

KOREA ELECTRIC POWER CORP

Form 20-F

June 30, 2005

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**As filed with the Securities and Exchange Commission on June 30, 2005**

**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**

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

**For the fiscal year ended December 31, 2004**

**OR**

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

**For the transition period from        to**

**Commission File Number:        -**

**KOREA ELECTRIC POWER CORPORATION**  
*(Exact name of registrant as specified in its charter)*

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

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

**167 SAMSEONG-DONG, GANGNAM-GU, SEOUL 135-791, KOREA**

*(Address of principal executive offices)*

**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\*  
American depositary shares, each representing  
one-half of share of common stock

New York Stock Exchange  
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:**

**7<sup>3</sup>/<sub>4</sub>% Debentures due April 1, 2013**

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

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

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

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

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

**4.25% Notes due September 12, 2007**

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 this Annual Report:

640,748,573 shares of common stock, par value of Won 5,000 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days:

Yes  No

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17  Item 18

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**CERTAIN DEFINED TERMS**

All references to Korea or the Republic in this report are references to The Republic of Korea. All references to the Government in this report are references to the government of the Republic. All references to we, us, the Company or KEPCO in this report are references to Korea Electric Power Corporation and, as the context may require, its subsidiaries. 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 Korean GAAP in this report are references to the generally accepted accounting principles in Korea, and all references to U.S. GAAP are references to the generally accepted accounting principles in the United States.

**FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 20-F includes future expectations, projections or forward-looking statements (as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). The words believe, expect, anticipate, estimate and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this 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 have been correct. Cautionary Statements, or important factors that could cause actual results to differ materially from our expectations, are disclosed in this report. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

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

Not applicable.

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

Not applicable.

**ITEM 3. KEY INFORMATION****SELECTED FINANCIAL DATA**

The following table sets forth the selected financial data. The selected consolidated financial data in the table have been derived from our consolidated financial statements for each of the years in the five-year period ended December 31, 2004. The consolidated financial statements for the years ended December 31, 2002 and 2003 have been audited by Deloitte HanaAnjin LLC, a member firm of Deloitte Touche Tohmatsu. Deloitte HanaAnjin LLC are Korean independent certified public accountants. The consolidated financial statements for the year ended December 31, 2004 have been audited by KPMG Samjong Accounting Corp., a Korean corporation which is a member of KPMG International, a Swiss cooperative, our current independent registered public accounting firm. KPMG Samjong Accounting Corp. are Korean independent certified public accountants. The selected consolidated financial data should be read in conjunction with our consolidated financial statements and Notes thereto as of December 31, 2000, 2001, 2002, 2003 and 2004 and for each of the years in the five-year period ended December 31, 2004.

Our financial statements are prepared in accordance with the Korea Electric Power Corporation Act, the accounting regulations for Government-invested enterprises and Korean GAAP, which differ in certain significant respects from U.S. GAAP. See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Reconciliation to U.S. GAAP and Note 32 of the notes to our consolidated financial statements.

**Consolidated Statement of Earnings Data****Year Ended December 31,**

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2004</b>
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**(Won in billion and US\$ in million, except per share data)**

<b>Amounts in Accordance with Korean GAAP(1):</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2004</b>
Operating revenues	W 18,708	W 20,225	W 21,366	W 22,775	W 23,956	\$23,143
Operating expenses	15,238	16,236	16,319	17,551	19,488	18,827
Operating income	3,470	3,989	5,047	5,224	4,467	4,316
Income before income taxes and minority interest	2,205	2,932	5,171	4,110	4,700	4,540
Income taxes	721	1,293	2,104	1,763	1,795	1,734
Net income	1,483	1,635	3,048	2,323	2,883	2,785
Earnings per share						
Basic	2,320	2,559	4,770	3,686	4,576	4.42
Diluted	2,319	2,559	4,770	3,677	4,510	4.36
Earnings per ADS						
Basic	1,160	1,280	2,385	1,843	2,288	2.21
Diluted	1,160	1,280	2,385	1,839	2,255	2.18
Dividends per share held by public	600	550	800	1,050	1,150	1.11
	450	550	800	1,050	1,150	1.11



Dividends per share held  
by Government

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**2000                      2001                      2002                      2003                      2004                      2004**

**(Won in billion and US\$ in million, except per share data)**

**Amounts in Accordance with U.S. GAAP(3):**

Operating revenue	W	18,983	W	20,256	W	21,373	W	22,781	W	23,995	W	23,182
Operating income		5,595		5,835		6,514		4,985		4,815		4,652
Net income		2,796		3,287		3,573		4,552		3,535		3,415
<b>Earnings per share</b>												
Basic		4,376		5,144		5,591		7,221		5,612		5.42
Diluted		4,340		5,144		5,591		7,204		5,529		5.34
<b>Earnings per ADS</b>												
Basic		2,170		2,572		2,796		3,611		2,806		2.71
Diluted		2,188		2,572		2,796		3,602		2,765		2.67

**Other Data:**

Ratio of earnings to fixed charges(2):

Korean GAAP		1.9		2.5		4.2		4.1		4.6		4.6
U.S. GAAP(3)		2.5		3.6		4.8		6.0		5.0		5.0

**Consolidated Balance Sheet Data****As of December 31,**

**2000                      2001                      2002                      2003                      2004                      2004**

**(Won in billion, US\$ in million)**

**Amounts in Accordance with Korean GAAP:**

Net working capital deficit(4)	W	(5,695)	W	(3,561)	W	(5,192)	W	(4,056)	W	(2,291)		\$(2,214)
Net utility plant in service		48,450		49,440		53,527		51,820		55,809		53,917
Construction in progress		10,653		11,154		7,777		9,551		7,517		7,262
Total assets		65,920		70,562		70,512		71,727		73,654		71,156
Total stockholders equity		32,059		33,182		35,562		37,782		40,602		39,225
Capital stock		3,201		3,201		3,201		3,204		3,204		3,095
Long-term debt		20,460		22,089		17,671		15,814		15,073		14,562
Other liabilities-long term liabilities		4,148		6,005		7,173		7,992		9,719		9,390

**Amounts in Accordance with U.S. GAAP:**

Total assets		57,404		62,591		62,297		65,380		65,310		63,096
Total stockholders equity		21,437		24,162		27,291		31,163		33,747		32,603

(1)

See Item 5 Operating and Financial Review and Prospects Operating Results for discussion of certain changes in Korean GAAP.

- (2) For purposes of computing ratios of earnings to fixed charges, earnings consist of earnings before income tax and fixed charges. Fixed charges consist of interest expense (including capitalized interest) and amortization of bond discount and issue expenses.
- (3) For discussion of significant difference between the application of Korean GAAP and U.S. GAAP, see Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Reconciliation to U.S. GAAP and Note 32 of the notes to our consolidated financial statements.
- (4) Net working capital means current assets minus current liabilities.

**Table of Contents****Currency Translations and Exchange Rates**

In this report, unless otherwise indicated, all references to Won or W are to the currency of the Republic, and all references to U.S. Dollars, Dollars, \$, U.S.\$ or US\$ are to the currency of the United States of America. Unless otherwise indicated, all translations from Won to Dollars were made at W1,035.10 to US\$1.00, which was the noon buying rate in The City of New York for cable transfers in Won per US\$1.00 as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on December 31, 2004. On June 24, 2005, the Noon Buying Rate was W1,013.50 to US\$1.00. No representation is made that the Won or U.S. Dollar amounts referred to in this report could have been or could be converted into Dollars or Won, as the case may be, at any particular rate or at all.

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

<b>Year Ended December 31,</b>	<b>At End of Period</b>	<b>Average(1)</b>	<b>High</b>	<b>Low</b>
		<b>(Won per US\$1.00)</b>		
2000	1,267.00	1,130.90	1,267.00	1,105.50
2001	1,313.50	1,292.00	1,369.00	1,234.00
2002	1,186.30	1,250.40	1,332.00	1,160.60
2003	1,192.00	1,192.10	1,262.00	1,146.00
2004	1,035.10	1,139.30	1,195.10	1,035.10
2005 (through June 24)	1,013.50	1,014.80	1,058.00	997.00
January	1,026.90	1,038.00	1,058.00	1,024.00
February	1,000.90	1,023.10	1,044.00	1,000.90
March	1,015.40	1,007.80	1,023.90	997.50
April	997.00	1,010.10	1,019.00	997.00
May	1,005.00	1,001.80	1,009.00	997.00
June (through June 24)	1,013.50	1,009.60	1,016.00	1,003.00

(1) The average of the Noon Buying Rates over the relevant period.

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**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**

***The Government's Plan for restructuring the electricity industry in Korea (the Restructuring Plan) may have a material adverse effect on us.***

On January 21, 1999, the Ministry of Commerce, Industry and Energy (the MOCIE) announced the Restructuring Plan for the electricity industry in Korea. For a detailed description of the Restructuring Plan, see Item 4 Information on the Company Business Overview Restructuring of the Electricity Industry in Korea.

The Government promulgated the Law on Promotion of Restructuring of Electricity Industry (the Restructuring Law) and amended the Electricity Business Law on December 23, 2000, which allowed us to implement the Restructuring Plan. Pursuant to the Restructuring Law:

on April 2, 2001, the Government established the Korea Power Exchange to deal with the sale of electricity and to work out regulations governing the electricity industry to allow for electricity distribution through a competitive bidding process;

on April 2, 2001, the Government established a competitive bidding pool system for the sale and purchase of electricity; and

on April 27, 2001, the Government established the Korean Electricity Commission to regulate the restructured Korean electricity industry and to ensure fair competition.

On February 23, 2001, our board of directors approved a new plan to split our non-nuclear and non-hydroelectric generating capacity into five wholly owned generation subsidiaries and our nuclear and hydroelectric generating capacity into a separate wholly-owned generation subsidiary. On March 16, 2001, our shareholders approved the plan to establish the generation subsidiaries and the allocation of our assets and liabilities to such generation subsidiaries, effective as of April 2, 2001.

In September 2003, a Joint Study Group on Reforming Electricity Distribution Network was established under the Tripartite Commission to propose a methodology of introducing distribution competition within the industry. Members of the Tripartite Commission include, among others, representatives from the Government and the labor union. In June 2004, based on the conclusion published by this Joint Study Group, the Tripartite Commission issued a resolution which recommended halting the plan to form and privatize the distribution subsidiaries. Instead, this resolution recommended the creation of independent business divisions within KEPCO, namely, Strategy Business Units, each with more autonomy and independence, to introduce internal competition among the business divisions and improve efficiency. This resolution was adopted by the MOCIE on June 17, 2004. Accordingly, we have been conducting research in preparation of implementing the new revised plan, which we expect to be completed in early 2006. Failure to successfully implement the revised plan could have an adverse effect on our business, results of operations and financial condition.

The Restructuring Plan still contemplates that we eventually dispose of our interests in our generation subsidiaries (excluding our nuclear and hydroelectric power generation subsidiary). In April 2002, the MOCIE released the basic privatization plan for five of our generation subsidiaries, excluding our nuclear and hydroelectric power generation subsidiary. In 2002, we commenced the sale of Korea South-East Power Co., Ltd. (KOSEPCO). According to the original privatization plan, the process of selling KOSEPCO was either to sell its management control or conduct an initial public offering. Due to market conditions, the process of selling KOSEPCO has tentatively been delayed. The aggregate foreign ownership of our generation subsidiaries will be limited to 30% of total power generation capacity in Korea. We cannot assure you as to the timing or the extent to which our divestiture will occur. In addition, it is possible that Korean law relating to anti-competitive practices as existing at that time may affect the manner in which we conduct our business through such subsidiaries.



**Table of Contents*****Increase in fuel prices will adversely affect our results of operations and profitability.***

Fuel costs constituted 27.6% and 33.9% of our operating revenues and operating expenses, respectively, for the year ended December 31, 2004. Our generation subsidiaries purchase substantially all of the fuel that they use (except for anthracite coal) from a small number of suppliers outside Korea at prices determined in part by prevailing market prices in currencies other than Won. In addition, our generation subsidiaries purchase a significant portion of their fuel requirements under contracts with limited quantity and duration. Pursuant to the terms of our long-term supply contracts, prices are adjusted annually in light of market conditions. See Item 4 Information on the Company Business Overview Fuel . Most of the bituminous coal requirements are imported from China, Australia, Indonesia, Canada, Russia and the United States under long-term contracts. Approximately 38%, 26% and 25% of the annual bituminous coal requirements of our generation subsidiaries in 2004 were imported from Australia, Indonesia and China, respectively. Approximately 77.1% of the combined bituminous coal requirements of our generation subsidiaries are purchased under long-term contracts and 22.9% purchased on the spot market. Recently, due to increase in domestic demand in China and elsewhere in the world, the prices of bituminous coal have soared. As a result of this price increase and the effects of rising shipping cost for bituminous coal, our generation subsidiaries will be unable to secure their respective bituminous coal supply at prices comparable to those of prior periods. In addition, any significant interruption or delay in the supply of fuel, bituminous coal in particular, from any of the suppliers could cause our generation subsidiaries to purchase fuel on the spot market at prices higher than contracted, resulting in an increase in our fuel cost. In addition, there have been recent increases in oil prices, resulting in higher fuel cost. In May 2005, the price of oil (Dubai) exceeded US\$44 per barrel as compared to an average of US\$33.67 per barrel in 2004. Because the Government regulates the rates we charge for electricity we sell (see Item 4 Information on the Company Business Overview Rates ), our ability to pass on such cost increases to our customers is limited. We estimate that the recent increase in fuel prices has had a material adverse effect on our results of operations and profitability in 2005 to date. We expect fuel prices to remain high throughout 2005. Accordingly, we expect our operating income and net income may be adversely impacted.

***The impact of Won depreciation may have a material adverse effect on us.***

The depreciation of Won against the U.S. dollar or the Japanese Yen in the past had a material effect on the cost of servicing our foreign currency debt and the cost of our purchases of fuel materials and equipment from overseas sources. As of December 31, 2004, approximately 27% of our debt was denominated in foreign currencies, principally in Dollars and Yen. The prices for substantially all of the fuel materials and a significant portion of the equipment we purchase are stated in currencies other than Won, generally in Dollars. Since substantially all of our revenues are denominated in Won, we must generally obtain foreign currencies through foreign-currency denominated financings or through the conversion of Won to effect such purchases or service such debt. As a result, any significant depreciation of the Won against the Dollar or other foreign currencies will adversely impact us.

***Labor unrest may materially and adversely affect our operations.***

As of December 31, 2004, approximately 62.1% of the employees of our generation subsidiaries were members of the Korean Power Plant Industry Union. The Restructuring Plan and the privatization plan for our non-nuclear generation subsidiaries have generated labor unrest. Labor unions to which our employees belong have voiced their opposition to the Restructuring Plan from its very inception. In particular, the prospect of privatizing some of our core assets has raised concerns among some of our employees. On February 25, 2002, employees belonging to labor unions of our five non-nuclear generation subsidiaries commenced a six-week strike to protest the Government's plans to privatize our five non-nuclear generation subsidiaries. The Korean Confederation of Trade Unions ( KCTU ), the second-largest governing body of labor unions in Korea with over 600,000 members, negotiated with the Government on behalf of the labor unions. After prolonged negotiations with the Government, KCTU directed the labor unions of our five non-nuclear generation subsidiaries to end their strike on April 2, 2002. We cannot assure you that a large-scale strike will not occur again in the future, or that any such labor unrest will be satisfactorily resolved. Such labor unrest may adversely affect our results of

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operations, including by severely disrupting the power supply as well as substantially hindering the implementation of the Restructuring Plan.

***Inherent in the operation of nuclear power generation facilities are numerous hazards risks, any of which could result in a material loss of revenues or increased expenses.***

Through Korea Hydro & Nuclear Power Co., Ltd. ( KHNP ), our wholly-owned nuclear subsidiary, we currently operate 19 nuclear-fuel generating units. The 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 low cost structure that forms the base load and is the largest source of Korea's electricity supply accounting for 38.2% of electricity generated in Korea in 2004. Due to significantly lower fuel costs as compared with conventional power plants, our nuclear power plants are in general operated at full capacity with only routine shutdowns for check-up and overhaul consisting of 30 to 40 days. In December 2003, in response to concerns of potential exposure to radioactive materials arising from a release incident, we shut down Younggwang-5, one of our nuclear power plants for assessment, inspection and overhaul. This nuclear power plant resumed its operations on April 28, 2004. In November 2003, we shut down Younggwang-6, another of our nuclear power plants for planned overhaul, during which a mechanical problem was discovered giving rise to concerns as to its safety. After the overhaul, this nuclear power plant resumed its operations on April 6, 2004. The breakdown, failure or suspension of operation of a nuclear unit could result in a material loss of revenues, increase in fuel costs from alternative power sources and/or additional costs to repair, which could have a material adverse impact on our financial conditions and results of operation.

***Opposition to the construction and operation of nuclear-fuel generating units may have adverse effect on us.***

In 2004, 38.2% of the electricity generated in Korea was generated by nuclear generating units. In recent years, we have encountered increasing opposition in the Republic to the construction and operation of nuclear generating units. Although the Government and we have undertaken various community development programs to address concerns of residents of areas near nuclear units, community opposition to the construction and operation of nuclear units could result in construction delay or relocation of planned nuclear units which could have a material adverse impact on us. See Item 4 Information on the Company Business Overview Power Generation KHNP , Business Overview Environment and Community Programs and Business Overview Insurance .

***Insurance coverage may not be sufficient.***

Risks of substantial liability arise from the operation of nuclear-fueled generating units and from the use and handling of nuclear fuel and possible radioactive emissions associated with such nuclear fuel. While KHNP carries insurance for its generation units and is the beneficiary of a certain Government indemnity with respect to such risks, the amounts and coverage thereof are limited and do not cover all types or amounts of loss which could arise in connection with the ownership and operation of nuclear plants, and material financial consequences could result from a significant accident.

Our non-nuclear generation subsidiaries carry insurance covering key assets and equipments located at their respective power plants against certain risks, including fire, construction-in-progress, imported fuel and procurement in transit and directors' and officers' liability. These insurance and indemnity, however, cover only a portion of the assets that our 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 KHNP or us, our non-nuclear generation subsidiaries are not permitted to self-insure, and accordingly have not self-insured, against risks of their uninsured assets or business. Accordingly, material and adverse financial consequences could result from a significant accident.



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Because we and our non-nuclear generation subsidiaries do not carry insurance against terrorist attacks, in the event of an act of terrorism, the coverage amount for their properties may not be enough. See Item 4 Information on the Company Business Overview Insurance .

### ***We anticipate that we need to incur additional indebtedness, which may be substantial, for future capital expenditures.***

We anticipate that additional indebtedness, which may be substantial, will be required through the years in order to refinance existing debt and to make capital expenditures for construction of generation plants and other facilities. We expect that certain portion of our long-term debt will need to be raised through foreign currency borrowings and in international capital markets. It is possible that the cost at which such financing may be provided may not be acceptable to us.

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

The Korea Electric Power Corporation Act (the KEPCO Act ) requires that the Government, directly or pursuant to The Korea Development Bank Act (the KDB Act ), through The Korea Development Bank (a statutory banking institution wholly-owned by the Government), own at least 51% of our capital stock. As of March 31, 2005, Government, directly or through The Korea Development Bank ( KDB ), owned 54% of our issued capital. Accordingly, without changes in the existing Korean law, it will be difficult or impossible for us to undertake any equity financing in the future (other than sales of treasury stock) without the participation of the Government.

## **Risks Relating to Korea and the Global Economy**

### ***Adverse developments in Korea could adversely affect us.***

Beginning in late 1997, Korea experienced a significant financial and economic downturn which resulted in, among other things, a significant increase in the number and size of Korean companies filing for corporate reorganization and protection from their creditors. Although it is believed that the country's economy has recovered to a certain extent, there can be no assurance that the recovery will continue or that Korea's economy will not experience any adverse developments in the future. In addition, as recently acknowledged by the Korean government, the Korean economy has been experiencing a recession which had and is expected to continue to have a material impact on our operations.

Adverse economic developments in the Republic have had, and may have in the future, a significant impact on us. In general, the rate of growth in electricity demand in Korea has shown a proportionate positive correlation to the rate of growth in the overall economy, reflected in such measures as GDP. As a consequence of adverse economic conditions in Korea, the rate of growth in demand for electricity declined significantly in late 1997 and during 1998. Total demand for electricity increased by 11.8% in 2000 as compared to 1999, by 7.6% in 2001 as compared to 2000, by 8.0% in 2002 as compared to 2001, by 5.4% in 2003 as compared to 2002, and by 6.3% in 2004 as compared to 2003.

Developments that could hinder the Republic's economy include the following:

social and labor unrest resulting from lay-offs, increasing unemployment and lower levels of income;

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

volatility in commodity prices (including oil prices), foreign currency reserve levels, exchange rates, interest rates and the stock market;

increased reliance on exports to service foreign currency debts, which could cause friction with the Republic's trading partners;

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the current financial problems of certain former and current companies of Korean conglomerates, or chaebols, as well as companies which conduct business with those chaebols, or the failure of restructuring of chaebols, and their potential impact on the Republic's financial sector;

political uncertainty or increasing strife among or within political parties in Korea;

continued adverse developments in the economies of countries to which the Republic exports goods and services (such as the United States and Japan), or in emerging market economies in Asia or elsewhere; and

a deterioration in economic or diplomatic relations between the Republic and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy.

***Tensions with North Korea could have an adverse effect on us.***

Relations between Korea and the Democratic People's Republic of Korea ( North Korea ) have been tense over most of Korea's history. The level of tension between Korea and North Korea has fluctuated and may increase or change abruptly as a result of current and future events, including ongoing contacts at the highest levels of the governments of Korea and North Korea and increasing hostility between North Korea and the United States. This level of tension has increased recently as a result of public announcements that North Korea had developed and was in possession of nuclear weapons and that it may be planning an underground nuclear test. It also announced its indefinite withdrawal from further six-party talks which members include Korea, North Korea, the United States, China, Japan, and Russia. Representatives of Korea, the United States, China, Japan and Russia are currently making collaborative efforts to resume the six-party talks, however, future prospects for the six-party talks appear uncertain. Any further increase in tensions, resulting for example from a break-down in contacts or an outbreak in military hostilities, could hurt our business, results of operations and financial condition and could lead to a decline in the price of our common stock and our American depositary shares.

***Unemployment and labor unrest in Korea may adversely affect our operations.***

The economic downturn in Korea in 1997 and 1998 and the increase in the number of corporate reorganizations and bankruptcies thereafter caused layoffs and increasing unemployment in Korea, and a similar economic downturn in the future could lead to further layoffs. These factors could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programs. During 1998 and 1999, there were large-scale protests and labor strikes in Korea. According to statistics from the Bank of Korea, the unemployment rate generally decreased from 4.1% as of December 31, 2000 to 3.1% as of December 31, 2002, but increased to 3.6% as of December 31, 2003 and to 3.7% as of December 31, 2004. A continued increase in unemployment or labor unrest in Korea could adversely affect our operations and the financial conditions of Korean companies in general, depressing the price of securities on the Stock Market Division of the Korea Exchange (the Korea Exchange ) and the value of the Won relative to other currencies. These developments would likely have an adverse effect on our financial condition and results of operations.

***Financial instability in Korea and other countries, particularly emerging market countries, could adversely affect on us.***

The Korean market and the Korean economy are influenced by economic and market conditions in other countries, including emerging market countries. Financial turmoil in Asia and elsewhere in the world in recent years has adversely affected the Korean economy. Although economic conditions are different in each country, investors reactions to developments in one country, such as Argentina or Brazil, can have adverse effects on the securities of companies in other countries, including Korea. A loss of investor confidence in the financial systems of emerging and other markets may cause increased volatility in Korean financial markets. We cannot assure you that financial events of the type that occurred in emerging markets in Asia in 1997 and 1998 will not happen again or will not have an adverse effect on our business.

**Table of Contents****Other Risks*****We are jointly and severally liable for certain debt of our generation subsidiaries.***

Under the relevant provisions of the Korean Commercial Code, we and each of our generation subsidiaries remain jointly and severally liable for all of our liabilities existing prior to the corporate split on April 2, 2001 and all liabilities that we transferred to generation subsidiaries unless such joint and several liability has been successfully eliminated through consents of creditors of affected debt, including consent by resolutions at bondholders' meetings, which resolutions are approved by the court. In order to facilitate the privatization of our generation subsidiaries, we eliminated the joint and several liabilities among us and our generation subsidiaries through the consent process described in Item 4. Information on the Company History and Development Recent Developments Debt Restructuring . As a result, as of April 30, 2005, our generation subsidiaries were released from the joint and several liability for our debts (except for W265.1 billion of loans from KDB for which we and our generation subsidiaries remained jointly and severally liable) existing prior to the corporate split on April 2, 2001 which were not transferred to our generation subsidiaries and the creditors of such debts no longer have direct claims as to the assets of our generation subsidiaries. The remaining obligations rank equally with our other unsecured debt, including the Notes.

***Our consolidated financial statements are prepared in accordance with Korean GAAP, which differ materially from U.S. GAAP.***

Our consolidated financial statements are prepared in accordance with accounting regulations applicable to Government-invested companies and Korean GAAP, which differ in certain significant respects from U.S. GAAP. See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Reconciliation to U.S. GAAP .

Korean GAAP and U.S. GAAP differ, among other ways, in respect of the following issues:  
treatment of asset revaluation;

treatment of foreign exchange translation gains and losses; and

the establishment of a regulatory asset and liability to offset the impact of foreign exchange translation losses and gains on our income statement, deferred income taxes and reserves for self-insurance.

See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Reconciliation to U.S. GAAP and Note 32 of the notes to our consolidated financial statements included elsewhere herein.

***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 SEC and listed on the NYSE, we are, and in the future will be, subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act ). However, foreign private issuers, including us, are exempt from certain corporate governance standards required to be complied with under the Sarbanes-Oxley Act or under the rules of the NYSE. 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.

**Table of Contents****ITEM 4. INFORMATION ON THE COMPANY****HISTORY AND DEVELOPMENT****General Information**

Korea Electric Power Corporation was established by the Government on December 31, 1981 as the successor to Korea Electric Company and, until 1989, was wholly owned by the Government. Our registered office is located at 167 Samseong-Dong, Gangnam-Gu, Seoul, Korea, and our telephone number is 82-2-3456-4264.

In 1989, the Government sold 21% of our common stock as part of a planned partial privatization. Such partial privatization was one of several sales by the Government of shares of Government-owned companies undertaken. In 1994, we sold 1.2% of our shares in a global offering. In 1995, we sold 1.1% of our shares in another global offering. From November 1997 to February 1998 the Government injected capital into KDB, The Export-Import Bank of Korea, Korea First Bank and Seoul Bank with our shares to support those financial institutions. In March 1999, the Government sold 5% of our shares in a global offering. As a result, as of December 31, 2000, the Government owned, directly or indirectly, 54% of our issued common stock (including treasury stock). On June 20, 2001, the Government transferred 127,086,334 shares of our common stock held by it, which represents 19.85% of our outstanding capital, to KDB, and on April 30, 2004, the Government transferred 34,511,869 shares of our common stock, which represents 5.39% of our outstanding capital, to KDB to strengthen its capital base. On December 30, 2004, the Government sold 19,592,000 shares (or 3.06% of total outstanding shares) of us to Korea Development Bank ( KDB ), which is wholly-owned by the Government, through the over-the-counter market at Won 27,100 per share. As a result, the Government's direct ownership in us has decreased to 23.97% from 27.03% and KDB's direct ownership in us has increased to 29.99% from 26.93%. As a result of such transfer, the Government and KDB own 23.97% and 29.99%, respectively, of the outstanding shares of our common stock as of the end of April 2004. See the table setting forth certain information relating to certain owners of our capital stock as of April 14, 2005 in Item 7 Major Shareholders and Related Party Transactions Major Shareholders .

The KEPCO Act requires that the Government, directly or pursuant to the KDB Act, through KDB, own 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 which require a stockholders' resolution, including approval of dividends. The Government's and KDB's rights as holders of our common stock are exercised by the MOCIE based on the Government's ownership of our common stock and a proxy to be received from KDB in consultation with the Ministry of Finance and Economy ( MOFE ).

We operate under the general supervision of the MOCIE. The MOCIE, in consultation with the MOFE, has responsibility for approving the electric power rates we charge after review by the Korean Electricity Commission. See Business Overview Rates . We furnish reports to officials of the MOCIE, the MOFE and other Government agencies and regularly consult with such officials on matters relating to our business and affairs. See Business Overview Regulation .

Pursuant to our articles of incorporation, our directors are classified into two categories: standing directors and non-standing directors. The number of standing directors shall be not more than seven, including the president (who is our Chairman and CEO), and the non-standing directors shall be not more than eight. In any case, the number of standing directors may not exceed the number of non-standing directors. The standing directors other than our president shall be appointed by the MOCIE upon the motion of our president with the approval at the general meeting of our shareholders. The non-standing directors shall be appointed from among specialists in the private sector with knowledge of business management by the Minister of Planning and Budget of the Republic upon the motion of our president. Our president shall be appointed by the president of the Republic upon the motion of the MOCIE after shareholders' approval following the nomination by a president nomination committee which is composed of the non-standing directors and other members from the private sector appointed by the board of directors. The president serves as our chief executive officer and represents us

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and administers our day-to-day business in all matters not specifically designated as responsibilities of the board of directors.

In June 2005, we amended our articles of incorporation, among others, to comply with the general exemptions provided under the audit committee requirements of the Sarbanes-Oxley Act, embodied in Rule 10A-3 of the Exchange Act. Pursuant to our amended articles of incorporation, we will have three auditors, consisting of one standing auditor and two non-standing auditors. The standing auditor is appointed by the President of the Republic upon the motion of the Minister of Planning and Budget of the Republic following a resolution at the general meeting of our shareholders. The non-standing auditors are appointed by the President of the Republic upon the motion of the Minister of Planning and Budget of the Republic. Each of our auditors is severally responsible for performance of its duties required under the Commercial Code of Korea and other applicable laws of Korea. In addition, these auditors will perform the roles and responsibilities required of an audit committee under the Sarbanes-Oxley Act through a board of auditors consisting of all of these auditors. The auditors may attend board meetings but are not our directors and do not have the right to vote at board meetings. See Item 6 Directors, Senior Management and Employees Directors and Senior Management Board of Auditors .

We play an important role in the implementation of the Government's national energy policy, which is established in consultation with us. As an entity formed to serve public policy goals of the Government, we seek to maintain an overall level of profitability which allows us to strengthen our equity base in order to support the growth in our business. Our electricity rates are established pursuant to procedures that take into account, among other things, our needs to recover the costs of operations, to make capital investments and to provide a fair return to our security holders. See Business Overview Rates .

**Recent Developments**

***Debt Restructuring***

Pursuant to the Restructuring Plan for the electricity industry in Korea (as described in Restructuring of the Electricity Industry in Korea below), in February 2001, our board of directors approved a plan to split the assets and liabilities associated with our generating capacity into six wholly-owned subsidiaries. We implemented the plan effective as of April 2, 2001. Under the relevant provisions of the Korean Commercial Code, we remain jointly and severally liable for all liabilities we transferred to our generation subsidiaries, and each generation subsidiary is jointly and severally liable for all of our liabilities existing prior to the corporate split and all liabilities that we transferred to other generation subsidiaries.

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In order to facilitate the privatization of the non-nuclear and non-hydroelectric generation subsidiaries, we took actions to eliminate the joint and several liabilities among us and our generation subsidiaries so that the generation subsidiaries will not be liable for our debt and debt of other generation subsidiaries. Under Korean law, the elimination of this joint and several liability requires consent of creditors of affected debt, including consent of a specified percentage of each series of the outstanding debt securities that were sold in the United States, Europe, Asia and Korea. On November 14, 2002, we commenced solicitations of consents and proxies from the holders of our debentures and notes listed below under the heading Yankee and Global Bonds (the Yankee and Global Bonds ) and under the heading Eurobonds (the Eurobonds and, together with the Yankee and Global Bonds, the Bonds ).

**Yankee and Global Bonds**

US\$1,350mm 6.375% Notes due 2003  
 US\$300mm 8.25% Notes due 2005  
 US\$350mm 7.75% Debentures due 2013  
 US\$70.64mm 6.00% Debentures due 2026  
 US\$300mm 7.00% Debentures due 2027  
 US\$200mm 6.75% Debentures due 2027  
 US\$139,842mm 7.40% Amortizing Debentures due 2016  
 US\$52,559mm 7.95% Zero-to-Full Debentures due 2096

**Eurobonds**

JPY2,560mm 2.75% Notes due 2004  
 US\$21mm FRNs due 2004  
 JPY5,000mm 2.50% Notes due 2004  
 JPY5,000mm 2.92% Notes due 2004  
 25.183mm 5.75% Notes due 2004  
 US\$55mm 7.11% Notes due 2004  
 US\$50mm FRNs due 2004  
 JPY30,000mm 2.10% Notes due 2005  
 US\$96.5mm FRNs due 2005  
 US\$95mm 7.05% Notes due 2007  
 GBP24.467mm 8.50% Notes due 2007

The solicitations related to proposed amendments to the agreements under which our debt securities were issued and to waivers of certain rights under the Korean Commercial Code. In consideration for the amendments and waivers, and upon the satisfaction or waiver of all closing conditions, the KDB agreed to issue full, unconditional and irrevocable guarantees (the KDB Guarantees ) in respect of the Bonds if the amendments and waivers with respect to such issue become effective. The waivers were intended to eliminate the joint and several liability of the generation subsidiaries on the Bonds and facilitate the eventual divestiture or sale of the generation subsidiaries pursuant to the Restructuring Plan. The joint and several liabilities arose as a matter of law under the Korean Commercial Code in connection with our creation of the generation subsidiaries and transfer of our assets to them. The debt obligations covered by the KDB Guarantees are denominated in several currencies and have final maturities ranging from 2003 to 2027, except that one series of debt securities matures in 2096.

In February 2003, we completed the solicitation of consents and proxies for the Yankee and Global Bonds and KDB Guarantees were given accordingly. In April 2003, we announced the successful completion of the closing conditions relating to the Eurobonds and KDB Guarantees were given accordingly. In February 2004, we successfully completed the solicitation of consents and proxies for our Yen-denominated bonds offered in Japan (the Samurai Bonds ) and KDB Guarantees were given accordingly. In March 2003, we completed the solicitation of consents for our domestic bonds and we obtained the court s approval for the elimination of joint and several liability on condition that KDB Guarantees be given. As a result of subsequent developments relating to the Restructuring Plan, the process of obtaining and giving the KDB Guarantees was suspended. In March 2005, however, substantially all of the domestic bonds subject to joint and several liability were redeemed at maturity except for W265.1 billion of loans from KDB outstanding as of April 30, 2005 for which we and all of our generation subsidiaries remained jointly and severally liable. See Item 3 Key Information Risk Factors Other Risks We are jointly and severally liable for certain debt of our generation subsidiaries .

***Suspension of the Restructuring Plan***

In September 2003, a Joint Study Group on Reforming Electricity Distribution Network was established under the Tripartite Commission to propose a methodology of introducing distribution competition within the industry.

Members of the Tripartite Commission include, among others, representatives from the Government and

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the labor union. In June 2004, based on the conclusion published by this Joint Study Group, the Tripartite Commission issued a resolution which recommended halting the plan to form and privatize the distribution subsidiaries. Instead, this resolution recommended the creation of independent business divisions within KEPCO, namely Strategic Business Units, each with more autonomy and independence, to introduce internal competition among the business divisions and improve efficiency. This resolution was adopted by the MOCIE on June 17, 2004. Accordingly, we have been conducting research in preparation of implementing the new revised plan, which we expect to be completed in early 2006.

***Management Reform***

We are currently undertaking management reforms to improve our business through a change in management ethics and philosophy and management structure. We established the Management Reformation Office in August 2004 under the direct control of our President to lead this reform. In connection with this reform, we are planning to introduce internal competition by establishing a Strategic Business Unit system and to implement Enterprise Resource Planning.

***Government's Policy to Move Headquarters of Government-invested Enterprises***

The Korean government has recently announced its policy to move the headquarters of government-invested enterprises, including us, out of the Seoul metropolitan area to other provinces in Korea. While we intend to comply with this policy if implemented, nothing has been finalized at this time. There can be no assurance that we will not experience any disruptions in our operations, including opposition from our labor union. See Item 3 Key Information Risk Factors Risks Relating to KEPCO Labor unrest may materially and adversely affect our operations .

***Electricity Supply to Industrial Complex in Kaesong, North Korea***

In March 2005, we began providing electricity to the industrial complex located in Kaesong, North Korea which was established pursuant to an agreement made during the summit meeting of the two Koreas in June 2000. The Kaesong complex is the largest economic project between the two Koreas and is designed to combine the Republic's capital and entrepreneurial expertise with the cheap labor of North Korea. The size of this industrial complex is expected to be increased in a number of phases with the first phase of development measuring 3.3 million square-meters, which will ultimately be increased to 66 million square-meters. To date, 15 companies of the Republic have been authorized to set up facilities in a pilot zone measuring 92,500 square-meters. In May 2004, we were selected as electricity supplier for the phase one development by the Ministry of Reunification. In December 2004, a memorandum of understanding between the two Koreas for electricity supply was reached, enabling us to design, build and operate all of the electricity supply facilities in and connecting to the Kaesong complex. We currently supply electricity to the pilot zone through a newly-installed 22.9 kilovolt distribution network. We expect to supply approximately 70-100 megawatts of electricity in the first phase of development and plan to build a 154 kilovolt transmission line connecting to the Kaesong complex. No assurance can be given that we will not experience any material losses from this project as a result of, among other things, project suspension or failure of the project as a result of a breakdown in the relationship between the Republic and North Korea as a consequence of North Korea's nuclear ambitions. See Item 3 Key Information Risk Factors Risks Relating to KEPCO Tensions with North Korea could have an adverse effect on us .

**Capital Expenditures**

This table below sets forth for each year in the three-year period ending December 31, 2004, the amounts of capital expenditures (including capitalized interest) for the construction of generating, transmission and distribution facilities:

	2002		2003		2004
	(In billions of Won)				
W	6,653	W	6,782	W	6,287

For the expected completion dates of generating facilities, see Business Overview Capital Investment Program .





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**BUSINESS OVERVIEW**

**Introduction**

We are an integrated electric utility company and the only company engaged in the transmission and distribution of electricity in Korea. Through our six consolidated generation subsidiaries, we also generate substantially all of the electricity produced in Korea. As of December 31, 2004, we and our generation subsidiaries owned approximately 89.9% of the total electricity generating capacity in Korea (excluding plants generating electricity primarily for private or emergency use). In 2004, we sold 312 billion kilowatt-hours of electricity. Of the 342 billion kilowatt-hours of electricity we generated or purchased in 2004, 39.1% was generated by our nuclear and hydroelectric power generation subsidiary.

For the year ended December 31, 2004, we had consolidated operating revenues of W23,956 billion (US\$23,143 million) and consolidated net income of W2,883 billion (US\$2,785 million) and for the year ended December 31, 2003, we had consolidated operating revenues of W22,775 billion and consolidated net income of W2,323 billion. Our operating revenues increased primarily as a result of a 6.3% increase in kilowatt hours of electricity sold in 2004. The increase in electricity sold was primarily attributable to a 5.3% increase in kilowatt hours of electricity sold to the industrial sector, a 9.5% increase in kilowatt hours of electricity sold to the commercial sector and a 4.9% increase in kilowatt hours of electricity sold to the residential sector. See Item 5 Operating and Financial Review and Prospects Operating Results .

Demand for electricity in the Republic grew at a compounded average rate of 7.8% per annum for the five years ended December 31, 2004 compared to real gross domestic product GDP compounded growth rates of approximately 5.4% for the same period according to The Bank of Korea. The GDP growth rate was 4.6% for 2004 as compared to 3.1% in 2003. Total demand for electricity in Korea during 2004 increased by 6.3% as compared to 2003.

Historically, we have made substantial expenditures for construction of generation plants and other facilities to meet increased demand for electric power. Subject to the Government's restructuring plan as discussed in Business Restructuring of the Electricity Industry in Korea , we (including our generation and distribution subsidiaries) plan to continue to make substantial expenditures to expand and enhance our generating, transmission and distribution system in the future. See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Requirements .

The Korea electricity industry traces its origins to the establishment of the first electric utility company in Korea in 1898. On July 1, 1961, the Korean electric utility industry was reorganized by the merger of Korea Electric Power Company, Seoul Electric Company and South Korea Electric Company, thereby forming Korea Electric Company. From 1976 to 1981, the Government acquired the private minority shareholdings in Korea Electric Company. After the Government had acquired all of the outstanding shares of Korea Electric Company, Korea Electric Company dissolved and we were incorporated in 1981, assuming the assets and liabilities of Korea Electric Company. We ceased to be wholly-owned by the Government in 1989 when the Government sold 21.0% of its common stock. As of April 14, 2005, the Government owned 53.96% (including indirect holdings by KDB, which is 100% owned by the Government) of our issued and outstanding common stock.

Prior to the corporate reorganization effected on April 2, 2001, which created six generation subsidiaries wholly-owned by us, we were the principal electricity generation company in Korea. We continue to be the principal electricity transmission and distribution company in Korea, subject to the implementation of the Restructuring Plan (as described herein).

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**Restructuring of the Electricity Industry in Korea**

On January 21, 1999, the MOCIE published the Restructuring Plan. The overall objectives of the Restructuring Plan are to:

introduce competition and thereby increase efficiency in the Korean electricity industry;

ensure a long-term, inexpensive and stable electricity supply; and

promote consumer convenience through the expansion of consumer choice.

The KEPCO Act requires that the Government own 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 which require a stockholders' resolution, including approval of dividends. The Government's and KDB's rights as holders of our common stock are exercised by the MOCIE in consultation with the Ministry of Finance and Economy ( MOFE ). The Government currently has no plan to cease to own directly or indirectly at least 51% of our outstanding common stock.

The following is a description of the Restructuring Plan and the Government's position relating to the Restructuring Plan as of the date of this report.

***Phase I***

During Phase I, which was the preparation stage for Phase II and ran from January 1, 1999 until April 2, 2001, we continued to be the principal electricity generator, with a few independent power producers (the IPPs) supplying electricity to us pursuant to existing power purchase agreements (the PPAs). On February 23, 2001, our board of directors approved a plan to split our non-nuclear and non-hydroelectric generating capacity into the following five separate wholly-owned generation subsidiaries, each with its own management structure, assets and liabilities: Korea Midland Power Co., Ltd. ( KOMIPO ), Korea South-East Power Co., Ltd ( KOSEPCO ), Korea Western Power Co., Ltd. ( KOWEPO ), Korea Southern Power Co., Ltd. ( KOSPO ), and Korea East-West Power Co., Ltd. ( EWP ). Our hydroelectric and nuclear generating capacity was transferred into a separate wholly-owned generation subsidiary, Korea Hydro & Nuclear Power Co., Ltd. ( KHNP ). On March 16, 2001, our shareholders approved the plan to establish the generation subsidiaries effective as of April 2, 2001.

The Government's objectives in dividing the power generation capacity into separate generation subsidiaries were principally to:

introduce competition and thereby increase efficiency in the electricity generation industry in Korea; and

ensure the stable supply of electricity in Korea.

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

While our ownership percentage of the non-nuclear and non-hydroelectric generation subsidiaries will depend on the ultimate form of the Restructuring Plan approved by the Government, we plan to continue to retain 100% ownership of KHNP, distribution and the transmission business.

***Phase II***

Phase II, which is the current phase, began on April 2, 2001. In Phase II, the Government has introduced a competitive bidding or bidding pool system under which we purchase power from the generation subsidiaries and other companies for transmission and distribution to customers. Such competitive bidding or bidding pool system was established on April 2, 2001 and is a cost-based pool system (the CBP) (as described below).

Pursuant to the Electricity Business Law amended on December 23, 2000, the Government established the Korea Power Exchange ( KPX ) on April 2, 2001 to deal with the sale of electricity and work out regulations governing the electricity market to allow for electricity distribution via a competitive bidding process. The Government also established the Korea Electricity Commission (the KOREC) on April 27, 2001 to regulate the

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restructured Korean electricity industry and to ensure fair competition. As part of this process, the KPX established the Electricity Market Rules relating to the operation of the bidding pool system. To amend the Electricity Market Rules, the KPX shall obtain approval from the MOCIE and any amendment must be reviewed by the KOREC, prior to approval by the MOCIE.

The KOREC's main functions involve implementing of necessary standards and measures for electricity market operation and reviewing of matters relating to licensing companies in the Korean electricity industry. The KOREC also acts as an arbitrator in disputes involving utility rates and companies in the Korean electricity industry and consumers and investigates illegal or deceptive activities of Korean electricity market participants.

*The Pool System*

Under the pool system, each generation company, including our generation subsidiaries, participates in a competitive bidding process operated by the KPX. Under the current CBP, each generation company, including our generation subsidiaries, submits its variable costs to the KPX on a monthly basis and also submits available capacity to the KPX one day prior to the date of trading. The submitted costs are divided into two categories: base load units and non-base load units, in order to promote fair competition as base load and non-base load units have different cost structures. Base load plants utilize coal and nuclear fuel materials and non-base load plants utilize other materials including oil and LNG or alternative sources such as hydro power. The final pool price for each of these categories is determined by the KPX.

CBP comprises two prices, namely, system marginal price ( SMP ) and base load marginal price ( BLMP ), which are determined by variable costs of the most expensive non-base load unit(s) and base load unit(s), respectively, from which electricity is dispatched for the trading period. Non-base load capacity payment ( Non-Base Load CP ) and base load capacity payment ( Base Load CP ) represent fixed costs of non-base load units and base load units, respectively, and are settled separately from the CBP.

One uniform pool price for each category is determined every hour as the SMP and the BLMP by merit order (as described below).

Merit order is a power dispatch order system determined and used by the KPX. The KPX determines the allocation of power supplied by generation companies. This determination is primarily dependent on variable cost and other various factors, including the proximity of a generation company to the geographical area to which power is being supplied network and fuel constraints and amount of power loss during transmission and distribution.

Consumers purchase power from us at prices based upon our purchase price plus transmission and distribution fees and other fees which are set by the KOREC. The KOREC's prime objective is ensuring transparency and preventing anti-competitive practices in the bidding process to maximize the benefits of competition to consumers.

*Privatization of Non-nuclear Generation Subsidiaries*

In April 2002, the MOCIE released the basic privatization plan for five of our generation subsidiaries, excluding our nuclear and hydroelectric power generation subsidiary. In 2002, we commenced the sale of KOSEPCO. According to the original privatization plan, the process of selling KOSEPCO was either to sell its management control or conduct an initial public offering. Due to market conditions, the process of selling KOSEPCO has tentatively been delayed. The aggregate foreign ownership of our generation subsidiaries will be 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 sales, with a view to encouraging competition, assuring adequate electricity supply and debt service capability.

*Resolution of the Tripartite Commission and the Recent MOCIE Announcement*

In September 2003, a Joint Study Group on Reforming Electricity Distribution Network was established under the Tripartite Commission to propose a methodology of introducing distribution competition within the industry. Members of the Tripartite Commission include, among others, representatives from the Government and

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the labor union. In June 2004, based on the conclusion published by this Joint Study Group, the Tripartite Commission issued a resolution which recommended halting the plan to form and privatize the distribution subsidiaries. Instead, this resolution recommended the creation of independent business divisions within KEPCO, each with more autonomy and independence, to introduce internal competition among the business divisions and improve efficiency. This resolution was adopted by the MOCIE on June 17, 2004. Accordingly, we have been conducting research in preparation of implementing the new revised plan, which we expect to be completed in early 2006.

**Power Generation**

The electricity generating systems of our generation subsidiaries as of December 31, 2004 comprised a total of 340 generating units, including nuclear, thermal, hydro and internal combustion units, which as of December 31, 2004 had an aggregate installed generating capacity of 53,907 megawatts. Our thermal units produce electricity using steam turbine generators and include units fired by coal and oil. Internal combustion units are diesel-fired gas turbine and combined cycle units. Combined cycle units consist of either LNG-fired combined cycle units or oil-fired combined cycle units. In addition to the generating facilities that our generation subsidiaries own, we purchase power output of several generating plants not owned by our generation subsidiaries.

The table below sets forth as of and for the year ended December 31, 2004, the number of units, installed capacity and the average capacity factor for each type of generating facility that our generation subsidiaries own.

	Number of Units	Installed Capacity(1)  (Megawatts)	Average Capacity Factor(2)  (Percent)
<b>KEPCO facilities:</b>			
Nuclear	19	16,716	91.4
<b>Thermal:</b>			
Coal	38	17,465	88.2
Oil	19	4,309	42.7
LNG	6	1,538	5.4
Total thermal	63	23,311	73.7
Internal combustion	126	252	29.6
Combined cycle	87	10,785	50.5
Hydro	41	2,837	12.2
Wind	4	6	
Total KEPCO facilities	340	53,907	70.8

(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 period divided by the total number of kilowatt hours that would have been generated assuming continuous operation of generating units at installed capacity expressed as a percentage.

The useful life of units of each type without substantial renovation is approximately as follows: nuclear and thermal, over 30 years; internal combustion, over 25 years; hydroelectric, over 50 years. Substantial renovation can extend the useful life of thermal units by up to 20 years.

We attempt to achieve efficient use of generating resources and diversification of generating capacity by fuel types. We have in the past relied principally upon oil-fired thermal generating units for electricity generation. Since the oil shock in 1974, however, Korea's power development plans have emphasized the construction of nuclear generating units. While nuclear units are more expensive to construct than other units of comparable

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capacity, nuclear fuel is less expensive than fossil fuels producing comparable amounts of energy. 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 electric energy, we seek to maintain nuclear power production capacity at a level approximating a level at which demand is continuous within Korea. For production at times when demand exceeds the level of continuous demand, we rely on units fired by fossil fuel and hydroelectric units, which can be started and shut down more efficiently than nuclear units. Bituminous coal is currently the cheapest thermal fuel per kilowatt-hour of electricity produced, and therefore we have sought to maximize the use of bituminous coal for generation needs above the continuous demand level, except for meeting surges in demand requiring rapid startup and shutdown. Thermal units fired by LNG, hydroelectric units and gas turbine internal combustion units are the most efficient types of units for rapid startup and shutdown, and therefore we have used such units principally to meet short-term surges in demand. We have increasingly used LNG-fired units and bituminous coal-fired units rather than anthracite coal-fired units to reduce the environmental impact of our generating operations. Anthracite coal is also a less efficient fuel source than bituminous coal.

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 add additional thermal and internal combustion units in future periods for this purpose. Such units may be completed more quickly than new nuclear units.

The table below sets forth for each of the five years ended December 31, 2004 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.

	2000	2001	2002	2003	2004	% of 2004 Gross Generation(1)
<b>(Million kilowatt hours and percent)</b>						
Electricity generated at generation subsidiaries:						
Nuclear	108,964	112,133	119,103	129,671	130,715	38.2
Thermal:						
Coal	99,428	112,257	119,665	121,931	128,547	37.6
Oil	18,888	21,622	17,493	16,664	16,084	4.7
LNG	1,632	1,557	1,771	1,674	733	0.7
Total thermal	119,948	135,437	138,929	140,269	145,364	42.5
Internal combustion	24,734	23,914	30,888	33,445	407	0.1
Combined cycle					47,652	13.9
Hydro	3,196	2,915	3,262	3,479	3,042	0.9
Wind					11	
<b>Total generation</b>	<b>256,842</b>	<b>274,398</b>	<b>292,182</b>	<b>306,866</b>	<b>327,191</b>	<b>95.6</b>
Electricity purchased from others:						
Thermal	7,144	9,589	12,242	12,178	12,137	3.5
Hydro	2,414	1,236	2,049	3,408	2,820	0.8

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<b>Total purchased</b>	9,558	10,825	14,291	15,586	14,957	4.4
Gross generation	266,400	285,224	306,474	322,452	342,148	100.0
Auxiliary use(2)	12,328	12,980	13,728	14,226	15,268	4.5
Pumping storage(3)	2,118	2,401	2,688	2,581	1,994	0.6
Total net generation(4)	251,953	269,842	290,058	305,645	324,886	95.0
Transmission and distribution losses	11,871	12,140	12,994	13,593	14,490	4.5(5)



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

The table below sets forth our total capacity at the end of each period (including units generating electricity primarily for sale to us) and peak and average load in each period for each of the five years ended December 31, 2004.

	2000	2001	2002	2003	2004
	<b>(Megawatts)</b>				
Total capacity	48,451	50,859	53,801	56,053	59,961
Peak load	41,007	43,125	45,773	47,385	51,264
Average load	30,328	32,560	34,986	36,810	39,058

***KHNP***

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

Currently, KHNP owns and operates 19 nuclear generating units at four power plant complexes in Korea, located in Kori, Wolsong, Yonggwang and Ulchin, and 27 hydroelectric generating units.

The table below sets forth as of and for the year ended December 31, 2004, the number of units, installed capacity and the average capacity factor for the two types of generating facility.

	Number of Units	Installed Capacity(1)  (Megawatts)	Average Capacity Factor(2)  (Percent)
Nuclear	19	16,716	91.4
Hydroelectric	27	534	31.7
Total	46	17,250	

- (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 period divided by the total number of kilowatt hours that would have been generated assuming continuous operation of

generating units at installed capacity expressed as a percentage.

In April 2005, another nuclear generating unit, Ulchin-6, commenced its operations. We are currently building two additional nuclear generating units, each with a 1,000-megawatt capacity at the Shin Kori site and we expect to complete these units in 2010 and 2011, respectively. In addition, we are planning to receive permission to build four additional nuclear units (Shin Kori Nos. 3 and 4 and Shin Wolsong Nos. 1 and 2).

**Table of Contents***Nuclear*

The table below sets forth certain information with respect to the nuclear generating units KHNP owned as of December 31, 2004.

<b>Unit</b>	<b>Reactor Type(1)</b>	<b>Reactor Design(2)</b>	<b>Turbine and Generation(3)</b>	<b>Commencement of Operations</b>	<b>Installed Capacity</b>
					(Megawatts)
Kori-1	PWR	W	GEC	1978	587
Kori-2	PWR	W	GEC	1983	650
Kori-3	PWR	W	GEC	1985	950
Kori-4	PWR	W	GEC	1986	950
Wolsong-1	PHWR	AECL	P	1983	679
Wolsong-2	PHWR	AECL, H	H, GE	1997	700
Wolsong-3	PHWR	AECL, H	H, GE	1998	700
Wolsong-4	PHWR	AECL, H	H, GE	1999	700
Yonggwang-1	PWR	W	W	1986	950
Yonggwang-2	PWR	W	W	1987	950
Yonggwang-3	PWR	H, CE	H, GE	1995	1,000
Yonggwang-4	PWR	H, CE	H, GE	1996	1,000
Yonggwang-5	PWR	D, CE	D, GE	2002	1,000
Yonggwang-6	PWR	D, CE	D, GE	2002	1,000
Ulchin-1	PWR	F	A	1988	950
Ulchin-2	PWR	F	A	1989	950
Ulchin-3	PWR	H, CE	H, GE	1998	1,000
Ulchin-4	PWR	H, CE	H, GE	1999	1,000
Ulchin-5	PWR	D, CE	D, GE	2004	1,000
Total nuclear(4)					16,716

(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.

(3) GEC means General Electric Company (UK); P means Parsons (Canada and UK); 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.

(4) Does not include Ulchin-6, which commenced its operations in April 2005 with installed capacity of 1,000-megawatt capacity.

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The table below sets forth certain information for 2004 with respect to each nuclear generating unit KHNP owned. In 2004, the fuel cost was W6.50 per kilowatt hour.

Unit	Average Capacity Factor	Average Fuel Cost Per Kwh	
	(Percent)	W	(Won)
Kori-1	94.8%	W	5.73
Kori-2	101.9		7.66
Kori-3	91.6		6.58
Kori-4	92.0		6.06
Wolsong-1	90.3		8.07
Wolsong-2	94.9		7.62
Wolsong-3	96.4		7.69
Wolsong-4	97.4		8.04
Yonggwang-1	90.1		6.01
Yonggwang-2	90.5		6.11
Yonggwang-3	91.8		5.90
Yonggwang-4	91.5		6.72
Yonggwang-5	66.9		6.05
Yonggwang-6	76.6		5.90
Ulchin-1	93.1		5.86
Ulchin-2	91.3		5.79
Ulchin-3	94.8		5.63
Ulchin-4	103.3		4.88
Ulchin-5	102.8		10.05
Total nuclear	91.4%	W	6.50

The average capacity factor of all of our nuclear units in aggregate has been maintained at 87.3% or more in each year since 1995.

Under extended cycle operations, nuclear units can be run continuously for periods longer than the conventional 12-month period between shutdowns for refueling and maintenance. This operational strategy of extended cycle has been adopted by all of our PWR units since 1987 and will spread to newly commenced units. Average shutdown periods for routine fuel replacement and maintenance varied from 30 to 40 days.

KHNP's nuclear units experienced an average of 0.6 unplanned shutdowns per unit for the year ended December 31, 2004. In the ordinary course of operation, KHNP's nuclear units routinely experienced damage and wear and tear and were 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 operations in 1978. See Item 3 Key Information Risk Factors Risks Relating to KEPCO Inherent in the operation of nuclear power generation facilities are numerous hazards risks, any of which could result in a material loss of revenues or increased expenses .

**Table of Contents***Hydroelectric*

The table below sets forth as of and for the year ended December 31, 2004 certain information regarding each hydroelectric plant.

Name (Number of Plants)	Classification	Year Built	Installed Capacity	Average Capacity Factor for the Twelve Months Ended December 31, 2004
			(Megawatts)	(Percent)
Hwacheon(4)	Dam waterway	1944	108.00	26.3
Chuncheon(2)	Dam	1965	57.60	28.8
Euiam(2)	Dam	1967	45.00	42.5
Cheongpyung(3)	Dam	1943	79.60	42.1
Paldang(4)	Dam	1973	120.00	43.8
Seomjingang(3)	Basin deviation	1945	34.80	44.7
Boseonggang(2)	Basin deviation	1937	4.50	50.0
Kwoesan(2)	Dam	1957	2.60	45.7
Anheung(3)	Dam waterway	1978	0.48	42.8
Kangreung(2)	Basin deviation	1991	82.00	
Total hydroelectric			534.58	31.7

The Government-owned Korea Water Resources Corporation assumes full control of multi-purpose dams, while KHNP maintains the dams used for power generation. Existing hydroelectric power plants have exploited most of the water resources in the Republic available for commercially viable hydroelectric power generation. Consequently, KHNP expects that no new major hydroelectric power plants will be built in the foreseeable future. Due to its relatively high cost of generation, hydroelectric power generation is reserved for peak periods.

**KOSEPCO**

As of December 31, 2004, KOSEPCO had 12 thermal units, including ten coal-fired units with aggregate installed capacity of 5,165 megawatts and two oil-fired units with aggregate installed capacity of 528.6 megawatts. KOSEPCO also had combined cycle and internal combustion units with aggregate installed capacity of 900 megawatts and pumped storage units with aggregate installed capacity of 600.4 megawatts. KOSEPCO had a total installed capacity of 7,194 megawatts.

The table below sets forth as of and for the year ended December 31, 2004, for each plant location, the weighted average age, installed capacity, average capacity factor and average fuel cost of the thermal units KOSEPCO owned based upon the net amount of electricity generated.

Weighted Average Age of Units	Installed Capacity	Average Capacity Factor	Average Fuel Cost per Kwh
(Years)	(Megawatts)	(Percent)	

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Bituminous:					
Samchunpo #1, 2, 3, 4, 5, 6	13	3,240	86.6	W	20.98
Yong Hung #1, 2	0.3	1,600	59.7		11.61
Anthracite:					
Yongdong #1, 2	28	325	55.3		59.38
Oil-fired:					
Yosu #1, 2	28	529	47.1		63.46
Total thermal	11.5	5,694	77.1	W	25.22

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The table below sets forth as of and for the year ended December 31, 2004, for each plant location, the weighted average age, installed capacity, average capacity factor, and average fuel cost of the combined cycle and internal combustion units and pumped storage units KOSEPCO owned based upon the net amount of electricity generated.

	<b>Weighted Average Age of Units  (Years)</b>	<b>Installed Capacity  (Megawatts)</b>	<b>Average Capacity Factor  (Percent)</b>		<b>Average Fuel Cost per Kwh</b>
<b>Combined cycle and Internal Combustion:</b>					
Bundang GT #1, 2, 3, 4, 5, 6, 7, 8 / ST #1, 2	11	900	46.7	W	78.01
<b>Pumped storage(1):</b>					
Muju #1, 2	9	600	8.8		34.55

(1) During periods of low energy usage, these pumped storage stations use electricity from other generating plants to pump water from lower to higher elevations to be available for increased production during periods of peak energy usage or to supplement production in case of unplanned shutdowns at other generating plants.

**KOMIPO**

As of December 31, 2004, KOMIPO had 17 thermal units, including eight coal-fired units with aggregate installed capacity of 3,400 megawatts, three oil-fired units with aggregate installed capacity of 160 megawatts and six LNG-fired units with aggregate installed capacity of 1,537.5 megawatts, constituting a total installed capacity of 5,097.5 megawatts for its thermal units. KOMIPO also had 13 combined cycle and internal combustion units with aggregate installed capacity of 1,855 megawatts.

The table below sets forth as of and for the year ended December 31, 2004, for each plant location, the weighted average age, installed capacity, average capacity factor and average fuel cost of the thermal units KOMIPO owned based upon the net amount of electricity generated.

	<b>Weighted Average Age of Units  (Years)</b>	<b>Installed Capacity  (Megawatts)</b>	<b>Average Capacity Factor  (Percent)</b>		<b>Average Fuel Cost per Kwh</b>
<b>Bituminous:</b>					
Boryeong #1, 2, 3, 4, 5, 6	14.4	3,000	93.6	W	21.96
<b>Anthracite:</b>					
Seocheon #1, 2	21.4	400	55.7		59.71
<b>Oil-fired:</b>					
Jeju #1, 2, 3	5.5	160	78.7		68.41
<b>LNG-fired:</b>					
Seoul #4, 5	35.0	388	17.6		107.82
Incheon #1, 2, 3, 4	28.9	1,150	1.3		102.72
Total thermal	19.5	5,098	63.6	W	28.40





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The table below sets forth as of and for the year ended December 31, 2004, for each plant location, the weighted average age, installed capacity, average capacity factor and average fuel cost of the combined cycle and internal combustion units KOMIPO owned.

	<b>Weighted Average Age of Units  (Years)</b>	<b>Installed Capacity  (Megawatts)</b>	<b>Average Capacity Factor  (Percent)</b>		<b>Average Fuel Cost per Kwh</b>
<b>Combined cycle and internal combustion:</b>					
Boryeong Combined Cycle G/ T #1, 2, 3, 4, 5, 6, 7, 8, S/T #1, 2, 3, 4	5.5	1,800	45.2	W	61.37
Jeju G/T #3...	27.6	55	0.7		312.67
 Total combined cycle and internal combustion	 6.2	 1,855	 43.9	 W	 61.50

**KOWEPO**

As of December 31, 2004, KOWEPO had ten thermal units, including six coal-fired units with aggregate installed capacity of 3,000 megawatts and four oil-fired units with aggregate installed capacity of 1,400 megawatts, constituting a total installed capacity of 4,400 megawatts for its thermal units. KOWEPO also had 21 combined cycle units with aggregate installed capacity of 2,280 megawatts and two pumped storage units with aggregate installed capacity of 600 megawatts.

The table below sets forth as of and for the year ended December 31, 2004 for each plant location, the weighted average age, installed capacity, average capacity factor and average fuel costs of the thermal units KOWEPO owned based upon the net amount of electricity generated.

	<b>Weighted Average Age of Units  (Years)</b>	<b>Installed Capacity  (Megawatts)</b>	<b>Average Capacity Factor  (Percent)</b>		<b>Average Fuel Cost per Kwh</b>
<b>Bituminous:</b>					
Taeon #1, 2, 3, 4, 5, 6	6.6	3,000	74.0	W	21.32
<b>Oil-fired:</b>					
Pyeongtaek #1, 2, 3, 4	23.1	1,400	28.1		65.97
 Total thermal	 11.8	 4,400	 73.0	 W	 26.84

The table below sets forth as of and for the year ended December 31, 2004, for each plant location, the weighted average age, installed capacity, average capacity factor and average fuel cost of the combined cycle units KOWEPO owned based upon the net amount of electricity generated.

	<b>Weighted Average Age of Units  (Years)</b>	<b>Installed Capacity  (Megawatts)</b>	<b>Average Capacity Factor  (Percent)</b>		<b>Average Fuel Cost per Kwh</b>
<b>Combined cycle:</b>					
Pyeongtaek combined cycle	11.8	480	14.6	W	70.00
West Incheon combined cycle	12.5	1,800	53.8		62.77
Total combined cycle	12.4	2,280	45.6	W	63.25
<b>Pumped storage:</b>					
Samryangjin #1	19.1	300	9.9		
Samryangjin #2	19.0	300	6.9		
Total pumped storage	19.1	600	8.4	W	35.21

**Table of Contents****KOSPO**

As of December 31, 2004, KOSPO had ten thermal units, including six coal-fired units with aggregate installed capacity of 3,000 megawatts and four oil-fired units with aggregate installed capacity of 420 megawatts, constituting a total installed capacity of 3,420 megawatts for its thermal units. KOSPO also had 27 combined cycle and four internal combustion units with aggregate installed capacity of 3,745 megawatts and two pumped storage units with aggregate installed capacity of 400 megawatts and four wind power units with aggregate installed capacity of 6 megawatts.

The table below sets forth as of and for the year ended December 31, 2004 for each plant location, the weighted average age, installed capacity, average capacity factor and average fuel cost of the thermal units KOSPO owned based upon the net amount of electricity generated.

	<b>Weighted Average Age of Units  (Years)</b>	<b>Installed Capacity  (Megawatts)</b>	<b>Average Capacity Factor  (Percent)</b>		<b>Average Fuel Cost per Kwh</b>
<b>Bituminous:</b>					
Hadong #1, 2, 3, 4, 5, 6	6.0	3,000	91.9	W	23.57
<b>Oil-fired:</b>					
Youngnam #1, 2	33.2	400	51.2		47.10
Nam Jeju #1, 2	25.0	20	60.8		92.13
Total thermal	9.3	3,420	87.2	W	25.42

The table below sets forth as of and for the year ended December 31, 2004, for each plant location, the weighted average age, installed capacity, average capacity factor and average fuel cost of the combined cycle and internal combustion units and pumped storage units and wind power units KOSPO owns based upon the net amount of electricity generated.

	<b>Weighted Average Age of Units  (Years)</b>	<b>Installed Capacity  (Megawatts)</b>	<b>Average Capacity Factor  (Percent)</b>		<b>Average Fuel Cost per Kwh</b>
<b>Combined cycle and internal combustion:</b>					
Shin Incheon combined cycle #3, 4	8.3	1,800	74.6	W	60.49
Busan combined cycle #1, 2	1.3	1,800	65.0		57.59
Hallim combined cycle	8.6	105	11.1		166.26
Nam Jeju internal combustion	13.8	40	80.3		60.13
Total combined cycle and internal combustion	5.1	3,745	67.8	W	59.70
Cheongpyeong Pumped storage	25.2	400	1.8	W	46.73
Hankyung Wind	0.9	6	23.9		5.16

***EWP***

As of December 31, 2004 EWP had 14 thermal units, including eight coal-fired units with aggregate installed capacity of 2,900 megawatts and six oil-fired units with aggregate installed capacity of 1,800 megawatts, constituting a total installed capacity of 4,700 megawatts for its thermal units. EWP also had 17 combined cycle and internal combustion units with aggregate installed capacity of 2,100 megawatts and two pumping storage units with aggregate installed capacity of 700 megawatts.

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The table below sets forth as of and for the year ended December 31, 2004, for each plant location, the weighted average age, installed capacity, average capacity factor and average fuel cost of the thermal units EWP owns based upon the net amount of electricity generated.

	<b>Weighted Average Age of Units  (Years)</b>	<b>Installed Capacity  (Megawatts)</b>	<b>Average Capacity Factor  (Percent)</b>		<b>Average Fuel Cost per Kwh</b>
<b>Bituminous:</b>					
Dangjin #1, 2, 3, 4	4.6	2,000	92.6	W	21.19
Honam #1, 2	30.7	500	85.9		29.82
<b>Anthracite:</b>					
Donghae #1, 2	5.8	400	64.0		25.47
<b>Oil-fired:</b>					
Ulsan #1, 2, 3, 4, 5, 6	28.7	1,800	47.1		59.25
Total thermal	18.8	4,700	72.0	W	32.03

The table below sets forth as of and for the year ended December 31, 2004, for each plant location, the weighted average age, installed capacity, average capacity factor and average fuel cost of the combined cycle and internal combustion units and pumping storage units EWP owned.

	<b>Weighted Average Age of Units  (Years)</b>	<b>Installed Capacity  (Megawatts)</b>	<b>Average Capacity Factor  (Percent)</b>		<b>Average Fuel Cost per Kwh</b>
<b>Combined cycle and internal combustion:</b>					
Ulsan combined cycle	8.2	1,200	22.6	W	63.62
Ilsan combined cycle	10.8	900	42.3		74.82
Total combined cycle and internal combustion	9.4	2,100	31.0	W	70.17
<b>Pumped storage:</b>					
Sancheong #1, 2	3.2	700	9.4	W	33.55

The high average age of the oil-fired thermal units owned by our generation subsidiaries is attributable to our historic reliance on oil-fired thermal units as our primary means of electricity generation. Since the mid-1970s we have diversified our fuel sources and constructed fewer oil-fired thermal units than units of other types.

***Power Plant Remodeling and Recommissioning***

We have in the past and our generation subsidiaries will continue to supplement our power generation capacity through remodeling or recommissioning our thermal units. The recommissioning included installation of anti-pollution devices, modification of control systems and overall rehabilitation of existing equipment.

<b>Power Plant</b>	<b>Capacity</b>	<b>Power Plant Remodeling Completed, in Year</b>	<b>Purpose</b>	<b>Company</b>
Seoincheon GT #1,7,8	225MW*3	2004	Efficiency Improvement	KOWEPO
Yeosoo #2	328.6MW	2004	Efficiency Improvement	KOSEPCO

<b>Power Plant</b>	<b>Capacity</b>	<b>Power Plant Recommissioning Completed, in Year</b>	<b>Extension</b>	<b>Company</b>
Honam #1	250MW	1998	13 years	EWP
Honam #2	250MW	1999	13 years	EWP

**Table of Contents*****Purchased Power***

We purchased electricity generated by our six generation subsidiaries and some of the independent power producers through KPX since April 2, 2001. The power trading results for the year ended December 31, 2004 through KPX are as follows:

***Power Trading Results*****For the Year Ended December 31, 2004**

Items	Volume (Gigawatt hours)	Percentage of Total		Sales to KEPCO  (In billions of Won)	Percentage of Total Sales	Unit Price  (Won/kwh)
		Volume	Volume			
Generation Companies						
	KHNP	126,609	39.8	5,075	32.2	40.08
	KOMIPO	34,010	10.7	1,895	12.0	55.71
	KOSEPCO	35,367	11.1	1,653	10.5	46.75
	KOWEPO	36,440	11.5	2,047	13.0	56.16
	KOSPO	46,694	14.7	2,738	17.4	58.64
	EWP	34,247	10.8	2,014	12.8	58.79
	Others	4,695	1.4	326	2.1	69.34
	Total	318,062	100.0	15,747	100.0	49.51
Energy Sources						
	Nuclear	125,142	39.3	4,984	31.7	39.83
	Bituminous coal	117,644	37.0	4,940	31.4	41.99
	Anthracite coal	5,247	1.6	276	1.8	52.66
	Oil	17,770	5.6	1,430	9.1	80.48
	LNG	965	0.3	151	1.0	156.19
	Combined cycle	46,643	14.7	3,596	22.8	77.10
	Hydro	2,382	0.7	148	0.9	62.06
	Pumped storage	1,527	0.5	179	1.1	116.97
	Others	742	0.3	43	0.2	58.35
	Total	318,062	100.0	15,747	100.0	49.51
Load						
	Base load	247,577	77.8	10,174	64.6	41.10
	Non-base load	70,485	22.2	5,573	35.4	79.06
	Total	318,062	100.0	15,747	100.0	49.51

***Cost-Based Pool System***

We purchase electricity generated by our six generating subsidiaries and some of the independent power producers without PPAs through the KPX, which was established in April 2001, under CBP. Under the current CBP, power

plants are separated into two groups, one comprising base load plants (nuclear and coal energy sources) and the other comprising non-base load plants (oil, LNG and hydro energy sources). Along with other generation companies, KHNP submits details of its production costs, which are used to determine SMP, BLMP, Non-Base Load CP and Base Load CP, to KPX. Non-Base Load CP and Base Load CP representing fixed costs of non-base load units and base load units, respectively, are settled separately from the CBP. SMP and BLMP used to calculate prices are based on the highest variable costs among the plants in operation by merit order submitted to the power pool. For details of the pool system, see Restructuring of the Electricity Industry in Korea Phase II .



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In 2004, the average settlement price of BLMP was W19.17/kWh. For the same period, the average settlement price of SMP was W55.97/kWh. The Base Load CP and Non-Base Load CP for 2004 were W20.49/kWh and W7.17/kWh, respectively.

### *Power purchased from Independent Power Producers with PPA*

We also purchased an aggregate of 10.5 billion kilowatt hours of electricity generated by independent power producers under existing power purchase agreements in 2004. We purchased the entire power output of a privately-owned combined cycle unit, a number of hydroelectric units owned by the Government-owned Korea Water Resources Corporation and certain other small hydroelectric and other units owned by private business, with an aggregate capacity of 4,400 megawatts as of December 31, 2004.

### **Transmission and Distribution**

We are currently the only company engaged in the transmission and distribution of electricity in the Republic. As of December 31, 2004, we had in operation 615 substations with an installed transformer capacity of 193,700 megavolt-amperes.

As of December 31, 2004, the transmission system comprised approximately 28,409 circuit kilometers of lines of 765 kilovolts and others including High Voltage Direct Current ( HVDC ). As of December 31, 2004, our distribution system comprised of 78,559 MVA of transformer capacity and 7.3 million units of support with a total line length of 380,363 circuit kilometers.

In recent years, we have invested heavily in our transmission and distribution systems to expand capacity and to increase efficiency. Current projects include increasing transmission capability for the existing transmission lines. We achieved a transmission and distribution loss factor of 4.46% in 2004.

As we anticipate making substantial additions to our generating capacity in the near term, we will need to make significant investments in expanding our transmission and distribution facilities. We will need to make additional capital expenditures to improve existing facilities, strengthen our nationwide power grids and increase the proportion of underground distribution lines.

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

### **Fuel**

#### *Nuclear*

All uranium ore concentrates, conversion and enrichment services are imported from sources outside Korea (including the United States, United Kingdom, France, Russia, South Africa, Canada and Australia) and are paid for with currencies other than Won, primarily in U.S. dollars.

In order to ensure stable supply, KHNP enters into long-term and medium-term contracts with various suppliers, and supplements such supplies with purchases of fuels on spot markets.

In 2004, KHNP purchased 100%, or 2,746 tons, of its uranium concentrates requirement under long-term supply contracts with suppliers in Australia, Canada, France, the United Kingdom, South Africa and the United States. Under the long-term supply contracts, the purchase prices of uranium concentrates are adjusted annually based on base price and spot market price prevailing at the time of actual delivery. Non-Korean suppliers provide the conversion and enrichment of uranium concentrates and Korean suppliers provide fabrication of fuel assemblies. Contract prices for processing of uranium are adjusted annually in accordance with the general rate of inflation with exceptions for certain fixed contract prices. KHNP intends to obtain its uranium requirements in the future, in part, through purchases under long-term and medium-term contracts and, in part, through spot market purchases.

**Table of Contents*****Coal***

As of December 31, 2004, 30.3% of our total installed generating capacity (not including capacity of others) was represented by plants burning bituminous coal and 2.1% of such generating capacity was represented by plants burning anthracite coal.

For the year ended December 31, 2004, our generation subsidiaries purchased 46.6 million tons of bituminous coal. Most of our bituminous coal requirements are imported from China, Australia, Indonesia, Canada, Russia and the United States, with approximately 77.1% purchased under long-term contracts and 22.9% purchased on the spot market. Certain of our long-term contracts relate to specific generating plants and extend through the end of the projected useful lives of the specific plants, subject in some cases to periodic renewal. Pursuant to the terms of our long-term supply contracts, prices are adjusted annually in light of market conditions. The average cost of bituminous coal per ton purchased under such contracts was approximately W55,222 in 2004. Recently, due to increase in domestic demand in China and elsewhere in the world, the prices of bituminous coal have soared. Combined with the effects of rising shipping cost for bituminous coal, our generation subsidiaries will be unable to secure their respective bituminous coal supply at prices comparable to those of prior periods. See Item 3 Key Information Risk Factors Risks Relating to KEPCO Increase in fuel prices will adversely affect our results of operations and profitability .

For the year ended December 31, 2004, our generation subsidiaries purchased 2.3 million tons of anthracite coal. Our generation subsidiaries purchase our anthracite coal requirements in Korea under long-term contracts with Korea Coal Corporation which is wholly-owned by the Government and the Korea Coal Mines Cooperative. The prices for anthracite coal under such contracts are set by the Government. The average cost of anthracite coal per ton purchased under such contracts was approximately W79,420 in 2004.

***Oil***

Our generation subsidiaries purchased approximately 27.2 million barrels of fuel oil (including gasoline for internal combustion) in 2004. We acquired approximately 40.5% of this fuel oil through competitive open bidding among five Korean refiners for three-month terms of supply. We purchased the remainder through international open bidding (including local refineries and traders) for individual cargoes. Purchase prices are based on the spot market in Singapore. The average cost per barrel was approximately W38,561 in 2004.

***LNG***

For the year ended December 31, 2004, we purchased approximately 7.0 million tons of LNG from Korea Gas Corporation ( KGC ), a Korean corporation of which we own 24.5%. We entered into a 20-year LNG supply contract (the LNG Contract ) with KGC which will expire in November 2006. Under the terms of the LNG Contract, our annual minimum purchase quantity is determined by our negotiations with KGC, subject to the Government's approval, and may be adjusted through negotiations between the parties. Our generation subsidiaries are under a take-or-pay obligation to KGC to the extent of our annual minimum purchase quantity. The annual purchase price for LNG is determined by our negotiation with KGC, subject to approval by the MOCIE. KGC imports LNG primarily from Indonesia, Malaysia, Qatar, Oman, Brunei and Australia and supplies LNG to us and other Korean gas companies. We believe quantities of LNG provided under such contract will be adequate for our generation subsidiaries' needs for the next several years. The average cost per ton of LNG under such contract was approximately W430,392 in 2004.

***Hydroelectric***

The availability of water for hydroelectric power depends on rainfall and competing uses for available water supplies, including domestic and industrial consumption, agriculture and irrigation. Pumping storage enabled us to increase available supplies of water for use during periods of peak demand.

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

Our results of operations, sales in particular, are dependent upon demand for electricity in Korea and the rates we charge for the electricity we sell.

Demand for electricity in the Republic grew at a compounded average rate of 7.8% per annum for the five years ended December 31, 2004. According to The Bank of Korea, real GDP compounded growth rates was approximately 5.4% for the same period. The GDP growth rate was 4.6% for 2004 as compared to 3.1% in 2003.

The rapid growth in Korea's economy since the early 1960's has resulted in substantial growth in the demand for electricity. While the world-wide economic recession of the early 1980's slowed economic growth in Korea, in the latter half of the 1980's, the Republic's economy resumed its rapid growth, leading to substantial increases in demand for electricity. The slow economic growth in Korea in the early 1990's resulted in a slight decline in the growth of demand for electricity. However, consumption levels, particularly during periods of peak demand, continue to press the limits of available supply. Total demand for electricity in 2001 increased by 7.6% as compared to 2000. The total demand for electricity in 2002 increased by 8.0% as compared to 2001, the total demand in 2003 increased by 5.4% as compared to 2002, and the total demand in 2004 increased by 6.3% as compared to 2003. The table below sets forth, for the periods indicated, the annual rate of growth in Korea's gross domestic product (GDP) and the annual rate of growth in electricity demand (measured in total annual electricity consumption).

	2000	2001	2002	2003	2004
Growth in GDP (at 2000 constant prices)	8.5%	3.8%	7.0%	3.1%	4.6%
Growth in electricity consumption	11.8%	7.6%	8.0%	5.4%	6.3%

Electricity demand in the Republic varies within each year for a variety of reasons other than general growth in demand. Electricity demand tends to be higher during daylight hours due to commercial and industrial activity and electrical appliance use during such periods. Due to air conditioner use, electricity demand is higher during the summer than during any other season. Variations in weather conditions may also cause significant variations in electricity demand.

***Demand by Class of Customers***

The table below sets forth the consumption of electric power by usage by class of customers for the periods indicated.

	2000	2001	2002	2003	2004	% of Total 2004
	<b>(Gigawatt hours)</b>					<b>(Percent)</b>
Industrial	132,260	135,791	144,454	150,387	158,337	50.7%
Commercial	70,173	82,729	91,719	98,640	105,144	29.7%
Residential	37,102	39,211	42,278	44,572	48,615	19.6%
Total	239,535	257,731	278,451	293,599	312,096	100.0%

Demand during the first quarter of 2005 increased by 5.7% to 84,772 million kilowatt hours as compared to the corresponding period in 2004.

Industry is the largest user of electricity in Korea. While demand from the industrial sector (including the agricultural sector) has increased steadily as a result of economic expansion in the Republic, it has gradually declined as a percentage of total demand from 58.0% of total demand in 1997 to 50.7% in 2004. Demand from the industrial

sector (including the agricultural sector) increased by 5.3% to 158,337 million kilowatt hours in 2004 as compared to 2003.

Demand from the commercial sector has increased in recent years, both in absolute terms and as a percentage of total demand. The rapid expansion of the service sector of the Korean economy has resulted in increased office building construction, office automation and use of air conditioners. Growth in the commercial sector is also attributable to the construction industry and the expansion of the leisure and distribution industries.

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Demand from the commercial sector increased by 6.6% to 105,143 million kilowatt hours in 2004 as compared to 2003.

In 2004, we serviced about 11 million households, or almost all of the households in the Republic. Continuing increase in demand from the residential sector is due primarily to increases in population and increased use of air conditioners and other electrical appliances. Demand from the residential sector increased by 9.1% to 48,615 million kilowatt hours in 2004 as compared to 2003.

***Demand Management***

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

	2000	2001	2002	2003	2004
			(Percent)		
Facility reserve ratio	16.8	15.1	15.3	18.4	15.3
Supply reserve ratio	12.4	12.9	13.9	17.1	12.2

While we provide for the growing demand for electricity in Korea primarily by continuously expanding our generating capacity through the addition of new generating facilities, we have also implemented several programs designed to control electricity demand, especially during peak periods. Principal measures are time-of use rate schedules mostly for large-scale customers and a progressive rate structure for residential use of electricity. Other measures include incentives from a public benefit fund for peak load reduction by adjusting vacation or repair schedules and for average load reduction during summer peak hours as well as Government encouragement of measures in building construction (such as use of ice-storage air conditioners) to reduce electricity use and the provision of loans on favorable terms by Government-controlled financial institutions for energy conservation projects with recommendations of the Korea Energy Management Corporation.

**Rates**

The Electricity Business Law and the Price Stabilization Act of 1975, as amended (together, the Rate Laws), prescribe the procedures for the approval and establishment of rates charged for the electricity we sell. We submit our recommendations for revisions of rates or changes in the rate structure to the MOCIE. The recommendations are reviewed and, upon consultation with the Electricity Rates Expert Committee of the MOCIE and the MOFE, a final determination is made by the MOCIE. Under the Electricity Business Law, the recommendations must be reviewed by the KOREC, which was established as a regulatory agency under the amended law, prior to final determination by the MOCIE. On January 1, 2003, as part of a plan to improve the rate structure, the MOCIE adjusted the rates among the various types of consumers. As a result of this rate adjustment, industrial rates increased by 2.5%. On the other hand, residential and commercial rates decreased by 2.2% and 2.0%, respectively. On March 1, 2004, the MOCIE revised our rate schedule, which resulted in a 1.5% reduction of rates. Residential, commercial and educational rates decreased by 2.8%, 3.5% and 3.0%, respectively. Industrial rates were frozen at previous levels despite our request for an increase.

As contemplated by the Rate Laws, electricity rates are established at levels intended to permit us to recover our operating costs attributable to our basic electricity generation, transmission and distribution operations and to provide a fair investment return on capital employed in those operations. For the purposes of rate approval, operating costs are the sum of:

operating expenses *plus*

adjusted income taxes.

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Fair investment return is equal to the rate base times a fair rate of return. The rate base is equal to the sum of:

net utility plant in service (equal to utility plant minus accumulated depreciation minus revaluation reserve) *plus*

working capital for two months (equal to 2/12 of operating expenses other than depreciation expenses and any other non-cash expenses) *plus*

construction in progress using equity fund.

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

For the purpose of determining fair investment return, the rate base is divided into two components proportionate to our total stockholders' equity and our total debt. The fair rate of return permitted in relation to the debt component of the rate base is set at a level designed to approximate our anticipated interest cost on long-term debt for the periods covered by the rate approval. The approved fair rate of return on the debt component of the rate base is 5.3%. The fair rate of return permitted in relation to the equity component of the rate base is set at a level equal to the expected rate of return on investment calculated using a formula provided in the new standards. The approved fair rate of return on the equity component of the rate is 7.53%.

The Rate Laws do not contemplate any determination of the reasonableness of operating expenses or any other items (other than the level of fair investment return) for the purposes of the rate calculation. However, the Government exercises substantial control over our budgeting and other financial and operating decisions.

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

In the latter half of the 1980s, our actual rate of return on equity generally exceeded the rate of return on equity assumed for the purposes of rate approvals principally as a result of declining fuel costs and higher than anticipated growth in demand. As a consequence, we implemented rate reductions averaging 7.6% in 1987, 7.6% in 1988, 7.0% in 1989 and 3.7% in 1990. However, primarily because of changes in fuel prices and growth in capital investment, and in order to encourage conservation of electricity and to secure internal cash for capital expenditures, rates were increased by an average of 4.9% in June 1991, 6.0% in February 1992, 4.2% in May 1995. More recently, in order to compensate for the Won depreciation which caused our fuel expenditure to increase, rates were increased by 5.9% in July 1997, 6.1% in January 1998, 5.3% in November 1999 and 4.0% in November 2000 across the board. From 1997 through 2003, our actual rate of return on invested capital generally was below the rate of return assumed for the purpose of rate approvals.

Our rate schedule is organized by types of use: principally industrial, commercial, residential, educational and agricultural. The rates charged for electricity vary among the different classes of consumers.

Rates also vary depending upon the voltage used, the season, the time of day, the option of rate selected by the user and, in the residential sector, the amount of electricity used per household, as well as other factors. Beginning with the first six months of 1995, we adjusted seasonal rate variations by removing the month of June from the summer period when peak rates are in effect and increasing the rates for the months of October, November, December, January, February and March to correspond more closely to peak demand variations.

Our current rate schedule, which was last revised as of March 1, 2004 is summarized below by type of consumer:

*Industrial.* The basic charge varies from W4,020 per kilowatt to W5,070 per kilowatt depending on the type of contract, the voltage used and the option of rate. Energy usage charge varies from W28.00 per kilowatt hour to W118.60 per kilowatt hour depending on the type of contract, the voltage used, the season, the time of day and the option of rate.

*Commercial.* The basic charge varies from W5,170 per kilowatt to W6,130 per kilowatt depending on the type of contract, the voltage used and the option of rate. Energy usage charge varies from W36.00 per kilowatt

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hour to W148.10 per kilowatt hour depending on the type of contract, the voltage used, the season, the time of day and the option of rate.

*Residential.* Residential rates include a basic charge ranging from W370 for electricity usage of less than 100 kilowatt hours to W11,440 for electricity usage in excess of 500 kilowatt hours. Residential rates also include an energy usage charge ranging from W52.00 to W606.80 per kilowatt hour for electricity usage depending on the amount of usage and voltage.

*Educational.* The basic charge varies from W4,830 per kilowatt to W5,870 per kilowatt depending on the voltage used and the option of rate. Energy usage charge varies from W50.90 per kilowatt hour to W86.20 per kilowatt hour depending on the voltage used, the season and the option of rate.

*Agricultural.* The basic charge varies from W340 per kilowatt to W1,060 per kilowatt depending on the type of usage. The energy usage charge varies from W20.40 per kilowatt-hour to W36.10 per kilowatt hour depending on the type of usage.

Effective June 1, 2002, the MOCIE adjusted the progressive rates for residential electricity usage. Such progressive rates for residential electricity usage originally started in 1974 following the oil crisis of 1973 as a way of inducing reasonable and economical usage of electricity and energy. Seven different rates are progressively imposed according to the average amount of electricity used. When average residential electricity rates increased 3.3% in November 2000, rates for electricity usage below 300 kilowatt hours did not increase, but the progressive rates were further strengthened by a 20% increase for electricity usage between 301 kilowatt hours and 400 kilowatt hours and by a 40% increase for electricity usage over 400 kilowatt hours. As a result of ever increasing electricity usage of the average household, however, the previous base amount for the application of progressive rates, 300 kilowatt hours, has been raised to 400 kilowatt hours. In addition, residential high-voltage rates have also been established, taking into account the gap between the costs of high-voltage and low-voltage electricity. Finally, the MOCIE established the Electric Power Industry Basis Fund to enable the Government to take over public service aspects of our business as part of the implementation of the Restructuring Plan. Electricity charge and charge for the Electric Power Industry Basis Fund are separately billed.

On January 1, 2003, as part of a plan to improve the tariff structure, the MOCIE adjusted the rates among the various types of consumers. As a result of this rate adjustment, industrial rates increased by 2.5%. On the other hand, residential and commercial rates decreased by 2.2% and 2.0%, respectively.

On March 1, 2004, the MOCIE further revised our rate schedule, which resulted in a 1.5% reduction in rates. Residential, commercial and educational rates decreased by 2.8%, 3.5% and 3.0%, respectively. Industrial rates were frozen at previous levels despite our request for an increase.

**Power Development Strategy**

The Government released the second of Long-Term Electricity Supply and Demand Basic Plan (the Second Basic Plan ) on December 2004. The Second Basic Plan will serve as a guideline for stable medium and long term supply of electric power and will not be spearheaded by the Government but will instead be led by generation companies

The objectives of the Second Basic Plan include, among other things, (1) introducing a competitive market mechanism in the electricity market, (2) establishing an information-based plan to increase generating capacity, (3) ensuring participation from specialists in related areas of expertise, and (4) establishing a sustainable plan that considers the efficient consumption of electricity and ensures continuity with the first basic plan.

The Basic Plan is subject to change depending upon a variety of factors, including demand growth projections, availability and cost of financing, changes in fuel prices and availability of fuel, ability to acquire necessary plant sites, environmental considerations, community opposition and other factors.



**Table of Contents****Capital Investment Program**

The table below sets forth for each year in the three-year period ended December 31, 2004, the amounts of capital expenditures (including capitalized interest) for the construction of generating, transmission and distribution facilities:

2002	2003	2004
<b>(In billions of Won)</b>		
W6,653	W6,782	W6,287

In accordance with the objectives of the Basic Plan, our generation subsidiaries currently intend to add new installed capacity of 20,750 megawatts during the period from 2005 to 2016 by constructing or expanding the capacity of 9 nuclear units, 1 LNG-fired combined cycle internal combustion units, 14 coal-fired units, two oil-fired units and eight hydroelectric units and others. According to the Plan, the total capacity of all generating facilities in 2016 will be 74,660 megawatts, of which nuclear power plants will contribute 36.6%, coal-fired plants 32.9%, LNG combined plants 16.9%, oil-fired plants 6.5% and hydroelectric and other plants 7.1%.

The table below sets forth information as to the currently estimated date of completion and installed capacity of new or expanded generating units to be completed by our generation subsidiaries according to the Basic Plan in each year through the year 2008.

Year	Number of Units	Type of Units	Total Installed Capacity
			(Megawatts)
2005	1	LNG-fired combined cycle	450.0
	1	Nuclear	1,000.0
	1	Coal-fired	500.0
2006	1	Coal-fired	500.0
	6	Pumped storage hydroelectric	1,600.0
	1	Oil-fired	100.0
2007	3	Coal-fired	1,500.0
	1	Oil-fired	100.0
2008	5	Coal-fired	2,800.0

In the years between 2009 and 2016, our generation subsidiaries plan to complete eight nuclear units with an aggregate installed capacity of 9,600 megawatts, four coal-fired units with an aggregate installed capacity of 1,800 megawatts and two pumped storage hydroelectric units with an aggregate installed capacity of 800 megawatts.

As part of our capital investment program, we also intend to add additional cable transmission lines and to continue to replace above-ground lines with underground cables in densely populated areas. In addition, we plan to improve the existing transmission and distribution systems.

The actual number and capacity of generation units and transmission and distribution facilities we and our generation subsidiaries construct and the timing of such construction will depend upon a variety of factors, including demand growth projections, availability and cost of financing, changes in fuel prices and availability of fuel, ability to acquire necessary plant sites, environmental considerations, community opposition and other factors.

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The table below sets forth for the years from 2005 to 2008, the budgeted amounts of capital expenditures (including capitalized interest) for the construction of generation and transmission and distribution facilities pursuant to our generation subsidiaries and our capital investment program. The budgeted amounts may vary from the actual amounts of our generation subsidiaries' capital expenditures for a variety of reasons, including the implementation of the Restructuring Plan, changes in the number of units to be constructed and the timing of such construction, changes in rates of exchange between the Won and foreign currencies, changes in interest rates and other factors.

	2005	2006	2007	2008	Total
<b>(In billions of Won)</b>					
<b>Generation:</b>					
Nuclear	W 2,204	W 2,242	W 3,060	W 3,412	W 10,918
Thermal	2,499	2,899	2,236	1,415	9,049
Sub-total	4,703	5,141	5,296	4,827	19,967
<b>Transmission and Distribution:</b>					
Transmission	1,515	2,332	2,350	2,356	8,553
Distribution	1,706	1,962	2,092	2,226	7,986
Others	396	431	449	491	1,767
Sub-total	3,617	4,725	4,891	5,073	18,306
Total	W 8,320	W 9,866	W 10,187	W 9,900	W 38,273

**Environment and Community Programs**

The Environment Policy Basic Act of 1990 (as amended) and other related legislation and regulations (the Environment Acts), which are principally administered by the Ministry of Environment, regulate atmospheric emissions, wastewater, noise and other emissions from our thermal, hydro and internal combustion power units. We believe that our existing units are currently in compliance with in all material respects of the requirements of the Environment Acts.

Atmospheric emissions from generating plants burning fossil fuels include, among other things, sulphur dioxide, nitrogen oxide and particulates. The Environment Acts establish emissions standards relating to, among other things, sulfur dioxide, nitrogen oxide and particulates. Such standards have become more stringent from January 1999 to reduce the amount of permitted emissions.

The table below sets forth the number of emission control equipment installed to coal-fired power plants by our generation subsidiaries as of December 31, 2004.

	KOSEPCO	KOMIPO	KOWEPO	KOSPO	EWP
Flue Gas Desulphurisation System	10	6	10	8	7
Selective Non-Catalytic Reduction System		0		1	2
Selective Catalytic Reduction System	4	4		5	3
Electrostatic Precipitation System	12	11	10	13	14
Low NO <sub>(2)</sub> Combustion System	16	16	14	16	4

In order to comply with the current and expected standards that will be in place in the future, we intend to continue to install additional emissions control equipment. The installation of such emissions control equipment may also result in increased operating costs. The actual costs of installation and operation of such equipment will depend upon a

variety of factors, including, among other things, modifications to emissions limits and the amount of power such equipment will consume.

There has been opposition in the Republic to the construction and operation of nuclear generating units. The Act for Supporting the Communities Surrounding Power Plants addresses neighboring community concerns about generating units. Pursuant to this Act, KHNP undertook various activities to address concerns of residents

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of areas near nuclear units. KHNP has also dedicated a portion of its total revenues from electricity sales to community development programs, including educational, income-assistance and other programs. As a result of the amendment of the Act for Supporting the Communities Surrounding Power Plants in December 2000, however, the Government took over such public service aspects of its business. Despite these activities, community opposition to the construction and operation of nuclear units could result in a change in construction plans for nuclear units and have a material adverse effect on us.

Prior to the construction of a generating unit, KHNP performs an environmental impact assessment which is designed to evaluate public hazards, damage to the environment and concerns of local residents. A report reflecting this evaluation and proposed measures to address the problems identified must be submitted to and approved by the Ministry of Environment prior to construction of the unit. KHNP is then required to implement the measures reflected in the approved report.

***Nuclear Safety***

KHNP has adopted nuclear safety as its top priority and continuously focuses on ensuring the safe and reliable operation of nuclear power plants. KHNP has been also focusing on enhancing corporate ethics and transparency in the operation of their plants.

KHNP adopted its corporate code of ethics in September 2002 and declared its strong commitment to continuously enhance nuclear safety, develop new technologies, and improve transparency. In December 2003, KHNP also established the Statement of Safety Policy for Nuclear Power Plants to ensure the highest level of the safety. Furthermore, KHNP has invested about 4% to 5% of total sales into research and development for the enhancement of nuclear safety and operational performance.

KHNP has developed diverse and comprehensive programs to monitor and ensure the safety level of nuclear power plants. To verify nuclear safety and identify the potential for safety improvements through comprehensive and systematic approaches, KHNP has been performing Periodic Safety Reviews ( PSRs ) for all operating units. PSRs have been completed for Kori units 1, 2, 3, 4 and Wolsong unit 1. PSRs for Yonggwang 1, 2, 3 and 4 are also in progress and will be finished in June 2005, in the case of Younggwang 1 and 2, and March 2006, in the case of Younggwang 3 and 4. Additionally, KHNP has conducted Probabilistic Safety Assessments ( PSAs ) for all units except Ulchin units 1 and 2 which are currently in progress and scheduled to be completed in December 2005.

KHNP developed the Risk Monitoring System ( RIMS ) for Kori units 3 and 4 on June 2003 and is also developing systems for other nuclear power plants. It is expected that the RIMS will be very helpful for ensuring safety through the identification of risk increments due to changes in operating conditions during maintenance or equipment failures. In addition, the Severe Accident Management Guidelines ( SAMGs ) for operating nuclear power plants, except with respect to Ulchin units 1 and 2 and PHWR units, were developed and are currently being used to manage and mitigate the unlikely event of severe accidents. SAMGs for Ulchin units 1 and 2 and PHWR units are currently under development. KHNP will also enhance nuclear safety using the risk-informed approach based on PSA results. In addition, KHNP performs various safety related activities, such as Quality Assurance Audits, KHNP Nuclear Review Board reviews, KHNP operational safety review team reviews composed of external operating experts, surveillance tests and along with certain other approaches. KHNP is also actively cooperating with international nuclear organizations to enhance nuclear safety. In particular, KHNP invites international safety review teams such as the WANO Peer Review Team, the IAEA Operational Safety Assessment Review Team and the INPO Technical Exchange Visit Team to verify nuclear safety as third party observers. KHNP also shares and exchanges operating experiences and information with such parties for the enhancement of nuclear safety.

KHNP established systematically-organized training programs for its plant operators to maintain their operators capabilities for handling various situations including transient and abnormal conditions. To improve equipment reliability, KHNP has also reinforced the system engineering functions at nuclear sites by improving plants organization.

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KHNP has sent over 30 engineers to U.S. and Canadian stations to benchmark their engineering programs and systems to enhance engineering capabilities. Through relevant safety or integrity assessments in a proactive manner, KHNP has been implementing plant modifications and replacing major equipment. For example, alternate emergency diesel generators for common use at Kori units 1, 2, 3 and 4, Ulchin units 1 and 2 and Yonggwang units 1 and 2 will be installed in the near future to protect the plants from station blackouts.

KHNP has also been allocating substantial resources to maintain equipment reliability and to improve overall nuclear safety and operational performance.

Since the operational reforms and upgrades in nuclear facilities beginning in 1992, the average level of radiation dose per unit has continuously decreased to reach 0.69 man-Sv in 2004 which was lower than the global average of 1.02 man-Sv/year according to World Association of Nuclear Operations Performance Indicator Report.

Low and Intermediate Level Wastes ( LILW ) and spent fuels are stored in temporary storage facilities at four nuclear sites. The temporary facilities for LILW of Ulchin, Wolsong, Yonggwang, Kori will reach their full capacity in 2008, 2009, 2012 and 2014, respectively.

For temporary storage facilities of spent fuels, KHNP is pursuing projects to augment the storage capacity by installing high density racks in spent fuel pools, construction of dry storage facilities and transportation of the spent fuels between units within a plant. Accordingly, the storage capacity for spent fuel in each nuclear site will be increased to accommodate all spent fuel produced by 2016. According to the Korean Atomic Energy Committee's Resolution in December 2004, the site selection for a LILW disposal facility is in progress and completion of construction is scheduled to be completed by 2008. The policy on spent fuel management will be decided in the future and based on national consensus through further discussions.

On March 31, 2005, the Korean National Assembly passed a bill that specifies enhancement of the transparency of the site selection process and financial support for the local government that hosts the site for the LILW disposal facility.

All of the KHNP's nuclear power plants are in compliance with the standards of the International Atomic Energy Agency and safety standards and requirements under national laws and ordinances. Based on the Ministry of Science and Technology's determination regarding safety conditions, operation of nuclear power plants can be suspended.

Since submission of our annual report in 2004, there have been no significant safety related events or accidents in KHNP's nuclear power plants that would have a material adverse effect on us.

**Decommissioning**

Decommissioning of a nuclear power unit is the process whereby it is shut down at the end of its economic life, the fuel is removed and it is eventually dismantled. KHNP has adopted an immediate dismantling strategy under which dismantling would take five to ten years to commence after unit closure. Kori-1 unit, the first nuclear power plant, commenced its operation in 1978 and it is expected to cease operation by 2008. KHNP is currently reviewing a number of options, including a plan to extend its operation. The decommissioning of this first nuclear unit is not expected to commence in the near future.

KHNP retains financial responsibility for decommissioning its units. KHNP has accumulated the decommissioning cost as in house liability since 1983. The estimated decommissioning costs of nuclear facilities based on a 1992 engineering study supplemented by management analysis and the expected decommissioning dates of its nuclear power plants. During 2003, KHNP obtained a new engineering study and updated its estimate of the expected decommissioning dates for its nuclear power plants. KHNP estimates its liability for decommissioning cost based on engineering studies provided by third parties and apply the amount prospectively. During 2004, KHNP obtained new engineering studies provided by other third parties. As a result, the new study in 2004 revised certain essential factors such as timing of cash outflows. In addition, through the adoption of Statement of Korea Accounting Standards, or SKAS, No. 17 *Provision and Contingent Liability & Asset*, other factors such as discount rate and inflation rate were also revised accordingly. For the accounting treatment of decommission-

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ing costs, see Item 5 Operating and Financial Review and Prospects Operating Results Critical Accounting Policies Decommissioning Costs .

**Research and Development**

We maintain a research and development program concentrated on developing self-reliant core technology and leading national technology advancement program in the electric power business.

In order to achieve the goal of bringing our electric technologies up to international standards by the first half of the 21st century, we have adopted the Electric Technology Development Plan toward 2010 which is expected to be modified in the near future to reflect the 2015 Mid- and Long-term Strategic Management Plan that we announced in May of 2005. This strategic plan is being implemented across all areas of our in-house research and development program. In addition, we and our six generation subsidiaries have made a Technology Road-Map to develop technologies in the area of thermal and nuclear generation.

The basic goal of our research and development program for the year 2004 was obtaining the highest electric power technology to enable us to become a global electric power leader. To promote research and development for enhancing economical efficiency and to provide a reliable supply of electric power, we invested, as of December 31, 2004, W137 billion in research and development, W8 billion in technological development and W68 billion in building up infrastructure for the education of human resources and the development of computer equipment.

In the field of hydroelectric and thermal power, our research and development efforts are primarily focused on developing the power technologies required for the efficient operation of thermal power plants such as our

Development of Advanced Thermal Power Plant project using Ultra-Super Critical (USC) Technology. We also put much emphasis on enhancing plant maintenance, which has proven to be of great importance in maintaining a competitive edge in this field, through accurate damage analysis, environment-friendly inspections and various other protective and optimization measures.

In the field of nuclear power, our research and development efforts are primarily focused on developing technology for enhancing the safety and economy of nuclear plants, such as our Life Time Management for Nuclear Power Plant project. Our research and development objective for this field is to obtain the technologies necessary to perform reactor/plant safety analysis, radiation control and radioactive waste reduction and seismic monitoring and analysis.

KHNP's corporate vision and long-term plan is called KHNP Vision 2020 . In order to achieve a goal for KHNP Vision 2020 in the field of technology development, KHNP established the Mid- and Long-term Technology Development Plan to strategically implement research and development. KHNP is primarily focused on development of technology for enhancing the safety and economy of nuclear power plants (NPPs).

In 2003, KHNP invested approximately W12 billion in R&D, W42 billion for the education of human resources and the development of computer equipment and W140 billion to the Nuclear R&D fund which is paid to the Ministry of Science and Technology in accordance with related law. In 2004, KHNP invested approximately W31 billion in R&D, W30 billion for the education of human resources and the development of computer equipment and W156 billion to the Nuclear R&D fund .

In the field of electric power systems, our research and development efforts have been focused on developing the required technologies and providing the technical support for the stable and reliable operation of power systems, such as Development of Smart Transmission System Technology . We have developed technologies for an efficient distribution system, preventive maintenance for substations, system automation, power utilization and power line communication.

Concurrently with carrying on the electric power business, we are committed to developing environment-friendly technologies and are focused on developing technologies for environmental protection and new sources of energy.

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We invested approximately W196 billion in 2001, W155 billion in 2002, W178 billion in 2003, and W213 billion in 2004 on research and development. We had approximately 572 employees engaged in research and development activities as of December 31, 2004.

In addition, we have been cooperating closely with many foreign electric utilities and research institutes on a diverse range of projects.

The Government has launched several long-term research and development projects to achieve a self-reliant capability in the field of power generation. We are taking a leading role in this national research and development program which includes the Korean Next Generation Nuclear Power Plant , Flue Gas Desulfurization and Denitrification , Integrated Gasification Combined Cycle Technologies and Molten Carbonate Fuel Cell development projects.

As a result of our research over the past three years, the number of applications we have filed for intellectual property rights and grants has increased in quantity and quality. More than 600 applications were presented in Korea and abroad from 2002 through 2004.

We also try to market the technologies we have developed by identifying key items that had market potential in light of intellectual property, overseas market condition and cost-efficiency issues. We are continuously upgrading our R&D programs to emphasize low-cost, high-efficiency research by restructuring our R&D organization and reallocating and reassigning research personnel.

**Other Activities**

In January 2000, we established a telecommunication company, Powercomm, for purposes of (i) disposing of our non-core business and (ii) ensuring fair usage and competition through the efficient use of our telecommunication network. We have transferred approximately W713 billion of our fiberoptic network assets as well as approximately W36 billion of cash to Powercomm. As Powercomm has obtained a telecommunications license from the Government, it is capable of operating its telecommunication business independently. In July 2000 we sold 10.5% of our equity interest in Powercomm and in December 2002 we further sold approximately 45.5% of our equity interest, including our management right in Powercomm for W819 billion and in April 2003 we sold a further 1,299,000 shares of Powercomm, representing 0.87% of Powercomm's total issued and outstanding shares of common stock to Powercomm's employee stock ownership association. Following such sales, our current ownership interest in Powercomm is 43.1%. Depending on market conditions, we expect to dispose of our remaining equity interest in Powercomm in domestic and foreign markets. See Proposed Sale by Us of Certain Power Plants and Equity Interests .

Based on our operational experience and the full range of services, power plant construction, specialized engineering and maintenance services that we and our subsidiaries offer, we have been pursuing international power-related projects in overseas markets including the Philippines, China and the Middle-East. Currently, we are executing two major power projects, (i) a 650-megawatt oil-fired power plant in Malaya, the Philippines that we have been working on since June 1998 and (ii) a 1,200-megawatt Ilijan Combined-Cycle Power Plant project, which is a Build, Operate & Transfer project, that we were awarded by the National Power Corporation in the Philippines through an international bid in November 1997, and which was commissioned in June 2002. The project cost of the latter project was US\$710 million, for which project finance on a limited recourse basis has been provided. In addition, we were recently awarded a 100-megawatt coal-fired power plant, another Build, Own & Operate project, in Wuzhi, China and the project construction is in progress to be completed in October, 2006. We are also carrying out a power transmission and distribution service in Libya. In addition, KEPCO is considering participating in energy resources development programs abroad to secure stable supply of fuel materials.

The Korean Peninsula Energy Development Organization ( KEDO ) selected us as their prime contractor in March 1996 to build two units of pressurized light-water nuclear reactors with total capacity of 2,000 megawatts in North Korea. Preliminary work for the contract, which commenced in August 1997, was completed on February 2, 2000. We entered into a subcontract agreement with KEDO on December 15, 1999. Pursuant to the contract which became effective as of February 3, 2000, we commenced full-scale construction of the two

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pressurized light-water reactors which is scheduled to be completed within 116 months of commencement. KEDO, members of which include Korea, the United States, the European Union and Japan, etc. is responsible for financing the approximately US\$4.6 billion project.

The KEDO project, due to heightened tension in the international arena by such factors as the announcement of reactivation of North Korea's nuclear facilities construction process, was suspended for a one-year period running from December 1, 2003 to November 30, 2004 initially. In addition, the suspension of the construction has been extended for another year, starting from December 1, 2004 to November 30, 2005. We, having inherited the light-water reactor project, are bound by contract for the period of suspension to take steps to prevent deterioration of the quality of our construction facilities or loss of profit, as well as to prepare for prompt resumption of project activities. Accordingly, we are doing our best to maintain the high quality and safety of our construction facilities, despite the fact that the project is in a dormant state, in order to optimize performance in case of a resumption of the project.

Currently, the business and revenues of these activities are not in the aggregate material to us.

**Insurance**

We maintain casualty and liability insurance against risks related to our business to the extent we consider appropriate and otherwise self-insure against such risks. We carry insurance covering key assets and equipment against certain risks, construction-in-progress, procurement in transit and directors' and officers' liability. These insurance and indemnity, however, cover only a portion of the assets that our 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 assets.

Risks of substantial liability arise from the operation of nuclear-fueled generating units and from the use and handling of nuclear fuel and possible radioactive emissions associated with such nuclear fuel. KHNP maintains property and liability insurance against risks of its business to the extent it considers appropriate and otherwise self-insure against such risks. KHNP carries insurance for its generation units against certain risks, including property damage, nuclear fuel transportation and liability insurance for personal injury and property damage. KHNP is also the beneficiary of a Government indemnity with respect to such risks. Under the Nuclear Damage Compensation Act of 1969, as amended, KHNP is liable only up to 300 million Special Drawing Rights (SDRs), approximately US\$496 million, at the rate of 1 SDR = US\$1.48516 as posted on the Internet homepage of the International Monetary Fund on May 27, 2005) per single accident; provided that such limitation will not apply where KHNP intentionally caused the harm or knowingly failed to prevent the harm from occurring. KHNP will receive the Government's support, subject to the approval of the National Assembly, if (i) the damages exceed the insurance coverage amount of W50 billion and (ii) the Government deems such support to be necessary for the purposes of protecting damaged persons and supporting the development of nuclear energy business. The amount of Government's support to KHNP for such qualifying nuclear incident would be 300 million SDRs, or the limit of KHNP's liability, minus the coverage amount of up to W50 billion as determined by the National Assembly. KHNP also carries insurance against terrorism with the insurance coverage being up to US\$300 million on property and W50 billion on liability. The amounts and coverage of these insurance and indemnity are limited and do not cover all types or amounts of loss which could arise in connection with the ownership and operation of nuclear plants, and material and adverse financial consequences could result from a significant accident.

Other than KHNP, neither we nor our generation subsidiaries carry any insurance against terrorist attacks specifically.

See Item 3 Key Information Risk Factors Risks Relating to KEPCO Insurance coverage may not be sufficient.

**Affiliated Companies**

We have four principal affiliates (companies in which we hold at least 20% and not more than 50% of the share capital) whose accounts are not required to be included in our consolidated financial statements. See Note 6



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of the notes to our consolidated financial statements. The table below sets forth for each of the principal affiliates the name and year of incorporation, our percentage holding and their principal activities as of December 31, 2004.

	<b>Year of Incorporation</b>	<b>Ownership  (Percent)</b>	<b>Principal Activities</b>
KGC	1983	24.5	Sales of liquefied natural gas
Korea District Heating Co. Ltd.	1985	26.1	Provision of heat
YTN(1)	1993	21.4	Broadcasting
Powercomm Corporation	2000	43.1	Communication line leasing
Korea Electric Power Industrial Development Co., Ltd.	1990	49.0	Disposal of power-plant ash and electric meter reading

(1) KEPCO Data Network Co., Ltd., a wholly-owned subsidiary of KEPCO, owns the 21.4% equity interest in YTN.

**Competition**

We are currently the only holder of the required license for transmission and distribution of electricity in the Republic and have no competitors in these areas. Therefore, our principal competition is currently from alternative power and heating sources. The power generation industry is in the process of liberalization, beginning with the establishment of our power generation subsidiaries in April 2001, in accordance with the Restructuring Plan.

In the residential market, consumers may use natural gas, oil and coal for space and water heating and cooking. However, currently there is no practical substitute for electricity for lighting and for many household appliances.

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

In the industrial market, currently there is no practical substitute for electricity in a number of applications including lighting and power for many types of industrial machinery and processes. For other uses, such as space and water heating, electricity competes with oil and natural gas and potentially with gas-fired combined heating and power plants.

**Regulation**

We are a statutory juridical corporation established under the KEPCO Act for the purpose of ensuring stabilization of the supply and demand of electric power, and further contributing toward the sound development of the national economy through expediting development of electric power resources and carrying out proper and effective operation of the electricity business. The KEPCO Act contemplates that we will engage in the following activities:

development of electric power resources;

the generation, transmission, transformation, distribution of electricity and other related business;

related investment, research and technology development;

business incidental to the foregoing; and

any other business activities entrusted to us by the Government.

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

first, to make up any accumulated deficit;

second, to set aside as a legal reserve 20% or more of profits until the accumulated reserve reaches one-half of our capital;

third, to pay dividends to stockholders;

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

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

sixth, to carry forward surplus profit.

According to our consolidated financial results as of December 31, 2004, the legal reserve was W1,602 billion, the reserve for business expansion was W12,438 billion and the reserve for investment of social overhead capital was W5,092 billion.

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

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

The Electricity Business Act requires that licenses be obtained in relation to the generation, transmission and distribution and sale of electricity, with limited exceptions. We possess a license authorizing us to generate, transmit, distribute and sell electricity. Several other companies have received a license solely for power generation. See [Power Generation](#) [Purchased Power](#) . Each of our six generation subsidiaries possesses an electricity generation license. No entity other than us has a license for the transmission or distribution of electricity. The Electricity Business Act also governs the formulation and approval of electricity rates in Korea. See [Rates](#) .

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

### **Proposed Sale by Us of Certain Power Plants and Equity Interests**

The Government has announced a plan to privatize Government-invested companies to increase their efficiency and to induce foreign investment in Korea. Pursuant to such plan, we sold 28.8% of the total outstanding common stock of Doosan Heavy Industries & Construction Co., Ltd., formerly HANJUNG, in 2000 and the remaining equity interest in 2001. We intend to sell all or part of our 26.1% equity interest in Korea District Heating Co., Ltd. and our 24.5% equity interest in KGC at an appropriate time in the future. See [Affiliated Companies](#) . In August 2000, we completed the sale of two LNG cogeneration power plants at Anyang and Puchon, Korea, each with an installed capacity of 450 megawatts, to LG Power Company Limited, which was established by a consortium of companies, including the LG-Caltex Oil Corporation, LG-Caltex Gas Corporation, Ltd., Kukdong City Gas Co., Ltd. and Texaco Power and Gasification Global Inc. See [Power Generation](#) . The sale of these two power plants was pursued independently of the Government's restructuring plan as described below but is paving the way for the privatization of the district heating industry in Korea. We also sold all our equity interests in several Korean telecommunications companies in 1999. In March 2003, as part of our privatization plan we sold 51% of our total equity interest in, which represented in effect control of, Korea Electric Power Industrial Development Co., Ltd. for W64.7 billion. In July 2000, we sold 15,757,000 shares of Powercomm, our wholly-owned telecommunications subsidiary, representing approximately 10.5% of Powercomm's total issued and outstanding shares of common stock. In December 2002 we sold 68,250,000 shares of Powercomm, representing approximately 45.5% of Powercomm's total issued and outstanding shares of common stock and in April 2003 we sold 1,299,000 shares of Powercomm, representing 0.87% of Powercomm's total issued and outstanding shares of common stock to Powercomm's employee stock ownership association. Following such sales, our current ownership interest in Powercomm is 43.1%. In November 2003, we

issued in the international capital markets US\$250 million in principal amount of

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exchangeable bonds with a 5-year maturity, exchangeable into Powercomm shares that we own. The number of Powercomm shares to be delivered upon exercise of the exchange right by the holders of these exchangeable bonds depends on the exchange price to be determined as 120% of the future initial public offering price of Powercomm shares. Powercomm is not required to complete a qualifying public offering, which means the first listing on the Korea Exchange, the New York Stock Exchange or the NASDAQ meeting certain requirements, prior to the maturity of these exchangeable bonds. In addition, we do not guarantee the qualifying public offering of Powercomm. We are planning to sell down our remaining interest in Powercomm.

The completion of our plans, however, is subject to, among other considerations, Government policies relating to us and market conditions. The assets proposed for sale and the related sales and earnings do not, in the aggregate, constitute a material part of our assets or results of operations.

**PROPERTY, PLANTS AND EQUIPMENT**

Our property consists mainly of power generation, transmission and distribution equipment and facilities in Korea. See Business Overview Power Generation , Transmission and Distribution and Capital Investment Program . In addition, we own our corporate headquarters building complex at 167 Samseong-dong, Gangnam-gu, Seoul 135-791, Korea. The Korean government has recently announced its policy to move the headquarters of government-invested enterprises, including us, out of the Seoul metropolitan area to other provinces in Korea. See History and Development Recent Developments . As of December 31, 2004, the net book value of our property was W63,326 billion. No significant amount of our properties are leased.

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

*You should read the following discussion together with our consolidated financial statements and the related notes which appear elsewhere in this report. We expect that the implementation of the Restructuring Plan will over time materially change the environment in which we operate and, accordingly, our historic performance may not be indicative of our future results of operations and capital requirements and resources. See Item 4 Information on the Company Business Overview Restructuring of the Electricity Industry in Korea and Item 3 Key Information Risk Factors Risks Relating to KEPCO The Government's Plan for Restructuring the Electricity Industry in Korea (the Restructuring Plan ) may have a material adverse effect on us .*

**OPERATING RESULTS****Overview**

For the years ended December 31, 2002, 2003 and 2004, we had consolidated operating revenues of W21,366 billion, W22,775 billion and W23,956 billion (US\$23,143 million), principally from the sale of electricity. As we have a monopoly over the Korean electricity industry, our business is heavily regulated by the Government in terms of the rates we charge to our customers for the electricity we sell. However, our business requires high level of capital expenditures and is subject to a number of variable factors, including demand for electricity in Korea and fluctuation in costs, such as fuel prices which are determined in part by reference to currencies other than the Won.

***Demand for Electricity and Rates***

Our results of operations, sales in particular, are dependent upon demand for electricity in Korea and the rates we charge for the electricity we sell.

Demand for electricity in the Republic grew at a compounded average rate of 7.8% per annum for the five years ended December 31, 2004. According to The Bank of Korea, real gross domestic product ( GDP )

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compounded growth rates was approximately 5.4% for the same period. The GDP growth rate was 4.6% for 2004 as compared to 3.1% in 2003. Demand for electricity may be broken down by class of customers as follows:

The industrial sector is currently the largest user of electricity in Korea. While demand from the industrial sector (including the agricultural sector) has increased steadily as a result of economic expansion in Korea, it has gradually declined as a percentage of total demand from 58.0% of total demand in 1997 to 50.7% in 2004. In addition, demand from the industrial sector (including the agricultural sector) increased by 5.3% to 158,337 million kilowatt hours in 2004 as compared to 2003.

The commercial sector currently accounts for 33.7% of electricity consumed in Korea. Demand from the commercial sector has increased in recent years, both in absolute terms and as a percentage of total demand. The commercial sector has shown the highest rate of growth in demand since 1980. Demand from the commercial sector increased by 6.6% to 105,143 million kilowatt hours in 2004 as compared to 2003.

Demand from the residential sector increased by 9.1% to 48,615 million kilowatt hours in 2004 as compared to 2003.

The rapid growth in Korea's economy since the early 1960's has resulted in substantial growth in the demand for electricity. While the world-wide economic recession of the early 1980's slowed economic growth in Korea, in the latter half of the 1980's, the Republic's economy resumed its rapid growth, leading to substantial increases in demand for electricity. The slow economic growth in Korea in the early 1990's resulted in a slight decline in the growth of demand for electricity. However, consumption levels, particularly during periods of peak demand, continue to press the limits of available supply. Total demand for electricity in 2002 increased by 8.0% as compared to 2001, the total demand in 2003 increased by 5.4% as compared to 2002, and the total demand in 2004 increased by 6.3% as compared to 2003. The table below sets forth, for the periods indicated, the annual rate of growth in Korea's gross domestic product (GDP) and the annual rate of growth in electricity demand (measured in total annual electricity consumption).

	2000	2001	2002	2003	2004
Growth in GDP (at 2000 constant prices)	8.5%	3.8%	7.0%	3.1%	4.6%(1)
Growth in electricity consumption	11.8%	7.6%	8.0%	5.4%	6.3%

(1) Preliminary.

For additional discussions of demand by class of customers, see Item 4 Business Overview Sales and Customers Demand by Class of Customer . We anticipate that demand for electricity will continue to increase in 2005.

The Rate Laws (as defined in Business Sales and Customers Rates ) prescribe the procedures for the approval and establishment of rates charged for the electricity we sell. We submit our recommendations for revisions of rates or changes in the rate structure to the MOCIE. The recommendations are reviewed and, upon consultation with the Electricity Rates Expert Committee of the MOCIE and the MOFE, a final determination is made by the MOCIE. Under the recently amended Electricity Business Law, the recommendations must be reviewed by the Korean Electricity Commission, which was established as a regulatory agency under the amended law, prior to final determination by the MOCIE. On January 1, 2003, as part of a plan to improve the rate structure, the MOCIE adjusted the rates among the various types of consumers. As a result of this rate adjustment, industrial rates increased by 2.5%. On the other hand, residential and commercial rates decreased by 2.2% and 2.0%, respectively. On March 1, 2004, the MOCIE revised our rate schedule, which resulted in a 1.5% reduction of rates. Residential, commercial and educational rates decreased by 2.8%, 3.5% and 3.0%, respectively. Industry rates were frozen at previous levels despite our request for an increase. See Business Sales and Customers Rates .



**Table of Contents*****Increase in Fuel Cost***

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

Fuel costs constituted 27.6%, 33.9% and 27.0% of our operating revenues and operating expenses, respectively, for the year ended December 31, 2004, 2003 and 2002. Our generation subsidiaries purchase substantially all of the fuel that they use (except for anthracite coal) from a small number of suppliers outside Korea at prices determined in part by prevailing market prices in currencies other than Won. In addition, our generation subsidiaries purchase a significant portion of their fuel requirements under contracts with limited quantity and duration. Pursuant to the terms of our long-term supply contracts, prices are adjusted annually in light of market conditions. See *Business Fuel* .

Uranium accounted for 40.8% of our fuel requirements in 2002, 42.3% in 2003 and 40.0% in 2004. Coal accounted for 41.0% of our fuel requirements in 2002, 39.7% in 2003 and 39.3% in 2004. Oil (including diesel for internal combustion) accounted for 6.1% of our fuel requirements in 2002, 5.6% in 2003 and 5.0% in 2004. Liquefied natural gas ( LNG ) accounted for 11.1% of our fuel requirements in 2002, 11.3% in 2003 and 14.8% in 2004. These fuel requirements are measured in each case by the amount of electricity generated and does not include electricity purchased from others. In order to ensure stable supplies of fuel materials, our generation subsidiaries enter into long-term and medium-term contracts with various suppliers, and supplement such supplies with purchases of fuel materials on spot markets. Substantially all of the fuel materials we utilize other than anthracite coal are purchased directly or indirectly from sources outside Korea and are paid for with currencies other than Won.

Recently, due to increase in domestic demand in China and elsewhere in the world, the prices of bituminous coal have soared. See *Business Fuel* . Approximately 77.1% of the combined bituminous coal requirements of our generation subsidiaries are purchased under long-term contracts and 22.9% purchased on the spot market. The average free on board Newcastle coal price index in 2004 was US\$52.3 per ton. In March 2005, free on board Newcastle coal price index was US\$51.9 per ton. If bituminous coal price continues to be at its current level or higher, our generation subsidiaries will be unable to secure their respective bituminous coal supply at prices comparable to those of prior periods. In addition, any significant interruption or delay in the supply of fuel, bituminous coal in particular, from any of the suppliers could cause our generation subsidiaries to purchase fuel on the spot market at prices higher than contracted, resulting in an increase in our fuel cost. In addition, there have been recent increases in crude oil prices, that may lead to an increase in the price of commodity oil that we use, thereby resulting in higher fuel cost. Because the Government regulates the rates we charge for electricity we sell as described in *Demand for Electricity and Rates* above, our ability to pass on such cost increases to our customers is limited. We estimate that the recent increase in fuel prices has had a material adverse effect on our results of operations and profitability in 2005 to date. We expect fuel prices to remain at record high levels throughout 2005. Accordingly, we expect our operating income and net income may decrease significantly in 2005 and beyond compared to prior periods. See *Risk Factors Risks Relating to Our Business Recent increase in fuel prices will adversely affect our results of operations and profitability* .

Nuclear power has a stable and low cost structure that forms the base load of Korea's electricity supply. Due to significantly lower fuel costs as compared with conventional power plants, our nuclear power plants are in general operated at full capacity with only routine shutdowns for check-up and overhaul consisting of 40 to 50 days. In December 2003, in response to concerns of potential exposure to radioactive materials arising from a release incident, we shut down Younggwang-5, one of our nuclear power plants for assessment, inspection and overhaul. This nuclear power plant resumed its operations in April 2004. In November 2003, we shut down Younggwang-6, another of our nuclear power plants for planned overhaul, during which a mechanical problem was discovered giving rise to concerns as to its safety. After the overhaul, this nuclear power plant resumed its operations on April 6, 2004. We made up for the shortage in electricity generation resulting from stoppages of these nuclear power plants with power generated by our coal-fired power plants. Because coal-fired power plants carry higher fuel costs, our fuel cost increased further in 2004 as compared to 2003 as a result of the foregoing.

**Table of Contents*****Depreciation of the Won against the U.S. dollar or the Japanese Yen***

Due to adverse economic conditions and reduced liquidity, the value of the Won in relation to the U.S. Dollar and other major foreign currencies declined substantially in 1997 but generally rose in 1998, 1999, 2000, 2001 and 2003 with the exception of a modest decline in 2002 and 2004. For fluctuations in exchange rates, see Item 3 Key Information Selected Financial Data Currency Translations and Exchange Rates . Such depreciation had a material effect on the cost of servicing our foreign currency debt and the cost of our purchases of fuel materials and equipment from overseas sources. As of December 31, 2004, approximately 27% of our debt was denominated in foreign currencies, principally in Dollars and Yen. The prices for substantially all of the fuel materials and a significant portion of the equipment we purchase are stated in currencies other than Won, generally in Dollars. Since substantially all of our revenues are denominated in Won, we must generally obtain foreign currencies through foreign-currency denominated financings or through the conversion of Won to affect such purchases or service such debt. As a result, any significant depreciation of the Won against the Dollar or other foreign currencies will result in foreign exchange transaction or translation losses and adversely impact our financial condition and results of operations. See Risk Factors The Impact of Won depreciation may have a material adverse effect on us.

**Recent Accounting Changes**

In October 2004, Korea Accounting Standard Board issued SKAS No. 17 *Provision and Contingent Liability & Asset* . In January 2005, we decided to early adopt SKAS No. 17. Under this standard, we retrospectively adjusted the liability for decommissioning costs at the estimated fair value using discounted cash flows to settle the asset retirement obligations of dismantlement of the nuclear power plants, spent fuel and radioactive waste and the same amount was recognized as a utility asset. Due to the adoption of this standard, we re-measured the liability for decommissioning costs and reflected the cumulative effect of an accounting change up to prior year into the beginning balance of retained earnings. This accounting change, which was recorded as of January 1, 2004, resulted in an increase in its utility plant, net of W1,504 billion, liability for decommissioning costs of W556 billion, deferred income tax liabilities of W261 billion and retained earnings of W687 billion, respectively. As allowed by this standard, the 2003 financial statements were not restated. For the year ended December 31, 2004, net income increased by W108 billion applying this new standard.

**Critical Accounting Policies*****Regulatory Accounting***

Under US GAAP, SFAS No. 71 *Accounting for the Effects of Certain Types of Regulation* differs in certain respects from the application of GAAP by non-regulated businesses. We are required to recognize regulatory liabilities or regulatory assets on the consolidated financial statements by a corresponding charge or credit to operations to match revenues and expenses under the regulations for the establishment of electric rates. If, as a result of deregulation, we no longer meet the criteria for application of SFAS No. 71, the elimination of the regulatory assets and liabilities are charged or credited to current operations.

Regulatory assets and liabilities are established based on the current regulation and rate-making process. Accordingly, these assets and liabilities may be significantly changed due to the potential future deregulation or changes in the rate-making process.

***Decommissioning Costs***

We record the fair value of estimated decommissioning costs as a liability in the period in which we incur a legal obligation associated with retirement of long-lived assets that result from acquisition, construction, development, and/or normal use of the assets. We would also record a corresponding asset that is depreciated over the life of the asset. Accretion expense consists of period-to-period changes in the liability for decommissioning costs resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Depreciation and accretion expenses are included in cost of electric power in the accompanying consolidated statements of income.



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The decommissioning cost estimates are based on engineering studies and the expected decommissioning dates of the nuclear power plants. Actual decommissioning costs are expected to vary from these estimates because of changes in assumed dates of decommissioning, regulatory requirements, technology, costs of labor, materials and equipment. Based on the above, we believe that the accounting estimate related to decommissioning costs is a critical accounting policy.

Under Korean GAAP, up until December 31, 2003, we recorded a liability for the estimated decommissioning costs of nuclear facilities based on engineering studies and the expected decommissioning dates of the nuclear power plant. Additions to the liability were in amounts such that the current costs would be fully accrued for at estimated dates of decommissioning on a straight-line basis.

During 2004, we early adopted SKAS No. 17, Provision and Contingent Liability & Asset. Under this standard, we record the fair value of the liabilities for decommissioning costs as a liability in the period in which we incur a legal obligation associated with retirement of long-lived assets that result from acquisition, construction, development, and/or normal use of the assets. We would also record a corresponding asset that is depreciated over the life of the asset. Accretion expense consists of period-to-period changes in the liability for decommissioning costs resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Depreciation and accretion expenses are included in cost of electric power in the accompanying consolidated statements of income.

As of December 31, 2003 and 2004, we have recorded a liability of W5,091 billion and W6,259 billion, respectively, as the cost of dismantling and decontaminating existing nuclear power plants. During 2003, we updated our engineering study on the estimated decommissioning costs of our nuclear facilities and applied the amount prospectively. As a result of this change in estimate, the provision for decommissioning costs increased by W72,888 million for the year ended December 31, 2003 under Korean GAAP. In addition, during 2004, the Company updated the 2003 study and estimates for its liability for decommissioning costs based on new engineering studies (the 2004 study) provided by other third parties. Major revisions to the 2003 study were increases in dismantling cost per power plant, cask maintenance costs for spent fuel and maintenance cost after closedown of interim storage and operating costs for radioactive wastes. In addition, the 2004 study revised the timing of cash outflows. As required by SKAS No. 17, the change in accounting included the revised factors from the 2004 study since these factors were the Company's best estimates at the time the Company elected to early adopt SKAS No. 17. With the adoption of SKAS No. 17, the Company re-measured the liability for decommissioning costs and reflected the cumulative effect of a change in accounting including the effect of the change in estimate up to prior year into the beginning balance of retained earnings.

Under U.S. GAAP, we adopted SFAS No. 143, Accounting for Asset Retirement Obligations on January 1, 2003. Under this Statement, the fair value of liabilities for an asset retirement obligations for all existing long-lived assets is to be recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. The corresponding amount is capitalized as part of carrying amount of the long-lived asset and expensed using a systematic and rational method over the asset's useful life.

In addition, as a result of change in estimate based on engineering study during 2003, the liability for decommissioning costs and the related net asset increased by W732 billion and W851 billion respectively, for the year ended December 31, 2003. As a result of this change in estimate, under U.S. GAAP, net income increased by W119 billion for the year ended December 31, 2003. In addition, as described above, during 2004 we updated the 2003 study. Under U.S. GAAP, since we already adopted SFAS No. 143 in 2003, the impact from the 2004 study is considered as a change in estimate. As a result of this change in estimate, under U.S. GAAP, the liability for decommissioning costs and the related net asset decreased by W633 billion and W1,078 billion, respectively, for the year ended December 31, 2004. Also, net income decreased by W455 billion for the year ended December 31, 2004.

**Deferred Tax Assets**

In assessing the realizability of the deferred tax assets, our management considers whether it is probable that a portion or all of the deferred tax assets will not be realized. The ultimate realization of our deferred tax assets is dependent on whether we are able to generate future taxable income in specific tax jurisdictions during the



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periods in which temporary differences become deductible. Our management has scheduled the expected future reversals of the temporary differences and projected future taxable income in making this assessment. Based on these factors, our management believes that it is probable that we will realize the benefits of these temporary differences as of December 31, 2004. However, the amount of deferred tax assets may be different if we do not realize estimated future taxable income during the carry forward periods as originally expected.

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities at each separate taxpaying entity. Under Korean GAAP, a deferred tax asset is recognized only when its realization is probable under and an appropriate write-down of a previously recognized deferred tax asset is deducted directly from the deferred tax asset. Under U.S. GAAP, a deferred tax asset is recognized for temporary difference that will result in deductible amounts in future years and for carry forwards and a valuation allowance is recognized, if based on the weight of available evidence, it is more likely than not than some portion or all of the deferred tax asset will not be realized.

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

Long-lived assets generally consist of property, plant and equipment and intangible assets. We review the long-lived assets for impairment whenever events or changes in circumstances indicate, in management's judgment, that the carrying amount of such assets may not be recoverable. These computations utilize judgments and assumptions inherent in management's estimate of undiscounted future cash flows to determine recoverability of an asset. If management's assumptions about these assets change as a result of events or circumstances, and management believes the assets may have declined in value, then we may record impairment charges, resulting in lower profits. Management uses its best estimate in making these evaluations and considers various factors, including the future prices of energy, fuel costs and operating costs. However, actual market prices and operating costs could vary from those used in the impairment evaluations, and the impact of such variations could be material.

**Results of Operations*****2004 Compared to 2003***

In 2004, our revenues from the sale of electric power, the principal component of our operating revenues, increased by 6.9% to W23,347 billion (US\$22,555 million) from W21,834 billion in 2003, reflecting primarily a 6.3% increase in kilowatt hours of electricity sold in 2004. The increase in electricity sold was primarily attributable to a 5.3% increase in kilowatt hours of electricity sold to the industrial sector, a 9.5% increase in kilowatt hours of electricity sold to the commercial sector and a 4.9% increase in kilowatt hours of electricity sold to the residential sector.

Operating expenses increased by 11.0% to W19,488 billion (US\$18,827 million) in 2004 as compared to W17,551 billion in 2003. Of the operating expenses, our power generation, transmission, and distribution expenses, a principal component of our operating expenses, increased by 14.9% to W16,534 billion (US\$15,973 million) in 2004 from W14,392 billion in 2003 primarily due to a 36.1% increase in fuel costs from W4,849 billion in 2003 to W6,599 billion (US\$6,375 million) in 2004 as a result of increase in unit fuel cost and increased power generation.

Our selling and administrative expenses increased by 4.7% to W1,294 billion (US\$1,250 million) in 2004 from W1,236 billion in 2003. We believe that such increase was primarily attributable to a 12.7% increase in labor expense from W438 billion in 2003 to W493 billion (US\$477 million) in 2004 and a 47.3% increase in expenses for employee benefits from W56 billion in 2003 to W83 billion (US\$80 million) in 2004, which more than offset a 23.2% decrease in depreciation and amortization from W54 billion in 2003 to W41 billion (US\$40 million) in 2004 and a 29.2% decrease in maintenance expense from W27 billion in 2003 to W19 billion (US\$18 million) in 2004.

As a result of these changes, our operating income for 2004 decreased by 14.5% to W4,467 billion (US\$4,316 million) as compared to W5,224 billion in 2003.

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Our net non-operating results showed a gain of W232 billion (US\$224 million) in 2004 as compared to a loss of W1,114 billion in 2003. Foreign currency transaction and translation gains amounted to W866 billion (US\$837 million) in 2004 as compared to losses of W207 billion in 2003 primarily as a result of Won appreciation against U.S. dollar in 2004. Interest expense decreased by 11.1% from W830 billion in 2003 to W738 billion (US\$713 million) in 2004 due primarily to a decrease in interest rates. The aforementioned factors more than offset the increase of net valuation loss on currency and interest rate swaps by 182% to W169 billion in 2004 (US\$164 million) as compared to W93 billion in 2003.

Our effective tax rate of 38.2% is higher than the Korean statutory tax rate of 29.7% due to recognition of deferred income tax liabilities related to equity income of affiliates. Equity income of consolidated subsidiaries is eliminated in the consolidated financial statements. However, the deferred tax liabilities are maintained without elimination because they are taxes to be paid by individual companies based on Korean (stand-alone) tax basis. In December 2003, the Government lowered the statutory tax rate from 29.7% to 27.5%, which change became effective on January 1, 2005. The tax effect arising from change in tax rate was recorded in 2003.

As a result of the above factors, our net income increased by 24.1% to W2,883 billion (US\$2,785 million) in 2004 as compared to W2,323 billion in 2003.

**2003 Compared to 2002**

In 2003, our revenues from the sale of electric power, the principal component of our operating revenues, increased by 7.0% to W21,834 billion from W20,406 billion in 2002, reflecting primarily a 5.4% increase in kilowatt hours of electricity sold in 2003 which was offset in part by a decrease in electricity rate as of March 1, 2003. The increase in electricity sold was primarily attributable to a 4.4% increase in kilowatt hours of electricity sold to the industrial sector, a 7.3% increase in kilowatt hours of electricity sold to the commercial sector and a 6.8% increase in kilowatt hours of electricity sold to the residential sector.

Operating expenses increased by 7.5% to W17,551 billion in 2003 as compared to W16,319 billion in 2002. Of the operating expenses, our power generation, transmission, and distribution expenses, a principal component of our operating expenses, increased by 7.4% to W14,392 billion in 2003 from W13,405 billion in 2002 primarily due to a 10.0% increase in fuel costs as a result of increase in unit fuel cost and increased sale of electricity as well as a 13.0% increase in labor costs. On the other hand, expense for purchased power increased by 14.6% to W1,384 billion in 2003 from W1,207 billion in 2002 as a result of a 11.3% increase in kilowatt hours of power purchased for resale.

Our selling and administrative expenses increased 6.5% to W1,236 billion in 2003 from W1,161 billion in 2002. We believe that such increase was primarily attributable to a 6.9% increase in labor expense from W410 billion in 2002 to W438 billion in 2003 and a 10.7% increase in sales commission expenses, which include fees paid for meter readings and billing, from W253 billion in 2002 to W280 billion in 2003, which more than offset a 5.3% decrease in depreciation from W57 billion in 2002 to W54 billion in 2003 and a 14.2% decrease in other commission expense from W127 billion in 2002 to W109 billion in 2003. As a result of these changes, our operating income for 2003 increased by 3.5% to W5,223 billion as compared to W5,047 billion in 2002.

Our net non-operating results showed a loss of W1,114 billion in 2003 as compared to a gain of W124 billion in 2002. Foreign exchange transaction and translation losses amounted to W207 billion in 2003 as compared to gains of W512 billion in 2002 primarily as a result of only a slight depreciation of the U.S. dollar against the Won in 2003 as compared to a more substantial depreciation of the U.S. dollar against the Won in 2002 and an appreciation of the Japanese Yen against the Won in 2003. Gain on disposal of investments decreased by 89.6% from W433 billion in 2002 to W45 billion due to the lack of material asset sale in 2003. Valuation loss on currency and interest rate swaps amounted to W94 billion in 2003 as compared to gains of W64 billion in 2002. The aforementioned factors more than offset a decreased in the interest expense by 18.4% from W1,016 billion in 2002 to W830 billion in 2003 due primarily to a decrease in interest rates.

Our effective tax rate of 42.9% is higher than the Korean statutory tax rate of 29.7% due to recognition of deferred income tax liabilities related to equity income of affiliates. Equity income of consolidated subsidiaries is eliminated in the consolidated financial statements. However, the deferred tax liabilities are maintained without



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elimination because they are the taxes to be paid by individual companies based on Korean (stand-alone) tax basis. In December 2003, the Government lowered the statutory tax rate from 29.7% to 27.5%, which change became effective on January 1, 2005. The tax effect arising from change in tax rate was recorded in 2003.

As a result of the above factors, our net income decreased by 23.8% to W2,323 billion in 2003 as compared to W3,048 billion in 2002.

**LIQUIDITY AND CAPITAL RESOURCES**

*We expect that our capital requirements, capital resources and liquidity position may change in the course of implementing the Restructuring Plan. As of December 31, 2004, the Company has been conducting research in preparation of implementing the revised Restructuring Plan, which the Company expects to be completed in early 2006. See Item 4 Information on the Company Business Overview Restructuring of the Electricity Industry in Korea and Item 3 Key Information Risk Factors Risks Relating to KEPCO The Government's Plan for Restructuring the Electricity Industry in Korea (the Restructuring Plan) may have a material adverse effect on us.*

**Capital Requirements**

We have traditionally met our working capital and other capital requirements primarily from net cash provided by operating activities, sales of debt securities, borrowings from financial institutions and construction grants. Net cash provided by operating activities was W8,800 billion in 2002, W8,318 billion in 2003, and W8,150 billion (US\$7,874 million) in 2004. Total long-term debt as of December 31, 2004 (including the current portion and discount on debentures on and excluding premium on debentures) was W19,300 billion (US\$18,646 million), of which W12,488 billion (US\$12,065 million) was denominated in Won and the equivalent of W6,812 billion (US\$6,581 million) was denominated in foreign currencies, primarily U.S. dollars. Construction grants received were W627 billion in 2002, W618 billion in 2003, and W624 billion (US\$603 billion) in 2004.

The implementation of the Restructuring Plan and the current economic environment may result in a material change in our capital investment program. However, we expect our working capital and other capital requirements (including those of our generation subsidiaries) to continue to increase as a result of our capital investment program. The capital investment program continues to contemplate the construction of a large number of generating units and a significant expansion of our transmission and distribution systems. The construction of new generating units requires significant investments over extended periods before commencement of operations.

We anticipate that capital expenditures will be the most significant use of our funds for the next several years. Our total capital expenditures were W6.7 trillion in 2002, W6.8 trillion in 2003, W6.3 trillion in 2004 (US\$6.1 billion) and under current plans, are estimated to be approximately W7.7 trillion in 2005 and approximately W9.3 trillion in 2006.

In addition to funding requirements relating to our capital investment program, payments of principal and interest on indebtedness will require considerable resources. The scheduled maturities of our outstanding long-term debt as of December 31, 2004 in the years ending December 31, 2005 to 2009 and thereafter are set forth in the table below:

<b>Total</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009 and thereafter</b>
<b>(In billions of Won)</b>					
W19,388	W 4,228	W 3,233	W 4,168	W 3,585	W 4,174

We have incurred interest charges (including capitalized interest) of W1,608 billion in 2002, W1,333 billion in 2003, and W1,292 billion (US\$1,248 million) in 2004. We anticipate that interest charges will increase in future years because of, among other factors, anticipated increases in our long-term debt. See Capital Resources below. The weighted average rate of interest on our debt was 6.13% for the year ended December 31, 2002, 5.78% for the year ended December 31, 2003, and 4.61% for the year ended December 31, 2004.

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We paid dividends on our common stock of W330 billion in 2002, W512 billion in 2003, and W674 billion (US\$651 million) in 2004. We will pay dividends to holders of our common stock as of December 31, 2004, including the Government, of W724 billion during 2005. The Government holds shares of the same class of common stock as public stockholders. Our articles of incorporation authorize the Government and us to determine the amount of dividends paid to the Government taking into consideration various factors, including our liquidity and capital needs. Accordingly, in the past, we have typically paid dividends to the Government at rates lower than those declared to public stockholders. However, our policy, which is effective for the financial year ended December 31, 2002 and going forward, is to pay dividends to the Government at a rate equal to the dividends paid to public stockholders.

**Capital Resources**

In order to meet our future working capital and other capital requirements, we intend to continue to rely primarily upon net cash provided by operating activities, sales of debt securities, borrowings from financial institutions and construction grants. As of December 31, 2004, our long-term debt, excluding the current portion thereof, as a percentage of stockholders' equity was 37.1%. We incurred W3,383 billion of long-term debt in 2002, W5,378 billion in 2003, and W5,173 billion (US\$4,999 million) in 2004. As of December 31, 2004, the current portion of long-term debt was W4,228 billion (US\$4,084 million) as compared to W6,626 billion (US\$6,401 million) as of December 31, 2003. As of December 31, 2004, we had W414 billion (US\$400 million) of short-term borrowings as compared to W210 billion as of December 31, 2003. See Notes 16 of the notes to our consolidated financial statements.

Subject to the implementation of our capital expenditure plan and the sale of our interests in our generation subsidiaries and other subsidiaries, our long-term debt may increase or decrease in future years. Until recently, a substantial portion of our long-term debt was raised through foreign currency borrowings. However, in order to reduce the impact of foreign exchange rate fluctuations on our results of operations, we have recently been reducing and plan to continue to reduce the proportion of our debt which is denominated in foreign currencies by, among other methods, borrowing more in the Korean market where interest rates have recently declined substantially. Our foreign currency denominated long-term debt decreased from W8,073 billion as of December 31, 2003 to W6,812 billion (US\$6,581 million) as of December 31, 2004. We also intend to continue to reduce the proportion of our foreign currency debt which is denominated in U.S. Dollars.

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

We may raise capital from time to time through the issuance of equity securities. However, there are certain restrictions on our ability to issue equity, including limitations on shareholdings by foreigners. In addition, without changes in the existing KEPCO Act which requires that the Government, directly or pursuant to the KDB Act, through KDB, own at least 51% of our capital stock, it will be difficult or impossible for us to undertake any equity financing other than sales of treasury stock without the participation of the Government. Due to adverse economic developments in Korea, however, the share price at which such financing may be available may not be acceptable to us. See Item 3

Key Information Risk Factors Risks Relating to Korea and the Global Economy Adverse developments in Korea could adversely affect us .

Our total stockholders' equity increased from W36,073 billion as of December 31, 2002 to W40,602 billion (US\$39,225 million) as of December 31, 2004.

**Liquidity**

Substantially all of our revenues are denominated in Won. However, as of December 31, 2004, 35.3% of our long-term debt (including the current portion thereof) was denominated in currencies other than Won. We have incurred such foreign currency debt in the past principally due to the limited availability and high cost of Won-





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denominated financing in the Republic. Although we intend to continue to raise certain amounts of capital through long-term foreign currency debt, we have recently been reducing, and plan to continue to reduce, the portion of our debt which is denominated in foreign currencies.

We enter into currency swap and other hedging arrangements with respect to our debt denominated in foreign currencies only to a limited extent due primarily to the limited size of the Korean market for such derivative arrangements. Such instruments include combined currency and interest rate swap agreements, interest rate swaps, and foreign exchange agreements. We do not enter into derivative financial instruments in order to hedge market risk resulting from fluctuations in fuel costs. Our policy is to hold or issue derivative financial instruments for hedging purposes only. Our derivative financial instruments are entered into with major financial institutions, thereby minimizing the risk of credit loss. See Note 23 of the notes to our consolidated financial statements. Due to the considerable amount of our long-term debt denominated in foreign currencies, changes in foreign currency exchange rates significantly affect our liquidity because of the effect of such changes on the amount of funds required for us to make interest and principal payments on foreign currency-denominated debt.

In addition to the impact of foreign exchange rates on us arising from foreign currency-denominated borrowings, fluctuations in foreign exchange rates may also affect our liquidity as we obtain substantially all of our fuel materials, other than anthracite coal, directly or indirectly from sources outside Korea and the prices for such fuel materials are based on prices stated in, and in many cases are paid for in, currencies other than Won.

Our liquidity is also substantially affected by our construction expenditures and fuel purchases. Construction in progress decreased from W9,551 billion as of December 31, 2003 to W7,517 billion (US\$7,262 million) as of December 31, 2004. Fuel expense represented 22.2% and 28.3% of revenues from sale of electric power in 2003 and 2004, respectively.

We had a working capital deficit (current liabilities minus current assets) of W4,056 billion as of December 31, 2003 and W2,291 billion (US\$2,214 million) as of December 31, 2004. We have traditionally operated with a working capital deficit. In recent periods, our trade payables and other accounts payable have been significant in amount as we have met a portion of our working capital needs through deferred payment of certain types of accounts. We contemplate that we will continue to maintain substantial working capital deficits in the future.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements as of December 31, 2004.

**Contractual Obligations and Commercial Commitments**

The following summarizes certain of our contractual obligations as of December 31, 2004, and the effect such obligations are expected to have on liquidity and cash flow in future periods.

**Payments Due by Period**

Contractual Obligations(1)	Total	Less			After
		than	1 - 3	4 - 5	5 Years
		1 Year	Years	Years	
(In billions of Won)					
Long-Term Debt	W 19,388	W 4,228	W 7,401	W 5,575	W 2,184

(1) We entered into capital lease agreements with Korea Development Leasing Corporation and others for certain computer systems. Remaining annual payments under capital and operating lease agreements as of December 31, 2004 were immaterial.

For a description of our commercial commitments and contingent liabilities, see Notes 29 and 30 of the notes to our consolidated financial statements.

We entered into a turnkey contract with a construction company in China to construct a combined heat and power plant in China. Under the contract, the construction period is from January 2005 to December 2006 and the contract amount is Renminbi 483 million (US\$59 million), which will be paid per the percentage of completion.

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We did not have any unconditional purchase obligations as of December 31, 2004. Other long-term contractual obligations include long-term contracts to purchase fuel, including LNG, oil, bituminous coal and anthracite coal. These contracts generally have terms of three months to one year and provide for periodic price adjustments to then-market prices.

We and our six power generation subsidiaries including Korea Hydro & Nuclear Power Co., Ltd. are jointly and severally liable for outstanding debt as of December 31, 2004 assumed by each of these subsidiaries at the time of their spin-off on April 2, 2001 under the Commercial Code of the Republic. As of December 31, 2004, we were jointly and severally liable for the debt of our six power generation subsidiaries amounting to W1,102 billion and the six power generation subsidiaries were jointly and severally liable for the debts of KEPCO amounting to W328 billion. In March 2005, however, substantially all of the domestic bonds subject to joint and several liability were redeemed at maturity except for W265.1 billion of loans from KDB outstanding as of April 30, 2005 for which we and all of our generation subsidiaries remained jointly and severally liable. See Item 3 Key Information Risk Factors Other Risks We are jointly and severally liable for certain debt of our generation subsidiaries. In addition, KDB, one of our major shareholders, has provided guarantees in respect of certain of KEPCO's foreign currency debt.

We provide debt guarantees to our foreign subsidiaries, including KEPCO Ilijan Co., in an amount not exceeding US\$254 million.

Payment guarantee and short-term credit facilities from financial instruments as of December 31, 2004 were as follows:

*(i) Payment guarantee*

Description	Financial Institutions	Credit Lines	
		(In billions of Won or millions of US\$)	
Payment of import letter of credits	Various banks		US\$1,690
Payment of customs duties	Korea Development Bank	W	4
Payment of overdraft	National Agricultural Cooperative Federation and others	W	580

*(ii) Overdraft and Others*

Description	Financial Institutions	Credit Lines	
		(In billions of Won or millions of US\$)	
Overdraft	BNP Paribas and others		US\$60
	National Agricultural Cooperative Federation and others	W	2,134
Discount on promissory note	Hana Bank and others	W	14
Other	Hana Bank and others	W	7

We provided a promissory note of W2 billion to Hyundai Heavy Industry, Co., Ltd. as a guarantee for performance of contract. In the event we fail to perform, we may be required to fund the promissory note, which will be repayable.

On December 15, 1999, we entered into a subcontract arrangement with KEDO to construct two 1,000-megawatt class pressurized light-water reactor units in North Korea. The contract amount is US\$4,182 million and is subject to adjustment to cover any changes in the cost level. These construction projects have been temporarily suspended from December 1, 2003 due to political uncertainties surrounding the Korean peninsula. We have received cash advances from other parties, which consist of other current liability amounting to W110 billion and other long-term liability amount to W380 billion as of December 31, 2004.

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We entered into a PPA with LG Energy Co., Ltd. and other independent power producers for power purchases in accordance with the Electricity Business Act of Korea and power purchased from these companies amounted to W1,141 billion, W1,055 billion and W1,020 billion for the years ended December 31, 2002, 2003 and 2004, respectively.

We did not have any other credit lines and guarantee commitments provided to any third parties as of December 31, 2004.

As of December 31, 2004, we were engaged in 294 lawsuits as a defendant and 46 lawsuits as a plaintiff. As of the same date, the total amount of damages claimed against us was W282 billion and the total amount claimed by us was W16 billion. The outcome of these lawsuits cannot presently be determined. Our management believes that the final results from these lawsuits will not have a material adverse effect on our liquidity, financial position or results of operation. For a description of our legal proceedings, see Item 8. Financial Information Legal Proceedings .

**Inflation**

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

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The following table sets forth the effects of the significant adjustments to net income and stockholders' equity which would be required if U.S. GAAP were to be applied to our financial statements instead of Korean GAAP:

	<b>Year Ended December 31,</b>			
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2004</b>
	<b>(In millions of Won and thousands of US\$, except per share data)</b>			
<b>Net income under Korean GAAP</b>	W 3,048,105	W 2,323,425	W 2,882,522	\$2,784,776
<b>Adjustments:</b>				
Operating income:				
Asset revaluation	511,787	449,971	391,618	378,338
Special depreciation	(24,246)	(21,033)	(18,370)	(17,747)
Regulated operations	175,783	170,925	7,955	7,685
Capitalized foreign currency translation	164,037	246,531	200,811	194,002
Reversal of eliminated profit on transactions with subsidiaries and affiliates	(44,772)	(17,083)	37,282	36,018
Asset retirement obligation		454,589	(108,522)	(104,842)
Reserve for self-insurance	5,465	6,400	6,274	6,061
Other income (expenses):				
Asset revaluation	130,210	117,795	58,974	56,974
Capitalized foreign currency translation	43,633	(20,589)	44,115	42,619
Reserve for self-insurance	(1,172)	(1,010)	(848)	(819)
Convertible bonds		1,344	24,298	23,474
Cumulative effect of accounting change - Asset retirement obligation		1,775,306		
Income tax expenses				
Deferred income taxes	(436,040)	(934,648)	8,435	8,149
<b>Net income as adjusted under U.S. GAAP</b>	W 3,572,790	W 4,551,923	W 3,534,544	\$3,414,688

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		<b>As of December 31,</b>		
		<b>2003</b>	<b>2004</b>	<b>2004</b>
		<b>(In millions of Won and thousands of US\$)</b>		
<b>Stockholders equity under Korean GAAP</b>	<b>W</b>	37,781,936	<b>W</b>	40,602,282
			<b>\$</b>	39,225,468
<b>Adjustments:</b>				
<b>Utility plant</b>				
Asset revaluation		(8,355,176)		(7,924,482)
Capitalized asset retirement cost		1,751,755		(987,585)
Special depreciation		38,272		19,227
Capitalized foreign currency translation		(2,016,721)		(1,711,714)
Reversal of eliminated profit on transactions with subsidiaries and affiliates		103,371		140,653
				135,883
<b>Investment securities:</b>				
Asset revaluation		(121,977)		(98,618)
Deferred income taxes		2,252,961		2,316,502
				2,237,950
<b>Liabilities:</b>				
Asset retirement obligation		478,140		2,915,538
Regulated operation		(665,962)		(658,007)
Reserve for self-insurance		87,926		93,352
Convertible bonds		(43,828)		(19,530)
Minority interests		(127,569)		(123,099)
				(118,925)
<b>Stockholders equity under U.S. GAAP</b>	<b>W</b>	31,163,128	<b>W</b>	33,746,988
			<b>\$</b>	32,602,633

Note 32 of the notes to our consolidated financial statements provides a description of the principal differences between Korean GAAP and U.S. GAAP as they relate to us.

The material differences between Korean GAAP and U.S. GAAP as applied to our consolidated statements of income relate to:

**Asset Revaluation and Depreciation**

Under Korean GAAP, property, plant and equipment are stated at cost, except for those assets that are stated at their appraised values in accordance with the KEPCO Act and Assets Revaluation Law of Korea. In connection with the revaluation, a new basis for depreciation is established. Asset revaluation is not permitted after January 1, 2001.

Under U.S. GAAP, property, plant and equipment must be stated at cost less accumulated depreciation and impairment. The revaluation of property, plant and equipment and the resulting depreciation of revalued amounts are not included in consolidated financial statements prepared in accordance with U.S. GAAP. When revalued assets are sold, revaluation surplus related to those assets under Korean GAAP would be reflected in income as additional gain on sale of property, plant and equipment under U.S. GAAP.

**Accounting for Regulation**

US GAAP, pursuant to SFAS No. 71 Accounting for the Effects of Certain Types of Regulation differs in certain respects from the application of U.S. GAAP by non-regulated businesses. As a result, a regulated utility is required to defer the recognition of costs (a regulatory asset) or recognize obligations (a regulatory liability) if it is probable that, through the rate-making process, there will be a corresponding increase or decrease in future rates.

The Government approves the rates that we charge to our customers. Our utility rates are designed to recover our reasonable costs plus a fair investment return. However, on April 2, 2001, six power generation





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subsidiaries were established in accordance with the Restructuring Plan. Since the power generation subsidiaries' rates are determined by a competitive system in the market, they no longer meet the criteria for application of SFAS No. 71. Accordingly, since 2001, only our power transmission and distribution divisions have been subject to the criteria for the application of SFAS No. 71.

We recognize a regulatory liability or regulatory asset in our consolidated financial statements by a charge or credit to operations to match revenues and expenses under the regulations for the establishment of electric rates. These assets or liabilities relate to the adjustments for capitalized foreign currency translation, reserve for self-insurance and deferred income taxes.

In June 2001, the MOCIE announced the revised guidelines for utility rate setting, stating that non-operating expenses should be excluded from reasonable costs while income tax expense (including deferred income taxes), instead of income tax payables, should be included for rate-making purposes. As a result of this guideline change and the deregulation of the power generation subsidiaries, only the deferred income taxes caused by the difference between Korean GAAP and U.S. GAAP are subject to SFAS No. 71, to the extent that tax benefits or obligation will affect future allowable costs for rate making purpose.

The regulated assets resulting from capitalized foreign currency translation are anticipated to be recovered over weighted-averaged useful life of property, plant and equipment.

Regulatory assets and liabilities are established based on the current regulations and rate-making process. Accordingly, these assets and liabilities may be significantly changed due to the potential future deregulation or changes in the rate-making process.

**Liabilities for Decommissioning Costs****2002**

Under Korean GAAP, prior to January 1, 2003, we accrued for estimated decommissioning costs of nuclear facilities based on engineering studies and the expected decommissioning dates of the nuclear power plant. Annual additions to the reserve were in amounts such that the expected costs would be fully accrued for at the estimated dates of decommissioning on a straight-line basis.

Under U.S. GAAP, prior to January 1, 2003, accounting for liabilities for decommissioning costs was substantially the same as Korean GAAP.

**2003**

Under Korean GAAP, effective January 1, 2003, we adopted SKAS No. 5 Tangible Assets. Under this standard, we would record the fair value of the liabilities for decommissioning costs as a liability in the period in which we incur a legal obligation associated with the retirement of tangible long-lived assets. However, this standard was only applicable to new plants (with an associated asset retirement liability) put into service after January 1, 2003. For plants put into service before January 1, 2003, SKAS No. 5 did not apply and the previous Korean GAAP (as described under 2002) was required. Since we did not place into service any assets with liabilities for decommissioning costs during 2003, SKAS No. 5 had no impact on the 2003 consolidated financial statements.

Under U.S. GAAP, effective January 1, 2003, we adopted Statement of Financial Accounting Standards ( SFAS ) No. 143 Accounting for Asset Retirement Costs. Under SFAS No. 143, we are required to recognize an estimated liability for legal obligations associated with the retirement of tangible long-lived assets. We measure the liability at fair value when incurred and capitalize a corresponding amount as part of the book value of the related long-lived assets. The increase in the capitalized cost is included in determining depreciation expense over the estimated useful life of these assets. Since the fair value of the liabilities for decommissioning costs is determined using a present value approach, accretion of the liability due to the passage of time is recognized each period as expense until the settlement of the liability. SFAS No. 143 applies to all existing long-lived assets including those acquired before January 1, 2003. As a result of the adoption of SFAS No. 143, we recognized a pre-tax gain as a cumulative effect of accounting change of W1,775 billion on January 1, 2003. In

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addition, for the year ended December 31, 2003, we recorded accretion expense and depreciation expense under U.S. GAAP while reversing the provision for decommissioning costs recorded under Korean GAAP.

**2004**

In October 2004, Korea Accounting Standard Board issued Statement of Korea Accounting Standards ( SKAS ) No. 17 Provision and Contingent Liability & Asset . In January 2005, we decided to early adopt SKAS No. 17. Under this standard, we retrospectively adjusted the liability for decommissioning costs at the estimated fair value using discounted cash flows (also based on engineering studies and the expected decommissioning dates) to settle the liabilities for decommissioning costs and the same amount was recognized as an utility asset. Under SKAS No. 17, the discount rate was set at the date of adoption and should be applied in all future periods. In addition, any new plants would use the discount rate in effect at the time of its commencement. Accretion expense consists of period-to-period changes in the liability for decommissioning costs resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. In addition, as required by SKAS No. 17, the cumulative effect of a change in accounting included any changes in estimate that took place during 2004. Due to the adoption of this standard, we re-measured the liability for decommissioning costs as of January 1, 2004 and reflected the cumulative effect of a change in accounting up to prior year into current year retained earnings.

Under U.S. GAAP, we continue to apply SFAS No. 143 during 2004.

As of and for the year ended December 31, 2004, Korean GAAP and U.S. GAAP for recording the liabilities for decommissioning costs are substantially the same except for the following:

Under U.S. GAAP, the discount rate for existing decommissioning liabilities was set when we adopted SFAS No. 143 (6.94% as of January 1, 2003). Under Korean GAAP, the discount rate for existing decommissioning liabilities was set when we adopted SKAS No. 17 (4.36% as of December 2004).

Under U.S. GAAP, any changes that result in upward revisions to the undiscounted estimated cash flows shall be treated as a new liability and discounted at the then current discount rate. Any downward revisions to the undiscounted estimated cash flows will result in a reduction of the liability for decommissioning costs and shall be reduced from the recorded discounted liability at the rate that was used at the time the obligation was originally recorded. Under Korean GAAP, regardless of upward or downward revisions to the undiscounted estimated cash flows, the historical discount rate will be applied in all future periods.

Under U.S. GAAP, revisions to either the timing or the amount of the original estimate of the undiscounted cash flows is reflected within current year accretion expense or adjustment to the asset retirement cost as a change in estimate. Under Korean GAAP, as required by SKAS No. 17, the cumulative effect of the change in accounting included any changes in estimate that took place during 2004. Accordingly, the 2004 accretion expense under Korean GAAP does not include the change in estimate impact that is recorded within accretion expense under U.S. GAAP.

**Significant Changes in U.S. GAAP**

In December 2004, the FASB issued FASB Statement No. 151, *Inventory Costs* , which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling cost, and wasted material (spoilage). Under this Statement, such items will be recognized as current-period charges. In addition, the Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement will be effective for us for inventory costs incurred on or after January 1, 2006. We believe that the adoption of this statement will not have a significant impact on our financial position or operating results.

In March 2005, FASB issued FIN No. 47 ( FIN 47 ) *Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143*. FIN 47 provides guidance relating to the identification of and financial reporting for legal obligations to perform an asset retirement activity. FIN 47 requires recognition of a liability for the fair value of a conditional asset retirement obligation when incurred if

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the liability's fair value can be reasonably estimated. FIN 47 is effective for fiscal years ending after December 15, 2005. Based on our preliminary assessment, we do not believe that the adoption of FIN 47 will have a material impact on our results of operations or financial position.

**Other**

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

**RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.**

See Item 4 Information on the Company Business Overview Research and Development .

**TREND INFORMATION**

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

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

**DIRECTORS AND SENIOR MANAGEMENT**

**Board of Directors**

Under the KEPCO Act and our articles of incorporation, our management is vested in the board of directors, which consists of not more than fifteen directors, including the president.

The directors are classified into two categories: standing directors and non-standing directors. The number of standing directors shall be not more than seven, including our president, and the non-standing directors shall be not more than eight. In any case, the number of standing directors may not exceed the number of non-standing directors. The standing directors other than our president shall be appointed by the MOCIE upon the motion of our president with the approval at the general meeting of our shareholders. Our standing directors also presently constitute our executive officers. The non-standing directors shall be appointed from among specialists in the private sector with knowledge of business management by the Minister of Planning and Budget of the Republic upon the motion of our president. Our president shall be appointed by the President of the Republic upon the motion of the MOCIE following the approval at the general meeting of our shareholders after the nomination by a president nomination committee which is composed of the non-standing directors and other members from the private sector appointed by the board of directors. Our president serves as our chief executive officer and represents us and administers our day-to-day business in all matters not specifically designated as responsibilities of the board.

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The names, titles, and outside occupations, if any, of the directors as of June 29, 2005 and the respective years in which they took office are set forth below.

<b>Name</b>	<b>Age</b>	<b>Title</b>	<b>Outside Occupation</b>	<b>Position Held Since</b>
Han, Joon-Ho	(58)	President, Chairman & CEO, Standing Director	None	March 25, 2004
Chung, Tay-Ho	(56)	Standing Director	None	September 1, 2004
Lee, Hi-Taek	(56)	Chief Financial Officer, Standing Director	None	August 11, 2003
Kwon, Oh-Hyung	(54)	Standing Director	None	June 13, 2005
Kim, Young-Man	(55)	Standing Director	None	August 11, 2003
Byun, Gang	(56)	Standing Director	None	September 1, 2004
Yoon, Meng-Hyun	(55)	Standing Director	None	August 11, 2003
Chang, Sang-Hyon	(68)	Non-Standing Director	None	July 18, 2002
Moon, Chung-Sook	(49)	Non-Standing Director	Professor, Sookmyung Women s University	March 28, 2003
Lee, Seog-Yeon	(49)	Non-Standing Director	Lawyer	August 9, 2003
Park, Chung-Boo	(63)	Non-Standing Director	Chairman, Sungto Accounting Corporation	September 8, 2004
Shin, Jae-Hyun	(58)	Non-Standing Director	Lawyer, Kim & Chang Law Firm	September 8, 2004
Kang, Eung-Seon	(55)	Non-Standing Director	Visiting Professor, Korea University	April 22, 2005
Kim, Ju-Sub	(54)	Non-Standing Director	Professor extraordinary, Yeungnam University	April 22, 2005
Kwon, Oh-Sung	(43)	Non-Standing Director	President of O gye Farm	April 22, 2005

*Han, Joon-Ho* has served as our President, Chairman & Chief Executive Officer since March 25, 2004. Mr. Han received a B.A. in law from Seoul National University and a Ph.D. in public administration from Kyunghee University. He previously served as the Chairman of the Presidential Commission on Small and Medium Enterprises.

*Chung, Tay-Ho* has been a Standing Director since September 1, 2004. Mr. Chung currently serves as the Executive Vice President and previously served as the Senior Vice President of the Transmission Division. He received a B.S. in electrical engineering from Seoul National University and a Ph.D. in electrical engineering from the University of Wisconsin.

*Lee, Hi-Taek* has been our Chief Financial Officer and Standing Director since August 11, 2003. Mr. Lee currently serves as the Senior Vice President of the Planning & Restructuring Division and previously served as the general manager of the Company s Central Education Institute. Mr. Lee received a B.A. in sociology from Seoul National University.

*Kwon, Oh-Hyung* has been a Standing Director since June 13, 2005. Mr. Kwon currently serves as the Senior Vice President of the General Affairs Division and previously served as the general manager of the Transmission and Substation Department. He received an M.S. in electrical engineering from Yonsei University.

*Kim, Young-Man* has been a Standing Director since August 11, 2003. Mr. Kim currently serves as the Senior Vice President of the Marketing and Service Division and previously served as the general manager of the Company's Business Supporting Department. Mr. Kim received a B.A. in business administration from International University and an M.B.A. from Hanyang University.

*Byun, Gang* has been a Standing Director since September 1, 2004. Mr. Byun currently serves as the Senior Vice President of the Transmission Division and previously served as the general manager of the Transmission and Substation Department. Mr. Byun received a B.S. in electrical engineering from Chosun University.

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*Yoon, Meng-Hyun* has been a Standing Director since August 11, 2003. Mr. Yoon currently serves as the Senior Vice President of the Overseas & KEDO Project Division and previously served as the general manager of the Korea Electric Power Research Institute. Mr. Yoon received a B.S. in nuclear power engineering from Seoul National University and a Ph.D. in nucleonics from the university of California.

*Chang, Sang-Hyon* has been a Non-Standing Director since July 18, 2002. Mr. Chang previously served as a senior advisor to Onse Telecom. He received a LL.B. from Sungkyunkwan University.

*Moon, Chung-Sook* has been a Non-Standing Director since March 28, 2003. Ms. Moon is currently a professor of consumer economics at Sookmyung Women's University. She received a B.A. in home management from Sookmyung Women's University, an M.A. in family economics in Sookmyung Women's University and a Ph.D. in consumer economics from Kansas State University. Ms. Moon was a member of the Committee for Korean Regulatory Reform.

*Lee, Seog-Yeon* has been a Non-Standing Director since August 9, 2003. Mr. Lee currently serves as the Chairperson of the Anti-Corruption Committee under the Board of Audit & Inspection in Korea. Mr. Lee received a Ph.D. from the law school at Seoul National University.

*Park, Chung-Boo* has been a Non-Standing Director since September 8, 2004. Mr. Park is currently the Chairman of Sungto Accounting Corporation. He received a B.A. in economics from Seoul National University and an M.A. in Economics from State University of Tennessee.

*Shin, Jae-Hyun* has been a Non-standing Director since September 8, 2004. Mr. Shin is a lawyer at Kim & Chang. He received a LL.B. from Seoul National University and an M.A. in Law from New York University.

*Kang, Eung-Seon* has been a Non-Standing Director since April 22, 2005. Mr. Kang is a visiting professor at Korea University. He received a B.A. in economics from Seoul National University and an M.A. in economics from the University of Hawaii.

*Kim, Ju-Sub* has been a Non-Standing Director since April 22, 2005. Mr. Kim is a professor extraordinary at Yeungnam University. He received a B.A. in business administration from Yeungnam University and an M.A. in public administration from the University of Wisconsin.

*Kwon, Oh-Sung* has been a Non-Standing Director since April 22, 2005. Mr. Kwon currently manages the O gye farm in Gyeongsangnam-do. He received a B.A. and an M.A. in agriculture from Kyungpook National University.

The presence at board meetings of a majority of the board members constitutes a voting quorum and resolutions can be passed by a majority of the board members.

Our president may be removed by the President of the Republic following a shareholders' resolution with the consents of a president nomination committee as moved by the MOCIE. In addition, the Minister of Planning and Budget may recommend removal of our president if the results of operations are poor. The standing directors, in the order contemplated by internal regulations, assist the president and act for the president when the president is unable to act.

The business address of our directors is 167 Samseong-Dong, Gangnam-Gu, Seoul, Korea.

**Table of Contents****Board of Auditors**

In June 2005, we amended our articles of incorporation, among others, to comply with the general exemptions provided under the audit committee requirements of the Sarbanes-Oxley Act, embodied in Rule 10A-3 of the Exchange Act. Pursuant to our amended articles of incorporation, we will have three auditors, consisting of one standing auditor and two non-standing auditors. The standing auditor is appointed by the President of the Republic upon the motion of the Minister of Planning and Budget of the Republic following a resolution at the general meeting of our shareholders. The non-standing auditors are appointed by the President of the Republic upon the motion of the Minister of Planning and Budget of the Republic. Each of our auditors is severally responsible for performance of its duties required under the Commercial Code of Korea and other applicable laws of Korea. In addition, these auditors will perform the roles and responsibilities required of an audit committee under the Sarbanes-Oxley Act through a board of auditors consisting of all of these auditors. The auditors may attend board meetings but are not our directors and do not have the right to vote at board meetings. We have selected nominees for our standing auditor and non-standing auditor positions and are awaiting their official appointment, which is expected shortly after the filing of this report.

The names and titles of our board of and for nominees are set forth below.

<b>Name</b>	<b>Age</b>	<b>Title</b>
Kwak, Jin-Eob	(60)	Standing Auditor
Hwang, Suk-Hee	(60)	Non-Standing Auditor
Yang, Seung-Sook	(55)	Non-Standing Auditor

*Kwak, Jin-Eob* is our Standing Auditor nominee. He received a B.A. in politics and diplomacy from Korea University and an M.A. in economics from Yonsei University. Mr. Kwak previously served as the Deputy Commissioner of National Tax Service.

*Hwang, Suk-Hee* is our Non-Standing Auditor nominee. Mr. Hwang previously served as the president of Woori Credit Card Company. He received a B.A. in business administration from Korea University.

*Yang, Seoung-Sook* is our Non-Standing Auditor nominee. Ms. Yang previously served as the principal of Armed Forces Nursing Academy. She received a B.A. in nursing from Chonnam National University and an M.S. in nursing administration from Hanyang University.

**Board Practices**

The terms of office of our directors (including the president) and the auditors are three years.

As required by applicable law in the Republic, our board does not maintain an audit committee or a remuneration committee. See [Corporate Governance](#) below. However, we maintain a board of auditors, which is independent of our board or our management, to perform the roles and responsibilities required of an audit committee under the Sarbanes-Oxley Act, including the supervision of the financial and accounting audit by the registered independent public accountants.

The president's management contract provides for benefits upon termination of his employment. The president is only eligible for termination benefits after more than one year of continuous service. For each year's employment with us, the payment amount for termination benefits is equal to the average value of compensation for one month.

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

**Compensation of Directors and Supervisors**

For the year ended December 31, 2004, the aggregate amount of remuneration paid and accrued to the directors and executive officers (including the statutory auditors) as a group, was W1,198 million. The aggregate





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amount we set aside or accrued during the year ended December 31, 2004 to provide retirement and severance benefits for our directors and executive officers, including our statutory auditors, was W23 million.

**Share Ownership**

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

**EMPLOYEES**

As of December 31, 2004, we had 32,557 regular employees, including the employees of our generation subsidiaries, almost all of whom are employed within the Republic. Approximately 8.2% of our regular and non-regular employees (including employees of generation subsidiaries) are employed at our head office in Seoul.

The following table sets forth the number of and other information relating to our employees, not including directors or senior management, as of December 31, 2004.

	<b>KEPCO</b>	<b>KHNP</b>	<b>KOSEPCO</b>	<b>KOMIPO</b>	<b>KOWEPO</b>	<b>EWP</b>	<b>KOSPO</b>	<b>Total</b>
<b>Regular Employees</b>								
Administrative	4,675	610	193	187	172	190	185	6,212
Service technicians	9,453	5,271	1,208	1,692	1,203	1,523	1,350	21,859
Skilled laborers	3,945	192	76	107	67	52	47	4,486
Sub-total	18,073	6,073	1,477	1,986	1,442	1,765	1,582	32,557
<b>Non-regular Employees</b>								
	2,128	931	196		159	159	179	3,593
Total	20,201	7,004	1,673	1,986	1,601	1,924	1,761	36,150
<b>Head Office</b>								
Employee	1,131	768	187	266	215	189	215	2,971
% of total	5.6%	11.0%	11.2%	13.4%	13.4%	9.8%	12.2%	8.2%
Member labor	15,387	4,237	1,063	1,317	1,000	1,158	1,136	25,298
% of total	76.2%	60.5%	63.5%	66.3%	62.5%	60.2%	64.5%	70.0%

KEPCO and each of our generation subsidiaries have separate labor unions. Approximately 70.0% of our employees in the aggregate are members of these labor unions, each of which negotiates a collective bargaining agreement for its members each year. Pursuant to applicable Korean law, an employee-employer cooperation committee, which is composed of eight representatives of management and eight representatives of labor, is required to be, and has been, established at KEPCO and at each of our generation subsidiaries. The committee meets periodically to discuss various labor issues. Since our formation in 1981, our businesses have not been interrupted by any work stoppages or strikes until early 2002. Although our relations with our employees have been good, we have experienced labor unrest as a result of changes in our businesses according to the Restructuring Plan. We faced opposition from labor in late 2000 in connection with the Restructuring Plan. However, we experienced no significant difficulties with labor in the transfer of employees in our power generation division to the newly established generation subsidiaries on or prior to April 2, 2001 in line with the Restructuring Plan. As of April 2, 2001, we had transferred 14,492 employees to our generation subsidiaries, as a result of which we had 15,036 employees as of such date. Early in 2002, employees belonging to our five non-nuclear generation subsidiaries went on strike for six weeks to protest the Government's decision to privatize such non-nuclear generation subsidiaries. See Item 3 Key Information Risk Factors Risks Relating to KEPCO *The Government's Plan for Restructuring the Electricity Industry in Korea (the Restructuring Plan)* may have a material adverse effect on us. However, we did not experience

any interruption of our businesses because non-union employees kept the non-nuclear generation facilities running. We cannot assure that we will not have any work stoppages or strikes or other labor problems in the future.

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**CORPORATE GOVERNANCE**

We complied throughout the year with the corporate governance provisions of the KEPCO Act, Government-Invested Enterprise Management Basic Act, Commercial Code of Korea, Securities and Exchange Act of Korea and the Listing Rules of the Korea Exchange. We, like all other companies in Korea, must comply with the corporate governance provisions of the Commercial Code of Korea, except to the extent the KEPCO Act and the Government-Invested Enterprise Management Basic Act governs. In addition, as a listed company, we are subject to the Securities and Exchange Act of Korea, unless the Securities and Exchange Act of Korea otherwise provides.

**Differences in Korean/ New York Stock Exchange corporate governance practices**

In November 2003, the U.S. Securities and Exchange Commission approved new corporate governance rules of the New York Stock Exchange ( NYSE ) for listed companies. Under these new rules, as a NYSE-listed foreign private issuer, we must disclose any significant ways in which its corporate governance practices differ from those followed by U.S. companies under NYSE listing standards. We believe the following to be the significant differences between our corporate governance practices and NYSE corporate governance rules applicable to U.S. companies.

U.S. companies listed on the NYSE are required to adopt and disclose corporate governance guidelines. The listing rules of the Korea Exchange require each company, at the time of its initial listing, to disclose information related to its corporate governance, such as its board of directors, internal audit, shareholder voting, and remuneration of officers and directors. The Korea Exchange, among other things, will review the corporate governance practices of the company in determining whether to approve such company for listing.

Under the NYSE listing rules applicable to U.S. companies, independent directors must comprise a majority of the board of directors. No director qualifies as independent unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). The NYSE rules include detailed tests for determining director independence. Under the Government-Invested Enterprise Management Basic Act, more than one-half of our directors must be non-standing directors. The Securities and Exchange Act of Korea deems a non-standing director nominated pursuant to the Government-Invested Enterprise Management Basic Act as an outside or non-executive director. Under the Government-Invested Enterprise Management Basic Act, a non-standing director is appointed by the Minister of Planning and Budget of the Republic upon the motion of our president and the resolution by the Government-Invested Enterprise Management Committee.

Under the NYSE listing standards, companies are required to have an audit committee, with at least three members, composed entirely of independent directors. The audit committee must be directly responsible for the appointment, compensation, retention and oversight of the work of the public accountant. Under the Government-Invested Enterprise Management Basic Act and the Securities and Exchange Act of Korea, we are required to maintain statutory auditors in lieu of an audit committee. The Government-Invested Enterprise Management Basic Act and government regulations require that the statutory auditors be separate from and independent of our board of directors and our management. Consistent with the application of these legal requirements, in June 2005, we amended our articles of incorporation, among others, to comply with the general exemptions provided under the audit committee requirements of the Sarbanes-Oxley Act, embodied in Rule 10A-3 of the Exchange Act and established a board of auditors, consisting of one standing auditor and two non-standing auditors. We have selected nominees for these positions, pending their official appointment by the President of the Republic, all of whom we believe will meet the criteria of statutory auditors. Our board of auditors will oversee our financial reporting, business and legal compliance separately from the audit by the independent public accountants. Beginning in the second half of 2005, our board of auditors will perform the roles and responsibilities required of an audit committee under the Sarbanes-Oxley Act, including the supervision of the audit by the independent registered public accountants.

Under the NYSE listing standards, companies are required to have a nominating/ corporate governance committee, composed entirely of independent directors. In addition to identifying individuals qualified to become board members, this committee must develop and recommend to the board a set of corporate governance principles. Under the Government-Invested Enterprise Management Basic Act, we are required to have a CEO



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nominating committee which consists of non-standing directors and ad hoc members appointed by our Board of Directors. Our standing directors and executives cannot become members of the nominating committee. There is no requirement to establish a corporate governance committee under applicable Korean law.

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

The NYSE listing standards require U.S. companies to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Pursuant to the requirements of the Sarbanes-Oxley Act, we have adopted a Code of Ethics applicable to our Chairman & Chief Executive Officer and all other directors and executive officers including the Chief Financial Officer and the Chief Accounting Officer, which is available on [www.kepco.co.kr](http://www.kepco.co.kr).

Lastly, a chief executive officer of a U.S. company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards. In accordance with NYSE listing rules applicable to foreign private issuers, we are not required to provide the NYSE with this annual compliance certification. However, in accordance with rules applicable to both U.S. companies and foreign private issuers, we are required to promptly notify the NYSE in writing after any executive officer becomes aware of any material non-compliance with the NYSE corporate governance standards applicable to us. Beginning in 2005, foreign private issuers, including us, are required to submit to the NYSE an annual written affirmation relating to compliance with Section 303A.06 and 303A.11 of the NYSE listed company manual, which are the NYSE corporate governance standards applicable to foreign private issuers. All written affirmations must be executed in the form provided by the NYSE, without modification. In 2005, each foreign private issuer listed on the NYSE must submit to the NYSE an initial annual written affirmation no later than 30 days after July 31, 2005 (or August 30, 2005). In subsequent years, the annual written affirmation must be submitted within 30 days of the foreign private issuer's filing of its annual report of Form 20-F with the SEC.

**Table of Contents****ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****MAJOR SHAREHOLDERS**

The following table sets forth certain information relating to certain owners of our capital stock as of April 14, 2005, the date we last closed our shareholders registry:

<b>Title of Class</b>	<b>Identity of Person or Group</b>	<b>Shares Owned</b>	<b>Percentage of Class(1)</b>
Common stock	Government(2)	345,761,554	54.0%
	Resolution & Finance Corporation	32,405,109	5.1
	National Pension Corporation	20,481,315	3.2
	KEPCO (held in the form of treasury)	11,033,050	1.7
	Employee Stock Ownership Association		
	Directors and executive officers as a group		
	Public(3)	231,067,545	36.1
Total		640,748,573	100.0%

(1) Percentages are based on issued shares of common stock (including treasury stock).

(2) Includes indirect holdings by the Republic through KDB of 192,159,940 shares (30.0%). The Government currently owns 100% of KDB.

(3) Includes 197,239,701 shares of common stock, representing 30.8% of shares of issued common stock (including treasury stock) held by non-Koreans, including in the form of American depositary shares.

**RELATED PARTY TRANSACTIONS**

We from time to time have engaged in a variety of transactions with our affiliates. Our policy on transactions with affiliates is that these transactions will be conducted on terms substantially as favorable to us as we could obtain at the time in a comparable arm's-length transaction with a person other than an affiliate.

For the purchase of electricity from the independent power producers and our generation subsidiaries, see Item 4 Information on the Company Business Overview Purchased Power .

In 2003, we issued 647,697 shares with par value W5,000 to the Government in return for certain fixed assets related to power distribution. These fixed assets were recorded based on the fair value of the common stock at the date of the transaction. The value of these shares were recorded as common stock of W3,238 million and paid-in capital in excess of par value of W11,425 million.

As of December 31, 2004, the balance of short-term borrowings and long-term borrowings from KDB, one of our major shareholders, amounted to W5,024 billion and the related interest expense amounted to approximately W218 billion for the year ended December 31, 2004. As of December 31, 2004 and for the year then-ended, the balance of long-term borrowings from The Export-Import Bank of Korea amounted to W171 billion and the related interest expense amounted to approximately W7 billion. In addition, as of December 31, 2004 and for the year then-ended, the balance of long-term borrowings from the Government amounted to W50 billion and the related interest expense amounted to approximately W2 billion.

KDB has provided a repayment guarantee amounting to W2,550 billion for some of our foreign currency debentures, which existed at the time of spin-off, but not redeemed as of December 31, 2004.

On behalf of our affiliates, KEPCO International Hong Kong Ltd., KEPCO Philippines Corp. and KEPCO Ilijan Corp., we have provided payment guarantees of US\$113 million and JPY7 billion, US\$172 million and US\$254 million as of December 31, 2002, 2003 and 2004, respectively, to KDB and other banks.

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**ITEM 8. FINANCIAL INFORMATION**

**CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

Our Consolidated Financial Statements are set forth under Item 18 Financial Statements .

**Legal Proceedings**

As of April 30, 2005, we and our generating subsidiaries were a defendant in 296 different court proceedings. As of that date, those proceedings included claims against us amounting in the aggregate of W224 billion. While we are unable to predict the ultimate disposition of these claims, the ultimate disposition of these claims will not, in the opinion of management, have a material adverse effect on us.

Our generation subsidiaries currently and from time to time are involved in lawsuits incidental to the conduct of their business. Most of such lawsuits are based on the claim that the construction and operation of the electric generation units owned by our generation subsidiaries in the neighborhood caused impairment of fish farms. Our generation subsidiaries normally pay compensation to and for the benefit of the members of the fisheries association near our power plant complex for expected losses and damages arising from the construction and operation of its power plant in the neighborhood in advance prior to the commencement of the construction and operation. Despite such compensation paid by us, a claim may still be filed against our generation subsidiaries challenging the compensation paid by us. We do not believe such claims or proceedings, individually or in the aggregate, have had and will have a material adverse effect on us and our generation subsidiaries. However, we cannot assure you that this will be the case in the future, given the possibility that we may become subject to more litigation and lawsuits arising from changes in the environmental laws and regulations applicable to us and our generation subsidiaries and people's growing demand for more compensation.

**Dividend Policy**

See Item 10 Additional Information Articles of Incorporation Description of Capital Stock Dividend Rights . For a description of the tax consequences of dividends paid to our shareholders, see Item 10 Additional Information Taxation Korean Taxes Shares or ADSs Dividends or the Shares of Common Stock or ADSs and Item 10 Additional Information Taxation U.S. Federal Income Tax Consideration for U.S. Persons Tax Consequences with respect to Common Stock and ADRs Distributions or Common Stock or ADRs .



**Table of Contents****ITEM 9. THE OFFER AND LISTING****Notes**

Our 4.25% Notes due 2007 (the 4.25% Notes  $\frac{3}{4}$ % Debentures due April 1, 2013 (the  $\frac{3}{4}$ % Debentures ),  $\frac{6}{8}$ % Notes due December 1, 2003 (the  $\frac{3}{8}$ % Notes ), Twenty Year 7.40% Amortizing Debentures, due April 1, 2016 (the 7.40% Debentures ), One Hundred Year 7.95% Zero-To-Full Debentures, due April 1, 2096 (the 7.95% Debentures ), 6% Debentures due December 1, 2026, (the 6% Debentures ), 7% Debentures due February 1, 2027 (the 7% Debentures  $\frac{3}{4}$ % Debentures due August 1, 2027 (the  $\frac{3}{4}$ % Debentures ) and together with the 4.25% Notes, the  $\frac{7}{4}$ % Debentures, the  $\frac{6}{8}$ % Notes, the 7.40% Debentures, the 7.95% Debentures, the 6% Debentures, the 7% Debentures and the  $\frac{6}{4}$ % Debentures, the Registered Debt Securities ) are traded principally in the over-the counter market. Sales prices for the Registered Debt Securities are not regularly reported on any United States securities exchange or other United States securities quotation service. The  $\frac{6}{8}$ % Notes are registered on the Luxembourg, Hong Kong and Singapore stock exchanges, but we do not believe that such stock exchanges are the principal market for the  $\frac{6}{8}$ % Notes. The 4.25% Notes and the  $8\frac{1}{4}$ % Notes are registered on the Luxembourg Stock Exchange, but we do not believe that such stock exchange is the principal market for the 4.25% Notes and the  $8\frac{1}{4}$ % Notes.

**Common Stock and ADSs**

The principal trading market for our common stock is the Korea Exchange. Our common stock is also listed on the New York Stock Exchange in the form of ADSs. The ADSs have been issued by JPMorgan Chase Bank as depositary and are listed on the New York Stock Exchange under the symbol **KEP** . The ADS ratio is one ADS representing one-half of one share of our common stock. As of April 14, 2005, the date we last closed our shareholders registry, 142,867,390 ADSs representing 71,433,695 shares of our common stock were outstanding.

**The Korea Exchange**

The Korea Stock Exchange began its operations in 1956. On January 27, 2005, the Korea Exchange was established pursuant to the Korea Exchange Act through the consolidation of the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or KOSDAQ, and the KOSDAQ Committee within the Korea Securities Dealers Association, which was in charge of the management of the KOSDAQ. The Stock Market Division of the Korea Exchange, formerly the Korea Stock Exchange, has a single trading floor located in Seoul. The Korea Exchange is a limited liability company, the shares of which are held by (i) securities companies and futures companies that were the members of the Korea Stock Exchange or the Korea Futures Exchange and (ii) the stockholders of the KOSDAQ.

As of June 24, 2005, the aggregate market value of equity securities listed on the Stock Market Division of the Korea Exchange was approximately W466 trillion. The average daily trading volume of equity securities for 2004 was approximately 373 million shares with an average transaction value of W2.2 trillion.

The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semiannually and quarterly and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community which can have the intention or effect of depressing or boosting the market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

The Korea Exchange publishes the Korea Composite Stock Price Index, or KOSPI, every thirty seconds, which is an index of all equity securities listed on the Stock Market Division of the Korea Exchange. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to

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certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI are set out in the following.

	<b>Opening</b>	<b>High</b>	<b>Low</b>	<b>Closing</b>
1980	100.00	119.36	100.00	106.87
1981	97.95	165.95	93.14	131.37
1982	123.60	134.49	106.00	127.31
1983	122.52	134.46	115.59	121.21
1984	116.73	142.46	114.37	142.46
1985	139.53	163.37	131.40	163.37
1986	161.40	279.67	153.85	272.61
1987	264.82	525.11	264.82	525.11
1988	532.04	922.56	527.89	907.20
1989	919.61	1,007.77	844.75	909.72
1990	908.59	928.82	566.27	696.11
1991	679.75	763.10	586.51	610.92
1992	624.23	691.48	459.07	678.44
1993	697.41	874.10	605.93	866.18
1994	879.32	1,138.75	855.37	1,027.37
1995	1,013.57	1,016.77	847.09	882.94
1996	888.85	986.84	651.22	651.22
1997	653.79	792.29	350.68	376.31
1998	385.49	579.86	280.00	562.46
1999	587.57	1,028.07	498.42	1,028.07
2000	1,059.04	1,059.04	500.60	504.62
2001	520.95	704.50	468.76	504.62
2002	698.00	937.61	584.04	627.55
2003	635.17	822.16	515.24	810.71
2004	821.26	936.06	719.59	895.92
2005 (through June 27)	893.71	1,022.79	870.84	991.11

*Source:* The Korea Exchange

Shares are quoted ex-dividend on the first trading day of the relevant company's accounting period; since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

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With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Exchange to 15% of the previous day's closing price of the shares, rounded down as set out below:

<b>Previous Day's Closing Price (Won)</b>	<b>Rounded Down to (Won)</b>	
less than 5,000	W	5
5,000 to less than 10,000		10
10,000 to less than 50,000		50
50,000 to less than 100,000		100
100,000 to less than 500,000		500
500,000 or more		1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the securities companies.

In addition, a securities transaction tax will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. A special agricultural and fishery tax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See [Taxation](#) [Korean Taxation](#) .

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The number of companies listed on the Stock Market Division of the Korea Exchange, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

Year	Number of Listed Companies	Total Market Capitalization		Average Daily Trading Volume, Value		
		(Millions of Won)	(Thousands of Dollars)(1)	Thousands of Shares	(Millions of Won)	(Thousands of Dollars)(1)
1980	352	2,526,553	3,828,691	5,654	3,897	5,905
1981	343	2,959,057	4,224,207	10,565	8,708	12,433
1982	334	3,000,494	4,407,711	9,704	6,667	8,904
1983	328	3,489,654	4,386,743	9,325	5,941	7,468
1984	336	5,148,460	6,222,456	14,847	10,642	12,862
1985	342	6,570,404	7,380,818	18,925	12,315	13,834
1986	355	11,994,233	13,924,115	31,755	32,870	38,159
1987	389	26,172,174	33,033,162	20,353	70,185	88,584
1988	502	64,543,685	94,348,318	10,367	198,364	289,963
1989	626	95,476,774	140,489,660	11,757	280,967	414,431
1990	669	79,019,676	110,301,055	10,866	183,692	256,500
1991	686	73,117,833	96,182,364	14,022	214,263	281,850
1992	688	84,711,982	107,502,515	24,028	308,246	391,175
1993	693	112,665,260	139,419,948	35,130	574,048	676,954
1994	699	151,217,231	191,729,721	36,862	776,257	984,223
1995	721	141,151,399	182,201,367	26,130	487,762	629,614
1996	760	117,369,988	139,031,021	26,571	486,834	575,733
1997	776	70,988,897	50,161,742	41,525	555,759	392,707
1998	748	137,798,451	114,090,455	97,716	660,429	471,432
1999	725	349,503,966	305,137,040	278,551	3,481,620	3,039,654
2000	704	188,041,490	148,393,204	306,154	2,602,159	2,053,796
2001	589	255,850,070	192,934,221	473,241	1,947,420	1,506,236
2002	683	258,680,756	215,445,465	857,245	3,041,598	2,533,820
2003	684	355,360,626	298,121,331	542,010	2,216,636	2,402,661
2004	683	412,588,139	398,597,371	372,895	2,232,109	2,156,419
2005 (through June 27)	679	450,819,009	417,662,973	401,822	2,411,368	2,441,028

Source: The Korea Exchange

Note:

(1) Converted at the Concentration Base Rate of The Bank of Korea or the Market Average Exchange Rate, as the case may be, at the end of the periods indicated.

The Korean securities markets are principally regulated by the FSC and the Securities and Exchange Act. The Securities and Exchange Act was amended fundamentally numerous times in recent years to broaden the scope and improve the effectiveness of official supervision of the securities markets. As amended, the Securities and Exchange Act imposes restrictions on insider trading and price manipulation, requires specified information to be made available

by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests.

**Further Opening of the Korean Securities Market**

A stock index futures market was opened on May 3, 1996 and a stock index option market was opened on July 7, 1997, in each case at the Futures Market Division of the Korea Exchange. Remittance and repatriation of

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funds in connection with investment in stock index futures and options are subject to regulations similar to those that govern remittance and repatriation in the context of foreign portfolio investment in Korean stocks.

In addition, open new option markets for seven individual stocks (Samsung Electronics, SK Telecom, KT, KEPCO, POSCO, Kookmin Bank and Hyundai Motor Company) was opened on January 28, 2002 at the Futures Market Division of the Korea Exchange. Under the applicable regulation, non-Koreans are permitted to invest in such options for individual stocks subject to the same procedural requirements as those currently applicable to the investment in stock or stock index futures and options at the Korea Exchange.

Starting from May 1, 1996, foreign investors were permitted to invest in warrants representing the right to subscribe for shares of a company listed on the Korea Exchange, subject to certain investment limitations. A foreign investor may not acquire such warrants with respect to shares of a class of a company for which the ceiling on aggregate investment by foreigners has been reached or exceeded.

As of December 30, 1997, foreign investors were permitted to invest in all types of corporate bonds, bonds issued by national or local governments and bonds issued in accordance with certain special laws without being subject to any aggregate or individual investment ceiling. The FSC sets forth procedural requirements for such investments. The Government announced on February 8, 1998 its plans for the liberalization of the money market with respect to investment in money market instruments by foreigners in 1998. According to the plan, foreigners have been permitted to invest in money market instruments issued by corporations, including commercial paper, starting February 16, 1998 with no restrictions as to the amount. Starting May 25, 1998, foreigners have been permitted to invest in certificates of deposit and repurchase agreements.

Currently, foreigners are permitted to invest in securities including shares of all Korean companies which are not listed on the Korea Exchange and in bonds which are not listed.

**Protection of Customer's Interest in Case of Insolvency of Securities Companies**

Under Korean law, the relationship between a customer and a securities company in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the securities company) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a securities company, the customer of the securities company is entitled to the proceeds of the securities sold by the securities company. In addition, the Securities and Exchange Act recognizes the ownership of a customer in securities held by a securities company in such customer's account.

When a customer places a sell order with a securities company which is not a member of the Korea Exchange and this securities company places a sell order with another securities company which is a member of the Korea Exchange, the customer is still entitled to the proceeds of the securities sold received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Likewise, when a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

Under the Securities and Exchange Act, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a securities company which is a member of the Korea Exchange breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member.

As the cash deposited with a securities company is regarded as belonging to the securities company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the securities company if a bankruptcy or reorganization procedure is instituted against the securities company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that Korean Deposit Insurance Corporation will, upon the request of the investors, pay investors up to W50 million per

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depositor per financial institution in case of the securities company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events (collectively, the "Insolvency Events"). The premiums related to this insurance are paid by securities companies. Pursuant to the Securities and Exchange Act, as amended, securities companies are required to deposit the cash received from its customers to the extent the amount is not covered by the Depositor Protection Act with the Korea Securities Finance Corporation, a special entity established pursuant to the Securities and Exchange Act. Set-off or attachment of cash deposits by securities companies with the Korea Securities Finance Corporation is prohibited. In addition, in the event of an occurrence of an Insolvency Event to the securities company, the cash so deposited shall be withdrawn and paid to the customer senior to other creditors of the securities company.

**Market Price Information*****Common Stock***

Shares of our common stock are listed on the Stock Market Division of the Korea Exchange.

The table below shows the high and low trading prices on the Stock Market Division of the Korea Exchange for our common stock since January 1, 2000.

Period	Price	
	High	Low
	(In Won)	
2000	36,800	22,900
2001	26,850	18,600
2002		
First Quarter	26,400	20,900
Second Quarter	25,700	21,300
Third Quarter	23,200	19,800
Fourth Quarter	21,000	17,600
2003		
First Quarter	18,750	17,100
Second Quarter	20,550	17,550
Third Quarter	22,250	17,900
Fourth Quarter	25,400	21,000
2004		
First Quarter	22,500	20,000
Second Quarter	20,400	18,350
Third Quarter	22,400	18,400
Fourth Quarter	27,550	21,300
2005		
First Quarter		
January	28,550	25,500
February	28,150	26,500
March	28,150	25,900
Second Quarter (through June 24)		
April	29,250	26,250
May	29,300	26,600
June (through June 24)	33,550	28,900





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The table below shows the high and low trading prices on the New York Stock Exchange for the outstanding ADSs since January 1, 2000. Each ADS represents one-half of one share of our common stock.

<b>Period</b>	<b>Price</b>	
	<b>High</b>	<b>Low</b>
	<b>(In US\$)</b>	
2000	18.81	9.88
2001	11.31	7.59
2002		
First Quarter	10.81	8.98
Second Quarter	11.69	9.99
Third Quarter	10.92	9.06
Fourth Quarter	9.68	8.21
2003		
First Quarter	8.84	7.69
Second Quarter	9.57	7.89
Third Quarter	10.67	8.54
Fourth Quarter	11.62	10.11
2004		
First Quarter	11.23	9.76
Second Quarter	10.64	8.77
Third Quarter	10.96	8.97
Fourth Quarter	13.88	10.51
2005		
First Quarter		
January	13.81	12.44
February	14.36	13.60
March	14.88	13.16
Second Quarter (through June 24)		
April	14.80	13.46
May	14.95	13.78
June (through June 24)	16.88	14.90

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**ITEM 10. ADDITIONAL INFORMATION**

**ARTICLES OF INCORPORATION**

Set forth below is information relating to our capital stock, including brief summaries of material provisions of our articles of incorporation, the KEPCO Act, the Korean Securities and Exchange Act of 1962, as amended (the

Securities and Exchange Act ), the Korean Commercial Code, and certain related laws of Korea, all as currently in effect. The following summaries are qualified in their entirety by reference to our articles of incorporation and the applicable provisions of the KEPCO Act, the Securities and Exchange Act, the Korean Commercial Code and certain related laws of Korea.

**Objects and Purposes**

We are a statutory juridical corporation established under the KEPCO Act for the purpose of ensuring stabilization of the supply and demand of electric power, and further contributing toward the sound development of the national economy through expediting development of electric power resources and carrying out proper and effective operation of the electricity business . The KEPCO Act and our articles of incorporation contemplate that we will engage in the following activities:

Development of electric power resources;

Generation, transmission, transformation and distribution of electricity and other related business activities;

Related investment, research and technology development;

Business incidental to the foregoing; and

Any other activities entrusted by the Government.

Our registered name is Hankook Chollryuk Kongsae in Korean, and in English Korea Electric Power Corporation . Our registration number in the commercial registry office is 114671-0001456.

**Directors**

Under the KEPCO Act and our articles of incorporation, our board of directors consists of our president, standing directors and non-standing directors. A majority of the board members constitutes a voting quorum, and resolutions will be passed by a majority of the board members. Directors who have an interest in certain agenda proposed to the board may not vote on such issues.

The standards of remuneration for our officers, including directors, shall be determined by a resolution of the board of directors. The remuneration standards for the president and standing directors shall reflect the management results of our operation and the standards for the president shall contain the contents of the agreement between the president and us. Directors who have an interest may not participate in the meeting of the board of directors for determining the remuneration for officers.

**Share Capital**

Currently, our authorized share capital is 1,200,000,000 shares, which consists of shares of Common Stock ( Common Shares ) and shares of non-voting preferred stock, par value W5,000 per share ( Non-Voting Shares, and together with the Common Shares, Shares ). Under our articles of incorporation, we are authorized to issue up to 150,000,000 Non-Voting Shares. As of April 15, 2005, 640,748,573 Common Shares were issued and no Non-Voting Shares have been issued. As of April 15, 2005, we held 11,033,050 shares of Common Stock as treasury stock. All of the issued and outstanding Common Shares are fully-paid and non-assessable, and are in registered form. Share certificates are issued in denominations of 1, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

**Table of Contents****Description of Capital Stock*****Dividend Rights***

Under the KEPCO Act, we are authorized to pay preferential dividends on the Shares held by the public shareholders compared to those held by the Government. Dividends to the public shareholders are distributed in proportion to the number of shares of the relevant class of capital stock owned by each public shareholder following approval by the shareholders at a general meeting of shareholders. KDB may receive dividends in proportion to the numbers of our shares held by KDB. Under the Korean Commercial Code and our articles of incorporation, we will pay full annual dividends on newly issued shares.

Under our articles of incorporation, holders of Non-Voting Shares (of which there are currently none) are entitled to receive an amount not less than 8% of their par value as determined by a resolution of the board of directors at the time of their issuance. However, if the dividends for Common Shares exceed the dividends for Non-Voting Shares, the holders of Non-Voting Shares will be entitled to participate in the distribution of such excess amount with the holders of Common Shares at an equal rate.

We declare our dividend annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. The annual dividend is paid to the shareholders of record as of the end of the fiscal year preceding the annual shareholders meeting shortly after the annual shareholders meeting. Annual dividends may be distributed either in cash or in Shares. However, a dividend of Shares must be distributed at par value and, if the market price of the Shares is less than their par value, dividends in Shares may not exceed one-half of the annual dividend.

Under the Korean Commercial Code and our articles of incorporation, we do not have an obligation to pay any annual dividend unclaimed for five years from the payment date.

The KEPCO Act provides that we shall not pay an annual dividend unless we have made up any accumulated deficit and set aside as a legal reserve an amount equal to 20% or more of our net profit until our accumulated reserve reaches one-half of our stated capital.

***Distribution of Free Shares***

In addition to dividends in the form of shares to be paid out of retained or current earnings, the Korean Commercial Code permits us to distribute to our shareholders an amount transferred from our capital surplus or legal reserve to stated capital in the form of free shares.

***Voting Rights***

Holders of Common Shares are entitled to one vote for each Common Share, except that voting rights with respect to any Common Shares held by us or by a corporate shareholder, more than one-tenth of whose outstanding capital stock is directly or indirectly owned by us, may not be exercised. Any person (with certain exceptions) who holds more than 3% of our issued and outstanding Shares cannot exercise voting rights with respect to the Shares in excess of this 3% limit. See *Limitation on Shareholdings*. Pursuant to the Korean Commercial Code and the Securities and Exchange Act, cumulative voting is permissible in relation to the appointment of directors. Under the Korean Commercial Code and the Securities and Exchange Act, a cumulative vote can be requested by the shareholders of a corporation representing more than 1% of the total voting shares of such corporation if the relevant shareholders meeting is intended to elect more than two seats of the board of directors and the request for cumulative voting is made to the management of the corporation in writing at least seven days in advance of the shareholders meeting. Under this new voting method, each shareholder will have multiple voting rights corresponding to the number of directors to be appointed in such voting and may exercise all such voting rights to elect one director. Shareholders are entitled to vote cumulatively unless the articles of incorporation expressly prohibit cumulative voting. Our current articles of incorporation do not prohibit cumulative voting. Except as otherwise provided by law or our articles of incorporation, a resolution can be adopted at a general meeting of shareholders by affirmative majority vote of the voting Shares of the shareholders present or represented at a meeting, which must also represent at least one-fourth of the voting Shares then issued and outstanding. The holders of Non-Voting Shares (other than Enfranchised Non-Voting Shares) are not entitled



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to vote on any resolution or to receive notice of any general meeting of shareholders unless the agenda of the meeting includes consideration of a resolution on which such holders are entitled to vote. If we are unable to pay any dividend to holders of Non-Voting Shares as provided in our articles of incorporation, the holders of Non-Voting Shares will become enfranchised and will be entitled to exercise voting rights until such dividends are paid. The holders of Enfranchised Non-Voting Shares have the same rights as holders of Common Shares to request, receive notice of, attend and vote at a general meeting of shareholders. Pursuant to the KEPCO Act and our articles of incorporation, the appointment of standing directors, the president and statutory auditor are subject to shareholder approval.

Under the Korean Commercial Code and the Securities and Exchange Act, for the purpose of electing our statutory auditor, a shareholder (together with certain related persons) holding more than 3% of the total Shares having voting rights may not exercise voting rights with respect to Shares in excess of such 3% limit.

The Korean Commercial Code provides that the approval by the holders of at least two-thirds of those Shares having voting rights present or represented at a meeting, where such Shares also represent at least one-third of the total issued and outstanding Shares having voting rights, is required in order to, among other things:

- amend our articles of incorporation;
- remove a director or our statutory auditor;
- effect any dissolution, merger or consolidation of us;
- transfer the whole or any significant part of our business;
- effect the acquisition by us of all of the business of any other company; or
- issue any new Shares at a price lower than their par value.

Under our articles of incorporation, an approval by the MOCIE is required in order to amend the articles of incorporation. Any change to our authorized share capital requires an amendment to our articles of incorporation.

In addition, in the case of amendments to our articles of incorporation or any merger or consolidation of us or in certain other cases which affect the rights or interests of the Non-Voting Shares a resolution must be adopted by a meeting of the holders of Non-Voting Shares approving such event. This resolution may be adopted if approval is obtained from holders of at least two-thirds of those Non-Voting Shares present or represented at such meeting and such Non-Voting Shares also represent at least one-third of our total issued and outstanding Non-Voting Shares.

A shareholder may exercise his voting rights by proxy. The proxy shall present the power of attorney prior to the start of the general meeting of shareholders. Under the Securities and Exchange Act and our articles of incorporation, no one other than us may solicit a proxy from shareholders.

Subject to the provisions of the Deposit Agreement, holders of ADRs are entitled to instruct the Depositary, whose agent is the record holder of the underlying Common Shares, how to exercise voting rights relating to those underlying Common Shares. See Description of American Depositary Shares Voting of the Underlying Deposited Securities .

***Preemptive Rights and Issuance of Additional Shares***

Authorized but unissued shares may be issued at such times and, unless otherwise provided in the Korean Commercial Code, upon such terms as our Board of Directors may determine. The new shares must be offered on uniform terms to all our shareholders who have preemptive rights and who are listed on the shareholders register as of the record date. Subject to the limitations described under Limitation on Shareholdings below and with certain other exceptions, all our shareholders are entitled to subscribe for any newly issued Shares in proportion to their existing shareholdings. Under the Korean Commercial Code, we may vary, without shareholder approval, the terms of such preemptive rights for different classes of shares. Public notice of the preemptive rights to new shares and their transferability must be given not less than two weeks (excluding the period during which the



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shareholders (register is closed) prior to the record date. Our Board of Directors may determine how to distribute shares for which preemptive rights have not been exercised or where fractions of shares occur.

Our articles of incorporation provide that new Shares that are (1) publicly offered pursuant to the Securities and Exchange Act, (2) issued to members of our employee stock ownership association, (3) represented by depositary receipts or (4) issued through offering to public investors may be issued pursuant to a resolution of the Board of Directors to persons other than existing shareholders, who in such circumstances will not have preemptive rights.

We may issue convertible bonds or bonds with warrants each up to an aggregate principal amount of W2,000 billion and W1,000 billion, respectively, to persons other than existing shareholders. However, the aggregate principal amount of convertible bonds and bonds with warrants so issued to persons other than existing shareholders may not exceed W2,000 billion.

Under the Securities and Exchange Act and our articles of incorporation, members of our employee stock ownership association, whether or not they are our shareholders, have a preemptive right, subject to certain exceptions, to subscribe for up to 20% of any Shares publicly offered pursuant to the Securities and Exchange Act. This right is exercisable only to the extent that the total number of Shares so acquired and held by members of our employee stock ownership association does not exceed 20% of the total number of Shares then outstanding.

***Liquidation Rights***

In the event of our liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among shareholders in proportion to the number of Shares held. Holders of Non-Voting Shares have no preference in liquidation.

***Rights of Dissenting Shareholders***

In certain limited circumstances (including, without limitation, the transfer of the whole or any significant part of our business or the merger, or consolidation upon a split-off of us with another company), dissenting holders of Shares have the right to require us to purchase their Shares. To exercise such right, shareholders must submit a written notice of their intention to dissent to us prior to the general meeting of shareholders or the class meeting of holders of Non-Voting Shares, as the case may be. Within 20 days (the Request Period) after the date on which the relevant resolution is passed at such meeting, such dissenting shareholders must request us in writing to purchase their Shares. We are obligated to purchase the Shares of dissenting shareholders within one (1) month after the expiration of the Request Period. If we cannot agree on a price through negotiation, the purchase price will be the average of (1) the weighted average of the daily share price on the Korea Exchange for a two-month period before the date of adoption of the relevant Board resolution, (2) the weighted average of the daily share price on the Korea Exchange for the one month period before such date and (3) the weighted average of the daily share price on the Korea Exchange for the one week period before such date. However, the FSC may adjust this price if we or at least 30% of the Shares we are obligated to purchase do not accept such purchase price. Holders of ADSs will not be able to exercise dissenters' rights unless they have withdrawn the underlying Common Stock and become our direct shareholders.

**Transfer of Shares**

Under the Korean Commercial Code, the transfer of Shares is effected by delivery of share certificates but, in order to assert shareholders' rights against us, the transferee must have his name and address registered on our register of shareholders. For this purpose, shareholders are required to file one's name, address and seal with our transfer agent. Under our articles of incorporation, non-resident shareholders must appoint an agent authorized to receive notices on its behalf in Korea and file a mailing address in Korea. These requirements do not apply to the holders of ADRs. Under current Korean regulations, Korean securities companies and banks in Korea (including licensed branches of non-Korean securities companies and banks), future trading companies, the Korea Securities Depository, internationally recognized foreign custodians and asset management companies are authorized to act as agents and provide related services for foreign shareholders. Our transfer agent is the Kookmin Bank, located

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at 9-1, Namdaemun-ro, 2-ga, Chung-ku, Seoul, Korea. Certain foreign exchange controls and securities regulations apply to the transfer of Shares by non-residents or non-Koreans. See Item 9 The Offer and Listing .

### **Acquisition of Our Own Shares**

We generally may not acquire our own Shares except in certain limited circumstances, including, without limitation, a reduction in capital. Under the Korean Commercial Code, except in case of a reduction in capital, any Shares acquired by us must be sold or otherwise transferred to a third party within a reasonable time. In general, our 50% or more owned-subidiaries are not permitted to acquire Shares.

In addition, we may acquire the Shares through purchase on the Korea Exchange or through a tender-offer. We may also acquire interests in our own Shares through agreements with trust companies, securities investment trust companies and securities investment companies. The aggregate purchase price for the Shares may not exceed the total amount available of dividends at the end of the preceding fiscal year, subject to certain procedural requirements.

### **General Meeting of Shareholders**

The ordinary general meeting of our shareholders is held within three months after the end of each fiscal year and, subject to board resolution or court approval, an extraordinary general meeting of our shareholders may be held as necessary or at the request of shareholders holding an aggregate of 1.5% or more of our outstanding Common Shares for at least six months. Under the Korean Commercial Code, an extraordinary general meeting of shareholders may be convened at the request of our statutory auditor, subject to a board resolution or court approval. Holders of Non-Voting Shares may only request a general meeting of shareholders once the Non-Voting Shares have become enfranchised as described under Voting Rights above (referred to as Enfranchised Non-Voting Shares ). Written notices setting forth the date, place and agenda of the meeting must be given to shareholders at least two weeks prior to the date of the general meeting of shareholders. However, pursuant to the Securities and Exchange Act and our articles of incorporation, with respect to holders of less than 1% of the total number of issued and outstanding Shares which are entitled to vote, notice may be given by placing at least two public notices at least two weeks in advance of the meeting in at least two daily newspapers published in Seoul. Currently, we use The Seoul Shinmun and The Maeil Kyungje (The Economics Daily) published in Seoul for this purpose. Shareholders not on the shareholders register as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at such meeting. Holders of Enfranchised Non-Voting Shares on the shareholders register as of the record date are entitled to receive notice of, and to attend and vote at, the general meetings. Otherwise, holders of Non-Voting Shares are not entitled to receive notice of general meetings of shareholders or vote at such meetings but may attend such meetings.

The general meeting of shareholders is held in Seoul.

### **Register of Shareholders and Record Dates**

Our transfer agent, Kookmin Bank, maintains the register of our shareholders at its office in Seoul, Korea. It registers transfers of Shares on the register of shareholders upon presentation of the Share certificates.

The record date for annual dividends is December 31. For the purpose of determining the holders of Shares entitled to annual dividends, the register of shareholders may be closed for the period following December 31 and ending on the next following ordinary general meeting of shareholders. Further, the Korean Commercial Code and our articles of incorporation permit us upon at least two weeks public notice to set a record date and/or close the register of shareholders for not more than three months for the purpose of determining the shareholders entitled to certain rights pertaining to the Shares. The trading of Shares and the delivery of certificates in respect of them may continue while the register of shareholders is closed.

### **Annual Report**

At least one week prior to the annual general meeting of shareholders, our annual report and audited non-consolidated financial statements must be made available for inspection at our principal office and at all branch



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offices. Copies of annual reports, the audited non-consolidated financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

Under the Securities and Exchange Act, we must file with the FSC and the Korea Exchange an annual report within 90 days after the end of our fiscal year, a half-year report within 45 days after the end of the first six months of our fiscal year and quarterly reports within 45 days after the end of the first three months and nine months of our fiscal year. Copies of these reports are available for public inspection at the FSC and the Korea Exchange.

### **Limitation on Shareholdings**

No person other than the Government, our employee stock ownership association and persons who obtain an approval from the FSC may hold for its account more than 3% of our total issued and outstanding Shares. In calculating shareholdings for this purpose, shares held by your spouse and your certain relatives or by your certain affiliates (such spouses, relatives and affiliates are together referred to as *Affiliated Holders* ) are deemed to be held by you. If you hold Shares in violation of this 3% limit, you are not entitled to exercise the voting rights or preemptive rights of the Shares in excess of such 3% limit and the FSC may order you to take necessary corrective action. In addition, the KEPCO Act currently requires that the Government, directly or through KDB, own not less than 51% of our capital. For other restrictions on shareholdings, see Item 9 *The Offer and Listing* .

### **Change of Control**

The KEPCO Act requires that the Government, directly or pursuant to the KDB Act, through KDB, own not less than 51% of our capital.

### **Disclosure of Share Ownership**

Under the Securities and Exchange Act, any person who directly or beneficially owns shares, whether in the form of shares or ADSs, certificates representing the rights to subscribe for common shares and equity-related debt securities including convertible bonds and bonds with warrants (collectively, the *Equity Securities* ) together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person accounts for 5% or more of the total outstanding Equity Securities is required to report the status of the holdings to the FSC and the Korea Exchange within five business days after reaching the 5% ownership interest. In addition, any change in the purpose of holding such ownership interest or a change in the ownership interest subsequent to the report which equals or exceeds 1% of the total outstanding Equity Securities is required to be reported to the FSC and the Korea Exchange within five business days from the date of the change.

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and may result in a loss of voting rights with respect to the ownership of Equity Securities exceeding 5%. Furthermore, the FSC may issue an order to dispose of non-reported Equity Securities.

## **EXCHANGE CONTROLS**

### **General**

The Foreign Exchange Transaction Act and the Presidential Decree and regulations under that Act and Decree (collectively the *Foreign Exchange Transaction Laws* ) regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Under the Foreign Exchange Transaction Laws, non-residents may invest in Korean securities only to the extent specifically allowed by these laws or otherwise permitted by the Ministry of Finance and Economy. The FSC has also adopted, pursuant to its authority under the Korean Securities and Exchange Act, regulations that restrict investment by foreigners in Korean securities and regulate issuance of securities outside Korea by Korean companies.

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Under the Foreign Exchange Transaction Laws, (1) if the Government deems that it is inevitable due to the outbreak of natural calamities, wars, conflict of arms or grave and sudden changes in domestic or foreign economic circumstances or other situations equivalent thereto, the Ministry of Finance and Economy may temporarily suspend payment, receipt or the whole or part of transactions to which the Foreign Exchange Transaction Laws apply, or impose an obligation to safe-keep, deposit or sell means of payment in or to certain Korean governmental agencies or financial institutions; and (2) if the Government deems that international balance of payments and international finance are confronted or are likely to be confronted with serious difficulty or the movement of capital between Korea and abroad brings or is likely to bring on serious obstacles in carrying out currency policies, exchange rate policies and other macroeconomic policies, the Ministry of Finance and Economy may take measures to require any person who intends to perform capital transactions to obtain permission or to require any person who performs capital transactions to deposit part of the means of payment acquired in such transactions in certain Korean governmental agencies or financial institutions, in each case subject to certain limitations thereunder.

**Government Review of Issuances of Debt Securities and ADSs and Report for Payments**

In order for us to issue debt securities of any series, maturity of which is one year or more, outside of the Republic, we are required to file a report with our designated foreign exchange bank or the MOFE on the issuance of such debt securities, depending on the issuance amount. Furthermore, in order for us to make payments of principal of or interest on the debt securities of any series and other amounts as provided in an indenture and such debt securities, we are required to present relevant documents to the designated foreign exchange bank at the time of each actual payment. The purpose of such presentation is to ensure that the actual remittance is consistent with the terms of the transaction reported to our designated foreign exchange bank or the MOFE.

In order for us to offer for purchase shares of our common stock held in treasury in the form of ADSs or issue shares of our common stock represented by the ADSs, we are required to file a prior report of such offer or issuance with our designated foreign exchange bank or the MOFE, depending on the offering amount. No further Korean governmental approval is necessary for the initial offering and issuance of the ADSs.

In order for a depository to acquire any existing shares of our common stock from holders of these shares of common stock (other than from us) for the purpose of issuance of depository receipts representing these shares of common stock, the depository would be required to obtain our consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us or with our consent for the issuance of ADRs (including deposits in connection with the initial and all subsequent offerings of ADRs and stock dividends or other distributions related to these ADRs) and (2) the number of shares on deposit with the depository at the time of such proposed deposit. The depository would also be required to file a written report to the Governor of the FSS after the acquisition of the shares of common stock. We may not grant this consent for the deposit of shares of our common stock in the future, if our consent is required. Therefore, a holder of ADRs who surrenders ADRs and withdraws shares of our common stock may not be permitted subsequently to deposit such shares and obtain ADRs.

***Reporting Requirements for Holders of Substantial Interests***

If any person whose direct beneficial ownership of (1) shares having voting rights (whether in the form of shares or ADSs), (2) certificates representing the right to subscribe for shares and (3) certain equity-related debt securities such as convertible bonds and bonds with warrants (collectively, the *Equity Securities*), together with the *Equity Securities* beneficially owned by certain related persons or by any person acting in concert with such person, accounts for 5% or more of the aggregate of the total outstanding shares having voting rights and those other *Equity Securities* which are owned by such person, then such person is required to report the status of his holdings to the FSC and the Korea Exchange within five business days after reaching the 5% ownership interest. Moreover, any change in the purpose of holding such ownership interest or change in the ownership interest subsequent to such report which equals or exceeds 1% of the total outstanding shares having voting rights and those other *Equity Securities* which are owned by such person is required to be reported to the FSC and the Korea Exchange within five business days from the date of such change.



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Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and may result in loss of voting rights with respect to the ownership of Equity Securities exceeding 5%. Furthermore, the FSC may issue an order to dispose of such non-reported Equity Securities.

***Restrictions Applicable to ADSs***

No Korean governmental approval is necessary for the sale and purchase of ADSs in the secondary market outside Korea or for the withdrawal of shares of our common stock underlying ADSs and the delivery inside Korea of the withdrawn shares. However, a foreigner who intends to acquire shares must obtain an Investment Registration Card from the FSS as described below. The acquisition of shares by a foreigner must be reported by the foreigner or his standing proxy in Korea immediately to the Governor of the FSS.

Persons who have acquired shares of our common stock as a result of the withdrawal of shares of common stock underlying the ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares of our common stock without any further governmental approval.

***Restrictions Applicable to Common Stock***

Under the Foreign Exchange Transaction Laws and FSC regulations (together, the Investment Rules), foreigners are permitted to invest, subject to certain exceptions and procedural requirements, in all shares of Korean companies unless prohibited by specific laws. Foreign investors may trade shares listed on the Korea Exchange only through the Korea Exchange except for certain limited circumstances. These circumstances include, among others, (1) odd-lot trading of shares, (2) acquisition of shares (Converted Shares) by exercise of warrant, conversion right under convertible bonds, exchange right under exchangeable bonds or withdrawal right under depositary receipts issued outside of Korea by a Korean company, (3) acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders' rights (including preemptive rights or rights to participate in free distributions and receive dividends) and (4) over-the-counter transactions between foreigners of a class of shares for which a ceiling on aggregate acquisition by foreigners (as explained below) exists and has been reached or exceeded. For over-the-counter transactions of shares listed on the Korea Exchange outside the Korea Exchange between foreigners of a class of shares for which a ceiling on aggregate acquisition by foreigners exists and has been reached or exceeded a securities company licensed in Korea must act as an intermediary. Odd-lot trading of shares listed on the Korea Exchange outside the Korea Exchange must involve a licensed securities company in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions with respect to shares subject to a ceiling on acquisition by foreigners.

The Investment Rules require a foreign investor who wishes to invest in shares on the Korea Exchange (including Converted Shares) to register its identity with the FSS prior to making any such investment. However, such registration requirement does not apply to foreign investors who acquire Converted Shares with the intention of selling them within three months from the date they were acquired. Upon registration, the FSS will issue to the foreign investor an Investment Registration Card which must be presented each time the foreign investor opens a brokerage account with a securities company. Foreigners eligible to obtain an Investment Registration Card include any foreign nationals who are individuals (with residence abroad for six months or more), foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by the Decree of the Minister of Finance and Economy under the Securities and Exchange Act. All Korean branches of a foreign corporation as a group are treated as a separate foreigner from the head office of the foreign corporation. However, a foreign branch of a Korean securities company, a foreign corporation or a depositary issuing depositary receipts may obtain one or more Investment Registration Cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the Korea Exchange, no separate report by the investor is required because the Investment Registration Card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale of shares outside the Korea Exchange (as discussed above) must be reported by the foreign investor or his standing proxy to the Governor of the FSS at the time of each acquisition or sale. However, a foreign investor must ensure that any



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acquisition or sale by it of shares outside the Korea Exchange in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the Governor of the FSS by the securities company engaged to facilitate such transaction. A foreign investor may appoint one or more standing proxies from among the Korea Securities Depository, internationally recognized foreign custodians, asset management companies, futures trading companies, foreign exchange banks (including domestic branches of foreign banks), and securities companies (including domestic branches of foreign securities companies) which will exercise shareholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the Governor of the FSS in cases deemed inevitable by reason of conflict between the laws of Korea and those of the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks (including domestic branches of foreign banks), securities companies (including domestic branches of foreign securities companies), asset management companies, futures trading companies, internationally recognized foreign custodians and the Korea Securities Depository are eligible to be a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits his shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the Governor of the FSS in circumstances where compliance is made impracticable, including cases where such compliance would contravene the laws of the home country of the foreign investor.

Under the Investment Rules, with certain exceptions, a foreign investor may acquire shares of a Korean company without being subject to any single or aggregate foreign investment ceiling. However, certain designated public corporations are subject to a 40% ceiling on acquisitions of shares by foreigners in the aggregate and a ceiling on acquisitions of shares by a single foreign investor provided in the articles of incorporation of such corporations. Of the Korean companies listed on the Korea Exchange, we are so designated. The FSC may increase or decrease these percentages if it deems it necessary for the public interest, protection of investors or industrial policy. Generally, the ownership of Converted Shares constitutes foreign ownership for purposes of such aggregate foreign ownership limit. However, the acquisition of Converted Shares is one of the exceptions under which foreign investors may acquire shares of designated corporations in excess of the 40% ceiling.

In addition to the aggregate foreign investment ceiling set by the FSC under authority of the Securities and Exchange Act, our Articles of Incorporation set a 3% ceiling on acquisition by a single investor (whether domestic or foreign) of the shares of our common stock. Any person (with certain exceptions) who holds more than 3% of our issued and outstanding Shares cannot exercise voting rights with respect to the Shares in excess of this 3% limit.

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

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

Converted Shares;

shares from the exercise of shareholders' rights; or

shares by gift, inheritance or bequest.

A foreigner who has acquired shares in excess of any ceiling described above may not exercise his voting rights with respect to the shares exceeding such limit and the FSC may take necessary corrective action against him pursuant to the Securities and Exchange Act.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments ( Foreign Currency Account and Won Account , respectively). No approval is required for remittance into

Korea and deposit of foreign currency funds in the Foreign Currency Account.

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Foreign currency funds may be transferred from the Foreign Currency Account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a securities company. Funds in the Foreign Currency Account may be remitted abroad without any governmental approval.

Dividends on shares of our common stock are paid in Won. No governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor's securities company or his Won Account. Funds in the investor's Won Account may be transferred to his Foreign Currency Account or withdrawn for local living expenses up to certain limitations. Funds in the Won Account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Securities companies and asset management companies are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, these securities companies and asset management companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors without the foreign investors having to open their own accounts with foreign exchange banks.



**Table of Contents****TAXATION****Korean Taxes**

The following summary describes the material Korean tax consequences of ownership of the Registered Debt Securities and ADSs. Persons considering the purchase of the Registered Debt Securities or ADSs should consult their own tax advisors with regard to the application of the Korean income tax laws to their particular situations as well as any tax consequences arising under the laws of any other taxing jurisdiction. Reference is also made to a tax treaty between the Republic and the United States entitled Convention Between the Government of The Republic of Korea and the Government of the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and the Encouragement of International Trade and Investment, signed on June 4, 1976 and entered into force on October 20, 1979 ( U.S.-Korea Tax Treaty ).

The following summary of Korean tax considerations applies to you so long as you are not:

a resident of Korea;

a corporation organized under Korean law; or

engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

***Notes******Taxation of Interest***

Under current Korean tax laws, when we make payments of interest to you on the notes, no amount will be withheld from such payments for, or on account of, any income taxes of any kind imposed, levied, withheld or assessed by Korea or any political subdivision or taxing authority thereof or therein.

***Taxation of Capital Gains***

Under specific exemptions granted under Korean tax law, you will not be subject to any Korean income or withholding taxes in connection with the capital gains from sale, exchange or other disposition of a note, if (i) you transfer the note to another non-resident (other than to such transferee's permanent establishment in Korea) and (ii) you transfer the note to resident or non-resident of Korea (regardless whether the transferee's have a permanent establishment in Korea) by virtue of the Special Tax Treatment Control Law of Korea (the STTCL ), provided that the issuance of the note outside Korea is deemed to be an overseas issuance under the STTCL. If you sell or otherwise dispose of a note through other ways than those mentioned above, any gain realized on the transaction will be taxable at ordinary Korean withholding tax rates (the lesser of, subject to the production of satisfactory evidence of the acquisition cost of, and certain direct transaction costs attributable to the disposal of, the relevant notes, 27.5% of the net gain or 11% of the gross sale proceeds), unless an exemption is available under an applicable income tax treaty. See the discussion under Tax Treaties below in Shares or ADSs for an additional explanation on treaty benefits.

***Inheritance Tax and Gift Tax***

If you die while you are the holder of a note, the subsequent transfer of the notes by way of succession will be subject to Korean inheritance tax. Similarly, if you transfer a note as a gift, the donee will be subject to Korean gift tax and you may be required to pay the gift tax if the donee fails to do so.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

***Shares or ADSs******Dividends on the Shares of Common Stock or ADSs***

We will deduct Korean withholding tax from dividends paid to you at a rate of 27.5%. If you are a qualified resident in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See the discussion under Tax Treaties below for an additional explanation on treaty benefits.

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In order to obtain the benefits of a reduced withholding tax rate under a tax treaty, you must submit to us, prior to the dividend payment date, such evidence of tax residence as may be required by the Korean tax authorities. Evidence of tax residence may be submitted to us through the ADS depository. If we distribute to you free shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in capital, that distribution may be subject to Korean tax.

*Taxation of Capital Gains*

As a general rule, capital gains earned by non-residents upon the transfer of the common shares or ADSs would be subject to Korean withholding tax at a rate equal to the lesser of (i) 11% of the gross proceeds realized or (ii) 27.5% of the net realized gain (subject to the production of satisfactory evidence of the acquisition costs and certain direct transaction costs arising out of the transfer of such common shares or ADSs), unless such non-resident is exempt from Korean income taxation under an applicable Korean tax treaty into which Korea has entered with the non-resident's country of tax residence. Please see the discussion under *Tax Treaties* below for an additional explanation on treaty benefits. Even if you do not qualify for any exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you qualify for the relevant Korean domestic tax law exemptions discussed in the following paragraphs.

With respect to shares of our common stock, you will not be subject to Korean income taxation on capital gains realized upon the transfer of such shares through the Korea Exchange if you (i) have no permanent establishment in Korea and (ii) did not own or have not owned (together with any shares owned by any entity which you have a certain special relationship with and possibly including the shares represented by the ADSs) 25% or more of our total issued and outstanding shares at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

With respect to ADSs, there are uncertainties as to whether they should be viewed as securities separate from the shares of common stock underlying such ADSs or as the underlying shares themselves for capital gains tax purposes, as discussed in a more detail in the following paragraph. However, in either case, you will be eligible for exemptions for capital gains available under Korean domestic tax law (in addition to the exemption afforded under income tax treaties) if certain conditions discussed below are satisfied.

Under a tax ruling issued by the Korean tax authority in 1995 (the 1995 tax ruling), ADSs are treated as securities separate from the underlying shares represented by such ADSs and, based on such ruling, (i) capital gains earned by you from the transfer of ADSs to another non-resident (other than to such transferee's permanent establishment in Korea) will not be subject to Korean income taxation and (ii) capital gains earned by you (regardless whether you have a permanent establishment in Korea) from the transfer of ADSs outside Korea will be exempt from Korean income taxation by virtue of the Special Tax Treatment Control Law of Korea (the STTCL), provided that the issuance of the ADSs is deemed to be an overseas issuance under the STTCL. However, according to a recent tax ruling issued in 2004 by the Korean tax authority regarding the securities transaction tax (the 2004 tax ruling), depository receipts constitute share certificates the transfer of which is subject to the securities transaction tax. Even though the 2004 tax ruling addresses the securities transaction tax and not the income tax on capital gains, it gives rise to a question as to whether depository shares (such as ADSs) should be viewed as the underlying shares for capital gains tax purposes. In that case, exemptions afforded under Korean domestic tax law to capital gains from transfer of ADSs based on the treatment of ADSs as securities separate from the underlying shares would no longer apply (including those referred to in the 1995 tax ruling), but, instead, exemptions for capital gains from transfer of the underlying shares would apply. Under such an exemption relevant to this case, capital gains from transfer of ADSs would be exempt from Korean income tax under the STTCL if (i) the ADSs are listed on the securities market overseas that is similar to the Korea Exchange and (ii) the transfer of ADSs is made through such securities market. We believe that New York Stock Exchange would satisfy the condition (i) above.

If you are subject to tax on capital gains with respect to the sale of ADSs, or of shares of common stock which you acquired as a result of a withdrawal, the purchaser or, in the case of the sale of shares of common stock on the Korea Exchange or through a licensed securities company in Korea, the licensed securities company, is required to withhold Korean tax from the sales price in an amount equal to 11% (including resident surtax) of



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the gross realization proceeds and to make payment of these amounts to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law or produce satisfactory evidence of your acquisition cost and transaction costs for the shares of common stock or the ADSs. To obtain the benefit of an exemption from tax pursuant to a tax treaty, you must submit to the purchaser or the securities company, or through the ADS depository, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty benefits. Please see the discussion under **Tax Treaties** below for an additional explanation on claiming treaty benefits.

*Tax Treaties*

Korea has entered into a number of income tax treaties with other countries (including the United States), which would reduce or exempt Korean withholding tax on dividends on, and capital gains on transfer of, shares of our common stock or ADSs. For example, under the Korea-United States income tax treaty, reduced rates of Korean withholding tax of 16.5% or 11.0% (respectively, including resident surtax, depending on your shareholding ratio) on dividends and an exemption from Korean withholding tax on capital gains are available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains. However, under Article 17 (Investment of Holding Companies) of the Korea-United States income tax treaty, such reduced rates and exemption do not apply if (i) you are a United States corporation, (ii) by reason of any special measures, the tax imposed on you by the United States with respect to such dividends or capital gains is substantially less than the tax generally imposed by the United States on corporate profits, and (iii) 25% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Korea-United States income tax treaty, the exemption on capital gains does not apply if you are an individual, and (a) you maintain a fixed base in Korea for a period or periods aggregating 183 days or more during the taxable year and your ADSs or shares of common stock giving rise to capital gains are effectively connected with such fixed base or (b) you are present in Korea for a period or periods of 183 days or more during the taxable year.

You should inquire for yourself whether you are entitled to the benefit of an income tax treaty with Korea. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser or the securities company, as applicable, a certificate as to his tax residence. In the absence of sufficient proof, we, the purchaser or the securities company, as applicable, must withhold tax at the normal rates. Further, effective from July 1, 2002, in order for you to obtain the benefit of a tax exemption on certain Korean source income (e.g., dividends and capital gains) under an applicable tax treaty, Korean tax law requires you (or your agent) to submit the application for tax exemption along with a certificate of your tax residency issued by a competent authority of your country of tax residence, subject to certain exceptions. Such application should be submitted to the relevant district tax office by the ninth day of the month following the date of the first payment of such income.

*Inheritance Tax and Gift Tax*

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the shares of common stock underlying the ADSs. If the tax authority's interpretation of treating depository receipts as the underlying share certificates under the 2004 tax ruling applies in the context of inheritance and gift taxes as well, you may be treated as the owner of the shares of common stock, your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10% to 50%; provided that the value of the ADSs or shares of common stock is greater than a specified amount.

If you die while holding a share of common stock or donate a share of common stock, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

**Table of Contents***Securities Transaction Tax*

If you transfer share of common stock on the Korea Exchange, you will be subject to securities transaction tax at the rate of 0.15% and an agriculture and fishery special surtax at the rate of 0.15% of the sale price of the shares of common stock. If your transfer of the shares of common stock is not made on the Korea Exchange, subject to certain exceptions you will be subject to securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special surtax.

With respect to transfer of ADRs, the 2004 tax ruling has been issued by the Korean tax authority to the effect that depositary receipts (which the ADRs fall under) constitute share certificates subject to the securities transaction tax; provided that, under the Securities Transaction Tax Law, the transfer of depositary receipts listed on the New York Stock Exchange or the Nasdaq National Market is exempt from the securities transaction tax. Based on the 2004 tax ruling and the relevant provisions of the Securities Transaction Tax Law, once the ADSs are listed on the New York Stock Exchange, your transfer of ADRs should not be subject to the securities transaction tax. According to tax rulings issued by the Korean tax authorities in 2000 and 2002, foreign stockholders are not subject to securities transaction tax upon the deposit of underlying stock and receipt of depositary shares or upon the surrender of depositary shares and withdrawal of the originally deposited underlying stock, but there remained uncertainties as to whether holders of ADRs other than initial holders will not be subject to securities transaction tax when they withdraw shares of common stock upon surrendering the ADRs. However, the holding of the 2004 tax ruling referred to above seems to view the ADRs as the underlying shares of common stock at least for the purpose of the securities transaction tax and, though not specifically stated, could be read to imply that the securities transaction tax should not apply to the deposit of shares of common stock in exchange of ADRs or withdrawal of shares of common stock upon surrender of the ADRs regardless of whether the holder is the initial holder because the transfer of ADRs by the initial holder to the subsequent holder would have already been subject to securities transaction tax under such tax ruling.

In principle, the securities transaction tax, if applicable, must be paid by the transferor of the shares or rights. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay the tax to the tax authorities. When such transfer is made through a securities company only, such securities company is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through a securities settlement company or a securities company, the transferee is required to withhold the securities transaction tax.

**U.S. Federal Income and Estate Tax Considerations for U.S. Persons**

The following is a summary of certain U.S. Federal income and estate tax consequences for beneficial owners of the Registered Debt Securities, common stock and ADRs that are U.S. Persons under the Internal Revenue Code (the Code). Under the Code, you are a U.S. Person if you are any of the following for U.S. Federal income tax purposes:

- an individual citizen or resident of the United States;

- a corporation, or other entity treated as a corporation for U.S. Federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

- an estate the income of which is subject to U.S. Federal income taxation regardless of its source; or

- a trust if (1) it is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust, or (2) it has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary is based on current law, which is subject to change (perhaps retroactively), is for general purposes only and should not be considered tax advice. This summary does not represent a detailed description of the federal income and estate tax consequences to you in light of your particular circumstances. The discussion set forth below is applicable to you if (i) you are a resident of the United States for purposes of the current income tax treaty between the United States and Korea (the Treaty), (ii) your Registered Debt Securities,

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common stock and ADRs are not, for purposes of the Treaty, effectively connected with a permanent establishment in Korea and (iii) you otherwise qualify for the full benefits of the Treaty. Except where noted, it deals only with Registered Debt Securities, common stock or ADRs held as capital assets, and it does not represent a detailed description of the U.S. Federal income and estate tax consequences applicable to you if you are subject to special treatment under the U.S. Federal income tax laws (including if you are a dealer in securities or currencies, a financial institution, a regulated investment company, a real estate investment trust, an insurance company, a tax exempt organization, a person holding the Registered Debt Securities, common stock and ADRs as part of a hedging, integrated or conversion transaction, constructive sale or straddle, a person owning 10% or more of our voting stock, a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings, a person liable for the alternative minimum tax, an investor in a pass-through entity, or a U.S. Person whose functional currency is not the U.S. Dollar). We cannot assure you that a change in law will not alter significantly the tax considerations that we describe in this summary.

If a partnership holds the Registered Debt Securities, common stock or ADRs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our Registered Debt Securities, common stock, or ADRs, you should consult your tax advisor.

Because of the 100 year maturity of the One Hundred Year 7.95% Zero-to-Full Debentures, due April 1, 2096 (the ZTF Debentures), it is not certain whether the ZTF Debentures will be treated as debt for U.S. Federal income tax purposes. The discussion below assumes that the ZTF Debentures (as well as the other Registered Debt Securities) will be treated as debt, except that a summary of the consequences to you if the ZTF Debentures were not treated as debt is provided under ZTF Debentures Treated as Equity, below.

The discussion of the tax consequences of ownership of common stock and ADRs below, is based, in part, upon representations made by the Depositary to the Company and assumes that the Deposit Agreement, and all other related agreements, will be performed in accordance with their terms.

**You should consult your own tax advisor concerning the particular U.S. Federal income and estate tax consequences to you of the ownership of the Registered Debt Securities, as well as the consequences to you arising under the laws of any other taxing jurisdiction.**

***Tax Consequences with respect to Registered Debt Securities Generally******Payments***

Except as provided below with regard to original issue discount on the ZTF Debentures, interest payments on a Registered Debt Security will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for tax purposes. Principal payments on an amortizing Registered Debt Security generally will constitute a tax-free return of capital to you.

Although interest payments to you are currently exempt from Korean taxation, if the Korean law providing for the exemption is repealed, then, in addition to interest payments on the Registered Debt Securities and original issue discount (as defined below) on the ZTF Debentures, you will be required to include in income any additional amounts and any Korean tax withheld from interest payments notwithstanding that you in fact did not receive such withheld tax. You may be entitled to deduct or credit such Korean tax (up to the Treaty rate), subject to applicable limitations in the Code. Your election to deduct or credit foreign taxes will apply to all of your foreign taxes for a particular taxable year. Interest income on a Registered Debt Security (including additional amounts and any Korean taxes withheld in respect thereof) and original issue discount on a ZTF Debenture generally will constitute foreign source income and generally will be considered passive income for purposes of computing the foreign tax credit (unless Korean withholding is imposed at a rate of 5% or more, in which case, for taxable years beginning before January 1, 2007, such amounts generally will be considered high withholding tax interest for purposes of computing the foreign tax credit). Recently enacted legislation may deny a foreign tax credit for Korean taxes imposed with respect to the notes where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are

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complex. Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

*Original Issue Discount*

The ZTF Debentures were issued with original issue discount (OID) for U.S. Federal income tax purposes equal to the difference between (i) the sum of all scheduled amounts payable on the ZTF Debentures (including the interest payable on such ZTF Debentures) and (ii) the issue price of the ZTF Debenture. The issue price of each ZTF Debenture is the first price at which a substantial amount of the ZTF Debentures were sold to the public (other than to an underwriter, broker, placement agent or wholesaler). If you hold ZTF Debentures, then you generally must include OID in gross income in advance of the receipt of cash attributable to that income, regardless of your method of accounting. However, you generally will not be required to include separately in income cash payments received on the ZTF Debentures, even if denominated as interest.

The amount of OID includible in income by the initial holder of a ZTF Debenture is the sum of the daily portions of OID with respect to the ZTF Debenture for each day during the taxable year or portion of the taxable year in which such holder held such ZTF Debenture (accrued OID) (for a discussion relevant to subsequent purchasers, see Market Discount and Bond Premium, below). The daily portion is determined by allocating to each day in any accrual period a pro rata portion of the OID allocable to that accrual period. The accrual period for a ZTF Debenture may be of any length and may vary in length over the term of the ZTF Debenture, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the product of the ZTF Debenture's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less the aggregate of all qualified stated interest allocable to the accrual period. The adjusted issue price of a ZTF Debenture at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (for subsequent purchasers, determined without regard to the amortization of any acquisition or bond premium, as described below) and reduced by any payments made on such ZTF Debenture (other than payment of qualified stated interest) on or before the first day of the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. Under these rules, you will have to include in income increasingly greater amounts of OID in successive accrual periods. We are required to provide information returns stating the amount of OID accrued on ZTF Debentures held of record by persons other than corporations and other exempt holders.

As discussed above, although interest payments to you are currently exempt from Korean taxation, if the Korean law providing for the exemption is repealed, then Korean withholding tax may be imposed at times that differ from the times at which you are required to include interest or OID in income for U.S. Federal income tax purposes and this disparity may limit the amount of foreign tax credit available.

*Market Discount*

If you purchase a Registered Debt Security other than a ZTF Debenture for an amount that is less than its stated redemption price at maturity, or, in the case of a ZTF Debenture, its adjusted issue price, the amount of the difference will be treated as market discount for U.S. Federal income tax purposes, unless that difference is less than a specified *de minimis* amount. Under the market discount rules, you will be required to treat any payment, other than qualified stated interest (as defined in the Code), on, or any gain on the sale, exchange, retirement or other disposition of, a Registered Debt Security as ordinary income to the extent of the market discount that you have not previously included in income and are treated as having accrued on the Registered Debt Security at the time of its payment or disposition. In addition, you may be required to defer, until the maturity of the Registered Debt Security or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness attributable to the Registered Debt Security.

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Any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the Registered Debt Security, unless you elect to accrue on a constant interest method. Your election to accrue market discount on a constant interest method is to be made for the taxable year in which you acquired the Registered Debt Security, applies only to that Registered Debt Security and cannot be revoked. You may elect to include market discount in income currently as it accrues, on either a ratable or constant interest method, in which case the rule described above regarding deferral of interest deductions will not apply. Your election to include market discount in income currently, once made, applies to all market discount obligations acquired by you on or after the first taxable year to which your election applies and may not be revoked without the consent of the IRS. You should consult your own tax advisor before making this election.

*Bond Premium*

If you purchase a ZTF Debenture for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the ZTF Debenture after the purchase date other than payments of qualified stated interest (as defined in the Code), you will be considered to have purchased that ZTF Debenture at an acquisition premium. Under the acquisition premium rules, the amount of OID that you must include in gross income with respect to a ZTF Debenture for any taxable year will be reduced by the portion of the acquisition premium properly allocable to that year.

If you purchase a Registered Debt Security for an amount in excess of the sum of all amounts payable on the Registered Debt Security after the purchase date other than qualified stated interest, you will be considered to have purchased the Registered Debt Security at a premium and, if such Registered Debt Security is a ZTF Debenture, you will not be required to include any OID in income. You generally may elect to amortize the premium over the remaining term of the Registered Debt Security on a constant yield method as an offset to interest when includible in income under your regular accounting method. Special rules limit amortization of premium in the case of convertible Registered Debt Securities. In the case of instruments that provide for alternative payment schedules, bond premium is calculated by assuming that (a) you will exercise or not exercise options in a manner that maximizes your yield, and (b) we will exercise or not exercise options in a manner that minimizes your yield (except that we will be assumed to exercise call options in a manner that maximizes your yield). If you do not elect to amortize bond premium, that premium will decrease the gain or increase the loss you would otherwise recognize on disposition of a Registered Debt Security. Your election to amortize premium on a constant yield method will also apply to all debt obligations held or subsequently acquired by you on or after the first day of the first taxable year to which the election applies. You may not revoke the election without the consent of the IRS. You should consult your own tax advisor before making this election.

*Sale, Exchange and Retirement of Registered Debt Securities*

When you sell, exchange or retire a Registered Debt Security, you will recognize gain or loss equal to the difference between the amount you receive (not including an amount equal to any accrued interest you have not included in income, which will be taxable as ordinary income) and your adjusted tax basis in the Registered Debt Security. Your tax basis in a Registered Debt Security other than a ZTF Debenture will generally be your cost of obtaining the Registered Debt Security increased by any market discount included in income and reduced by payments of principal you receive and any bond premium that you elect to amortize. Your adjusted tax basis in a ZTF Debenture will, in general, be your cost therefore, increased by any market discount and OID previously included in income and reduced by any cash payments on the ZTF Debentures and any bond premium that you elect to amortize. Your gain or loss realized on selling, exchanging or retiring a Registered Debt Security will generally be treated as United States source income. Your gain or loss will be capital gain or loss and will be long-term capital gain or loss if, at the time of the sale, exchange or retirement of a Registered Debt Security, you have held the Registered Debt Security for more than one year. If you are an individual and the Registered Debt Security being sold, exchanged or retired is a capital asset that you held for more than one year, you may be eligible for reduced rates of taxation on any capital gain recognized. Your ability to deduct capital losses is subject to limitations.



**Table of Contents***ZTF Debentures Treated as Equity*

If the ZTF Debentures were treated as equity for U.S. Federal income tax purposes, amounts deemed paid with respect to the ZTF Debentures would be deemed dividends for U.S. Federal income tax purposes to the extent paid out of our current or accumulated earnings and profits (as determined for U.S. Federal income tax purposes).

You would include the amounts deemed paid by us on the ZTF Debentures (before reduction for Korean withholding tax, if any) as ordinary income when actually or constructively paid by the Company. Section 305 of the Code, which would apply to the ZTF Debentures if they were treated as equity for U.S. Federal income tax purposes, requires current accrual of dividends under principles similar to the accrual of OID. Amounts treated as dividends will not be eligible for the dividends-received deduction generally allowed to U.S. Corporations.

***Tax Consequences with respect to Common Stock and ADRs***

In general for U.S. Federal income tax purposes, holders of ADRs will be treated as the owners of the underlying common stock that are represented by such ADRs. However, the U.S. Treasury has expressed concerns that parties involved in transactions in which depositary shares are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by the holders of ADRs. Accordingly, the analysis of creditability of Korean taxes described below could be affected by future actions that may be taken by the U.S. Treasury. Deposits or withdrawals of common stock by holders for ADRs will not be subject to U.S. Federal income tax.

*Distributions on Common Stock or ADRs*

The gross amount of distributions (other than certain distributions of common stock or rights to subscribe for common stock) to holders of common stock or ADRs (including amounts withheld in respect of Korean withholding taxes) will be treated as dividend income to such holders, to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. Federal income tax principles. Such income (including withheld taxes) will be includable in the gross income of a holder as ordinary income on the day actively or constructively received by the holder, in the case of common stock, or by the Depositary, in the case of ADRs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

With respect to non-corporate U.S. holders, certain dividends paid by a qualified foreign corporation and received by such holders before January 1, 2009 may be subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of an income tax treaty with the United States, if such treaty contains an exchange of information provision and the United States Treasury Department had determined that the treaty is satisfactory for purposes of the legislation. The United States Treasury Department has determined that the current income tax treaty between the United States and Korea, which contains an exchange of information provision, is (in the absence of additional guidance) satisfactory for these purposes. In addition, the Company believes it is eligible for the benefits of the United States-Korean income tax treaty. However, a foreign corporation is also treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares (or ADRs backed by such shares) that are readily tradable on an established securities market in the United States. Our shares will generally not be considered readily tradable for these purposes. United States Treasury Department guidance indicates that our ADRs, which are listed on the New York Stock Exchange, are readily tradable on an established securities market in the United States. There can be no assurance that our ADRs will be considered readily tradable on an established securities market in later years. Non-corporate U.S. holders that do not meet a minimum holding period requirement during which they are not protected from a risk of loss or that elect to treat the dividend income as investment income pursuant to section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. Holders should consult their own tax advisors regarding the application of the foregoing rules to their particular circumstances.

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The amount of any dividend paid in Won will equal the United States dollar value of the Won received calculated by reference to the exchange rate in effect on the date the dividend is received by the holder, in the case of common stock, or by the Depositary, in the case of ADRs, regardless of whether the Won are converted into U.S. Dollars. If the Won received as a dividend is not converted into U.S. Dollars on the date of receipt, a holder will have a basis in the Won equal to its U.S. Dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the Won will be treated as ordinary income or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

The maximum rate of withholding tax on dividends paid to you pursuant to the Treaty is 15 percent. You will be required to properly demonstrate to the company and the Korean tax authorities your entitlement to the reduced rate of withholding under the Treaty. Subject to certain conditions and limitations, Korean withholding taxes (up to the Treaty rate) will be treated as foreign taxes eligible for credit against your U.S. Federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the common stock or ADRs will be treated as income from sources outside the United States and will generally constitute passive income. Further, in certain circumstances, if you have held common stock or ADRs for less than a specified minimum period during which you are not protected from risk of loss, or are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on common stock or ADRs. The rules governing the foreign tax credit are complex. Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances including the possible adverse impact on creditability to the extent you are entitled to a refund of any Korean tax withheld or a reduced rate of withholding.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the common stock or ADRs (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by the investor on a subsequent disposition of the common stock or ADRs), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange of property. Consequently, such distributions in excess of our current and accumulated earnings and profits would not give rise to foreign source income and you would not be able to use the foreign tax credit arising from any Korean withholding tax imposed on such distribution unless such credit can be applied (subject to applicable limitations) against U.S. tax due on other foreign source income in the appropriate category for foreign tax credit purposes.

Distributions of common stock or rights to subscribe for common stock that are received as part of a pro rata distribution to all of our shareholders generally may not be subject to U.S. Federal income tax. Consequently such distributions will not give rise to foreign source income and you will not be able to use the foreign tax credit arising from any Korean withholding tax unless such credit can be applied (subject to applicable limitations) against U.S. tax due on other income derived from foreign sources. The basis of the new common stock or rights so received will be determined by allocating your basis in the old common stock between the old common stock and the new common stock or rights received, based on their relative fair market value on the date of distribution. However, the basis of the rights will be zero if (i) the fair market of the rights is less than 15 percent of the fair market value of the old common stock the time of distribution, unless the taxpayer elects to determine the basis of the old common stock and of the rights by allocating between the old common stock and the new common stock the adjusted basis of the old common stock or (ii) the rights are not exercised and thus expire.

*Sale, Exchange or Other Disposition of ADRs or Common Stock*

Upon the sale, exchange or other disposition of ADRs or common stock, you generally will recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition and your adjusted tax basis in the ADRs or common stock. The capital gain or loss will be long-term capital gain or loss if at the time of sale, exchange or other disposition, the ADRs or common stock have been held by you for more than one year. Under current law, long-term capital gains of individuals are, under certain circumstances, taxed at lower rates than items of ordinary income. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as U.S. source gain or loss.



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You should note that any Korean securities transaction tax will not be treated as a creditable foreign tax for U.S. Federal income tax purposes, although you may be entitled to deduct such taxes, subject to applicable limitations under the Code.

***Estate and Gift Taxation***

As discussed above in *Korean Taxes Notes Inheritance Tax and Gift Tax* and *Korean Taxes Shares or ADRs Inheritance Tax and Gift Tax*, Korea may impose an inheritance tax on your heir who receives Registered Debt Securities and ADRs and will impose an inheritance tax on an heir who receives common stock. The amount of any inheritance tax paid to Korea may be eligible for credit against the amount of U.S. Federal estate tax imposed on your estate. Prospective purchasers should consult their personal tax advisors to determine whether and to what extent they may be entitled to such credit. Korea also imposes a gift tax on the donation of any property located within Korea. The Korean gift tax generally will not be treated as a creditable foreign tax for United States tax purposes.

***Information Reporting and Backup Withholding***

In general, information reporting requirements will apply to principal, interest, OID and premium payments on Registered Debt Securities and dividend payments in respect of the common stock or ADRs or the proceeds received on the sale, exchange, or redemption of the Registered Debt Securities, common stock or ADRs paid within the United States (and in certain cases, outside of the United States) to holders other than certain exempt recipients (such as corporations), and a backup withholding may apply to such amounts if you fail to provide an accurate taxpayer identification number or to report interest and dividends required to be shown on your U.S. Federal income tax returns. The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. Federal income tax liability.

**DOCUMENTS ON DISPLAY**

We have filed this annual report on Form 20-F, including exhibits, with the SEC. As allowed by the SEC, in Item 19 of this annual report, we incorporate by reference certain information we filed with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report. You may inspect and copy this annual report, including exhibits, and documents that are incorporated by reference in this annual report at the Public Reference Room maintained by the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Any filings we make electronically will be available to the public over the Internet at the SEC's web site at <http://www.sec.gov>.

**ITEM 11. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

Our primary market risk exposures are to fluctuations in exchange rates, interest rates and fuel prices. We are exposed to foreign exchange risk related to foreign currency denominated liabilities. As of December 31, 2004, approximately 27% of our debt was denominated in foreign currencies, principally in U.S. dollars and Yen. However, substantially all of our revenues are denominated in Won. As a result, changes in exchange rates, particularly between the Won and the U.S. dollar, significantly affect us due to our significant amounts of foreign currency denominated debt and the effect of such changes on the amount of funds required by us to make interest and principal payments on such debt. In order to reduce the impact of foreign exchange rate fluctuations on our results of operations, we have recently been reducing and plan to continue to reduce the proportion of our debt which is denominated in foreign currencies and the proportion of its foreign currency debt which is denominated in U.S. dollars.

We are also exposed to foreign exchange risk related to our purchases of fuels since we obtain substantially all of our fuel materials (other than anthracite coal) directly or indirectly from sources outside Korea. Prices for such fuel materials are quoted based on prices stated in, and in many cases are paid for in, currencies other than Won. In 2004, fuel costs represented 28.3% of our revenue from the sale of electric power.

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We are exposed to interest rate risk due to significant amounts of debt. Upward fluctuations in interest rates increase the cost of additional debt and the interest cost of outstanding floating rate borrowings. A substantial portion of our borrowings from domestic sources have interest rates which are determined in reference to the rate offered on domestic bonds issued by KDB with a maturity of one year.

We are also exposed to fluctuations in prices of fuel materials. In 2004, uranium accounted for 40.0% of our fuel requirements, coal accounted for 39.3%, oil (including diesel for internal combustion) accounted for 5.0% and LNG accounted for 14.8%. In 2003, measured on the same basis, uranium accounted for 42.3% of our fuel requirements, coal accounted for 41.0%, oil accounted for 5.6% and LNG accounted for 11.3%, measured in each case by the amount of electricity we generated.

For additional discussions of our market risks, see Item 3 Key Information Risk Factors and Item 5 Operating and Financial Review and Properties Liquidity and Capital Resources Liquidity .

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We have entered into the various swap contracts to hedge risks involving exchange rate foreign currency debts. Details of currency swap contracts and swaption contracts outstanding as of December 31, 2004 are as follows:

	Contract Settlement		Contract Amounts in Millions		Contract Interest Rate per Annum	
	Year	Year	Pay	Receive	Pay (%)	Receive (%)
The Sumitomo Bank Ltd.	1995	2005	US\$ 286	JPY 27,000	7.68	4.15
Mizuho Co., Ltd. (formerly The Fuji Bank, Ltd.)	1995	2005	US\$ 149	JPY 14,425	6M Libor+0.155	3.40
Canadian Imperial Bank of Commerce	1996	2006	US\$ 97	JPY 10,000	6M Libor+0.13	3.80
JPMorgan Chase Bank	1996	2006	US\$ 200	JPY 21,000	6M Libor+0.14	4.00
JPMorgan Chase Bank & Deutsche Bank (*1, *3)	2002	2007	JPY 76,700	US\$ 650	1.18	4.25
Barclays Bank PLC, London	2002	2007	JPY 30,400	US\$ 250	1.04	3M Libor+0.75
ABN AMRO (*4)	2002	2008	KRW 181,500	US\$ 150	5.95	4.625
Deutsche Bank(*2)	2003	2013	KRW 178,350	US\$ 150	CD+3.3	7.75
UBS(*2)	2003	2013	KRW 148,625	US\$ 125	CD+3.3	7.75
Credit Suisse First Boston(*2)	2003	2013	KRW 89,175	US\$ 75	CD+3.3	7.75
ABN AMRO & Deutsche Bank(*5)	2003	2008	KRW 185,550	US\$ 150	5.30	4.25
JPMorgan Chase Bank & Deutsche Bank	2003	2008	JPY 23,770	US\$ 200	1.28	4.25
Credit Suisse First Boston	2003	2013	KRW 177,720	US\$ 150	5.12	4.75
JPMorgan Chase Bank & Credit Suisse First Boston	2004	2011	KRW 172,800	US\$ 150	Within 3 years: 4.875 After 3 years: 4.875-(10.9-JPY/KRW Spot rate)	4.95
Barclays Bank PLC, London(*6)	2004	2014	KRW 106,200	US\$ 100	4.5+(JPY/KRW-11.020)	5.125
Credit Suisse First Boston(*6)	2004	2014	KRW 106,200	US\$ 100	4.5+(JPY/KRW-11.020)	5.125
UBS(*6)	2004	2014	KRW 106,200	US\$ 100	4.5+(JPY/KRW-11.020)	5.125

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Barclays Bank PLC, London	2004	2014	KRW 172,875	US\$ 150		5.75
					5.10	
Barclays Bank PLC, London	2004	2011	US\$ 120	KRW 138,252		4.875
					4.85	
BNP PARIBAS	2004	2011	US\$ 15	KRW 17,282		4.875
					4.85	
Hana Bank	2004	2011	US\$ 15	KRW 17,282		4.875
					4.85	
Credit Suisse First Boston	2004	2011	US\$ 100	KRW 115,210		4.875
					4.85	

(\*1) If the Republic of Korea declares default on its debts, the Company is entitled to receive Korean government bonds instead of cash. Valuation for these embedded derivatives is reflected in the valuation of the currency swap.

(\*2) The Company exercised a call option in addition to these swaps with FX rate of W1,056.7 in December 2004, which the Company could exchange each W5,945 million with the amounts of US\$5,000,000 multiplied by Spot FX rate (KRW/ US\$).

(\*3) The Company pays JPY 7,670 million which is 10% of the contract amount every March and September and will receive US\$650 million in September 2007.

(\*4) The swaption has an interest pay rate of CD+0.5% and an interest receive rate of 5.95%, of which an exercise date is January 2006.

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(\*5) The swaption has an interest pay rate of CD+0.15% and an interest receive rate of 5.30%, of which an exercise date is January 2006.

(\*6) The Company has purchased a reset option in addition to these swaps under which the Company can reset each W10,620 million to the amounts of US\$10,000,000 multiplied by spot FX rate (KRW/ US\$) until December 10, 2005 and the valuation for this reset option is considered in the valuation of the swaps.

Under these currency swap contracts and swaption contracts, we recognized a valuation gain of W33 billion and a valuation loss of W322 billion in 2004.

We have entered into the various swap contracts to hedge risks involving interest rate of foreign currency debts. Details of interest rate contracts outstanding as of December 31, 2004 are as follows:

	Notional Amount in Millions	Contract Interest Rate per Annum		
		Pay(%)	Receive(%)	Term
JPMorgan Chase Bank	US\$ 149	6.91	Libor+0.155	1995-2005
Deutsche Bank	US\$ 100	Max (6.074-Libor, 0)	Max (Libor-6.074, 0)	1998-2007
Deutsche Bank	US\$ 100	Max (Libor-6.074,0)	Max (6.074-Libor, 0)	1998-2007
Deutsche Bank	KRW 178,350	5+2 x (JPY/W-11.03)	CD+3.3	2003-2013
UBS	KRW 148,625	5+2 x (JPY/W-11.03)	CD+3.3	2003-2013
Credit Suisse First Boston	KRW 89,175	5+2 x (JPY/W-11.03)	CD+3.3	2003-2013
Credit Suisse First Boston	KRW 50,000	6.89	(5Y CMT-CD) x 2+4.3	2002-2007
Credit Suisse First Boston	KRW 50,000	6.89	7.30	2002-2007
JPMorgan Chase Bank	KRW 50,000	CD-0.3	3 years: 7.75 3 years: 14.65-CD	2003-2008
Deutsche Bank	KRW 50,000	4.98	CD-0.3	2003-2005
Credit Suisse First Boston	KRW 30,000	6.09	1 year: 7.25 2 years: (5Y CMT- CD) x 5+1.5	2003-2005
Citibank	KRW 60,000	CD-0.3	7.65/2.50(*)	2002-2005
Deutsche Bank	KRW 20,000	CD-0.31	7.65/2.50(*)	2002-2005
Deutsche Bank	KRW 40,000	CD-0.37	7.65/2.50(*)	2002-2005
Kookmin Bank	KRW 20,000	5.995	CD-0.325	2002-2005
Deutsche Bank	KRW 100,000	5.995	CD-0.325	2002-2005

(\*) If CD rate is equal or lower than 6.75%, then 7.65% will be applied, otherwise, 2.50% will be applied.

Under these interest rate swap contracts, we recognized a valuation gain of W121 billion and a valuation loss of W1 billion in 2004.



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The following table summarizes the carrying amounts, fair values, principal cash flows by maturity date and weighed-average interest rates of our short-term and long-term liabilities as of December 31, 2004 which are sensitive to exchange rates and/or interest rates. The information is presented in Won, which is our reporting currency.

<b>Maturities</b>								
<b>December 31, 2004</b>								
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Thereafter</b>	<b>Total</b>	<b>Fair Value</b>
<b>(In Won millions except rates)</b>								
<b>Local currency:</b>								
Fixed rate	1,479,341	1,000,358	1,370,269	990,209	1,180,194	130,259	6,150,630	6,405,119
Average weighted rate(1)	4.92%	4.98%	4.87%	4.79%	4.95%	4.90%	4.94%	
Variable rate	1,580,533	1,724,369	1,419,896	1,263,707	577,961	66,031	6,632,497	6,430,157
Average weighted rate(1)	4.38%	4.42%	4.47%	5.21%	5.62%	4.16%	4.53%	
Sub-total	3,059,874	2,724,727	2,790,165	2,253,916	1,758,155	196,290	12,783,127	12,835,276
<b>Foreign currency:</b>								
Fixed rate	1,178,164	141,856	1,338,834	1,320,267	231,880	1,289,269	5,500,270	5,595,602
Average weighted rate(1)	3.56%	3.58%	4.63%	6.29%	5.97%	5.47%	4.58%	
Variable rate	403,728	366,580	38,273	10,438		698,737	1,517,756	1,489,696
Average weighted rate(1)	3.70%	4.09%	4.16%	4.17%	4.17%	4.17%	4.04%	
Sub-total	1,581,892	508,436	1,377,107					