4,053,578	53,370,558	14,257,309	71,681,445	1,283,196	72,964,641

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity, Continued

For the years ended December 31, 2018 and 2017

In millions of won	**Equity attributable to owners of the controlling company**					
	Contributed capital	**Retained earnings**	**Other components of equity**	**Subtotal**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2018	₩ 4,053,578	53,370,558	14,257,309	71,681,445	1,283,196	72,964,641
Effect of change in accounting policy		71,928	(76,851)	(4,923)		(4,923)
Adjusted balance at January 1, 2018	4,053,578	53,442,486	14,180,458	71,676,522	1,283,196	72,959,718
Total comprehensive income (loss) for the period						
Profit (loss) for the period		(1,314,567)		(1,314,567)	140,069	(1,174,498)
Items that will not be reclassified subsequently to profit or loss:						
Remeasurement of defined benefit liability, net of tax		(100,495)		(100,495)	(7,674)	(108,169)
Share in other comprehensive income of associates and joint ventures, net of tax		(1,153)		(1,153)		(1,153)
Net change in fair value of equity investments at fair value through other comprehensive income			(34,125)	(34,125)	(60)	(34,185)
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			(1,140)	(1,140)	1,351	211
Foreign currency translation of foreign operations, net of tax			(32,086)	(32,086)	11,369	(20,717)
Share in other comprehensive income (loss) of associates and joint			57,089	57,089	(1)	57,088

ventures, net of tax						
Transactions with owners of the Company, recognized directly in equity						
Dividends paid		(507,152)		(507,152)	(92,741)	(599,893)
Issuance of shares of capital by subsidiaries and others			1,032	1,032	17,183	18,215
Changes in consolidation scope					9,530	9,530
Dividends paid (hybrid bond)					(13,385)	(13,385)
Balance at December 31, 2018	₩ 4,053,578	51,519,119	14,171,228	69,743,925	1,348,837	71,092,762

See accompanying notes to the consolidated financial statements.

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

In millions of won	**2018**	**2017**
Cash flows from operating activities		
Profit (loss) for the period	₩ (1,174,498)	1,441,394
Adjustments for:		
Income tax expense (benefit)	(826,321)	2,172,824
Depreciation	9,905,856	9,660,039
Amortization	118,938	113,672
Employee benefit expense	360,575	391,360
Bad debt expense	57,468	126,326
Interest expense	1,868,458	1,789,552
Loss on sale of financial assets	1	2,343
Loss on disposal of property, plant and equipment	60,704	70,514
Loss on abandonment of property, plant, and equipment	481,176	424,091
Loss on impairment of property, plant, and equipment	710,162	51,067
Loss on impairment of intangible assets	8,112	20
Loss on disposal of intangible assets	43	183
Increase to provisions	1,056,994	1,690,120
Loss (gain) on foreign currency translation, net	243,378	(902,878)
Gain on valuation of financial assets at fair value through profit or loss	(8,495)	
Loss on valuation of financial assets at fair value through profit or loss	6,616	
Valuation and transaction loss (gain) on derivative instruments, net	(300,500)	1,043,628
Share in loss (income) of associates and joint ventures, net	(363,101)	81,688
Gain on sale of financial assets	(1,838)	(1,130)
Gain on disposal of property, plant and equipment	(98,077)	(48,316)
Gain on disposal of intangible assets	(12)	(564)
Gain on disposal of associates and joint ventures	(5,079)	(609)
Loss on disposal of associates and joint ventures	2,183	
Impairment loss on associates and joint ventures	7,907	27,238
Gain on disposal of subsidiaries	(72)	
Interest income	(223,767)	(206,143)
Dividend income	(12,777)	(11,477)
Impairment loss on available-for-sale securities		2,713
Others, net	81,317	16,679
	13,129,849	16,492,940
Changes in:		
Trade receivables	246,755	(218,328)
Non-trade receivables	154,580	(31,807)

Accrued income	(484,718)	577,838
Other receivables	(61,961)	(1,271)
Other current assets	(148,509)	37,576
Inventories	(1,771,550)	(1,373,438)
Other non-current assets	(54,148)	(46,079)
Trade payables	478,744	342,126
Non-trade payables	(292,912)	(214,704)
Accrued expenses	(361,204)	(715,305)
Other payables		292
Other current liabilities	250,112	(126,323)
Other non-current liabilities	287,488	763,958
Investments in associates and joint ventures (dividends received)	175,175	106,983
Provisions	(1,132,969)	(1,390,606)
Payments of employee benefit obligations	(89,253)	(69,489)
Plan assets	(330,064)	(325,080)
	₩ (3,134,434)	(2,683,657)

(Continued)

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2018 and 2017

In millions of won		**2018**	**2017**
Cash generated from operating activities	₩	8,820,917	15,250,677
Dividends received (financial assets at fair value through other comprehensive income)		11,182	10,590
Interest paid		(1,895,898)	(1,886,303)
Interest received		194,221	173,226
Income taxes paid		(450,290)	(2,298,296)
Net cash from operating activities		6,680,132	11,249,894
Cash flows from investing activities			
Proceeds from disposals of associates and joint ventures		1,617	10,542
Acquisition of associates and joint ventures		(319,425)	(206,753)
Proceeds from disposals of property, plant and equipment		234,138	85,801
Acquisition of property, plant and equipment		(12,266,870)	(12,535,958)
Proceeds from disposals of intangible assets		13	1,072
Acquisition of intangible assets		(110,587)	(143,887)
Proceeds from disposals of financial assets		2,419,259	5,296,680
Acquisition of financial assets		(2,841,651)	(4,786,717)
Increase in loans		(188,675)	(218,698)
Collection of loans		100,010	120,967
Increase in deposits		(299,564)	(397,078)
Decrease in deposits		259,930	110,383
Proceeds from disposals of assets held-for-sale		18,716	
Receipt of government grants		30,416	55,533
Net cash inflow from changes in consolidation scope		2,141	
Other cash inflow (outflow) from investing activities, net		(53,769)	1,414
Net cash used in investing activities		(13,014,301)	(12,606,699)
Cash flows from financing activities			
Proceeds from (repayment of) short-term borrowings, net		(183,660)	370,328
Proceeds from long-term borrowings and debt securities		14,251,586	10,098,067
Repayment of long-term borrowings and debt securities		(8,095,590)	(8,198,882)
Payment of finance lease liabilities		(134,454)	(122,919)
Settlement of derivative instruments, net		60,907	33,434
Change in non-controlling interest		20,113	23,582
Repayment of hybrid bond			(99,750)
Dividends paid (hybrid bond)		(17,658)	(15,856)
Dividends paid		(599,391)	(1,340,387)

Other cash outflow from financing activities, net		(175)	(2,023)
Net cash from financing activities		5,301,678	745,594
Net decrease in cash and cash equivalents before effect of exchange rate fluctuations		(1,032,491)	(611,211)
Effect of exchange rate fluctuations on cash held		21,097	(70,403)
Net decrease in cash and cash equivalents		(1,011,394)	(681,614)
Cash and cash equivalents at January 1		2,369,739	3,051,353
Cash and cash equivalents at December 31	₩	1,358,345	2,369,739

See accompanying notes to the consolidated financial statements.

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018

1. Reporting Entity (Description of the controlling company)

Korea Electric Power Corporation (KEPCO), the controlling company as defined in Korean International Financial Reporting Standards (K-IFRS) 1110 Consolidated Financial Statements , was incorporated on January 1, 1982 in accordance with the Korea Electric Power Corporation Act (the KEPCO Act) to engage in the generation, transmission and distribution of electricity and development of electric power resources in the Republic of Korea. KEPCO also provides power plant construction services. KEPCO s stock was listed on the Korea Stock Exchange on August 10, 1989 and KEPCO listed its Depository Receipts (DR) on the New York Stock Exchange on October 27, 1994. KEPCO s head office is located in Naju, Jeollanam-do.

As of December 31, 2018, KEPCO s share capital amounts to W3,209,820 million and KEPCO s shareholders are as follows:

	Number of shares	Percentage of ownership
Government of the Republic of Korea	116,841,794	18.20%
Korea Development Bank	211,235,264	32.90%
Other (*)	313,887,019	48.90%
	641,964,077	100.00%

(*) The number of shares held by foreign shareholders are 173,769,250 shares (27.07%) as of December 31, 2018.

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

2. Basis of Preparation

The consolidated financial statements of Korea Electric Power Corporation and its subsidiaries (the Company) were authorized for issuance by the Board of Directors on February 22, 2019, which will be submitted for approval at the shareholders meeting held on March 22, 2019.

(1) Statement of compliance

These consolidated financial statements have been prepared in accordance with K-IFRS, as prescribed in the Act on External Audits of Corporations in the Republic of Korea.

(2) Basis of measurement

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

financial assets at fair value through profit or loss

financial assets at fair value through other comprehensive income

derivative financial instruments are measured at fair value

liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

(3) Functional and presentation currency

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

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

2. Basis of Preparation, Continued

(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 in which the estimates are revised and in any future periods affected.

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

(i) Useful lives of property, plant and equipment, and estimations on provision for decommissioning costs

The Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. Management s assumptions could affect the determination of estimated economic useful lives.

The Company records the fair value of estimated decommissioning costs as a liability in the period in which the Company incurs a legal obligation associated with the retirement of long-lived assets that result from acquisition, construction, development and/or normal use of the assets. The Company is required to record a liability for the dismantling (demolition) of nuclear power plants and disposal of spent fuel and low and intermediate radioactive wastes. The measurement of such liability is subject to change based on change in estimated cash flow, inflation rate and discount rate, and over time.

(ii) Deferred tax

The Company recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities of each consolidated taxpaying entity. However, the amount of deferred tax assets may be different if the Company does not realize estimated future taxable income during the carryforward periods.

(iii) Valuations of financial instruments at fair values

The Company s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company has an established control framework with respect to the measurement of fair values. 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 valuation techniques should be classified.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

(iv) Defined employee benefit liabilities

The Company offers its employees defined benefit plans. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. For actuarial valuations, certain inputs such as discount rates and future salary increases are estimated. Defined benefit plans contain significant uncertainties in estimations due to its long-term nature (refer to note 28).

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

2. Basis of Preparation, Continued

(4) Use of estimates and judgments, continued

(v) Unbilled revenue

Energy delivered but not metered nor billed is calculated at the reporting date and is estimated based on consumption statistics and selling price estimates. Determination of the unbilled revenues at the end of the reporting period is sensitive to the estimated consumptions and prices based on statistics. Unbilled revenue recognized for the years ended December 31, 2018 and 2017 are ₩1,671,117 million and ₩1,672,385 million, respectively.

(vi) Construction contracts

For each performance obligation satisfied over time, the Company recognizes revenue over time by measuring the progress towards complete satisfaction of that performance obligation. The Company applies a single method of measuring progress for each performance obligation satisfied over time and applies that method consistently to similar performance obligations and in similar circumstances. Revenue and costs are recognized based on the progress towards complete satisfaction of a performance obligation utilizing the cost-based input method at the end of the reporting period. In applying the cost-based input method, it is necessary to use estimates and assumptions related to the Company s efforts or inputs expected to be incurred in the future, costs incurred which are not related to the performance obligation, changes in the Company s efforts or inputs due to change of the performance obligation, etc. Total revenue is measured based on an agreed contract price; however, it may fluctuate due to the variation of performance obligations. The measurement of revenue is affected by various uncertainties resulting from unexpected future events.

(vii) Early closure of Wolsong unit 1 nuclear power plant and changes in new nuclear power plant construction

The 30-year of designed life of Wolsong unit 1 nuclear power plant of the Company had expired on November 20, 2012. On February 27, 2015, however, it was approved by the Nuclear Safety and Security Commission (NSSC) to continue its operation until November 20, 2022.

According to the Eighth Basic Plan for Electricity Supply and Demand announced by the Ministry of Trade, Industry and Energy in 2017, Wolsong unit 1 nuclear power plant is expected to go through a comprehensive evaluation for the feasibility of continuous operation including economic efficiency and acceptability of household and community in 2018 in order to decide whether to shut down early. On June 15, 2018, the board of directors of Korea Hydro & Nuclear Power Co., Ltd. (KHNP), a subsidiary of KEPCO, has decided to shut down the Wolsong unit 1 on the grounds that its deficit was increasing and its economic efficiency was low due to the unoptimistic utilization rate. In addition, KHNP has also decided to discontinue the construction of Cheonji unit 1 and 2 and Daejin unit 1 and 2 pursuant to the government policy. For this reason, the Company recognized impairment loss and other expenses as described in note 21, note 40 and note 53.

Among the new nuclear power plants under construction, Shin-Hanwool unit 3 and 4, for which approval for power generation business was previously obtained, are not included in the decision to suspend construction of the board of directors of KHNP. However, considering the decision to shut down Wolsong unit 1 and suspended construction of Cheonji unit 1 and 2 and Daejin unit 1 and 2, it is highly likely that the construction of Shin-Hanwool unit 3 and 4 will be suspended according to the government s policy. For this reason, the Company recognized impairment loss as described in note 21 and note 53, as the Company believes that there was a significant change in its operating environment during the year ended December 31, 2018.

The Korean government plans to refund to the Company for reasonable expenditures incurred in relation to the phase-out of nuclear power plants in accordance with the energy transformation policy established by Korean government. In doing so, after discussions with relevant government agencies and upon approval by the Congress, the Korean government is considering to use available resource including utilizing relevant fund to make the refund. Also, Korean government has stated that it plans to establish relevant legal basis of providing refund including utilizing available resource, if necessary.

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

2. Basis of Preparation, Continued

(5) Changes in accounting policies

The Company has initially applied K-IFRS 1109 Financial Instruments and K-IFRS 1115 Revenue from Contracts with Customers from January 1, 2018.

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

(i) K-IFRS 1109 Financial Instruments

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

The Company has taken an exemption not to restate comparative information for prior periods upon adoption of K-IFRS 1109. Accordingly, the information presented for 2017 has not been restated and differences in the carrying amounts of financial instruments resulting from the adoption of K-IFRS 1109 are recognized in retained earnings at January 1, 2018.

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 assets is managed and its contractual cash flow characteristics. 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.

The adoption of K-IFRS 1109 has not had a significant effect on the Company s accounting policies related to financial liabilities and derivative financial instruments (for derivatives that are used as hedging instruments).

The following table reconciles the carrying amounts of financial assets under K-IFRS 1039 to the carrying amounts under K-IFRS 1109 on transition to K-IFRS 1109 on 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
Financial assets at FVTPL	FVTPL	₩	111,512	111,512
Loans and receivables	Amortized cost		15,203,663	14,405,570
Loans and receivables	FVTPL			791,324
Available-for-sale financial assets	FVOCI		699,833	471,903
Available-for-sale financial assets	FVTPL			227,930
Held-to-maturity investments	Amortized cost		3,144	3,144
Total financial assets (excluding derivative instruments)		₩	16,018,152	16,011,383

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

2. Basis of Preparation, Continued

(5) Changes in accounting policies, continued

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 and debt investments at FVOCI, but not to investments in equity instruments.

The Company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets resulting from the adoption of K-IFRS 1109 are recognized in other components of equity and retained earnings as at January 1, 2018 as follows:

In millions of won

Type	Equity attributable to owners of the controlling company		Non-controlling interests	Total equity
	Retained earnings	Other components of equity		
Reclassification of cumulative gain or loss of available-for-sale financial assets	₩ 76,851	(76,851)		
Remeasurement of expected credit loss				
- Trade and other receivables	(6,769)			(6,769)
- Income tax effect	1,846			1,846
Total	₩ 71,928	(76,851)		(4,923)

The detailed accounting policies under K-IFRS 1109 are described in note 3.(21).

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

K-IFRS 1115 Revenue from Contracts with Customers replaced 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 Company has retrospectively applied this standard and recognized the cumulative effect of the adoption of K-IFRS 1115 at the date of initial application (January 1, 2018) and has retrospectively applied K-IFRS 1115 to only those contracts that were not completed as of the date of initial application (January 1, 2018). Accordingly, the Company has not restated the comparative periods.

K-IFRS 1115 did not have a significant impact on the Company s consolidated financial statements at the date of initial application (January 1, 2018). For additional information about the Company s accounting policies relating to revenue recognition, see note 3.(7).

KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

2. Basis of Preparation, Continued

(6) Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after January 1, 2018 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these consolidated financial statements.

(i) K-IFRS 1116 Lease

General information

K-IFRS 1116 replaces existing leases guidance, including K-IFRS 1017 Lease , 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 Company plans to apply K-IFRS 1116 retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application initially on January 1, 2019. Therefore, the cumulative effect of adopting K-IFRS 1116 will be recognized as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at January 1, 2019, with no restatement of comparative information.

For a contract that is, or contains, a lease, and the Company shall account for each lease component within the contract as a lease separately from non-lease components of the contract. 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. In addition, as a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Lessor accounting remains similar to the existing guidance K-IFRS 1017 Leases i.e. lessors continue to classify leases as finance or operating leases.

Identifying a lease

The Company assesses whether the contract is, or contains, a lease at inception of a contract and also shall identify whether the contract is, or contains, a lease at the date of initial application.

The definition of this new standard is mainly related to the control model. This standard classifies a lease contract and a service contract based on whether the identified asset is controlled by the customer. If the customer has all of the following rights, right-of-use is transferred to the customer.

- Right to obtain substantially all of the economic benefits from use of the identified asset
- Right to direct the use of the identified asset

The Company believes that the amendment of the definition of a lease will not have a significant impact on the scope of a contract that meets the definition of a lease.

Lessee accounting

The adoption of K-IFRS 1116 will change the accounting of operating leases, which was previously not included in the consolidated statements of financial position under K-IFRS 1017, and at the date of initial application of K-IFRS 1116, the Company shall account for all leases, except for short-term leases and leases of low-value items, as follows:

- recognizes the present value of the lease payments that are not paid at the date of initial recognition in the consolidated statements of financial position as right-of-use asset and lease liabilities
- recognizes the depreciation charge for right-of-use asset and interest expense on the lease liability in the consolidated statements of comprehensive income
- classifies cash payments for the principal portion (financial activities) and for the interest portion (operating activities) in the consolidated statements of cash flows

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

2. Basis of Preparation, Continued

(6) Standards issued but not yet effective, continued

Lessor accounting

Under K-IFRS 1116, a lessor continues to classify each of its leases as either a finance leases or an operating leases. However, under K-IFRS 1116, a lessor shall disclose additional information such as the nature of the lessor s leasing activities and how the lessor manages the risk associated with any rights it retains in underlying assets.

The Company 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 Company has completed such analysis.

KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

3. Significant Accounting Policies

The significant accounting policies applied by the Company in preparation of its consolidated financial statements are included below. Except as described in note 2.(5), the accounting policies applied by the Company in these consolidated financial statements are the same as those applied by the Company in its consolidated financial statements as of and for the year ended December 31, 2017.

(1) Basis of consolidation

The consolidated financial statements are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity. Subsidiaries are controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

Transactions within the Company are eliminated during the consolidation.

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

When the Company loses control of a subsidiary, the income or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to income or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1109 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

(2) Business combinations

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

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

KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

3. Significant Accounting Policies, Continued

(2) Business combinations, continued

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012 Income Taxes and K-IFRS 1019 Employee Benefits , respectively;

- assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105 Non-current Assets Held for Sale are measured in accordance with that standard.

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with K-IFRS 1109 Financial Instruments , or with K-IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets , as appropriate, with the corresponding gain or loss being recognized in income or loss.

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

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

The assets and liabilities acquired under business combinations under common control are recognized at the carrying amounts recognized previously in the consolidated financial statements of the ultimate parent. The difference between consideration transferred and carrying amounts of net assets acquired is recognized as part of share premium.

KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

3. Significant Accounting Policies, Continued

(3) Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not control or joint control over those policies. If the Company holds 20% ~ 50% of the voting power of the investee, it is presumed that the Company has significant influence.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. If the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105 Non-current Assets Held for Sale , any retained portion of an investment in associates that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, the Company shall account for any retained interest in associates in accordance with K-IFRS 1109 Financial Instruments unless the retained interest continues to be an associates, in which case the entity uses the equity method.

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

Any excess of the cost of acquisition over the Company s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Company s share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in income or loss.

Upon disposal of an associate that results in the Company losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1109. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate.

In addition, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to income or loss on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to income or loss (as a reclassification adjustment) when it loses significant influence over that associate.

The requirements of K-IFRS 1028 Investments in Associates and Joint Ventures are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company s investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

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

KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

3. Significant Accounting Policies, Continued

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

If the Company is a joint operator, the Company is to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant K-IFRSs applicable to the particular assets, liabilities, revenues and expenses. If the joint arrangement is a joint venture, the Company is to account for that investment using the equity method accounting in accordance with K-IFRS 1028 Investment in Associates and Joint Ventures (refer to note 3.(3)), except when the Company is applicable to the K-IFRS 1105 Non-current Assets Held for Sale .

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

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

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

(6) Goodwill
The Company measures goodwill which acquired in a business combination at the amount recognized at the date on which it obtains control of the acquiree (acquisition date) less any accumulated impairment losses. Goodwill acquired

in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the business acquired.

The Company assesses at the end of each reporting period and whenever there is an indication that the asset may be impaired. An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

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

KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

3. Significant Accounting Policies, Continued

(7) Revenue from Contracts with Customers

The Company 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 Company 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 Company recognizes revenue when the Company satisfies a performance obligation by transferring a promised good or service to a customer.

(i) Identify the performance obligations in the contract

The Company is engaged in the generation, transmission and distribution of electricity and development of electric power resources, and electricity sales revenue accounts for 93.8% of consolidated revenue for the year ended December 31, 2018.

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

(ii) Variable consideration

The Company may be subject to a variation of consideration paid by the customer due to the progressive electricity billing system, discounts on electricity bills for policy purposes, penalties and delinquent payment, etc. The Company estimates an amount of variable consideration by using the expected value method that the Company 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 Company satisfies its performance obligations for contracts such as EPC business, O&M, etc. over time. The Company recognizes revenue based on the percentage-of-completion on a reasonable basis.

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

(a) the customer simultaneously receives and consumes the benefits provided by the Company s performance as the entity performs;

(b) the Company s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

(c) the Company 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.

KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

3. Significant Accounting Policies, Continued

(8) Leases

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

(i) The Company as lessor

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

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

(ii) The Company as lessee

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

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

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

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

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

(iii) Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Company separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset.

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

3. Significant Accounting Policies, Continued

(9) Foreign currencies

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

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

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

- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer to note 3.(23) Derivative financial instruments, including hedge accounting); and

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

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

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the gain or loss on disposal.

(10) Borrowing costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale.

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

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

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

3. Significant Accounting Policies, Continued

(11) Government grants

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

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

(i) If the Company received grants related to assets

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

(ii) If the Company received grants related to income

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

(12) Employee benefits

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

For defined benefit pension plans and other post-employment benefits, the net periodic pension expense is actuarially determined by Pension Actuarial System developed by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. However, if there is not a deep market, market yields on government bonds are used.

Net defined benefit liability s measurement is composed of actuarial gains and losses, return on plan assets excluding net interest on net defined benefit liability, and any change in the effect of the asset ceiling, excluding net interest, which are immediately recognized in other comprehensive income. The actuarial gains or losses recognized in other comprehensive income which will not be reclassified into net profit or loss for later periods are immediately recognized in retained earnings. Past service cost will be recognized as expenses upon the earlier of the date of change or reduction to the plan, or the date of recognizing termination benefits.

The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

3. Significant Accounting Policies, Continued

(13) 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.

Current tax assets and liabilities are offset only if, the Company:

(a) has a legally enforceable right to set off the recognized amounts; and

(b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets or deferred tax liabilities on investment properties measured at fair value, unless any contrary evidence exists, are measured using the assumption that the carrying amount of the property will be recovered entirely through sale.

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

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

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

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

(iii) Current and deferred tax for the year

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

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

3. Significant Accounting Policies, Continued

(14) Property, plant and equipment

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

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

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset s future economic benefits are expected to be consumed. For loaded nuclear fuel related to long-term raw materials and spent nuclear fuels related to asset retirement costs, the Company uses the production method to measure and recognizes as expense the economic benefits of the assets.

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

	Useful lives (years)
Buildings	8 ~ 40
Structures	8 ~ 50
Machinery	2 ~ 32
Vehicles	3 ~ 8
Loaded heavy water	30
Asset retirement costs	18, 30, 40, 60
Finance lease assets	6 ~ 32
Ships	9
Others	4 ~ 15

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

Depreciation methods, residual values and useful lives of property, plant and equipment are reviewed at the end of each reporting period and if change is deemed appropriate, it is treated as a change in accounting estimate. As a result of such annual review, useful lives of certain structures and machinery were changed during the year ended December 31, 2018. Depreciation expenses decreased by ₩25,985 million for the year ended December 31, 2018. Depreciation expenses are expected to decrease by ₩157,333 million and ₩170,471 million for the years ending December 31, 2019 and 2020, respectively, and to increase by ₩353,789 million for the years after December 31, 2020.

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

KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

3. Significant Accounting Policies, Continued

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

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

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

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

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

(16) Intangible assets

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

(ii) Research and development

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

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

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

- The ability to use or sell the intangible asset;

- How the intangible asset will generate probable future economic benefits;

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

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

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

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

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

3. Significant Accounting Policies, Continued

(16) Intangible assets, continued

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

	Useful lives (years)	Amortization methods
Usage rights for donated assets	10 ~ 20	Straight line
Software	4, 5	Straight line
Industrial rights	5 ~ 10	Straight line
Development expenses	5	Straight line
Leasehold rights	10	Straight line
Others	3 ~ 50 or indefinite	Straight line
Mining right		Unit of production

(iii) Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognized separately from goodwill are initially recognized at their fair value at the acquisition date.

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

(iv) Derecognition of intangible assets

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

(17) Greenhouse gas emissions rights (allowances) and obligations

In connection with Enforcement of Allocation and Trading of Greenhouse Gas Emissions Allowances, the Company applies the following accounting policies for greenhouse gas emissions rights and obligations.

(i) Greenhouse gas emissions rights

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

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

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

(ii) Greenhouse gas emissions obligations

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

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

3. Significant Accounting Policies, Continued

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

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

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

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

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, to the extent the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(19) Inventories

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

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(20) Provisions

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

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

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

3. Significant Accounting Policies, Continued

(20) Provisions, continued

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

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

(i) Provision for employment benefits

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

(ii) Provision for decommissioning costs of nuclear power plants

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

(iii) Provision for disposal of spent nuclear fuel

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

(iv) Provision for low and intermediate radioactive wastes

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

(v) Provision for Polychlorinated Biphenyls (PCBs)

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

(vi) Provisions for power plant regional support program

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

(vii) Provisions for transmission and transformation facilities-neighboring areas support program

The Company has present obligation to conduct transmission and transformation facilities-neighboring areas support program under Act on assistance to transmission and transformation facilities-neighboring areas. The Company recognizes the provision of estimated amount to fulfill the obligation.

(viii) Renewable Portfolio Standard (RPS) provisions

RPS program is required to generate a specified percentage of total electricity to be generated in the form of renewable energy and provisions are recognized for the governmental regulations to require the production of energies from renewable energy sources such as solar, wind and biomass.

KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

3. Significant Accounting Policies, Continued

(21) Financial instruments

The Company recognizes financial assets and financial liabilities in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Upon initial recognition, financial assets and financial liabilities are measured at their fair value plus, in the case of a financial asset or financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the asset s acquisition or issuance.

(i) Classification and measurement of financial assets

The Company classifies financial assets into three principal categories; measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) based on the business model in which assets are managed and their cash flow characteristics. The company assesses the hybrid financial instrument in which derivatives embedded as whole for classification.

	Cash flow characteristics	
Business model	Solely payments of principal and interest (SPPI)	Other than SPPI
To collect contractual cash flows	Amortized cost	FVTPL
Both collecting contractual cash flows and selling financial assets	FVOCI (*1)	
To sell financial assets	FVTPL	(*2)

(*1) To eliminate or reduce an accounting mismatch, the Company may elect to recognize the amount of change in fair value in profit or loss.

(*2) On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment s fair value in OCI.

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

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

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition of equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI, and will not reclassify (recycle) the those items in OCI to profit or loss subsequently.

(ii) Classification and measurement of financial liabilities

Financial liabilities are classified as FVTPL or other financial liabilities.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

A non-derivative financial liability that is not classified as at FVTPL is classified as other financial liabilities. Other financial liabilities are measured initially at its fair value minus transaction costs that are directly attributable to the acquisition or issue. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

3. Significant Accounting Policies, Continued

(21) Financial instruments, continued

(iii) Impairment: Financial assets and contract assets

The Company applies a forward-looking expected credit loss (ECL) model for debt instruments, lease receivables, contractual assets, loan commitments and financial guarantee contracts.

The Company recognizes loss allowances measured on either of the 12-month or lifetime ECL based on the extent of increase in credit risk since inception as shown in the below table.

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

Under K-IFRS 1109, the Company always measures the loss allowance at an amount equal to lifetime expected credit losses for trade receivables or contract assets that result from transactions that are within the scope of K-IFRS 1115 and that do not contain a significant financing component in accordance with K-IFRS 1115 and if the trade receivables or contract assets include a significant financing component, the Company may choose as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses.

The Company has chosen to measure the loss allowance at an amount equal to lifetime expected credit losses for the trade receivables, contract assets and lease receivables that contain a significant financing component.

(iv) Derecognition

The Company 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 Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The

Company enters into transactions whereby it transfers assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

The Company derecognizes a financial liability when it contractual obligations are discharged or cancelled, or expire. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(22) Service Concession Arrangements

The Company recognizes revenues from construction services and operating services related to service concession arrangements in accordance with K-IFRS 1115 Revenue from Contracts with Customers .

The Company recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset for the construction services and an intangible asset to the extent that it receives a right (license) to charge users of the public service. Borrowing costs attributable to the arrangement are recognized as an expense in the period in which they are incurred unless the Company has a contractual right to receive an intangible asset (a right to charge users of the public service). In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement.

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

December 31, 2018

3. Significant Accounting Policies, Continued

(23) Derivative financial instruments, including hedge accounting

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

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

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

(i) Separable embedded derivatives

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

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

(ii) Hedge accounting

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

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

(iii) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in income or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The changes in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk relating to the hedged items are recognized in the consolidated statements of comprehensive income.

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

(iv) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in income or loss, and is included in the finance income and expense .