KOREA ELECTRIC POWER CORP
Form 20-F
June 30, 2006
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As filed with the Securities and Exchange Commission on June 30, 2006

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

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005

or

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

or

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

For the transition period from to

Commission File Number: 000-13372

KOREA ELECTRIC POWER CORPORATION

(Exact name of registrant as specified in its charter)

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

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*	New York Stock Exchange

American depositary shares, each representing one-half of share of common stock	New York Stock Exchange

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

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

None

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

7 3/4% 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 3/4% 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:

641,567,712 shares of common stock, par value of Won 5,000 per share

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

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

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

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. þ Yes ¨ No

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

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

Indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 þ Item 18

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

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

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

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CERTAIN DEFINED TERMS

All references to Korea or the Republic in this annual report on Form 20-F, or 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 KEPC 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 accounting guidelines under the Korea Electric Power Corporation Act, the Accounting Regulations for Government Invested Enterprises and accounting principles generally accepted in the Republic of Korea, and all references to U.S. GAAP in this report are references to accounting principles generally accepted in the United States.

FORWARD-LOOKING STATEMENTS

This report 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-lookin 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. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this report.

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

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 audited consolidated financial statements for each of the years in the five-year period ended December 31, 2005. The consolidated financial statements as of and for the year ended December 31, 2003 have been audited by Deloitte Anjin LLC, a member firm of Deloitte Touche Tohmatsu. Deloitte Anjin LLC is a Korean independent registered public accounting firm. The consolidated financial statements as of and for the years ended December 31, 2004 and 2005 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. The selected consolidated financial data should be read in conjunction with our consolidated financial statements and Notes thereto as of December 31, 2004 and 2005 and for each of the years in the three-year period ended December 31, 2005.

Our consolidated 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 33 of the notes to our consolidated financial statements.

Consolidated Statement of Earnings Data

	Year Ended December 31,					
	2001	2002	2003	2004	2005	2005

	(Won in billion and US$ in million, except per share data)					
Amounts in Accordance with Korean GAAP(1):						
Operating revenues	(Won) 20,225	(Won) 21,366	(Won) 22,775	(Won) 23,956	(Won) 25,445	$ 25,193
Operating expenses	16,236	16,319	17,551	19,488	21,523	21,310
Operating income	3,989	5,047	5,224	4,467	3,922	3,883
Income before income taxes and minority interest	2,932	5,171	4,110	4,700	3,832	3,794
Income taxes	1,293	2,104	1,763	1,795	1,399	1,386
Net income	1,635	3,048	2,323	2,883	2,408	2,384
Earnings per share						
Basic	2,559	4,770	3,686	4,576	3,790	3.75
Diluted	2,559	4,770	3,677	4,510	3,766	3.73
Earnings per ADS						
Basic	1,280	2,385	1,843	2,288	1,895	1.88
Diluted	1,280	2,385	1,839	2,255	1,883	1.86
Dividends per share	550	800	1,050	1,150	1,150	1.14

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	Year Ended December 31,					
	2001	2002	2003	2004	2005	2005
	(Won in billion and US$ in million, except per share data)					
Amounts in Accordance with U.S. GAAP(3):						
Operating revenue	(Won) 20,256	(Won) 21,373	(Won) 22,781	(Won) 23,995	(Won) 25,445	$ 25,193
Operating income	5,595	5,835	6,373	4,860	4,382	4,339
Net income	3,287	3,573	4,552	3,535	2,970	2,941
Earnings per share						
Basic	5,144	5,591	7,221	5,612	4,675	4.63
Diluted	5,144	5,591	7,204	5,529	4,645	4.60
Earnings per ADS						
Basic	2,572	2,796	3,611	2,806	2,338	2.32
Diluted	2,572	2,796	3,602	2,765	2,323	2.30
Other Data:						
Ratio of earnings to fixed charges(2):						
Korean GAAP	2.5	4.2	4.1	4.6	4.8	4.8
U.S. GAAP(3)	3.6	4.8	6.0	5.0	5.3	5.3

Consolidated Balance Sheet Data

	As of December 31,					
	2001	2002	2003	2004	2005	2005
	(Won in billion and US$ in million)					
Amounts in Accordance with Korean GAAP:						
Net working capital deficit(4)	(Won) (3,561)	(Won) (5,192)	(Won) (4,056)	(Won) (2,291)	(Won) (130)	$ (128)
Property, plant and equipment, net	49,440	53,527	51,820	55,809	56,651	56,090
Construction in progress	11,154	7,777	9,551	7,517	7,355	7,282
Total assets	70,562	70,512	71,727	73,654	74,737	73,997
Total stockholders equity	33,182	35,562	37,782	40,602	42,338	41,918
Common stock	3,201	3,201	3,204	3,204	3,208	3,176
Long-term debt (excluding current portion)	22,089	17,671	15,814	15,073	15,494	15,341
Other long term liabilities	6,005	7,173	7,992	9,719	9,767	9,670
Amounts in Accordance with U.S. GAAP(3):						
Total assets	62,591	62,297	65,380	65,310	66,864	66,202
Total stockholders equity	24,162	27,291	31,163	33,747	35,972	35,616

(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 taxes 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 differences 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 33 of the notes to our consolidated financial statements.

(4) Net working capital means current assets minus current liabilities.

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Currency Translations and Exchange Rates

In this report, unless otherwise indicated, all references to Won or (Won) 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 U.S. dollars were made at (Won)1,010.00 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, 2005. On June 28, 2006, the Noon Buying Rate was (Won)957.50 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 U.S. 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.

Year Ended December 31,	At End of Period	Average(1)	High	Low
		(Won per US$1.00)		
2000	(Won) 1,267.00	(Won) 1,130.90	(Won) 1,267.00	(Won) 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	1,010.00	1,023.75	1,059.80	997.00
2006 (through June 28)	957.50	962.20	1,002.90	927.40
January	958.90	981.44	1,002.90	958.90
February	970.90	969.84	976.30	962.00
March	971.40	974.71	981.95	966.80
April	942.80	952.60	970.40	939.60
May	945.30	940.82	951.50	927.40
June (through June 28)	957.50	954.45	961.80	942.70

Note:
(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 may have a material adverse effect on us.

On January 21, 1999, the Ministry of Commerce, Industry and Energy, or the MOCIE, announced a restructuring plan for the electricity industry in Korea, or a Restructuring Plan. 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 and amended the Electricity Business Law on December 23, 2000, which allowed us to implement the Restructuring Plan. Pursuant to the Law on Promotion of Restructuring of Electricity Industry:

- 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 unit into five wholly-owned generation subsidiaries and our nuclear and hydroelectric generating unit 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 competition within the industry for distribution of electricity. Members of the Tripartite Commission include, among others, representatives from the Government, the leading businesses and labor unions in Korea. 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. In lieu of privatization, this resolution recommended the creation of independent business divisions within us, namely, the strategy business units , in order to introduce internal competition among the business divisions and improve efficiency. This resolution was adopted by the MOCIE in June 2004. In January 2005, we commissioned a third party consultant to conduct a study on implementing plans related to the creation of the strategy business units. As of the date of this report, we are soliciting comments on the study from various parties, including labor unions. Based on such comments, we plan to form the strategy business units in further consultation with

the Government. As currently contemplated, each of the strategy business units is expected to have a management structure with limited autonomy and separate financial accounting and performance evaluation criteria.

The Government s plan for restructuring the electricity industry in Korea may have a material adverse effect on us.

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Failure to successfully implement the revised plan could have an adverse effect on our business, results of operations and financial condition.

The Restructuring Plan 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., or KOSEPCO, one of our non-nuclear generation subsidiaries. According to the original privatization plan, the sale of KOSEPCO was to take the form of either a sale of management control or an initial public offering or both. KOSEPCO submitted its application for a preliminary screening review to the Korea Exchange in November 2003, which was approved in December 2003. However, in June 2004, KOSEPCO requested the Korea Exchange to delay its stock-listing due to unfavorable stock market conditions at that time. We intend to resume KOSEPCO s stock-listing process in due course, after taking into consideration the overall stock market situation and other pertinent matters. The aggregate foreign ownership of our generation subsidiaries is currently 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 a given time may affect the manner in which we conduct our business through our generation subsidiaries.

Increases in fuel prices will adversely affect our results of operations and profitability.

Fuel costs constituted 29.7% and 35.2% of our operating revenues and operating expenses, respectively, in 2005. Our generation subsidiaries purchase substantially all of the fuel that they use (except for anthracite coal) from a limited 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. For instance, most of the bituminous coal requirements are imported from Australia, Indonesia and China, which accounted for approximately 39.6%, 30.5% and 23.6%, respectively, of the annual bituminous coal requirements of our generation subsidiaries in 2005. Approximately 85.3% of the bituminous coal requirements of our generation subsidiaries in 2005 was purchased under long-term contracts and the remaining 14.7% from the spot market. 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 . In recent years, the prices of bituminous coal, oil and liquefied natural gas, or LNG, have increased significantly, resulting in higher fuel cost. As a result of such price increases, our generation subsidiaries are unlikely to secure their respective fuel requirements at prices comparable to those of prior periods. In addition, any significant interruption or delay in the supply of fuel 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 fuel cost. The prices of oil and LNG for fuel use are substantially dependent on the price of crude oil According to Bloomberg, the average daily spot price of Dubai crude oil was US$49.5 per barrel in 2005 compared to US$33.4 per barrel in 2004 and was US$61.3 per barrel as of June 28, 2006. 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 2006 to date. Fuel prices may remain high throughout 2006 and thereafter. Accordingly, we expect our operating income and net income may be adversely impacted.

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

In recent years, the Won has considerably appreciated against the U.S. dollar and other foreign currencies in a sharp rise from the exchange rates during the financial crisis of late 1997. At this time, it is difficult to predict whether and to what extent Won will continue to appreciate. The appreciation of Won against the U.S. dollar and other foreign currencies may have an adverse impact on us by negatively impacting Korea s ability to export its products to other countries, on which the overall production level of the Korean economy significantly depends.

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We also cannot assure you that the Won will not significantly depreciate against the U.S. dollar and other foreign currencies. The depreciation of Won against the U.S. dollar and other foreign currencies 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. In contrast, As of December 31, 2005, approximately 29.2% of our long-term debt (including the current portion thereof) was denominated in foreign currencies, principally in U.S. 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 U.S. dollars. Since substantially all of our revenues are denominated in Won, we must generally obtain foreign currencies through foreign-currency denominated financings or from foreign currency exchange markets to make such purchases or service such debt. As a result, any significant depreciation of the Won against the U.S. dollar or other foreign currencies will adversely impact us.

Labor unrest may materially and adversely affect our operations.

As of December 31, 2005, approximately 69.6% 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 generated labor unrest in 2002. Labor unions to which our employees belong have opposed 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 began a six-week strike to protest the Government s plans to privatize our five non-nuclear generation subsidiaries. The Korean Confederation of Trade Unions, the second largest confederation of labor unions in Korea with over 600,000 members as of December 31, 2005, negotiated with the Government on behalf of the labor unions. After prolonged negotiations with the Government, the Korean Confederation of Trade Unions directed the labor unions of our five non-nuclear generation subsidiaries to end their strike on April 2, 2002. On June 24, 2005, the Korean government announced its policy to relocate the headquarters of government-invested enterprises, including us and certain of our subsidiaries including six generation subsidiaries, out of the Seoul metropolitan area to other provinces in Korea by the end of 2012. Pursuant to this policy, our headquarters is scheduled to be relocated to Naju, which is approximately 300 kilometers south of Seoul. Also, the headquarters of certain of our subsidiaries are scheduled to be relocated to various other cities in Korea. While we intend to comply with this policy, there can be no assurance our labor union and those of our subsidiaries will not oppose such relocation. See Item 4 Information on the Company History and Development Recent Developments Government s Policy to Move Headquarters of Government-invested Enterprises . We cannot assure you that a large-scale strike will not occur again in the future, including, among others, as a result of the Government s policy to move our headquarters out of the Seoul metropolitan areas, or that any such labor unrest will be satisfactorily resolved. A large-scale strike may adversely affect our results of operations, including by severely disrupting the power supply as well as substantially hindering the implementation of our strategies and management policies.

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

Through Korea Hydro & Nuclear Power Co., Ltd., or KHNP, our wholly-owned nuclear subsidiary, we currently operate 20 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 lowest cost structure among the fuel types that comprise the base load and is the largest source of Korea s electricity supply accounting for 40.3% of electricity generated in Korea in 2005. 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 lasting 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

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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 in April 2004. The breakdown, failure or suspension of operation of a nuclear unit could result in a material loss of revenues, an increase in fuel costs related to the use of alternative power sources, additional repair and maintenance costs, greater risk of litigation and increased social and political hostility to the use of nuclear power, any of which could have a material adverse impact on our financial conditions and results of operation.

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

In 2005, our nuclear generating units accounted for 40.3% of the electricity generated in Korea. In recent years, we have encountered increasing social and political opposition to the construction and operation of nuclear generating units. Although the Government and we have undertaken various community programs to address concerns of residents of areas near our nuclear units, community opposition to the construction and operation of nuclear units could result in delayed construction or relocation of planned nuclear units, which could have a material adverse impact on our business and results of operation. See Item 4 Information on the Company Business Overview Power Generation Korea Hydro & Nuclear Power Co., Ltd. , Business Overview Community Programs and Business Overview Insurance .

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

Substantial liability may result from the operation of our nuclear generating units, the use and handling of nuclear fuel and radioactive emissions associated with such nuclear fuel. While KHNP carries insurance for its generation units and nuclear fuel transportation and is the beneficiary of a certain Government indemnity with respect to such risks, such insurance is limited in terms of amounts and coverage and does not cover all types or amounts of loss which could arise in connection with the ownership and operation of nuclear plants. Accordingly, material adverse financial consequences could result from a significant accident.

In addition, our non-nuclear generation subsidiaries carry insurance covering against certain risks, including fire, in respect of their key assets, including buildings and equipment located at their respective power plants, construction-in-progress and imported fuel and procurement in transit, as well as directors and officers liability insurance. 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. Unlike us, our generation subsidiaries are not permitted to self-insure, and accordingly have not self-insured, against risks of their uninsured assets or business. Accordingly, material adverse financial consequences could result from a significant accident to the extent uninsured.

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 sufficient. 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 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. The amount of such additional indebtedness may be substantial. We expect that a 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.

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

The Korea Electric Power Corporation Act, or the KEPCO Act, requires that the Government, directly, or pursuant to the Korea Development Bank Act, through Korea Development Bank (a statutory banking institution wholly-owned by the Government), own at least 51% of our issued capital stock. As of May 31, 2006, the Government, directly or through Korea Development Bank, owned 54.02% of our issued capital stock. 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.

Investor confidence and market price of our common shares and ADSs may be adversely impacted if we or our independent registered public accountants are unable to attest to the adequacy of the internal controls over our financial reporting for the fiscal year ending December 31, 2006, as required by Section 404 of the Sarbanes-Oxley Act.

We are subject to the reporting requirements of the Securities and Exchange Commission. The Securities and Exchange Commission, as directed by Section 404 of the Sarbanes-Oxley Act, adopted rules requiring public companies, including us, to include a report of management of their internal control structure and procedures for financial reporting in their annual reports on Form 10-K or Form 20-F, as the case may be, that contain an assessment by management of the effectiveness of their internal controls over financial reporting. In addition, independent registered public accountants of these public companies must attest to and report on management s assessment of the effectiveness of their internal controls over financial reporting. These requirements will first apply to our annual report on Form 20-F for the fiscal year ending on December 31, 2006. While we have made every efforts over the past several years to implement necessary procedures and establish systems to enable our management to conclude that our internal controls over financial reporting are effective, we cannot assure you that our management will be able to do so or that our independent registered public accountants will be satisfied with our internal control structure and procedures or the level at which our internal controls are documented, designed, operated or reviewed. In addition, if our independent registered public accountants interpret the requirements, rules or regulations differently from us, they may decline to attest to our management s assessment or may issue a report that is qualified. Furthermore, as effective internal control over financial reporting is important in assuming that we are able to produce reliable financial reports and investigating the risk of fraud, it is uncertain how investors and regulators might respond to our inability to conclude positively on the adequacy of design and effectiveness of such controls. Accordingly, if we are unable to conclude that we have effective internal control over financial reporting, or if our independent registered public accountants are unable to provide us with an unqualified report as to our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 and future year ends, we could experience delays in our reporting of financial information and fail to timely comply with the reporting requirements of the Securities Exchange Commission and other regulatory requirements pertaining to the maintenance of books and records. This could subject us to regulatory scrutiny and result in a loss of public confidence in our management, which could, among other things, adversely affect the price of our common shares and ADSs.

Risks Relating to Korea and the Global Economy

Adverse developments in Korea may adversely affect us.

Our financial condition and results of operations are subject to political, economic, legal and regulatory risks specific to Korea. From early 1997 until 1999, Korea experienced a significant financial and economic downturn, from which it is widely believed the country has now recovered to a large extent, despite mixed signs of recovery and uncertainty at times. However, future recovery or growth of the economy is subject to many factors beyond our control. Events related to terrorist attacks, developments in the Middle East, higher oil prices, the general weakness of the global economy and the outbreak of endemics such as SARS or the H5N1 avian flu in Asia and other parts of the world have increased and continue to increase the uncertainty of global economic prospects in general and may continue to adversely affect the Korean economy. Any future deterioration of the Korean economy could adversely affect our financial condition and results of operations.

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Developments that could hurt Korea s economy in the future include:

- financial and other problems related to *chaebols* (Korean conglomerates) or their suppliers, and their potential adverse impact on the Korean economy;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues at certain companies or introduction of new Government policies or regulations adverse to foreign investment;
- a slowdown in consumer spending, a rising level of household debt and the resulting slowdown in the overall economy;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including an increase in coal, oil and LNG prices), exchange rates (including depreciation of the U.S. dollar or the Yen or revaluation of the Chinese Renminbi), interest rates and stock markets;
- adverse developments in the economies in other markets, including countries that are important export markets for Korea, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;
- the continued emergence of China, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China);
- social and labor unrest;
- a decrease in tax revenues and a substantial increase in the Government s expenditures for unemployment compensation and other social programs that, together, would lead to an increased government budget deficit;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy;
- political uncertainty or increasing strife among or within political parties in Korea;
- hostilities involving oil producing countries in the Middle East and any material disruption in the supply of oil or increase in the price of oil resulting from those hostilities; and
- an increase in the level of tensions or an outbreak of hostilities between the Democratic People s Republic of Korea, or North Korea, and Korea and/or the United States.

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

Relations between Korea and North Korea have been tense over Korea s modern 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 the relationship between North Korea and the United States. In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency, and has reportedly resumed activity at its Yongbyon power plant. In January 2003, North Korea announced its intention to withdraw from the Nuclear Non-Proliferation Treaty, demanding that the United States sign a non-aggression pact as a condition to North Korea dismantling its nuclear program. During July 2003 and February 2004, Korea, North Korea, the United States, China, Japan and Russia held the first two rounds of multilateral talks in an effort to resolve issues relating to North Korea s nuclear weapons program. In June 2004, a third round of talks was held, resulting in an agreement to hold further talks in September 2004. In February 2005, North Korea announced that it possesses nuclear weapons and pulled out of the six-party disarmament talks. In July 2005, North Korea returned to the six-party talks and held bilateral talks with the United States to discuss the issue of nuclear weapons. In a joint statement in September 2005, North Korea agreed to abandon all nuclear weapons and programs and rejoin the Nuclear Non-Proliferation

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Treaty. In return, the other five nations participating in the talks, Korea, China, Japan, Russia and the United States, expressed a willingness to provide North Korea with energy assistance and other economic support. However, on September 20, 2005, one day after the joint statement was released, North Korea announced that it would not dismantle its nuclear weapons program unless the United States agreed to provide civilian nuclear reactors in return, a demand that the Untied States rejected. Representatives of the six nations reconvened in Beijing in November 2005 for the first phase of the fifth-round of six-party talks, which ended without further progress being made with respect to the implementation of the joint statement.

In October 2004, the United States proposed plans to withdraw approximately one-third of the 37,500 troops then stationed in Korea by the end of 2008 in three phases. Under these plans, the United States withdrew 5,000 troops from Korea by the end of 2004 and is expected to withdraw another 5,000 troops by the end of 2006 and another 2,500 troops by the end of 2008. 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 us.

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 4.4% as of December 31, 2000 to 3.3% as of December 31, 2002, but increased to 3.6% as of December 31, 2003, to 3.7% as of December 31, 2004 and to 3.7% as of December 31, 2005. An 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, 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, may adversely affect 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 the past 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.

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.

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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 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 33 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 Securities Exchange Commission and listed on the New York Stock Exchange, we are, and in the future will be, subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002, as amended. However, foreign private issuers, including us, are exempt from certain corporate governance standards required to be complied with under the Sarbanes-Oxley Act or under the rules of the New York Stock Exchange. 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.

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ITEM 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT

General Information

We were established by the Government on December 31, 1981 as the successor to Korea Electric Company and, until 1989, were 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. Our website address is www.kepco.co.kr.

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 undertaken by the Government for shares of Government-owned companies. 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 in the form of our shares into Korea Development Bank, The Export-Import Bank of Korea, Korea First Bank and Seoul Bank 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, which represents 19.85% of our outstanding capital held by it, to Korea Development Bank, 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 Korea Development Bank, in each case to strengthen the capital base of Korea Development Bank, which is wholly-owned by the Government. On December 30, 2004, the Government sold 19,592,000 shares (or 3.06% of total outstanding shares) of our common stock to Korea Development Bank through the over-the-counter market at (Won)27,100 per share. As a result, the Government s direct ownership in us decreased to 23.97% from 27.03% and Korea Development Bank s direct ownership in us increased to 29.99% from 26.93%. As a result of such transfer, the Government and Korea Development Bank owned 23.97% and 29.99%, respectively, of the outstanding shares of our common stock as of the end of April 2004. In December 2005, the Ministry of Defense of Korea made an in-kind contribution of certain electric distribution facilities, which had previously been managed by the Ministry of Defense, in return for 819,139 newly issued shares of our common stock, which were issued in December 2005. Following such issuance, the Government directly owned 24.07% and, through Korea Development Bank, an additional 29.95%, of our common stock. See In-kind Contribution from the Ministry of Defense . See the table setting forth certain information relating to certain owners of our capital stock as of December 31, 2005 in Item 7 Major Shareholders and Related Party Transactions Major Shareholders .

The KEPCO Act requires that the Government, directly or pursuant to the Korea Development Bank Act, through Korea Development Bank, 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 rights of the Government and Korea Development Bank 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 Korea Development Bank in consultation with the Ministry of Finance and Economy, or the 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 Item 4 Information on the Company 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 Item 4 Information on the Company Business Overview Regulation .

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Pursuant to our articles of incorporation, our directors are classified into two categories: standing directors and non-standing directors. The number of standing directors may not exceed seven, including the president (who is our chairman and chief executive officer), and the number of non-standing directors may not exceed 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 must 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 must 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 must 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 consists 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 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 Securities Exchange Act of 1934. Pursuant to our amended articles of incorporation, we have three auditors, consisting of one standing auditor and two non-standing auditors. The standing auditor must be appointed by the President of the Republic upon the motion of the Minister of Planning and Budget of Korea following a resolution at the general meeting of our shareholders. The non-standing auditors must be appointed by the President of Korea upon the motion of the Minister of Planning and Budget of Korea. 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 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 Item 4 Information on the Company Business Overview Rates .

Recent Developments

Debt Restructuring

Pursuant to the Restructuring Plan, 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 remained jointly and severally liable for all liabilities we had transferred to our generation subsidiaries, and each generation subsidiary was jointly and severally liable for all of our liabilities existing prior to the corporate split and all liabilities that we transferred to the other generation subsidiaries.

Under Korean law, the elimination of these joint and several liabilities requires consent from creditors of affected debt, including consent of a specified percentage of each series of the outstanding debt securities that were sold in Korea and the international markets. On November 14, 2002, in order to facilitate the privatization of the non-nuclear and non-hydroelectric generation subsidiaries by eliminating the joint and several liabilities among us and our generation subsidiaries, we commenced solicitations of consents and proxies from the creditors of affected debt. 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. As consideration for such amendments and waivers, Korea Development Bank issued full, unconditional

and irrevocable guarantees in respect of each affected debt.

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As of July 25, 2005, we obtained all the requisite waivers and agreements in order to completely eliminate the joint and several liabilities among us and our generation subsidiaries. We no longer remain jointly and severally liable for any of our debts existing prior to the corporate split.

Suspension of the Plan to Form and Privatize Distribution Subsidiaries

In September 2003, a Joint Study Group on Reforming Electricity Distribution Network was established under the Tripartite Commission to propose a methodology of introducing competition within the industry for distribution of electricity. Members of the Tripartite Commission include, among others, representatives from the Government, the leading businesses and labor unions in Korea. 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. In lieu of privatization, this resolution recommended the creation of independent business divisions within us, namely, the strategy business units , in order to introduce internal competition among the business divisions and improve efficiency. This resolution was adopted by the MOCIE in June 2004. In January 2005, we commissioned a third party consultant to conduct a study on implementing plans related to the creation of the strategy business units. As of the date of this report, we are soliciting comments on the study from various parties, including labor unions. Based on such comments, we plan to form the strategy business units in further consultation with the Government. As currently contemplated, each of the strategy business units is expected to have a management structure with limited autonomy and separate financial accounting and performance evaluation criteria.

In-kind Contribution from the Ministry of Defense

On December 9, 2005, our board of directors approved a plan to accept an in-kind contribution from the Ministry of Defense of Korea of certain electric distribution facilities then under the management of such Ministry in exchange for shares of our common stock to be newly issued to the Government. Pursuant to applicable Korean law, the in-kind contribution, which was made on December 28, 2005, was valued at approximately (Won)28 billion. As part of the exchange, in December 2005, we issued to the Government 819,139 shares of our common stock, or 0.13% of our then total issued shares of common stock, at the deemed per-share price of (Won)34,120.

Management Reform and Implementation of the Enterprise Resource Planning System

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 Innovation 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 strategy business unit system and to implement enterprise resource planning. In June 2005, we commenced implementing an enterprise resource planning system in consultation with an advisory firm to enhance transparency and efficiency in management. We plan to launch this new system by the end of 2006.

Government s Policy to Move Headquarters of Government-invested Enterprises

On June 24, 2005, the Korean government announced its policy to relocate the headquarters of government-invested enterprises, including us and certain of our subsidiaries, including all of our generation subsidiaries, out of the Seoul metropolitan area to other provinces in Korea by the end of 2012. Pursuant to this policy, our headquarters are scheduled to be relocated to Naju, which is approximately 300 kilometers south of Seoul. In addition, the headquarters of our generation subsidiaries subject to relocation are scheduled to be relocated to various other cities in Korea. While we intend to comply with this policy, 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 .

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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 22.9 kilovolt distribution network. In the first phase of development, we 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. See Item 3 Key Information Risk Factors Risks Relating to Korea and the Global Economy Tensions with North Korea could have an adverse effect on us and the market value of the Notes .

Selection of a Site for the Permanent Storage Facility of Nuclear Waste

On March 31, 2005, the Korean National Assembly enacted the Special Act on Supporting the Local Community Hosting the Storage Site of Low and Intermediate Level Waste, or LILW, in order to enhance the transparency in the process of selecting the site for permanent storage facility of the LILW and establishing a mechanism for providing financial support to the local government that hosts such site. Pursuant to this act, in November 2005, the Government designated Gyeongju City, approximately 300 kilometers southeast of Seoul, as the site for the permanent storage facility for LILW. KHNP commenced the process of constructing the LILW permanent storage facility in January 2006, which is expected to be completed by the end of 2009. KHNP estimates that constructing this facility will cost approximately (Won)1,144 billion, including the one-time cash contribution of (Won)300 billion made on May 9, 2006 by KHNP to Gyeongju City pursuant to this act. KHNP plans to fund this project primarily with cash from its operations and secondarily and to the extent necessary with funds from debt financing.

Capital Expenditures

This table below sets forth for each year in the three-year period ended December 31, 2005 the amount of capital expenditures (including capitalized interest) for the construction of generation, transmission and distribution facilities:

2003	2004	2005
	(In billions of Won)	
(Won)6,782	(Won)6,287	(Won)6,719

For the expected completion dates of generation facilities, see Item 4 Information on the Company 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, 2005, 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 2005, we sold 332 billion kilowatt-hours of electricity. Of the 349 billion kilowatt-hours of electricity we purchased in 2005, 41.0% was generated by our nuclear and hydroelectric power generation subsidiary.

For the year ended December 31, 2005, we had consolidated operating revenues of (Won)25,445 billion (US$25,193 million) and consolidated net income of (Won)2,408 billion (US$2,384 million) and for the year ended December 31, 2004, we had consolidated operating revenues of (Won)23,956 billion and consolidated net income of (Won)2,883 billion. Our operating revenues increased primarily as a result of a 6.5% increase in kilowatt hours of electricity sold in 2005. The increase in electricity sold was primarily attributable to a 5.2% increase in kilowatt hours of electricity sold to the industrial sector, a 9.2% increase in kilowatt hours of electricity sold to the commercial sector and a 6.2% 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 Korea grew at a compounded average rate of 6.8% per annum for the five years ended December 31, 2005 compared to real gross domestic product, or GDP, compounded growth rates of approximately 4.5% for the same period according to The Bank of Korea. The GDP growth rate was 4.0% for 2005 as compared to 4.6% in 2004. Demand for electricity in Korea increased by 6.5% from 2004 to 2005.

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

The Korean electric utility industry traces its origin to the establishment of the first electric utility company in Korea in 1898. On July 1, 1961, the industry was reorganized by the merger of Korea Electric Power Company, Seoul Electric Company and South Korea Electric Company, which resulted in the formation of Korea Electric Company. From 1976 to 1981, the Government acquired the private minority shareholdings in Korea Electric Company. After the Government 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 our common stock. As of June 30, 2006, the Government owned 54.02% (including indirect holdings by Korea Development Bank, which is wholly-owned by the Government) of our 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.

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,

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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 stock. Direct or indirect ownership of more than 50% of our outstanding common stock enables the Government to control the approval of certain corporate matters which require a stockholders resolution, including approval of dividends. The rights of the Government and Korea Development Bank as holders of our common stock are exercised by the MOCIE in consultation with the 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 to April 2, 2001, we continued to be the principal electricity generator, with a few independent power producers supplying electricity to us pursuant to existing power purchase agreements. 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., Korea South-East Power Co., Ltd., Korea Western Power Co., Ltd., Korea Southern Power Co., Ltd. and Korea East-West Power Co., Ltd. Our hydroelectric and nuclear generating capacity was transferred into a separate wholly-owned generation subsidiary, Korea Hydro & Nuclear Power Co., Ltd., or 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 both KHNP and the transmission and distribution business.

Phase II

Phase II, which is the current phase, began on April 2, 2001. For Phase II, the Government 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.

Pursuant to the Electricity Business Law amended on December 23, 2000, the Government established the Korea Power Exchange on April 2, 2001 to deal with the sale of electricity and implement regulations governing the electricity market to allow for electricity distribution through a competitive bidding process. The Government also established the Korea Electricity Commission on April 27, 2001 to regulate the restructured Korean

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electricity industry and to ensure fair competition. As part of this process, the Korea Power Exchange established the Electricity Market Rules relating to the operation of the bidding pool system. To amend the Electricity Market Rules, the Korea Power Exchange must obtain approval from the MOCIE and any amendment must be reviewed by the Korea Electricity Commission before the MOCIE approves it.

The Korea Electricity Commission s main functions include implementation of necessary standards and measures for electricity market operation and review of matters relating to licensing companies in the Korean electricity industry. The Korea Electricity Commission 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 Korea Power Exchange. Under the current cost-based pool system, each generation company, including our generation subsidiaries, submits its variable costs to the Korea Power Exchange on a monthly basis and also submits available capacity to the Korea Power Exchange 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 substantially 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 hydroelectric power. The final pool price for each of these categories is determined by the Korea Power Exchange.

Our cost-based pool system yields two prices, namely, system marginal price and base load marginal price, 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 and base load capacity payment represent fixed costs of non-base load units and base load units, respectively, and are settled separately from the cost-based pool system.

One uniform pool price for each of the system marginal price and the base load marginal price is determined every hour by merit order. Merit order is a power dispatch order system determined and used by the Korea Power Exchange. The Korea Power Exchange 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 the 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 Korea Electricity Commission. The Korea Electricity Commission 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. Pursuant to this plan, we commenced the process for selling Korea South-East Power Co., Ltd., or KOSEPCO, in 2002. According to the original plan, this process was to take the form of either the sale of the management control or an initial public offering or both. In November 2003, KOSEPCO submitted its application to the Korea Exchange for a preliminary screening review, which was

approved in December 2003. However, in June 2004, KOSEPCO made a request to the Korea Exchange to delay its stock listing due to unfavorable stock market conditions at that time. We intend to resume the stock listing process for KOSEPCO in due course, after taking into consideration the overall stock market conditions and other pertinent matters. The aggregate foreign ownership of our generation subsidiaries is limited

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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 and 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 competition within the industry for distribution of electricity. Members of the Tripartite Commission include, among others, representatives from the Government, the leading businesses and labor unions in Korea. 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. In lieu of privatization, this resolution recommended the creation of independent business divisions within us, namely, the strategy business units , in order to introduce internal competition among the business divisions and improve efficiency. This resolution was adopted by the MOCIE in June, 2004. In January 2005, we commissioned a third party consultant to conduct a study on implementing plans related to the creation of the strategy business units. As of the date of this report, we are soliciting comments on the study from various parties, including labor unions. Based on such comments, we plan to form the strategy business units in further consultation with the Government. As currently contemplated, each of the strategy business units is expected to have a management structure with limited autonomy and separate financial accounting and performance evaluation criteria.

Power Generation

The electricity generating systems of our generation subsidiaries as of December 31, 2005 consisted of a total of 369 generating units, including nuclear, thermal, hydro and internal combustion units, which as of December 31, 2005 had an aggregate installed generating capacity of 55,956 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 from several generating plants not owned by our generation subsidiaries.

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The table below sets forth as of and for the year ended December 31, 2005, 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)
KEPCO facilities:			
Nuclear	20	17,716	95.5
Thermal:			
Coal	39	17,965	87.1
Oil	19	4,309	41.1
LNG	6	1,538	5.8
Total thermal	64	23,811	73.3
Internal combustion	146	297	23.6
Combined cycle	90	11,288	49.7
Hydro	43	2,838	11.5
Wind	4	6	35.7
Solar	2		
Total KEPCO facilities	369	55,956	72.1

(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; and hydroelectric, over 30 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 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 approximately the level at which demand is continuous within Korea. For production during those times when actual 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 in excess of the continuous demand level, except for meeting short-term surges in demand which require 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. Anthracite coal is 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

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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, 2005 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.

	2001	2002	2003	2004	2005	% of 2005 Gross Generation(1)
	(Million kilowatt hours and percent)					
Electricity generated by generation subsidiaries:						
Nuclear	112,133	119,103	129,671	130,715	146,779	40.3
Thermal:						
Coal	112,257	119,665	121,931	128,547	134,892	37.0
Oil	21,622	17,493	16,664	16,084	15,529	4.3
LNG	1,557	1,771	1,674	733	786	0.2
Total thermal	135,437	138,929	140,269	145,364	151,207	41.5
Internal combustion	325	353	370	407	575	0.2
Combined cycle	23,589	30,535	33,075	47,652	48,311	13.2
Hydro	2,915	3,262	3,479	3,042	2,867	0.7
Wind				11	19	
Solar						
Total generation	274,398	292,182	306,866	327,191	349,758	95.9
Electricity purchased from others:						
Thermal	9,589	12,242	12,178	12,137	12,559	3.5
Hydro	1,236	2,049	3,408	2,820	2,322	0.6
Total purchased	10,825	14,291	15,586	14,957	14,881	4.1
Gross generation	285,224	306,474	322,452	342,148	364,639	100.0
Auxiliary use(2)	12,980	13,728	14,226	15,268	16,452	4.5
Pumping storage(3)	2,401	2,688	2,581	1,994	1,980	0.6
Total net generation(4)	269,842	290,058	305,645	324,886	346,207	94.9
Transmission and distribution losses	12,140	12,994	13,539	14,490	15,615	4.5(5)

Notes:

(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.

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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, 2005.

	2001	2002	2003	2004	2005
			(Megawatts)		
Total capacity	50,859	53,801	56,053	59,961	62,258
Peak load	43,125	45,773	47,385	51,264	54,631
Average load	32,560	34,986	36,810	39,058	41,625

Korea Hydro & Nuclear Power Co., Ltd.

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 Korea Hydro & Nuclear Power Co., Ltd, or KHNP.

Currently, KHNP owns and operates 20 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, 2005, the number of units, installed capacity and the average capacity factor for the two types of generating facility.

	Number of Units	Installed Capacity(1)	Average Capacity Factor(2)
		(Megawatts)	(Percent)
Nuclear	20	17,716	95.5
Hydroelectric	27	534	28.7
Total	47	18,250	

Notes:

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

(2) Average capacity factor represents the total number of kilowatt hours of electricity generated in the 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, the Ulchin-6 nuclear generating unit commenced its operations. We are currently building four additional nuclear generating units, each with a 1,000-megawatt capacity at the Shin Kori and Shin Wolsong sites**.** We expect to complete these units between 2010 and 2012.

In addition, we plan to build four additional nuclear units, each with a 1,400 megawatt capacity, at the Shin Kori and Shin Ulchin sites.

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Nuclear

The table below sets forth certain information with respect to the nuclear generating units KHNP owned as of December 31, 2005.

Unit	Reactor Type(1)	Reactor Design(2)	Turbine and Generation(3)	Commencement of operations	Installed Capacity
			(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
Ulchin-6	PWR	D, CE	D, GE	2005	1,000
Total nuclear					17,716

Notes:

(1) PWR means pressurized light water reactor; PHWR means pressurized heavy water reactor.
(2) W means Westinghouse Electric Company (U.S.A.); AECL means Atomic Energy Canada Limited (Canada); F means Framatome (France); H means Hanjung; CE means Combustion Engineering (U.S.A.); D means Doosan Heavy Industries.
(3) GEC means General Electric Company (UK); P means Parsons (Canada and UK); W means Westinghouse Electric Company (U.S.A); A means Alsthom (France); H means Hanjung; GE means General Electric (U.S.A); D means Doosan Heavy Industries.

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The table below sets forth certain information for 2005 with respect to each nuclear generating unit KHNP owned. In 2005, the fuel cost was (Won)5.8 per kilowatt hour.

Unit	Average Capacity Factor	Average Fuel Cost Per Kwh
	(Percent)	(Won)
Kori-1	85.2%	(Won) 5.8
Kori-2	95.8	6.2
Kori-3	94.7	5.4
Kori-4	104.9	4.9
Wolsong-1	77.7	8.3
Wolsong-2	98.1	7.1
Wolsong-3	104.5	7.4
Wolsong-4	98.4	7.6
Yonggwang-1	103.8	5.1
Yonggwang-2	91.5	5.4
Yonggwang-3	104.1	5.2
Yonggwang-4	93.3	5.4
Yonggwang-5	93.6	5.1
Yonggwang-6	94.0	5.4
Ulchin-1	103.8	4.7
Ulchin-2	83.0	5.4
Ulchin-3	92.2	5.4
Ulchin-4	96.2	5.4
Ulchin-5	88.3	6.7
Ulchin-6	103.7	7.6
Total nuclear	95.5%	(Won) 5.8

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 pressurized light water reactor 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 0.5 unplanned shutdowns per unit in 2005. 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 Operation of nuclear power generation facilities inherently involves numerous hazards and risks, any of which could result in a material loss of revenues or increased expenses .

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Hydroelectric

The table below sets forth as of and for the year ended December 31, 2005 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, 2005
			(Megawatts)	(Percent)
Hwacheon(4)	Dam waterway	1944	108.00	17.4%
Chuncheon(2)	Dam	1965	57.60	23.4
Euiam(2)	Dam	1967	45.00	38.3
Cheongpyung(3)	Dam	1943	79.60	41.1
Paldang(4)	Dam	1973	120.00	42.8
Seomjingang(3)	Basin deviation	1945	34.80	46.1
Boseonggang(2)	Basin deviation	1937	4.50	58.5
Kwoesan(2)	Dam	1957	2.60	42.7
Anheung(3)	Dam waterway	1978	0.48	43.7
Kangreung(2)	Basin deviation	1991	82.00	
Total hydroelectric			534.58	28.7%

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.

Korea South-East Power Co., Ltd.

As of December 31, 2005, Korea South-East Power Co., Ltd., or 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 529 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, 2005, 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)	
Bituminous:				
Samchunpo #1, 2, 3, 4, 5, 6	14	3,240	87.97	(Won) 22.77
Yong Hung #1, 2	1	1,600	77.24	22.73
Anthracite:				
Yongdong #1, 2	28	325	53.55	63.95
Oil-fired:				
Yosu #1, 2	29	529	30.78	72.28
Total thermal	12	5,694	77.69	(Won) 26.20

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The table below sets forth as of and for the year ended December 31, 2005, 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.

	Weighted Average Age of Units	Installed Capacity	Average Capacity Factor	Average Fuel Cost per Kwh
	(Years)	(Megawatts)	(Percent)	
Combined Cycle and Internal Combustion:				
Bundang gas turbine #1,2,3,4,5,6,7,8; steam turbine #1, 2	11	900	48.04%	(Won) 88.07
Pumped storage(1):				
Muju #1, 2	10	600	9.60	37.58

Note:

(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.

Korea Midland Power Co., Ltd.

As of December 31, 2005, Korea Midland Power Co., Ltd., or KOMIPO, had 17 thermal units, including eight coal-fired units with aggregate installed capacity of 3,400 megawatts, five oil-fired units with aggregate installed capacity of 255 megawatts and six LNG-fired units with aggregate installed capacity of 1,538 megawatts, constituting a total installed capacity of 5,193 megawatts for its thermal units. KOMIPO also had 15 combined cycle and internal combustion units with aggregate installed capacity of 2,304 megawatts and one hydroelectric unit with installed capacity of one megawatt.

The table below sets forth as of and for the year ended December 31, 2005, 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.

	Weighted Average Age of Units	Installed Capacity	Average Capacity Factor	Average Fuel Cost per Kwh
	(Years)	(Megawatts)	(Percent)	
Bituminous:				
Boryeong #1, 2, 3, 4, 5, 6	15.4	3,000	88.6%	(Won) 22.7
Anthracite:				
Seocheon #1, 2	22.5	400	58.2	70.3
Oil-fired:				
Jeju #1, 2, 3, 4, 5	6.5	255	81.3	86.8
LNG-fired:				
Seoul #4, 5	36.1	388	20.2	118.1
Incheon #1, 2, 3, 4	19.7	1,150	1.0	144.9

Total thermal	20.2	5,193	61.3%	(Won)	31.9

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The table below sets forth as of and for the year ended December 31, 2005, 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.

	Weighted Average Age of Units	Installed Capacity	Average Capacity Factor	Average Fuel Cost per Kwh
	(Years)	(Megawatts)	(Percent)	
Combined cycle and internal combustion:				
Boryeong gas turbine #1, 2, 3, 4, 5, 6,7, 8; steam turbine #1, 2, 3, 4	6.5	1,800	53.2%	(Won) 71.2
Incheon gas turbine #1, 2; steam turbine #1	1.5	504	81.6	71.3
Total combined cycle and internal combustion	5.4	2,304	59.4%	(Won) 71.2
Hydroelectric:				
Yangyang	0.6	1	46.6%	

Korea Western Power Co., Ltd.

As of December 31, 2005, Korea Western Power Co., Ltd., or 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 and one photovoltaic units with aggregate installed capacity of 0.12 megawatts.

The table below sets forth as of and for the year ended December 31, 2005 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.

	Weighted Average Age of Units	Installed Capacity	Average Capacity Factor	Average Fuel Cost per Kwh
	(Years)	(Megawatts)	(Percent)	
Bituminous:				
Taean #1, 2, 3, 4, 5, 6	7.6	3,000	90.9%	(Won) 22.7
Oil-fired:				
Pyeongtaek #1, 2, 3, 4	24.1	1,400	44.8	67.6
Total thermal	12.8	4,400	76.3%	(Won) 31.2

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The table below sets forth as of and for the year ended December 31, 2005, 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.

	Weighted Average Age of Units	Installed Capacity	Average Capacity Factor	Average Fuel Cost per Kwh
	(Years)	(Megawatts)	(Percent)	
Combined cycle:				
Pyeongtaek combined cycle	12.8	480	16.2%	(Won) 84.5
West Incheon combined cycle	13.5	1,800	45.3	70.2
Total combined cycle	13.4	2,280	39.2%	(Won) 71.4
Pumped storage:				
Samryangjin #1,#2	20.1	600	9.7	(Won) 39.3
Photovoltaic power generation:				
Taean site	0.4		11.1%	

Korea Southern Power Co., Ltd.

As of December 31, 2005, Korea Southern Power Co., Ltd., or 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 six megawatts.

The table below sets forth as of and for the year ended December 31, 2005 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.

	Weighted Average Age of Units	Installed Capacity	Average Capacity Factor	Average Fuel Cost per Kwh
	(Years)	(Megawatts)	(Percent)	
Bituminous:				
Hadong #1, 2, 3, 4, 5, 6	7.0	3,000	92.0%	(Won) 22.69
Oil-fired:				
Youngnam#1, 2	34.2	400	48.5	44.92
Nam Jeju #1, 2	26.0	20	55.0	114.67
Total thermal	10.3	3,420	86.6%	(Won) 24.44

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The table below sets forth as of and for the year ended December 31, 2005, 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.

	Weighted Average Age of Units	Installed Capacity	Average Capacity Factor	Average Fuel Cost per Kwh
	(Years)	(Megawatts)	(Percent)	
Combined cycle and internal combustion:				
Shin Incheon combined cycle #3, 4	9.3	1,800	68.1%	(Won) 68.63
Busan combined cycle #1, 2	2.3	1,800	58.7	66.43
Hallim combined cycle	9.6	105	11.5	188.64
Nam Jeju internal combustion	14.8	40	78.8	77.04
Total combined cycle and internal combustion	6.1	3,745	62.1%	(Won) 68.37
Cheongpyeong Pumped storage	26.2	400	3.9%	39.51
Hankyung Wind	1.9	6	35.7	(Won) 17.62

Korea East-West Power Co., Ltd.

As of December 31, 2005, Korea East-West Power, Co., Ltd., or EWP, had 15 thermal units, including nine coal-fired units with aggregate installed capacity of 3,400 megawatts and six oil-fired units with aggregate installed capacity of 1,800 megawatts, constituting a total installed capacity of 5,200 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.

The table below sets forth as of and for the year ended December 31, 2005, 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.

	Weighted Average Age of Units	Installed Capacity	Average Capacity Factor	Average Fuel Cost per Kwh
	(Years)	(Megawatts)	(Percent)	
Bituminous:				
Dangjin #1, 2, 3, 4,5	4.6	2,500	92.57%	(Won) 22.6
Honam #1, 2	32.7	500	90.40	30.5
Anthracite:				
Donghae #1, 2	6.8	400	63.47	52.5
Oil-fired:				
Ulsan #1, 2, 3, 4, 5, 6	29.8	1,800	35.97	69.6
Total thermal	18.7	5,200	68.82%	(Won) 35.0

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The table below sets forth as of and for the year ended December 31, 2005, 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.

	Weighted Average Age of Units	Installed Capacity	Average Capacity Factor	Average Fuel Cost per Kwh
	(Years)	(Megawatts)	(Percent)	
Combined cycle and internal combustion:				
Ulsan gas turbine #1, 2, 3, 4, 5, 6; steam turbine #1, 2, 3	11.3	1,200	30.37%	(Won) 74.5
Ilsan gas turbine #1, 2, 3, 4, 5, 6; steam turbine #1, 2	11.8	900	37.17	90.1
Total combined cycle and internal combustion	11.6	2,100	33.28%	(Won) 82.0
Pumped storage:				
Sancheong #1, 2	4.2	700	5.97%	(Won) 41.1

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-1970 s we have diversified our fuel sources and constructed fewer oil-fired thermal units than units of other fuel types.

Power Plant Remodeling and Recommissioning

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

Power Plant Recommissioning

Power Plant	Capacity	Completed, in year	Extension	Company
Pyeongtaek #1-4	1,400 MW (350×4)	FGD(1): 2005 SCR(2): 2006 to 2007 EP(3): 1992	Anti-pollution	KOWEPO
Seoincheon CC	1,800 MW (GT 150 MW ×8) (ST 75 MW ×8)	Gas Turbine upgrade (2003 to 2006)	Efficiency improvement	KOWEPO
Honam #1	250MW	1998	13 years	EWP

Honam #2	250MW	1999	13 years	EWP

Notes:

(1) FGD means a flue gas desulphurization system.
(2) SCR means a selective catalytic reduction system.
(3) EP means an electrostatic precipitation system.

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Purchased Power

Since April 2, 2001, we have been purchasing electricity generated by our six generation subsidiaries and some of the independent power producers through the Korea Power Exchange. The power trading results for the year ended December 31, 2005 through the Korea Power Exchange are as follows:

Power Trading Results

		For the Year Ended December 31, 2005				
				Sales to KEPCO		
	Items	Volume (Gigawatt hours)	Percentage of Total Volume	(in billions of Won)	Percentage of Total Sales	Unit Price (Won/kwh)
Generation Companies	KHNP	141,692	41.8%	5,626	32.4%	39.71
	KOMIPO	36,303	10.7	2,227	12.8	61.36
	KOSEPCO	40,945	12.1	2,008	11.6	49.04
	KOWEPO	36,324	10.7	2,213	12.7	60.93
	KOSPO	44,766	13.2	2,838	16.3	63.39
	EWP	34,590	10.2	2,123	12.2	61.38
	Others	4,242	1.3	337	1.9	79.50
	Total	338,864	100.0%	17,374	100.0%	51.27
Energy Sources	Nuclear	140,367	41.4	5,532	31.8	39.41
	Bituminous coal	124,002	36.6	5,416	31.2	43.68
	Anthracite coal	5,229	1.5	284	1.6	54.23
	Oil	16,606	4.9	1,519	8.7	91.51
	LNG	1,029	0.3	168	1.0	162.94
	Combined cycle	47,365	14.0	4,087	23.5	86.29
	Hydro	2,129	0.6	152	0.9	71.30
	Pumped storage	1,503	0.4	176	1.0	117.09
	Others	634	0.2	40	0.2	63.40
	Total	338,864	100.0%	17,374	100.0%	51.27
Load	Base load	268,577	79.3	11,168	64.3	41.58
	Non-base load	70,287	20.7	6,205	35.7	88.29
	Total	338,864	100.0%	17,374	100.0%	51.27

Cost-Based Pool System

We purchase electricity generated by our six generation subsidiaries and some of the independent power producers without power purchasing agreements through the Korea Power Exchange, which was established in April 2001, under the cost-based pool system. Under the current cost-based pool system, power plants are separated into two groups: base load plants that are fueled by nuclear and coal energy sources and non-base load plants that are fueled by oil, LNG and hydro energy sources. Together with other generation companies, KHNP submits to Korea Power Exchange details of its production costs, which are used to determine the system marginal price, the base load marginal price, non-base load capacity price and base-load capacity price. The non-base load capacity price and base-load capacity price representing fixed costs of non-base load units and base load units, respectively, are settled separately from the cost-based pool system. The base load marginal price is determined based on the variable cost of the base load unit with the highest variable cost among all the base load units in operation, and the system marginal price is determined based on the variable cost of the non-base load unit with the highest variable cost among all the non-base load units in operation, in each case as such costs are submitted to the power pool using the merit order system.

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In 2005, the average settlement price of the base load marginal price was (Won)19.28/kWh. For the same period, the average settlement price of the system marginal price was (Won)62.13/kWh. The base-load capacity price and non-base-load capacity price for 2005 were (Won)20.49/kWh and (Won)7.17/kWh, respectively.

Given that the plan to form and privatize the distribution subsidiaries has been suspended (see Restructuring of the Electricity Industry in Korea Resolution of the Tripartite Commission and the Recent MOCIE Announcement), we believe that the implementation of a two-way bidding pool system, which was originally planned to replace the current cost-based pool system with a price-bidding system based on bidding by a pool of generators on the one hand and a pool of retail distributors (rather than KEPCO as the sole distributor, as currently is the case) on the other, has also been indefinitely suspended as the two-way bidding pool system assumes the existence of retail distributors that would compete against each other.

From November 2004 through November 2005, the Korea Power Exchange and other participants of the Korean electricity market including us collaborated to evaluate the current cost-based pool system and find ways to improve it in light of the suspension of the plan of implementing the two-way bidding pool system. We plan to reflect the results of this collaboration by amending the Electricity Market Codes by the end of 2006. A key objective of such amendment is to ensure that the system marginal price and the base load marginal price function as proper market signals to induce optimal investment in generating facilities based on fuel costs and geography. For details of the pool system, see Restructuring of the Electricity Industry in Korea Phase II .

Power purchased from Independent Power Producers with Power Purchasing Agreements

In 2005, we also purchased an aggregate of 10,412 billion kilowatt hours of electricity generated by independent power producers under existing power purchase agreements. 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 businesses. These independent power producers had an aggregate capacity of 4,502 megawatts as of December 31, 2005.

Transmission and Distribution

We are currently the only company engaged in the transmission and distribution of electricity in Korea. As of December 31, 2005, we had in operation 637 substations with an installed transformer capacity of 208,504 megavolt-amperes.

As of December 31, 2005, our transmission system consisted of approximately 28,642 circuit kilometers of lines of 765 kilovolts and others including high voltage direct currents, and our distribution system comprised of 83,352 megavolt-amperes of transformer capacity and 7.4 million units of support with a total line length of 385,419 circuit kilometers.

In recent years, we have invested heavily in our transmission and distribution systems to increase capacity and improve efficiency. Our current projects include increasing transmission capability for the existing transmission lines. Our transmission and distribution loss factor was 4.51% in 2005.

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 use rights of way and other concessions granted by municipal and local authorities in areas where our facilities are located. These concessions have generally been renewed at expiration.

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Fuel

Nuclear

All uranium ore concentrates are imported from, and conversion and enrichment of such concentrates are provided by, sources outside Korea (including the United States, United Kingdom, Kazakhstan, 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 2005, KHNP purchased 100%, or 3,776 tons, of its uranium concentrates requirement under long-term supply contracts with suppliers in Australia, Canada, Kazakhstan, France, South Africa and the United States. Under the long-term supply contracts, the purchase prices of uranium concentrates are adjusted annually based on base prices and spot market prices prevailing at the time of actual delivery. Non-Korean suppliers provide the conversion and enrichment of uranium concentrates and Korean suppliers provide fabrication of fuel assemblies. Except for certain fixed contract prices, contract prices for processing of uranium are adjusted annually in accordance with the general rate of inflation. KHNP intends to obtain its uranium requirements in the future, in part, through purchases under long-term and medium-term contracts and, in part, through spot market purchases.

Coal

As of December 31, 2005, 30.1% and 2.0% of our total installed generating capacity was represented by plants burning bituminous coal and anthracite coal, respectively.

In 2005, our generation subsidiaries purchased 47.6 million tons of bituminous coal, approximately 39.6%, 30.5% and 23.6% of which were imported from Australia, Indonesia and China, respectively. Approximately 85.3% of the bituminous coal requirements of our generation subsidiaries in 2005 were purchased under long-term contracts with the remaining 14.7% purchased from the spot market. Some of our long-term contracts relate to specific generating plants and extend through the end of the projected useful lives of the specific plants, subject in some cases to periodic renewal. Pursuant to the terms of our long-term supply contracts, prices are adjusted annually based on market conditions. The average cost of bituminous coal per ton purchased under such contracts was approximately (Won)56,508 in 2005. In recent years, the price of bituminous coal has increased significantly. Due to such price increases as well as increased 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 .

In 2005, 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 (Won)87,392 in 2005.

Oil

In 2005, our generation subsidiaries purchased approximately 21.7 million barrels of fuel oil (including gasoline for internal combustion), of which 71.8% was purchased through competitive open bidding among five Korean refiners for three-month terms of supply and the remainder was purchased 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 (Won)47,871 in 2005.

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LNG

In 2005, we purchased approximately 7.1 million tons of LNG from Korea Gas Corporation, a Korean corporation of which we own 24.5%. We entered into a 20-year LNG supply contract with Korea Gas Corporation, which we plan to renew upon expiration in November 2006. Under the terms of the LNG contract, our annual minimum purchase quantity is determined by our negotiations with Korea Gas Corporation, 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 Korea Gas Corporation to the extent of our annual minimum purchase quantity. The annual purchase price for LNG is determined by our negotiation with Korea Gas Corporation, subject to approval by the MOCIE. Korea Gas Corporation imports LNG primarily from Indonesia, Malaysia, Qatar, Oman, Brunei and Australia and supplies LNG to us and other Korean gas companies. The average cost per ton of LNG under such contract was approximately (Won)494,279 in 2005. We believe quantities of LNG provided under such contract will be adequate to meet the needs of our generation subsidiaries for LNG for the next several years.

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. Pumped storage enabled us to increase available supplies of water for use during periods of peak demand.

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 Korea grew at a compounded average rate of 6.8% per annum for the five years ended December 31, 2005. According to The Bank of Korea, the real gross domestic product, or GDP, compounded growth rate was approximately 4.5% for the same period. The GDP growth rate was 4.6% in 2004 and 4.0% for 2005.

The rapid growth in Korea s economy since the early 1960s has resulted in substantial growth in the demand for electricity. While the worldwide economic recession of the early 1980s slowed economic growth in Korea, in the latter half of the 1980s, Korean economy resumed its rapid growth and resulted in a substantial increase in demand for electricity. The slow economic growth in Korea in the early 1990s 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. Demand for electricity increased by 7.6% from 2000 to 2001, by 8.0% from 2001 to 2002, by 5.4% from 2002 to 2003, by 6.3% from 2003 to 2004, and by 6.5% from 2004 to 2005. The table below sets forth, for the periods indicated, the annual rate of growth in Korea s gross domestic product, or GDP, and the annual rate of growth in electricity demand (measured in total annual electricity consumption).

	2001	2002	2003	2004	2005
Growth in GDP (at 2000 constant prices)	3.8%	7.0%	3.1%	4.6%	4.0%

Growth in electricity consumption	7.6%	8.0%	5.4%	6.3%	6.5%

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

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Demand by the Type of Usage

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

	2001	2002	2003	2004	2005	% of Total 2005
	(Gigawatt hours)					(Percent)
Industrial	135,791	144,454	150,387	158,337	166,813	50.2%
Commercial	82,729	91,719	98,640	105,144	114,727	34.5
Residential	39,211	42,278	44,572	48,615	50,873	15.3
Total	257,731	278,451	293,599	312,096	332,413	100.0%

Demand for electricity increased by 7.4% to 91,065 million kilowatt hours from the first quarter of 2005 to the first quarter of 2006.

The industrial sector represents the largest segment of electricity consumption 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 50.2% in 2005. Demand from the industrial sector (including the agricultural sector) increased by 5.4% to 166,813 million kilowatt hours in 2005 as compared to 2004.

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. Demand from the commercial sector increased by 9.1% to 114,727 million kilowatt hours in 2005 as compared to 2004.

In 2005, we provided electricity to 11 million households, or almost all of the households in Korea. Continuing increase in demand from the residential sector is due primarily to an increase in population and increased use of air conditioners and other electrical appliances. Demand from the residential sector increased by 4.6% to 50,873 million kilowatt hours in 2005 as compared to 2004.

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 the peak usage during a year and the installed capacity at the time of such peak usage, expressed as a percentage of such installed capacity. The supply capability reserve ratio represents the difference between the peak usage in a year and the average available capacity at the time of such peak usage, expressed as a percentage of such peak usage. The following table sets forth our facility capacity reserve ratio and supply capability reserve ratio for the periods indicated.

	2001	2002	2003	2004	2005
			(Percent)		
Facility reserve ratio	15.1	15.3	18.4	15.3	13.0
Supply reserve ratio	12.9	13.9	17.1	12.2	11.3

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While we seek to meet the growing demand for electricity in Korea primarily by continuing to expand our generating capacity through the addition of new generating facilities, we also implement several measures to curtail electricity consumption, especially during peak periods. The principal measure we take is to apply, for large-scale customers, time-of-use rate schedules, which are structured so that higher tariffs are charged at the time of peak demand; we apply a progressive rate structure for the residential use of electricity. Other incentives to curtail electricity consumption includes a subsidy from a public fund for peak load reduction and adjusting vacation or repair schedules for average load reduction during summer peak hours. In addition, the Government implements various energy-saving programs such as having certain policy banks provide loans on favorable terms for installation of energy-efficient air conditioners in new buildings.

Rates

The Electricity Business Law and the Price Stabilization Act of 1975, as amended, 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 MOCIE then reviews these recommendations and, upon consultation with the Electricity Rates Expert Committee of the MOCIE and the MOFE, makes a final determination. Under the Electricity Business Law, the Korea Electricity Commission must review our recommendations prior to the MOCIE s final determination.

Under the Electricity Business Law and the Price Stabilization Act, electricity rates are established at levels that will permit us to recover our operating costs attributable to our basic electricity generation, transmission and distribution operations in addition to receiving a fair investment return on capital used in those operations. For the purposes of rate approval, operating costs are the sum of our operating expenses *plus* our adjusted income taxes.

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 (which is equal to utility plant minus accumulated depreciation minus revaluation reserve),
- working capital for two months (equal to one-sixth of annual operating expenses other than depreciation expenses and any other non-cash expenses), and
- 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 a 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 the weighted average interest cost on all types of borrowing for the periods covered by the rate approval. In 2005, the approved fair rate of return on the debt component of the rate base was 4.6% while the approved fair rate of return on the equity component of the rate was 7.1%. The fair rate of return permitted in relation to the equity component of the rate base is set by applying the capital asset pricing model which takes account of the risk-free rate, the return on the Korea Stock Price Index, or KOSPI, a Korean equity market index, and the correlation of the stock price of our company with KOSPI.

The Electricity Business Law and the Price Stabilization Act do not specify a basis for determining 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.

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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 Korea 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 a higher than expected growth in demand. As a result, the rates were reduced by an average of 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 the growth in capital investment, and in order to encourage conservation of electricity and secure internal cash for capital expenditures, the rates were increased by an average of 4.9% in June 1991, 6.0% in February 1992 and 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. From 1997 through 2003, our actual rate of return on invested capital was generally below the rate of return assumed for the purpose of rate approvals.

The rates we charge for electricity vary among the different classes of consumers, which principally consist of industrial, commercial, residential, educational and agricultural consumers. The rates also vary depending upon the voltage used, the season, the time of day, the rate option 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 on December 28, 2005 is summarized below by the type of consumer:

Industrial. The basic charge varies from (Won)4,100 per kilowatt to (Won)5,260 per kilowatt depending on the type of contract, the voltage used and the option of rate. Energy usage charge varies from (Won)29.00 per kilowatt hour to (Won)123.00 per kilowatt hour depending on the type of contract, the voltage used, the season, the time of day and the rate option.

Commercial. The basic charge varies from (Won)5,320 per kilowatt to (Won)6,300 per kilowatt depending on the type of contract, the voltage used and the option of rate. Energy usage charge varies from (Won)37.00 per kilowatt hour to (Won)152.30 per kilowatt hour depending on the type of contract, the voltage used, the season, the time of day and the rate option.

Residential. Residential rates include a basic charge ranging from (Won)370 for electricity usage of less than 100 kilowatt hours to (Won)11,750 for electricity usage in excess of 500 kilowatt hours. Residential rates also include an energy usage charge ranging from (Won)52.40 to (Won)643.90 per kilowatt hour for electricity usage depending on the amount of usage and voltage.

Educational. The basic charge varies from (Won)4,090 per kilowatt to (Won)4,970 per kilowatt depending on the voltage used and the option of rate. Energy usage charge varies from (Won)50.90 per kilowatt hour to (Won)86.20 per kilowatt hour depending on the voltage used, the season and the rate option.

Agricultural. The basic charge varies from (Won)340 per kilowatt to (Won)1,070 per kilowatt depending on the type of usage. The energy usage charge varies from (Won)20.60 per kilowatt-hour to (Won)36.40 per kilowatt hour depending on the type of usage.

In particular, residential tariff structure has undergone significant changes over time. Following the oil crisis of 1973 as a way of encouraging reasonable and economical usage of energy, including electricity, our rate structure for residential electricity usage has been progressive since 1974, with seven different rates applying

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progressively depending on the average amount of electricity used. When the average residential electricity rates increased by 3.3% in November 2000, rates for electricity usage below 300 kilowatt hours did not increase, but the progressive rates were further increased by 20% for electricity usage between 301 kilowatt hours and 400 kilowatt hours and by 40% for electricity usage over 400 kilowatt hours. As a result of the continuing increase in electricity usage of the average household, however, effective June 1, 2002, the previous base amount of 300 kilowatt hours for the application of progressive rates was raised to 400 kilowatt hours. In addition, effective June 1, 2002, residential high-voltage rates were also established by taking into account the gap between the costs of high-voltage and low-voltage electricity.

The MOCIE adjusts the tariff structure from time to time. 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% while 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 in our average rate. Residential, commercial and educational rates decreased by 2.8%, 3.5% and 3.0%, respectively, and industrial rates were frozen. On December 28, 2005, in light of increases in fuel prices and our liquidity requirement, the MOCIE adjusted our rate schedule which resulted in increases in industrial, residential, commercial and agricultural rates by 3.3%, 2.4%, 2.8% and 0.9%, respectively, and a decrease in educational rates by 15.3%. As a result of this rate adjustment, our average rate increased by 1.9%.

In April 2001, as part of implementing the Restructuring Plan, MOCIE established the Electric Power Industry Basis Fund to enable the Government to take over the public services that KEPCO had carried. During the period from the establishment of this fund to December 27, 2005, 4.591% of the tariff we collected from our customers was transferred to this fund prior to our recognizing sales revenue. This percentage was reduced to 3.700% effective December 28, 2005.

As of June 30, 2006, no discussion on future tariff adjustment is officially underway between the Government and us.

Power Development Strategy

The Government typically announces a Long-Term Electricity Supply and Demand Basic Plan, or a Basic Plan, every two years to reflect demand growth projections, availability and cost of financing, changes in prices and availability of fuel, ability to acquire necessary plant sites, environmental considerations, community opposition and other factors. The Government announced the second Basic Plan in December 2004, and we currently expect that the Government will announce a third Basic Plan by the end of 2006.

The focus of the second Basic Plan includes, among other things, (1) reflecting a competitive market mechanism in the electricity market, (2) using as its basis the autonomous plan of generators to build power plants, (3) ensuring participation by specialists in related areas of expertise, and (4) establishing a sustainable and realistic plan that considers the efficient consumption of electricity and ensures continuity with the first Basic Plan.

Capital Investment Program

The table below sets forth, for each of the three years ended December 31, 2005, the amounts of capital expenditures (including capitalized interest) for the construction of generating, transmission and distribution facilities:

2003	2004	2005
	(In billions of Won)	
(Won) 6,782	(Won)6,287	(Won)6,719

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In accordance with the second Basic Plan, our generation subsidiaries currently intend to add new installed capacity of 19,854 megawatts during the period from 2006 to 2017 by newly constructing of eight nuclear units, 13 coal-fired units, two oil-fired units and eight pumped storage hydroelectric units and others. According to the second Basic Plan, the total capacity of all generating facilities at the end of 2017 will be 69,641 megawatts, of which nuclear power plants will account for 38.3% of the total capacity, coal-fired plants 33.8%, LNG combined plants 15.6%, oil-fired plants 4.8% and hydroelectric and other plants 7.6%.

The table below sets forth 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 2009.

Year	Number of Units	Type of Units	Total Installed Capacity
			(Megawatts)
2006	1	Coal-fired	500
	6	Pumped storage hydroelectric	1,600
	1	Oil-fired	100
	2	Wind Power	34
2007	3	Coal-fired	1,500
	1	Oil-fired	100
	1	Wind Power	20
2008	5	Coal-fired	2,800
2009	3	Coal-fired	1,500

In the years between 2010 and 2017, our generation subsidiaries plan to complete eight nuclear units with an aggregate installed capacity of 9,600 megawatts, one coal-fired unit with an aggregate installed capacity of 300 megawatts, two oil-fired units with an aggregate installed capacity of 1,000 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 substations 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 is subject to change depending upon a variety of factors, including, among others, demand growth projections, availability and cost of financing, changes in fuel prices and availability of fuel, ability to acquire necessary plant sites, environmental considerations and community opposition.

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The table below sets forth, for the years from 2006 to 2009, 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, among others, the implementation of the Restructuring Plan, changes in the number of units to be constructed, the timing of such construction, changes in rates of exchange between the Won and foreign currencies and changes in interest rates.

	2006	2007	2008	2009	Total
			(In billions of Won)		
Generation:					
Nuclear	(Won) 2,511	(Won) 2,924	(Won) 3,344	(Won) 3,528	(Won) 12,307
Thermal	2,903	2,218	2,302	1,540	8,693
Sub-total	5,414	5,142	5,376	5,068	21,000
Transmission and Distribution:					
Transmission	1,573	2,082	2,060	1,748	7,463
Distribution	1,783	2,132	2,276	2,431	8,622
Others	366	336	359	586	1,647
Sub-total	3,722	4,550	4,695	4,765	17,732
Total	(Won) 9,136	(Won) 9,692	(Won) 10,071	(Won) 9,833	(Won) 38,732

Environmental Programs

The Environment Policy Basic Act, the Air Quality Preservation Act, the Water Quality Preservation Act, the Marine Pollution Prevention Act and the Waste Management Act, collectively the Environmental Acts, are the major acts of Korea that regulate atmospheric emissions, waste water, noise and other emissions from our facilities, including power generators and transmission and distribution units. Our existing facilities are currently in material compliance with the requirements of these environmental laws and international agreements such as the United Nations Framework Convention on Climate Change, the Montreal Protocol on Substances that Deplete the Ozone Layer, the Stockholm Convention on Persistent Organic Pollutants and the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal. In order to foster coordination among us and our generation subsidiaries in respect of climate change and development of renewable energy sources, we formed the Committee on Climate Change and the Committee on Renewable Energy, respectively, in 2005. In addition, we plan to establish a team to jointly coordinate our activities and those of our generation subsidiaries in respect of environmental compliance with the foregoing and anticipated future international agreements which had previously implemented separately.

In 2005, we became the first Korean company to join the United Nations Global Compact, an international voluntary initiative designed to hold a forum for corporations, United Nations agencies, labor and civic groups to promote reforms in environmental and social policy. As part of our involvement with such initiative, in September 2005, we issued our first Sustainability Report to disclose our activities from the perspectives of economy, environment, society and humanity, in accordance with the reporting guidelines launched by the Global Reporting Initiative, the official collaborating center of the United Nations Environment Programme that works in cooperation with United Nations Secretary General.

Atmospheric emissions from generating plants burning fossil fuels include, among others, sulphur dioxide, nitrogen oxide and particulates. The Environmental 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.

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The table below sets forth the number of emission control equipment installed at coal-fired power plants by our generation subsidiaries as of December 31, 2005.

	KOSEPCO	KOMIPO	KOWEPO	KOSPO	EWP
Flue Gas Desulphurization System	8	7	6	8	8
Selective Non-Catalytic Reduction System				8	2
Selective Catalytic Reduction System	4	7	1	6	4
Electrostatic Precipitation System	10	12	6	13	15
Low NO2 Combustion System	6	20	6	13	4
Total	28	46	19	48	33

The table below sets forth the amount of annual emission from all generating facilities of our generation subsidiaries except for KHNP.

Year	Sox (g/MWh)	NOx (g/MWh)	Dust (g/MWh)	CO2 (kg/MWh)
2003	373	538	20	436
2004	309	483	13	433
2005	214	414	12	429

In order to comply with the current and expected environment-related standards and address related legal and social concerns, we intend to continue to install additional equipment, make related capital expenditures and undertake several environmentally friendly measures to foster community goodwill. For instance, in October 2004, we and our generation subsidiaries reached an agreement with the Ministry of Environment and civic organizations to completely remove polychlorinated biphenyl (PCBs), a toxin, from the insulating oil of our transformers by 2015. In addition, when constructing certain large-scale new transmission and distribution facilities, we assess and disclose their environmental impact at the planning stage of such construction, as well as consult with local residents, environmental groups and technical experts to generate community support for such projects. We exercise additional caution in cases where such facilities are constructed near ecologically sensitive areas such as wetlands or preservation areas. We also make reasonable efforts to minimize any negative environmental impact, for instance, by using more environmentally friendly technologies and hardware. In addition, we also undertake measures to minimize the transmission and distribution loss factor by making our power distribution network more energy-efficient in terms of loss of power and using highly energy-efficient parts and components, as well as minimize consumption of energy, water and other natural resources in general, through recycling, among others.

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

Renewable Energy

Some of the generation facilities owned by us and our generation subsidiaries are powered by renewable energy sources, such as solar energy, wind power and hydraulic power, among others. While such facilities are currently insignificant as a proportion of the total generating capacity or the generation volume of our generation subsidiaries, we expect that such portion will increase in the future.

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The following table sets forth the generating capacity and generation volume in 2005 of the generation facilities owned by us and our generation subsidiaries that are powered by renewable energy sources.

	Generating Capacity (megawatts)	Generation Volume (Gwh)
Hydraulic Power	538.2	1,353.0
Wind Power	6.0	18.8
Solar Energy	0.2	0.1
Subtotal	544.4	1,371.9
As percentage of total(1)	1.0%	0.4%

Note:

(1) As a percentage of the total generating capacity or total generation volume, as applicable, of all of our generation subsidiaries.

In July 2005, we and our generation subsidiaries entered into an agreement with the Government to invest (Won)852 billion for construction of generating facilities using alternative energy sources and spend (Won)201 billion in research and development related to development of renewable energy over the next three years. The Government has committed to provide such generators with a significant amount of subsidy. The table below sets forth the capital expenditures we and our generation subsidiaries are committed to make pursuant to such agreement.

	Generating facilities		Research and development
	Generation capacity (megawatts)	Capital expenditures (billions of Won)	Capital expenditures (billions of Won)
Solar energy	14	140	10
Wind power	186	380	3
Hydraulic power	19	86	
Fuel cell(1)	2	24	29
Tidal power	96	209	96
Others(2)	1	13	63
Total	316	852	201

Notes:

(1) Consists of molten carbonate fuel cells and solid oxide fuel cells.
(2) Consists of bioenergy, hydrogen energy, geothermal energy, energy from integrated gasification combined cycles and energy from recycling waste.

Community Programs

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

Until 2005, activities required to be undertaken pursuant to the Act for Supporting the Communities Surrounding Power Plants was funded only by the Electric Power Industry Basis Fund, or EBIPF. See Item 4 Information on the Company Business Overview Sales and Customers Rates . Following amendments to

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this Act in July 2005, however, such activities are currently required to be funded partly from the EPIBF and partly from KHNP s revenues. KHNP is required to make annual contributions to the affected local communities in an amount equal to 0.25 Won per kilowatt of electricity generated by its nuclear generation units during the one-year period before the immediately preceding fiscal year.

In addition, under a Korean tax law amendment in December 2005, which levied a new local tax on nuclear generation units, KHNP is required to pay such tax starting in 2006 in an amount equal to 0.50 Won/kWh of its generation volume in the affected areas.

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

Despite these activities, community opposition to the construction and operation of generation units (including nuclear units) could result in a change in construction plans for generation units (including nuclear units) and have a material adverse effect on us.

Nuclear Safety

KHNP has adopted nuclear safety as its top priority and continues to focus 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 enhancing nuclear safety, developing new technologies and improving 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 its total sales into research and development for the enhancement of nuclear safety and operational performance.

KHNP has implemented comprehensive programs to monitor, ensure and improve safety of nuclear power plants. In order to enhance nuclear safety through informed risk assessment, KHNP has conducted probabilistic safety assessments for all of its units. In addition, to systematically verify nuclear safety and identify the potential areas for safety improvements, KHNP has been performing periodic safety reviews for all its operating units. The periodic safety reviews have been completed for Kori units 1, 2, 3 and 4, Younggwang units 1, 2, 3 and 4, and Wolsong unit 1.

KHNP developed a risk monitoring system for Kori units 3 and 4 in June 2003 and is developing such system for Yonggwang units 3, 4, 5 and 6, and Ulchin units 3 and 4. The risk monitoring systems are expected to help ensure safety of nuclear generation units. In addition, the severe accident management guidelines for operating nuclear power plants have been developed to handle severe accidents for all nuclear units except for Ulchin units 1 and 2 and pressurized heavy water reactor, or PHWR, units. The severe accident management guidelines for Ulchin units 1 and 2 and PHWR units are currently under development.

In addition, KHNP performs various activities to enhance nuclear safety, such as quality assurance audits, reviews by the KHNP Nuclear Review Board, reviews by its operational safety review team composed of external retired and experienced experts, and surveillance tests. 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 have its nuclear safety verified by third parties. KHNP also shares and exchanges operating experiences and information with other utilities.

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Since 1992, when the operational reforms and upgrades were implemented, the average level of radiation dose per unit has continuously decreased to 0.60 man-Sv in 2005, which is substantially lower than the global average of 1.03 man-Sv/year as reported in the World Association of Nuclear Operations Performance Indicator Report.

Low and intermediate level waste, or LILW, and spent fuels are stored in temporary storage facilities at four nuclear sites. The temporary facilities for the low and intermediate level waste at Ulchin, Wolsong, Yonggwang and Kori are expected to reach their full capacity by 2008, 2009, 2012 and 2014, respectively.

On March 31, 2005, the Korean National Assembly enacted the Special Act on Supporting the Local Community Hosting the Storage Site of Low and Intermediate Level Waste in order to enhance the transparency in the process of selecting the site for permanent storage facility of the LILW and establishing a mechanism for providing financial support to the local government that hosts such site. Pursuant to this Act, in November 2005, the Government designated Gyeongju City, approximately 300 kilometers southeast of Seoul, as the site for the permanent storage facility for LILW. KHNP commenced the process of constructing the LILW permanent storage facility in January 2006, which is expected to be completed by the end of 2009. KHNP estimates that constructing this facility will cost approximately (Won)1,144 billion, including the one-time cash contribution of (Won)300 billion made on May 9, 2006 by KHNP to Gyeongju City pursuant to this Act. KHNP plans to fund this project primarily with cash from its operations and secondarily and to the extent necessary with funds from debt financing.

In order to augment the storage capacity of temporary storage facilities for spent fuels, KHNP is pursuing various projects such as installing high density racks in spent fuel pools, building dry storage facilities and transporting the spent fuels to and from different units within a plant. Through these projects, KHNP expects that the storage capacity for spent fuel in each nuclear site will increase to a level so as to accommodate all spent fuel produced by 2016. The policy on building permanent storage facility for spent fuels is currently being developed.

All of 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 2005, 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 the unit is shut down at the end of its life, the fuel is removed and the unit is eventually dismantled. KHNP has adopted a 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 is expected to cease operation by 2008. KHNP is currently considering extending the operation of Kori-1 unit beyond 2008.

KHNP retains financial responsibility for decommissioning its units although it does not carry a cash reserve for its decommissioning liability. KHNP has accumulated the decommissioning cost as a liability since 1983. The decommissioning costs of nuclear facilities were first estimated in 1992, based on an engineering study. During 2003, KHNP obtained a new engineering study from a third party and updated its estimate of the expected decommissioning dates for its nuclear power plants. During 2004, KHNP obtained a new engineering study provided by another third

party. As a result, the new study in 2004 revised certain essential factors such as timing of cash outflows. For the accounting treatment of decommissioning costs, see Item 5 Operating and Financial Review and Prospects Operating Results Critical Accounting Policies Decommissioning Costs .

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Research and Development

We maintain a research and development program concentrated on developing self-reliant core technology and leading national technology advancement programs 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 2005. This strategic plan is being implemented across all areas of our in-house research and development programs. In addition, we and our six generation subsidiaries have made a Technology Roadmap to develop technologies in the area of thermal and nuclear generation.

The basic goal of our research and development program for the year 2005 was obtaining the most advanced electric power technology to enable us to become a global leader in the electric power industry. To promote research and development for enhancing economical efficiency and to provide a reliable supply of electric power, we invested, as of December 31, 2005, (Won)151.7 billion in research and development, (Won)13.3 billion in technological development and (Won)51.9 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 technologies required for the efficient operation of thermal power plants such as our Development of Advanced Thermal Power Plant project using the Ultra-Super Critical Technology . We also emphasize 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 technologies necessary to perform reactor/plant safety analysis, radiation control and radioactive waste reduction and seismic monitoring and analysis.

The corporate vision and long-term plan of KHNP, known as KHNP Vision 2015 , was recently revised to reflect the change in business environment. As a way of achieving KHNP Vision 2015, KHNP established the Mid- and Long-term Technology Development Plan to strategically implement research and development. KHNP primarily focuses on the technology of enhancing nuclear safety and improving the performance of nuclear plant.

KHNP s investment in research and development amounted to approximately (Won)31 billion and (Won)41 billion in 2004 and 2005, respectively, and its investment in the education of human resources and the development of computer equipment amounted to approximately (Won)30 billion in each of 2004 and 2005. Also, pursuant to relevant law, KHNP contributed approximately (Won)156 billion and (Won)155 billion in 2004 and 2005, respectively, to the Nuclear R&D Fund, which is operated by the Ministry of Science and Technology.

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 (Won)196 billion in 2001, (Won)155 billion in 2002, (Won)178 billion in 2003, (Won)213 billion in 2004, and (Won)217 billion in 2005 on research and development. We had approximately 487 employees engaged in research and development activities as of December 31, 2005.

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 Desulphurization 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. Approximately 770 applications were submitted in Korea and abroad from 2002 to 2005.

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 research and development programs to emphasize low-cost, high-efficiency research by restructuring our research and development organization and reallocating and reassigning research personnel.

Overseas and 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 (Won)713 billion of our fiber optic network assets as well as approximately (Won)36 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; in December 2002, we further sold approximately 45.5% of our equity interest, including our management right in Powercomm for (Won)819 billion; and in April 2003 we further 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%. 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 in the Philippines, (i) a 650-megawatt oil-fired power plant in Malaya, construction of which began in June 1998 and is expected to be completed in September 2010, and (ii) a build, operate and transfer 1,200-megawatt combined-cycle power plant project in Ilijan, construction of which began in November 1997 and is expected to be completed in June 2002. The project cost of the Ilijan project was US$710 million, for which project finance on a limited recourse basis was provided. We were also awarded a 100-megawatt CFBC plant in Wuzhi, China in August 2003 and a 49.3-megawatt wind power plant in Yumen, China in September 2005, both of which are in progress. In February 2006, we acquired 40% of the total outstanding capital stock of Salcon Power Corporation, an independent power producer operating a 260 megawatt Naga power complex in Cebu, the Philippines.

Since September 2005, we have also provided consulting services on power transmission and distribution system in Libya. In addition, since February 2006, we have been operating and providing maintenance services for combined cycle power plants in Lebanon with an aggregate installed capacity of 870 megawatts.

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In August 2005, a consortium of Korean companies (the Korean Consortium), consisting of us, Korea National Oil Corporation and Daewoo Shipbuilding & Marine Engineering, won a bid from the government of the Federal Republic of Nigeria (Nigeria) to explore, develop and operate two oil prospects in Nigeria. The Korean Consortium is expected to carry out this project, together with other partners (together with the Korean Consortium, the Group). We hold a 15% equity interest in the Korean Consortium, which controls 60% of the equity interest of the Group. In March 2006, the Group entered into a contract with the government of Nigeria to explore, develop and operate such oil prospects. Exploration of these prospects is estimated to take five years and, if successful in finding oil following the exploration, the Group will develop and operate the related facilities for 25 years thereafter. Our portion of investment in the exploration phase of the project is expected to be approximately US$25 million in the next five years. In addition, under the contract, the Korean Consortium must either reach an agreement with the government of Nigeria within 18 months of the date of contract as to the plan of constructing a combined-cycle gas-fired power plant with a generating capacity of approximately 2,250 megawatts and gas pipelines with a length of approximately 1,200 kilometers in Nigeria or pay US$231 million to the government of Nigeria. In July 2006, the Korean Consortium is expected to commence a feasibility study on the construction of the power plant and gas pipelines.

The table set below summarizes our overseas project that we are currently engaged in pursuant to signed contracts.

Region	Project Period	Project Description
Malaya, Philippines	September 1995 to September 2010	650-megawatt oil-fired power plant (ROMM(1))
Ilijan, Philippines	March 1999 to June 2022	1,200-megawatt combined-cycle power plant project (BOT(2))
Naga, Philippines	February 2006 to March 2012	260-megawatt power plant (ROMM)(1)
Wuzhi, China	23 years (including construction period)	100-megawatt CFBC cogeneration plant (BOO(3))
Yumen, China	21 years (including construction period)	49.3-megawatt wind power plant (BOO)(3)
Lebanon	February 2006 to February 2011	870-megawatt combined cycle power plant operation and maintenance service
Libya	September 2005 to January 2008	Power transmission and distribution service
Nigeria	March 2006 to February 2011	Exploration of oil and gas for two offshore blocks

Notes:

(1) Represents rehabilitation, operation, maintenance and management projects.
(2) Represents build, operate and transfer projects.
(3) Represents build, own and operate projects.

We currently believe that the business and revenues of our overseas activities are not in the aggregate material to us.

The Light Water Reactor Project

A key stipulation of the Agreed Framework signed by the United States and North Korea in October 1994 was that a United States-led international consortium would construct two commercial light water reactors in North Korea in return for certain nuclear non-proliferation steps to be taken by North Korea. The Korean Peninsula Energy Development Organization, or KEDO, was chartered in March 1995 as the international consortium stipulated by the Agreed Framework and signed an agreement with North Korea in December 1995 to supply the light water reactors. Kumho, North Korea was selected as the site for such light water reactors and KEDO designated us as its prime contractor to build two units of pressurized light water reactors with a total

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capacity of 2,000 megawatts. We entered into a fixed price turnkey contract with KEDO, which became effective on February 3, 2000. The contract amount was US$4,182 million and remains subject to adjustment to cover any changes in the price level.

In November 2002, amid suspicions that North Korea was engaged in an undeclared program to enrich uranium, KEDO suspended the supply of heavy fuel oil to North Korea, which was part of the Agreed Framework. Subsequently, North Korea withdrew from the Treaty on the Non-Proliferation of Nuclear Weapons in January 2003 and resumed operations at the Yongbyon facility, a nuclear facility whose operations had been frozen under the Agreed Framework. Several diplomatic initiatives were taken to resolve these issues, but currently to no avail.

In December 2003, asserting that North Korea had not met the conditions required for the continuation of the project, KEDO suspended the construction of the project for one year, which suspension was extended until November 30, 2005. However, we continued to perform maintenance for the project during 2004 and 2005. In December 2005, KEDO sent a delegation to North Korea to discuss the issues regarding the project s termination and demobilization. During the meeting, North Korea requested KEDO to withdraw all of its personnel. On January 8, 2006, KEDO completed the withdrawal of all workers from the project site.

On May 31, 2006, the Executive Board of KEDO decided to terminate the light water reactor project. On the same date, KEDO notified us of termination of the project and the related turnkey contract between KEDO and 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 to the extent permitted by law. We carry insurance covering against certain risks, including fire, in respect of our key assets, including equipment building and machinery, construction-in-progress and procurement in transit, as well as directors and officers liability insurance. 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. Each of KHNP s four power plant complexes has property damage insurance coverage of up to US$1 billion per accident in respect of such plant complex. KHNP maintains a nuclear liability insurance for personal injury and third-party property damage for a coverage of up to (Won)50 billion per accident per plant complex, for a total coverage of (Won)200 billion. KHNP is also the beneficiary of a Government indemnity with respect to such risks for damage claims of up to (Won)50 billion per nuclear plant complex, for a total coverage of (Won)200 billion. Under the Nuclear Damage Compensation Act of 1969, as amended, KHNP is liable only up to 300 million Special Drawing Rights, or SDRs, approximately US$434 million, at the rate of 1 SDR = US$1.44566 as posted on the Internet homepage of the International Monetary Fund on April 7, 2006) 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 (Won)50 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 (Won)50 billion as determined by the National Assembly. KHNP also carries insurance against terrorism with the insurance

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coverage being up to US$300 million on property and (Won)50 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 The amounts and scope of coverage of our insurance are limited .

Affiliated Companies

We have six 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 consolidated in our financial statements. Instead, we record these affiliates as investments under the equity method of accounting. See Note 6 of the notes to of 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, 2005.

	Year of Incorporation	Ownership (Percent)	Principal Activities
Korea Gas Corporation	1983	24.5	Sales of liquefied natural gas
Korea District Heating Co. Ltd.	1985	26.1	Provision of heat
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
YTN(1)	1993	21.4	Broadcasting
Gansu Datang Yumen Windpower Co., Ltd.	2005	40.0	Construction and operation of utility plant

Note:
(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

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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.

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, 2005, the legal reserve was (Won)1,602 billion, the reserve for business expansion was (Won)15,003 billion and the reserve for investment of social overhead capital was (Won)5,152 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 Community Programs .

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Proposed Sale by Us of Certain Power Plants and Equity Interests

In July 1998, the Government announced a plan to privatize Government-invested companies to increase their efficiency and to induce foreign investment in Korea. In accordance with this plan, 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 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 (Won)64.7 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 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.

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Set forth below is our plan of selling certain assets as currently contemplated. The completion of our plans, however, is subject to, among other considerations, Government policies relating to us and market conditions.

Subsidiaries	Primary business	Book value as of December 31, 2005	Ownership percentage as of December 31, 2005	Ownership percentage to be sold
			(in billions of Won)	
Korea South-East Power Co., Ltd.	Electricity generation	1,986	100.0%	100.0%
Korea District Heating Co., Ltd.	Generating and distributing electricity and heat	176	26.1	Not determined
Korea Electric Power Industrial Development Co., Ltd.	Electricity metering	25	49.0	Not determined
Powercomm Corporation	Leasing telecommunication lines and providing internet access	408	43.1	33.1
Korea Gas Corporation	Importing and wholesaling LNG	819	24.5	Not determined
Korea Plant Services & Engineering Co., Ltd.	Overhauling and repairing power plants	286	100.0	100.0
Korea Power Engineering Co., Ltd.	Designing and engineering power plants	56	97.9	Not determined

PROPERTY, PLANT 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. On June 24, 2005, the Government announced its policy to relocate the headquarters of government-invested enterprises, including us and certain of our subsidiaries, out of the Seoul metropolitan area to other provinces in Korea by the end of 2012. See History and Development Recent Developments . As of December 31, 2005, the net book value of our property was (Won)64,006 billion. No significant amount of our properties is leased.

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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 may have a material adverse effect on us .

OPERATING RESULTS

Overview

For the years ended December 31, 2003, 2004 and 2005, we had consolidated operating revenues of (Won)22,775 billion, (Won)23,956 billion and (Won)25,445 billion (US$25,193 million), principally from the sale of electricity. As we are a predominant market participant in the Korean electricity industry, our business is heavily regulated by the Government in terms of the rates we charge to 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 impacted by the movements in the exchange rates between the Won and other currencies.

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 Korea grew at a compounded average rate of 6.8% per annum for the five years ended December 31, 2005. According to The Bank of Korea, real gross domestic product, or GDP, compounded growth rates was approximately 4.5% for the same period. The GDP growth rate was 4.0% for 2005 as compared to 4.6% in 2004. Demand for electricity may be categorized either by the nature of its usage or by the type of customers as used for the purpose of charging electricity tariff. See Item 4 Information on the Company Business Overview Rates . The following describes the demand for electricity by the nature of its usage:

The industrial usage currently represents the largest segment of electricity consumption in Korea. While the industrial usage (including the agricultural usage) has increased steadily as a result of economic expansion in Korea, it has gradually declined as a percentage of total consumption from 58.0% in 1997 to 50.2% in 2005. In addition, demand from the industrial usage (including the agricultural usage) increased by 5.4% to 166,813 million kilowatt hours in 2005 as compared to 2004.

The commercial usage accounted for 34.5% of electricity consumed in 2005 in Korea. The commercial usage has increased in recent years, both in absolute terms and as a percentage of total demand. The commercial usage has shown the highest rate of growth in demand since 1980 and increased by 9.1% to 114,727 million kilowatt hours in 2005 as compared to 2004.

The residential usage increased by 4.6% to 50,873 million kilowatt hours in 2005 as compared to 2004.

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The rapid growth in Korean economy since the early 1960s has resulted in substantial growth in demand for electricity. While the worldwide economic recession of the early 1980s slowed economic growth in Korea, in the latter half of the 1980s, Korean economy resumed rapid growth and resulted in a substantial increase in demand for electricity. The slow economic growth in Korea in the early 1990s 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. Accordingly, we anticipate that demand for electricity will continue to increase in 2006. The table below sets forth, for the periods indicated, the annual rate of growth in Korea s gross domestic product and the annual rate of growth in electricity demand (measured in total annual electricity consumption).

	2001	2002	2003	2004	2005
Growth in GDP (at 2000 constant prices)	3.8%	7.0%	3.1%	4.6%	4.0%(1)
Growth in electricity consumption	7.6%	8.0%	5.4%	6.3%	6.5%

Note:
(1) Preliminary.

For additional discussions on demand by the class of customers, see Item 4 Information on the Company Business Overview Sales and Customers Demand by the Type of Usage .

The Electricity Business Law and the Price Stabilization Act 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 MOCIE then reviews our recommendations and, upon consultation with the Electricity Rates Expert Committee of the MOCIE and the MOFE, make a final determination. Under the recently amended Electricity Business Law, the Korean Electricity Commission must review these recommendations 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% while 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 and industry rates were frozen. On December 28, 2005, the MOCIE adjusted our rate schedule which resulted in increases in industrial, residential, commercial and agricultural rates by 3.3%, 2.4%, 2.8% and 0.9%, respectively, and a decrease in educational rates by 15.3%. As a result of this rate adjustment, our average rate increased by 2.8%. See Business Overview Sales and Customers Rates .

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 accounted for 29.7%, 27.6% and 33.9% of our operating revenues and operating expenses in 2005, 2004 and 2003, respectively. Substantially all of the fuel (except for anthracite coal) used by our generation subsidiaries is imported from outside of Korea at prices determined in part by prevailing market prices in currencies other than Won. In addition, our generation subsidiaries purchase a significant portion of their fuel requirements under contracts with limited quantity and duration. Pursuant to the terms of our long-term supply contracts, prices are adjusted in light of market conditions. See Item 4 Information on the Company Business Overview Fuel .

Uranium accounted for 42.3% of our fuel requirements in 2003, 40.0% in 2004 and 42.0% in 2005. Coal accounted for 39.7% of our fuel requirements in 2003, 39.3% in 2004 and 38.6% in 2005. Oil (including diesel for internal combustion) accounted for 5.6% of our fuel requirements in 2003, 5.0% in 2004 and 4.6% in 2005. LNG accounted for 11.3% of our fuel requirements in 2003, 14.8% in 2004 and 14.0% in 2005. In each case, the fuel requirements are measured 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 fuel materials purchased on spot markets.

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In recent years, the price of bituminous coal has substantially increased. See Item 4 Information on the Company Business Overview Fuel . Approximately 85.3% of the combined bituminous coal requirements of our generation subsidiaries are purchased under long-term contracts and 14.7% purchased on the spot market. The average free on board Newcastle coal price index in 2005 was US$47.29 per ton. In March 2006, the average free on board Newcastle coal price index was US$50.80 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 their 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 continued increase in fuel prices has had a material adverse effect on our results of operations and profitability in 2006 to date. We expect fuel prices to remain at record high levels throughout 2006. Accordingly, we expect our operating income and net income may decrease significantly in 2006 and beyond compared to prior periods. See Item 3 Key Information Risk Factors Risks Relating to KEPCO Increases in fuel prices will adversely affect our results of operations and profitability .

Nuclear power has a stable and low cost structure and forms a significant portion of the base load of Korean electricity supply. Due to significantly lower fuel costs as compared with those of conventional power plants, our nuclear power plants generally operate at full capacity with only routine shutdowns for check-up and overhauls lasting 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 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 over its safety. After the overhaul, this nuclear power plant resumed its operations in April 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.

Movements of the Won against the U.S. dollar and other foreign currencies

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 since then has risen substantially, except for a modest decline in 2000 and 2001. Recently, the Won has appreciated to its record high since the financial crisis of late 1997. For fluctuations in exchange rates, see Item 3 Key Information Selected Financial Data Currency Translations and Exchange Rates . Depreciation of the Won in the past has had a material effect on the cost of servicing our foreign currency debt and the cost of fuel materials and equipment we purchase from overseas sources. As of December 31, 2005, approximately 29.2% of our debt was denominated in foreign currencies, principally in the U.S. 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 U.S. 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 U.S. 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 Item 3 Key Information Risk Factors Risks Relating to KEPCO The impact of Won depreciation may have a material adverse effect on us .

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Recent Accounting Changes

Investment Securities under the Equity Method of Accounting

Prior to January 1, 2005, in accordance with Korean GAAP, we did not record our share of losses of investee when such losses would make our investment in such entity less than zero. Effective January 1, 2005, we adopted SKAS No. 15, *Investments in Associates.* Under this standard, if we hold other investments such as preferred stock or loans issued by the investee, our share of loss of the investee continues to be recorded until such other investments are reduced to zero.

In addition, prior to January 1, 2005, gains and losses arising from sales by us to our affiliates were eliminated entirely. Effective January 1, 2005, unrealized gains and losses multiplied by our ownership percentage are eliminated in accordance with SKAS No. 15.

Income Taxes

Prior to January 1, 2005, we recorded all deferred tax assets and liabilities as non-current. Effective January 1, 2005, we adopted SKAS No. 16, *Income Taxes*. In accordance with the statement, deferred tax assets and liabilities are classified as current or non-current based on the classification of the related asset or liability for financial reporting or the expected reversal date of the temporary difference. The deferred tax amounts are presented as a net current asset or liability and a net non-current asset or liability. However, deferred income tax assets and liabilities as of December 31, 2004 were not reclassified based on the transitional clause of SKAS No. 16.

In addition, prior to January 1, 2005, deferred taxes were not recognized for temporary differences related to unrealized gains and losses on investment securities. However, effective January 1, 2005, deferred taxes are recognized on the temporary differences related to unrealized gains and losses on investment securities that are reported as a separate component of capital adjustments. As a result of such change, as of January 1, 2005, capital adjustments decreased and deferred income tax liabilities increased by (Won)23,795 million.

Critical Accounting Policies

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

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

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 is charged or credited to current operations.

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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. If future recovery of costs ceases to be probable, all or part of the regulatory assets and liabilities would have to be written off against current period earnings. As of December 31, 2005, the consolidated balance sheet included regulatory assets of (Won)810 billion and regulatory liabilities of (Won)1,482 billion. Our management evaluates the anticipated recovery of regulatory assets, liabilities, and revenue subject to refund and provides for allowances and/or reserves as appropriate. As of December 31, 2005, we do not have any allowances or reserves related to regulatory assets.

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 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.

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, 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 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, 2004 and 2005, we recorded a liability of (Won)5,091 billion, (Won)6,259 billion and (Won)6,909 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 provisioning for decommissioning costs increased by (Won)72,888 million in 2003 under Korean GAAP. In addition, during 2004, we updated the 2003 study and estimates for its liability for decommissioning costs based on new engineering studies provided by other third parties. Major revisions made in this study related to 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 our best estimates at the time we elected to adopt SKAS No. 17. With the adoption of SKAS No. 17, we 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.

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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 the 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 an engineering study conducted during 2003, the liability for decommissioning costs and the related net asset increased by (Won)732 billion and (Won)851 billion, respectively, in 2003. As a result of this change in estimate, under U.S. GAAP, net income increased by (Won)119 billion in 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 (Won)633 billion and (Won)1,078 billion, respectively, in 2004. Also, net income decreased by (Won)455 billion in 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 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, 2005. 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.

We believe that the accounting estimate related to establishing tax valuation allowances is a critical accounting estimate because: (1) it requires management to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning opportunities, and (2) the difference between these assessments and the actual performance could have a material impact on the realization of tax benefits as reported in our results of operations. Management s assumptions require significant judgment because actual performance has fluctuated in the past and may continue to do so.

Useful Lives of Property, Plant and Equipment

In accordance with Korean GAAP, property, and plant and equipment are stated at cost, except in the case of revaluation made in accordance with the KEPCO Act and the Assets Revaluation Law of Korea. Depreciation is computed by the declining-balance method (straight-line method for buildings and structures, unit-of-production method and straight-line method for nuclear fuel and capitalized asset retirement costs) using rates based on the estimated useful lives. Net property, plant and equipment as of December 31, 2005, totaled (Won)64,006 billion (US$ 63,372 million) representing more than 86% of total assets. Given the significance of property, plant and equipment and the associated

depreciation expense to our financial statements, the determination of an asset s economic useful life is considered to be a critical accounting estimate.

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

	Estimated useful life
Buildings	8 ~ 40
Structures	8 ~ 30
Machinery	5 ~ 16
Vehicles	4 ~ 5
Loaded heavy water (included in nuclear fuel)	30
Loaded nuclear fuel	
Capitalized asset retirement cost	30 ~ 40
Capitalized asset retirement costs of law and intermediate level wastes	
Others	4 ~ 9

Generally, useful lives are estimated at the time the asset is acquired and are based on historical experience with similar assets, and take into account anticipated technological or other changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated or the assets experienced unexpected levels of wear and tear, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation expenses in future periods.

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. The assessment of impairment is a critical accounting estimate because significant management judgment is required to determine: (1) if an indicator of impairment has occurred, (2) how assets should be grouped, (3) the forecast of undiscounted expected future cash flow over the asset s estimated useful life to determine if an impairment exists, and (4) if an impairment exists, the fair value of the asset or asset group. If management s assumptions about these assets change as a result of events or circumstances, and management believes the assets may have declined in value, we may record impairment charges, resulting in lower profits. Our management uses its best estimate in making these evaluations and considers various factors, including the future prices of energy, fuel costs and other operating costs. However, actual market prices and operating costs could vary from those used in the impairment evaluations, and the impact of such variations could be material.

Results of Operations

2005 Compared to 2004

In 2005, our revenues from the sale of electric power, the principal component of our operating revenues, increased by 6.1% to (Won)24,769 billion (US$24,524 million) from (Won)23,347 billion in 2004, reflecting primarily a 6.5% increase in kilowatt hours of electricity sold in 2005. The increase in electricity sold was primarily attributable to a 5.2% increase in kilowatt hours of electricity sold to the industrial sector, a 9.2% increase in kilowatt hours of electricity sold to the commercial sector and a 5.1% increase in kilowatt hours of electricity sold to the residential

sector.

Operating expenses increased by 10.4% to (Won)21,523 billion (US$21,310 million) in 2005 from (Won)19,488 billion in 2004. Of the operating expenses, our power generation, transmission, and distribution expenses, the principal component of our operating expenses, increased by 8.4% to (Won)17,915 billion (US$17,737 million) in 2005 from (Won)16,534 billion in 2004 primarily due to a 14.7% increase in fuel costs from (Won)6,599 billion in 2004 to (Won)7,568 billion (US$7,493 million) in 2005 as a result of an increase in unit fuel cost to 21.64 Won/kWh in 2005 and from 20.17 Won/kWh in 2004, primarily resulting from the increase in fuel prices globally, and increased power generation.

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Our selling and administrative expenses increased by 17.4% to (Won)1,519 billion (US$1,504 million) in 2005 from (Won)1,294 billion in 2004, primarily due to a 15.8% increase in sales commission to (Won)345 billion (US$342 million) in 2005 from (Won)298 billion in 2004, a 9.1% increase in labor cost to (Won)538 billion (US$533 million) in 2005 from (Won)493 billion in 2004.

As a result of these changes, our operating income for 2005 decreased by 12.2% to (Won)3,922 billion (US$3,883 million) as compared to (Won)4,467 billion in 2004.

Our net non-operating results recorded a loss of (Won)90 billion (US$89 million) in 2005 as compared to a gain of (Won)232 billion in 2004, primarily as a result of a 65.7% decrease in gain on foreign currency transactions and translation, net to (Won)297 billion (US$294 million) in 2005 from (Won)866 billion, which was mainly due to reduction in gain on foreign currency translation resulting from a smaller appreciation of the Won against the U.S. dollar from the beginning to the end of 2005 as compared to the same period in 2004, and which more than offset a decrease in interest expense by 12.9% to (Won)643 billion (US$637 million) in 2005 from (Won)738 billion in 2004, and net valuation gain of (Won)167 billion (US$166 million) in 2005 as compared to net valuation loss of (Won)169 billion in 2004.

Our effective income tax rate decreased to 36.5% in 2005 from 38.2% in 2004, due primarily to a decrease in the statutory corporate income tax rate from 29.7% in 2004 to 27.5% in 2005.

As a result of the above factors, our net income decreased by 16.5% to (Won)2,408 billion (US$2,384 million) in 2005 as compared to (Won)2,883 billion in 2004.

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 (Won)23,347 billion from (Won)21,834 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 (Won)19,488 billion in 2004 as compared to (Won)17,551 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 (Won)16,534 billion in 2004 from (Won)14,392 billion in 2003 primarily due to a 36.1% increase in fuel costs from (Won)4,849 billion in 2003 to (Won)6,599 billion 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 (Won)1,294 billion in 2004 from (Won)1,236 billion in 2003. We believe that such increase was primarily attributable to a 12.7% increase in labor expense from (Won)438 billion in 2003 to (Won)493 billion in 2004 and a 47.3% increase in expenses for employee benefits from (Won)56 billion in 2003 to (Won)83 billion in 2004, which more than offset a 23.2% decrease in depreciation and amortization from (Won)54 billion in 2003 to (Won)41 billion in 2004 and a 29.2% decrease in maintenance expense from (Won)27 billion in 2003 to (Won)19 billion in 2004.

As a result of these changes, our operating income for 2004 decreased by 14.5% to (Won)4,467 billion as compared to (Won)5,224 billion in 2003.

Our net non-operating results showed a gain of (Won)232 billion in 2004 as compared to a loss of (Won)1,114 billion in 2003. Foreign currency transaction and translation gains amounted to (Won)866 billion in 2004 as compared to losses of (Won)207 billion in 2003 primarily as a result of Won appreciation against U.S. dollar in 2004. Interest expense decreased by 11.1% from (Won)830 billion in 2003 to (Won)738 billion 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 (Won)169 billion in 2004 as compared to (Won)93 billion in 2003.

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Our effective tax rate decreased to 38.2% in 2004 from 42.9% in 2003, due primarily to an increase in tax credits in 2004.

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

LIQUIDITY AND CAPITAL RESOURCES

We expect that our capital requirements, capital resources and liquidity position may change in the course of implementing the Restructuring Plan. See Item 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 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 (Won)8,318 billion in 2003, (Won)8,150 billion in 2004 and (Won)7,610 billion (US$7,534 million) in 2005. Total long-term debt as of December 31, 2005 (including the current portion and discount on debentures on and excluding premium on debentures) was (Won)18,777 billion (US$18,591 million), of which (Won)13,225 billion (US$13,095 million) was denominated in Won and the equivalent of (Won)5,552 billion (US$5,496 million) was denominated in foreign currencies, primarily U.S. dollars. Construction grants received were (Won)618 billion in 2003, (Won)624 billion in 2004, and (Won)680 billion (US$673 billion) in 2005.

The implementation of the Restructuring Plan and changes in the economic environment may result in a material change in our capital investment program. However, our working capital and other capital requirements (including those of our generation subsidiaries) may continue to increase. The capital investment program contemplates the construction of a large number of generation 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. In addition, the overseas investment that we have been pursuing may require substantial investment.

We anticipate that capital expenditures will be the most significant use of our funds for the next several years. Our total capital expenditures were (Won)6.8 trillion in 2003, (Won)6.3 trillion in 2004, (Won)6.7 trillion in 2005 (US$6.7 billion) and under current plans, are estimated to be approximately (Won)9.1 trillion in 2006 and approximately (Won)9.7 trillion in 2007.

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 debt as of December 31, 2006 in 2006 to 2010 and thereafter are set forth in the table below:

Year ended	Local	Foreign	Domestic	Foreign	Exchangeable	Total

December 31	currency borrowings	currency borrowings	debentures	debentures	bonds	
			(in millions of Won)			
2006	(Won) 1,290,298	(Won) 135,870	(Won) 1,591,113	(Won) 267,948		(Won) 3,285,229
2007	1,406,432	46,146	1,625,000	1,223,951		4,301,529
2008	1,331,399	46,146	2,140,000	955,080	(Won) 122,902	4,595,527
2009	876,385	46,146	1,420,000	337,387		2,679,918
2010	217,893	41,904	1,190,010	300,038		1,749,845
Thereafter	83,002	113,540	120,000	1,914,627		2,231,169
	(Won) 5,205,409	(Won) 429,752	(Won) 8,086,123	(Won) 4,999,031	(Won) 122,902	(Won) 18,843,217

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We have incurred interest charges (including capitalized interest) of (Won)1,333 billion in 2003, (Won)1,292 billion in 2004, and (Won)1,014 billion (US$1,004 million) in 2005. 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 5.78% in 2003, 4.61% in 2004, and 5.30% in 2005.

We paid dividends on our common stock of (Won)512 billion in 2003, (Won)674 billion in 2004, and (Won)729 billion (US$721 million) in 2005. We will pay dividends to holders of our common stock as of December 31, 2005, including the Government, in the amount of (Won)724 billion during 2006. The Government holds shares of the same class of our 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, 2005, our long-term debt, excluding the current portion thereof, as a percentage of stockholders equity was 44.4%. We incurred (Won)5,378 billion of long-term debt in 2003, (Won)5,173 billion in 2004, and (Won)4,098 billion (US$4,057 million) in 2005. As of December 31, 2005, the current portion of long-term debt was (Won)3,283 billion (US$3,250 million) as compared to (Won)4,228 billion as of December 31, 2004. As of December 31, 2005, we had (Won)335 billion (US$331 million) of short-term borrowings as compared to (Won)414 billion as of December 31, 2004. See Note 17 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 reduced the proportion of our debt which is denominated in foreign currencies and plan to adjust the proportion of foreign currency debt in order to optimize our foreign currency exposure in light of, among others, the fluctuations in the value of Won, the cost of funding by each currency and the maturity of fund available in each market. Our foreign currency denominated long-term debt decreased from (Won)6,812 billion as of December 31, 2004 to (Won)5,552 billion (US$5,497 million) as of December 31, 2005.

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 Korea may also affect investor demand for our securities and those of other Korean entities. In addition, our ability to incur debt will also be affected by the Government s policies relating to foreign currency borrowings, the liquidity of the Korean capital markets and our operating results and financial condition. In case of adverse developments in Korea, 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 Korea Development Bank Act, through Korea Development Bank, own at least 51% of our capital stock, it may be difficult or impossible for us to undertake any equity financing other than sales of treasury stock without the participation of the Government. In case of adverse economic developments in Korea, however, the share price at

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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 (Won)40,602 billion as of December 31, 2004 to (Won)42,338 billion (US$41,918 million) as of December 31, 2005.

Liquidity

Substantially all of our revenues are denominated in Won. However, as of December 31, 2005, 29.2% 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-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 (Won)7,517 billion as of December 31, 2004 to (Won)7,355 billion (US$7,282 million) as of December 31, 2005. Fuel expense represented 28.3% and 30.6% of revenues from sale of electric power in 2004 and 2005, respectively.

Due to the capital-intensive nature of our business, we had a working capital deficit (current liabilities minus current assets) of (Won)2,291 billion as of December 31, 2004 and (Won)130 billion (US$128 million) as of December 31, 2005. We have traditionally operated with a working capital deficit. We contemplate that we will continue to maintain substantial working capital deficits in the future.

During 2004 and 2005, we declared and paid dividends of (Won)674 billion and (Won)729 billion related to income earned in 2003 and 2004, respectively. In April 2006, we paid a dividend of (Won)724 billion related to income earned in 2005.

Off-Balance Sheet Arrangements

We have no significant off-balance sheet arrangements as of December 31, 2005.

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Contractual Obligations and Commercial Commitments

The following summarizes certain of our contractual obligations as of December 31, 2005, 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 than 1 year**	**1 3 years**	**4 5 years**	**After 5 years**
		(in billions of Won)			
Long-term debt(2)	(Won) 18,843	(Won) 3,285	(Won) 8,897	(Won) 4,430	(Won) 2,231
Interest payments on long-term debt(3)	4,863	808	1,083	502	2,470
Short-term borrowings	335	335			
Plant construction	64,389	6,363	15,494	14,193	28,339
Derivatives(4)					
Accrual for retirement and severance benefits(5)	505	26	66	85	328
Total	88,935	10,817	25,540	19,210	33,368

Notes:

(1) We entered into capital lease agreements with Korea Development Leasing Corporation and others for certain computer systems. We believe the remaining annual payments under capital and operating lease agreements as of December 31, 2005 were immaterial.
(2) Includes the current portion and excludes amortization of note discount and issue costs.
(3) As of December 31, 2005, a portion of our long-term debt carried a variable rate of interest. We used the interest rate in effect as of December 31, 2005 for the variable rate of interest in calculating the interest payments on long-term debt for the periods indicated.
(4) Consists of the currency and interest rate swaps entered into in connection with our foreign currency debts. We cannot presently determine the future contractual obligations arising from these swaps.
(5) Represents, as of December 31, 2005, the amount of the severance and retirement benefits which we will be required under applicable Korean laws to pay to all of our employees when they reach their normal retirement age.

For a description of our commercial commitments and contingent liabilities, see Note 31 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.

We did not have any unconditional purchase obligations as of December 31, 2005. 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.

Under the Commercial Code of Korea, we and our six power generation subsidiaries including Korea Hydro & Nuclear Power Co., Ltd. were jointly and severally liable for the outstanding debt assumed by each of these subsidiaries at the time of their spin-off on April 2, 2001 under the Commercial Code of the Republic. On July 25, 2005, the joint and several liabilities of us and our generation subsidiaries were completely eliminated through an agreement among the creditors, us and our generation subsidiaries. As a result, we no longer remain jointly and severally liable for any of our liabilities existing prior to the corporate split on April 2, 2001. See Note 31 of the notes to our consolidated financial statements.

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We provide debt guarantees to our foreign subsidiaries, including KEPCO Ilijan Co., in an amount not exceeding US$114 million.

Payment guarantee and short-term credit facilities from financial instruments as of December 31, 2005 were as follows:

Payment guarantee

Description	Financial Institutions	Credit Lines	(In billions of Won or millions of US$)
Payment of import letter of credits	Korea Exchange Bank and others	US$	1,809
		(Won)	20
Payment of customs duties	Korea Development Bank	(Won)	4
Borrowings	Korea Exchange Bank and others	(Won)	350
	BNP Paribas and others	US$	60
Payment of foreign currency	Korea Exchange Bank and others	US$	5

Overdraft and Others

Description	Financial Institutions	Credit Lines	(In billions of Won or millions of US$)
Overdraft	Korea Exchange Bank and others	US$	40
	National Agricultural Cooperative Federation and others	(Won)	1,476
Discount on promissory note	Hana Bank and others	(Won)	954
Other	National Agricultural Cooperative Federation and others	(Won)	42
	Chohung Bank	US$	

We provided a promissory note of (Won)2 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.

We entered into a power purchasing agreement with GS EPS Co., Ltd., formerly LG Energy Co., Ltd., and other independent power producers for power purchases in accordance with the Electricity Business Act of Korea. Power purchased from these companies amounted to (Won)1,055 billion, (Won)1,020 billion and (Won)1,170 billion for the years ended December 31, 2003, 2004 and 2005, respectively.

We have entered into contracts for power plant facilities in relation to the construction of power plant facilities and facility maintenance with Daelim Industrial Co., Ltd. and others amount to (Won)3,538 billion, US$3 million and EUR61 million in the aggregate as of December 31, 2005.

In April 2005, we entered into an agreement to acquire 15% of Gangwon Wind Power Co., Ltd. for (Won)5.7 billion to develop renewable energy sources. In May 2005, we entered into a contingent equity support agreement with other shareholders of Gangwon Wind Power and financial institutions regarding the borrowings from financial institutions. Under this agreement, we are obligated to pay up to (Won)1.2 billion if Gangwon Wind Power has a forecast funding shortfall. As of December 31, 2005, we were not required to fund any amounts under this commitment.

We are provided with guarantees from Seoul Guarantee Insurance Co., Ltd. and others for performance of contract, warranty fees and bids for construction work in relation to overseas constructions.

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Other than as described in this report and also in Note 31 of the notes to our consolidated financial statements, we did not have any other material credit lines and guarantee commitments provided to any third parties as of December 31, 2005.

As of December 31, 2005, we were engaged in 311 lawsuits as a defendant and 47 lawsuits as a plaintiff. As of the same date, the total amount of damages claimed against us was (Won)229 billion and the total amount claimed by us was (Won)14 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 Korea on our financial condition and results of operations are reflected primarily in construction costs as well as in labor expenses. Inflation in Korea has not had a significant impact on our results of operations in recent years. It is possible that inflation in the future may have an adverse effect on our financial condition or results of operations.

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Reconciliation to U.S. GAAP

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:

	Year Ended December 31,			
	2003	2004	2005	2005
	(In millions of Won and thousands of US$, except per share data)			
Net income under Korean GAAP	(Won) 2,323,425	(Won) 2,882,522	(Won) 2,407,643	$ 2,383,805
Adjustments:				
Operating income:				
Asset revaluation	449,971	391,618	348,347	344,898
Special depreciation	(21,033)	(18,370)	(6,407)	(6,344)
Regulated operations	170,925	7,955	(14,227)	(14,086)
Capitalized foreign currency translation	246,531	200,811	183,850	182,030
Reversal of eliminated profit on transactions with subsidiaries and affiliates	(17,083)	37,282	(12,518)	(12,394)
Asset retirement obligation	454,589	(108,522)	94,913	93,973
Reserve for self-insurance	6,400	6,274	6,801	6,734
Other income (expenses):				
Asset revaluation	117,795	58,974	110,008	108,919
Capitalized foreign currency translation	(20,589)	44,115	41,877	41,462
Reserve for self-insurance	(1,010)	(848)	(1,535)	(1,520)
Convertible bonds	1,344	24,298	26,738	26,473
Cumulative effect of accounting change Asset retirement obligation	1,775,306			
Income tax expenses Deferred income taxes	(934,648)	8,435	(215,515)	(213,381)
Net income as adjusted under U.S. GAAP	(Won) 4,551,923	(Won) 3,534,544	(Won) 2,969,975	$ 2,940,569

	As of December 31,		
	2004	2005	2005
	(In millions of Won and thousands of US$)		
Stockholders equity under Korean GAAP	(Won) 40,602,282	(Won) 42,337,650	$ 41,918,465
Adjustments:			
Utility plant			
Asset revaluation	(7,924,482)	(7,486,100)	(7,411,980)
Capitalized asset retirement cost	(1,022,249)	(946,148)	(936,780)
Special depreciation	19,902	13,495	13,361
Capitalized foreign currency translation	(1,771,795)	(1,546,068)	(1,530,760)
Reversal of eliminated profit on transactions with subsidiaries and affiliates	140,653	128,135	126,866
Investment securities:			
Asset revaluation	(102,079)	(82,106)	(81,292)
Deferred income taxes	2,316,502	2,045,883	2,025,627
Liabilities:			

Asset retirement obligation	2,915,538	2,214,350	2,192,426
Regulated operation	(658,007)	(672,234)	(665,578)
Reserve for self-insurance	93,352	98,618	97,642
Convertible bonds	(19,530)	13,332	13,200
Minority interests	(123,099)	(147,061)	(145,606)
Stockholders equity under U.S. GAAP	(Won) 33,746,988	(Won) 35,971,746	$ 35,615,591

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Note 33 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 an asset revaluation, a new basis for the asset 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.

Special Depreciation

Under Korean GAAP, special depreciation allowed prior to 1994, which represents accelerated depreciation of certain facilities and equipment acquired for energy saving and anti-pollution purposes, is recognized. Under U.S. GAAP, such special depreciation is not recognized. The U.S. GAAP reconciliation reflects the adjustment of special depreciation to our normal depreciation method, based on the economic useful life of the asset.

Accounting for Regulation

Application of US GAAP by regulated enterprises, pursuant to Statement of Financial Accounting Standards, or 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 enterprises. 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 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.

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The regulatory assets resulting from capitalized foreign currency translation are anticipated to be recovered over the 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.

Reversal of Eliminated Profit on Transactions with Subsidiaries and Affiliated Companies

Under Korean GAAP, our share of the profit on transactions between us and our affiliated companies is eliminated in the preparation of the consolidated financial statements. Under U.S. GAAP, no elimination of such profit is required for regulated enterprises, where the sales prices are reasonable and it is probable that, through the rate making process, our use of the utility plant will result in future revenues which is approximately equal to the sales price. We meet both of these criteria, and no elimination of profit is necessary for reporting under U.S. GAAP.

Foreign Currency Translation

Under Korean GAAP, we capitalize certain foreign exchange transaction and translation gains and losses on borrowings associated with certain qualified assets during the construction period.

Under U.S. GAAP, all foreign exchange transaction gains and losses (referred to as either transaction or translation gains (losses) under Korean GAAP) should be included in the results of operations for the current period. Accordingly, the amounts of foreign exchange transaction and translation gains and losses included in property, plant and equipment under Korean GAAP are reversed into results of operations for the current period under U.S. GAAP.

Under Korean GAAP, convertible bonds denominated in foreign currency are regarded as non-monetary liabilities since they have equity-like characteristics, so we do not recognize the associated foreign currency translation gain or loss.

Under U.S. GAAP, convertible bonds denominated in foreign currency are translated at exchange rates as of the balance sheet date, and the resulting foreign currency transaction gain or loss is included in the results of operations.

Deferred Income Taxes

Under Korean GAAP, prior to January 1, 2005, deferred taxes were not recognized for temporary differences related to the conversion right of the convertible bond issued, unrealized gains and losses on investment securities, equity gains and losses on affiliates and unrealized gains and losses on derivatives considered to be cash flow hedges that were reported as a separate component of stockholders equity. Effective January 1, 2005, we adopted Statement of Korea Accounting Standards, or SKAS, No. 16 Income Taxes. In accordance with this standard, deferred taxes

are recognized on the temporary differences related to the conversion right of the convertible bond issued, unrealized gains and losses on investment securities, equity gains and losses on affiliates and unrealized gains and losses on derivatives considered to be cash flow hedges and are reported as a separate component of stockholders equity (capital adjustment).

Under U.S. GAAP, deferred taxes are recognized on the temporary differences related to unrealized holding gains and losses on available-for-sale securities and unrealized gains and losses on derivatives considered to be cash flow hedges and are included in equity as a component of accumulated other comprehensive income, net of applicable taxes.

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Under Korean GAAP, prior to January 1, 2005, all deferred tax assets and liabilities were recorded as non-current. Effective January 1, 2005, pursuant to SKAS No. 16, deferred tax assets and liabilities are classified as current or non-current based on the classification of the related assets or liabilities for financial reporting or the expected reversal date of the temporary difference. As a result of the adoption of SKAS No. 16, there was no difference on this point between Korean GAAP and U.S. GAAP as of December 31, 2005.

Liabilities for Decommissioning Costs

Prior to 2003

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 recorded the fair value of the liabilities for the decommissioning costs as a liability in the period in which we incurred 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 above) was required. Since we did not put into service any assets with liabilities for decommissioning costs during 2003, SKAS No. 5 had no impact on the consolidated financial statements for the year ended December 31, 2003.

Under U.S. GAAP, effective January 1, 2003, we adopted 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 for 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 (Won)1,775 billion on January 1, 2003. In 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, the 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 Statement, we retrospectively adjust 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 is set at the date of adoption and should be applied in all future periods. In addition, the discount rate in effect at the time of the commencement applies to any new plant use. Accretion expense consists of period-to-period changes in the liability for decommissioning costs resulting from the passage of time and

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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 continued to apply SFAS No. 143 during 2004 and 2005.

2005

As of and for the year ended December 31, 2005, 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 (6.49% 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 is 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 is 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 a change in accounting includes 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.

Under U.S. GAAP, we recognized the obligation to pay (Won)300,000 million to the City of Gyeongju as part of the right to build our repository site as an asset retirement cost in accordance with SFAS No. 143. Such amount is amortized using the units-of-production amortization method. Under Korean GAAP, we recognized this obligation as an intangible asset and other long-term liabilities. Such intangible assets are amortized upon completion of the repository site using the units-of-production method over the estimated useful life.

In March 2005, the FASB issued FIN 47, Accounting for Conditional Asset, Retirement Obligations An Interpretation of FASB Statement No. 143, Accounting for Asset Retirement Obligations. FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability s fair value can be reasonably estimated. This interpretation is effective for fiscal years ending after December 15, 2005. This interpretation did not have any impact on our consolidated financial position or results of operations.

Under U.S. GAAP, we also have asset retirement obligations related to certain transmission and distribution assets, such as transmission towers. We currently do not have sufficient information to estimate a reasonable range of expected retirement dates for any of these assets. Therefore, asset retirement costs for these assets were not reflected in the consolidated financial statements. We will record this obligation when sufficient

information becomes available to determine a reasonable estimate of the fair value of the activities to be performed.

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Convertible Bonds

Under Korean GAAP, the value of conversion rights is recognized as capital surplus. Also, the convertible bonds are not subject to foreign currency translation because convertible bonds are regarded as non-monetary foreign currency liabilities.

Under U.S. GAAP, pursuant to SFAS No. 133, a conversion right is not considered as a derivative since we are the issuer of the right. Accordingly, no portion of the proceeds from the issuance of the convertible debt securities will be attributed to the conversion feature. In addition, the convertible bonds are subject to foreign currency translation because convertible bonds are regarded as monetary foreign currency liabilities.

Principles of Consolidation

Under Korean GAAP, minority interests in consolidated subsidiaries are presented as a component of stockholders equity in the consolidated balance sheet.

Under U.S. GAAP, minority interests are presented outside of the stockholders equity section in the consolidated balance sheet.

Reserve for Self-insurance

Under Korean GAAP, in accordance with the Accounting Regulations for Government Invested Enterprises, we provide a self-insurance reserve for loss from accident and liability to third parties that may arise in connection with our non-insured facilities. The self-insurance reserve is recorded until the amount meets a certain percentage of non-insured buildings and machinery.

U.S. GAAP considers loss from accidents and liability to third parties to be a contingency that is only provided for when a liability has been incurred. Contingent losses for self-insurance are generally recognized as a liability (undiscounted) when probable and reasonably estimable.

Right to Use Future Radioactive Wastes Repository Sites

We are obligated to pay (Won)300,000 million to the City of Gyeongju as part of the right to build our repository site. Under Korean GAAP, we recognized this obligation as an intangible asset and other long-term liabilities. Such intangible assets are amortized upon completion of the repository site using the units-of-production method over the estimated useful life.

Under U.S. GAAP, we recognized the obligation as an asset retirement cost in accordance with SFAS No. 143. Such amount is amortized using the units-of-production amortization method.

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 May 2005, the FASB issued SFAS No. 154 Accounting Changes and Error Corrections A Replacement of APB Opinion No. 20 and FASB Statement No.3. SFAS 154 requires retrospective application

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of a change in accounting principle to financial statements for prior periods, unless it is impracticable to determine either the period-specific effects or the cumulative effect of such change. SFAS 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of such change. We are required to adopt SFAS 154 as of January 1, 2006. We believe that the adoption of SFAS154 will not have any impact on our financial position or operating results.

In February 2006, the FASB issued SFAS No. 155 Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. SFAS 155 improves financial reporting by eliminating the exemption from applying Statement 133 to interests in securitized financial assets so that similar instruments are similarly accounted for regardless of the form of the instruments. SFAS 155 also improves financial reporting by allowing a preparer to elect fair value measurement at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement (new basis) event, on an instrument-by-instrument basis, in cases in which a derivative would otherwise have to be bifurcated. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. We believe that the adoption of SFAS 155 will not have any impact on its financial position or operating results.

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 .

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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.

As of June 30, 2006, one standing director is vacant and is expected to be appointed in August by the MOCIE following a resolution at a general meeting of our shareholders. The names, titles, and outside occupations, if any, of the directors as of June 30, 2006 and the respective years in which they took office are set forth below.

Name	Age	Title	Outside Occupation	Position Held Since
Han, Joon-Ho	(60)	President, Chairman & CEO, Standing Director	None	March 25, 2004
Chung, Tay-Ho	(59)	Standing Director	None	September 1, 2004
Lee, Hi-Taek	(59)	Chief Financial Officer, Standing Director	None	August 11, 2003
Kwon, Oh-Hyung	(55)	Standing Director	None	June 13, 2005
Kim, Young-Man	(58)	Standing Director	None	August 11, 2003
Byun, Gang	(58)	Standing Director	None	September 1, 2004
Lee, Seog-Yeon	(52)	Non-Standing Director	Lawyer	August 9, 2003
Park, Chung-Boo	(64)	Non-Standing Director	Chairman, Sungto Accounting Corporation	September 8, 2004
Shin, Jae-Hyun	(59)	Non-Standing Director	Lawyer, Kim & Chang	September 8, 2004
Kang, Eung-Seon	(56)	Non-Standing Director		April 22, 2005

			Visiting Professor, Korea University	
Kim, Ju-Sub	(55)	Non-Standing Director	Professor Extraordinary, Catholic University of Daegu	April 22, 2005

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Name	Age	Title	Outside Occupation	Position Held Since
Kwon, Oh-Sung	(44)	Non-Standing Director	President of O gye Farm	April 22, 2005
Yoo, Jong-Geol	(59)	Non-Standing Director	None	August 2, 2005
Kwak, Bae-Hee	(60)	Non-Standing Director	President, Korea Legal Aid Center for Family Relations	April 21, 2006

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 KEPCO 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 KEPCO 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.

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 is a lawyer with a private practice. 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.

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Kim, Ju-Sub has been a Non-Standing Director since April 22, 2005. Mr. Kim is a professor extraordinary at Catholic University of Daegu. 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.

Yoo, Jong-Geol has been a Non-Standing Director since August 2, 2005. Mr. Yoo served formerly as the director of the bureau of national security investigation at National Intelligence Service. He received a B.A. in natural resource engineering from Chonnam National University.

Kwak, Bae-Hee has been a Non-Standing Director since April 21, 2006. Ms. Kwak currently serves as the president of Korea Legal Aid Center for Family Relations. She received an LL.B. and a Ph.D. in sociology from Ewha Womans 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.

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 have three auditors, consisting of one standing auditor and two non-standing auditors. The standing auditor was 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 were 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 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.

The names, titles and outside occupations, if any, of our auditors as of June 30, 2006 and the respective years in which they took office are set forth below.

Name	Age	Title	Outside Occupation	Position Held Since
Kwak, Jin-Eob	61	Standing Auditor	None	July 6, 2005
Hwang, Suk-Hee	61	Non-Standing Auditor	None	July 6, 2005
Yang, Seung-Sook	56	Non-Standing Auditor	None	July 6, 2005

Kwak, Jin-Eob is our Standing Auditor. 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 the Korean National Tax Service.

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

Yang, Seung-Sook is our Non-Standing Auditor. 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.

Since July 13, 2005, when the first meeting of the Board of Auditors was held, the Board of Auditors have decided on fourteen agenda through the end of May 2006, including, among others, appointment of financial experts, remuneration of our independent auditors and pre-approval of audit and non-audit services by independent auditors of us and our subsidiaries.

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 independent registered 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, 2005, the aggregate amount of remuneration paid and accrued to the directors and executive officers (including the statutory auditors) as a group, was (Won)1,809 million. The aggregate amount we paid or accrued during the year ended December 31, 2005 to provide retirement and severance benefits for our directors and executive officers, including our statutory auditors, was (Won)179 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.

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EMPLOYEES

As of December 31, 2005, we had 36,853 regular employees, including the employees of our generation subsidiaries, almost all of whom are employed within the Republic. Approximately 8.4% of our regular employees (including employees of our generation subsidiaries) are located 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, 2005.

	KEPCO	KHNP	KOSEPCO	KOMIPO	KOWEPO	EWP	KOSPO	Total
Regular Employees								
Administrative	4,692	634	213	194	188	192	207	6,320
Service technicians	9,673	5,422	1354	1,731	1,271	1,585	1,377	22,413
Others	5,989	1,119	274	102	214	203	219	8,120
Total	20,354	7,175	1,841	2,027	1,673	1,980	1,803	36,853
Head Office Employees	1,208	806	202	253	227	198	209	3,103
% of total	5.9%	11.2%	10.9%	12.5%	13.6%	10.0%	11.6%	8.4%
Members of Labor Union	15,312	4,179	1,208	1,393	1,058	1,304	1,194	25,684
% of total	75.2%	58.2%	65.6%	68.7%	63.2%	65.9%	66.2%	69.6%

We 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 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.

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.

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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, or 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 independent registered public accountants. 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. Our board of auditors oversees 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 performed 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 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.

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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, which is available on 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, were 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, including us, were required to submit to the NYSE an initial annual written affirmation no later than 30 days after July 31, 2005 (or August 30, 2005). We submitted our annual written affirmation to the NYSE on August 30, 2005. Beginning in 2006, 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.

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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 December 31, 2005, the date we last closed our shareholders registry:

Title of Class	Identity of Person or Group	Shares Owned	Percentage of Class(1)
Common stock	Government(2)	346,580,693	54.02%
	Resolution & Finance Corporation	32,210,933	5.02
	National Pension Corporation	21,880,053	3.41
	KEPCO (held in the form of treasury stock)	5,450,062	0.85
	Employee Stock Ownership Association		
	Directors and executive officers as a group		
	Public(3)	235,445,971	36.70
Total		641,567,712	100.00%

Notes:

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

(2) Includes indirect holdings by the Republic through Korea Development Bank of 192,159,940 shares, or 29.95% of our shares. The Government currently owns 100% of Korea Development Bank.

(3) Includes 189,816,842 shares of common stock, representing 29.59% 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 (Won)5,000 to the Government in return for certain fixed assets in the form of an in-kind contribution from the Ministry of Defense of Korea of certain electric distribution facilities then under the management of such Ministry. 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 (Won)3,239 million and paid-in capital in excess of par value of (Won)11,425 million. In addition, in 2005, we issued another

819,139 shares with par value (Won)5,000 to the Government in return for certain fixed assets related to a similar in-kind contribution from the Ministry of Defense. These fixed assets were recorded based on the fair value of the common stock at the date of the transaction, which was approximately equal to the Government s carrying amount. The value of these shares were recorded as common stock of (Won)4,096 million and paid-in capital in excess of par value of (Won)23,846 million. See Item 4 Information on the Company Recent Developments In-kind Contribution from the Ministry of Defense .

As of December 31, 2005, the balance of long-term borrowings from Korea Development Bank, one of our major shareholders, amounted to (Won)4,920 billion and the related interest expense amounted to approximately (Won)216 billion for the year ended December 31, 2005. As of December 31, 2005 and for the year then ended, the balance of long-term borrowings from The Export-Import Bank of Korea amounted to (Won)45 billion and the related interest expense amounted to approximately (Won)4 billion. As of and for the year ended December 31, 2005,

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the balance of long-term borrowings from Industrial Bank of Korea amounted to (Won)70 billion and the related interest expense amounted to approximately (Won)3 billion. In addition, as of December 31, 2005 and for the year then ended, the balance of long-term borrowings from the Government amounted to (Won)131 billion and the related interest expense amounted to approximately (Won)3 billion.

Korea Development Bank has provided a repayment guarantee amounting to (Won)1,645 billion for some of our foreign currency debentures, which existed at the time of spin-off, but not redeemed as of December 31, 2005.

On behalf of our affiliates, KEPCO International Hong Kong Ltd., KEPCO Philippines Corp. and KEPCO Ilijan Corp., we have provided payment guarantees of US$172 million, US$254 million and US$114 million as of December 31, 2003, 2004 and 2005, respectively, to Korea Development Bank 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 14, 2006, we and our generation subsidiaries were a defendant in 315 different court proceedings. As of that date, those proceedings included claims against us amounting in the aggregate of (Won)233.3 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 on the Shares of Common Stock or ADSs and Item 10 Additional Information Taxation U.S. Federal Income and Estate Tax Consideration for U.S. Persons Tax Consequences with respect to Common Stock and ADRs Distributions on Common Stock or ADRs .

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ITEM 9. THE OFFER AND LISTING

Notes

Our 4.25% Notes due 2007 (the 4.25% Notes), 7 3/4% Debentures due April 1, 2013 (the 7 3/4% Debentures), 6 7/8% Notes due December 1, 2003 (the 6 7/8% 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), 6 3/4% Debentures due August 1, 2027 (the 6 3/4% Debentures) and together with the 4.25% Notes, the 7 3/4% Debentures, the 6 3/8% Notes, the 7.40% Debentures, the 7.95% Debentures, the 6% Debentures, the 7% Debentures and the 6 3/4% 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 6 3/8% 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 6 3/8% Notes. The 4.25% Notes and the 8 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 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 December 31, 2005, the date we last closed our shareholders registry, 153,161,588 ADSs representing 11.9% shares of our common stock were outstanding.

The Korea Exchange

The Korea Exchange began its operations in 1956, originally under the name of the Korea Stock Exchange. On January 27, 2005, pursuant to the Korea Exchange Act, the Korea Exchange was officially created through the consolidation of the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or KOSDAQ, and the KOSDAQ Committee within the Korea Securities Dealers Association, which was in charge of the management of the KOSDAQ. The 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 May 31, 2006, the aggregate market value of equity securit