KOREA ELECTRIC POWER CORP
Form 20-F
June 30, 2008
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As filed with the Securities and Exchange Commission on June 30, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

(Mark One)

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

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

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
(Translation of registrant s name into English)

The Republic of Korea
(Jurisdiction of incorporation or organization)

411 YOUNGDONG-DAERO, GANGNAM-GU, SEOUL 135-791, KOREA

(Address of principal executive offices)

Seung Bum Kim, +822 3456 4264, sbkim@kepco.co.kr, +822 556 3694

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

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

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

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

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. Yes þ No ¨

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

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

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

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

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

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

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

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

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

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

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

* 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.

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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 elsewhere, 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 certain selected consolidated financial data of us. 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, 2007. The consolidated financial statements as of and for the year ended December 31, 2003 and 2007 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, our current independent registered public accounting firm. The consolidated financial statements as of and for the years ended December 31, 2004, 2005, and 2006 have been audited by KPMG Samjong Accounting Corp., a Korean corporation, which is a member of KPMG International, a Swiss cooperative. The selected consolidated financial data should be read in conjunction with our consolidated financial statements and notes thereto as of December 31, 2006 and 2007 and for each of the years in the three-year period ended December 31, 2007.

Our consolidated financial statements are prepared in accordance with the Korea Electric Power Corporation Act, the Accounting Regulations for Public Enterprise Associate Government Agency 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 35 of the notes to our consolidated financial statements.

Consolidated Statement of Earnings Data

	Year Ended December 31,					
	2003	2004	2005	2006	2007	
	(in billions of Won and millions of US$, except per share data)					
Amounts in Accordance with Korean GAAP[(1)]:						
Operating revenues	(Won) 22,775	(Won) 23,956	(Won) 25,445	(Won) 27,409	(Won) 29,137	$ 31,136
Operating expenses	17,551	19,488	21,523	24,014	26,316	28,121
Operating income	5,224	4,467	3,922	3,395	2,822	3,015
Income before income taxes	4,110	4,700	3,825	3,369	2,393	2,558
Income taxes	1,763	1,795	1,392	1,123	926	990
Net income	2,323	2,883	2,432	2,246	1,467	1,568
Earnings per share						
Basic	3,686	4,576	3,790	3,488	2,294	2,451
Diluted	3,677	4,510	3,766	3,389	2,258	2,413
Earnings per ADS						
Basic	1,843	2,288	1,895	1,744	1,147	1,226
Diluted	1,839	2,255	1,883	1,695	1,129	1,206
Dividends per share	1,050	1,150	1,150	1,000	750	0.8

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	Year Ended December 31,					
	2003	2004	2005	2006	2007	
	(in billions of Won and millions of US$, except per share data)					
Amounts in Accordance with U.S. GAAP[2]:						
Operating revenue[3]	(Won) 22,781	(Won) 23,995	(Won) 25,445	(Won) 27,408	(Won) 29,189	$ 31,191
Operating income	6,373	4,860	4,380	3,727	3,231	3,453
Net income	4,552	3,535	2,970	2,645	1,835	1,961
Earnings per share						
Basic	7,221	5,612	4,675	4,146	2,952	3.15
Diluted	7,204	5,529	4,645	4,028	2,946	3.15
Earnings per ADS						
Basic	3,611	2,806	2,338	2,073	1,476	1.58
Diluted	3,602	2,765	2,323	2,014	1,473	1.57
Dividend per share	1,050	1,150	1,150	1,000	750	0.80
Other Data:						
Ratio of earnings to fixed charges[4]:						
Korean GAAP	4.1	4.6	4.8	3.8	3.1	3.1
U.S. GAAP[2]	6.0	5.0	5.3	4.2	3.7	3.7
Consolidated Balance Sheet Data						

	As of December 31,					
	2003	2004	2005	2006	2007	
	(in billions of Won and millions of US$, except per share data)					
Amounts in Accordance with Korean GAAP[1]:						
Net working capital surplus (deficit)[5]	(Won) (4,056)	(Won) (2,291)	(Won) (130)	(Won) 171	(Won) (3)	$ (3)
Property, plant and equipment, net	51,820	55,809	56,651	56,874	57,739	61,700
Construction in progress	9,551	7,517	7,355	8,393	9,824	10,498
Total assets	71,727	73,654	74,737	79,241	82,929	88,618
Total stockholders equity	37,782	40,602	42,338	43,235	44,267	47,304
Common stock	3,204	3,204	3,208	3,208	3,208	3,428
Long-term debt (excluding current portion)	15,814	15,073	15,494	15,428	16,121	17,226
Other long term liabilities	7,992	9,719	9,767	11,924	13,204	14,110
Amounts in Accordance with U.S. GAAP[2]:						
Total assets	65,380	65,310	66,864	72,513	76,616	81,872
Total liabilities	34,217	31,563	30,892	34,601	37,403	39,969
Total stockholders equity	31,163	33,747	35,972	37,912	39,213	41,903

Notes:

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

(2) 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 35 of the notes to our consolidated financial statements.

(3) For discussion of significant differences in revenue recognition under 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 35(a) of the notes to our consolidated financial statements.

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

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)935.80 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, 2007. On June 16, 2008, the Noon Buying Rate was (Won)1,038.5 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)		
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	930.00	954.32	1,002.90	913.70
2007	935.80	928.97	950.20	903.20
2008 (through June 16)	1,038.5	982.96	1,047.00	935.20
January	943.40	942.06	953.20	935.20
February	942.80	943.94	948.20	937.20
March	988.60	981.73	1,021.45	947.10
April	1,005.00	986.86	1,005.00	973.50
May	1028.50	1034.13	1047.00	1004.00
June (through June 16)	1,038.50	1,028.84	1,044.00	1,016.80

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 related to the electricity industry in Korea and its restructuring may have a material adverse effect on us.

On January 21, 1999, the Ministry of Knowledge Economy, or the MOKE, announced a restructuring plan for the electricity industry in Korea, or the 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, in April 2001, the Government established the Korea Power Exchange to deal with the sale of electricity and work out regulations governing the electricity industry to allow for electricity distribution through a competitive bidding process, a competitive bidding pool system for the sale and purchase of electricity and the Korean Electricity Commission to regulate the restructured Korean electricity industry and ensure fair competition.

In February 2001, our board of directors approved a plan to split our non-nuclear and non-hydroelectric generation unit into five wholly-owned generation subsidiaries and convert our nuclear and hydroelectric generation unit into a separate wholly-owned generation subsidiary. In March 2001, our shareholders approved the plan to establish the generation subsidiaries and allocate our assets and liabilities to such generation subsidiaries, effective as of April 2, 2001. In September 2003, the Tripartite Commission, which included, among others, representatives from the Government and the leading businesses and labor unions in Korea, established the Joint Study Group on Reforming Electricity Distribution Network to propose a methodology of introducing competition within the industry for the distribution of electricity. In June 2004, based on a report published by this Joint Study Group, the Tripartite Commission issued a resolution that recommended halting the plan to form and privatize the distribution subsidiaries, and in lieu thereof, creating independent business divisions within us, namely, the strategy business units, as a way of improving operational efficiency and internal competition among the business divisions. This resolution was adopted by the MOKE in June 2004, and we subsequently commissioned a third-party consultant to conduct a study on implementing plans related to the creation of the strategy business units and solicited comments on the study from various parties, including labor unions and the Government. Based on this study and the related comments, on September 25, 2006, we established nine strategy business units with a separate management structure with limited autonomy and separate financial accounting and performance evaluation criteria. The performance of these units is currently under evaluation for two years, and based on such evaluation, we may expand the use of strategic units or otherwise reformulate the structure of our business divisions. We cannot assure you that the strategic business units will successfully achieve their intended goals of improving operational efficiency and internal competition among the business divisions.

In December 2006, the Government announced the third Basic Plan. The third Basic Plan focuses on, among other things, (1) establishing an optimal level and mix of generating capacity based on fuel types and the operational efficiency of each generation unit, (2) equilibrating the supply and demand of electricity at the regional-level through region-specific planning for capacity expansion, (3) giving greater weight to environmental issues by proactively addressing some of the concerns identified under the United Nations Framework Convention on Climate Change and the Kyoto Protocol, (4) improving the accuracy of electricity supply forecast by adopting as its basis the effective supply reserve ratio, which takes into account only those

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generation units that are capable of generating electricity at times of peak demand, rather than the overall supply reserve ratio, which has been traditionally used and takes into account the supply capability of all generation units regardless of whether they are actually capable of generating electricity at times of peak demand, and (5) improving the transparency and the level of specializing in the decision-making process for formulating the basic plan by formalizing more compartmentalized processes and procedures, including seeking advice from outside experts. We cannot assure you that the third Basic Plan, or the plans subsequently adopted, will successfully achieve their intended goals, the foremost of which is to formulate a capacity expansion plan that will result in balanced overall electricity supply and demand in Korea at an affordable cost to the end users.

Further changes in the law and regulation relating to the electricity industry in Korea and the Government s plan, including any amendments thereto, for the electricity industry in Korea or its restructuring may have a material adverse effect on our business, growth prospects, financial condition and results of operation.

Failure to successfully implement the revised restructuring 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 MOKE released the basic privatization plan for five of our generation subsidiaries, other than our nuclear and hydroelectric power generation subsidiary. In 2002, we commenced the sale of Korea South-East Power Co., Ltd., or KOSEP, one of our non-nuclear generation subsidiaries. According to the original plan, the sale of KOSEP was, in principle, to take the form of a sale of management control, potentially supplemented by an initial public offering as a way of broadening the investor base.

KOSEP 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, KOSEP requested the Korea Exchange to delay the listing of its stock due to unfavorable stock market conditions at that time. We intend to resume KOSEP 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 in effect 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 35.7% and 39.5% of our operating revenues and operating expenses, respectively, in 2007 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 Indonesia, Australia and China, which accounted for approximately 44.6%, 27.6% and 17.9%, respectively, of the annual bituminous coal requirements of our generation subsidiaries in 2007. Approximately 76.5% of the bituminous coal requirements of our generation subsidiaries in 2007 were purchased under long-term contracts and the remaining 23.5% 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. For example, the average free on board Newcastle coal price index rose sharply from in US$65.3 per ton 2007 to US$125.6 per ton in March 2008. The prices of oil and LNG are substantially dependent on the price of crude oil, and according to Bloomberg (Bloomberg Ticker: PGCRDUBA), the average daily spot price of Dubai crude oil was US$68.29 per barrel in 2007 compared to

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US$61.53 per barrel in 2006 and was US$129.22 per barrel as of June 16, 2008. We expect that fuel prices will remain high throughout 2008 and thereafter. If fuel prices continue to be at their current levels or higher, our generation subsidiaries will be unable to secure their respective bituminous coal supplies 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.

Because the Government regulates the rates we charge for the 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 spike in fuel prices has had a material adverse effect on our results of operations and profitability in 2008 to date. If the fuel prices continue to increase and the Government, out of concern for inflation or for other reasons, maintains the current level of electricity tariff or does not increase it to a level to sufficient to offset the adverse impact from rising fuel prices, it will significantly narrow our profit margins and our business, financial condition, results of operations and cash flows would seriously suffer.

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. At this time, it is difficult to predict whether and to what extent the Won will continue to appreciate. The appreciation of the 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.

We also cannot assure you that the Won will not significantly depreciate against the U.S. dollar and other foreign currencies. The depreciation of the Won against the U.S. dollar and other foreign currencies in the past had resulted in a material increase in the cost of servicing our foreign currency debt and the cost of fuel materials and equipment purchased from overseas. In contrast, as of December 31, 2007, approximately 27.1% of our long-term debt (including the current portion thereof) was denominated in foreign currencies, principally in the U.S. dollar 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 the 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 have a material adverse effect on our profitability, our results of operations.

The proliferation of a competing system which enables regional districts to independently source electricity would erode our market position and hurt our business, growth prospects, revenues and profitability.

In July 2004, the government adopted the Community Energy System to enable regional districts to source electricity from independent power producers to supply electricity without having to undergo the cost-based pool system used by our generation subsidiaries and most independent power producers to distribute electricity nationwide. A supplier of electricity under the Community Energy System must be authorized by the Korea Electricity Commission and be approved by the Minister of Knowledge Economy (formerly known as the Minister of Commerce, Industry and Energy) in accordance with the Electricity Business Act. The purpose of this system is to decentralize electricity supply and thereby reduce transmission costs and improve the efficiency of energy use. These entities do not supply electricity on a national level but are licensed to supply electricity on a limited basis to their respective districts under the Community Energy System. As of April 30, 2008, three districts were using this system and 25 other districts were preparing to launch it. In comparison, as of December 31, 2006, one district was using this system and 20 other districts were preparing to launch it. The generation capacity installed or under construction of the electricity suppliers in the 28 districts amounted to approximately 2.3% of the generation capacity of our generation subsidiaries as of April 30, 2008. However, if the system is widely adopted, it will erode our market position in the generation and distribution of electricity in

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Korea, which has been virtually monopolistic until recently. Unless we become more operationally efficient and keep the loss of our market share to a minimum, this system may have a material adverse effect on our business, growth, revenues and profitability.

Labor unrest may adversely affect our operations.

As of December 31, 2007, approximately 66.4% of the employees of our non-nuclear generation subsidiaries were members of the Korean Power Plant Industry Union, and approximately 62.5% of the employees of KHNP, our nuclear generation subsidiary were members of the Korean Hydro & Nuclear Power Labor 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 and the employees of our generation subsidiaries belong have opposed the Restructuring Plan from its 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 the five non-nuclear generation subsidiaries. The Korean Confederation of Trade Unions, the second largest confederation of labor unions in Korea with over 850,000 members as of December 31, 2007, 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. There was no material disruption in the operation of generation subsidiaries as a result of such labor strike.

In June 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 are scheduled to be relocated to Naju in Jolla Province, which is approximately 300 kilometers south of Seoul, by the end of 2012. In addition, the headquarters of certain of our subsidiaries are scheduled to be relocated to various other cities in Korea. On December 14, 2007, the Government approved our headquarter relocation plan, including the scale and the target year of the relocation. According to this plan, prepared in accordance with the special law and the related guidelines, the currently estimated total relocation cost is (Won)417.5 billion, including (Won)397.3 billion as costs of building the new headquarters building as well as (Won)20.2 billion of moving costs for our headquarters and employees. This estimate is subject to further adjustment, including as a result of our request to the Government to amend the plan based on changed circumstances as necessary.

On March 13, 2008, based on Special Act on Construction and Support of Innovation Cities Regarding the Relocation of Public Agencies Outside the Capital and the related guidelines, we submitted a plan to the Government regarding what should be done to the site of the current headquarters in Samsung-dong after its relocation to Naju. The details of such plan, such as whether to dispose the current buildings and land by sale or to permit development or reuse by us, will be finalized after the relocation to Naju is made. Under this law, the Government may require us to amend such plan, including the time of disposal.

While we intend to comply with the relocation plan, there can be no assurance that the labor unions that our employees and the employees of our subsidiaries belong to will not oppose the relocation. 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 area, 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 generation 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

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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 cost structure, which is also least costly among the fuel types that comprise the base load and is the largest source of Korea s electricity supply, accounting for 35.5% of electricity generated in Korea in 2007. Due to significantly lower fuel costs compared to conventional power plants, our nuclear power plants are generally 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 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 of 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 generation units may have an adverse effect on us.

In 2007, our nuclear generation units accounted for 35.5% of the electricity generated in Korea. In recent years, we have encountered increasing social and political opposition to the construction and operation of nuclear generation 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 amount and scope of coverage of our insurance are limited.

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

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

Because we and our non-nuclear generation subsidiaries do not carry insurance against terrorist attacks, an act of terrorism would result in significant financial losses. See Item 4 Information on the Company Business Overview Insurance.

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

We anticipate that additional indebtedness will be required through the coming years in order to refinance existing debt and 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 issuance of securities in international capital markets. The cost of such financing may not be acceptable to us.

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

Under applicable laws, the Government, is required to own directly, or through Korea Development Bank (a statutory banking institution wholly-owned by the Government), at least 51% of our issued capital stock. As of May 6, 2008, the Government, directly or through Korea Development Bank, owned 51.07% of our issued capital stock. Accordingly, without changes in the existing Korean law, it may be difficult or impossible for us to undertake, without the participation of the Government, any equity financing in the future (other than sales of treasury stock).

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 to 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, including the weakness in the global financial markets engendered in part by the subprime mortgage crisis in the United States, 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.

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 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 related benefits (such as increased exports to China) are outweighed by related costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China);

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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, 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. In 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 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 July 2006, North Korea conducted several missile tests, which increased tensions in the region and raised strong objections from Japan and the United States. In response, the United Nations Security Council passed a resolution condemning such missile tests and banning any United Nations member state from conducting transactions with North Korea in connection with material or technology related to missile development or weapons of mass destruction. On October 9, 2006, North Korea announced that it had successfully conducted a nuclear test, which increased tensions in the region and raised strong objections from Korea, the United States, Japan, China and other nations worldwide. In response, the United Nations Security Council passed a resolution which prohibits any United Nations member state from conducting transactions with North Korea in connection with any large-scale arms and material or technology related to missile development or weapons of mass destruction and providing luxury goods to North Korea, and imposes freezing of assets and an international travel ban on persons associated with North Korea s weapons programs, and calls upon all United Nations member states to take cooperative action, including through the inspection of cargo to or from North Korea. In February 2007, the six parties entered a new accord whereby North Korea would begin to disable its nuclear facilities in

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return for fuel oil and aid. In October 2007, Korea and North Korea held a summit meeting to discuss easing tensions and fostering peace on the Korean peninsula. Mr. Lee Myung Bak, who became the President of the Republic in February 2008, has announced that no further summit meetings will be held until North Korea discontinues its nuclear weapons program.

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. According to the U.S. Department of Defense, there were 28,000 U.S. soldiers stationed in Korea as of February 23, 2007, and the number is expected to decrease to 25,000 by the end of 2008. These can be no assurance that the level of tension on the Korean peninsula will not escalate in the future. 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 Korea National Statistical Office, the unemployment rate changed from 3.3% as of December 31, 2002, to 3.6% as of December 31, 2003, 3.7% as of December 31, 2004, 3.7% as of December 31, 2005, 3.5% as of December 31, 2006 and 3.1% as of December 31, 2007. 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 the price of our common stock and our American depositary shares.

Financial instability in Korea and other countries, particularly emerging market countries, may adversely affect us.

The Korean market and economy are influenced by economic and market conditions in other countries, including emerging market countries. Past financial turmoil in Asia and elsewhere in the world 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, could have adverse effects on the price of securities of companies in other countries, including Korea. A loss of investor confidence in the financial systems of emerging and other markets, including as a result of the weakness in the global financial markets engendered in part by the subprime mortgage crisis in the United States, may cause increased volatility in the 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 a material 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.

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

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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; and

treatment of liabilities for decommissioning costs.

See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Reconciliation to U.S. GAAP and Note 35 of the notes to our consolidated financial statements.

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 will continue to be, subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002, as amended. However, foreign private issuers, including us, are exempt from certain corporate governance standards required under the Sarbanes-Oxley Act or the rules of the New York Stock Exchange. 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 411 Youngdong-daero, 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 with respect to shares of Government-owned companies. In 1994, the Government sold 1.2% of our outstanding shares in a global offering. In 1995, the Government sold 1.1% of our shares in another global offering. From November 1997 to February 1998, the Government contributed our shares as a capital injection into Korea Development Bank, The Export-Import Bank of Korea, Korea First Bank and Seoul Bank to support the financial conditions of 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 represented 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 represented 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 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 the outstanding shares of our common stock. On November 21, 2006, we purchased 18,900,000 of common shares, or 2.95% of our total outstanding common stock held by the Government as treasury shares. Currently, the Government and Korea Development Bank own 21.12% and 29.95% of our common shares, respectively. See the table setting forth certain information relating to certain owners of our capital stock as of December 31, 2007 in Item 7 Major Shareholders and Related Party Transactions Major Shareholders.

Under relevant laws, the Government is required to own, directly or through Korea Development Bank, 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 Ministry of Knowledge Economy, or the MOKE, (formerly known as the Ministry of Commerce, Industry and Energy, or the MOCIE) based on the Government s ownership of our common stock and a proxy received from Korea Development Bank in consultation with the Ministry of Strategy and Finance, or the MOSF (formerly known as the Ministry of Finance and Economy, or the MOFE).

We operate under the general supervision of the MOKE. The MOKE, in consultation with the MOSF, is responsible 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 MOKE, the MOSF 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. There currently may not be more than seven standing directors, including our president, or more than eight non-standing directors. The number of standing directors, including our president, may not exceed the number of non-standing directors. A senior non-standing director appointed by the Minister of the Ministry of Strategy and Finance becomes our chairman of the board, following the review and resolution of the Public Agencies Operating Committee. Our president is appointed by the President of the Republic upon the motion of the MOKE from a pool of candidates recommended by our director nomination committee, the review and resolution of the Public Agencies Operating Committee pursuant to the Public Agencies Management Act and an approval at the general meeting of our shareholders. Standing directors other than our president must be appointed by our president with the approval at the general meeting of our shareholders from a pool of candidates recommended by our director nomination committee. The non-standing directors must be appointed by the Minister of the Ministry of Strategy and Finance following the review and resolution of the Public Agencies Operating Committee from a pool of candidates recommended by the director nomination committee and have ample knowledge and experience in business management. Government officials that are not part of the teaching staff in national and public schools are ineligible to become our non-standing directors. Our president serves as our chief executive officer and represents us, administers our day-to-day business in all matters and bears the responsibility for management performance. The term of our president is three years, while that of the directors is two years. According to the Public Agencies Management Act, our president s term cannot be terminated unless done so by the President of the Republic pursuant to the Public Agencies Management Act or upon an event as specified in our articles of incorporation.

In June 2005, we amended our articles of incorporation, among others, to establish a Board of Auditors in compliance 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. Until the resignation of the standing auditor on April 30, 2008, our board of auditors consisted of one standing auditor and two non-standing auditors, and since April 30, 2008, two non-standing directors. The standing auditor must be appointed by the President of the Republic upon the motion of the Ministry of Strategy and Finance from a pool of candidates recommended by the director nomination committee and approved by the Public Agencies Operating Committee, following a resolution at the general meeting of our shareholders. The non-standing auditors must be appointed by the President of the Republic upon the motion of the Ministry of Strategy and Finance from a pool of candidates recommended by the director nomination committee and approved by the Public Agencies Operating Committee. 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. Following the enactment of the Public Agencies Management Act, which took effect as of April 1, 2007, we are designated as a market-oriented public enterprise, which is required to establish an audit committee in lieu of a board of auditors that we currently have. However, if the term of the board of auditors has not expired at the time of such designation, a market-oriented public enterprise is required to establish an audit committee at the end of such term.

In September 2007, we amended our articles of incorporation to establish an audit committee meeting the requirements under the Sarbanes-Oxley Act and expect to establish an audit committee on or around July 5, 2008, when the term of our remaining auditors expires. 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.

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Our electricity rates are established pursuant to procedures that take into account, among other things, our needs to recover the costs of operations, make capital investments and provide a fair return to our security holders.

See Item 4 Information on the Company Business Overview Rates.

Recent Developments

Tariff Increase

On December 26, 2007, as part of a plan to improve the electricity tariff structure, the Ministry of Knowledge Economy, or MOKE, announced its plan to adjust our electricity rate tariff by increasing the average industrial rates and average night power usage rates by 1.0% and 17.5%, respectively, while reducing the average commercial rates by 3.2%. As a result of such adjustments which had the effect of balancing out the increase with the decrease, our overall average rate is not expected to change. The adjusted tariff took effect as of January 1, 2008.

The tariffs we charge for electricity vary depending on the categories of consumers, which principally consist of industrial, commercial, residential, educational and agricultural consumers. The rates for night power usage are charged to consumers using the night power usage system available to customers with electric appliances or equipments that use energy stored during the night before (from 11:00 p.m. to 9:00 a.m. of the following morning). Such system was introduced primarily for the purpose of managing electricity demand by encouraging customers to use more power during off-peak hours of the day with less demand. The night power usage rates had been largely classified as residential rates. In 2006, revenues from night power usage accounted for approximately 2% of our total electricity revenues. See Item 4. Information on the Company Business Overview Sales and Customers Rates.

Sale of Treasury Stock

On September 27, 2007, the investment trust management agreement among Prudential Asset Management Co. Ltd., Hana Daetoo Securities Co., Ltd., Korea Investment & Securities Co., Ltd., collectively as investment managers, was terminated upon expiration of its term under the contract. Under this agreement, the aforementioned investment managers managed the assets contributed by us into a special purpose vehicle, established in December 1992 for the purpose of market stabilization of the Korea Stock Exchange, into which we and certain other companies in Korea made an investment by way of in-kind contribution of our and their respective treasury stock. Following the termination of the investment trust management agreement, our treasury stock contributed into such vehicle was sold in the market, and we received the net proceeds thereof in the amount of (Won)84 billion. The aggregate amount of our assets at the time of initial contribution under the investment trust management agreement was (Won)50 billion. See Item 4 Information on the Company Proposed Sale by Us of Certain Power Plants and Equity Interests.

BUSINESS OVERVIEW

Introduction

We are an integrated electric utility company which is engaged in the transmission and distribution of substantially all of the electricity in Korea. Through our six consolidated generation subsidiaries, we also generate substantially all of the electricity produced in Korea. As of December 31, 2007, we and our generation subsidiaries owned approximately 88.3% of the total electricity generating capacity in Korea (excluding plants generating electricity primarily for private or emergency use). In 2007, we sold 369 billion kilowatt-hours of electricity. Of the 386 billion kilowatt-hours of electricity we purchased in 2007, 37.9% was generated by Korea Hydro & Nuclear Power Co., Ltd., our wholly-owned nuclear and hydroelectric power generation subsidiary. We also wholly own our five non-nuclear generation subsidiaries, Korea South-East Power Co., Ltd, or KOSEP, Korea Midland Power Co., Ltd., or KOMIPO, Korea Western Power Co., Ltd., or KOWEPO, Korea Southern Power Co., Ltd., or KOSPO, and Korea East-West Power Co., Ltd., or EWP.

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For the year ended December 31, 2007, we had consolidated operating revenues of (Won)29,137 billion (US$31,136 million) and consolidated net income of (Won)1,467 billion (US$1,568 million) and for the year ended December 31, 2006, we had consolidated operating revenues of (Won)27,409 billion and consolidated net income of (Won)2,246 billion. Our operating revenues increased primarily as a result of a 5.7% increase in kilowatt hours of electricity sold in 2007. The increase in electricity sold was primarily attributable to a 6.5% increase in kilowatt hours of electricity sold to the industrial sector, a 5.7% increase in kilowatt hours of electricity sold to the commercial sector and a 3.3% 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 5.8% per annum for the five years ended December 31, 2007 compared to real gross domestic product, GDP, compounded growth rates of approximately 4.3% for the same period according to The Bank of Korea. The GDP growth rate was 5.0% for 2007 as compared to 5.0% in 2006. Demand for electricity in Korea increased by 5.7% from 2006 to 2007.

Historically, we have made substantial expenditures for the 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 and 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 16, 2008, the Government owned 51.07% (including indirect holdings by Korea Development Bank, which is wholly-owned by the Government) of the outstanding shares of our 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 MOKE published the Restructuring Plan. The overall objectives of the Restructuring Plan are to:

- introduce competition and thereby increase efficiency in the Korean electricity industry,
- ensure a long-term, inexpensive and stable electricity supply, and
- promote consumer convenience through the expansion of consumer choice.

The KEPCO Act requires that the Government own at least 51% of our capital 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 Ministry of Knowledge and Economy in consultation with the Ministry of Strategy and Finance. The Government currently has no plan to cease to own, directly or indirectly, at least 51% of our outstanding common stock.

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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 under 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 five separate wholly-owned generation subsidiaries, namely, KOMIPO, KOSEP, KOWEPO, KOSPO and EWP, each with its own management structure, assets and liabilities. Our hydroelectric and nuclear generating capacity was transferred into a separate wholly-owned generation subsidiary, 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 retained, until the adoption of the Community Energy System in July 2004 as further discussed in Transmission and Distribution below, our monopoly position with respect to the 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 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 pool system was established on April 2, 2001 and is a cost-based system. For a further description of the pool system, see Power Purchase Cost-based Pool System below.

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 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 have the proposed amendment reviewed by the Korea Electricity Commission and then obtain the approval of the Ministry of Knowledge and Economy.

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 participants in the Korean electricity industry. The Korea Electricity Commission also acts as an arbitrator in disputes involving utility rates and participants in the Korean electricity industry and consumers and investigates illegal or deceptive activities of the participants in the Korean electricity industry.

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Privatization of Non-nuclear Generation Subsidiaries

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

Suspension of the Plan to Form and Privatize Distribution Subsidiaries

In September 2003, the Tripartite Commission, which included, among others, representatives from the Government and the leading businesses and labor unions in Korea, established the Joint Study Group on Reforming Electricity Distribution Network to propose a methodology of introducing competition within the industry for distribution of electricity. In June 2004, based on a report published by this Joint Study Group, the Tripartite Commission issued a resolution that recommended halting the plan to form and privatize the distribution subsidiaries, and in lieu thereof, creating independent business divisions within us, namely, the strategy business units, as way of improving operational efficiency and internal competition among the district divisions. This resolution was adopted by the MOKE in June 2004, and we subsequently commissioned a third party consultant to conduct a study on implementing plans related to the creation of the strategy business units and solicited comments on the study from various parties, including labor unions and the Government. Based on this study and the related comments, on September 25, 2006, we established nine strategy business units having a separate management structure with limited autonomy and separate financial accounting and performance evaluation criteria. The performance of these units is currently under evaluation for two years, and based on whether the strategic business units successfully achieve their intended goals of improving operational efficiency and internal competition, we may expand the use of strategic business units.

Power Purchase

Cost-based Pool System

Since April 2001, the purchase and sale of electricity in Korea is required to be made through the Korea Power Exchange, which is a statutory not-for-profit organization established under the Electricity Business Act, which is responsible for setting the price of electricity, handling the trading and collecting relevant data for the electricity market in Korea. The suppliers of electricity in Korea consist of our six generation subsidiaries, which were spun off from us in April 2001, and independent power producers, which numbered 96 as of December 31, 2007. We distribute electricity purchased through the Korea Power Exchange to the end users.

The price of electricity in the Korean electricity market is determined principally based on the cost of generating electricity using a system known as the cost-based pool system. In order to stabilize the cost of generating electricity against external factors such as movements in fuel costs and currency exchange rates as well as to ensure a fair rate of return for the generating companies, the cost-based pool system uses two-tiered pricing structures, namely the base load pricing for electricity generated from nuclear fuels and coal and the non-base load pricing for electricity generated from liquefied natural gas, or LNG, oil and hydroelectric power. The base-load fuels on average are substantially less expensive than the non-base load fuels. Under the cost-based pool system, the price of electricity has two principal components, namely the marginal price and the capacity price. The primary purpose of the marginal price is to compensate the generation companies for fuel costs, which represents the principal component of the variable costs of generating electricity. The marginal price

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is determined as the variable cost of the generation unit with the highest variable cost among the generation units that participate in the bidding and are selected to meet electricity demand for a given time slot. The selection is based on the merit of the price in the bids submitted.

The base load marginal price, which had been in effect until December 31, 2006, was abolished and new price caps with respect to the base load units as discussed above were introduced at a level substantially higher than the pre-existing base load marginal price. Following the abolition of the base load marginal price, a single capacity price for base load and non-base load electricity was introduced at (Won)7.61/kWh in order to avoid potentially excessive losses for KEPCO in its purchase of base load electricity. The base load marginal price in 2006 was (Won)18.95/kWh compared to the new price caps of (Won)32.20/kWh for nuclear fuels and (Won)32.68/kWh for coals. The base load capacity price and the non-base load capacity price were (Won)20.49/kWh and (Won)7.17/kWh, respectively, in 2006. However, in order to prevent a generation company from reaping excessive profit as well as to maintain a balance in the respective profit margins of the generation companies and that of us who purchase electricity from them, price caps, known as regulated market prices, have been adopted as of January 1, 2007, with respect to the base load pricing. As of April 30, 2008, the price cap for electricity from nuclear fuels was (Won)29.53/kWh and that for electricity from coal was (Won)34.05/kWh. However, the regulated market prices, which acted effectively as price caps on coal-fueled and nuclear power sold to us, deteriorated the profitability of our generation subsidiaries that primarily rely on coal sources for electricity generation, due to the significant increase in the price of coal last year and their inability to pass the increased costs to us.

Therefore, as of May 1, 2008, the regulated market prices system was abolished, and a new power pool market system was introduced in its stead. The new system provides for adaptable price caps under the concepts of a system marginal price and an adjusted coefficient of the system marginal price. Under this new system, the price of electricity that our generation subsidiaries sell to us is determined using the following formula:

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

The system marginal price is determined as the variable cost of generating electricity at the most expensive generation unit, from which electricity is dispatched during the trading period. The system marginal price is determined every hour by merit order. Merit order is a power dispatch order system determined and used by the KPX. The KPX determines the allocation of power supplied by generation companies. This determination is primarily dependent on variable costs 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.

The adjusted coefficient is determined by the Cost Evaluation Committee in principle on an annual basis, although in cases of significant volatility in terms of external factors such as fuel costs and electricity tariff rates, the adjusted coefficient can be adjusted on a quarterly basis.

In addition to the variable cost of generating electricity, our generation subsidiaries also receive payment in the form of capacity price, the purpose of which is to compensate them for the costs of constructing generation facilities and to provide incentives for new construction. The capacity price is determined annually by the Cost Evaluation Committee based on the construction costs and maintenance costs of a standard generation unit and is paid to each generation company for the amount of available capacity indicated in the bids submitted the day before trading. Currently, the capacity price is (Won)7.79/kWh, which has applied equally to base-load and non-base load generation units since January 1, 2008. Effective as of January 1, 2007, a regionally differentiated capacity price system was introduced by setting a standard capacity reserve ratio in the range between 12% and 20% in order to prevent excessive capacity build-up as well as induce optimal capacity investment at the regional level. The capacity reserve ratio is the ratio of peak demand to the total available capacity. Under the amended system, generation units in a region that do not meet the standard capacity reserve ratio (which indicates that in such region available capacity is not sufficient to meet demand for electricity) will receive increased capacity price. On the other hand, generation units in a region that exceeds the standard capacity reserve ratio (which indicates that in such region available capacity exceeds demand for electricity) will receive reduced capacity price.

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In connection with the plan to form and privatize the distribution subsidiaries that has been suspended (see Restructuring of the Electricity Industry in Korea Suspension of the Plan to Form and Privatize Distribution Subsidiaries), there was a discussion of replacing the current cost-based pool system with a more market-oriented system known as a two-way bidding pool system based on bidding by a pool of generating companies on the supply side and a pool of retail distributors (rather than us as the distributor of substantially all of electricity in Korea) on the demand side. However, we believe that due to the indefinite suspension of the restructuring plan, the two-way bidding pool system will not be adopted in the near future absent any unexpected change in government policy.

Power Trading Results

		For the Year Ended December 31, 2007				
	Items	Volume (Gigawatt hours)	Percentage of Total Volume	Sales to KEPCO (in billions of Won)	Percentage of Total Sales	Unit Price (Won/kWh)
Generation Companies	KHNP	137,914	36.8%	5,509	26.0%	39.94
	KOMIPO	42,842	11.4	2,143	10.1	50.02
	KOSEP	39,899	10.6	2,799	13.2	70.14
	KOWEPO	46,987	12.5	3,096	14.6	65.98
	KOSPO	50,346	13.5	3,728	17.6	74.06
	EWP	45,744	12.2	2,866	13.5	62.66
	Others[(1)]	10,834	2.9	1,064	5.0	98.24
	Total	374,566	100.0%	21,205	100.0%	56.61
Energy Sources	Nuclear	136,599	36.5	5,386	25.4	39.43
	Bituminous coal	143,629	38.3	5,879	27.7	40.93
	Anthracite coal	5,501	1.5	360	1.7	65.37
	Oil	16,493	4.4	1,930	9.1	117.04
	LNG	3,710	1.0	476	2.2	128.32
	Combined cycle	62,359	16.6	6,485	30.6	104.00
	Hydro	3,591	1.0	336	1.6	93.60
	Pumped storage	1,398	0.4	243	1.1	173.76
	Others	1,286	0.3	110	0.5	85.77
	Total	374,566	100.0%	21,205	100.0%	56.61
Load	Base load	284,624	76.0	11,531	54.4	40.51
	Non-base load	89,942	24.0	9,674	45.6	107.56
	Total	374,566	100.0%	21,205	100.0%	56.61

Note:

(1) Others represent independent power producers that trade electricity through the cost-based pool system of power trading.

Power Purchased from Independent Power Producers with Power Purchasing Agreements

In 2007, we purchased an aggregate of 11,803 gigawatt hours of electricity generated by independent power producers under existing power purchase agreements, outside of the cost-based pool system of power trading. These independent power producers had an aggregate capacity of 3,746 megawatts as of December 31, 2007.

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Power Generation

The electricity generating systems of our generation subsidiaries as of December 31, 2007 consisted of a total of 414 generation units, including nuclear, thermal, hydro and internal combustion units, which had an aggregate installed generating capacity of 60,269 megawatts as of December 31, 2007. 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.

The table below sets forth as of and for the year ended December 31, 2007 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)
Nuclear	20	17,716	90.3
Thermal:			
Coal	44	20,465	89.3
Oil	19	4,489	39.8
LNG	6	1,538	15.1
Total thermal	69	26,492	76.1
Internal combustion	164	303	35.7
Combined cycle	90	11,288	61.1
Hydro	53	4,440	7.1
Wind	11	24	25.1
Solar	6	5.7	12.6
Fuel cell	1	0.3	95.4
Total	414	60,269	67.9

Notes:

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

(2) Average capacity factor represents the total number of kilowatt hours of electricity generated in the period divided by the total number of kilowatt hours that would have been generated assuming continuous operation of generation 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 40 and 30 years, respectively; internal combustion, over 25 years; and hydroelectric, over 55 years. Substantial renovation can extend the useful life of thermal units by up to 20 years.

We attempt to achieve efficient use of generating resources and diversification of generating capacity by fuel type. We have in the past relied principally upon oil-fired thermal generation units for electricity generation. Since the oil shock in 1974, however, Korea s power development plans have emphasized the construction of nuclear generation units. While nuclear units are more expensive to construct than non-nuclear units of comparable capacity, nuclear fuel is less expensive than fossil fuels in terms of electricity per cost output. 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 for electricity is continuously stable. 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

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therefore we have sought to maximize the use of bituminous coal for generation needs in excess of the stable demand level, except for meeting short-term surges in demand which require rapid start-up and shutdown. Thermal units fired by LNG, hydroelectric units and gas turbine internal combustion units are the most efficient types of units for rapid start-up 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 in terms of electricity output per cost.

Our generation subsidiaries have constructed and recommissioned thermal and internal combustion units in order to help meet power demand. Subject to market conditions, our generation subsidiaries plan to continue to add additional thermal and internal combustion units. 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, 2007 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.

	2003	2004	2005	2006	2007	% of 2007 Gross Generation[1]
	(million kilowatt hours and percent)					
Electricity generated by generation subsidiaries:						
Nuclear	129,671	130,715	146,779	148,749	142,937	35.5
Thermal:						
Coal	121,931	128,547	134,892	140,346	155,684	38.6
Oil	16,664	16,084	15,529	14,307	15,703	3.9
LNG	1,674	733	786	1,258	2,028	0.5
Total thermal	140,269	145,364	151,207	155,911	173,415	43.0
Internal combustion	370	407	575	677	579	0.1
Combined cycle	33,075	47,652	48,311	54,174	60,465	15.0
Hydro	3,479	3,042	2,867	2,914	2,779	0.7
Wind		11	19	21	21	0.0
Solar and fuel cells				1	5	0.0
Total generation	306,866	327,191	349,758	362,447	380,201	94.3
Electricity purchased from others:						
Thermal	12,178	12,137	12,559	16,429	20,660	5.1
Hydro	3,408	2,820	2,322	2,305	2,263	0.6
Total purchased	15,586	14,957	14,881	18,734	22,923	5.7
Gross generation	322,452	342,148	364,639	381,181	403,124	100.0
Auxiliary use[2]	14,226	15,268	16,452	15,812	16,613	4.1
Pumping storage[3]	2,581	1,994	1,980	2,315	1,817	0.5
Total net generation[4]	305,645	324,886	346,207	363,054	384,694	95.4
Transmission and distribution losses	13,539	14,490	15,615	14,587	15,345	4.0

Notes:

(1) Unless otherwise indicated, the percentages are based on gross generation.

(2) Auxiliary use represents electricity consumed by generation 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 of the five years ended December 31, 2007.

	2003	2004	2005	2006	2007
			(Megawatts)		
Total capacity	56,053	59,961	62,258	65,514	68,268
Peak load	47,385	51,264	54,631	58,994	62,285
Average load	36,810	39,058	41,625	43,514	46,019

Korea Hydro & Nuclear Power Co., Ltd.

We commenced nuclear power generation activities in 1978 when our first nuclear generation 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 generation units at four power plant complexes in Korea, located in Kori, Wolsong, Yonggwang and Ulchin as well as 27 hydroelectric generation units and 1 solar generation unit.

The table below sets forth as of and for the year ended December 31, 2007 the number of units, installed capacity and the average capacity factor for the three types of generating facilities.

	Number of Units	Installed Capacity[(1)] (Megawatts)	Average Capacity Factor[(2)] (Percent)
Nuclear	20	17,716	90.3
Hydroelectric	27	535	28.5
Solar	1	1	20.0
Total	48	18,252	

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 generation units at installed capacity expressed as a percentage.

We are currently building six additional nuclear generation units, four with a 1,000-megawatt capacity and two with a 1,400 megawatt capacity at the Shin Kori and Shin Wolsong sites, respectively. We expect to complete these units between 2010 and 2014. In addition, we plan to build two additional nuclear units, each with a 1,400 megawatt capacity, at the Shin Ulchin site.

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Nuclear

The table below sets forth certain information with respect to the nuclear generation units KHNP owned as of December 31, 2007.

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 2007 with respect to each nuclear generation unit KHNP owned. In 2007, the fuel cost was (Won)5.85 per kilowatt hour.

Unit	Average Capacity Factor (Percent)	Average Fuel Cost Per kWh (Won)
Kori-1	92.2%	(Won) 5.8
Kori-2	89.7	6.4
Kori-3	96.4	5.2
Kori-4	88.0	5.6
Wolsong-1	89.8	8.9
Wolsong-2	90.9	8.0
Wolsong-3	94.3	8.1
Wolsong-4	93.2	8.3
Yonggwang-1	77.6	5.4
Yonggwang-2	85.0	5.6
Yonggwang-3	89.5	5.6
Yonggwang-4	88.1	5.8
Yonggwang-5	99.5	4.9
Yonggwang-6	90.6	5.6
Ulchin-1	88.1	5.0
Ulchin-2	90.0	5.2
Ulchin-3	90.8	5.2
Ulchin-4	91.2	5.0
Ulchin-5	92.2	5.2
Ulchin-6	91.0	5.4
Total nuclear	90.3%	(Won) 5.9

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 for 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 0.6 unplanned shutdowns per unit in 2007. 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, 2007 certain information regarding each hydroelectric plant.

Name (Number of Plants)	Classification	Year Built	Installed Capacity (Megawatts)	Average Capacity Factor for the twelve months ended December 31, 2007 (Percent)
Hwacheon[4]	Dam waterway	1944	108.00	20.0%
Chuncheon[2]	Dam	1965	57.60	23.1
Euiam[2]	Dam	1967	45.00	37.6
Cheongpyung[3]	Dam	1943	79.60	38.5
Paldang[4]	Dam	1973	120.00	42.4
Seomjingang[3]	Basin deviation	1945	34.80	42.0
Boseonggang[2]	Basin deviation	1937	4.50	58.2
Kwoesan[2]	Dam	1957	2.60	49.4
Anheung[3]	Dam waterway	1978	0.48	46.5
Kangreung[2]	Basin deviation	1991	82.00	
Total hydroelectric			534.58	28.5%

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 the ease of its start-up and shut-down mechanism, hydroelectric power generation is reserved for peak periods.

Korea South-East Power Co., Ltd.

As of December 31, 2007, Korea South-East Power Co., Ltd., or KOSEP, 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. KOSEP 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 megawatts. KOSEP had a total installed capacity of 7,194 megawatts.

The table below sets forth as of and for the year ended December 31, 2007, for each plant location, the weighted average age, installed capacity, average capacity factor and average fuel cost of the thermal units KOSEP owned based upon the net amount of electricity generated.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh
Bituminous:				
Samchunpo #1, 2, 3, 4, 5, 6	16	3,240	90.44	(Won) 22.60
Yong Hung #1, 2	3	1,600	83.40	22.00
Anthracite:				
Yongdong #1, 2	31	325	58.11	64.90
Oil-fired:				
Yosu #1, 2	31	529	35.72	96.79
Total thermal	15	5,694	81.54	(Won) 27.12

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The table below sets forth as of and for the year ended December 31, 2007, 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 KOSEP owned based upon the net amount of electricity generated.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh
Combined Cycle and Internal Combustion:				
Bundang gas turbine #1,2,3,4,5,6,7,8; steam turbine #1, 2	14	900	48.09%	(Won) 107.34
Pumped storage:[1]				
Muju #1, 2	13	600	3.96	61.71

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, 2007, Korea Midland Power Co., Ltd., or KOMIPO, had 19 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 1,537.5 megawatts, constituting a total installed capacity of 5,192.5 megawatts for its thermal units. KOMIPO also had 15 combined cycle and internal combustion units with aggregate installed capacity of 2,303.5 megawatts, two wind-power units with aggregate installed capacity of three megawatts, four pumped storage units with an aggregate installed capacity of 1,000 megawatts and two hydroelectric units with installed capacity of 1.4 megawatt.

The table below sets forth as of and for the year ended December 31, 2007, 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 (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh
Bituminous:				
Boryeong #1, 2, 3, 4, 5, 6	16.5	3,000	89.0%	(Won) 20.6
Anthracite:				
Seocheon #1, 2	23.5	400	58.3	77.2
Oil-fired:				
Jeju #1, 2, 3, 4, 5	11.3	255	59.1	104.0
LNG-fired:				
Seoul #4, 5	37.0	387.5	55.2	133.6
Incheon #1, 2, 3, 4	31.1	1,150	2.1	195.7
Total thermal	21.1	5,192.5	52.7%	(Won) 33.8

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The table below sets forth as of and for the year ended December 31, 2007, 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 (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh
Combined cycle and internal combustion:				
Boryeong gas turbine #1, 2, 3, 4, 5, 6, 7, 8; steam turbine #1, 2, 3, 4	7.2	1,800	53.2%	(Won) 82.9
Incheon gas turbine #1, 2; steam turbine #1	1.6	503.5	81.6	75.7
Total combined cycle and internal combustion	6.3	2,303.5	59.4%	(Won) 80.5
Wind-powered:				
Yangyang #1, 2	0.6	3	14.7%	
Pumped storage:				
Yangyang #1, 2, 3, 4	0.9	1,000	41.7%	(Won) 56.0
Hydroelectric:				
Yangyang	1.4	1.4	27.0%	

Korea Western Power Co., Ltd.

As of December 31, 2007, Korea Western Power Co., Ltd., or KOWEPO, had 12 thermal units, including eight coal-fired units with aggregate installed capacity of 4,000 megawatts and four oil-fired units with aggregate installed capacity of 1,400 megawatts, constituting a total installed capacity of 5,400 megawatts for its thermal units. KOWEPO also had 21 combined cycle units with aggregate installed capacity of 2,280 megawatts, four pumped storage units with aggregate installed capacity of 1,200 megawatts and two photovoltaic units with aggregate installed capacity of 2.12 megawatts.

The table below sets forth as of and for the year ended December 31, 2007 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 (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh
Bituminous:				
Taean #1, 2, 3, 4, 5, 6, 7, 8	7.3	4,000	92.9%	(Won) 21.97
Oil-fired:				
Pyeongtaek #1, 2, 3, 4	26.1	1,400	45.0%	(Won) 90.53
Total thermal	12.2	5,400	79.5%	(Won) 32.46

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The table below sets forth as of and for the year ended December 31, 2007, 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 (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh
Combined cycle:				
Pyeongtaek combined cycle	14.8	480	21.9%	(Won) 101.61
West Incheon combined cycle	15.5	1,800	69.8%	82.28
Total combined cycle	15.4	2,280	59.8%	90.33
Pumped storage:				
Samryangjin #1, #2	22.1	600	4.2%	62.89
Cheongsong #1, #2	1.1	600	5.9%	68.57
Total Pumped storage	11.6	1,200	5.0%	66.01
Photovoltaic power generation:				
Taean site	2.4	0.12	11.2%	
Samryangjin site	0.3	2	12.7%	
Total	0.4	2.12	12.4%	(Won)

Korea Southern Power Co., Ltd.

As of December 31, 2007, 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 600 megawatts, constituting a total installed capacity of 3,600 megawatts for its thermal units. KOSPO also had nine combined cycle and four internal combustion units with aggregate installed capacity of 3,745 megawatts, two pumped storage units with aggregate installed capacity of 400 megawatts and nine wind power units with aggregate installed capacity of 21 megawatts.

The table below sets forth as of and for the year ended December 31, 2007 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 (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh
Bituminous:				
Hadong #1, 2, 3, 4, 5, 6	9.0	3,000	94.4%	(Won) 21.07
Oil-fired:				
Youngnam #1, 2	36.2	400	35.5	102.91
Nam Jeju #1, 2, 3	1.1	120	63.8	113.29
Total thermal	11.6	3,600	86.3%	(Won) 28.00

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The table below sets forth as of and for the year ended December 31, 2007, 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 (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh
Combined cycle and internal combustion:				
Shin Incheon combined cycle #3, 4	11.3	1,800	82.5	(Won) 83.8
Busan combined cycle #1, 2	4.3	1,800	75.3	80.0
Hallim combined cycle	11.6	105	6.8	218.2
Nam Jeju internal combustion	16.8	40	49.4	112.4
Total combined cycle and internal combustion	8.0	3,745	76.5	82.5
Cheongpyeong Pumped storage	28.2	400	2.1	(Won) 60.4
Hankyung Wind	1.2	21	33.6	

Korea East-West Power Co., Ltd.

As of December 31, 2007, Korea East-West Power, Co., Ltd., or EWP, had 18 thermal units, including twelve coal-fired units with aggregate installed capacity of 4,900 megawatts and six oil-fired units with aggregate installed capacity of 1,800 megawatts, constituting a total installed capacity of 6,700 megawatts for its thermal units. EWP also had 17 combined cycle 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, 2007, 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 (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh
Bituminous:				
Dangjin #1, 2, 3, 4, 5, 6,7,8	4.8	4,000	89.61%	(Won) 22.34
Honam #1, 2	34.7	500	88.35	32.22
Anthracite:				
Donghae #1, 2	8.8	400	69.16	57.57
Oil-fired:				
Ulsan #1, 2, 3, 4, 5, 6	30.4	1,800	34.76	97.57
Total thermal	17.1	6,700	71.80%	(Won) 36.06

The table below sets forth as of and for the year ended December 31, 2007, for each plant location, the weighted average age, installed capacity, average capacity factor and average fuel cost of the combined and pumping storage units EWP owned.

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

Combined cycle:					
Ulsan gas turbine #1, 2, 3, 4, 5, 6; steam turbine #1, 2, 3	11.3	1,200	42.32%	(Won)	88.20
Ilsan gas turbine #1, 2, 3, 4, 5, 6; steam turbine #1, 2	13.8	900	45.26		109.74
Total combined cycle and internal combustion	6.2	2,100	43.58%	(Won)	97.78
Pumped storage:					
Sancheong #1, 2	10.5	700	3.84%	(Won)	55.53

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The high average age of the oil-fired thermal units owned by our generation subsidiaries is attributable to our historic reliance on oil-fired thermal units as our primary means of electricity generation. Since the mid-1970s, we have diversified our fuel sources and constructed fewer oil-fired thermal units than units of other 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 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
Taean #1~8	4,000MW (500MW×8)	FGD[(1)]: 1998 to 2007 SCR[(2)]: 2005 to 2007 EP[(3)]: 1995 to 2007 LNCS[(4)]:1995 to 2007	Anti-pollution	KOWEPO
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 (gas turbines 150 MW ×8) (steam turbines 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
Boryeong #3-6	2,000 MW (500×4)	FGD[(1)]: 1996 to 1999 SCR[(2)]: 2006 to 2007 LNCS[(4)]: 1993 to 1994 EP[(3)]: 1984 to 1993	Anti-pollution	KOMIPO
Incheon #1-4	1,150 MW (250×2,) (325×2)	SCR[(2)]: 2002 to 2005 LNCS[(3)]: 2002 to 2005	Anti-pollution	KOMIPO
Seoul #4,5	287.5MW (137.5×1) (250×1)	SCR[(2)]: 2001 to 2002	Anti-pollution	KOMIPO
Seocheon #1,2	400MW (200×2)	FGD[(1)]: 1998 LNCS[(4)]: 2004 to 2005	Anti-pollution	KOMIPO

		EP[3]: 1982 to 1983		
Incheon #1,2	500MW (250×2)	1996(#1) 2002(#2)	10 years	KOMIPO
Yosu #2	335MW	2011	30 years	KOSEP
Hadong #1~6	3,000MW (500MW× 6)	FGD[1]: 1998 to 2001 EP[3]: 1997 to 2001 LNCS[3]:1997 to 2001 SCR[2]: 2006 to 2007	Anti-pollution	KOSPO
Shin-Incheon CC	1,800 MW (gas turbines 150 MW × 8) (steam turbines 150 MW × 4)	LNCS[4]: 1996	Anti-pollution	KOSPO

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Power Plant	Capacity	Completed, in year	Extension	Company
Busan CC	1,800 MW (gas turbines 150 MW × 8) (steam turbines 150 MW × 4)	LNCS[4]: 2003 to 2004	Anti-pollution	KOSPO
Youngnam #1~2	200MW (100MW × 2)	FGD[1]: 1999 SCR[2]: 2002 EP[3]: 1988 to 1990 LNCS[4]: 2002-	Anti-pollution	KOSPO
Namjeju T/P #3~4	100MW (100×2)	FGD[1]: 2006 to 2007 SCR[2]: 2006 to 2007 EP[3]: 2006 to 2007	Anti-pollution	KOSPO
Namjeju D/P #1~4	40MW (10×4)	SCR[2]: 1999 to 2000 EP[3]: 1990 to 1991	Anti-pollution	KOSPO

Notes:

(1) FGD means a flue gas desulphurization system.
(2) SCR means a selective catalytic reduction system.
(3) EP means an electrostatic precipitation system.
(4) LNCS means a low nitrodioxide (NO_2) combustion system.

Transmission and Distribution

We currently transmit and distribute substantially all of the electricity in Korea. In addition to us, there were 28 electricity suppliers that are licensed to distribute electricity in 28 districts of Korea as of April 30, 2008. These entities do not supply electricity on a national level but are licensed to supply electricity on a limited basis to their respective districts under the Community Energy System authorized by the Korea Electricity Commission and approved by the Minister of Knowledge and Economy in accordance with the Electricity Business Act. We also transmit and distribute electricity to these districts. As of April 30, 2008, three districts were using this system, and 25 other districts were preparing to launch it. In comparison, as of December 31, 2006, one district was using this system and 20 other districts were preparing to launch it. The percentage of electricity supplied by the supplier in that one district accounts for less than 1.0% of the total electricity supplied in Korea. The generation capacity installed or under construction of the electricity suppliers in the 28 districts amounted to approximately 2.3% of the generation capacity of our generation subsidiaries as of April 30, 2008.

As of December 31, 2007, our transmission system consisted of approximately 29,526 circuit kilometers of lines of 765 kilovolts and others including high voltage direct currents, and we had in operation 669 substations with an aggregate installed transformer capacity of 228,249 megavolt-amperes.

Our distribution system consists of 92,964 megavolt-amperes of transformer capacity and 7.9 million units of support with a total line length of 401,485 circuit kilometers.

In recent years, we have made substantial investments in our transmission and distribution systems to increase capacity and improve efficiency. Our current projects include increasing transmission capability of the existing transmission lines. Our transmission and distribution loss factor was 3.99% in 2007. In light of the increased damage to large-scale transmission and distribution facilities due to the global warming, we plan to reinforce stability in our transmission and distribution facilities through stricter design and material specifications. In addition, we also plan to

expand underground transmission and distribution facilities to meet customer demand for more environmentally friendly electricity. In order to reduce the stoppage time in power distribution, which is an indicator of the quality of electricity transmission, we are also continuing to make investments in upgrading our evaluation technologies, automation of electricity transmission and development of new transmission technologies.

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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.

In accordance with Article 15 of the Electricity Business Act, which provides for, among others, electricity transmission and distribution network charges, the Provisions on the Usage of Transmission Facilities, or the Grid Code, was amended as of September 13, 2007. As a result of such amendment, our six power generation subsidiaries will pay transmission network construction charges to us for the past and present use of our electricity transmission network.

Based on the transmission network construction charges estimated as of June 30, 2007, the aggregate amount of the transmission network construction charges that our generation companies are expected to pay to us for the period from July 1, 2007 through December 31, 2034 is (Won)1,626 billion, of which (Won)169 billion is expected to be the amount payable for 2008. We believe that such payments will not have any material impact on our results of operation or financial condition on a consolidated basis.

We are obligated to invoice such charges in monthly installments subject to the following conditions:

- For transmission connection facilities whose construction began prior to July 11, 2001, billing to be made monthly during the remaining useful lives of such facilities; and

- For transmission connection facilities whose construction began on or after July 12, 2001, billing to be made monthly during the entire construction period.

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, 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 fuel on spot markets.

In 2007, KHNP purchased 100%, or 2,559 tons, of its uranium concentrate requirement under long-term supply contracts with suppliers in Australia, Canada, Kazakhstan, France 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 concentrate, 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, 2007, 29.8% and 1.9% of our total installed generating capacity was represented by plants burning bituminous coal and anthracite coal, respectively.

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In 2007, our generation subsidiaries purchased 55.2 million tons of bituminous coal, of which approximately 44.6%, 27.6%, 17.9%, 7.3% and 2.6% were imported from Indonesia, Australia, China, Russia and others, respectively. Approximately 76.5% of the bituminous coal requirements of our generation subsidiaries in 2007 were purchased under long-term contracts with the remaining 23.5% 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 such 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)55,519 in 2007, compared to (Won)48,923 in 2006 and (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 may not be able 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 2007, our generation subsidiaries purchased 2.4 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)97,833 in 2007, compared to (Won)91,895 in 2006 and (Won)87,392 in 2005.

Oil

In 2007, our generation subsidiaries purchased approximately 24.8 million barrels of fuel oil (including gasoline for internal combustion), of which 50.7% 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 price in Singapore. The average cost per barrel was approximately (Won)62,480 in 2007, compared to (Won)56,840 in 2006 and (Won)47,841 in 2005.

LNG

In 2007, we purchased approximately 8.96 million tons of LNG from Korea Gas Corporation, a Korean corporation of which we own 24.5%. Under the terms of the LNG contract with Korea Gas Corporation, 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 negotiations with Korea Gas Corporation, subject to approval by the MOKE. Korea Gas Corporation imports LNG primarily from Indonesia, Malaysia, Brunei, Qatar, Oman, Australia, Egypt and Nigeria and supplies LNG to us and other Korean gas companies. The average cost per ton of LNG under such contract was approximately (Won)598,028 in 2007, compared to (Won)590,033 in 2006 and (Won)494,279 in 2005. The LNG supply contract with Korea Gas Corporation has a term of 20 years and expires in December 2026. Under this contract, all of our five non-nuclear generation subsidiaries are jointly and severally liable for a take-or-pay obligation to Korea Gas Corporation to the extent of our annual minimum purchase quantity in the amount of approximately 8.2 million tons. In addition, the annual minimum purchase quantity of LNG to be purchased from Korea Gas Corporation will exclude any amount of LNG purchased from a source other than Korea Gas Corporation. We believe the 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.

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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 enables us to increase the available supply 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 5.8% per annum for the five years ended December 31, 2007. According to The Bank of Korea, the real gross domestic product, or GDP, compounded growth rate was approximately 4.3% for the same period. The GDP growth rate was 5.0% in each of 2006 and 2007.

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, the Korean economy resumed its rapid growth and resulted in a substantial increase in the demand for electricity. Following the Asian financial crisis in 1998, electricity demand contracted in Korea for several years, but resumed stable growth in the early 2000s with an annual growth rate between 5% and 8%. Demand for electricity increased by 8.0% from 2001 to 2002, 5.4% from 2002 to 2003, 6.3% from 2003 to 2004, 6.5% from 2004 to 2005, 4.9% from 2005 to 2006 and 5.7% from 2006 to 2007. In 2007, demand for electricity grew at a rate slightly higher than the GDP, which grew by 5.0% over the same period, primarily due to a slight increase in demand for electricity from the industrial sector related to strong performance in the export sectors and an upturn in business cycle. Demand for electricity from the industrial section grew by 4.6% in 2006 compared to 2005 and 6.5% in 2007 compared to 2006, and represented 52.5% and 52.9% of the total demand for electricity in 2006 and 2007, respectively. We cannot assure you that demand for electricity will grow at an equal or faster rate than the GDP growth in the future.

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 by total annual electricity consumption).

	2003	2004	2005	2006	2007
Growth in GDP (at 2000 constant prices)	3.1%	4.6%	4.0%	5.0%	5.0%
Growth in electricity consumption	5.4%	6.3%	6.5%	4.9%	5.7%

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 heightened commercial and industrial activities and electrical appliance use. Due to the use of heating, electricity demand is higher during the winter 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 (in million kilowatt-hours) for the periods indicated.

	2003	YoY growth (%)	2004	YoY growth (%)	2005	YoY growth (%)	2006	YoY growth (%)	2007	YoY growth (%)	% of Total 2007
Residential	62,432	6.8	65,490	4.9	69,555	6.2	72,730	4.6	75,148	3.3	20.4
Commercial	61,626	7.3	67,476	9.5	73,716	9.2	77,809	5.6	82,208	5.7	22.3
Educational	3,351	13.5	3,774	12.6	4,309	14.2	4,790	11.2	5,304	10.7	1.4
Industrial	157,812	4.4	166,223	5.3	174,945	5.2	183,067	4.6	194,936	6.5	52.9
Agricultural	6,147	-2.9	6,766	10.1	7,318	8.2	7,636	4.3	8,215	7.6	2.2
Street lighting	2,197	5.8	2,367	7.7	2,570	8.6	2,687	4.6	2,794	4.0	0.8
Total	293,566	5.4	312,096	6.3	332,413	6.5	348,719	4.9	368,605	5.7	100.0

Demand for electricity increased by 9.4% to 102,601 million kilowatt hours from the first quarter of 2007 to the first quarter of 2008.

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 60.5% of total demand in 1997 to 52.9% in 2007. Demand from the industrial sector increased by 6.5% to 194,936 million kilowatt hours in 2007 as compared to 2006.

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 5.7% to 82,208 million kilowatt hours in 2007 as compared to 2006.

In 2007, we provided electricity to 13 million households, or almost all of the households in Korea. Continuing increase in demand from the residential sector is primarily due to an increase in population and use of air conditioners and other electrical appliances. Demand from the residential sector increased by 3.3% to 75,148 million kilowatt hours in 2007 as compared to 2006.

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.

	2003	2004	2005	2006	2007
Facility reserve ratio	18.4	15.3	13.0	9.8	7.9
Supply reserve ratio	17.1	12.2	11.3	10.5	7.2

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

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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 to consumers of electricity 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 banks provide loans on favorable terms for the 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 Ministry of Knowledge and Economy, or MOKE. The MOKE then reviews these recommendations and, upon consultation with the Electricity Rates Expert Committee of the MOKE and the Ministry of Strategy and Finance, makes a final determination. Under the Electricity Business Law, the Korea Electricity Commission must review our recommendations prior to the MOKE 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 the 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),
- our equity interests in generation subsidiaries, and
- the portion of construction-in-progress which was charged from our retained earnings.

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 the fair rate of return, the rate base is divided into two components proportionate to our total stockholders equity and our total debt. The 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. The 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. In 2007, the approved rate of return on the debt component of the rate base was 3.4% while the approved rate of return on the equity component of the rate was 6.8%. As a result of such approved rates of returns, the fair rate of return in 2007 was determined as 6.0%.

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 the 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 6.5% per annum during the period from 1987 to 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 3.0% per annum during the period from 1991 to 1995. During the period from 1996 to 2000, in order to compensate for the Won depreciation which caused our fuel expenditure to increase, rates were increased by an average of 4.3% per annum, and during the period 1997 through 2000, our actual rate of return on invested capital was generally below the rate of return assumed for the purpose of rate approvals. During the period 2001 to 2007, rates were increased by an average of 0.5% per annum to compensate for high fuel costs and facility investment costs, and 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. On April 1, 2007, we adjusted the winter period to consist of November, December, January and February, to reflect the changes in monthly usage levels in October and March.

Our current rate schedule, which became effective as of January 1, 2008, is summarized below by the type of consumer:

Industrial. The basic charge varies from (Won)4,100 per kilowatt to (Won)5,650 per kilowatt depending on the type of contract, the voltage used and the rate option. The energy usage charge varies from (Won)31.30 per kilowatt hour to (Won)129.10 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)5,160 per kilowatt to (Won)6,120 per kilowatt depending on the type of contract, the voltage used and the rate option. The energy usage charge varies from (Won)37.00 per kilowatt hour to (Won)146.40 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 rate option. The energy usage charge varies from (Won)43.10 per kilowatt hour to (Won)73.00 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.

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Street-lighting. The basic charge is (Won)4,030 per kilowatt and the energy usage charge is (Won)55.30 per kilowatt hour. For electricity capacity of less than 1 kilowatt or for places where the installation of the electricity meter is difficult, the fixed rate of (Won)24.10 per watt applies, with the minimum charge per month of (Won)780.

The MOKE adjusts the rate schedule from time to time. In particular, the 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 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 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.

On January 1, 2003, as part of a plan to improve the rate structure, the MOKE adjusted the rates among the various types of consumers by increasing the industrial rates by 2.5% while decreasing the residential and commercial rates by 2.2% and 2.0%, respectively.

On March 1, 2004, the MOKE adjusted our rate schedule, which resulted in a 1.5% reduction in our average rate with a decrease in residential, commercial and educational rates by 2.8%, 3.5% and 3.0%, respectively, and no change in the industrial rates.

On December 28, 2005, in light of increases in fuel prices and our liquidity requirement, the MOKE adjusted our rate schedule which increased the industrial, residential, commercial and agricultural rates by 3.3%, 2.4%, 2.8% and 0.9%, respectively, and decreased the educational rates by 15.3%. As a result of this rate adjustment, our average rate increased by 2.8%.

On January 15, 2007, the MOKE further adjusted our rate schedule by increasing the industrial rates and street-lighting rates by 4.2% and 4.2%, respectively, while making no changes to other rates. As a result of this rate adjustment, our average rate increased by 2.1%.

On January 1, 2008, as part of a plan to improve the electricity tariff structure, the MOKE adjusted our rate schedule by increasing the average industrial rates and average night power usage rates by 1.0% and 18.0%, respectively, while reducing the average commercial rates by 3.0%. As a result of such adjustments, which had the effect of balancing out the increase with the decrease, our overall average rate is not expected to change.

In April 2001, as part of implementing the Restructuring Plan, the MOKE established the Electric Power Industry Basis Fund to enable the Government to take over the public services previously performed by us. Since the establishment of this fund to April 1, 2001, 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 May 31, 2008, 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.

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In December 2006, the Government announced the third Basic Plan in December 2006. The third Basic Plan focuses on, among other things, (1) establishing an optimal level and mix of generating capacity based on fuel types and the operational efficiency of each generation unit, (2) equilibrating the supply and demand of electricity at the regional-level through region-specific planning for capacity expansion, (3) giving greater weight to environmental issues by proactively addressing some of the concerns identified under the United Nations Framework Convention on Climate Change and the Kyoto Protocol, (4) improving the accuracy of electricity supply forecast by adopting as its basis the effective supply reserve ratio, which takes into account only those generation units that are capable of generating electricity at times of peak demand, rather than the overall supply reserve ratio, which has been traditionally used and takes into account the supply capability of all generation units regardless of whether they are actually capable of generating electricity at times of peak demand, and (5) improving the transparency and the level of specializing in the decision-making process for formulating the basic plan by formalizing more compartmentalized processes and procedures, including seeking advice from outside experts. We cannot assure that the third Basic Plan, or the plans subsequently adopted, will successfully achieve their intended goals, the foremost of which is to formulate a capacity expansion plan that will result in balanced overall electricity supply and demand in Korea at an affordable cost to the end users.

Capital Investment Program

The table below sets forth, for each of the three years ended December 31, 2007, the amounts of capital expenditures (including capitalized interest) for the construction of generation, transmission and distribution facilities:

2005	2006	2007
	(In billions of Won)	
(Won)6,719	(Won) 7,469	(Won) 8,545

In accordance with the third Basic Plan, our generation subsidiaries currently intend to add new installed capacity of 19,288 megawatts during the period from 2008 to 2020 by newly constructing eight nuclear units, 12 coal-fired units, one oil-fired units, seven LNG-combined units, and two pumped storage hydroelectric units and others. According to the third Basic Plan, the total capacity of all generating facilities at the end of 2020 will be 77,325 megawatts, of which nuclear power plants will account for 29.0% of the total capacity, coal-fired plants 27.0%, LNG combined plants 28.0%, oil-fired plants 2.0% and hydroelectric and other plants 14.0%.

The table below sets forth the currently estimated date of completion and installed capacity of new or expanded generation units to be completed by our generation subsidiaries according to the Basic Plan in each year through the year 2011.

Year	Number of Units	Type of Units	Total Installed Capacity (Megawatts)
2008	5	Coal-fired	2,870
2009	2	Coal-fired	1,370
	1	Oil-fired	40
	2	LNG-combined	1,200
2010	1	Nuclear power	1,000
	2	LNG-combined	900
2011	2	LNG-combined	1,000
	1	Hydroelectric	60
	2	Pumped storage hydroelectric	800
	2	Nuclear power	2,000

In the years between 2011 and 2020, our generation subsidiaries plan to complete five nuclear units with an aggregate installed capacity of 6,600 megawatts, five coal-fired units with an aggregate installed capacity of 4,040 megawatts, and one LNG-combined unit with an aggregate installed capacity of 700 megawatts.

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As part of our capital investment program, we also intend to add new transmission lines and substations, continue to replace overhead lines with underground cables and 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 are 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.

The table below sets forth, for the years from 2008 to 2011, the budgeted amounts of capital expenditures (including capitalized interest) for the construction of generation, 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 actual timing of such construction, changes in rates of exchange between the Won and foreign currencies and changes in interest rates.

	2008	2009	2010	2011	Total
			(in billions of Korean won)		
Generation:					
Nuclear	(Won) 4,005	(Won) 5,195	(Won) 4,542	(Won) 4,031	(Won) 17,773
Thermal	2,251	2,812	2,534	2,849	10,446
Sub-total	6,256	8,007	7,076	6,880	28,219
Transmission and Distribution:					
Transmission	2,078	2,539	2,594	1,940	9,151
Distribution	2,097	2,238	2,165	2,735	9,235
Others	745	934	955	981	3,615
Sub-total	4,919	5,710	5,713	5,656	21,998
Total	(Won) 11,175	(Won) 13,717	(Won) 12,789	(Won) 12,536	(Won) 50,217

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 referred in this report as 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 in 2005.

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, since September 2005, we issue an annual report named the 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

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Programme that works in cooperation with United Nations Secretary General. In January 2008, our report on the Communication of Progress was reviewed favorably by the United Nations Global Compact in recognition of our strong commitment to compliance with the United Nations Global Compact and the clarity and specificity of our action plans related to sustainability.

Atmospheric emissions from generating plants burning fossil fuels include, among others, sulfur 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.

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, 2007.

	KOSEP	KOMIPO	KOWEPO	KOSPO	EWP
Flue Gas Desulphurization System	8	7	8	6	11
Selective Non-Catalytic Reduction System	0	0			2
Selective Catalytic Reduction System	4	11	8	6	11
Electrostatic Precipitation System	10	12	8	6	18
Low NO_2 Combustion System	6	18	8	6	10
Total	28	48	32	24	52

The table below sets forth the amount of annual emission from all generating facilities of our generation subsidiaries. CO2 emissions increased by 4.7% in 2007 because coal thermal power output grew by 11% compared with the previous year, whereas nuclear power output decreased by 3.9%. We forecast that CO2 emissions will temporarily increase as addition coal thermal power stations will be constructed until 2010 but will decrease thereafter.

Year	Sox (g/MWh)	NOx (g/MWh)	Dust (g/MWh)	CO_2 (kg/MWh)
2005	214	414	12	429
2006	186	315	9	423
2007	187	300	9	443

In order to comply with the current and expected environmental 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, or PCB, a toxin, from the insulating oil of our transformers by 2015. In addition, when constructing certain large 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 technology 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 such highly parts and components, as well as to minimize consumption of energy, water and other natural resources.

Such measures we take, including the use of environmentally friendly but more expensive parts and equipment and budgeting capital expenditures for the installation of such facilities, may result in increased operating costs and liquidity requirement. The actual cost of installation and operation of such equipment and related liquidity requirement will depend 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 requirements in the future in relation to the environment.

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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. 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 the portion will increase in the future.

The following table sets forth the generating capacity and generation volume in 2007 of the generation facilities owned by us and our generation subsidiaries that are powered by renewable energy sources.

	Generating Capacity (megawatts)	Generation Volume (gigawatt-hours)
Hydraulic Power	545.0	1,368.5
Wind Power	24.0	20.7
Solar Energy	5.5	4.2
Fuel Cells	0.3	2.1
Subtotal	574.8	1,395.5
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 the construction of generating facilities using alternative energy sources and spend (Won)201 billion in research and development related to the development of renewable energy over the next three years. The Government has committed to provide a significant amount of subsidy to this project. 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 cells[(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 important for us and our generation subsidiaries in light of concerns among the local residents and civic groups in Korea regarding construction and operation of generation units, particularly nuclear generation units. The Act for Supporting the Communities Surrounding Power Plants requires that the generating companies and the affected local governments carry out various

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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 were funded only by the Electric Power Industry Basis Fund, or EPIBF. See Item 4 Information on the Company Business Overview Sales and Customers Rates. Following amendments to this Act in July 2005, however, such activities are currently required to be funded partly by the EPIBF and partly by 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 generation 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 proposing measures to address the problems identified must be submitted to and approved by the Ministry of Environment prior to the 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 adversely impact our construction plans for generation units (including nuclear units) and have a material adverse effect on our results of operations and cash flows.

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 the plants.

KHNP instituted 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 nuclear safety. Furthermore, KHNP has invested approximately 5% of its total annual 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 risk-informed assessment, KHNP conducts probabilistic safety assessments for all its nuclear power plants. In order to systematically verify nuclear safety and identify the potential areas for safety improvements, KHNP performs periodic safety reviews on a 10-year frequency basis for all its operating units. This review has been completed for Kori units 1, 2, 3 and 4, Younggwang units 1, 2, 3 and 4, Ulchin units 1 and 2 and Wolsong units 1 and 2. In order to enhance nuclear safety and plant performance, in 2003, KHNP established a Maintenance Effectiveness Monitoring Program in accordance with maintenance rules issued by the United States Nuclear Regulatory Commission. The program was initially implemented at Kori units 3 and 4 and Ulchin units 3 and 4 in 2007 as a pilot program. The program will be expanded into all pressurized light water reactor plants by June 2009. KHNP is also developing unprecedented maintenance rule implementation technologies for pressurized heavy water reactor plants.

KHNP has developed a Risk Monitoring System, or RIMS, for operating nuclear power plants, and has implemented such system in all of its nuclear power plants. The RIMS is intended to help ensure nuclear plant

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safety. In addition, KHNP has developed and implemented Severe Accident Management Guidelines, or SAMG, to manage severe accidents for all of its nuclear power plants, except for four pressurized heavy water reactors in Wolsong. The SAMG for the pressurized heavy water reactors are currently under development.

KHNP conducts various activities to enhance nuclear safety such as quality assurance audits, reviews by the KHNP Nuclear Review Board, and reviews by the KHNP operational safety review team, which consists of former employees of KHNP and outside experts. KHNP has a close relationship with international nuclear organizations to enhance nuclear safety. In particular, KHNP invites international safety review teams such as the World Association of Nuclear Operators (WANO) Peer Review Team, the International Atomic Energy Agency (IAEA), the Operational Safety Review Team (OSART) and the Institute of Nuclear Power Operations (INPO) Technical Exchange Visit Team, to its nuclear plants for purposes of meeting international standards for independent review of its facilities. Yonggwang Units 5 and 6 received the OSART Review in April 2007 and were assessed as some of the best plants in the world. Wolsong Units 3 and 4 are scheduled for a WANO Peer Review in November 2007. KHNP actively exchanges relevant operational information and technical expertise with its peers in other countries.

Following the operational reforms and upgrades implemented in 1992, the average level of radiation dose per unit has continuously decreased to 0.64 man-Sv in 2007, which is substantially lower than the global average of 0.94 man-Sv/year as reported in the WANO performance indicator report.

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

On November 3, 2005, the Government designated Gyeongju City, approximately 300 kilometers southeast of Seoul, as the site of a disposal facility for LILW. In order to determine the disposal type, KHNP organized the Disposal Method Selection Committee, which consists of experts and representatives from the local government and communities. KHNP estimates that the construction of this facility will cost approximately (Won)1,522 billion, including the one-time cash contribution of (Won)300 billion made on May 9, 2006 by KHNP to Gyeongju City pursuant to the Act. KHNP submitted an application to the Ministry of Knowledge Economy, for the approval of project implementation plan on January 11, 2007 and to the Ministry of Education, Science and Technology, for construction permit and operating licenses on January 15, 2007. KHNP obtained the approval of the project implementation plan from the Ministry of Knowledge Economy on July 12, 2007, and commenced the site grading and infrastructure construction of the facility. As of the date hereof, the application for construction permit and operation license is under review by the Ministry of Education, Science and Technology and is expected to be approved within 2008. KHNP commenced construction of the LILW disposal facility in January 2006, is currently in the process of obtaining the construction permit and operation license, which is currently expected to be obtained by the end of 2008. KHNP plans to complete construction of the facility by the end of 2009 and begin operating the facility in 2010.

In order to increase the storage capacity of temporary storage facilities for spent fuels, KHNP has been pursuing various projects, such as installing high density racks in spent fuel pools, building dry storage facilities and transporting the spent fuels to other nuclear units within a nuclear site. Through these activities, KHNP expects that the storage capacity for spent fuels in all nuclear sites will be sufficient to accommodate all the spent fuels produced by 2016. The policy for spent fuel management options is currently under development.

All of KHNP s nuclear plants are in compliance with Korean law and regulations and the safety standards of the International Atomic Energy Agency (IAEA).

Since the submission of our annual report in 2007, 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.

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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 place five to ten years after the unit s permanent shutdown. Kori unit-1, the first nuclear power plant in Korea, commenced its operation in 1978 and reached the end of its intended life on June 18, 2007. KHNP submitted an extension application to the Ministry of Education, Science and Technology (MEST) to extend the terms of operation for Kori-1 unit for another 10 years. MEST approved the application on December 11, 2007, and Kori unit-1 recommenced its commercial operations in January 9, 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. In 2003 and 2004, KHNP obtained new engineering studies from third parties and updated its estimate of the expected decommissioning dates for its nuclear power plants. For the accounting treatment of decommissioning costs, see Item 5 Operating and Financial Review and Prospects Operating Results Critical Accounting Policies Decommissioning Costs.

Research and Development

We maintain a research and development program concentrated on developing self-reliant core technology and leading national technology advancement 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 2007 was obtaining the most advanced electric power technology 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, in 2007, (Won)185 billion in research and development, (Won)14 billion in technological development and (Won)50 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.

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KHNP s investment in research and development amounted to approximately (Won)42 billion and (Won)70 billion in 2006 and 2007, respectively, and its investment in the education of human resources and the development of computer equipment amounted to approximately (Won)50 billion in 2006 and (Won)49 billion in 2007. Also, pursuant to relevant law, KHNP contributed approximately (Won)175 billion and (Won)179 billion in 2006 and 2007, respectively, to the Nuclear R&D Fund, which is operated by the Ministry of Education, Science and Technology.

In the field of electric power systems, we have focused our research and development efforts on developing required technology and providing technical support for the stable and reliable operation of power systems, such as the Development of Smart Transmission System Technology. We have developed the technology 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 technology and are focused on developing technology for environmental protection and new sources of energy.

We invested approximately (Won)237 billion in 2006 and (Won)249 billion in 2007 on research and development. We had approximately 499 employees engaged in research and development activities as of December 31, 2007.

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 our applications for intellectual property rights and grants has increased. Approximately 688 applications were submitted in Korea and abroad from 2005 to 2007.

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, restructuring our research and development organization and reallocating and reassigning research personnel.

Overseas Activities

We are actively engaged in a number of overseas activities. We believe that such activities help us to diversify our revenue streams by leveraging the operational experience of us and our subsidiaries gathered from providing a full range of services, power plant construction, specialized engineering and maintenance services in Korea, as well as to establish strategic relationships with a number of countries that are or may become providers of fuels.

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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	206-megawatt power plant (ROMM)[1]
Shanxi, China	April 2007 to April 2056	12,298-megawatt coal-fired power plants (BOO[3]) and coal mine project
Wuzhi, China	September 2004 to August 2027	112-megawatt CFBC cogeneration plant (BOO[3])
Yumen, China	September 2005 to August 2026	49.3-megawatt wind power plant (BOO)[3]
Inner Mongolia, China	May 2007 to April 2027	139.4 megawatt wind power plant (BOO)[3]
Lebanon	February 2006 to February 2011	870-megawatt combined cycle power plant operation and maintenance service
Libya	November 2005 to June 2008	Power transmission and distribution service
Libya	September 2007 to June 2008	Research electricity demand and develop energy sources
Nigeria	March 2006 to February 2011	Exploration of oil and gas for two offshore blocks
Nigeria	July 2007 to January 2009	Repair of damaged boilers
NSW, Australia	2008 to 2028	Moolarben coal mine development
QLD, Australia		Share subscription of Cockatoo Coal Limited
Canada	October 2007 to September 2011	Uranium exploration project in the Cree East
Canada	January 2008 to December 2010	Uranium exploration project in the Waterbury Lake

Notes:

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

While strategically important, we believe that the business and revenues of our overseas activities, as currently being conducted, are not in the aggregate material to us. In addition, a number of the overseas contracts currently being pursued are based on non-binding memoranda of understanding and the scope of such projects may significantly change during the stage of negotiating the definitive contracts.

A description of the overseas activities of us and our subsidiaries based on key geographic regions is provided below.

Africa

Since September 2005, we have provided consulting services on power transmission and distribution systems in Libya. On September 1, 2007, we entered into a consulting agreement with General Electric Company of Libya to perform research on the long-term demand for electricity and propose plans to develop energy sources in Libya over a period of 10 months.

In August 2005, a consortium consisting of us, Korea National Oil Corporation, a state-controlled enterprise, and Daewoo Shipbuilding & Marine Engineering won a bid from the federal government of Nigeria for exploration and production of oil in two off-shore blocks. This consortium holds 60% of the equity interest in

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the special purpose vehicle established to carry out the project regarding these two blocks. In March 2006, the consortium entered into production sharing contracts with the Nigerian government in connection with this project. Under these contracts, if the consortium is successful in finding oil, it will be entitled to operate the related facilities for 20 years. If the consortium fails to find oil within 10 years of signing the contract, the contracts will terminate. We expect that our funding requirement for this project will be approximately US$39 million for the period from 2006 through 2011.

In August 2005, another consortium consisting of us, Korea National Oil Corporation and POSCO Engineering & Construction won a bid from the Nigerian government and is currently negotiating with the Nigerian government to install 600 kilometers of gas pipelines and construct 2,250 megawatt gas-fired power plant. Together with other members of the consortium and the Nigerian authorities, we are currently undertaking various studies and analyses required for the implementation of the project.

In October 2007, we invested US$9.1 million in KEPCO Energy Resource Nigeria Ltd., or KERNL, a joint venture with the Nigerian government, for a 30% equity capital in KERNL. We currently own 30% of KERNL s equity capital. In May 2007, KERNL entered into a share purchase agreement with the Nigerian government for the purchase of 51% of the equity capital of Egbin Power Plc in Nigeria, which owns and operates the Egbin power plant, for a consideration of approximately US$280 million, of which US$28 million has been paid to-date.

In July 2007, we entered into a contract to repair two damaged boilers at the Egbin power plant in Nigeria with KERNL for US$25 million. The Egbin power plant has an aggregate generation capacity of 1,320 megawatts, and two generation units with an aggregate generation capacity of 440 megawatts were shut down earlier due to a boiler explosion.

Asia

In August 2003, we were also awarded a 112-megawatt CFBC plant project in Wuzhi, China, which is currently in operation. In addition, in September 2005 and April 2006, we and China Datang Corporation formed two joint ventures to construct four wind-powered generation projects in China, consisting of a unit in the Yumen province with total capacity of 49.3 megawatts and three units in Inner Mongolia with total capacity of 139.4 megawatts. We hold a 40% equity interest in the joint ventures while China Datang Corporation holds the remaining 60%. The joint ventures were capitalized with RMB1,446 million for the Inner Mongolia projects and RMB466 million for the Yemen project. One-third of the investment was funded with equity contribution and the remaining two-thirds with debt. These projects are currently in operation and generate further revenue in the form of clean development mechanism, or CDM, business. We and China Datang Corporation are currently building wind-power generation units in Inner Mongolia with total additional capacity of 229 megawatts.

We formed a limited partnership with Shanxi International Electricity Group and Deutsche Bank in China to develop and operate power projects and coal mines in Shanxi province, China, which was approved by the Chinese government in April 2007. The total estimated installed capacity of this is 12,298 megawatts and our equity ownership in the partnership is 34%, representing 4,181 megawatts in installed capacity.

We are currently engaged in four major power projects in the Philippines, (i) a 650-megawatt oil-fired power plant project in Malaya, with completion scheduled for September 2010; (ii) a build, operate and transfer 1,200-megawatt combined-cycle power plant project in Ilijan, construction of which began in November 1997 and 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; (iii) in February 2006, we acquired 40% of the total outstanding capital stock of SPC Power Corporation, an independent power producer operating a 206-megawatt Naga power complex in Cebu, the Philippines; and (iv) in February 2008, we started the construction of 200-megawatt CFBC coal power plant in Naga, Cebu where the current 206-megawartt Naga power complex exists. KEPCO SPC Power Corporation (the KSPC) was incorporated by us and SPC as a joint venture company that undertakes the construction, ownership, operation, management and maintenance of the Project. KSPC is 60% owned by us and 40% by SPC.

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North America

On October 11, 2007, a consortium consisting of four Korean companies, including Korea Resources Corporation, Hanwha Corporation and SK Energy Co., Ltd. and us, entered into an agreement with CanAlaska Uranium, Ltd., a uranium exploration company located in Canada (CanAlaska), to carry out a joint uranium exploration project to search for uranium deposits across mines in the Cree East area in Canada. Under the terms of the agreement, each of the consortium members and CanAlaska will hold a 50% equity interest in the project and the term of the project will be for four years. The estimated capital expenditure for the project is C$19 million, all of which will be borne by the consortium through cash contributions over the life of the project. Our share of the estimated cash contribution is C$1.662 million for which we will receive a 12.5% equity interest in the project. If additional capital expenditure is required, the amount in excess of C$19 million will be shared equally between CanAlaska and the consortium.

On January 30, 2008, a consortium consisting of us, KHNP, our wholly-owned nuclear generation subsidiary, Korea Nuclear Fuel Co., Ltd., Hanwha Corporation and Gravis Capital Corp., a Canadian company, entered into an agreement with Fission Energy Corp., a uranium exploration company located in Canada, to carry out a joint uranium exploration project to develop a uranium mine near Waterbury Lake, Canada. Under the terms of the agreement, the consortium and Fission Energy Corp. will each hold a 50% equity interest in the project, which will have a term of three years. The estimated capital expenditure for the project is C$15 million, all of which will be borne by the consortium through cash contributions over the term of the project. Under the terms of the agreement, the consortium will purchase the 50% equity interest in the project held by Fission Energy Corp. upon the final payment of cash contributions by the consortium during the term of the project. We will have a 20% equity interest in the project and are expected to make estimated cash contribution of C$6 million. KHNP will hold a 15% equity interest and is expected to make estimated cash contribution of C$4.5 million. The other members of the consortium will each hold a 5% equity interest in the project and are each expected to make an estimated cash contribution of C$1.5 million.

Australia

On November 7, 2007, we and Korea East-West Power Corporation, or EWP, our wholly-owned generation subsidiary, entered into a share subscription agreement with Cockatoo Coal Limited, a coal exploration and mining company located in Australia. Under the terms of agreement, we and EWP acquired 40 million ordinary shares of Cockatoo Coal in equal proportions, representing approximately 9.5% of total equity ownership in Cockatoo Coal, for cash in the amount of A$16.8 million. We intend to participate in coal exploration projects or development projects with Cockatoo in the future.

On January 2, 2008, a consortium consisting of Korea Resources Corporation, Hanwha Corporation, we and four of our wholly owned generation subsidiaries, namely, Korea South-East Power Corporation,, Korea Midland Power Corporation, Korea Western Power Corporation, Korea Southern Power Corporation, entered into an agreement with Felix Resources Limited, an Australian coal mining company, to develop a coal mine located in Moolarben, New South Wales, Australia. Under the terms of agreement, the consortium purchased 10% equity interest in the Moolarben project from Felix Resources, of which we and our four generation subsidiaries own an aggregate of 5%. Felix holds 80% equity interest of the project. The consortium will participate in the mine development and operation through cash contribution which is equal to 10% of capital expenditure incurred on the project, and the amount is estimated around A$110 million for the life of mine, which is currently expected to be 21 years. Our four generation subsidiaries also have a coal offtake agreement for 2.5 million tons of coal per annum, and the mining will commence by the end of 2009. The reserve is approximately 300 million tons of high quality thermal coal with average production capacity of 10 million tons per annum.

Others

Since February 2006, we have been operating and providing maintenance services for combined cycle power plants in Lebanon with total capacity of 870 megawatts.

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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 availability of land and labor of North Korea. The size of this industrial complex is expected to be increased in a number of phases, with the first phase involving the laying of the groundwork for the complex measuring 3.3 million square-meters, and will ultimately be increased to 66 million square-meters. The construction for plot preparation was completed at the end of 2007. 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. In March 2005, we built a 22.9 kilovolt distribution line from Munsan substation in Paju, Gyeonggi Province to the Kaesong complex and became the first to supply electricity to pilot zones such as ShinWon Ebenezer. In April 2006, we started to construct a 154 kilovolt, 16 kilometer transmission line connecting Munsan substation to the Kaesong complex as well as Pyunghwa substation in the complex and began operations in May 2007. As of December 31, 2007, we supplied electricity to 226 units, including administrative agencies and support facilities and 68 companies, using a tariff structure identical to that of South Korea. 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.

The Light Water Reactor Project

The Korean Peninsula Development Organization, or KEDO, was chartered in March 1995 as an international consortium stipulated by the Agreed Framework, which was signed by the United States and North Korea in October 1994. KEDO signed an agreement with North Korea in December 1995 to construct two light water reactors in North Korea in return for certain nuclear non-proliferation steps to be taken by North Korea. KEDO designated us as its prime contractor to build two units of pressurized light water reactors with total capacity of 2,000 megawatts. We entered into a fixed price turnkey contract with KEDO, which became effective on February 3, 2000.

However, when North Korea did not meet the conditions required for the continuation of the project, KEDO suspended the project in December 2003. Following the suspension, KEDO notified us of the termination of the project and the related turnkey contract between KEDO and us. The executive board of KEDO decided to terminate the light water reactor project on May 31, 2006. On December 12, 2006, we entered into a termination agreement with KEDO. According to the termination agreement, we assumed substantially all of KEDO s rights and obligations related to the light water reactor outside of North Korea. In exchange, we waived the right to claim any expenses incurred and any potential claims by subcontractors to KEDO. We recorded the equipment transferred under the termination agreement as other non-current assets in the amount of (Won)94 billion, and the estimated claims by subcontracts as other long-term liabilities in the amount of (Won)19 billion.

Pursuant to the terms of the termination agreement, we are required to report the disposal or reuse of the transferred equipment to KEDO, and the gains and losses under the termination agreement are shared with KEDO through mutual negotiation. Our management believes that ultimate gains or losses could not be reasonably estimated as of December 31, 2007, as they are contingent upon disposal or reuse of the related assets and settlement of obligations.

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Insurance

We carry insurance covering against certain risks, including fire, in respect of our key assets, including buildings, equipment, machinery, construction-in-progress and procurement in transit, as well as directors and officers liability 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 do not separately insure against terrorist attacks.

These insurance and indemnity policies, however, cover only a portion of the assets that we and 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.

Substantial liability may arise from the operation of nuclear-fueled generation 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 required by the related law and regulations or considered as 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$486 million, at the rate of 1 SDR = US$1.61927 as posted on the Internet homepage of the International Monetary Fund on May 2, 2007 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 coverage being up to US$300 million on property and (Won)50 billion on liabilities. While KHNP carries insurance for its generation units and nuclear fuel transportation, the level of insurance is generally adequate and is in compliance with relevant laws and regulations, and KHNP is the beneficiary of a certain Government indemnity which covers a portion of liability in excess of the insurance, such insurance is limited in terms of amount and scope of coverage and does not cover all types or amounts of losses which could arise in connection with the ownership and operation of nuclear plants. Accordingly, material adverse financial consequences could result from a serious accident to the extent neither insured nor covered by the government indemnity.

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.

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Affiliated Companies

We define our principal affiliates as 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. We record these affiliates as investments under the equity method of accounting. See Note 6 of the notes to our consolidated financial statements. The table below sets forth for each of our principal affiliates the name and year of incorporation, our percentage shareholding and their principal activities as of December 31, 2007.

	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
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
LG Powercomm Corporation.	2000	43.1	Communication line leasing
Gangwon Wind Power Co., Ltd.[(2)]	2001	15.0	Communication line leasing
Gansu Datang Yumen Windpower Co., Ltd.	2005	40.0	Construction and operation of utility plant
Cheongna Energy Co., Ltd.	2005	27.0	Generating and distributing steam and hot and cold water
Salcon Power Corporation	2006	40.0	Operation of utility plant
Datang Chifang Renewable Co., Ltd.	2006	40.0	Construction and operation of utility plant
Gemeng International Energy Group Co., Ltd	2007	34.0	Construction and operation of utility plant
KEPCO Energy Resource Nigeria Ltd.	2007	30.0	Construction and operation of utility plant
Hyundai Green Power Co. Ltd.	2007	29.0	Generating electricity
KOMIPO Global Pte Ltd.	2007	100.0	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.
(2) Although we hold less than 20%, we deem Gangwon Wind Power as a principal affiliate as we can influence the major policies of this company through our voting power at the board of directors level.

Competition

We currently transmit and distribute substantially all of the electricity in Korea. In addition to us, there were 28 electricity suppliers that are licensed to distribute electricity in 28 districts of Korea as of April 30, 2008. These entities do not supply electricity on a national level but are licensed to supply electricity on a limited basis to their respective districts under the Community Energy System authorized by the Korea Electricity Commission and approved by the Minister of Knowledge and Economy in accordance with the Electricity Business Act. We also transmit and distribute electricity to these districts. As of April 30, 2008, three districts were using this system, and 25 other districts were preparing to launch it. In comparison, as of December 31, 2006, one district was using this system and 20 other districts were preparing to launch it. The generation capacity installed or under construction of the electricity suppliers in the 28 districts amounted to approximately 2.3% of the generation capacity of our generation subsidiaries as of April 30, 2008.

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The power generation industry, which began its liberalization process with the establishment of our power generation subsidiaries in April 2001, may become further liberalized in accordance with the Restructuring Plan.

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

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

Regulation

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

- development of electric power resources;
- the generation, transmission, transformation, distribution of electricity and other related business;
- related investment, research and technology development;
- business incidental to the foregoing; and
- any other business activities entrusted to us by the Government.

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 of 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, 2007, the legal reserve was (Won)1,604 billion, the reserve for business expansion was (Won)17,919 billion, and the reserve for investment of social overhead capital was (Won)5,277 billion.

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

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

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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 hold the license to generate, transmit, distribute and sell electricity. Several other companies have received a license solely for power generation. See Business Overview Power Generation Cost-based Pool System. Each of our six generation subsidiaries holds an electricity generation license. We and 21 other suppliers of electricity under the Community Energy System authorized by the Korea Electricity Commission and approved by the Minister of Knowledge Economy in accordance with the Electricity Business Act have a license for the distribution of electricity. The Electricity Business Act also governs the formulation and approval of electricity rates in Korea. See Rates above.

Our operations are subject to various laws and regulations relating to environmental protection and safety. See Community Programs above.

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 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 LG Powercom Corporation, our wholly-owned telecommunications subsidiary, representing approximately 10.5% of LG Powercom Corporation s total issued and outstanding shares of common stock. In December 2002, we sold 68,250,000 shares of LG Powercom Corporation, representing approximately 45.5% of LG Powercom Corporation s total issued and outstanding shares of common stock, and in April 2003, we sold 1,299,000 shares of LG Powercom Corporation, representing 0.87% of LG Powercom Corporation s total issued and outstanding shares of common stock, to LG Powercom Corporation s employee stock ownership association. Following such sales, our current ownership interest in LG Powercom Corporation 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 LG Powercom Corporation shares that we own. The number of LG Powercom Corporation 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 LG Powercom Corporation shares. LG Powercom Corporation 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 LG Powercom Corporation. In November 2006, the holders of the exchangeable bonds exercised its right of early redemption as to US$191 million of the outstanding principal amount of the exchangeable bonds. We plan to sell our remaining interest in LG Powercom Corporation.

Since its failed initial public offering in 2002, Korea Plant Service & Engineering Co., Ltd (KPS), which was our wholly-owned subsidiary, made concerted efforts to enhance corporate value. In July 2007, upon determining that the expected offering price for KPS exceeded its book value, the Government decided to list Korea Plan Service & Engineering on the Korea Exchange. In August 2007, our board of directors signed a resolution authorizing KPS initial public offering. In December 2007, KPS completed an offering of 9,000,000 shares, or approximately 20% of its share capital to the public and became listed on the Korea Exchange.

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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, 2007	Ownership percentage as of December 31, 2007 *(in billions of Won)*	Ownership percentage to be sold
Korea South-East Power Co., Ltd.	Electricity generation	2,092	100.0%	100.0%
Korea District Heating Co., Ltd.	Generating and distributing electricity and heat	187	26.1	Not determined
Korea Electric Power Industrial Development Co., Ltd.	Electricity metering	29	49.0	Not determined
LG Powercom Corporation	Leasing telecommunication lines and providing internet access	389	43.1	33.1
Korea Gas Corporation	Importing and wholesaling LNG	938	24.5	Not determined
Korea Plant Services & Engineering Co., Ltd.	Overhauling and repairing power plants	287	80.0	80.0
Korea Power Engineering Co., Ltd.	Designing and engineering power plants	26	97.9	Not determined

In January 2000, we established LG Powercom Corporation (formerly known as PowerComm), a telecommunication company, as part of disposing of our non-core business and 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 LG Powercom Corporation. LG Powercom Corporation has since obtained a telecommunications license from the Government, and is capable of operating its telecommunication business independently. After a series of sales commencing in July 2000, our ownership interest in LG Powercom Corporation is 43.1%. Depending on market conditions, we may dispose of our remaining equity interest in LG Powercom Corporation in domestic and foreign markets.

On September 27, 2007, the investment trust management agreement among Prudential Asset Management Co. Ltd., Hana Daetoo Securities Co., Ltd., Korea Investment & Securities Co., Ltd., collectively as investment managers, was terminated upon expiration of its term under the contract. Under this agreement, the aforementioned investment managers managed the assets contributed by us into a special purpose vehicle, established in December 1992 for the purpose of market stabilization of the Korea Stock Exchange, into which we and certain other companies in Korea made an investment by way of in-kind contribution of our and their respective treasury stock. Following the termination of the investment trust management agreement, our treasury stock contributed into such vehicle was sold in the market, and we received the net proceeds thereof in the amount of (Won)84 billion. The aggregate amount of our assets at the time of initial contribution under the investment trust management agreement was (Won)50 billion.

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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 411 Youngdong-daero, 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. As of December 31, 2007, the net book value of our property was (Won)67,563 billion. No significant amount of our properties is leased.

ITEM 4A. UNRESOLVED STAFF COMMENTS

On September 28, 2007, we received a letter from the staff of the U.S. Securities and Exchange Commission commenting on certain information in Item 5. Operation and Financial Review and Prospectus and notes to the consolidated financial statements included in our annual report for the fiscal year ended December 31, 2006. On October 26, 2007, we submitted our response to the staff s comments. We have prepared this annual report in light of the staff s comments contained in the letter dated September 28, 2007.

Other than as noted above, we do not have any unresolved comments from regarding our periodic reports under the Securities Exchange Act of 1934, as amended.

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

In 2005, 2006 and 2007, we had consolidated operating revenues of (Won)25,445 billion, (Won)27,409 billion and (Won)29,137 billion (US$31,136 million), respectively, 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 with respect to the rates we charge to customers for the electricity we sell. However, our business requires a 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 5.8% per annum for the five years ended December 31, 2007. According to The Bank of Korea, real gross domestic product, or GDP, compounded growth rates was approximately 4.3% for the same period. The GDP growth rate was 5.0% for 2007 as compared to 5.0% in 2006. Demand for electricity may be categorized either by the nature of its usage or by the type of

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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 growth in Korea, it has gradually declined as a percentage of total consumption from 58.0% in 1997 to 50.5% in 2007. In addition, demand from the industrial usage (including the agricultural usage) increased by 6.6% to 186,252 million kilowatt hours in 2007 as compared to 2006.

The commercial usage accounted for 34.8% of electricity consumed in 2007 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 5.5% to 128,180 million kilowatt hours in 2007 as compared to 2006.

The residential usage increased by 3.1% to 54,174 million kilowatt hours in 2007 as compared to 2006.

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, the 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. Following the Asian financial crisis in 1998, electricity demand contracted in Korea for several years but resumed stable growth in the early 2000s with an annual growth rate between 5% and 8%. However, consumption, particularly during periods of peak demand, continues to press the limits of available supply. Accordingly, we anticipate that demand for electricity will continue to increase in 2008. 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).

	2003	2004	2005	2006	2007
Growth in GDP (at 2000 constant prices)	3.1%	4.6%	4.0%	5.0%	5.0%
Growth in electricity consumption	5.4%	6.3%	6.5%	4.9%	5.7%

For additional discussions on demand by the type 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. In order to revise the rates we charge or change the electricity rate structure, we submit our recommendations, which are then reviewed by the Ministry of Knowledge and Economy, or MOKE, which then makes a final determination following consultation with the Electricity Rates Expert Committee of the MOKE and the Ministry of Strategy and Finance. Under the recently amended Electricity Business Law, the Korean Electricity Commission must review these recommendations prior to the final determination by the MOKE. On January 1, 2003, as part of a plan to improve the rate structure, the MOKE 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 MOKE revised our rate schedule, which resulted in a 1.5% reduction of our average rates, with a decrease in residential, commercial and educational rates by 2.8%, 3.5% and 3.0%, respectively, and no change in the industrial rates. On December 28, 2005, the MOKE adjusted our rate schedule which resulted in a 2.8% increase of our average rates, with an increase 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%. On January 1, 2008, the MOKE adjusted our rate schedule by increasing the average industrial rates and average night power usage rates by 1.0% and 18.0%, respectively, while reducing the average commercial rates by 3.0%. As a result of such adjustments, which had the effect of balancing out the increase with the decrease, our overall average rate is not expected to change.

See Business Overview Sales and Customers Rates.

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In July 2004, the Government adopted the Community Energy System to enable regional districts to source electricity from independent power producers to supply electricity without having to undergo the cost-based pool system used by our generation subsidiaries and most independent power producers to distribute electricity nationwide. A supplier of electricity under the Community Energy System must be authorized by the Korea Electricity Commission and be approved by the Minister of Knowledge Economy in accordance with the Electricity Business Act. The purpose of this system is to decentralize electricity supply and thereby reduce transmission costs and improve the efficiency of energy use. As of March 31, 2008, three districts are using this system and 25 other districts are preparing to launch it. The percentage of electricity supplied by the supplier in that one district accounts for less than 1.0% of the total electricity supplied by Korea. The generation capacity installed or under construction of the electricity suppliers in the 28 districts amounted to approximately 2.3% of the generation capacity of our generation subsidiaries as of April 30, 2007. If this system is widely adopted, this system will erode our market position in the generation and distribution of electricity in Korea, which has been virtually monopolistic to-date. Unless we become more operationally efficient so as to keep the loss of our market share to the minimum, this system is likely to have a material adverse effect on our business, growth, revenues and profitability.

The table below sets forth for the year ended December 31, 2006 and 2007 and as of March 31, 2008, the number of districts with government permits to participate in the Community Energy Supply, the number of apartments in such districts and generating capacity to be installed.

For the years ended and as of	Number of Districts with Permit to Participate	Number of Apartments (in thousands)	Generating Capacity (Megawatts)
December 31, 2006	20	189	777
December 31, 2007	6	53	328
March 31, 2008	2	59	212
Total	28	301	1,317

Increase in Fuel Cost

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

Cost of fuel in any given year is a function of the volume of fuels consumed and the unit fuel cost for the various types of fuel used for generation of electricity (i) by our generation subsidiaries or (ii) by independent power producers from whom we purchase electric power. A significant change in the unit fuel costs materially impacts the costs of electricity generated by our generation subsidiaries (which costs form part of our power generation, transmission and transmission costs expenses) as well as, to our knowledge, the costs of electricity generated by the independent power producers that sell their electricity to us (which costs form part of our purchased power expenses). We believe that unit fuel costs materially impact the total fuel costs for both generated power and purchased power, but are unable to provide a comparative analysis since the unit fuel cost information for purchased power is proprietary information of the independent power producers, who use a significantly different composition of the types of fuels for power generation.

Fuel costs accounted for 29.7%, 32.6% and 35.7% of our operating revenues and 35.2%, 37.2% and 39.5% of our operating expenses in 2005, 2006 and 2007, 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.

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Uranium accounted for 42.0%, 41.0% and 37.6% of our fuel requirements in 2005, 2006 and 2007, respectively. Coal accounted for 38.6%, 38.7% and 41.0% of our fuel requirements in 2005, 2006 and 2007, respectively. Oil (including diesel for internal combustion) accounted for 4.6%, 4.1% and 4.3% of our fuel requirements in 2005, 2006 and 2007, respectively. LNG accounted for 14.0%, 15.3% and 16.4% of our fuel requirements in 2005, 2006 and 2007, respectively. In each case, the fuel requirements are measured by the amount of electricity generated and do not include electricity purchased from third parties. 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. In recent years, the price of bituminous coal has substantially increased. See Item 4 Information on the Company Business Overview Fuel. In 2007, approximately 76.5% of the combined bituminous coal requirements of our generation subsidiaries was purchased under long-term contracts and 23.5% purchased on the spot market. The average free on board Newcastle coal price index in 2007 was US$65.3 per ton. In March 2008, the average free on board Newcastle coal price index reached US$125.6 per ton. If the bituminous coal price continues to be at its current level or higher, our generation subsidiaries will be unable to secure their respective bituminous coal supplies 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 the 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 spike in fuel prices has had a material adverse effect on our results of operations and profitability in 2008 to date. If the fuel prices continue to increase and the Government maintains the current level of electricity tariff or does not increase it to a level to sufficient to offset the adverse impact from rising fuel prices, our business, financial condition, results of operations and cash flows would seriously suffer.

Nuclear power has a stable 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. Kori-1 unit, the first nuclear power plant in Korea, commenced its operation in 1978 and reached the end of its intended life on June 18, 2007. KHNP submitted an extension application to MEST to extend the terms of operation for Kori-1 unit for another 10 years. MEST approved the application on December 11, 2007, and Kori unit-1 recommenced its commercial operations in January 9, 2008.

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 2007 as compared to 2006.

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 significantly 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

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overseas sources. As of December 31, 2007, approximately 27.1% of our debt was denominated in foreign currencies, principally in U.S. dollars and Yen. The prices for substantially all of the fuel material 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 movement of Won against the U.S. dollar and other currencies may have a material adverse effect on us.

Recent Accounting Changes

Preparation and Presentation of Financial Statements

We newly adopted SKAS No. 21- Preparation and Presentation of Financial Statements, SKAS No. 23- Earning per Share and SKAS No. 25- Consolidation Financial Statements, effective from January 1, 2007. Adoption of these newly effective SKAS in 2007 did not result in any change to reported net income or shareholders equity in 2005 and 2006. Pursuant to adoption of SKAS No. 21, valuation gain on available-for-sale, unrealized loss and gain on investment securities using the equity method, cumulative effect of foreign currency translation and valuation loss on derivatives, formerly classified as capital adjustments, are reclassified as accumulated other comprehensive income. In addition, pursuant to adoption of SKAS No. 25, income before minority interest is reclassified as net income. Furthermore, controlling interest in net income and minority interest in net income are separately presented in the consolidated statements of income.

Income Taxes

In 2007, we adopted amended SKAS No. 16 Income Taxes which are amended such that additional payment of income taxes and income tax refunds, formerly classified as other income (expenses), are reclassified as income taxes. Moreover, consolidated subsidiaries deferred income tax assets and liabilities, formerly recorded at net amount, are separately recorded in the consolidated balance sheets.

Certain amounts and accounts of prior years financial statements are reclassified to conform to the current period s presentation. The reclassification effect of the prior years financials statements are summarized below. This reclassification does not affect the net income (controlling interest in net income) or shareholders equity of prior years.

2005	**Won(millions)**		
	As previously reported	**As adjusted**	**Adjustment**
Income before income tax	(Won) 3,831,748	(Won) 3,824,623	(Won) 7,125
Income tax expenses	(1,399,419)	(1,392,294)	(7,125)

2006	**Won(millions)**		
	As previously reported	**As adjusted**	**Adjustment**
Non-current assets	(Won) 68,644,161	(Won) 70,417,142	(Won) (1,772,981)
Current assets	8,791,325	8,823,387	(32,062)
Total assets	77,435,486	79,240,529	(1,805,043)
Long-term liabilities	(25,579,322)	(27,352,303)	1,772,981
Current liabilities	(8,620,677)	(8,652,739)	32,062
Total liabilities	(34,199,999)	(36,005,042)	1,805,043
Income before income tax	(Won) 3,389,175	(Won) 3,369,114	(Won) 20,061
Income tax expenses	(1,143,411)	(1,123,350)	(20,061)

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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.

Accounting for Regulation

Under U.S. 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.

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, 2007, the consolidated balance sheet included regulatory assets of (Won)668 billion and regulatory liabilities of (Won)1,399 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, 2007, we did 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.

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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, 2005, 2006 and 2007, we recorded a liability of (Won)6,915 billion, (Won)7,543 billion and (Won)8,206 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.

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, 2007. 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.

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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, structures, loaded heavy water and capitalized asset retirement cost of nuclear power plants, unit-of-production method for loaded nuclear fuel (PWR) and capitalized asset retirement cost of loaded nuclear fuel) using rates based on the estimated useful lives. Net property, plant and equipment as of December 31, 2007, totaled (Won)67,563 billion (US$72,198 million) representing more than 81.5% 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.

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 of nuclear power plants	30 ~ 40
Capitalized asset retirement costs of loaded nuclear fuel	
Others	4 ~ 9

Generally, useful live is estimated at the time the asset is acquired and is based on historical experience with similar assets and takes 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.

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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

2007 Compared to 2006

In 2007, our revenues from the sale of electric power, the principal component of our operating revenues, increased by 7.2% to (Won)28,501 billion from (Won)26,590 billion in 2006, reflecting primarily a 5.7% increase in kilowatt hours of electricity sold in 2007 and a 2.1% average effective tariff increase in December 2006 which resulted in higher revenues in 2007. The increase in electricity sold was primarily attributable to a 6.5% increase in kilowatt hours of electricity sold to the industrial sector, a 5.7% increase in kilowatt hours of electricity sold to the commercial sector and a 3.3% increase in kilowatt hours of electricity sold to the residential sector.

Operating expenses increased by 9.6% to (Won)26,316 billion in 2007 from (Won)24,014 billion in 2006, primarily due to a 9.4% increase in power generation, transmission, and distribution expenses, which accounted for 83.1% of the total operating expenses in 2007, to (Won)21,860 billion in 2007 from (Won)19,985 billion in 2006. This increase was primarily due to a 16.3% increase in fuel costs from (Won)8,938 billion in 2006 to (Won)10,391 billion in 2007 as a result of an increase in unit fuel costs, particularly bituminous coal, and increased power generation, as well as a 5.8% increase in maintenance costs from (Won)2,036 billion in 2006 to (Won)2,154 billion in 2007, as a result of an increase in the maintenance periods of our power facilities. For further information on the increase in fuel costs from 2006 to 2007, see Item 4. Information on the Company Fuel. Purchased power, which accounted for 9.8% of the total operating expenses in 2007, increased by 24.6% to (Won)2,584 billion in 2007 from (Won)2,073 billion in 2006, primarily due to the increase of unit fuel costs as well as a 5.7% increase in demand for electricity.

Selling and administrative expenses increased by 2.2% to (Won)1,610 billion in 2007 from (Won)1,576 billion in 2006, primarily due to an increase in labor cost due to increased hiring and the annual wage increase and an increase in depreciation and amortization expenses primarily arising from an increase in acquisition of intangible assets arising from the installation of an enterprise resource planning system.

As a result of the foregoing, our operating income for 2007 decreased by 16.9% to (Won)2,822 billion in 2007 from (Won)3,395 billion in 2006.

Net non-operating loss significantly increased to (Won)428 billion in 2007 from (Won)26 billion in 2006, primarily due to the effect of recording net loss on foreign currency transactions and translation in the amount of (Won)145 billion in 2007 compared to net gain on foreign currency transactions and translation in the amount of (Won)417 billion in 2006, which mainly resulted from Won depreciation against U.S. dollar in 2007. This was partially offset by a 49.4% increase in net equity income of affiliates to (Won)120 billion in 2007 from (Won)80 billion in 2006, which was mainly due to the increases in net income of our affiliates, such as Korea Gas Corporation and LG Powercom Corporation, and the effect of recording a net valuation gain on financial derivatives in the amount of (Won)24 billion in 2007 as compared to a net valuation loss on financial derivatives in the amount of (Won)173 billion in 2006, which resulted primarily from our entering into a significant number of swap contracts to hedge risks involving foreign currency and interest rate of foreign currency debts.

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Our income tax expenses decreased to (Won)926 billion in 2007 from (Won)1,123 billion in 2006, due primarily to a decrease in income before income taxes. However, our effective tax rate increased to 38.70% in 2007 from 33.34% in 2006, primarily due to a decrease in tax benefit as a result of a decrease in dividend income from our affiliates and an increase in equity income of our affiliates.

As a cumulative result of the above factors, our net income decreased by 34.7% to (Won)1,467 billion in 2007 from (Won)2,246 billion in 2006.

2006 Compared to 2005

In 2006, our revenues from the sale of electric power, the principal component of our operating revenues, increased by 7.4% to (Won)26,590 billion from (Won)24,769 billion in 2005, reflecting primarily a 4.9% increase in kilowatt hours of electricity sold in 2006 and a 2.8% average effective tariff increase in December 2005 which resulted in higher revenues in 2006. The increase in electricity sold was primarily attributable to a 4.6% increase in kilowatt hours of electricity sold to the industrial sector, a 5.6% increase in kilowatt hours of electricity sold to the commercial sector and a 4.6% increase in kilowatt hours of electricity sold to the residential sector.

Operating expenses increased by 11.6% to (Won)24,014 billion in 2006 from (Won)21,523 billion in 2005, primarily due to a 11.6% increase in power generation, transmission, and distribution expenses, which accounted for 83.2% of the total operating expenses in 2006, to (Won)19,985 billion in 2006 from (Won)17,915 billion in 2005. The increase was primarily due to a 18.1% increase in fuel costs from (Won)7,568 billion in 2005 to (Won)8,938 billion in 2006 as a result of an increase in unit fuel costs, particularly oil and LNG, and increased power generation. For further information on the increase in fuel costs from 2005 to 2006, see Item 4. Information on the Company Fuel. Purchased power, which accounted for 8.6% of the total operating expenses in 2006, increased by 17.0% to (Won)2,073 billion in 2006 from (Won)1,772 billion in 2005, primarily due to the increase of unit fuel costs as well as a 4.9% increase in demand for electricity.

Selling and administrative expenses increased by 3.8% to (Won)1,576 billion in 2006 from (Won)1,519 billion in 2005, primarily due to a 1.7% increase in labor cost and a 4.6% increase in expenses for sales commissions mainly related to the electricity metering service. The electricity metering service consists of (i) taking monthly readings of electricity meters located at the customers homes and businesses, (ii) remitting invoices to customers for electricity usage, (iii) terminating electricity transmission upon customers request or non-payment of the invoiced amount and (iv) related administrative and other services, all of which are outsourced to outside service providers. We pay for this service on a commission basis largely based on the number of electricity meters covered by the relevant service provider. We do not generate any revenue from this service, and accordingly, there is no corresponding change between the revenue generated by us and the expense incurred by us in respect of this service.

As a result of the foregoing, our operating income for 2006 decreased by 13.4% to (Won)3,395 billion in 2006 from (Won)3,922 billion in 2005.

Net non-operating loss significantly decreased to (Won)26 billion in 2006 from (Won)97 billion in 2005, primarily due to the effect of recording net valuation loss on financial derivatives in the amount of (Won)173 billion in 2006 compared to net valuation gain on financial derivatives in the amount of (Won)167 billion in 2005, which resulted mainly from the Won appreciation against U.S. dollar in 2006, which was partially offset by a 40.4% increase in net gain on foreign currency transactions and translation to (Won)417 billion in 2006 from (Won)297 billion in 2005, which, in each case, resulted from the Won appreciation against U.S. dollar in 2006, and further offset by prior year error correction in the aggregate amount of (Won)110 billion in 2006 related to the liability of nuclear decommission costs and the reversal of accumulated deferred tax liabilities regarding dividends received from equity method investees and a significant increase in other net expense to (Won)268 billion in 2006 from (Won)85 billion in 2005.

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Our effective tax rate decreased to 33.34% in 2006 from 36.40% in 2005, due primarily to a decrease in income taxes to (Won)1,123 billion in 2006 from (Won)1,392 billion in 2005, primarily as a result of tax adjustments to increased dividend income from our affiliates.

As a cumulative result of the above factors, our net income decreased by 7.6% to (Won)2,226 billion in 2006 from (Won)2,408 billion in 2005.

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)7,610 billion in 2005, (Won)7,802 billion in 2006 and (Won)6,984 billion (US$7,463 million) in 2007. Total long-term debt as of December 31, 2007 (including the current portion and discount on debentures on and excluding premium on debentures) was (Won)20,945 billion (US$22,382 million), of which (Won)15,277 billion (US$16,326 million) was denominated in Won and an equivalent of (Won)5,667 billion (US$6,056 million) was denominated in foreign currencies, primarily U.S. dollars. Construction grants received were (Won)680 billion in 2005, (Won)797 billion in 2006 and (Won)1,032 billion (US$1,103 million) in 2007.

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 generation 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)6.7 trillion in 2005, (Won)7.5 trillion in 2006 and (Won)8.5 trillion (US$9.1 billion) in 2007 and under current plans, are estimated to be approximately (Won)10.7 trillion in 2008 and approximately (Won)13.4 trillion in 2009.

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, 2007 in 2008 to 2012 and thereafter are set forth in the table below:

Year ended December 31	Local currency borrowings	Foreign currency borrowings	Domestic debentures	Foreign debentures	Exchangeable bonds	Total
			(in millions of Won)			
2008	1,563,975	42,559	2,370,000	694,243	1,343	4,672,120
2009	2,250,848	67,590	2,120,000	1,118	1,040,796	5,480,352
2010	1,409,583	63,248	2,480,000	813,023		4,765,854
2011	711,163	63,530	460,000	376,233		1,610,926
2012	228,061	63,402	1,420,010	282,295		1,993,768
Thereafter	143,825	139,025	120,000	2,018,669		2,421,519
	6,307,455	439,354	8,970,010	4,185,581	1,042,139	20,944,539

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We have incurred interest charges (including capitalized interest) of (Won)1,014 billion in 2005, (Won)1,191 billion in 2006 and (Won)977 billion (US$1,044 million) in 2007. 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 5.30% in 2005, 5.17 % in 2006 and 4.85% in 2007.

We paid dividends on our common stock of (Won)729 billion in 2005, (Won)738 billion in 2006 and (Won)642 billion (US$686 million) in 2007. We will pay dividends to holders of our common stock as of December 31, 2007 in the amount of (Won)467 billion during 2008.

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, 2007, our long-term debt, excluding the current portion thereof, as a percentage of shareholders equity was 36.4%. We incurred (Won)4,098 billion of long-term debt in 2005, (Won)4,918 billion in 2006 and (Won)5,198 billion (US$5,555 million) in 2007. As of December 31, 2007, the current portion of long-term debt was (Won)4,670 billion (US$4,991 million) as compared to (Won)4,221 billion as of December 31, 2006. As of December 31, 2007, we had (Won)820 billion (US$877 million) of short-term borrowings as compared to (Won)477 billion as of December 31, 2006. 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 to (Won)5,223 billion (US$5,581 million) as of December 31, 2007 from (Won)5,939 billion as of December 31, 2006.

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 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)43,235 billion as of December 31, 2006 to (Won)44,267 billion (US$47,304 million) as of December 31, 2007.

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Liquidity

Substantially all of our revenues are denominated in Won. However, as of December 31, 2007, 27.1% 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 the 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 swaps 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 24 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 increased from (Won)8,393 billion as of December 31, 2006 to (Won)9,824 billion (US$10,498 million) as of December 31, 2007. Fuel costs represented 33.6% and 36.5% of revenues from sale of electric power in 2006 and 2007, respectively.

We had a working capital deficit (defined as current liabilities minus current assets) of (Won)3 billion (US$3 million) as of December 31, 2007, compared to a working capital surplus (defined as current assets minus current liabilities) of (Won)171 billion as of December 31, 2006, mainly due to an decrease in cash and cash equivalents as well as an increase in the current trade payables. Due to the capital-intensive nature of our business, we have traditionally operated with a working capital deficit, and we may have substantial working capital deficit in the future.

During 2006 and 2007, we declared and paid dividends of (Won)732 billion and (Won)621 billion related to income earned in 2005 and 2006, respectively. In March 2008, we paid a dividend of (Won)467 billion related to income earned in 2007.

Off-Balance Sheet Arrangements

We have no significant off-balance sheet arrangements as of December 31, 2007.

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Contractual Obligations and Commercial Commitments

The following summarizes certain of our contractual obligations as of December 31, 2007 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) 20,945	(Won) 4,672	(Won) 10,246	(Won) 3,605	(Won) 2,422
Interest payments on long-term debt[3]	1,014	169	422	278	145
Short-term borrowings	820	820			
Plant construction	46,035	3,982	16,173	11,344	14,536
Accrual for retirement and severance benefits[6]	1,085	48	133	169	735
Total	16,899	9,691	26,974	15,396	17,838

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, 2007 were immaterial.
(2) Includes the current portion and excludes amortization of note discount and issue costs.
(3) As of December 31, 2007, a portion of our long-term debt carried a variable rate of interest. We used the interest rate in effect as of December 31, 2007 for the variable rate of interest in calculating the interest payments on long-term debt for the periods indicated.
(4) Represents, as of December 31, 2007, 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 32 of the notes to our consolidated financial statements.

We entered into a power purchasing agreement with GS EPS Co., Ltd., formerly LG Energy Co., Ltd., and other independent power producers, under which and in accordance with the Electricity Business Act of Korea we are required to purchase a minimum amount of power from these companies. Power we purchased from these companies amounted to (Won)1,170 billion, (Won)1,299 billion and (Won)1,487 billion for the years ended December 31, 2005, 2006 and 2007, respectively.

We have entered into contracts with domestic and foreign suppliers (including Korea Gas Corporation, a related party) to purchase bituminous coal, anthracite coal and LNG. These contracts generally have terms of three months to one year and provide for periodic price adjustments to then-market prices. Under most of the coal purchase contracts, we are required to purchase an annual quantity of coal. See Note 32 of the notes to our consolidated financial statements for further details of these contracts. We have also entered into long-term transportation contracts with Hanjin Shipping Co., Ltd. and others.

We import all uranium ore concentrates from sources outside Korea (including the United States, United Kingdom, Kazakhstan, France, Russia, South Africa, Canada and Australia) through medium- to long-term contracts and pay for such concentrates with currencies other than Won, primarily U.S. dollars. Contract prices for processing of uranium are generally based on market prices. See Note 32 of the notes to our consolidated financial statements for further details of these contracts.

Under the rules on the Usage of Power Transmission Facilities approved by the MOKE, which took effect on January 1, 2007, we are liable for the construction of all of our power transmission facilities and the maintenance and repair expenses for such facilities.

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In July 2005, we entered into an agreement with the Government to invest (Won)852 billion for the construction of generating facilities using alternative energy sources and spend (Won)201 billion in research and development related to the development of renewable energy by July 2008. As of December 31, 2007, the outstanding balance of major agreements related to development of renewable energy including wind, solar and small hydroelectric energy was (Won)315 billion.

We provide guarantees in the aggregate amount of US$102 million, including performance guarantees for our foreign subsidiaries, such as KEPCO Ilijian Co.

Payment guarantee and short-term credit facilities from financial institutions as of December 31, 2007 were as follows:

Payment guarantee

Description	Financial Institutions	Credit Lines (In millions of Won or thousands of US$, EUR, INR, AUD)	
Payment of import letter of credits	Korea Exchange Bank and others	US$	1,357,400
		(Won)	18,764
Payment of customs duties	Korea Exchange Bank and others	(Won)	10,298
Inclusive credits	Korea Exchange Bank	(Won)	621,200
Borrowings	Woori Bank and others	US$	110,000
		(Won)	310,000
Performance guarantees	Korea Exchange Bank and others	US$	158,620
Payment of foreign currency	Korea Exchange Bank	EUR	88
		INR	29,125
	Shinhan Bank	AUD	462
		US$	1,563

Overdraft and Others

Description	Financial Institutions	Credit Lines (In millions of Won or thousands of US$)	
Overdraft	Korea Exchange Bank and others	US$	40,000
		(Won)	809,500
Discount on promissory note	Korea Exchange Bank and others	(Won)	319,000
Commercial paper	Korea Exchange Bank and others	(Won)	150,000
Trade financing	National Agricultural Cooperative Federation and others	(Won)	140,000
Repayment guarantees for foreign currency debentures	Korea Development Bank	US$	757,595
Trade financing	Shinhan Bank	US$	2,000

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.

We provided a promissory note of (Won)1.8 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 have entered into contracts with Doosan Industrial Co., Ltd. and others in the aggregate amount of (Won)4,344 billion (US$4,642 million) and JPY17.8 million as of December 31, 2007 for construction of power plant facilities and facility maintenance.

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We provide performance guarantees to the Lebanon Electricity Agency in respect of the operation of the Lebanon power generation plant in the amount of US$17.3 million.

Other than as described in this report and also in Note 32 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, 2007.

As of December 31, 2007, we and our generation subsidiaries were engaged in 313 lawsuits as a defendant and 76 lawsuits as a plaintiff. As of the same date, the total amount of damages claimed against us was (Won)385 billion, for which we have made a reserve of (Won)28 billion as of December 31, 2007, and the total amount claimed by us was (Won)41 billion as of December 31, 2007. While 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.

We also have contingent liabilities under the termination agreement with the Korean Peninsula Energy Development Organization. See Note 32(e) of the notes to our consolidated financial statements.

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**.**

Adjustments to Net Income:

	2005	2006	2007	2007
		(In millions of Won and thousands of US$)		
NET INCOME UNDER KOREAN GAAP	(Won) 2,432,329	(Won) 2,245,764	(Won) 1,467,168	$ 1,567,822
ADJUSTMENTS:				
MINORITY INTERESTS	(24,686)	(20,204)	(40,711)	(43,504)
OPERATING INCOME				
Asset revaluation (note 35(b))	438,382	389,184	330,115	352,762
Special depreciation (note 35(c))	(6,407)	(5,389)	(5,328)	(5,694)
Regulated operations (note 35(d))	(14,227)	(56,971)	(2,135)	(2,281)
Capitalized foreign currency translation (note 35(f))	183,850	171,462	151,088	161,453
Reversal of eliminated profit on transactions with subsidiaries and affiliates (note 35(e))	(12,518)	(11,126)	(1,461)	(1,561)
Liabilities for decommissioning costs and capitalized asset retirement costs (note 35(j))	94,913	26,273	81,335	86,915
Reserve for self-insurance (note 35(m))	5,266	5,324	5,331	5,697
Revenue recognition (note 35(a))		(488)	52,057	55,628
Intangible assets (note 35(g))			(44,013)	(47,032)
Classification differences in the consolidated statements of income(*)	(230,521)	(185,973)	(157,762)	(168,585)
OTHER INCOME (EXPENSES)				
Asset revaluation - equity investment	19,973	19,973	13,349	14,265
Capitalized foreign currency translation (note 35(f))	41,877	40,341	2,381	2,544
Gain on disposal of subsidiaries (note 35(n))			63,209	67,545
Equity income of affiliates	(117,902)	(99,982)	(132,914)	(142,032)
Convertible bonds (note 35(k))	26,738	(44)	(97,580)	(104,274)
Classification differences in the consolidated statements of income(*)	230,521	185,973	157,762	168,585
INCOME TAX EXPENSES				
Deferred income taxes	(215,515)	(158,910)	(120,192)	(128,438)
Tax effect of gain on disposal of subsidiaries			(16,264)	(17,380)
Tax effect of equity income of affiliates	21,094	10,831	24,944	26,655
Fin48 Liabilities (note 35(i))			(2,876)	(3,073)
EQUITY INCOME OF AFFILIATES, NET OF TAX	96,808	89,151	107,970	115,377
NET INCOME UNDER U.S. GAAP	(Won) 2,969,975	(Won) 2,645,189	(Won) 1,835,473	$ 1,961,394

(*) Certain donations and gain or loss on disposal of property, plant and equipment are recorded in other income or expenses under Korean GAAP while recorded in operating expenses under U.S. GAAP since those are regarded as operating expenses. This reclassification does not affect the net income under U.S. GAAP.

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Adjustments to Stockholders Equity:

	As of December 31,		
	2006	2007	2007
	(In millions of Won and thousands of US$)		
Stockholders Equity Under Korean GAAP	(Won) 43,235,487	(Won) 44,266,853	$ 47,303,754
Adjustments:			
Current Asset			
Account receivables revenue recognition (note 35(a))	943,330	995,387	1,063,675
Utility plant			
Asset revaluation (note 35(b))	(7,096,916)	(6,766,801)	(7,231,033)
Capitalized asset retirement cost (note 35(j))	(651,998)	(919,159)	(982,217)
Construction in progress (note 35(g))		300,000	320,581
Special depreciation (note 35(c))	8,104	2,776	2,966
Capitalized foreign currency translation (note 35(f))	(1,334,267)	(1,180,796)	(1,261,804)
Reversal of eliminated profit on transactions with subsidiaries and affiliates (note 35(e))	117,010	115,549	123,476
Intangible Assets:			
Future radioactive wastes repository sites usage rights (note 35(g))	(300,000)	(300,000)	(320,581)
Research and development cost (note 35(g))		(44,013)	(47,032)
Investment Securities:			
Asset revaluation (note 35(b))	(62,133)	(48,784)	(52,131)
Deferred Income Taxes	1,649,469	1,533,405	1,638,603
Liabilities:			
Liabilities for decommissioning costs (note 35(j))	2,246,473	2,294,969	2,452,414
Regulated operation (note 35(d))	(729,205)	(731,340)	(781,513)
Reserve for self-insurance (note 35(m))	103,942	109,273	116,770
Convertible bonds (note 35(i))	(66,879)	(166,436)	(177,854)
Fin 48 liabilities (note 35(i))		(13,380)	(14,298)
Minority Interests (note 35(j))	(150,740)	(234,441)	(250,525)
Stockholders Equity Under U.S. GAAP	(Won) 37,911,677	(Won) 39,213,062	$ 41,903,251

Note 35 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 the following.

Revenue Recognition

We read meters and bills customers on a cycle basis. We do not accrue revenue for power sold to customers between the meter-reading date and balance sheet date but records the revenue in the subsequent period. Under Korean GAAP, such practice is consistent with the Accounting Regulations for Government Invested Enterprises, which have been approved by the Korean Ministry of Strategy and Finance and considered by the utility industry in Korea as Korean GAAP. However under U.S. GAAP beginning in 2006, we recognize unbilled revenue representing the sale of power between the cycle meter-reading date and the balance sheet date. Prior to 2006, we did not recognize any difference for amounts recognized under Korean GAAP, and had concluded that such prior year uncorrected differences were quantitatively and qualitatively immaterial to the our prior year consolidated financial statements using the income statement approach.

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In September 2006, the SEC issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 requires the use of the dual approach (both an income statement approach and a balance sheet approach) when evaluating whether an error is material to an entity s financial statements, based on all relevant quantitative and qualitative factors. The SEC issued SAB 108 to address what the SEC identified as diversity in practice whereby entities were using either an income statement approach or a balance sheet approach, but not both.

Effective December 31, 2006, we adopted SAB 108 and recorded the effects of prior year uncorrected differences which arose prior to January 1, 2006, as a cumulative effect adjustment to retained earnings as of January 1, 2006 in accordance with the dual approach set forth in SAB 108. The impact of SAB 108 adoption at December 31, 2006 to beginning retained earnings is shown below.

	Korean Won (in millions)		
	Accounts receivable	**Current deferred income tax assets (liabilities)**	**Retained earnings**
Balance as of December 31, 2005, as reported	(Won) 2,162,747	(Won) 1,402,759	(Won) 27,365,456
Cumulated effect adjustment for adoption of SAB 108	(Won) 943,818	(Won) (259,550)	(Won) 684,268
Balance as of January 1, 2006, as adjusted	(Won) 3,106,565	(Won) 1,143,209	(Won) 28,049,724
Translation into U.S. dollars (Note 2) (In thousands)	$ 3,340,392	$ 1,229,257	$ 30,160,993

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 the Assets Revaluation Law of Korea. In connection with an asset revaluation, a new basis for the property, plant and equipment is established. Asset revaluations are 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 the 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 not recognized under U.S. GAAP. 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

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

The Government of the Republic of Korea approves the rates that we charge to our customers. Our utility rates are designed to recover our reasonable costs plus the fair investment return. We have a monopoly in Korea as the provider of electricity and thus all costs incurred for supplying and distributing electricity are recoverable. However, 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.

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

The following table shows the components of regulated assets and liabilities as of December 31, 2006 and 2007.

	As of December 31,		
	2006	2007	2007
	(In millions of Won and thousands of US$)		
Capitalized foreign currency translation	(Won) 725,671	(Won) 668,008	$ 713,837
Reserve for self-insurance	(103,942)	(109,273)	(116,770)
Deferred income taxes	(1,350,934)	(1,290,075)	(1,378,580)
Total	(Won) (729,205)	(Won) (731,340)	$ (781,513)

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. The elimination is restricted to certain transactions prior to the corporate split of our generation subsidiaries in 2001. No elimination of such profit is required in accordance with U.S. GAAP for regulated enterprises, where the sales prices are reasonable, and it is probable that, through the rate making process, future revenues approximately equal to the sales price will result from our use of the utility plant. 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.

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Intangible Assets

Under Korean GAAP, all costs incurred during the research phase are expensed as incurred. Costs incurred during the development phase are recognized an asset only if all of the following criteria for recognition are satisfied; (1) it is probable that future economic benefits that are attributable to the asset will flow into the entity; and (2) the cost of the asset can be reliably measured. If the costs incurred fail to satisfy all of these criteria, they are recorded as periodic expense as incurred.

Under U.S. GAAP, all costs incurred during the research and development stages are expensed as incurred with the exception of certain computer software costs defined in Statement of Position (the SOP) 98-1. Under SOP 98-1, internal and external costs incurred to develop internal-use computer software during the application development stage should be capitalized.

Under Korean GAAP, we recognized the payment of (Won)300 billion to the City of Gyeongju as an intangible asset. Under U.S. GAAP, we reclassified it to a construction-in-progress in utility plants. Under Korean GAAP and U.S. GAAP, such amount will be amortized using the unit-of-production method upon completion of repository site.

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 bonds issued, unrealized gains and losses on investment securities, equity in other comprehensive income of 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 the 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 in other comprehensive income of affiliates and unrealized gains and losses on derivatives considered to be cash flow hedges and are reported as a separate component of stockholders equity.

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.

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48) *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109,* which set outs a consistent framework to use to determine the appropriate level of tax reserve for uncertain tax positions. This interpretation uses two-step approach wherein a tax benefit is recognized if a position is more-likely-than-not to be sustained. The amount of the benefit is then measured to be the highest tax benefit which is greater than 50% likely to be realized. The difference between the benefit recognized for a position in accordance with this FIN 48 and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit.

We adopted FIN 48 effective January 1, 2007, and the adoption resulted in a decrease of the beginning balance of retained earnings as of January 1, 2007 by (Won)6,920 million. Additionally, in connection with the adoption of FIN 48, we elected to classify interest and penalties related to tax positions as a component of income tax expense.

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The beginning balance of unrecognized tax benefits reconciles to the balance as of December 31, 2007 in the following table:

	As of December 31, 2007 (In millions of Won and thousands of US$)	
Total unrecognized tax benefits at January 1, 2007	(Won) 17,200	$ 18,380
Amount of increase for current year s tax position	1,231	1,315
Gross amount of increases for prior years tax position		
Gross amount of decreases for prior years tax position	(12,741)	(13,615)
Total unrecognized tax benefits at December 31, 2007	(Won) 5,690	$ 6,080

Any changes in the amounts of unrecognized tax benefits related to temporary differences would result in a reclassification to deferred tax liability, and any changes in the amounts of unrecognized tax benefits related to permanent differences would result in an adjustment to income tax expense and therefore, our effective tax rate. As of January 1, 2007 and December 31, 2007, the unrecognized tax benefits included above which would, if recognized, affect the effective tax rate is (Won)1,850 million and (Won)2,106 million, respectively.

Our continuing practice is to recognize interest and penalties, if any, related to income tax matters in income tax expense. After the adoption of FIN 48, we had total gross accrual for interest income and penalties of (Won)5,071 million and (Won)7,691 million as of January 1, 2007 and December 31, 2007, respectively. During 2007, we recognized income tax expense of (Won)2,620 million related to interest and penalties.

Our major tax jurisdiction is the Republic of Korea, and as of December 31, 2007, tax years from fiscal years 2003 to 2007 remain open to examination for many of our entities.

The regular tax examinations by the tax authority for some of our entities are expected to occur within 12 months. Such tax examinations may cause significant change of unrecognized tax benefits. However, an estimate of the range of possible change cannot be made.

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.

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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 and thereafter

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

Under U.S. GAAP, we have continued to apply SFAS No. 143 in 2004 and thereafter.

Since the adoption of SKAS No. 17 and up to date, 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 shall be treated as a new liability and discounted at the then current discount rate. Any downward revisions to the undiscounted estimated cash flows will result in a reduction of the liability for decommissioning costs and shall be reduced from the recorded discounted liability at the rate that was used at the time the obligation was originally recorded. Under Korean GAAP, regardless of upward or downward revisions to the undiscounted estimated cash flows, the historical discount rate will be applied in all future periods.

As explained in note 21 in the consolidated financials included in this annual report, under Korean GAAP, we have accrued (Won)8,206 billion for the cost of dismantling and decontaminating existing nuclear power plants as of December 31, 2007. Under U.S. GAAP, we have accrued (Won)5,900 billion for the cost of dismantling and decontaminating existing nuclear power plants as of December 31, 2007. Substantially all of the difference between the U.S. GAAP liability and the Korean GAAP liability is due to the impact of the discount rate described in the first bulleted paragraph above.

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Amounts reconciled from Korean GAAP to U.S. GAAP for capitalized asset retirement costs, net of accumulated depreciation and liabilities for decommission costs are as follows:

	2006	2007	2007
Decrease in capitalized asset retirement costs, net of accumulated depreciation	(Won) (651,998)	(Won) (919,159)	$ (982,217)
Decrease in liabilities for decommissioning costs	2,246,473	2,294,969	2,452,414
	(Won) 1,594,475	(Won) 1,375,810	$ 1,470,197

Details of our asset retirement costs as of December 31, 2006 and 2007 under U.S. GAAP are as follows:

	2006	2007	2007
	(In millions of Won and thousands of US$)		
Capitalized asset retirement costs	(Won) 1,395,875	(Won) 1,613,433	$ 1,724,122
Less: accumulated depreciation	(691,037)	(873,182)	(933,086)
	(Won) 704,838	(Won) 740,251	$ 791,036

Changes in liabilities for decommissioning costs for the years ended December 31, 2006 and 2007 under U.S. GAAP are as follows:

	2006	2007	2007
	(In millions of Won and thousands of US$)		
Balance at beginning of year	(Won) 4,700,799	(Won) 5,297,018	$ 5,660,416
Liabilities incurred	255,027	306,196	327,201
Prior period adjustment (note 21)	55,255		
Accretion expense for the year	296,114	363,841	388,801
Liabilities reversed(*1)		(48,298)	(51,611)
Payments	(10,177)	(7,459)	(7,971)
Balance at end of year	(Won) 5,297,018	(Won) 5,911,298	$ 6,316,839

(*1) In 2007, the usage period of Kori-1 nuclear generation unit was extended by 10 years under the approval of the Ministry of Knowledge and Economy. Accordingly, we reversed the difference between previously estimated and newly estimated amounts for the decrease in the liability.

Convertible Bonds

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

Under U.S. GAAP, per SFAS No. 133, unless a conversion right is deemed as an embedded derivative instrument requiring bifurcation, no portion of the proceeds from the issuance of the convertible debt securities is attributed to the conversion feature. We have determined that the conversion feature embedded in our convertible debt should not be bifurcated. Also, our convertible bonds are subject to foreign currency translation, because these convertible bonds were 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.

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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.

Gain or loss on partial disposal of subsidiaries

Under Korean GAAP, when the parent company disposes of a portion of its investment in a subsidiary but still retains a controlling interest, any gain or loss on disposal should be recognized in capital surplus.

Under US GAAP, such gain or loss on disposal is recognized in other income.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of significant financial instruments in which it is practicable to estimate that value:

Cash and cash equivalents, short term financial instruments, trade receivables, short-term borrowings, and trade payables: The carrying amount approximates fair value because of its nature or relatively short maturity.