KOREA ELECTRIC POWER CORP
Form 20-F
April 29, 2016
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As filed with the Securities and Exchange Commission on April 29, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

(Mark One)

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

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2015

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR

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

For the transition period from to

Commission File Number: 001-13372

KOREA ELECTRIC POWER CORPORATION

(Exact name of registrant as specified in its charter)

N/A	**The Republic of Korea**
(Translation of registrant s name into English)	***(Jurisdiction of incorporation or organization)***

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

(Address of principal executive offices)

Younseung Lee, +82 61 345 4218, winstraight@kepco.co.kr, +82 61 345 4299

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

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

Title of each class:	**Name of each exchange on which registered:**
Common stock, par value Won 5,000 per share	**New York Stock Exchange***
American depositary shares, each representing one-half of share of common stock	**New York Stock Exchange**

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

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

None

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

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

6% Debentures due December 1, 2026

7% Debentures due February 1, 2027

6 3/4% Debentures due August 1, 2027

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

covered by the annual report:

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

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

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

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

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

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

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

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

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

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

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

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

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

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CERTAIN DEFINED TERMS AND CONVENTIONS

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

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

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

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

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

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

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

KOWEPO are to Korea Western Power Co., Ltd.,

each of which is our wholly-owned generation subsidiary.

FORWARD-LOOKING STATEMENTS

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

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Item 3.A. Selected Financial Data

The selected consolidated financial data set forth below as of and for the years ended December 31, 2011, 2012, 2013, 2014 and 2015 have been derived from our audited consolidated financial statements which have been prepared in accordance with IFRS.

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

Consolidated Statement of Comprehensive Income (Loss) Data

	2011	2012	2013	2014	2015	
	(in billions of Won and millions of US$, except per share data)[1]					
Sales	43,175	49,121	53,713	57,123	58,582	$ 50,100
Cost of sales	42,725	48,460	50,596	49,763	45,458	38,876
Gross profit	450	661	3,117	7,360	13,124	11,224
Selling and administrative expenses	1,752	1,780	1,923	1,924	2,153	1,841
Other gains (losses)	166	(1,782)	129	107	8,611	7,364
Operating profit (loss)	(685)	(2,300)	1,948	6,209	20,281	17,345
Finance income (expense), net	(1,911)	(1,940)	(2,302)	(2,255)	(1,832)	(1,567)
Income (loss) before income taxes	(2,473)	(4,063)	(396)	4,229	18,656	15,955
Income tax (expense) benefit	(820)	985	571	(1,430)	(5,239)	(4,480)
Profit (loss) for the period	(3,293)	(3,078)	174	2,799	13,416	11,474
Other comprehensive income (loss)	(262)	(322)	186	(358)	34	29
Total comprehensive income (loss)	(3,555)	(3,400)	360	2,441	13,450	11,503
Profit (loss) attributable to:						
Owners of the Company	(3,370)	(3,167)	60	2,687	13,289	11,365
Non-controlling interests	77	89	114	112	127	109
Total comprehensive income (loss) attributable to:						
Owners of the Company	(3,628)	(3,448)	245	2,336	13,308	11,381
Non-controlling interests	73	48	115	105	142	121
Earnings (loss) per share						
Basic[2]	(5,411)	(5,083)	96	4,290	20,701	17.70
Earnings (loss) per ADS						
Basic[2]	(2,706)	(2,542)	48	2,145	10,351	8.85
Dividends per share			90	500	3,100	2.65

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Consolidated Statements of Financial Position Data

	As of December 31,					
	2011	2012	2013	2014	2015	
	(in billions of Won and millions of US$, except share and per share data)					
Net working capital deficit[3]	(3,973)	(4,884)	(4,945)	(4,780)	(686)	$ (587)
Property, plant and equipment, net	112,385	122,376	129,638	135,812	141,361	120,894
Total assets	136,468	146,153	155,527	163,708	175,257	149,882
Total shareholders equity	53,804	51,064	51,451	54,825	67,942	58,105
Equity attributable to owners of the Company	53,270	49,889	50,260	53,601	66,634	56,986
Non-controlling interests	534	1,175	1,191	1,224	1,308	1,119
Share capital	3,210	3,210	3,210	3,210	3,210	2,745
Number of common shares as adjusted to reflect any changes in capital stock	641,964,077	641,964,077	641,964,077	641,964,077	641,964,077	641,964,077
Long-term debt (excluding current portion)	39,198	45,525	52,801	55,720	50,907	43,536
Other long term liabilities	25,725	30,747	31,062	31,563	33,697	28,818

Notes:

(1) The financial information denominated in Won as of and for the year ended December 31, 2015 has been translated into U.S. dollars at the exchange rate of Won 1,169.3 to US$1.00, which was the Noon Buying Rate as of December 31, 2015.
(2) Basic earnings per share are calculated by dividing net income available to holders of our common shares by the weighted average number of common shares issued and outstanding for the relevant period. Dilutive loss per share is not presented as such amount was anti-dilutive for the periods indicated.
(3) Net working capital is defined as current assets minus current liabilities. For the periods indicated, current liabilities exceeded current assets, which gave rise to working capital deficit.

Currency Translations and Exchange Rates

In this annual report, unless otherwise indicated, all references to Won, KRW or are to the currency of Korea, all references to U.S. dollars, Dollars, $ or US$ are to the currency of the United States of America, all references to Euro or are references to the currency of the Europ Union, all references to Yen or ¥ are references to the currency of Japan, all references to A$ are to the currency of Australia and all references to RMB are to the currency of the People s Republic of China. Unless otherwise indicated, all translations from Won to U.S. dollars were made at Won 1,169.3 to US$1.00, which was the noon buying rate of the Federal Reserve Board (the Noon Buying Rate) in effect as of December 31, 2015, which rates are available on the H.10 statistical release of the Federal Reserve Board. On April 15, 2016, the Noon Buying Rate was Won 1,144.8 to US$1.00. The exchange rate between the U.S. dollar and Korean Won may be highly volatile from time to time and the U.S. dollar amounts referred to in this annual report should not be relied upon as an accurate reflection of our results of operations. No representation is made that the Won or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all.

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

Year Ended December 31,	At End of Period	Average[1]	High	Low
		(Won per US$1.00)		
2011	1,158.5	1,105.2	1,197.5	1,049.2
2012	1,063.2	1,119.6	1,185.0	1,063.2
2013	1,055.3	1,094.6	1,161.3	1,050.1
2014	1,090.9	1,054.0	1,117.7	1,008.9
2015	1,169.3	1,133.7	1,196.4	1,063.0
October	1,140.5	1,143.2	1,180.0	1,120.9
November	1,149.4	1,153.5	1,172.7	1,136.5
December	1,169.3	1,169.9	1,188.0	1,140.7
2016 (through April 15)	1,144.8	1,183.0	1,242.6	1,138.9
January	1,210.0	1,203.3	1,217.0	1,190.4
February	1,238.1	1,216.2	1,242.6	1,186.1
March	1,138.9	1,181.6	1,229.6	1,138.9
April (through April 15)	1,144.8	1,149.8	1,158.4	1,142.0

Source: Federal Reserve Board

Note:

(1) The average rates for annual and interim periods were calculated by taking the simple average of the Noon Buying Rates on the last day of each month during the relevant period. The average rates for the monthly periods (or portion thereof) were calculated by taking the simple average of the daily Noon Buying Rates during the relevant month (or portion thereof).

Item 3.B. Capitalization and Indebtedness

Not Applicable

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

Not Applicable

Item 3.D. Risk Factors

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

Risks Relating to KEPCO

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

Fuel costs constituted 25.9% and 33.3% of our sales and cost of sales, respectively, in 2015. Our generation subsidiaries purchase substantially all of the fuel that they use (except for anthracite coal) from suppliers outside Korea at prices determined in part by prevailing market prices in currencies other than Won. For example, most of the bituminous coal requirements (which accounted for approximately 46.2% of our entire fuel requirements in 2015 in terms of electricity output) are imported principally from Australia and Indonesia and, to a lesser extent, Russia, the United States and others, which accounted for approximately 46%, 36%, 12%, 5% and 1%, respectively, of the annual bituminous coal

requirements of our generation subsidiaries in 2015. Approximately

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79% of the bituminous coal requirements of our generation subsidiaries in 2015 were purchased under long-term contracts and the remaining 21% from the spot market. Pursuant to the terms of our long-term supply contracts, prices are adjusted periodically based on prevailing market conditions. In addition, our generation subsidiaries purchase a significant portion of their fuel requirements under contracts with limited duration. See Item 4.B. Business Overview Fuel.

In recent years the prices of our main fuel types, namely, bituminous coal, oil and liquefied natural gas, or LNG have generally declined in tandem with their international market prices. For example, the average daily spot price of free on board Newcastle coal 6300 GAR published by Platts declined from US$70.3 per ton in 2014 to US$58.0 per ton in 2015 and was US$52.6 per ton as of April 15, 2016. The prices of oil and LNG are substantially dependent on the price of crude oil, and according to Bloomberg (Bloomberg Ticker: PGCRDUBA), the average daily spot price of Dubai crude oil declined from US$96.6 per barrel in 2014 to US$51.1 per barrel in 2015 and to US$39.3 per barrel as of April 15, 2016. However, we cannot assure you that the fuel prices will remain at similarly low levels or will not significantly increase in the remainder of 2016 or thereafter. If fuel prices increase sharply in the future within a short span of time, our generation subsidiaries may be unable to secure requisite fuel supplies at prices commercially acceptable to them. In addition, any significant interruption or delay in the supply of fuel, bituminous coal in particular, from any of their suppliers may cause our generation subsidiaries to purchase fuel on the spot market at prices higher than the prices available under existing supply contracts, which would result in an increase in fuel costs.

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

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

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

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In August 2010, the Ministry of Trade, Industry and Energy announced the Proposal for the Improvement in the Structure of the Electric Power Industry, which includes maintaining the current structure of us and our six generation subsidiaries. Pursuant to this proposal, in January 2011 the six generation subsidiaries were officially designated as market-oriented public enterprises, whereupon the President of Korea appoints the president and the standing director who is to become a member of the audit committee of each such subsidiary; the selection of non-standing directors of each such subsidiary is subject to approval by the minister of the Ministry of Strategy and Finance; the president of each such subsidiary is required to enter into a management contract directly with the minister of the Ministry of Trade, Industry and Energy; and the Committee for Management of Public Institutions conducts performance evaluation of such subsidiaries. Previously, our president appointed the president and the statutory auditor of each such subsidiary; the selection of non-standing directors of each such subsidiary was subject to approval by our president; the president of each such subsidiary entered into a management contract with our president; and our evaluation committee conducted performance evaluation of such subsidiaries.

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

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

On May 20, 2014, the Electricity Business Act was amended, with effect from November 21, 2014, to introduce a vesting contract system in determining the price and quantity of electricity to be sold and purchased between the purchaser of electricity (namely, us) and the sellers of electricity (namely, our generation subsidiaries and independent power producers). The application of adjusted coefficient will gradually cease and will be replaced by the vesting contract system.

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

Under the settlement mechanism of the vesting contract system, an electricity producer is required to settle, among others, the difference between the contracted price and the market price of electricity sold at a given hour through the Korea Power Exchange (namely, the system marginal price), as multiplied by the contracted quantity of electricity. Under this settlement mechanism, assuming sale of electricity in the contracted quantity and further

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assuming the system marginal price being higher than the contracted price, the consideration to be received by the seller of electricity net of the settlement amount will effectively amount to the product of the contracted quantity multiplied by the contracted price. If the seller sells a quantity of electricity exceeding the contracted quantity at a given hour, under the settlement mechanism and assuming the system marginal price being higher than the contracted price, the seller is entitled to an extra return (effectively, an incentive) equal to the product of the excess quantity multiplied by the difference between the system marginal price and the contracted price. On the other hand, if the seller sells a quantity of electricity falling short of the contracted quantity at a given hour, under the settlement mechanism and assuming the system marginal price being higher than the contracted price, the seller is required to pay an amount (effectively, a penalty) equal to the product of the shortfall quantity multiplied by the difference between the system marginal price and the contracted price. The foregoing notions of incentive and penalty are intended to minimize the additional cost of purchasing electricity at the higher system marginal price in the event that the seller of electricity fails to deliver the contracted quantity of electricity.

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

In order to minimize undue impact on the electricity trading market in Korea, the vesting contract system will be implemented in phases. Vesting contracts have been entered in February 2015 between us and two independent power producers of by-product gas-based electricity (namely, POSCO Energy and Hyundai Green Power) at a contractual price set a level at which the vesting contract system replaced the adjustment coefficient mechanism previously in effect with equal economic effect. By-product gas-based electricity accounted for 1.8% of electricity purchased by us in 2015. We expect to enter into vesting contracts with independent power producers which own coal power plants that are expected to begin operation in 2016. Since the vesting contract system is still in the early stages of implementation and many of the related details are still being finalized, it presently remains unclear in what final form the vesting contract system will actually operate, whether the vesting contract system will be able to achieve the desired results and whether there will be any adverse unintended consequences from the application of the system, and no assurance can be given that such system will not adversely affect our business, results of operations or financial condition in the future. See Item 4.B. Business Purchase of Electricity Vesting Contract System.

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

We and our generation subsidiaries make plans for expanding or upgrading our generation capacity based on the Basic Plan Relating to the Long-Term Supply and Demand of Electricity, or the Basic Plan, which is generally revised and announced every two years by the Government. In July 2015, the Government announced the Seventh Basic Plan relating to the future supply and demand of electricity. The Seventh Basic Plan, which is effective for the period from 2015 to 2029, focuses on, among other things, (i) ensuring a stable supply of electricity, (ii) increasing the portion of low carbon electricity supply sources, (iii) active consumer demand management, (iv) permanent closing of operations of the Kori #1 nuclear power unit, and (v) diversifying electricity supply sources by utilizing renewable energy sources.

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

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

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

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

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

We anticipate that a substantial amount of additional indebtedness will be required in the coming years in order to refinance existing debt, make capital expenditures for construction of generation plants and other facilities and/or make acquisitions and investments related to overseas businesses. In 2013, 2014 and 2015, our capital expenditures for construction of generation, transmission and distribution facilities amounted to Won 15,831 billion, Won 16,629 billion and Won 15,750 billion, respectively, and our budgeted capital expenditures for 2016, 2017 and 2018 amount to Won 15,617 billion, Won 14,307 billion and Won 13,842 billion, respectively.

In January 2016, the Ministry of Trade, Industry and Energy announced an initiative to promote the new energy industry. According to the Government s plan, we will create a Won 2 trillion new energy industry fund by 2017, contributing Won 1 trillion in each of 2016 and 2017, and invest an additional amount of approximately

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Won 5.4 trillion in 2016 to expand new energy related businesses. Our actual budget for such projects will be decided after internal evaluation and discussions with the Government. Although the exact amount has yet to be decided, we expect that our capital expenditure relating to new energy industry projects may eventually lead to a significant increase in our capital expenditure in 2016 and thereafter. See Item 4.B. Business Overview Recent Developments New Energy Industry Projects.

While we currently do not expect to face any material difficulties in procuring short-term borrowings to meet our liquidity and short-term capital requirements, there is no assurance that we will be able to do so. We expect that a portion of our long-term debt will need to be paid or refinanced through foreign currency-denominated borrowings and capital raising in international capital markets. Such financing may not be available on terms commercially acceptable to us or at all, especially if the global financial markets experience significant turbulence or a substantial reduction in liquidity or due to other factors beyond our control. If we are unable to obtain financing on commercially acceptable terms on a timely basis, or at all, we may be unable to meet our funding requirements for capital expenditures or debt repayment obligations, which could have a material adverse impact on our business, results of operations and financial condition.

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

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

The Won has fluctuated significantly against major currencies from time to time. Depreciation of Won against U.S. dollar and other foreign currencies typically results in a material increase in the cost of fuel and equipment purchased by us from overseas since the prices for substantially all of the fuel materials and a significant portion of the equipment we purchase are denominated in currencies other than Won, generally in U.S. dollars. Changes in foreign exchange rates may also impact the cost of servicing our foreign currency-denominated debt. As of December 31, 2015, approximately 21.2% of our long-term debt (including the current portion but excluding issue discounts and premium) before accounting for swap transactions, was denominated in foreign currencies, principally U.S. dollars. In addition, even if we make payments in Won for certain fuel materials and equipment, some of these fuel materials may originate from other countries and their prices may be affected accordingly by the exchange rates between the Won and foreign currencies, especially the U.S. dollar. Since the substantial majority of our revenues are denominated in Won, we must generally obtain foreign currencies through foreign currency-denominated financings or from foreign currency exchange markets to make such purchases or service such debt. As a result, any significant depreciation of Won against the U.S. dollar or other major foreign currencies will have a material adverse effect on our profitability and results of operations.

We may not be successful in implementing new business strategies.

As part of our overall business strategy, we plan to (i) strengthen competitiveness in our core operations by enhancing efficiency of our generation, transmission and distribution networks and related facilities, (ii) expand

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and develop new businesses by diversifying our overseas business and actively addressing climate change, (iii) create a platform for future growth by developing an ecosystem focused on new energy technologies, and (iv) strengthen our management system for sustainable growth.

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

- new and expanded business activities may require unanticipated capital expenditures and involve additional compliance requirements;
- new and expanded business activities may result in less growth or profit than we currently anticipate, and there can be no assurance that such business activities will become profitable at the level we desire or at all;
- certain of our new and expanded businesses, particularly in the areas of renewable energy, require substantial government subsidies to become profitable, and such subsidies may be substantially reduced or entirely discontinued;
- we may fail to identify and enter into new business opportunities in a timely fashion, putting us at a disadvantage vis-à-vis competitors, particularly in overseas markets; and
- we may need to hire or retrain personnel to supervise and conduct the relevant business activities.

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

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

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

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

- challenges of complying with multiple foreign laws and regulatory requirements, including tax laws and laws regulating our operations and investments;
- volatility of overseas economic conditions, including fluctuations in foreign currency exchange rates;

difficulties in enforcing creditors rights in foreign jurisdictions;

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

difficulties in establishing, staffing and managing foreign operations;

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differing labor regulations;

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

lack of familiarity with local markets and competitive conditions;

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

obstacles to the repatriation of earnings and cash.

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

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

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

As of December 31, 2015, we and our generation subsidiaries owned approximately 75.0% of the total electricity generation capacity in Korea (excluding plants generating electricity for private or emergency use). New entrants to the electricity business will erode our market share and create significant competition, which could have a material adverse impact on our financial condition and results of operations.

In particular, we compete with independent power producers with respect to electricity generation. The independent power generators accounted for 17% of total power generation in 2015 and 25% of total generation capacity as of December 31, 2015. As of December 31, 2015, there were ten independent power generators in Korea, excluding renewable energy producers. Prior to December 2010, private enterprises had not been permitted to own and operate coal-fired power plants in Korea. However, the Fifth Basic Plan announced in December 2010 included for the first time a plan for independent power producers to own and operate coal-fired power plants, and the Ministry of Trade, Industry and Energy approved plans for independent power producers to construct coal-fired power plants under the Sixth Basic Plan announced in February 2013. The Seventh Basic Plan announced in July 2015 further elaborated such plans, and ten coal-fired units with aggregate generation capacity of 8,610 megawatts are scheduled to be completed between 2016 and 2022 under the Seventh Basic Plan. While it remains to be seen whether construction of these generation units will be completed as scheduled, if these units were to be completed as scheduled and/or independent power producers are permitted to build additional generation capacity (whether coal-fired or not), our market share in Korea may decrease, which may have a material adverse effect on our results of operations and financial condition.

In addition, under the Community Energy System adopted by the Government in 2004, a minimal amount of electricity is supplied directly to consumers on a localized basis by independent power producers without having to undergo the cost-based pool system used by our generation subsidiaries and most independent power producers to distribute electricity nationwide. The purpose of this system is to geographically decentralize electricity supply and thereby reduce transmission losses and improve the efficiency of energy use. These entities do not supply electricity on a national level but are licensed to supply electricity on a limited basis to their respective districts under the Community Energy System. As of March 31, 2016, the aggregate generation capacity of suppliers participating in the Community Energy System amounted to less than 1% of that of our

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generation subsidiaries in the aggregate. We currently do not expect the Community Energy System to be widely adopted, especially in light of the significant level of capital expenditure required for such direct supply. However, if the Community Energy System is widely adopted, it may erode our currently dominant market position in the generation and distribution of electricity in Korea and may have a material adverse effect on our business, results of operations and financial condition. For further details of the Community Energy System, see Item 4.B. Business Overview Competition.

Labor unrest may adversely affect our operations.

We and each of our generation subsidiaries have separate labor unions. As of December 31, 2015, approximately 69.5% of our and our generation subsidiaries employees in the aggregate were members of these labor unions. Since a six-week labor strike in 2002 by union members of our generation subsidiaries in response to a proposed privatization of one of our generation subsidiaries, there has been no material labor dispute. However, we cannot assure you that there will not be a major labor strike or other material disruptions of operations by the labor unions of us and our generation subsidiaries if the Government resumes privatization or other restructuring initiatives or for other reasons, which may adversely affect our business and results of operations.

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

Pursuant to a Government plan announced in 2005, which mandated relocation of the headquarters of select government-invested enterprises, including us and our six generation and certain other subsidiaries, from the Seoul metropolitan area to other provinces in Korea as part of an initiative to foster balanced economic growth in the provinces, we and certain of our generation and other subsidiaries recently relocated our respective headquarters to the designated locations. Following relocation in November 2014, our headquarters are currently located in Naju in Jeollanam-do Province, which is approximately 300 kilometers south of Seoul. The designated locations for the headquarters of our six generation subsidiaries and other subsidiaries are various cities outside of Seoul across Korea. There is no assurance yet that, following such relocation, we have been or will be able to maintain the prior level of operational efficiency due to geographic dispersion of our business units.

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

Through KHNP, we currently operate 24 nuclear-fuel generation units. Operation of nuclear power plants is subject to certain hazards, including environmental hazards such as leaks, ruptures and discharge of toxic and radioactive substances and materials. These hazards can cause personal injuries or loss of life, severe damage to or destruction of property and natural resources, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. Nuclear power has a stable and relatively inexpensive cost structure (which is least costly among the fuel types used by our generation subsidiaries) and is the second largest source of Korea s electricity supply, accounting for 31.5% of electricity generated in Korea in 2015. Due to significantly lower unit fuel costs compared to those for thermal power plants, our nuclear power plants are generally operated at full capacity with only routine shutdowns for fuel replacement and maintenance, with limited exceptions.

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

In response to the damage to the nuclear facilities (including nuclear meltdowns) in Japan as a result of the tsunami and earthquake in March 2011, the Government announced plans to further enhance the safety and

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security of nuclear power facilities, including by establishing the Nuclear Safety and Security Commission (NSSC) in July 2011 for neutral and independent safety appraisals, subjecting nuclear power plants to additional safety inspections by governmental authorities and civic groups and requiring KHNP to prepare a comprehensive safety improvement plan. As a result of the foregoing, as well as a generally higher level of public and regulatory scrutiny of nuclear power following the nuclear incident in Japan, KHNP adopted and implemented a significant number of measures to improve the safety and efficiency of its generation facilities. Such measures include, but are not limited to, installing additional automatic shut-down systems for earthquakes, extending coastal barriers for seismic waves, procuring mobile power generators and storage batteries, installing passive hydrogen removers at nuclear facilities and improving the radiology emergency medical system. We have incurred Won 286.9 billion from 2011 through 2015 to implement these measures.

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

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

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

Immediately following the discovery of the forgery incident, Shin-Kori #1 and #2 and Shin-Wolsong #1 were shut down in May 2013 for further safety inspections and resumed operations in January 2014 following parts replacement and approval by the NSSC. As a result of the shutdown, we incurred additional operating expenses, including as a result of having had to purchase electricity generated from more expensive fuel sources while the aforementioned nuclear plants were suspended from operation. Upon inspection, parts replacement and approval by the NSSC, construction of Shin-Wolsong #2 was completed and operations commenced in 2015. Shin-Kori #3 and #4 currently remain under construction.

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

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affected parts, and the NSSC performed inspections on all generic supply parts at all of KHNP s nuclear-fuel generation units. Upon completion of such investigation and inspections, Hanbit #5 and Hanbit #6 resumed operation in December 2012 and January 2013, respectively.

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

In response to these incidents, the Ministry of Trade, Industry and Energy has announced a number of measures to enhance the integrity, transparency and overall quality of the procurement, testing and verification processes with respect to parts used at KHNP s nuclear generation units, including: (i) encouraging open hiring (including outside experts) to reduce opportunities for collusion, (ii) establishing a Government-supervised independent testing verification agency for nuclear generation parts, (iii) requiring KHNP to obtain testing results directly from testing facilities instead of indirectly from suppliers as has been its existing practice, (iv) increasing criminal and civil penalties for wrongdoings related to quality certifications, and (v) enhancing the transparency in KHNP s procurement process. KHNP is actively implementing these measures and plans to continue doing so in the future. In addition, the Ministry of Trade, Industry and Energy engaged TUV SUD, a German nuclear safety inspection organization, to conduct a comprehensive evaluation on the reliability of KHNP s nuclear generation facilities, as well as the quality of its management systems for maintenance, engineering and quality assurance. TUV SUD issued a report in October 2013 that there are no material nuclear safety or operational reliability issues with respect to KHNP s nuclear generation facilities.

In addition, KHNP has actively enhanced its internal compliance policies and procedures, including by: (i) comprehensively revamping its procurement department, (ii) enlarging the scope of nuclear generation parts that are subject to mandatory open bidding, (iii) significantly expanding the roles and responsibilities of its audit committee and quality control department, (iv) establishing a nuclear operation committee (comprised of KHNP, other companies in the nuclear generation sector and civic groups) to consult on all operational aspects of KHNP s nuclear plants (including design, construction, operation and maintenance), and (v) reinforcing KHNP s engineering department to further enhance safety control mechanisms for nuclear facilities and its external relations department to provide KHNP s operational information to the public for better transparency.

We believe KHNP is in compliance in all material respects with its internal compliance policies and procedures and any other additional safety measures initiated by KHNP or required by regulatory and governmental agencies. In addition, the Prosecutor s Office currently maintains a standing special task force in relation to nuclear safety-related issues, and we intend to provide our full cooperation as necessary and appropriate. However, no assurance can be given that, despite all the precautionary and reform measures undertaken by us, an incident that that could cause harm to our reputation and operation will not happen in the future, including due to factors beyond our control.

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

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

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

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

We currently operate extensive programs to comply with various environmental regulations, including the Renewable Portfolio Standard program, under which each generation subsidiary is required to generate a specified percentage of total electricity to be generated by such generation subsidiary in a given year in the form of renewable energy, with the target percentage being 3.0% in 2014 and 2015 and incrementally increasing to 10.0% by 2024. Fines are to be levied on any subsidiary that fails to do so in the prescribed timeline. In 2014, all six of our generation subsidiaries met the target. Compliance by our generation subsidiaries of the 2015 target is currently under evaluation, and if our generation subsidiaries are found to have failed to meet the target for 2015 or for subsequent years, our generation subsidiaries may become subject to fines or other penalties. There is no assurance that such fine or other penalty will not be substantial, and if substantial, such fine or other penalty may have a material adverse effect on our business, results of operations or financial condition. We expect that any additional capital expenditure required for implementation of the Renewable Portfolio Standard program will be covered by a corresponding increase in electricity tariff. However, there is no assurance that the Government will in fact raise the electricity tariff to a level sufficient to fully cover such additional capital expenditures or at all.

Our environmental measures, including the use of environmentally friendly but more expensive parts and equipment and budgeting capital expenditures for the installation of such facilities, may result in increased operating costs and liquidity requirement. The actual cost of installation and operation of such equipment and related liquidity requirement will depend on a variety of factors which may be beyond our control. There is no assurance that we will continue to be in material compliance with legal or social standards or requirements in the future in relation to the environment, including in respect of climate change. See Item 4.B. Business Overview Environmental Programs.

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

On January 1, 2014, largely based on policy considerations of tax equity among different fuel types as well as environmental concerns, the Ministry of Strategy and Finance announced that, effective July 1, 2014, consumption tax will apply to bituminous coal, which previously was not subject to consumption tax unlike other fuel types such as LNG or bunker oil. Pursuant to the amended Individual Consumption Tax Act effective as of February 1, 2016, the base tax rate (which is subject to certain adjustments) is Won 24 per kilogram for bituminous coal; however, due to concerns on the potential adverse effect on industrial activities, the applicable tax rate is applied differently based on net heat generation amount. The applicable tax rate for bituminous coal is Won 21 per kilogram for net heat generation of less than 5,000 kilocalories, Won 24 per kilogram for net heat generation of 5,000 kilocalories to 5,500 kilocalories and Won 27 per kilogram for net heat generation of 5,500 kilocalories or more. In contrast, the applicable tax rate for LNG is Won 60 per kilogram. Since bituminous coal currently represents the largest fuel type for our electricity generation, accounting for

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approximately 38.5% of our entire fuel requirements in 2015 in terms of electricity output, we expect the recently adopted consumption tax thereon will result in an increase of our overall fuel costs, notwithstanding the decrease in the consumption tax rate for LNG, which accounted for approximately 19.9% of our entire fuel requirements in 2015 in terms of electricity output. While we expect that such additional fuel costs will be covered by a corresponding increase in electricity tariff, there is no assurance that the Government will in fact raise electricity tariff to a level sufficient to fully cover such additional costs in a timely manner or at all, and if the Government does not do so, the increase in our overall fuel costs arising from the newly adopted coal consumption tax will adversely affect our results of operations and financial condition.

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

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

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

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

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

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

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

Under applicable laws, the Government is required to directly or indirectly own at least 51% of our issued capital stock. As of March 8, 2016, the last day on which our shareholders registry was closed, the Government, directly and through Korea Development Bank (a statutory banking institution wholly owned by the Government), owned 51.1% of our issued capital stock. Accordingly, without changes in the existing Korean law, it may be difficult or impossible for us to undertake, without the participation of the Government, any equity financing in the future.

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

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

In December 2013, the Supreme Court of Korea ruled that regular bonuses fall under the category of ordinary wages on the condition that those bonuses are paid regularly and uniformly, and that any agreement which excludes such regular bonuses from ordinary wage is invalid. One of the key rulings provides that bonuses that are given to employees (i) on a regular and continuous basis and (ii) calculated according to the actual number of days worked (iii) that are not incentive-based must be included in the calculation of ordinary wages. The Supreme Court further ruled that in spite of invalidity of such agreements, employees shall not retroactively claim additional wages incurred due to such court decision, in case that such claims bring to employees unexpected benefits which substantially exceeds the wage level agreed by employers and employees and cause an unpredicted increase in expenditures for their company, which would lead the company to material managerial difficulty or would be a threat to the existence of the company. In that case, the claim is not acceptable since it is unjust and is in breach of the principle of good faith.

In tandem with the above-mentioned proceeding at the Supreme Court of Korea, as of December 31, 2015, we and our subsidiaries were subject to 34 lawsuits with an aggregate claim amount of Won 171.8 billion filed by various industry-wide and company-specific labor unions based on claims that ordinary wage had been paid without including certain items that should have been included as ordinary wage. We have set aside a reserve on a consolidated basis in the aggregate amount of Won 145.5 billion to cover any potential future payments of additional ordinary wage in relation to the related lawsuits. We cannot presently assure you that there will not be further lawsuits in relation to ordinary wage or that the foregoing reserve amount will be sufficient to cover any additional ordinary wage payments or other compensation and damages arising from the present or future litigation. If there is further litigation or if the actual compensation or other damages we become liable on a consolidated basis to pay in relation to these or other similar lawsuits were to be higher than our reserve amounts, it would adversely affect our results of operations.

We are subject to cyber security risk.

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

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Risks Relating to Korea and the Global Economy

Unfavorable financial and economic conditions in Korea and globally may have a material adverse impact on us.

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

The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets. In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy, which in turn could adversely affect our business, financial condition and results of operations. As the Korean economy is highly dependent on the health and direction of the global economy, the prices of our securities may be adversely affected by investors reactions to developments in other countries. In addition, due to the ongoing volatility in the global financial markets, the value of the Won relative to the U.S. dollar has also fluctuated significantly in recent years, which in turn also may adversely affect our financial condition and results of operations.

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

More specifically, factors that could have an adverse impact on Korea s economy in the future include, among others:

- increases in inflation levels, volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (particularly against the U.S. dollar), interest rates, stock market prices and inflows and outflows of foreign capital, either directly, into the stock markets, through derivatives or otherwise;

- difficulties in the financial sectors in Europe, China and elsewhere and increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;

- adverse developments in the economies of countries and regions to which Korea exports goods and services (such as the United States, Europe, China and Japan), or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;

- social and labor unrest or declining consumer confidence or spending resulting from lay-offs, increasing unemployment and lower levels of income;

- uncertainty and volatility and further decreases in the market prices of Korean real estate;

- a decrease in tax revenues and a substantial increase in the Government s expenditures for unemployment compensation and other social programs that together could lead to an increased Government budget deficit;

- political uncertainty or increasing strife among or within political parties in Korea, and political gridlock within the government or in the legislature, which prevents or disrupts timely and effective policy making;

deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy;

increases in social expenditures to support the aging population in Korea or decreases in economic productivity due to the declining population size in Korea;

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any other development that has a material adverse effect in the global economy, such as an act of war, a terrorist act or a breakout of an epidemic such as SARS, avian flu, swine flu, Middle East Respiratory Syndrome or ebola, or natural disasters such as the sinking of the Sewol ferry in April 2014, which significantly dampened consumer sentiment in Korea for months, earthquakes and tsunamis and the related disruptions in the relevant economies with global repercussions;

hostilities involving oil-producing countries in the Middle East and elsewhere and any material disruption in the supply of oil or a material increase in the price of oil resulting from such hostilities; and

an increase in the level of tensions or an outbreak of hostilities in the Korean peninsula.

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

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

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

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

On February 10, 2016, in retaliation of North Korea s recent launch of a long-range rocket, South Korea announced that it would halt its operations of the Kaesong Industrial Complex to impede North Korea s utilization of funds from the industrial complex to finance its nuclear and missile programs. In response, North Korea announced on February 11, 2016 that it would expel all South Korean employees from the industrial complex and freeze all South Korean assets there.

On February 7, 2016, North Korea launched a rocket, claimed by them to be carrying a satellite intended for scientific observation. The launch was widely suspected by the international community to be a cover for testing a long-range missile capable of carrying a nuclear warhead. On February 18, 2016, the President of the United States signed into law mandatory sanctions on North Korea to punish it for its recent nuclear and missile tests, human rights violations and cyber crimes. The bill, which marks the first measure by the United States to exclusively target North Korea, is intended to seize the assets of anyone engaging in business related to North Korea s weapons program, and authorizes US$50 million over five years to transmit radio broadcasts into the country and support humanitarian assistance projects. On March 2, 2016, the United Nations Security Council voted unanimously to adopt a resolution to impose sanctions against North Korea, which include inspection of all cargo going to and from North Korea, a ban on all weapons trade and the expulsion of North Korean diplomats who engage in illicit activities. Also, on March 4, 2016, the European Union announced that it would expand its sanctions on North Korea, adding additional companies and individuals to its list of sanction targets. On April 1, 2016, North Korea fired a short-range surface-to-air missile in apparent protest of these sanctions adopted by the United States and the United Nations Security Council.

On January 6, 2016, North Korea announced that it had successfully conducted its first hydrogen bomb test, hours after international monitors detected a 5.1 magnitude earthquake near a known nuclear testing site in the country. The claims have not been verified independently. The alleged test followed a statement made in the previous month by Kim Jong-un, who claimed that North Korea had developed a hydrogen bomb.

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In August 2015, two Korean soldiers were injured in a landmine explosion near the South Korean demilitarized zone. Claiming the landmines were set by North Koreans, the South Korean army re-initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas. High-ranking officials from North and South Korea subsequently met for discussions and entered into an agreement on August 25, 2015 intending to deflate military tensions.

From time to time, North Korea has fired short- to medium-range missiles from the coast of the Korean peninsula into the sea. In March 2015, North Korea fired seven surface-to-air missiles into waters off its east coast in apparent protest of annual joint military exercises being held by Korea and the United States.

North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 to February 2013, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council unanimously passed resolutions that condemned North Korea for the nuclear tests and expanded sanctions against North Korea, most recently in March 2016.

North Korea s economy also faces severe challenges, including severe inflation and food shortages, which may further aggravate social and political tensions within North Korea. In addition, reunification of Korea and North Korea could occur in the future, which would entail significant economic commitment and expenditure by Korea that may outweigh any resulting economic benefits of reunification.

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future or that the political regime in North Korea may not suddenly collapse. Any further increase in tension or uncertainty relating to the military, political or economic stability in the Korean peninsula, including a breakdown of diplomatic negotiations over the North Korean nuclear program, occurrence of military hostilities, heightened concerns about the stability of North Korea s political leadership or its actual collapse, a leadership crisis, a breakdown of high-level contacts or accelerated reunification could have a material adverse effect on our business, financial condition and results of operations, as well as the price of our common shares and our American depositary shares.

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

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

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

We are a corporation with limited liability organized under the laws of Korea. Substantially all of our directors and officers and other persons named in this annual report reside in Korea, and all or a significant portion of the assets of our directors and officers and other persons named in this annual report and substantially

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all of our assets are located in Korea. As a result, it may not be possible for holders of the American depository shares to affect service of process within the United States, or to enforce against them or us in the United States judgments obtained in United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

Risks Relating to Our American Depositary Shares

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

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the depositary bank s custodian in Korea and obtain American depositary shares, and holders of American depositary shares may surrender American depositary shares to the depositary bank and receive shares of our common stock. However, under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of American depositary shares (including deposits in connection with the initial and all subsequent offerings of American depositary shares and stock dividends or other distributions related to these American depositary shares) and (2) the number of shares on deposit with the depositary bank at the time of such proposed deposit. We have consented to the deposit of outstanding shares of common stock as long as the number of American depositary shares outstanding at any time does not exceed 80,153,810 shares. As a result, if you surrender American depositary shares and withdraw shares of common stock, you may not be able to deposit the shares again to obtain American depositary shares.

Ownership of our shares is restricted under Korean law.

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

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

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

- shares by a depositary issuing depositary receipts representing such shares (whether newly issued shares or outstanding shares);
- shares by exercise of warrant, conversion right under convertible bonds, exchange right under exchangeable bonds or withdrawal right under depositary receipts issued outside of Korea;
- shares from the exercise of shareholders rights; or
- shares by gift, inheritance or bequest.

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

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

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

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

the offering and sale of those shares is exempt from or is not subject to the registration requirements of the U.S. Securities Act.

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

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

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

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

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

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

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depositary bank in respect of dividends, the U.S. dollar value of the proceeds which a holder or owner would receive upon sale in Korea of the shares obtained upon surrender of American depositary shares and the secondary market price of the American depositary shares.

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

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

- sudden fluctuations in interest rates or exchange rates;
- extreme difficulty in stabilizing the balance of payments; and
- a substantial disturbance in the Korean financial and capital markets.

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

ITEM 4. INFORMATION ON THE COMPANY

Item 4.A. History and Development of the Company

General Information

Our legal and corporate name is Korea Electric Power Corporation. We were established by the Government on December 31, 1981 as a statutory juridical corporation in Korea under the Korea Electric Power Corporation (KEPCO) Act as the successor to Korea Electric Company. Our registered office is located at 55 Jeollyeok-ro, Naju-si, Jeollanam-do, 58217, Korea, and our telephone number is 82-61-345-4261. Our website address is www.kepco.co.kr. Our agent in the United States is Korea Electric Power Corporation, New York Office, located at 7th Floor, Parker Plaza, 400 Kelby Street, Fort Lee, NJ 07024.

The Korean electric utility industry traces its origin to the establishment of the first electric utility company in Korea in 1898. On July 1, 1961, the industry was reorganized by the merger of Korea Electric Power Company, Seoul Electric Company and South Korea Electric Company, which resulted in the formation of Korea Electric Company. From 1976 to 1981, the Government acquired the private minority shareholdings in Korea Electric Company. After the Government acquired all the remaining shares of Korea Electric Company, Korea Electric Company was dissolved, and we were incorporated in 1981 and assumed the assets and liabilities of Korea Electric Company. We ceased to be wholly owned by the Government in 1989 when the Government sold 21% of our common stock. As of March 8, 2016, the last day on which our shareholders registry was closed, the Government maintained 51.1% ownership in aggregate of our common shares by direct holdings by the Government and indirect holdings through Korea Development Bank, a statutory banking institution wholly owned by the Government.

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

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

Item 4.B. Business Overview

Introduction

We are an integrated electric utility company engaged in the transmission and distribution of substantially all of the electricity in Korea. Through our six wholly-owned generation subsidiaries, we also generate the substantial majority of electricity produced in Korea. As of December 31, 2015, we and our generation subsidiaries owned approximately 75.0% of the total electricity generation capacity in Korea (excluding plants generating electricity primarily for private or emergency use). In 2015, we sold to our customers approximately 483,655 gigawatt-hours of electricity. We purchase electricity principally from our generation subsidiaries and to a lesser extent from independent power producers. Of the 504,104 gigawatt-hours of electricity we purchased in 2015, 32.4% was generated by KHNP, our wholly-owned nuclear and hydroelectric power generation subsidiary, 50.5% was generated by our wholly-owned five thermal generation subsidiaries and 17.1% was generated by independent power producers that trade electricity to us through the cost-based pool system of power trading (excluding independent power producers that supply electricity under power purchase agreements with us). Our five thermal generation subsidiaries are KOSEP, KOMIPO, KOWEPO, KOSPO and EWP, each of which is wholly owned by us and is incorporated in Korea. We derive substantially all of our revenues and profit from Korea, and substantially all of our assets are located in Korea.

In 2015, we had sales of Won 58,582 billion and net profit of Won 13,416 billion, compared to sales of Won 57,123 billion and net profit of Won 2,799 billion in 2014.

Our revenues are closely tied to demand for electricity in Korea. Demand for electricity in Korea increased at a compounded average growth rate of 2.2% per annum from 2011 to 2015, compared to the real gross domestic product, or GDP, which increased at a compounded average growth rate of 2.8% during the same period, according to the Bank of Korea. The GDP growth rate was 2.6% during 2015 while demand for electricity in Korea increased by 1.3% during 2015.

Strategy

As our overall strategy, we seek to become a leading global energy enterprise by enhancing our global competitiveness and strengthening our contribution to the global environmental campaigns through continued development of green and smart power-related technologies. We also aim to adapt to the growing uncertainties in the global economy by selectively pursuing new business opportunities and through development of innovative technologies. We evaluate and renew our mid- to long-term strategy every five years, and in 2015 established the Vision 2025 Mid- to Long-Term Strategy. Under this vision, we will aim for balanced growth among our domestic operations, overseas business and new energy industry initiatives.

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Strengthen competitiveness in our core operations. We plan to enhance efficiency of our electricity generation, transmission and distribution networks and operation of related facilities. We will strategically focus on ensuring stable supply of electricity, making our electricity networks smarter and more intelligent through the use of advanced technology utilizing big data and Internet of Things and creating new energy services related to our core operations in order to address changes in the business environment.

Expand and develop new businesses. In connection with our overseas business, we plan to selectively explore opportunities to develop renewable energy, smart transmission and distribution facilities and nuclear energy projects to diversify our businesses and provide suitable solutions meeting the different needs of various countries. Additionally, we plan to actively address climate change through the development of new energy related technologies such as smart grids and energy storage systems.

Create a platform for future growth. We plan to develop an ecosystem focused on new energy technologies. We have established Bitgaram Energy Valley in Naju with the goal of facilitating the growth of the new energy industry and creating a global energy hub. In addition, we have selected ten core electricity-related technologies such as carbon capture, utilization and storage (CCUS) and superconducting magnetic energy storage technologies, and we plan to focus on the development of high value-added technologies.

Strengthen our management system for sustainable growth. We will continue to develop an innovative working culture and management system to promote efficiency. We will also focus on creating a low-carbon clean energy business environment, fostering a common set of shared values with local communities and developing a sustainable energy business model.

Recent Developments

New Energy Industry Projects

In January 2016, the Ministry of Trade, Industry and Energy announced an initiative to promote the new energy industry. The initiative includes plans to create and expand the new energy industry markets through investments by government-related electricity companies in order to attract private sector investments in new energy businesses and provide new business opportunities for start-ups and research companies. Government plans also include amending regulations relating to new energy businesses to promote active private sector investments. According to the Government s plan, we will create a Won 2 trillion new energy industry fund by 2017, contributing Won 1 trillion in each of 2016 and 2017, and invest an additional amount of approximately Won 5.4 trillion in 2016 to expand new energy related businesses. The Government plans to nurture new energy businesses, stimulate the economy and create jobs. Our actual budget for such projects will be decided after internal evaluation and discussions with the Government. Although the exact amount has yet to be decided, we expect that our capital expenditure relating to new energy industry projects may eventually lead to a significant increase in our capital expenditure in 2016 and thereafter.

Certain of our new energy industry projects are described below.

Smart Grids and Energy Storage Systems

Leveraging our experience gained through high-tech intelligent power transmission and distribution network, or smart grid test beds in Jeju Island from 2009 to 2013, we plan to expand our smart grid project. In 2014, we successfully implemented smart grid technology at our Guri-Namyangju branch. In recognition of our achievement, we were awarded an honorable mention from the International Smart Grid Action Network and a special prize from the Global Smart Grid Federation in 2015. As of December 31, 2015, smart grid technology has been implemented in all of our branches, and we plan to continue implementing smart grid technology to our existing plants and buildings as well as to new branches in the future.

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In furtherance of the Government s policy of balancing distribution expansion and demand control and in order to address frequency deviation caused by fluctuations in energy demand, we have developed energy storage systems that can promptly and efficiently balance energy supply and demand by storing energy during light load times and releasing energy when needed. In September 2014, we installed and have since operated an energy storage system with output capacity of 8 megawatt-hours in Jeju Island. We also installed energy storage systems with output capacities of 28 megawatts and 24 megawatts in Seo-Anseong substation and Shin-Yongin substation, respectively, and commenced commercial operation in July 2015. We believe that our energy storage system technology will not only increase energy efficiency and reduce power purchasing costs, but also accelerate the adoption of renewable energy by enhancing the reliability of renewable energy sources such as wind and solar as well as better position us to take advantage of overseas marketing opportunities. We plan to expand our energy storage system infrastructure to an aggregate output capacity of 500 megawatts by 2017.

Electric Vehicle Charging Infrastructure

In order to promote the use of environment friendly electric vehicles, we installed 128 high-speed electric vehicle charging stations in 2015. We had 336 electric vehicle charging stations as of December 31, 2015, and we plan to expand our electric vehicle charging infrastructure to approximately 3,660 charging stations by 2018.

Bitgaram Energy Valley

Upon relocation of our headquarters in November 2014, we developed and established Bitgaram Energy Valley, an energy hub city in Naju, to attract and facilitate the growth of start-ups and research companies in new energy industries such as smart grids, energy storage systems and direct currency distribution while contributing to the local economy. To achieve this goal, we introduced a research program where we provide financial support to qualified start-ups and research companies. As of March 2016, we have signed agreements with 105 companies that have agreed to invest in the Bitgaram Energy Valley, thereby exceeding our initial plan of attracting investments from 100 companies by 2016. We are planning to increase the total number of companies investing in the Bitgaram Energy Valley to 150 companies by the end of 2016.

Government Ownership and Our Interactions with the Government

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

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

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

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

Restructuring of the Electric Power Industry in Korea

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

The following provides further details relating to the Restructuring Plan.

Phase I

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

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

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

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

Phase II

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

Pursuant to the Electricity Business Act amended in December 2000, the Government established the Korea Power Exchange in April 2001. The primary function of the Korea Power Exchange is to deal with the sale of electricity and implement regulations governing the electricity market to allow for electricity distribution through a competitive bidding process. The Government also established the Korea Electricity Commission in April 2001 to regulate the Korean electric power industry and ensure fair competition among industry participants. To facilitate this goal, the Korea Power Exchange established the Electricity Market Rules relating to the operation of the bidding pool system. To amend the Electricity Market Rules, the Korea Power Exchange must have the proposed amendment reviewed by the Korea Electricity Commission and then obtain the approval of the Ministry of Trade, Industry and Energy.

The Korea Electricity Commission s main functions include implementation of standards and measures necessary for electricity market operation and review of matters relating to licensing participants in the Korean

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electric power industry. The Korea Electricity Commission also acts as an arbitrator in tariff-related disputes among participants in the Korean electric power industry and investigates illegal or deceptive activities of the industry participants.

Privatization of Thermal Generation Subsidiaries

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

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

Suspension of the Plan to Form and Privatize Distribution Subsidiaries

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

Initiatives to Improve the Structure of Electricity Generation

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

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

Purchase of Electricity

Cost-based Pool System

Since April 2001, the purchase and sale of electricity in Korea is required to be made through the Korea Power Exchange, which is a statutory not-for-profit organization established under the Electricity Business Act with responsibilities for setting the price of electricity, handling the trading and collecting relevant data for the electricity market in Korea. The suppliers of electricity in Korea consist of our six generation subsidiaries, which were split-off from us in April 2001, and independent power producers, which numbered ten (excluding renewable energy producers) as of December 31, 2015. We distribute electricity purchased through the Korea Power Exchange to end users.

Our Relationship with the Korea Power Exchange

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

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

Pricing Factors

The price of electricity in the Korean electricity market is determined principally based on the cost of generating electricity using a system known as the cost-based pool system. Under the cost-based pool system,

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the price of electricity has two principal components, namely the marginal price (representing in principle the variable cost of generating electricity) and the capacity price (representing in principle the fixed cost of generating electricity).

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

Marginal Price

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

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

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

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

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

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

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

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

Under the vesting contract system which is currently being implemented in phases as to determining the price and quantity of electricity to be sold and purchased between the purchaser of electricity (namely, us) and the sellers of electricity (namely, our generation subsidiaries and independent power producers) pursuant to an amendment to the Electricity Business Act, effective November 21, 2014, the application of adjusted coefficient will gradually cease and will be replaced by the vesting contract system as further described below in Vesting Contract System.

Capacity Price

In addition to payment in respect of the variable cost of generating electricity, generation units receive payment in the form of capacity price, the purpose of which is to compensate them for the costs of constructing generation facilities and to provide incentives for new construction. The capacity price is determined annually by the Cost Evaluation Committee based on the construction costs and maintenance costs of a standard generation unit and is paid to each generation company for the amount of available capacity indicated in the bids submitted the day before trading, subject to such capacity being actually available on the relevant day of trading. From time to time, the capacity price is adjusted in ways to soften the impact of changes in the marginal price over time based on the expected rate of return for our generational subsidiaries. Currently, the capacity price is Won 7.60 per kilowatt-hour and is applied equally to all generation units, regardless of fuel types used.

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

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and the capacity price paid is highest during the months of January, July and August when electricity usage is highest due to weather conditions. Other than subject to the aforementioned variations, the same capacity pricing mechanism applies to all generation units regardless of fuel types used.

Vesting Contract System

On May 20, 2014, the Electricity Business Act was amended, with effect from November 21, 2014, to introduce a vesting contract system in determining the price and quantity of electricity to be sold and purchased between the purchaser of electricity (namely, us) and the sellers of electricity (namely, our generation subsidiaries and independent power producers). The application of adjusted coefficient will gradually cease and will be replaced by the vesting contract system.

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

Under the settlement mechanism of the vesting contract system, an electricity producer is required to settle, among others, the difference between the contracted price and the market price of electricity sold at a given hour through the Korea Power Exchange (namely, the system marginal price), as multiplied by the contracted quantity of electricity.

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

Net consideration = Gross consideration Settlement amount, where:

(A) Gross consideration equals the sum of:

(i) System marginal price * quantity of electricity sold; and

(ii) Capacity price (as discussed above), as applicable to the particular generation unit; and

(B) Settlement amount equals the sum of:

(i) (System marginal price contracted price) * contracted quantity; and

(ii) Capacity price.

Accordingly, under this settlement mechanism, assuming sale of electricity in the contracted quantity and further assuming the system marginal price being higher than the contracted price, the consideration to be received by the seller of electricity net of the settlement amount will effectively amount to the product of the contracted quantity multiplied by the contracted price. If the seller sells a quantity of electricity exceeding the contracted quantity at a given hour, under the settlement mechanism and assuming the system marginal price being higher than the contracted price, the seller is entitled to an extra return (effectively, an incentive) equal to

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the product of the excess quantity multiplied by the difference between the system marginal price and the contracted price. On the other hand, if the seller sells a quantity of electricity falling short of the contracted quantity at a given hour, under the settlement mechanism and assuming the system marginal price being higher than the contracted price, the seller is required to pay an amount (effectively, a penalty) equal to the product of the shortfall quantity multiplied by the difference between the system marginal price and the contracted price. The foregoing notions of incentive and penalty are intended to minimize the additional cost of purchasing electricity at the higher system marginal price in the event that the seller of electricity fails to deliver the contracted quantity of electricity.

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

In order to minimize undue impact on the electricity trading market in Korea, the vesting contract system will be implemented in phases. Vesting contracts have been entered in February 2015 between us and two independent power producers of by-product gas-based electricity (namely, POSCO Energy and Hyundai Green Power) at a contractual price set a level at which the vesting contract system replaced the adjustment coefficient mechanism previously in effect with equal economic effect. By-product gas-based electricity accounted for 1.8% of electricity purchased by us in 2015. We expect to enter into vesting contracts with independent power producers which own coal power plants that are expected to begin operation in 2016. Since the vesting contract system is still in the early stages of implementation and many of the related details are still being finalized, it presently remains unclear in what final form the vesting contract system will actually operate, whether the vesting contract system will be able to achieve the desired results and whether there will be any adverse unintended consequences from the application of the system, and no assurance can be given that such system will not adversely affect our business, results of operations or financial condition in the future.

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Power Trading Results

The results of power trading, as effected through the Korea Power Exchange, for our generation subsidiaries and independent power producers for the year ended December 31, 2015 are as follows:

	Items	Volume (Gigawatt hours)	Percentage of Total Volume (%)	Sales to KEPCO (in billions of Won)	Percentage of Total Sales (%)	Unit Price (Won/kWh)
Generation Companies	KHNP	161,674	32.6	10,399	25.4	64.32
	KOSEP	67,116	13.5	4,744	11.6	70.69
	KOMIPO	43,876	8.9	3,828	9.3	87.24
	KOWEPO	46,136	9.3	4,117	10.0	89.24
	KOSPO	46,819	9.5	4,256	10.4	90.90
	EWP	46,961	9.5	3,980	9.7	84.75
	Others[(1)]	82,807	16.7	9,648	23.6	116.55
	Total	495,389	100.0	40,972	100.0	82.71
Energy Sources	Nuclear	157,196	31.7	9,841	24.0	62.61
	Bituminous coal	194,288	39.2	13,278	32.4	68.34
	Anthracite coal	6,782	1.4	731	1.8	107.78
	Oil	9,394	1.9	1,408	3.4	149.90
	LNG	586	0.1	100	0.3	169.02
	Combined-cycle	105,917	21.4	13,351	32.6	126.05
	Hydro	1,511	0.3	179	0.4	118.47
	Pumped-storage	3,641	0.7	484	1.2	132.78
	Others	16,074	3.3	1,600	3.9	99.61
	Total	495,389	100.0	40,972	100.0	82.71
Load	Base load	353,608	71.4	23,380	57.1	66.12
	Non-base load	141,781	28.6	17,592	42.9	124.08
	Total	495,389	100.0	40,972	100.0	82.71

Note:

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

Power Purchased from Independent Power Producers Under Power Purchase Agreements

In 2015, we purchased an aggregate of 8,715 gigawatt hours of electricity generated by independent power producers under existing power purchase agreements. These independent power producers had an aggregate generation capacity of 4,945 megawatts as of December 31, 2015**.**

Power Generation

As of December 31, 2015, we and our generation subsidiaries had a total of 618 generation units, including nuclear, thermal, hydroelectric and internal combustion units, representing total installed generation capacity of 73,282 megawatts. Our thermal units produce electricity using

steam turbine generators fired by coal, oil and LNG. Our internal combustion units use oil or diesel-fired gas turbines and our combined-cycle units are primarily LNG-fired. We also purchase power from several generation plants not owned by our generation subsidiaries.

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The table below sets forth as of and for the year ended December 31, 2015 the number of units, installed capacity and the average capacity factor for each type of generating facilities owned by our generation subsidiaries.

	Number of Units	Installed Capacity[1] (Megawatts)	Average Capacity Factor[2] (Percent)
Nuclear	24	21,716	85.0
Thermal:			
Coal	53	26,274	88.5
Oil	11	2,950	26.5
LNG	2	388	16.7
Total thermal	66	29,612	81.4
Internal combustion	208	330	22.7
Combined-cycle	111	16,018	48.4
Hydro	74	5,345	12.8
Wind	42	109	18.0
Solar	82	89	14.8
Fuel cell	9	28	55.4
Biogas	2	35	62.1
Total	618	73,282	69.9

Notes:

(1) Installed capacity represents the level of output that may be sustained continuously without significant risk of damage to plant and equipment.

(2) Average capacity factor represents the total number of kilowatt hours of electricity generated in the indicated period divided by the total number of kilowatt hours that would have been generated if the generation units were continuously operated at installed capacity, expressed as a percentage.

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

We seek to achieve efficient use of fuels and diversification of generation capacity by fuel type. In the past, we relied principally upon oil-fired thermal generation units for electricity generation. Since the oil shock in 1974, however, Korea s power development plans have emphasized the construction of nuclear generation units. While nuclear units are more expensive to construct than thermal generation units of comparable capacity, nuclear fuel is less expensive than fossil fuels in terms of electricity output per unit cost. However, efficient operation of nuclear units requires that such plants be run continuously at relatively constant energy output levels. As it is impractical to store large quantities of electrical energy, we seek to maintain nuclear power production capacity at approximately the level at which demand for electricity is continuously stable. During those times when actual demand exceeds the usual level of electricity supply from nuclear power, we rely on units fired by fossil fuels and hydroelectric units, which can be started and shut down more quickly and efficiently than nuclear units, to meet the excess demand. Bituminous coal is currently the least expensive thermal fuel per kilowatt-hour of electricity produced, and therefore we seek to maximize the use of bituminous coal for generation needs in excess of the stable demand level, except for meeting short-term surges in demand which require rapid start-up and shutdown. Thermal units fired by LNG, hydroelectric units and internal combustion units are the most efficient types of units for rapid start-ups and shutdowns, and therefore we use such units principally to meet short-term surges in demand. Anthracite coal is a less efficient fuel source than bituminous coal in terms of electricity output per unit cost.

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

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

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

	2011	2012	2013	2014	2015	% of 2015 Gross Generation[1]
	(in gigawatt hours, except percentages)					
Electricity generated by us and our generation subsidiaries:						
Nuclear	154,723	150,327	138,784	156,407	164,762	31.6
Coal	199,516	199,330	201,119	203,765	207,533	39.7
Oil	9,456	13,553	13,941	6,838	8,822	1.7
LNG	2,233	3,453	3,526	568	222	0.1
Internal combustion	821	752	741	656	633	0.1
Combined-cycle	71,668	75,751	84,561	68,134	45,923	8.8
Hydro	4,815	5,140	5,679	5,976	4,424	0.8
Wind	117	127	155	148	181	0.0
Solar and fuel cells	60	83	251	422	420	0.1
Total generation by us and our generation subsidiaries	443,409	448,516	448,757	442,914	432,920	82.9
Electricity generated by IPPs:						
Thermal	42,240	48,043	55,923	63,088	72,316	13.9
Hydro and other renewable	11,244	13,015	12,468	15,968	17,106	3.2
Total generation by IPPs	53,484	61,058	68,391	79,056	89,422	17.1
Gross generation	496,893	509,574	517,148	521,970	522,343	100
Auxiliary use[2]	19,689	20,154	20,463	20,610	21,293	4.1
Pumped-storage[3]	4,257	4,789	5,408	6,644	4,824	0.9
Total net generation[4]	472,947	484,631	491,277	494,716	496,226	95.0
Transmission and distribution losses[5]	17,430	17,292	18,019	18,270	18,063	3.6

IPPs = Independent power producers

Notes:

(1) Unless otherwise indicated, percentages are based on gross generation.
(2) Auxiliary use represents electricity consumed by generation units in the course of generation.
(3) Pumped-storage represents electricity consumed during low demand periods in order to store water which is utilized to generate hydroelectric power during peak demand periods.

(4) Total net generation is gross generation minus auxiliary and pumped-storage use.
(5) Total transmission and distribution losses divided by total net generation.

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

	2011	2012	2013	2014	2015
			(Megawatts)		
Total capacity	76,649	81,806	82,296	93,216	94,102
Peak load	73,137	75,987	76,522	80,154	78,790
Average load	56,723	58,012	59,035	59,586	60,284

Korea Hydro & Nuclear Power Co., Ltd.

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

KHNP owns and operates 24 nuclear generation units at four power plant complexes in Korea, located in Kori, Wolsong, Yonggwang (Hanbit) and Ulchin (Hanul), 51 hydroelectric generation units including 16 pumped storage hydro generation units as well as five solar generation units and one wind generation unit as of December 31, 2015.

The table below sets forth the number of units and installed capacity as of December 31, 2015 and the average capacity factor by types of generation units in 2015.

	Number of Units	Installed Capacity[(1)] (Megawatts)	Average Capacity Factor[(2)] (Percent)
Nuclear	24	21,716	85.3
Hydroelectric	51	5,306	9.2
Solar	5	16	15.6
Wind	1	1	6.1
Total	81	27,039	

Notes:

(1) Installed capacity represents the level of output that may be sustained continuously without significant risk of damage to plant and equipment.

(2) Average capacity factor represents the total number of kilowatt hours of electricity generated in the indicated period divided by the total number of kilowatt hours that would have been generated if the generation units were continuously operated at installed capacity, expressed as a percentage.

KHNP commenced commercial operation of Shin-Wolsong #2, with a 1,000 megawatt capacity, in December 2015. KHNP is currently building four additional nuclear generation units, two each at the Shin-Kori and Shin-Hanul sites, each with a 1,400 megawatt capacity. KHNP expects to complete these units between 2016 and 2018. In addition, KHNP plans to build four additional nuclear units between 2021 and 2023, two each at the Shin-Kori and Shin-Hanul sites, each with a 1,400 megawatt capacity, and two additional nuclear units between 2026 and 2027 at the Chunji site, each with a 1,500 megawatt capacity. Under the Seventh Basic Plan, KHNP plans to build two additional nuclear units between 2028 and 2029, each with a 1,500 megawatt capacity, at sites which have yet to be determined. We plan to begin the decommissioning process of Kori #1 in June 2017.

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Nuclear

The table below sets forth certain information with respect to the nuclear generation units of KHNP as of December 31, 2015.

Unit	Reactor Type[1] (Megawatts)	Reactor Design[2]	Turbine and Generation[3]	Commencement of Operations	Installed Capacity
Kori #1	PWR	W	GEC, Hitachi, D	1978	587
Kori #2	PWR	W	GEC	1983	650
Kori #3	PWR	W	GEC, Hitachi	1985	950
Kori #4	PWR	W	GEC, Hitachi	1986	950
Shin-Kori #1	PWR	D, KEPCO E&C, W	D, GE	2011	1,000
Shin-Kori #2	PWR	D, KEPCO E&C, W	D, GE	2012	1,000
Wolsong #1	PHWR	AECL	P	1983	679
Wolsong #2	PHWR	AECL, H, K	H, GE	1997	700
Wolsong #3	PHWR	AECL, H	H, GE	1998	700
Wolsong #4	PHWR	AECL, H	H, GE	1999	700
Shin-Wolsong #1	PWR	D, KEPCO E&C, W	D, GE	2012	1,000
Shin-Wolsong #2	PWR	D, KEPCO E&C, W	D, GE	2015	1,000
Hanbit #1	PWR	W	W, D	1986	950
Hanbit #2	PWR	W	W, D	1987	950
Hanbit #3	PWR	H, CE, K	H, GE	1995	1,000
Hanbit #4	PWR	H, CE, K	H, GE	1996	1,000
Hanbit #5	PWR	D, CE, W, KOPEC	D, GE	2002	1,000
Hanbit #6	PWR	D, CE, W, KOPEC	D, GE	2002	1,000
Hanul #1	PWR	F	A	1988	950
Hanul #2	PWR	F	A	1989	950
Hanul #3	PWR	H, CE, K	H, GE	1998	1,000
Hanul #4	PWR	H, CE, K	H, GE	1999	1,000
Hanul #5	PWR	D, KEPCO E&C, W	D, GE	2004	1,000
Hanul #6	PWR	D, KEPCO E&C, W	D, GE	2005	1,000
Total nuclear					21,716

Notes:

(1) PWR means pressurized light water reactor; PHWR means pressurized heavy water reactor.

(2) W means Westinghouse Electric Company (U.S.A.); AECL means Atomic Energy Canada Limited (Canada); F means Framatome (France); H means Hanjung; CE means Combustion Engineering (U.S.A.); D means Doosan Heavy Industries; K means Korea Atomic Energy Research Institute; KEPCO E&C means KEPCO Engineering & Construction.

(3) GEC means General Electric Company (U.K.); P means Parsons (Canada and U.K.); W means Westinghouse Electric Company (U.S.A.); A means Alstom (France); H means Hanjung; GE means General Electric (U.S.A.); D means Doosan Heavy Industries; Hitachi means Hitachi Ltd. (Japan).

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The table below sets forth the average capacity factor and average fuel cost per kilowatt for 2015 with respect to each nuclear generation unit of KHNP.

Unit	Average Capacity Factor (Percent)	Average Fuel Cost Per kWh (Won)
Kori #1	82.8	6.6
Kori #2	79.0	8.1
Kori #3	81.3	7.2
Kori #4	96.9	6.7
Shin-Kori #1	87.4	5.3
Shin-Kori #2	86.8	5.5
Wolsong #1	96.7	9.9
Wolsong #2	90.4	9.0
Wolsong #3	94.9	8.9
Wolsong #4	87.2	9.6
Shin-Wolsong #1	72.6	5.5
Shin-Wolsong #2	100	7.1
Hanbit #1	83.2	7.3
Hanbit #2	92.0	6.1
Hanbit #3	58.5	7.4
Hanbit #4	63.8	7.6
Hanbit #5	81.3	6.1
Hanbit #6	92.7	5.8
Hanul #1	88.4	6.4
Hanul #2	100.0	6.5
Hanul #3	100.0	6.3
Hanul #4	84.6	5.9
Hanul #5	99.8	6.3
Hanul #6	74.7	6.6
Total nuclear	85.9	6.8

Under extended-cycle operations, nuclear units can be run continuously for periods longer than the conventional 12-month period between scheduled shutdowns for refueling and maintenance. Since 1987, we have adopted the mode of extended-cycle operations for all of our pressurized light water reactor units and plan to use it for our newly constructed units. The duration of shutdown for fuel replacement and maintenance was 71.3 days per unit in 2015. In addition, KHNP s nuclear units experienced an average of 0.1 unplanned shutdowns per unit in 2015. In the ordinary course of operations, KHNP s nuclear units routinely experience damage and wear and tear, which are repaired during routine shutdown periods or during unplanned temporary suspensions of operations. No significant damage has occurred in any of KHNP s nuclear reactors, and no significant nuclear exposure or release incidents have occurred at any of KHNP s nuclear facilities since the first nuclear plant commenced operation in 1978.

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Hydroelectric

Effective January 1, 2011, pursuant to the Government s Proposal for Improvements in the Structure of the Electric Power Industry announced in August 2010, our five thermal generation subsidiaries transferred all of the assets and liabilities relating to their pumped-storage and hydroelectric business units to KHNP. The table below sets forth certain information, including the installed capacity as of December 31, 2015 and the average capacity factor in 2015.

Location of Unit	Number of Units	Classification	Year Built	Installed Capacity (Megawatts)	Average Capacity Factor (%)
Hwacheon	4	Dam waterway	1944	108.0	9.5
Chuncheon	2	Dam	1965	62.3	11.6
Euiam	2	Dam	1967	48.0	16.6
Cheongpyung	4	Dam	1943	140.1	10.8
Paldang	4	Dam	1973	120.0	16.2
Seomjingang	3	Basin deviation	1945	34.8	27.1
Boseonggang	2	Basin deviation	1937	4.5	52.7
Kwoesan	2	Dam	1957	2.6	31.4
Anheung	3	Dam waterway	1978	0.4	25.3
Kangreung	2	Basin deviation	1991	82.0	14.4
Topyeong	1	Dam	2011	0.04	
Muju(1)	1	Dam	2003	0.4	9.5
Sancheong(1)	2	Dam	2001	1.0	8.7
Yangyang(1)	2	Dam	2005	1.4	22.7
Yecheon(1)	1	Dam	2011	0.9	4.5
Cheongpeoung(1)	2	Pumped Storage	1980	400.0	6.1
Samrangjin(1)	2	Pumped Storage	1985	600.0	7.6
Muju(1)	2	Pumped Storage	1995	600.0	10.4
Sancheong(1)	2	Pumped Storage	2001	700.0	10.7
Yangyang(1)	4	Pumped Storage	2006	1,000.0	9.6
Cheongsong(1)	2	Pumped Storage	2006	600.0	10.3
Yecheon(1)	2	Pumped Storage	2011	800.0	6.5
Total	51			5,306	9.2

Note:

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

Solar/Wind

The table below sets forth certain information, including the installed capacity as of December 31, 2015 and the average capacity factor in 2015, regarding each solar and wind power unit of KHNP.

Location of Unit	Classification	Year Built	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)

Yonggwang	Solar	2008	13.9	15.3
Yecheon	Solar	2012	2.0	15.6
Kori	Wind	2008	0.8	6.1
Total			16.7	

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

Korea South-East Power Co., Ltd.

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2015 and the average capacity factor and average fuel cost per kilowatt in 2015 based upon the net amount of electricity generated, of KOSEP.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
Bituminous:				
Samchunpo #1, 2, 3, 4, 5, 6	24.2	3,240	88.6	41.3
Yong Hung #1, 2, 3, 4, 5, 6	6.7	5,080	88.7	38.5
Yosu #2	4.3	329	66.8	59.2
Anthracite:				
Yongdong #1, 2	39.4	325	83.5	61.3
Combined cycle and internal Combustion:				
Bundang gas turbine #1, 2, 3, 4, 5, 6, 7, 8; steam turbine #1, 2	22.1	922	23.5	149
Hydro, Solar and other renewable energy		85		
Total	19.6	9,981	81.2	43.9

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Korea Midland Power Co., Ltd.

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2015 and the average capacity factor and average fuel cost per kilowatt in 2015 based upon the net amount of electricity generated, of KOMIPO.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
Bituminous:				
Boryeong #1, 2, 3, 4, 5, 6, 7, 8	20.9	4,000	92.2	37.4
Anthracite:				
Seocheon #1, 2	32.5	400	72.1	67.1
Oil-fired:				
Jeju #2, 3	15.5	150	60.6	154.6
LNG-fired:				
Seoul #4, 5	46.8	387.5	6.6	207.6
Combined-cycle and internal combustion:				
Boryeong gas turbine #1, 2, 3, 4, 5, 6; steam turbine #1, 2, 3,	16.8	1,350	4.6	137.7
Incheon gas turbine #1, 2, 3, 4, 5, 6; steam turbine #1, 2, 3	10.8	1,462.7	50.4	106.6
Sejong gas turbine #1, 2; steam turbine #1	2.1	530.4	61.1	104.2
Jeju Gas Turbine #3	38.1	55	0.4	734.0
Jeju Internal Combustion Engine #1, 2	8.6	80	56.5	111.8
Yangyang #1, 2	9.5	3.0	12.9	13.2
Combined heat and power:				
Wonju #1	0.6	10	11.0	96.6
Hydroelectric:				
Boryeong	6.8	7.5	19.6	
Photovoltaic (PV) power and fuel cell generation:				
Boryeong (PV) site	7.6	0.6	12.9	
Seocheon (PV) site	7.9	1.2	14.8	
Jeju (PV) site	4.4	2.3	13.6	
Seoul (PV) site	4.3	1.3	15.1	
Yeosu (PV) site	3.8	2.2	15.6	
Incheon (PV) site	4.0	0.3	14.0	
Boryeong (fuel cell) site	7.3	0.3	39.6	
Total	17.1	8,444	62.3	57.6

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Korea Western Power Co., Ltd.

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2015 and the average capacity factor and average fuel cost per kilowatt in 2015 based upon the net amount of electricity generated, of KOWEPO.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
Bituminous:				
Taean #1, 2, 3, 4, 5, 6, 7, 8	15.4	4,000	92.6	41.1
Oil-fired:				
Pyeongtaek #1, 2, 3, 4	34.1	1,400	29.2	102.8
Combined cycle:				
Pyeongtaek #1, 2	9.2	1,348.5	46.1	101.6
Gunsan	5.6	718.4	43.9	110.7
West Incheon	23.5	1,800	23.5	113.8
Hydroelectric:				
Taean	8.3	2.2	23.0	
Solar:				
Taean	10.4	0.1	12.6	
Taean 2	3.9	0.6	14.4	
Gunsan	5.5	0.3	14.0	
Samryangjin	8.1	3.0	12.2	
Sejong City	3.5	4.9	14.3	
Gyeonggi-do	2.7	2.5	14.7	
Yeongam	2.8	13.3	15.0	
Pyeongtaek	1.1	0.4	13.5	
Fuel Cell:				
West Incheon	1.3	11.2	83.5	
Wind Power				
Hwasung	0.1	16	14.7	
Total	18.0	9,321	59.0	62.7

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Korea Southern Power Co., Ltd.

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2015 and the average capacity factor and average fuel cost per kilowatt in 2015 based upon the net amount of electricity generated, of KOSPO.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
Bituminous:				
Hadong #1, 2, 3, 4, 5, 6, 7, 8	14.3	4,000	100	