KOREA ELECTRIC POWER CORP
Form 20-F
June 30, 2011
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As filed with the Securities and Exchange Commission on June 30, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549 F

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, 2010

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: 001-13372

KOREA ELECTRIC POWER CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices)

Seung Bum Kim, +822 3456 4264, sbkim96@kepco.co.kr, +822 3456 4299

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

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

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

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

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

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

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

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

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CERTAIN DEFINED TERMS AND CONVENTIONS

All references to Korea or the Republic in this annual report on Form 20-F, or this 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, our, ours, the Comp KEPCO in this report are references to Korea Electric Power Corporation and, as the context may require, its subsidiaries, and the possessive thereof, as applicable. All references to the Ministry of Knowledge Economy and the Ministry of Strategy and Finance include the respective predecessors thereof. All references to tons are to metric tons, equal to 1,000 kilograms, or 2,204.6 pounds. Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding. All references to Korean GAAP in this report are references to the accounting guidelines under the Korea Electric Power Corporation Act, the Accounting Regulations for Public Enterprise Associate Government Agency 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. Unless otherwise stated, all of our financial information presented in this report is prepared under Korean GAAP.

In addition, in this report, all references to:

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

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

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

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

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

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

each of which is our wholly-owned generation subsidiary.

FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements (as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934), including statements regarding our expectations and projections for future operating performance and business prospects. The words believe, expect, anticipate, estimate, project and similar words used in connection with any discussion of our future operating or financial performance identify forward-looking statements. In addition, all statements other than statements of historical facts included in this report are forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be 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 3D. Risk Factors and elsewhere, important factors that could cause actual results to differ materially from our expectations (Cautionary Statements). All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Item 3A. Selected Financial Data

The selected consolidated financial data set forth below as of and for the years ended December 31, 2006, 2007, 2008, 2009 and 2010 have been derived from our audited consolidated financial statements as of and for the years ended December 31, 2006, 2007, 2008, 2009 and 2010. Our consolidated financial statements as of and for the years ended December 31, 2007, 2008, 2009 and 2010 have been audited by Deloitte Anjin LLC, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee. Deloitte Anjin LLC is a Korean independent registered public accounting firm and is our current independent registered public accounting firm. Our consolidated financial statements as of and for the year ended December 31, 2006 has been audited by KPMG Samjong Accounting Corp.

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 5B. Liquidity and Capital Resources Reconciliation to U.S. GAAP and Note 38 of the notes to our consolidated financial statements.

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

Consolidated Statement of Earnings Data

	2006	2007	2008	2009	2010	
		(in billions of Won and millions of US$, except per share data)				
Amounts in Accordance with Korean GAAP[1]:						
Operating revenues	(Won) 27,409	(Won) 29,137	(Won) 31,560	(Won) 33,994	(Won) 39,426	$ 34,872
Operating expenses	24,014	26,316	34,358	32,279	37,846	33,474
Operating income (loss)	3,395	2,822	(2,798)	1,715	1,580	1,398
Income (loss) before income taxes	3,369	2,393	(3,844)	322	437	387
Income tax expenses (benefits)	1,123	926	(930)	370	457	404
Net income (loss)	2,246	1,467	(2,914)	(48)	(20)	(17)
Controlling interest	2,226	1,426	(2,955)	(97)	(72)	(64)
Noncontrolling interest	20	41	41	49	52	46
Earnings (loss) per share						
Basic	3,488	2,294	(4,746)	(155)	(116)	(0.10)
Diluted	3,389	2,258	(4,746)	(155)	(116)	(0.10)
Earnings (loss) per ADS						
Basic	1,744	1,147	(2,373)	(77.5)	(58)	(0.05)
Diluted	1,695	1,129	(2,373)	(77.5)	(58)	(0.05)
Dividends per share	1,000	750				

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	2006	2007	2008	2009	2010	
	(in billions of Won and millions of US$, except per share data)					
Amounts in Accordance with U.S. GAAP[(2)]:						
Operating revenue[(3)]	(Won) 27,408	(Won) 29,189	(Won) 31,634	(Won) 34,181	(Won) 39,512	$ 34,948
Operating income (loss)	3,727	3,231	(2,971)	2,544	2,129	1,884
Net income (loss)	2,665	1,876	(3,778)	1,151	443	392
Controlling interest	2,645	1,835	(3,819)	1,102	391	346
Noncontrolling interest	20	41	41	49	52	46
Earnings (loss) per share						
Basic	4,146	2,952	(6,134)	1,770	628	0.56
Diluted	4,028	2,946	(6,134)	1,769	623	0.55
Earnings (loss) per ADS						
Basic	2,073	1,476	(3,067)	885	314	0.28
Diluted	2,014	1,473	(3,067)	884	312	0.28
Dividend per share	1,000	750				
Other Data:						
Ratio of earnings to fixed charges[(4)]:						
Korean GAAP	3.8	3.1	(3.2)	1.0	0.8	0.8
U.S. GAAP[(2)]	4.2	3.7	(3.9)	1.8	1.1	1.1

Consolidated Statements of Financial Position Data

	As of December 31,					
	2006	2007	2008	2009	2010	
	(in billions of Won and millions of US$, except share and per share data)					
Amounts in Accordance with Korean GAAP[(2)]:						
Net working capital surplus (deficit)[(5)]	(Won) 171	(Won) (3)	(Won) (197)	(Won) 281	(Won) 802	$ 708
Property, plant and equipment, net	56,874	57,739	59,618	59,124	59,155	52,322
Construction in progress	8,393	9,824	10,178	14,909	19,744	17,463
Total assets	79,241	82,929	88,199	93,208	99,610	88,104
Total stockholders equity	43,235	44,267	41,275	41,404	41,489	36,696
Controlling interest	43,084	44,033	40,962	41,027	41,018	36,280
Noncontrolling interest	151	234	313	377	471	416
Common stock	3,208	3,208	3,208	3,208	3,208	2,837
Number of common shares as adjusted to reflect any changes in capital stock	641,567,712	641,567,712	641,567,712	641,567,712	641,567,712	
Long-term debt (excluding current portion)	15,428	16,121	23,319	27,856	33,107	29,283
	11,924	13,204	13,069	13,201	13,427	11,876

Other long term liabilities						
Amounts in Accordance with U.S. GAAP[(2)]:						
Total assets	72,513	76,616	82,230	87,631	94,568	83,644
Total liabilities	34,450	37,169	46,687	50,714	57,007	50,422
Total stockholders equity	38,063	39,447	35,543	36,917	37,561	33,222
Controlling interest	37,912	39,213	35,230	36,540	37,090	32,806
Noncontrolling interest	151	234	313	377	471	416

Notes:

(1) See Item 5A. 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 5B. Liquidity and Capital Resources Reconciliation to U.S. GAAP and Note 38 of the notes to our consolidated financial statements.

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(3) For discussion of significant differences in revenue recognition under Korean GAAP and U.S. GAAP, see Item 5B. Liquidity and Capital Resources Reconciliation to U.S. GAAP and Note 38(a) of the notes to our consolidated financial statements.

(4) For purposes of computing ratios of earnings to fixed charges, earnings consist of income before income taxes and fixed charges. Fixed charges consist of interest expense (including capitalized interest) and amortization of bond discount and issue expenses. We believe this ratio is helpful to understand our ability to service our debt with our earnings.

(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 Korea, and all references to U.S. dollars, Dollars, $ or US$ are to the currency of the United States of America, all references to Euro or are references to the currency of the European Union, all references to Yen or ¥ are references to the currency of Japan. Unless otherwise indicated, all translations from Won to U.S. dollars were made at Won 1,130.60 to US$1.00, which was the noon buying rate of the Federal Reserve Board (the Noon Buying Rate) in effect as of December 30, 2010. The source of these rates is the Federal Reserve Bank of New York until December 31, 2008. Since January 1, 2009, the Federal Reserve Bank of New York discontinued publication of foreign exchange rates. The source of the rates since January 1, 2009 is the H.10 statistical release of the Federal Reserve Board. On June 24, 2011, the Noon Buying Rate was Won 1,078.7 to US$1.00. The exchange rate between the U.S. dollar and Korean Won may be highly volatile from time to time and the U.S. dollar amounts referred to in this report should not be relied upon as an accurate reflection of our results of operations. No representation is made that the Won or U.S. dollar amounts referred to in this 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)		
2006	930.0	953.5	1,002.9	913.7
2007	935.8	929.0	950.2	903.2
2008	1,262.0	1,098.7	1,507.9	935.2
2009	1,163.7	1,274.6	1,570.1	1,149.0
2010	1,130.6	1,155.7	1,253.2	1,104.0
2011 (through June 24)	1,078.7	1,101.1	1,135.6	1,065.5
January	1,119.1	1,118.9	1,128.1	1,111.0
February	1,123.7	1,117.4	1,130.6	1,100.9
March	1,097.3	1,119.3	1,135.6	1,097.3
April	1,068.4	1,083.2	1,091.8	1,068.4
May	1,078.0	1,084.4	1,101.6	1,065.5
June (through June 24)	1,078.7	1,081.4	1,091.2	1,073.9

Source: Federal Reserve Bank of New York (for the periods ended on or prior to December 31, 2008) and Federal Reserve Board (for the period since January 1, 2009)

Note:

(1) Represents the daily average of the Noon Buying Rates during the relevant period.

Item 3B. Capitalization and Indebtedness

Not Applicable

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

Not Applicable

Item 3D. Risk Factors

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

Risks Relating to KEPCO

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

Fuel costs constituted 47.2% and 49.1% of our operating revenues and operating expenses, respectively, in 2010. 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. For example, most of the bituminous coal requirements (which accounted for approximately 43.6% of our entire fuel requirements in 2010 in terms of electricity output) are imported from a limited number of countries principally consisting of Indonesia and Australia and, to a lesser extent, Canada and China, which accounted for approximately 51%, 32%, 4% and 3%, respectively, of the annual bituminous coal requirements of our generation subsidiaries in 2010. Approximately 70.8% of the bituminous coal requirements of our generation subsidiaries in 2010 were purchased under long-term contracts and the remaining 29.2% from the spot market. Pursuant to the terms of our long-term supply contracts, prices are adjusted annually based on prevailing market conditions. In addition, our generation subsidiaries purchase a significant portion of their fuel requirements under contracts with limited duration. See Item 4B. Business Overview Fuel.

In recent years, the prices of bituminous coal, oil and liquefied natural gas, or LNG, have fluctuated significantly, resulting in a higher fuel cost to us. For example, the average free on board Newcastle coal price index ranged from US$128.4 per ton in 2008 to US$72.4 per ton in 2009 and to US$98.8 per ton in 2010, and rose to US$118.5 per ton as of June 3, 2011. 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 fluctuated from US$93.8 per barrel in 2008 to US$61.7 per barrel in 2009 and US$78.1 per barrel in 2010, and was US$118.7 per barrel as of June 3, 2011. If fuel prices increase sharply within a short span of time, our generation subsidiaries may be unable to secure requisite fuel supplies at prices that they were able to obtain during prior periods. In addition, any significant interruption or delay in the supply of fuel, bituminous coal in particular, from any of their suppliers may cause our generation subsidiaries to purchase fuel on the spot market at prices higher than the prices available under existing supply contracts, resulting in an increase in the fuel cost. We cannot assure you that the fuel prices will not significantly increase in the remainder of 2011 or thereafter.

Because the Government regulates the rates we charge for the electricity we sell to our customers (see Item 4B. Business Overview Sales and Customers Electricity Rates), our ability to pass on such cost increases to our customers is limited. The increase in fuel prices led to our recording an operating loss in 2008 and a net loss from 2008 to 2010 under Korean GAAP and we expect that a high level of fuel prices will continue to have an adverse effect on our results of operation in 2011 and beyond. If fuel prices remain at the current level or 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 sufficiently offset the impact of high fuel prices, the fuel price increases will significantly lower our profit margins or even cause us to suffer operating and/or net losses and our business, financial condition, results of operations and cash flows would seriously suffer. In addition, partly because the Government may have to undergo a lengthy deliberative process to approve an increase in electricity tariff, which represents a key component of the consumer price index, the electricity tariff may not be adjusted to a level sufficient to ensure a fair rate of return to us in a timely manner or at all. For example, in July 2009 and August 2010, the Government increased the electricity tariff by an average of 3.9% and 3.5%, respectively. However, such increases were insufficient to fully offset the adverse impact from the rise in fuel costs. Similarly, we cannot assure that any future tariff increase by the Government will be sufficient to fully offset the adverse impact on our results of operations from the current or potential rises in fuel costs.

On February 10, 2010, the Ministry of Knowledge Economy announced that it plans to overhaul the current system for determining electricity tariff chargeable to customers by more closely aligning the tariff levels to the movements in fuel prices, with the aim of providing more timely pricing signals to the market regarding the expected changes in electricity tariff levels and encouraging more efficient use of electricity by customers. Currently scheduled to take effect on July 1, 2011, the new tariff system is also intended to provide greater financial stability and ensure a minimum return on investment to electricity suppliers, such as us. However, there is no assurance that the new tariff system will be adopted as presently anticipated or at all, or that the new tariff system in its final form will fully cover our expenses on a timely basis or at all, or will not have unintended consequences that we are not presently aware of. In addition, the Government may not maintain or raise the tariff level to ensure our profitability until the implementation of the new tariff system in July 2011. Any of such developments may have a material adverse effect on our business, financial condition, results of operations and cash flows. See Item 4B. Business Overview Recent Developments Proposed Changes to the Electricity Tariff System.

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

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

In 2003, the Government established a Tripartite Commission consisting of representatives of the Government, leading businesses and labor unions in Korea to deliberate on ways to introduce competition in electricity distribution, such as by forming and privatizing new distribution subsidiaries. In 2004, the Tripartite Commission recommended not pursuing such privatization initiatives but instead creating independent business divisions within us to improve operational efficiency through internal competition. Following the adoption of such recommendation by the government in 2004 and further studies by Korea Development Institute, in 2006 we created nine strategic business units (which, together with our other business units, were subsequently restructured into 13 such units in December 2008) that came to have separate management structures (although with limits on its autonomy), financial accounting systems and performance evaluation systems, but with a common focus on maximizing profitability.

In 2009, the Government commissioned Korea Development Institute to undertake a study addressing concerns regarding inefficiencies in the cost structure of electricity generation, including by potentially consolidating one or more of our generation subsidiaries or merging them with us. On August 25, 2010, based on this study and deliberations with various interested parties, the Ministry of Knowledge Economy announced the Proposal for Improvements in the Structure of the Electric Power Industry, whose key initiatives include maintaining the current structure of having six generation subsidiaries but adopting several measures to improve

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operational efficiency, management autonomy and coordination among the generation subsidiaries. For further details of this Proposal, see Item 4B. Business Overview Recent Developments Proposal for the Improvement in the Structure of the Electric Power Industry.

In addition, in order to deal with the shortage of fuel and other resources and also to comply with various environmental standards, the Government is currently considering a plan to adopt the Renewable Portfolio Standard (RPS), under which each generation subsidiary will be required to supply 2.0% and 10.0% of the total energy generated from such subsidiary in the form of renewable energy by 2012 and 2022, respectively, with fines being levied on any unit failing to do so in the prescribed timeline. We currently estimate that, if the RPS is implemented as currently planned, our generation subsidiaries will incur approximately Won 45 trillion in additional capital expenditure over the next 10 years. We expect that such additional capital expenditure will be covered by a corresponding increase in electricity tariff. However, there is no assurance that the Government will in fact raise the electricity tariff to a level sufficient to fully cover such additional capital expenditures or at all. For further details, see Item 4B. Business Overview Renewable Energy.

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

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

We and our generation subsidiaries make plans for expanding or upgrading our generation capacity based on the Basic Plan Relating to the Long-Term Supply and Demand of Electricity, or the Basic Plan, which is generally announced and revised every two years by the Government. In December 2010, the Government announced the fifth Basic Plan relating to the future supply and demand of electricity. The fifth Basic Plan, which is effective for the period from 2010 to 2024, focuses on, among other things, (i) ensuring that electricity generation conforms to the National Energy Basic Plan relating to the overall energy management policy for Korea, (ii) expanding the base-load generation capacity to promote economical supply of electricity, (iii) preparing contingency planning to cover for, among others, delayed construction of generation facilities, and otherwise ensure stable long-term balance between electricity supply and demand, (iv) tightening supply management during 2011 to 2014 in response to the short-term decrease in facility reserve ratios, (v) fostering environmentally friendly electricity sources in line with the planned nationwide reduction in greenhouse gas emission, by giving priority in the construction of nuclear generation facilities and taking other green energy initiatives; (vi) appropriately adjusting the generation capacity expansion and (vii) improving transparency in planning and engaging a greater number of experts in the process of planning future basic plans. We cannot assure that the fifth 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. If there is a significant variance between the actual capacity expansions by us and our generation subsidiaries based on the projected electricity supply and demand and the actual supply and demand, this may result in inefficient use of our capital, mispricing of electricity and undue financing costs on the part of us and our generation subsidiaries, which may have a material adverse effect on our results of operations, financial condition and cash flows.

From time to time, we may experience temporary power shortages or circumstances bordering on power shortages due to factors beyond our control, such as extreme weather conditions. For example, due to extremely

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cold weather, during the winter of 2010-2011 our electricity reserve level fell to a lower than normal level of 5.5% despite emergency measures mandated by the Government, such as reduced daytime railway services and reduced daytime industrial use of electricity during peak hours. These circumstances may lead to increased end-user complaints and greater public scrutiny over our capacity levels, which may in turn result in our need to modify our capacity expansion plans, and if we were to substantially modify our capacity plans, this may result in additional capital expenditures, which may have a material adverse effect on our results of operations, financial condition and cash flows.

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

The Won has fluctuated significantly against major currencies in recent years, especially as a result of the recent global financial crisis and the relatively speedy recovery of Korean economy therefrom. See Item 3A. Selected Financial Data Currency Translations and Exchange Rates. The depreciation of Won against U.S. dollar and other foreign currencies typically results in a material increase in the cost of fuel and equipment purchased from overseas and the cost of servicing our foreign currency-denominated debt as the prices for substantially all of the fuel materials and a significant portion of the equipment we purchase are stated in currencies other than Won, generally in U.S. dollars. As of December 31, 2010, approximately 26.1% of our long-term debt (including the current portion and discounts on debentures but excluding premium on debentures) before accounting for swap transactions was denominated in foreign currencies, principally in U.S. dollars, Yen and Euro. 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 Won against the U.S. dollar or other major foreign currencies will have a material adverse effect on our profitability and results of operations.

We may not be successful in implementing new business strategies.

As part of our overall business strategy, we plan to undertake new, or expand existing, projects such as strengthening of our renewable energy generation capabilities under the Renewable Portfolio Standards initiative, adoption of the smart grid projects to improve the operational efficiency of our electricity transmission and distribution network, and expansion in overseas markets, particularly in the construction and operation of nuclear generation units.

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

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

As part of our business strategy, we may also seek, evaluate or engage in potential acquisitions, mergers, joint ventures, strategic alliances, restructurings, combinations, rationalizations, divestments or other similar opportunities. The prospects of these initiatives are uncertain, and there can be no assurance that we will be able to successfully implement or grow new ventures, and these ventures may prove more difficult or costly than we

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presently expect. In addition, we regularly review the profitability and growth potential of our businesses. As a result of such review, we may decide to exit from or to reduce the resources that we allocate to new ventures in the future. There is a risk that these ventures may not achieve profitability or operational efficiencies to the extent we presently expect and we may fail to recover investments or expenditures that we have already made. Any of the foregoing may have a material adverse effect on our reputation, business, results of operation, financial condition and cash flows.

We plan to pursue international expansion opportunities that may subject us to different or greater risk from those associated with our domestic operations.

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

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

- challenges of complying with multiple foreign laws and regulatory requirements, including tax laws and laws regulating our operations and investments;
- volatility of overseas economic conditions, including fluctuations in foreign currency exchange rates;
- difficulties in enforcing creditors rights in foreign jurisdictions;
- risk of expropriation and exercise of sovereign immunity where the counterparty is a foreign government;
- difficulties in establishing, staffing and managing foreign operations;
- differing labor regulations;
- political and economic instability, natural calamities, war and terrorism;
- lack of familiarity with local markets and competitive conditions;
- changes in applicable laws and regulations in Korea that affect foreign operations; and
- obstacles to the repatriation of earnings and cash.

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

Furthermore, while we seek to enter into business opportunities in a prudent and selective manner, some of our new international business ventures, such as mining and resource exploration, carry risks inherent to such businesses, which are different from our traditional business of electricity power generation, transmission and distribution. As we are relatively inexperienced in these types of businesses, the actual revenues and profitability from, and investments and expenditures into, these business ventures may be substantially different from what we planned or anticipated and have a material adverse impact on our overall business, results of operations, financial condition and cash flows.

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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 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 December 31, 2010, 12 districts were using this system and four other districts were preparing to launch it. The generation capacity installed or under construction of the electricity suppliers in these 16 districts amounted to approximately 1% of the aggregate generation capacity of our generation subsidiaries as of December 31, 2010. Since the introduction of the Community Energy System in 2004, a total of 31 districts have obtained the license to supply electricity through the Community Energy System, but 15 of such districts have reportedly abandoned plans to adopt the Community Energy System, largely due to the relatively high level of capital expenditure required, the rise in fuel costs and the lower-than-expected electricity output per cost. However, if the Community Energy System is widely adopted, it will erode our market position in the generation and distribution of electricity in Korea, which has been virtually monopolized by us until recently, and may have a material adverse effect on our business, growth, revenues and profitability.

Labor unrest may adversely affect our operations.

As of December 31, 2010, approximately 75.6% of our employees, 62.8% of the employees of our nuclear generation subsidiary and 66.9% of the employees of our non-nuclear generation subsidiaries were members of labor unions. Since the six-week labor strike in 2002 by the union members of our generation subsidiaries in response to the proposed privatization of one of our generation subsidiaries, there has been no material subsequent labor dispute. However, we cannot assure you that there will not be a major labor strike or other disruptions by the labor unions of us and our generation subsidiaries if the Government resumes privatization or other restructuring initiatives or for other reasons, which may adversely affect our business and results of operations.

Planned relocation of the headquarters of us and our generation subsidiaries may reduce our operational efficiency.

In June 2005, as part of an initiative to foster balanced economic growth in the provinces, the Government announced a plan to relocate the headquarters of select government-invested enterprises, including us and our six generation and certain other subsidiaries, from the Seoul metropolitan area to other provinces in Korea by the end of 2012. Currently, our headquarters and those of our generation subsidiaries are within close vicinity of each other in the City of Seoul. Pursuant to the Government s relocation policy, our headquarters are scheduled to be relocated to Naju in Jeolla 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. See Item 5B. Liquidity and Capital Resources Capital Requirements for further details. While we intend to comply with the relocation plan, there can be no assurance that, following such relocation, we will be able to maintain the current level of operational efficiency due to geographic dispersion of our business units.

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

Through KHNP, we currently operate 21 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 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 least costly among the fuel types used by our generation subsidiaries) and is the second largest source of Korea s electricity supply, accounting for 31.3% of electricity generated in Korea in 2010. Due to significantly lower unit fuel costs compared to those for conventional power plants, our nuclear power plants are generally operated at full capacity with only routine shutdowns for check-up and overhauls lasting 20 to 30 days, with limited exceptions. 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.

Recently, in response to the damage to the nuclear facilities (including nuclear meltdowns) in Japan as a result of the tsunami and earthquake in March 2011, the Government announced plans to further enhance the safety and security of nuclear power facilities, including by establishing a nuclear safety commission in July 2011 for neutral and independent safety appraisals, subjecting nuclear power plants to additional safety inspections by governmental authorities and civic groups and requiring KHNP to prepare a comprehensive safety improvement plan. As a result of the foregoing, as well as a generally higher level of public and regulatory scrutiny of nuclear power facilities in general following the recent nuclear incident in Japan, KHNP is expected to incur additional compliance costs and capital expenditures, 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 recent years, we have encountered increasing social and political opposition to the construction and operation of nuclear generation units. Although we and the Government have undertaken various community programs to address concerns of residents in areas near our nuclear units, civic and community opposition to the construction and operation of nuclear units could result in delayed construction or relocation of planned nuclear generation units, which could have a material adverse impact on our business and results of operation. See Item 4B. Business Overview Power Generation Korea Hydro & Nuclear Power Co., Ltd., Community Programs and 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. KHNP carries insurance for its generation units and nuclear fuel transportation, and we believe that the level of insurance is generally adequate and is in compliance with relevant laws and regulations. In addition, KHNP is the beneficiary of Government indemnity which covers a portion of liability in excess of the insurance. However, such insurance is limited in terms of amount and scope of coverage and does not cover all types or amounts of losses which could arise in connection with the ownership and operation of nuclear plants. Accordingly, material adverse financial consequences could result from a serious accident or a natural disaster to the extent it is neither insured nor covered by the government indemnity.

In addition, our 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. Such insurance and indemnity, however, cover only a portion of the assets that the non-nuclear generation subsidiaries own and operate and do not cover all types or amounts of loss that could arise in connection with the ownership and operation of these power plants. In addition, unlike us, our generation subsidiaries are not permitted to self-insure, and accordingly have not self-insured, against risks of their uninsured assets or business. Accordingly, material adverse financial consequences could result from a serious accident to the extent it is uninsured.

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In addition, 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 4B. Business Overview Insurance.

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 in the coming years in order to refinance existing debt, make capital expenditures for construction of generation plants and other facilities and make acquisitions and investments related to overseas natural resources. The amount of such additional indebtedness may be substantial. We expect that a portion of our long-term debt will need to be paid or refinanced through foreign currency-denominated borrowings and capital raising in international capital markets. Such financing may not be available on terms commercially acceptable to us or at all, especially if the global financial markets experience significant turbulence or a substantial reduction in liquidity.

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

Under applicable laws, the Government is required to directly or indirectly own at least 51.0% of our issued capital stock. As of June 7, 2011, the Government, directly and through Korea Finance Corporation (a statutory banking institution wholly-owned by the Government), owned 51.1% of our issued capital stock. Accordingly, without changes in the existing Korean law, it may be difficult or impossible for us to undertake, without the participation of the Government, any equity financing in the future (other than sales of treasury stock).

Risks Relating to Korea and the Global Economy

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

We are incorporated in Korea, where most of our assets are located and most of our income is generated. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea, and our business, results of operation and financial condition are substantially dependent on the Korean consumers demand for electricity, which are in turn largely dependent on developments relating to the Korean economy. In addition, the Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets. Starting in late 2008, the global economy and financial markets experienced significant hardship as a result of a substantial reduction in credit and liquidity following a crisis in the U.S. subprime mortgage market, which then spread to markets involving highly leveraged structured financial products. While the Korean and global economy have shown growing signs of recovery since the second half of 2009, there can be no assurance that there will not be further difficulties resulting from the recent financial and economic crisis. In addition, many governments worldwide, in particular in southern Europe, are showing increasing signs of fiscal stress and difficulties meeting debt burdens and there are signs of uncertainty relating to the major economies in the world, including the United States and China. Any of these or other developments could potentially trigger another financial and economic crisis, and government programs designed to manage these developments, including macroeconomic easing, fiscal stimulus or otherwise, may not have the desired effect and in fact may, for reasons related to timing, magnitude or other factors, have the unintended consequences of triggering, prolonging or worsening economic and financial difficulties. As Korea s economy is highly dependent on the health and direction of the global economy, investors reactions to developments in one country can have adverse effects on the securities price of companies in other countries. Factors that determine economic and business cycles of the Korean or global economy are for the most part beyond our control and inherently uncertain. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on our business and profitability.

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More specifically, factors that could hurt Korea s economy in the future include, among others:

- volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (particularly against the U.S. dollar), interest rates and stock markets and inflows and outflows of foreign capital, either directly, into the stock markets, through derivatives or otherwise;
- increased reliance on exports to service foreign currency debts, which could cause friction with Korea s trading partners;
- adverse developments in the economies of countries to which Korea exports goods and services (such as the United States, China and Japan), or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;
- the continued emergence of China, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and relocation of the manufacturing base from Korea to China);
- social and labor unrest or declining consumer confidence or spending resulting from lay-offs, increasing unemployment and lower levels of income;
- uncertainty and volatility in real estate prices arising, in part, from the Government s policy-driven tax and other regulatory measures;
- a decrease in tax revenues and a substantial increase in the Government s expenditures for unemployment compensation and other social programs that together could lead to an increased Government budget deficit;
- political uncertainty or increasing strife among or within political parties in Korea, including as a result of the increasing polarization of the positions of the ruling conservative party and the progressive opposition;
- a deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy;
- any other development that has a material adverse effect in the global economy, such as an act of war, a terrorist act or a breakout of an epidemic such as SARS, avian flu or swine flu;
- hostilities involving oil-producing countries in the Middle East and elsewhere and any material disruption in the supply of oil or a material increase in the price of oil resulting from such hostilities; and
- an increase in the level of tensions or an outbreak of hostilities in the Korean peninsula.

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

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

Relations between Korea and North Korea have been tense throughout Korea s modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In recent years, there have been heightened security concerns stemming from North Korea s nuclear weapons and long-range missile programs and uncertainty regarding North Korea s actions and possible responses from the international community. In April 2009, after launching a long-range rocket over the Pacific Ocean which led to protests from the international community, North Korea announced that it would permanently withdraw from the six-party talks that began in 2003 to discuss Pyongyang s path to denuclearization. On May 25, 2009, North Korea conducted its second nuclear testing by launching several short-range missiles. In response to such actions, the Republic decided to join the Proliferation Security Initiative, an international campaign aimed at stopping the trafficking of weapons of mass destruction, over Pyongyang s harsh rebuke and threat of war. After the United

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Nations Security Council passed a resolution on June 12, 2009, to condemn North Korea s second nuclear test and impose tougher sanctions such as a mandatory ban on arms exports, North Korea announced that it would produce nuclear weapons and take resolute military actions against the international community. In November 2010, North Korean forces fired artillery shells at Yeonpyeong Island off the west coast of Korea killing four South Koreans. Efforts at multilateral negotiations with North Korea have been made in response to North Korean provocations, but the prospects of such negotiations remain unclear.

There recently has been increased uncertainty about the future of North Korea s political leadership and its implications for the economic and political stability of the region. In June 2009, American and South Korean officials announced that Kim Jong-il, the North Korean ruler who reportedly suffered a stroke in August 2008, designated his third son, who is reported to be in his twenties, to become his successor. The succession plan, however, remains uncertain. In September 2010, Kim Jong-eun was made a general in the North Korean army, named the vice chairman of the Central Military Commission and appointed to the Central Committee of the Workers Party in a series of measures widely believed to be part of the succession plan. In addition, North Korea s economy faces severe challenges. For example, on November 30, 2009, the North Korean government redenominated its currency at a ratio of 100 to 1 in an attempt to control inflation and reduce income gaps. In tandem with the currency redenomination, the North Korean government banned the use or possession of foreign currency by its residents and closed down privately run markets, which led to severe inflation and food shortages. Such developments may further aggravate social and political tensions within North Korea as well as the entire Korean peninsula.

There can be no assurance that the level of tension and instability in the Korean peninsula will not escalate in the future, or that the political regime in North Korea may not suddenly collapse. Any further increase in tension or uncertainty relating to the military or economic stability in the Korean peninsula, including a breakdown of diplomatic negotiations over the North Korean nuclear program, occurrence of military hostilities or heightened concerns about the stability of North Korea s political leadership, could have a material adverse effect on our business, financial condition and results of operation and could lead to a decline in the market value of our common shares and our American depositary shares.

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

Our consolidated financial statements are prepared in accordance with Accounting Regulations for Public Enterprise Associate Government Agency 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;
- the establishment of regulatory assets and liabilities 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 5B. Liquidity and Capital Resources Reconciliation to U.S. GAAP and Note 38 of the notes to our consolidated financial statements.

Our reported financial results under the new IFRS accounting standards may differ significantly for those under the existing Korean GAAP accounting standards.

In March 2007, the Government announced that all companies listed on the Korea Exchange, including us, will be required to comply with the International Financial Reporting Standards (IFRS) adopted for use in

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Korea beginning January 1, 2011. In addition, we are required to comply with IFRS as issued by the International Accounting Standard Board (IASB) for our SEC reporting obligations. IFRS is the financial reporting standard adopted in more than 110 countries and has requirements that are substantially different from those under Korean GAAP. Starting in the first quarter of 2011, we currently prepare and report our financial statements under IFRS as adopted for use in Korea and publish such financial statements on the website of the Financial Supervisory Service of Korea as required under the applicable regulations and listing rules of the Korea Exchange. Compared to our previous reporting standards under Korean GAAP, IFRS provides for differing reporting requirements with respect to, among others, revenue recognition and property, plant and equipment, which may make it difficult for our shareholders and other investors to compare our reported financial results under IFRS to our reported financial results under the previous Korean GAAP and thereby make their investment decisions on a sufficiently informed basis. Beginning January 1, 2011, we will prepare and report our financial statements under IFRS as issued by the IASB and as adopted for use in Korea for our SEC reporting obligations. See Item 4B. Business Overview Recent Developments Adoption of IFRS.

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

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

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ITEM 4. INFORMATION ON THE COMPANY

Item 4A. History and Development of the Company

General Information

Our legal and corporate name is Korea Electric Power Corporation. We were established by the Government on December 31, 1981 as a statutory juridical corporation in Korea under the Korea Electric Power Corporation (KEPCO) Act as the successor to Korea Electric Company. Our registered office is located at 167 Samseong-dong, Gangnam-gu, Seoul, Korea, and our telephone number is 82-2-3456-4264. Our website address is www.kepco.co.kr. Our agent in the United States is Korea Electric Power Corporation, New York Office, located at 16th Floor, 400 Kelby Street, Fort Lee, NJ 07024.

The Korean electric utility industry traces its origin to the establishment of the first electric utility company in Korea in 1898. On July 1, 1961, the industry was reorganized by the merger of Korea Electric Power Company, Seoul Electric Company and South Korea Electric Company, which resulted in the formation of Korea Electric Company. From 1976 to 1981, the Government acquired the private minority shareholdings in Korea Electric Company. After the Government acquired all the remaining shares of Korea Electric Company, Korea Electric Company dissolved, and we were incorporated in 1981 and assumed the assets and liabilities of Korea Electric Company. We ceased to be wholly-owned by the Government in 1989 when the Government sold 21.0% of our common stock. As of June 7, 2011, the Government maintained 51.1% ownership in aggregate of our common shares by direct holdings and indirect holdings through Korea Finance Corporation, a statutory banking institution wholly owned by the Government which was formed following the Government-managed split of Korea Development Bank into Korea Finance Corporation and KDB Financial Group in October 2009. Korea Development Bank, which formerly held our shares, transferred all of its equity interest in us to Korea Finance Corporation following the restructuring. Substantially all debt and other financial obligations owned by us have also been transferred to Korea Finance Corporation.

Under relevant laws of Korea, the Government is required to own, directly or indirectly, at least 51.0% of our capital. Direct or indirect ownership of more than 50% of our outstanding common stock enables the Government to control the approval of certain corporate matters relating to us that require a stockholders resolution, including approval of dividends. The rights of the Government and Korea Finance Corporation as holders of our common stock are exercised by the Ministry of Knowledge Economy, based on the Government s ownership of our common stock and a proxy received from Korea Finance Corporation, in consultation with the Ministry of Strategy and Finance.

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

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Item 4B. Business Overview

Introduction

We are an integrated electric utility company engaged in the transmission and distribution of substantially all of the electricity in Korea. Through our six wholly-owned generation subsidiaries, we also generate substantially all of the electricity produced in Korea. As of December 31, 2010, we and our generation subsidiaries owned approximately 86.2% of the total electricity generating capacity in Korea (excluding plants generating electricity primarily for private or emergency use). In 2010, we sold to our customers approximately 434 billion kilowatt-hours of electricity. We purchase electricity principally from our generation subsidiaries and to a lesser extent from independent power producers. Of the 455 billion kilowatt-hours of electricity we purchased in 2010, 31.5% was generated by KHNP, our wholly-owned nuclear and hydroelectric power generation subsidiary, 60.0% was generated by our wholly-owned five non-nuclear generation subsidiaries and 8.5% was generated by independent power producers. Our five non-nuclear generation subsidiaries are 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, each of which is wholly-owned by us and is incorporated in Korea. We derive substantially all of our revenues and profit from Korea, and substantially all of our assets are located in Korea.

In 2010, we had operating revenues of Won 39,426 billion and net loss of Won 20 billion compared to operating revenues of Won 33,994 billion and net loss of Won 48 billion in 2009. Our operating revenues increased primarily as a result of a 10.1% increase in kilowatt hours of electricity sold in 2010, which was attributable primarily to the general increase in demand for electricity among consumers in Korea as a result of the economic recovery in 2010 compared to 2009. The increase in the volume of electricity sold was due to a 12.3% increase of electricity sold to the industrial sector, including light power usage, a 8.7% increase in kilowatt hours of electricity sold to the commercial sector and a 5.5% increase in kilowatt hours of electricity sold to the residential sector. See Item 5A. Operating Results.

Our revenues are closely tied to demand for electricity in Korea. Demand for electricity in Korea increased at a compounded average growth rate (CAGR) of 5.5% per annum from 2006 to 2010, compared to the real gross domestic product, or GDP, which increased at a CAGR of 3.8% during the same period, according to The Bank of Korea. The GDP growth rate was 6.2% for 2010 as compared to 0.3% for 2009. Demand for electricity in Korea increased by 10.1% from 2009 to 2010.

Strategy

In June 2009, we established a vision for ourselves to become, by 2020, one of the top utility service providers in the world in terms of environmentally-friendly clean energy, with a focus on substantially increasing our revenue, maintaining a fair level of return on investment, further expanding our overseas businesses and upgrading our technologies, including in the area of nuclear plant design. In order to achieve this vision, we have formulated the following strategies:

Become a global leader in green technology. With the increasing demand for, and embrace of, environmentally friendly, or green, energy worldwide in substitution of the conventional thermal energy, we believe that green energy represents an important business potential as well as a worthy corporate purpose befitting our status as a provider of public utility. In particular, our green growth initiatives will focus on the following:

(i) *Development of capabilities to generate electricity with lower carbon emission* We are currently developing, or seek to develop, a standardized integrated gasification combined cycle generation unit, namely a generation unit that uses high-purity gas produced by pressurizing coal or other solid waste at high temperature for generation of electricity with relatively low carbon emission, with an installed capacity of 300 megawatts, a standardized carbon capture and storage facility with an installed capacity of 500 megawatts and a standardized nuclear power generation unit for export purposes.

(ii) *Improvement in efficiency in our electricity transmission and distribution* We are currently developing, or seek to develop, an intelligent power transmission and distribution network, or smart grids, based on advanced information technology, in order to promote a more efficient allocation and use of electricity by consumers, a superconducting technology that will improve efficiency in the transmission of electricity over such network and localized high-voltage direct current technology that will reduce electricity loss over the course of transmission and distribution.

(iii) *Participation in the development of green energy infrastructure* We are currently developing, or seek to develop, charging facilities for electric vehicles and standard models for a residential unit that can be powered solely by electricity.

Capture and expand business opportunities. We seek to capture business opportunities presented by our leadership in green technology and transmission and distribution technology by developing commercial applications thereof, including by way of developing related information and communication technologies and diversifying our consulting business.

Expand overseas business. The primary focus of our overseas business diversification is twofold: (i) leveraging our experience and knowhow gained from our core business of electricity generation in Korea, including nuclear power generation, to capture business opportunities overseas so as to expand our growth potential, and (ii) direct participation in mining and other resource development projects overseas, by way of acquisition or equity investment, in order to facilitate and increase self-sufficiency in fuel procurement. We also plan to expand our geographic focus from Southeast Asia to various other regions in the world, including the resource-rich Middle East, Africa and Australia.

Advance innovation and operational efficiency. Promoting innovation and operational efficiency has been and will continue to be an important part of our business strategy. Specifically, we aim to foster further strategic cooperation among our affiliates and adopt innovative management systems that will enhance operational efficiency and cost control.

Recent Developments

Increase in Electricity Tariff Rates

Effective as of August 1, 2010, the Government increased the electricity rates that we charge to the end-users by an average of 3.5% as further set forth in the following table:

Type of usage	Residential	Commercial	Educational	Industrial	Agricultural	Street lighting	Night power usage
% increase	2.0	No change	5.9	5.8	No change	5.9	8.0

We cannot assure you that such tariff increase will be sufficient to fully offset the adverse impact on our results of operations from the current or future movements in fuel costs.

Proposal for the Improvement in the Structure of the Electric Power Industry

On August 25, 2010, the Ministry of Knowledge Economy announced the Proposal for the Improvement in the Structure of the Electric Power Industry, whose key initiatives include the following: (i) maintain the current structure of having six generation subsidiaries, (ii) designate the six generation subsidiaries as market-oriented public enterprises under the Public Agency Management Act in order to foster competition among them and autonomous and responsible management by them, (iii) create a supervisory unit to act as a control tower in reducing inefficiencies created by arbitrary division of labor among the six generation subsidiaries and fostering economies of scale among them and require the presidents of the generation subsidiaries to hold regular meetings, (iv) create a nuclear power export business unit to systematically enhance our capabilities to win projects involving the construction and operation of nuclear power plants overseas, (v) further rationalize the

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electricity tariff by adopting a fuel-cost based tariff system in 2011 and a voltage-based tariff system in a subsequent year, and (vi) create separate accounting systems for electricity generation, transmission, distribution and sales with the aim of introducing competition in electricity sales in the intermediate future. Pursuant to this Proposal, in December 2010 the Ministry of Knowledge Economy announced guidelines for a cooperative framework between us and our generation subsidiaries, and in January 2011 the five non-nuclear generation subsidiaries formed a joint cooperation unit and transferred their pumped-storage hydroelectric business units to KHNP. Furthermore, in January 2011 the six generation subsidiaries were officially designated as market-oriented public enterprises, whereupon the president of each such subsidiary is required to enter into a management contract directly with the minister of the Ministry of Knowledge Economy, performance evaluation of such subsidiaries is conducted by the Public Enterprise Management Evaluation Commission, and the president and the statutory auditor of each such subsidiary are appointed by the President of Korea while the selection of outside directors is subject to approval by the minister of the Ministry of Strategy and Finance. Previously, the president of each such subsidiary entered into a management contract with our president, performance evaluation of such subsidiaries was conducted by our evaluation committee, and the president and the statutory auditor of each such subsidiary were appointed by, and the selection of outside directors was subject to approval by, our president.

Adoption of IFRS

Starting on January 1, 2011, as required by the applicable regulations and listing rules of the Korea Exchange, we currently prepare and report our financial statements under IFRS as adopted in Korea and publish such financial statements on the website of the Financial Supervisory Service of Korea. In addition, we are required to comply with IFRS as issued by the IASB for our SEC reporting obligations. The following areas of financial reporting have been principally impacted from the transition from Korean GAAP to IFRS:

- *Valuation of tangible assets*. 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. Under IFRS, property, plant and equipment will be valued at fair value, which includes the value determined through asset revaluation at the time of adopting IFRS. Accordingly, we have conducted asset revaluation of land, buildings, structure, machinery and equipment held by us and certain of our subsidiaries as of January 1, 2010, which resulted in an increase of our total assets by approximately Won 22 trillion. The effects of such asset revaluation will be reflected starting with the Issuer s financial statements as of and for the year ended December 31, 2010 prepared in accordance with IFRS.

- *Recognition of revenue from the sale of electricity*. Under Korean GAAP, revenues from the sale of electricity are recognized at the time of meter reading. Under IFRS, revenues from the sale of electricity will be recognized on an accrued basis.

Such differences in financial reporting standards may make it difficult for our shareholders and other investors to compare our reported financial results under IFRS to our reported financial results under the existing Korean GAAP and thereby make their investment decisions on a sufficiently informed basis.

Overseas Activities

Pursuant to our strategy to diversify and facilitate procurement of fuel sources and expand our overseas activities in general, we and our generation subsidiaries have recently been involved in several acquisition, investment and other operating activities overseas, including:

- acquisition of a 100% equity interest in Anglo Coal (Bylong) Pty Ltd., a coal mine operator based in Australia, in July 2010;

- acquisition of a 20% equity interest in PT Bayan Resources Tbk., a coal mine operator based in Indonesia, in July 2010;

- winning a bid to construct and operate a 433-megawatts generation facility in Chihuahua, Mexico in August 2010;

- winning a bid to construct and operate a 1,600-megawatts generation facility in Shueweihat, United Arab Emirates in October 2010; and

- joint venture for the construction and operation of a 97.5 megawatts wind-power electricity generation facilities in Chaoyang, the People s Republic of China.

For further details on these activities, see Overseas Activities.

Government Ownership and Our Interactions with the Government

The KEPCO Act requires that the Government own at least 51.0% of our capital stock. Direct or indirect ownership of more than 50.0% 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 Finance Corporation as holders of our common stock are exercised by the Ministry of Knowledge 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 51.0% of our outstanding common stock.

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

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

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

Restructuring of the Electric Power Industry in Korea

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

The following provides further details relating to the Restructuring Plan.

Phase I

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

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

Following the implementation of Phase I, we 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 further adjustments to the Restructuring Plan to be adopted by the Government, we plan to retain 100.0% ownership of both KHNP and our transmission and distribution business.

Phase II

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

In order to support the logistics of the cost-based pool system, the Government established the Korea Power Exchange in April 2001 pursuant to the Electricity Business Law. The primary function of the Korea Power Exchange is to deal with the sale of electricity and implement regulations governing the electricity market to allow for electricity distribution through a competitive bidding process. The Government also established the Korea Electricity Commission in April 2001 to regulate the Korean electric power industry and ensure fair competition among industry participants. To facilitate this goal, the Korea Power Exchange established the Electricity Market Rules relating to the operation of the bidding pool system. To amend the Electricity Market Rules, the Korea Power Exchange must have the proposed amendment reviewed by the Korea Electricity Commission and then obtain the approval of the Ministry of Knowledge Economy.

The Korea Electricity Commission s main functions include implementation of standards and measures necessary for electricity market operation and review of matters relating to licensing participants in the Korean electric power industry. The Korea Electricity Commission also acts as an arbitrator in tariff-related disputes among participants in the Korean electric power industry and investigates illegal or deceptive activities of the industry participants.

Privatization of Non-nuclear Generation Subsidiaries

In April 2002, the Ministry of Knowledge Economy released the basic privatization plan for five of our generation subsidiaries other than KHNP. Pursuant to this plan, we commenced the process for selling KOSEP in 2002. According to the original plan, this process was, in principle, to take the form of a sale of management control, potentially supplemented by an initial public offering as a way of broadening the investor base. In November 2003, KOSEP submitted its application to the Korea Exchange for a preliminary screening review, which was approved in December 2003. However, in June 2004, KOSEP made a request to the Korea Exchange to delay its stock listing due to unfavorable stock market conditions at that time. We may resume the stock listing process for KOSEP in due course, after taking into consideration the overall stock market conditions and other pertinent matters. The aggregate foreign ownership of our generation subsidiaries is limited to 30.0% of total power generation capacity in Korea. In consultation with us, the Government will determine the size of the ownership interest to be sold and the timing of such sale, with a view to encouraging competition and assuring adequate electricity supply and debt service capability.

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

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Suspension of the Plan to Form and Privatize Distribution Subsidiaries

In 2003, the Government established a Tripartite Commission consisting of representatives of the Government, leading businesses and labor unions in Korea to deliberate on ways to introduce competition in electricity distribution, such as by forming and privatizing new distribution subsidiaries. In 2004, the Tripartite Commission recommended not pursuing such privatization initiatives but instead creating independent business divisions within us to improve operational efficiency through internal competition. Following the adoption of such recommendation by the government in 2004 and further studies by Korea Development Institute, in 2006 we created nine strategic business units (which, together with our other business units, were subsequently restructured into 13 such units in December 2008) that came to have separate management structures (although with limits on its autonomy), financial accounting systems and performance evaluation systems, but with a common focus on maximizing profitability.

Purchase of Electricity

Cost-based Pool System

Since April 2001, the purchase and sale of electricity in Korea is required to be made through the Korea Power Exchange, which is a statutory not-for-profit organization established under the Electricity Business Act with responsibilities for setting the price of electricity, handling the trading and collecting relevant data for the electricity market in Korea. The suppliers of electricity in Korea consist of our six generation subsidiaries, which were spun off from us in April 2001, and independent power producers, which numbered 406 as of December 31, 2010. We distribute electricity purchased through the Korea Power Exchange to the end users.

We have certain relationships with the Korea Power Exchange as follows: (i) we and our six generation subsidiaries are member corporations of the Korea Power Exchange and collectively own 100.0% of its share capital, (ii) three of the 10 members of the board of directors of the Korea Power Exchange are currently our or our subsidiaries employees, and (iii) one of our employees is currently a member in three of the key committees of the Korea Power Exchange that are responsible for evaluating the costs of producing electricity, making rules for the Korea Power Exchange and gathering and disclosing information relating to the Korean electricity market.

Notwithstanding the foregoing relationships, however, we have neither control nor significant influence over the Korea Power Exchange or its policies since, among others, (i) the Korea Power Exchange, its personnel, policies, operations and finances are closely supervised and controlled by the Government, namely through the Ministry of Knowledge Economy, and are subject to a host of laws and regulations, including, among others, the Electricity Business Act and the Public Agencies Management Act, as well as the Articles of Incorporation of the Korea Power Exchange, (ii) we are entitled to elect no more than one-third of the Korea Power Exchange directors and our representatives represent only a minority of its board of directors and committees (with the other members being comprised of representatives of the Ministry of Knowledge Economy, employees of the Korea Power Exchange, businesspersons and/or scholars), and (iii) the role of our representatives in the policy making process for the Korea Power Exchange is primarily advisory based on their technical expertise derived from their employment at us or our generation subsidiaries. Consistent with this view, the Finance Supervisory Service issued a ruling on April 12, 2005 that stated that we are not deemed to have significant influence or control over the decision-making process of the Korea Power Exchange relating to its business or financial affairs.

The price of electricity in the Korean electricity market is determined principally based on the cost of generating electricity using a system known as the cost-based pool system. Under the cost-based pool system, the price of electricity has two principal components, namely the marginal price (representing in principle the variable cost of generating electricity) and the capacity price (representing in principle the fixed cost of generating electricity).

Marginal Price

The primary purpose of the marginal price is to compensate the generation companies for fuel costs, which represents the principal component of the variable costs of generating electricity. The concept of marginal price under the cost-based pool system has undergone several changes in recent years in large part due to the sharp fluctuations in fuel prices. For example, prior to December 31, 2006, the marginal price operated on a two-tiered structure, namely, a base load marginal price applicable to electricity generated from nuclear fuels and coals, which tend to be less expensive per unit of electricity than electricity generated from liquefied natural gas, oil and hydroelectric power to which a non-base load marginal price applied. The base load marginal price and the non-base load marginal price were generally set at levels so that electricity generated from cheaper fuels could be utilized first while ensuring a relatively fair rate of return to all generation units. However, when the price of coal rose sharply beginning in the second half of 2006, the pre-existing base load marginal price was abolished and a market cap by the name of regulated market price was introduced in its stead for electricity generated from base load fuels, with the regulated market price being set at a level higher than the pre-existing base load marginal price in order to compensate the generation subsidiaries for the rapid rise in the price of coal. However, when the price of coal continued to rise sharply above the level originally assumed in setting the regulated market price, this had the effect of undercutting our profit margin as the purchaser of electricity from our generation subsidiaries, although the generation subsidiaries were able to maintain a better margin under the regulated market price regime than under the pre-existing base load marginal price regime. Accordingly, on May 1, 2008, the regulated market price regime was abolished, and the current system of system marginal price was introduced in order to set the marginal price in a more flexible way by using the concept of an adjusted coefficient tailored to each fuel type.

Under the system marginal price regime currently in effect, the marginal price of electricity at which our generation subsidiaries sell electricity to us is determined using the following formula:

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

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

Under the merit order system, the generation unit with the lowest variable cost of producing electricity among all the generation units that have submitted a bid for a given hour is first awarded a purchase order for electricity up to the available capacity of such unit as indicated in its bid. The generation unit with the next lowest variable cost is then awarded a purchase order up to its available capacity in its bid, and so forth, until the projected demand for electricity for such hour is met. We refer to the variable cost of the generation unit that is the last to receive the purchase order for such hour as the system marginal price, which also represents the most expensive price at which electricity can be supplied at a given hour based on the demand and supply for such hour. Generation units whose variable costs exceed the system marginal price for a given hour do not receive purchase orders to supply electricity for such hour. The variable cost of each generation unit is determined by the Cost Evaluation Committee on a monthly basis and reflected in the following month based on the fuel costs as of two months prior to such determination. The final allocation of electricity supply, however, is further adjusted on the basis of other factors, including the proximity of a generation unit to the geographical area to which power is being supplied, network and fuel constraints and the amount of power loss.

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The purpose of the merit order system is to encourage generating units to reduce its electricity generation costs by making its generation process more efficient, sourcing fuels from most cost-effective sources or adopting other cost savings programs. The additional adjustment mechanism is designed to improve the overall cost-efficiency in the distribution and transmission of electricity to the end-users by adjusting for losses arising from the distribution and transmission process.

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

The adjusted coefficient applies uniformly to all generation units that use the same type of fuel, and is generally higher for generation units that use fuel types that inherently entail higher construction and maintenance costs, such as nuclear plants. The adjusted coefficient is determined by the Cost Evaluation Committee in principle on an annual basis, although in exceptional cases driven by external factors such as fuel costs and electricity tariff rates, the adjusted coefficient may be adjusted on a quarterly basis.

Capacity Price

In addition to payment in respect of the variable cost of generating electricity, our generation subsidiaries 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. From time to time, the capacity price is adjusted in ways to soften the impact of changes in the marginal price over time based on the expected rate of return for our generational subsidiaries. Currently, the capacity price is Won 7.63/kWh and since January 1, 2011 has applied equally to all generation units, regardless of fuel types used.

Effective as of January 1, 2007, a regionally differentiated capacity price system was introduced by setting a standard capacity reserve ratio in the range of 12.0% to 20.0% in order to prevent excessive capacity build-up as well as induce optimal capacity investment at the regional level. The capacity reserve ratio is the ratio of peak demand to the total available capacity. Under this system, generation units in a region where available capacity is insufficient to meet demand for electricity as evidenced by a failure to meet the standard capacity reserve ratio receive increased capacity price. Conversely, generation units in a region where available capacity exceeds demand for electricity as evidenced by satisfaction of the standard capacity reserve ratio receive reduced capacity price. Other than the foregoing region-based variations, the capacity price generally applies uniformly to all generation units regardless of fuel types used.

Following the suspension of the plan to form separate distribution subsidiaries through privatization (see Restructuring of the Electric Power 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. Under the two-way bidding pool system, a pool of generating companies on the supply side and a pool of retail distributors on the demand side would each make a bid based on which the electricity price will be determined, which would contrast with the current system where we have a virtual monopoly of the demand side as the purchaser and distributor of substantially all of electricity in Korea. However, we believe that due to the indefinite suspension of the restructuring plan, the two-way bidding pool system is unlikely to be adopted in the near future absent any unexpected change in government policy.

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Proposed Changes to the Electricity Tariff System

On February 10, 2010, the Ministry of Knowledge Economy announced that it plans to overhaul the current system for determining electricity tariff chargeable to customers by more closely aligning the tariff levels to the movements in fuel prices, with the aim of providing more timely pricing signals to the market regarding the expected changes in electricity tariff levels and encouraging more efficient use of electricity by customers. For example, the new tariff system contemplates adjusting the tariff rates on a monthly basis based on the three-month average moving fuel costs with a time lag of two months for such adjustment. Currently scheduled to take effect on July 1, 2011, the new tariff system is also intended to provide greater financial stability and ensure a minimum return on investment to electricity suppliers, such as us. However, there is no assurance that the new tariff system will be adopted as presently anticipated or at all, or that the new tariff system in its final form will fully cover our expenses on a timely basis or at all, or will not have unintended consequences that we are not presently aware of. In addition, the Government may not maintain or raise the tariff level to ensure our profitability until the implementation of the new tariff system in July 2011. Any of such developments may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Power Trading Results

The results of power trading, as effected through the Korea Power Exchange, for our generation subsidiaries for the year ended December 31, 2010 are as follows:

	Items	Volume (Gigawatt hours)	Percentage of Total Volume (%)	Sales to KEPCO (in billions of Won)	Percentage of Total Sales (%)	Unit Price (Won/kWh)
Generation Companies	KHNP	143,316	32.5	5,826	18.0	40.65
	KOSEP	58,588	13.3	4,112	12.7	70.19
	KOMIPO	53,232	12.1	4,793	14.8	90.05
	KOWEPO	51,185	11.6	4,778	14.8	93.34
	KOSPO	57,667	13.1	5,172	16.0	89.68
	EWP	52,228	11.9	4,460	13.8	85.39
	Others[(1)]	24,454	5.5	3,157	9.8	129.13
	Total	440,670	100	32,298	100	73.29
Energy Sources	Nuclear	141,832	32.2	5,630	17.4	39.70
	Bituminous coal	183,277	41.6	11,158	34.5	60.88
	Anthracite coal	7,645	1.7	842	2.6	110.13
	Oil	11,850	2.7	2,189	6.8	184.65
	LNG	5,685	1.3	837	2.6	147.20
	Combined-cycle	79,723	18.1	10,104	31.3	126.74
	Hydro	3,625	0.8	484	1.5	133.55
	Pumped-storage	2,773	0.6	612	1.9	220.81
	Others	4,260	1.0	442	1.4	103.86
	Total	440,670	100	32,298	100	73.29
Load	Base load	330,071	74.9	17,319	53.6	52.47
	Non-base load	110,599	25.1	14,979	46.4	135.44
	Total	440,670	100	32,298	100	73.29

Note:

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

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Power Purchased from Independent Power Producers

In 2010, we purchased an aggregate of 4,228 gigawatt hours of electricity generated by independent power producers under existing power purchase agreements. These purchases were made outside of the cost-based pool system of power trading. These independent power producers had an aggregate generating capacity of 4,292 megawatts as of December 31, 2010.

Power Generation

As of December 31, 2010, our generation subsidiaries had a total of 487 generation units, including nuclear, thermal, hydroelectric and internal combustion units, representing total installed generating capacity of 65,559 megawatts. Our thermal units produce electricity using steam turbine generators and include units fired by coal and oil. Internal combustion units are diesel-fired gas turbine and combined-cycle units. Combined-cycle units consist of either LNG-fired combined-cycle units or oil-fired combined-cycle units. We also purchase power from several generation plants not owned by our generation subsidiaries.

The table below sets forth as of and for the year ended December 31, 2010 the number of units, installed capacity and the average capacity factor for each type of generating facilities owned by our generation subsidiaries.

	Number of Units	Installed Capacity(1) (Megawatts)	Average Capacity Factor(2) (Percent)
Nuclear	20	17,716	92.2
Thermal:			
Coal	50	24,205	93.5
Oil	18	4,478	27.7
LNG	4	888	29.4
Total thermal	72	29,571	81.6
Internal combustion	176	351	36.4
Combined-cycle	100	13,386	65.7
Hydro	63	4,462	11.2
Wind	23	52	28.7
Solar	30	18	13.5
Fuel cell	3	3	96.8
Total	487	65,559	76.6

Notes:

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

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

The expected useful life of a unit, assuming no substantial renovation, is approximately as follows: nuclear, over 40 years; thermal, over 30 years, 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 seek to achieve efficient use of fuels and diversification of generating capacity by fuel type. In the past, we relied principally upon oil-fired thermal generation units for electricity generation. Since the oil shock in 1974, however, Korea s power development plans have emphasized the construction of nuclear generation units. While nuclear units are more expensive to construct than non-nuclear units of comparable capacity, nuclear fuel is less expensive than fossil fuels in terms of electricity output per unit cost. However, efficient operation of

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nuclear units requires that such plants be run continuously at relatively constant energy output levels. As it is impractical to store large quantities of electrical energy, we seek to maintain nuclear power production capacity at approximately the level at which demand for electricity is continuously stable. During those times when actual demand exceeds the level of continuous demand, we rely on units fired by fossil fuels and hydroelectric units, which can be started and shut down more quickly and efficiently than nuclear units, to meet the excess demand. Bituminous coal is currently the least expensive thermal fuel per kilowatt-hour of electricity produced, and therefore we seek to maximize the use of bituminous coal for generation needs in excess of the stable demand level, except for meeting short-term surges in demand which require rapid start-up and shutdown. Thermal units fired by LNG, hydroelectric units and internal combustion units are the most efficient types of units for rapid start-ups and shutdowns, and therefore we use such units principally to meet short-term surges in demand. Anthracite coal is a less efficient fuel source than bituminous coal in terms of electricity output per unit cost.

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

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

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

	2006	2007	2008	2009	2010	% of 2010 Gross Generation(1)
	(in gigawatt hours, except percentages)					
Electricity generated by generation subsidiaries:						
Nuclear	148,749	142,937	150,958	147,771	148,596	31.3
Thermal:						
Coal	140,346	155,684	174,156	193,803	198,287	41.8
Oil	14,307	15,703	7,981	11,970	10,874	2.3
LNG	1,258	2,028	1,518	762	2,288	0.5
Total thermal	155,911	173,415	183,655	206,535	211,449	44.5
Internal combustion	677	579	503	697	731	0.2
Combined-cycle	54,174	60,465	55,909	47,580	70,081	14.8
Hydro	2,914	2,779	3,836	4,091	4,393	0.9
Wind	21	21	53	82	91	0.02
Solar and fuel cells	1	5	15	24	44	0.01
Total generation	362,447	380,201	394,929	406,780	435,384	91.7
Electricity purchased from others:						
Thermal	16,429	20,660	25,699	25,274	37,197	7.8
Hydro	2,305	2,263	1,727	1,550	2,079	0.4
Total purchased	18,734	22,923	27,426	26,824	39,276	8.3
Gross generation	381,181	403,124	422,355	433,604	474,660	100.0
Auxiliary use(2)	15,812	16,613	17,374	18,258	19,372	4.1
Pumped-storage(3)	2,315	1,817	3,243	3,713	3,663	0.8
Total net generation(4)	363,054	384,694	401,726	411,631	451,433	95.1

Transmission and distribution losses(5)	14,587	15,345	16,106	16,770	18,034	3.99

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Notes:

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

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

	2006	2007	2008	2009	2010
			(Megawatts)		
Total capacity	65,514	68,268	72,491	73,470	76,078
Peak load	58,994	62,285	62,794	66,797	71,308
Average load	43,514	46,019	48,082	49,498	54,185

Korea Hydro & Nuclear Power Co., Ltd.

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

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 two solar generation units and one wind generation unit as of December 31, 2010.

The table below sets forth the number of units and installed capacity as of December 31, 2010 and the average capacity factor by types of generation units in 2010.

	Number of Units	Installed Capacity[1] (Megawatts)	Average Capacity Factor[2] (Percent)
Nuclear	20	17,716	91.2
Hydroelectric	27	539	31.7
Wind	1	1	8.0
Solar	2	3	13.3
Total	50	18,259	100.0

Notes:

(1) Installed capacity represents the level of output that may be sustained continuously without significant risk of damage to plant and equipment.
(2)

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

The Shin-Kori unit 1, with a 1,000 megawatt capacity, commenced commercial operation on February 28, 2011. We are currently building seven additional nuclear generation units, consisting of three units each with a 1,000 megawatt capacity and four units each with a 1,400 megawatt capacity at the Shin-Kori, Shin-Wolsong and Shin-Ulchin sites, respectively. We expect to complete these units between 2011 and 2017. In addition, we plan to build four additional nuclear units, each with a 1,400 megawatt capacity, at the Shin-Kori and Shin-Ulchin sites between 2018 and 2021.

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Nuclear

The table below sets forth certain information with respect to the nuclear generation units of KHNP as of December 31, 2010.

Unit(1)	Reactor Type(2) (Megawatts)	Reactor Design(3)	Turbine and Generation(4)	Commencement of Operations	Installed Capacity
Kori-1	PWR	W	GEC, Hitachi, D	1978	587
Kori-2	PWR	W	GEC	1983	650
Kori-3	PWR	W	GEC, Hitachi	1985	950
Kori-4	PWR	W	GEC, Hitachi	1986	950
Wolsong-1	PHWR	AECL	P	1983	679
Wolsong-2	PHWR	AECL, H, K	H, GE	1997	700
Wolsong-3	PHWR	AECL, H	H, GE	1998	700
Wolsong-4	PHWR	AECL, H	H, GE	1999	700
Yonggwang-1	PWR	W	W, D	1986	950
Yonggwang-2	PWR	W	W, D	1987	950
Yonggwang-3	PWR	H, CE, K	H, GE	1995	1,000
Yonggwang-4	PWR	H, CE, K	H, GE	1996	1,000
Yonggwang-5	PWR	D, CE, W, KOPEC	D, GE	2002	1,000
Yonggwang-6	PWR	D, CE, W, KOPEC	D, GE	2002	1,000
Ulchin-1	PWR	F	A	1988	950
Ulchin-2	PWR	F	A	1989	950
Ulchin-3	PWR	H, CE, K	H, GE	1998	1,000
Ulchin-4	PWR	H, CE, K	H, GE	1999	1,000
Ulchin-5	PWR	D, KOPEC, W	D, GE	2004	1,000
Ulchin-6	PWR	D, KOPEC, W	D, GE	2005	1,000
Total nuclear					17,716

Notes:

(1) The Shin-Kori 1 nuclear unit commenced operation on February 28, 2011. This unit has a pressurized light water reactor designed by Doosan, Korea Power Engineering Company and Westinghouse Electric Company (U.S.A.), has turbines and generator made by Doosan and General Electric (U.S.A.) and has an installed capacity of 1,000 megawatts.

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

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

(4) 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; Hitachi means Hitachi Ltd. (Japan).

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The table below sets forth the average capacity factor and average fuel cost per kilowatt for 2010 with respect to each nuclear generation unit of KHNP.

Unit	Average Capacity Factor (Percent)	Average Fuel Cost Per kWh (Won)
Kori-1	98.0	4.4
Kori-2	90.3	5.2
Kori-3	100.1	4.4
Kori-4	93.6	4.5
Wolsong-1		
Wolsong-2	93.7	6.1
Wolsong-3	97.1	6.2
Wolsong-4	94.3	6.5
Yonggwang-1	93.5	4.3
Yonggwang-2	90.2	4.4
Yonggwang-3	91.8	4.3
Yonggwang-4	100.9	4.2
Yonggwang-5	97.8	4.0
Yonggwang-6	91.7	4.4
Ulchin-1	90.3	4.1
Ulchin-2	91.5	4.3
Ulchin-3	100.3	3.9
Ulchin-4	93.4	3.9
Ulchin-5	93.6	4.3
Ulchin-6	91.8	4.3
Total nuclear	91.2	4.6

The average capacity factor of all of our nuclear units in aggregate has been maintained at 90.0% or more in each year since 2000.

Under extended-cycle operations, nuclear units can be run continuously for periods longer than the conventional 12-month period between scheduled shutdowns for refueling and maintenance. Since 1987, we have adopted the mode of extended-cycle operations for all of our pressurized light water reactor units and plan to use it for our newly constructed units. The average duration of shutdown for routine fuel replacement and maintenance was 28 days excluding Wolsong unit-1, or 52 days including Wolsong unit-1, in 2010.

KHNP s nuclear units experienced an average of 0.1 unplanned shutdowns per unit in 2010. In the ordinary course of operations, KHNP s nuclear units routinely experience damage and wear and tear, which are repaired during routine shutdown periods or during unplanned temporary suspensions of operations. No significant damage has occurred in any of KHNP s nuclear reactors, and no significant nuclear exposure or release incidents have occurred at any of KHNP s nuclear facilities since the first nuclear plant commenced operation in 1978. See Item 3D. 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 certain information, including the installed capacity as of December 31, 2010 and the average capacity factor in 2010, regarding each hydroelectric unit of KHNP.

Location of Unit	Number of Units	Classification	Year Built	Installed Capacity (Megawatts)	Average Capacity Factor (%)
Hwacheon	4	Dam waterway	1944	108	25.6
Chuncheon	2	Dam	1965	62	28.5
Euiam	2	Dam	1967	45	34.3
Cheongpyung	3	Dam	1943	79	41.7
Paldang	4	Dam	1973	120	45.4
Seomjingang	3	Basin deviation	1945	35	42.3
Boseonggang	2	Basin deviation	1937	5	67.2
Kwoesan	2	Dam	1957	3	50.1
Anheung	3	Dam waterway	1978	0.5	53.3
Kangreung	2	Basin deviation	1991	82	
Total	27			539	31.7

In January 2011, pursuant to the Government s Proposal for Improvements in the Structure of the Electric Power Industry announced on August 25, 2010, the five non-nuclear generation companies transferred all of the assets and liabilities relating to their pumped-storage hydroelectric business units to KHNP.

Solar/Wind

The table below sets forth certain information, including the installed capacity as of December 31, 2010 and the average capacity factor in 2010, regarding each solar and wind power unit of KHNP.

Location of Unit	Classification	Year Built	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)
Yonggwang	Solar	2008	3	13.3
Kori	Wind	2008	1	8.0
Total			4	12.3

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

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Korea South-East Power Co., Ltd.

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2010 and the average capacity factor and average fuel cost per kilowatt in 2010 based upon the net amount of electricity generated, of KOSEP.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
Bituminous:				
Samchunpo #1, 2, 3, 4, 5, 6	18.8	3,246	93.4	53.8
Yong Hung #1, 2, 3, 4	3.8	3,352	90.0	60.0
Anthracite:				
Yongdong #1, 2	33.4	325	84.2	96.5
Oil-fired:				
Yosu #1, 2	33.6	529	32.8	184.1
Total thermal	18.7	7,452	87.2	61.9
Combined cycle and internal Combustion:				
Bundang gas turbine #1,2,3,4,5,6,7,8; steam turbine #1, 2	16.5	924	54.2	149.4
Pumped storage:(1)				
Muju #1, 2	15.7	600	8.8	177.4
Total	17.7	8,976	78.5	69.3

Note:

(1) During periods of low energy usage, the 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.

In January 2011, pursuant to the Government s Proposal for Improvements in the Structure of the Electric Power Industry announced on August 25, 2010, KOSEP transferred all of the assets and liabilities relating to its pumped-storage hydroelectric business units to KHNP.

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Korea Midland Power Co., Ltd.

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2010 and the average capacity factor and average fuel cost per kilowatt in 2010 based upon the net amount of electricity generated, of KOMIPO.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
Bituminous:				
Boryeong #1, 2, 3, 4, 5, 6, 7, 8	15.9	4,000	95.7	41.5
Anthracite:				
Seocheon #1, 2	27.4	400	81.6	86.3
Oil-fired:				
Jeju #2, 3	10.4	150	52.7	171.2
LNG-fired:				
Seoul #4, 5	40.7	388	36.4	168.0
Incheon #1, 2	38.3	500	24.1	153.5
Total thermal	20.4	5,438	75.5	53.9
Combined-cycle and internal combustion:				
Boryeong gas turbine #1, 2, 3, 4, 5, 6, 7, 8; steam turbine #1, 2, 3, 4	11.6	1,800	45.7	113.1
Incheon gas turbine #1, 2, 3, 4; steam turbine #1, 2	3.5	1,012	89.8	104.3
Jeju Gas Turbine #3	34	55	0.2	553.0
Jeju Internal Combustion Engine #1,2	3.5	80	61.1	139.7
Total	9.02	2,947	60.4	103.1
Wind-powered:				
Yangyang #1, 2	4.5	3	16.7	6.5
Pumped-storage:				
Yangyang #1, 2, 3, 4	4.6	1,000	8.2	113.3
Hydroelectric:				
Yangyang	5.4	1.4	41.1	1.1
Boryeong	3	7.5	28.6	0.5
Total	4.6	1,011.9	8.4	109.4
Photovoltaic power & Fuel Cell generation:				
Boryeong (Photo) site	3	0.57	13.3	10.3
Seocheon (Photo) site	3	1.23	14.4	
Jeju (Photo) site	3	0.05	12.9	
Boryeong (fuel Cell) site	3	0.3	76.1	206.5
Total Photovoltaic & Fuel Cell generation	3	2.151	22.7	101.5
Total	17.2	9,399	67.7	70.5

In January 2011, pursuant to the Government s Proposal for Improvements in the Structure of the Electric Power Industry announced on August 25, 2010, KOMIPO transferred all of the assets and liabilities relating to its pumped-storage hydroelectric business units to KHNP.

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Korea Western Power Co., Ltd.

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2010 and the average capacity factor and average fuel cost per kilowatt in 2010 based upon the net amount of electricity generated, of KOWEPO.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
Bituminous:				
Taean #1, 2, 3, 4, 5, 6, 7, 8	10.4	4,000	93.0	45.7
Oil-fired:				
Pyeongtaek #1, 2, 3, 4	29.1	1,400	25.7	149.7
Total thermal	15.2	5,400	75.6	54.9
Combined cycle:				
Pyeongtaek	17.8	480	35.5	127.4
West Incheon	18.5	1,800	75.4	108.4
Gunsan	0.6	718.4	71.4	104.6
Total combined-cycle	14.1	2,998.4	67.7	109.5
Pumped storage:				
Samryangjin #1, #2	25.1	600	5.7	109.5
Cheongsong #1, #2	4.1	600	11.6	109.7
Total pumped storage	14.6	1,200	8.6	109.6
Hydroelectric:				
Taean	3.3	2.2	22.4	
Total hydroelectric	3.3	2.2	22.4	
Solar:				
Taean	5.4	0.1	11.0	
Samryangjin	3.3	3.0	14.2	
Gunsan	0.4	0.3	14.1	
Total solar	3.0	3.4	14.1	
Total	14.8	9,604.0	64.6	72.9

In January 2011, pursuant to the Government s Proposal for Improvements in the Structure of the Electric Power Industry announced on August 25, 2010, KOWEPO transferred all of the assets and liabilities relating to its pumped-storage hydroelectric business units to KHNP.

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Korea Southern Power Co., Ltd.

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2010 and the average capacity factor and average fuel cost per kilowatt in 2010 based upon the net amount of electricity generated, of KOSPO.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
Bituminous:				
H Hadong #1, 2, 3, 4, 5, 6, 7, 8	10	4,000	101.9	40.6
Oil-fired:				
Y Youngnam #1, 2	39.5	400	21.9	170.7
N Nam Jeju #3, 4	4.5	200	76.3	163.4
Total thermal	12.3	4,600	93.9	47.6
Combined cycle:				
S Shin Incheon #9, 10, 11, 12	14.7	1,800	70.4	110.6
B Busan #1, 2, 3, 4	7.5	1,800	84.1	104.1
Yeongwol #1	0.3	848	47.2	108.7
H Hallim	14.5	105	5.1	231.7
Total combined cycle	9.1	4,553	73.5	107.2
Internal combustion:				
N Nam Jeju	20.3	40	29.5	149.5
Total internal combustion	20.3	40	29.5	149.5
Pumped storage:				
C Cheongpyeong	31.5	400	4.5	112.2
Total pumped storage	31.5	400	4.5	112.2
Wind power:				
H Hankyung	4.9	21	26.6	0.6
S Seongsan	1.3	20	29.4	0.5
Total wind power	3.1	41	27.7	0.6
Solar	0.9	4	12.8	0
Total	11.6	9638	80.8	78.1

In January 2011, pursuant to the Government s Proposal for Improvements in the Structure of the Electric Power Industry announced on August 25, 2010, KOSPO transferred all of the assets and liabilities relating to its pumped-storage hydroelectric business units to KHNP.

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Korea East-West Power Co., Ltd.

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2010 and the average capacity factor and average fuel cost per kilowatt in 2010 based upon the net amount of electricity generated, of EWP.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
Bituminous:				
Dangjin #1, 2, 3, 4, 5, 6,7,8	7.4	4,000	97.8	39.5
Honam #1, 2	37.7	500	68.9	56.0
Anthracite:				
Donghae #1, 2	11.8	400	88.6	70.1
Oil-fired:				
Ulsan #1, 2, 3, 4, 5, 6	33.3	1,800	22.4	154.1
Total thermal	16.9	6,700	74.8	51.8
Combined cycle:				
Ulsan gas turbine #1, 2, 3, 4, 5, 6; steam turbine #1, 2, 3	16.8	900	55.6	137.4
Ulsan gas turbine #1, 2, 3, 4, 5, 6; steam turbine #1, 2	14.2	1,200	55.1	115.1
Total combined-cycle and internal combustion	15.3	2,100	55.3	124.6
Pumped storage:				
Ssancheong #1, 2	9.2	700	9.3	105.7
Total pumped storage	9.2	700	9.3	105.7
Mini hydro:				
Sancheong	9.0	0.4	30.4	
Dangjin	1.0	5.0	60.7	
Total Mini hydro	1.6	5.4	58.6	
Photovoltaic & Fuel Cell:				
Donghae (Photovoltaic)	4.4	1	11.4	2.2
Dangjin (Photovoltaic)	0.3	1	12.0	
Ilsan (Fuel Cell)	1.2	2.4	90.5	123.5
Total Photovoltaic & Fuel Cell	1.7	4.4	63.4	115.8
Total	16.0	9,509.8	65.7	66.3

In January 2011, pursuant to the Government s Proposal for Improvements in the Structure of the Electric Power Industry announced on August 25, 2010, EWP transferred all of the assets and liabilities relating to its pumped-storage hydroelectric business units to KHNP.

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Power Plant Remodeling and Recommissioning

Our generation subsidiaries supplement power generation capacity through remodeling or recommissioning of thermal units. Recommissioning includes installation of anti-pollution devices, modification of control systems and overall rehabilitation of existing equipment.

Power Plant	Capacity	Completed (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 EP(3) upgrade(#5, 2009) EP(3) upgrade(#6, 2010)	Anti-pollution	KOWEPO
Pyeongtaek #1-4	1,400 MW (350×4)	FGD(1): 2005 SCR(2): 2006 to 2007 EP(3): 1992 EP(3) upgrade(#1, 2009) EP(3) upgrade(#2, 2010)	Anti-pollution	KOWEPO
Seoincheon CC	1,800 MW (gas turbines 150 MW ×8) (steam turbines 75 MW ×8)	LNCS(4): 1992 Gas turbine upgrade (2003 to 2006)	Anti-pollution Efficiency improvement	KOWEPO
Honam #1	250 MW	2010	10 years	EWP
Honam #2	250 MW	2010	10 years	EWP
Gunsan CC	718.4 MW (gas turbines 233.3 MW ×2) (steam turbines 251.8 MW ×1)	LNCS(4): 2010	Anti-pollution	KOWEPO
Boryeong #1-8	4,000 MW (500×8)	FGD(1): 1996 to 2009 SCR(2): 2006 to 2009 LNCS(4): 1993 to 2009	Anti-pollution	KOMIPO

		EP(3): 1984 to 2009 2009 (#1,2)	10 years	
Incheon #1-2	500 MW (250×2)	SCR(2): 2002 to 2005 LNCS(3): 2002 to 2005	Anti-pollution	KOMIPO
Seoul #4,5	387.5 MW (137.5×1) (250×1)	SCR(2): 2001 to 2002	Anti-pollution	KOMIPO
Seocheon #1,2	400 MW (200×2)	FGD(1): 1998, SCR: 2006 LNCS(4): 2004 to 2005 EP(3): 1982 to 1983	Anti-pollution	KOMIPO
Incheon #1,2	500 MW (250×2)	1996(#1) 2002(#2)	10 years	KOMIPO
Jeju T/P #2~3	150 MW (75×2)	SCR(2): 2010 EP(3): 2000	Anti-pollution	KOMIPO
Jeju D/P #1~2	80 MW (40×2)	SCR(2): 2005 to 2009 EP(3): 2005 to 2009 FGD(1): 2005 to 2009	Anti-pollution	KOMIPO
Yosu #2	335 MW	2011	30 years	KOSEP

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Power Plant	Capacity	Completed (Year)	Extension	Company
Yonghung #5-6	1,750 MW (870 ×2)	2014	30 years	KOSEP
Hadong #1-8	4,000 MW (500 × 8)	FGD(1): 1998 to 2009 EP(3): 1997 to 2009 LNCS(3): 1997 to 2009 SCR(2): 2006 to 2009	Anti-pollution	KOSPO
Shin-Incheon CC	1,800 MW (gas turbines 150 × 8) (steam turbines 150 × 4)	LNCS(4): 1996	Anti-pollution	KOSPO
Busan CC	1,800 MW (gas turbines 150 × 8) (steam turbines 150 × 4)	LNCS(4): 2003 to 2004	Anti-pollution	KOSPO
Youngnam #1-2	400 MW (200 × 2)	FGD(1): 1999 SCR(2): 2002 EP(3): 1988 to 1990 LNCS(4): 2002-	Anti-pollution	KOSPO
Namjeju T/P #3-4	200 MW (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	40 MW (10×4)	SCR(2): 1999 to 2000 EP(3): 1990 to 1991	Anti-pollution	KOSPO
Yeongwol CC	848MW (gas turbines 183 × 3) (steam turbines 299 × 1)	LNCS(4): 2010	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, under the Community Energy System there are also 12 other entities in Korea that are licensed to supply electricity in limited geographical areas, but their aggregate market share has to-date been insignificant. 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. 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

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Energy System. As of April 30, 2011, 12 districts were using this system and four other districts were preparing to launch it and there were 12 independent entities that were licensed to distribute electricity in all of such 16 districts, to which we also transmit and distribute electricity. The generation capacity installed or under construction of the electricity suppliers in these 12 districts amounted to approximately 1% of the aggregate generation capacity of our generation subsidiaries as of April 30, 2011. Since the introduction of the Community Energy System in 2004, a total of 31 districts have obtained the license to supply electricity through the Community Energy System, but 15 of such districts have reportedly abandoned plans to adopt the Community Energy System, largely due to the relatively high level of capital expenditure required, the rise in fuel costs and the lower-than-expected electricity output per cost. However, if the Community Energy System is widely adopted, it will erode our market position in the generation and distribution of electricity in Korea, which has been virtually monopolized by us until recently, and may have a material adverse effect on our business, growth, revenues and profitability.

The table below sets forth for the year ended December 31, 2009 and 2010 and as of April 30, 2011, 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, 2009	31	320,271	1,474
December 31, 2010	31	320,271	1,474
April 30, 2011(1)	31	320,271	1,474

Note:

(1) Reflects 15 districts with a permit to participate in the Community Energy System, which have subsequently announced that they are abandoning plans to adopt such system. The number of apartments and generating capacity represented by such districts are approximately 183,000 units and 857 megawatts, respectively.

As of December 31, 2010, our transmission system consisted of 30,676 circuit kilometers of lines of 765 kilovolts and others including high voltage direct current lines, and we had 731 substations with an aggregate installed transformer capacity of 256,317 megavolt-amperes.

As of December 31, 2010, our distribution system consisted of 101,692 megavolt-amperes of transformer capacity and 8,343,076 units of support with a total line length of 428,259 circuit kilometers.

In recent years, we have made substantial investments in our transmission and distribution systems to increase coverage and improve efficiency. Our current projects principally focus on increasing capabilities of the existing lines and reducing our transmission and distribution loss, which was 3.99% in 2010. In light of the increased damage to large-scale transmission and distribution facilities, we plan to reinforce stability of 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 environment-friendly facilities. In order to reduce the interruption time in power distribution, which is an indicator of the quality of electricity transmission, we are also continuing to invest in upgrading our evaluation technologies, automation of electricity transmission and development of new transmission technologies. In particular, as part of our overall business strategy, we are currently developing, or seek to develop, an intelligent power transmission and distribution network, or smart grids, based on advanced information technology, in order to promote a more efficient allocation and use of electricity by consumers, a superconducting technology that will improve efficiency in the transmission of electricity over such network and localized high-voltage direct current technology that will reduce electricity loss over the course of transmission and distribution. See Strategy.

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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 are generally renewed upon expiration.

Fuel

Nuclear

Uranium, the principal fuel source for nuclear power, accounted for 38.2%, 36.3% and 34.1% of our fuel requirements for electricity generation in 2008, 2009 and 2010, respectively.

All uranium ore concentrates are imported from, and conversion and enrichment of such concentrates are provided by, sources outside Korea 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 in spot markets. In 2010, KHNP purchased 100.0%, or 3,142 tons, of its uranium concentrate requirement under long-term supply contracts with suppliers in Australia, Canada, Kazakhstan, France, Nigeria 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. Overseas suppliers typically provide the conversion and enrichment of uranium concentrate, and Korean suppliers typically 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 medium- to long-term contracts and, in part, through spot market purchases.

Coal

Bituminous coal accounted for 42.3%, 45.7% and 43.6% of our fuel requirements for electricity generation in 2008, 2009 and 2010, respectively, and anthracite coal accounted for 1.8%, 1.9% and 1.9% of our fuel requirements for electricity generation in 2008, 2009 and 2010, respectively.

In 2010, our generation subsidiaries purchased 74 million tons of bituminous coal, of which approximately 50.8%, 31.8%, 2.3%, 1.5% and 13.6% were imported from Indonesia, Australia, Canada, China and others, respectively. Approximately 70.8% of the bituminous coal requirements of our generation subsidiaries in 2010 were purchased under long-term contracts with the remaining 29.2% purchased in 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 amounted to Won 98,248, Won 107,010 and Won 107,413 in 2008, 2009 and 2010, respectively. 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 3D. Risk Factors Risks Relating to KEPCO Increases in fuel prices will adversely affect our results of operations and profitability, as we may not be able to pass on the increased cost to consumers at a sufficient level or on a timely basis.

In 2010, our generation subsidiaries purchased 2.4 million tons of anthracite coal. In 2010, our generation subsidiaries purchased approximately 36.8% of 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, and approximately 63.2% from Vietnam and other countries. 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 Won 121,416, Won 111,155 and Won 130,836 in 2008, 2009 and 2010, respectively.

Oil

Oil accounted for 2.2%, 3.1% and 2.5% of our fuel requirements for electricity generation in 2008, 2009 and 2010, respectively.

In 2010, our generation subsidiaries purchased approximately 17.2 million barrels of fuel oil, of which 80.8% was purchased from domestic refiners and the remainder from foreign sources, in each case, through competitive open bidding. Purchase prices are based on the spot market price in Singapore. The average cost per barrel was Won 98,243, Won 76,678 and Won 98,023 in 2008, 2009 and 2010, respectively.

LNG

LNG accounted for 14.5%, 11.9% and 16.6% of our fuel requirements for electricity generation in 2008, 2009 and 2010, respectively. In 2010, we purchased approximately 10 million tons of LNG from Korea Gas Corporation, a Government-controlled entity in which we currently own a 24.5% equity interest. 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. 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 7.5 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. Our LNG supply contract with Korea Gas Corporation has a term of 20 years and expires in December 2026.

The annual purchase price for LNG is determined by our negotiations with Korea Gas Corporation, subject to approval by the Ministry of Knowledge Economy. 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 our contract with Korea Gas Corporation was Won 953,667, Won 739,631 and Won 778,980 in 2008, 2009 and 2010, respectively.

Hydroelectric

As of December 31, 2010, hydroelectric units represented 6.8% of our total installed generating capacity.

The availability of water for hydroelectric power depends on rainfall and competing uses for available water supplies, including residential, commercial, industrial and agricultural consumption. Pumped storage enables us to increase the available supply of water for use during periods of peak electricity demand.

As of January 1, 2011, assets and liabilities relating to the pumped storage units of the five non-nuclear generation subsidiaries were transferred to KHNP pursuant to the Government s Proposal for Improvements in the Korean Electric Power Industry.

Sales and Customers

Our sales depend principally on the level of demand for electricity in Korea and the rates we charge for the electricity we sell to the end-users.

Demand for electricity in Korea grew at a compounded average rate of 5.5% per annum for the five years ended December 31, 2010. According to The Bank of Korea, the compounded growth rate for real gross domestic product, or GDP, was approximately 3.8% for the same period. The GDP growth rate was 0.3% in 2009 and increased to 6.2% in 2010 amid signs of economic recovery.

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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) on a year-on-year basis.

	2006	2007	2008	2009	2010
Growth in GDP (at 2005 constant prices)	5.2%	5.1%	2.3%	0.3%	6.2%
Growth in electricity consumption	4.9%	5.7%	4.5%	2.4%	10.1%

Electricity demand in Korea varies within each year for a variety of reasons other than the general growth in GDP 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 air conditioning during the summer and heating during the winter, electricity demand is higher during these two seasons than the spring or the fall. Variation in weather conditions may also cause significant variation in electricity demand.

We do not use any marketing channels, including any special sales methods, to sell electricity to our customers, other than to install electricity meters on-site and take monthly readings of such meters, based upon which invoices are sent to our customers.

Demand by the Type of Usage

The table below sets forth the consumption of electric power, and growth of such consumption on a year-on-year basis, by the type of usage (in gigawatt hours) for the periods indicated.

	2006	YoY growth (%)	2007	YoY growth (%)	2008	YoY growth (%)	2009	YoY growth (%)	2010	YoY growth (%)	% of Total 2010
Residential	72,730	4.6	75,148	3.3	77,269	2.8	78,548	1.7	82,890	5.5	19.1
Commercial	77,809	5.6	82,208	5.7	86,827	5.6	89,619	3.2	97,410	8.7	22.4
Educational	4,790	11.2	5,304	10.7	5,783	9.0	6,465	11.8	7,453	15.3	1.7
Industrial	183,067	4.6	194,936	6.5	203,475	4.4	207,216	1.8	232,672	12.3	53.6
Agricultural	7,636	4.3	8,215	7.6	8,869	8.0	9,671	9.0	10,654	10.2	2.5
Street lighting	2,687	4.6	2,794	4.0	2,847	1.9	2,954	3.8	3,081	4.3	0.7
Total	348,719	4.9	368,605	5.7	385,070	4.5	394,475	2.4	434,160	10.1	100.0

The industrial sector represents the largest segment of electricity consumption in Korea. Demand from the industrial sector increased by 12.3% to 25,456 gigawatt hours in 2010 from 2009, largely due to the general economic recovery and export growth in 2010.

Demand from the commercial sector has increased in recent years, largely due to the rapid expansion of the service sector of the Korean economy, which 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 8.7% to 7,791 gigawatt hours in 2010 from 2009, mainly due to the recovery of the Korean economy.

In 2010, we distributed electricity to 19 million households, which represent substantially all of the households in Korea. Continuing increase in demand from the residential sector is primarily due to population growth and increased use of air conditioners and other electrical appliances. Demand from the residential sector increased by 5.5% to 4,342 gigawatt hours in 2010 from 2009.

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.

	2006	2007	2008	2009	2010
Facility reserve ratio	9.8%	7.9%	12.0%	9.7%	6.7%
Supply reserve ratio	10.5%	7.2%	9.1%	7.9%	6.2%

Both the facility reserve ratio and the supply reserve ratio substantially decreased from 2009 to 2010, mainly due to economic recovery and extreme weather conditions in 2010.

While we seek to meet the growing demand for electricity in Korea primarily by continuing to expand our generating capacity through the addition of new generating facilities, we also implement several measures to curtail electricity consumption, especially during peak periods. The principal measure we take is to apply, for large-scale customers, time-of-use rate schedules, which are structured so that higher tariffs are charged at the time of peak demand. Our other demand management programs include applying a progressive rate structure for the residential use of electricity. We seek to reduce not only energy consumption but also greenhouse gas emission by deploying various high efficiency devices such as energy efficient lightings. Furthermore, we replace lightings for low-income households for free as part of government s energy welfare policy.

Electricity Rates

The Electricity Business Law and the Price Stabilization Act of 1975, each as amended, prescribe the procedures for the approval and establishment of rates charged for the electricity we sell. We submit our proposals for revisions of rates or changes in the rate structure to the Ministry of Knowledge Economy. The Ministry of Knowledge Economy then reviews these proposals and, upon consultation with the Electricity Rates Expert Committee of the Ministry of Knowledge Economy and the Ministry of Strategy and Finance, makes the final decision. Under the Electricity Business Law, the Korea Electricity Commission must review our proposals prior to the Ministry of Knowledge Economy s final decision.

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

Fair investment return represents an amount equal to the rate base multiplied by 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 is 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 in proportion 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, KOSPI, a Korean equity market index, and the correlation of the stock price of our company with KOSPI. In 2010, the approved rate of return on the debt component of the rate base was 3.6% while the approved rate of return on the equity component of the rate base was 7.7%. As a result of such approved rates of returns, the fair rate of return in 2010 was determined to be 6.1%.

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.

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

From time to time, our actual rate of return on invested capital may differ significantly from the rate of return on invested capital assumed for the purposes of electricity tariff approvals, for reasons, among others, related to movements in fuel prices, exchange rates and demand for electricity that differ from what is assumed for determining our fair rate of return. For example, between 1987 and 1990, the actual rate of return was above the assumed rate of return due to declining fuel costs and rising demand for electricity at a rate not anticipated for purposes of determining our fair rate of return. Similarly, depreciation of the Won against the U.S. dollar accounted for our actual rates of return being lower than the assumed rate of return for the period from 1996 to 2000, and for the period since 2006, our actual rates of return have been lower than the assumed rates of return largely due to rising fuel costs and higher facility investment costs. Partly in response to the variance between our actual rates of return and the assumed rates of return, the Government from time to time adjusts the electricity tariff rates, but there typically is a significant time lag for the tariff adjustment as such adjustment requires a series of deliberative processes and administrative procedures and the Government also has to consider other policy considerations, such as the inflationary effect of overall tariff increases and the efficiency of energy use from sector-specific tariff increases. Furthermore, there is no assurance that the tariff adjustments will have the desired effect at a level anticipated or at all, or that they will not have unintended adverse consequences.

Recent adjustments to the electricity tariff rates by the Government involve the following:

- effective January 1, 2008, increases for industrial and night power tariff rates by 1.0% and 17.5%, respectively, and a decrease in commercial tariff rates by 3.2%, which had no material net effect on our average tariff rate. These changes were introduced principally to further rationalize the electricity tariff schedule by aligning the sector-specific prices to their related costs;

- effective June 27, 2009, a 3.9% overall increase in our average tariff rate, consisting of increases in the industrial, commercial, educational, street lighting and night power usage tariff rates by 6.5%, 2.3%, 6.9%, 6.9% and 8.0%, respectively, while making no changes to the residential and agricultural tariff rates. These changes were introduced principally in response to the rapidly rising fuel prices which seriously hurt our profitability; and

- effective August 1, 2010, a 3.5% overall increase in our average tariff rate, consisting of increases in the residential, educational, industrial, street lighting and night power usage tariff rates by 2.0%, 5.9%, 5.8%, 5.9% and 8.0%, while making no changes to the commercial and agricultural tariff. These changes were introduced principally in response to the rapidly rising fuel prices which seriously hurt our profitability.

On February 10, 2010, the Ministry of Knowledge Economy announced that it plans to overhaul the current system for determining electricity tariff chargeable to customers by more closely aligning the tariff levels to the movements in fuel prices, with the aim of providing more timely pricing signals to the market regarding the expected changes in electricity tariff levels and encouraging more efficient use of electricity by customers. Currently scheduled to take effect on July 1, 2011, the new tariff system is also intended to provide greater financial stability and ensure a minimum return on investment to electricity suppliers, such as us. However, there is no assurance that the new tariff system will be adopted as presently anticipated or at all, or that the new tariff system in its final form will fully cover our expenses on a timely basis or at all, or will not have unintended consequences that we are not presently aware of. In addition, the Government may not maintain or raise the tariff level to ensure our profitability until the implementation of the new tariff system in July 2011. See Item 4B. Business Overview Recent Developments Proposed Changes to the Electricity Tariff System.

The tariff rates we charge for electricity vary among the different classes of consumers, which principally consist of industrial, commercial, residential, educational and agricultural consumers. The tariff also varies 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. For example, we adjust for seasonal tariff variations by excluding June from the summer season when peak rates are in effect and increasing the rates for the months of November, December, January and February to correspond more closely to peak demand trends.

Our current tariff schedule, which became effective as of August 1, 2010, is summarized below by the type of consumer:

Industrial. The basic charge varies from Won 4,510 per kilowatt to Won 7,000 per kilowatt depending on the type of contract, the voltage used and the rate option. The energy usage charge varies from Won 40.2 per kilowatt hour to Won 152.5 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 5,280 per kilowatt to Won 6,660 per kilowatt depending on the type of contract, the voltage used and the rate option. The energy usage charge varies from Won 40.5 per kilowatt hour to Won 158.90 per kilowatt hour depending on the type of contract, the voltage used, the season, the time of day and the rate option.

Residential. Residential tariff includes a basic charge ranging from Won 380 for electricity usage of less than 100 kilowatt hours to Won 11,990 for electricity usage in excess of 500 kilowatt hours. Residential tariff also includes an energy usage charge ranging from Won 53.4 to Won 656.2 per kilowatt hour for electricity usage depending on the amount of usage and voltage.

Educational. The basic charge varies from Won 4,850 per kilowatt to Won 5,890 per kilowatt depending on the voltage used and the rate option. The energy usage charge varies from Won 48.2 per kilowatt hour to Won 84.1 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 20.6 per kilowatt-hour to Won 36.4 per kilowatt hour depending on the type of usage.

Street-lighting. The basic charge is Won 4,780 per kilowatt and the energy usage charge is Won 65.40 per kilowatt hour. For electricity capacity of less than 1 kilowatt or for places where the installation of the electricity meter is difficult, a fixed rate of Won 28.5 per watt applies, with the minimum charge per month of Won 930.

In 2001, as part of implementing the Restructuring Plan, the Ministry of Knowledge Economy established the Electric Power Industry Basis Fund to enable the Government to take over certain public services previously performed by us. Since 2005, 3.7% of the tariff we collected from our customers is transferred to this fund prior to recognizing our sales revenue.

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Power Development Strategy

We and our generation subsidiaries make plans for expanding or upgrading our generation capacity based on the Basic Plan Relating to the Long-Term Supply and Demand of Electricity, or the Basic Plan, which is announced and revised generally every two years by the Government.

In December 2010, the Government announced the fifth Basic Plan relating to the future supply and demand of electricity. The fifth Basic Plan, which is effective for the period from 2010 to 2024, focuses on, among other things, (i) ensuring that electricity generation conforms to the National Energy Basic Plan relating to the overall energy management policy for Korea, (ii) expanding the base-load generation capacity to promote economical supply of electricity, (iii) preparing contingency planning to cover for, among others, delayed construction of generation facilities, and otherwise ensuring stable long-term balance between electricity supply and demand, (iv) tightening supply management during 2011 to 2014 in response to the short-term decrease in facility reserve ratios, (v) fostering environmentally friendly electricity sources in line with the planned nationwide reduction in greenhouse gas emission by giving priority in the construction of nuclear generation facilities and taking other green energy initiatives, (vi) appropriately adjusting the generation capacity expansion and (vii) improving transparency in planning and engaging a greater number of experts in the process of planning future basic plans.

We cannot assure that the fifth 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. If there is a significant variance between the actual capacity expansions by us and our generation subsidiaries based on the projected electricity supply and demand and the actual supply and demand, this may result in inefficient use of our capital, mispricing of electricity and undue financing costs on the part of us and our generation subsidiaries, which may have a material adverse effect on our results of operations, financial condition and cash flows.

Capital Investment Program

The table below sets forth, for each of the three years ended December 31, 2008, 2009 and 2010, the amounts of capital expenditures (including capitalized interest) for the construction of generation, transmission and distribution facilities. The figures in the table are derived from Additions to property, plant and equipment under the item cash flows from investing activities in our consolidated statements of cash flows.

2008	2009	2010
	(In billions of Won)	
(Won) 8,925	(Won) 11,244	(Won) 10,814

In accordance with the fifth Basic Plan, our generation subsidiaries currently intend to add new installed capacity of 37,000 megawatts during the period from 2011 to 2024 by newly constructing 13 nuclear units, 15 coal-fired units, 18 LNG-combined units, two pumped-storage hydroelectric units and others. According to the fifth Basic Plan, the total capacity of all generating facilities at the end of 2024 is expected to be 112,593 megawatts, with nuclear power plants accounting for 31.9% of the total capacity, coal-fired plants 27.9%, LNG combined plants 20.9%, oil-fired plants 3.6% and hydroelectric and other plants 13.9%.

The table below sets forth the currently estimated installed capacity for new or expanded generation units to be completed by our generation subsidiaries according to the fifth Basic Plan in each year from 2011 to 2013.

Year	Number of Units	Type of Units	Total Installed Capacity (Megawatts)
2011	1	Nuclear power	1,000
	2	LNG-combined	1,150
	2	Pumped-storage hydroelectric	800
2012	2	LNG-combined	1,300
	1	Nuclear power	1,000
2013	3	LNG-combined	1,650
	2	Nuclear power	2,400

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In the years between 2014 and 2024, our generation subsidiaries plan to complete nine nuclear units with an aggregate installed capacity of 12,800 megawatts, 15 coal-fired units with an aggregate installed capacity of 12,000 megawatts and 11 LNG-combined units with an aggregate installed capacity of 6,970 megawatts.

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 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 2011 to 2014, the budgeted amounts of capital expenditures (including capitalized interest) for the construction of generation, transmission and distribution facilities pursuant to our capital investment program. The budgeted amounts may vary from the actual amounts of capital expenditures for a variety of reasons, including, among others, the implementation of the fourth Basic 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.

	2011	2012	2013	2014	Total
		(in billions of Korean won)			
Generation:					
Nuclear	45,816	48,774	48,103	52,489	195,182
Thermal	19,479	48,934	59,412	63,336	191,161
Sub-total	65,295	97,708	107,515	115,825	386,343
Transmission and Distribution:					
Transmission	27,073	30,407	24,475	15,905	97,860
Distribution	21,704	23,788	22,711	22,277	90,480
Sub-total	48,777	54,195	47,186	38,182	188,340
Others	13,633	19,935	24,296	26,898	84,762
Total	127,705	171,838	178,997	180,905	659,445

We have financed, and plan to finance in the future, our capital investment programs primarily through net cash provided by our operating activities and financing in the form of debt securities and loans from domestic financial institutions, and to a lesser extent, borrowings from overseas financial institutions. In addition, in anticipation of potential liquidity shortage, we maintain several Won-denominated and US dollar-denominated credit facilities with domestic financial institutions in the aggregate amounts of Won 3,155 billion and US$130 million, respectively, the full amount of which was available as of December 31, 2010. We and KHNP also maintain global medium-term note programs in the aggregate amount of US$5 billion, of which approximately US$2 billion remains currently available for future drawdown. See also Item 5B. Liquidity and Capital Resources Capital Resources.

Environmental Programs

The Environmental 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 laws 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

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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 public company in Korea 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 economic, environmental and social policy. As part of our involvement with such initiative, since September 2005, we have issued an annual report named the Sustainability Report to disclose our activities from the perspectives of economy, environment and society, in accordance with the reporting guidelines of the Global Reporting Initiative, the official collaborating center of the United Nations Environment Programme that works in cooperation with United Nations Secretary General. In November 2010, our report on the Communication on Progress was reviewed favorably by the United Nations Global Compact and was subsequently posted on its website in recognition of our strong commitment to compliance with the principles of United Nations Global Compact. In 2008 and 2009, our sustainability report was selected as a notable report on Communication on Progress by the United Nations Global Compact.

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, 2010.

	KOSEP	KOMIPO	KOWEPO	KOSPO	EWP
Flue Gas Desulphurization System	12	12	12	12	13
Selective Non-Catalytic Reduction System					2
Selective Catalytic Reduction System	8	16	12	15	13
Electrostatic Precipitation System	14	14	12	14	18
Low NO_2 Combustion System	18	31	24	30	30
Total	52	73	60	71	76

The table below sets forth the amount of annual emission from all generating facilities of our generation subsidiaries. The amount of CO_2 emissions is expected to increase in 2011 due to the construction of additional coal thermal power plants but is expected to decrease thereafter, principally due to an increased use of nuclear power and renewable energy.

Year	Sox (g/MWh)	NOx (g/MWh)	Dust (g/MWh)	CO_2 (kg/MWh)
2008	167	288	9	455
2009	169	308	8	489
2010	158	283	8	467

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 example, 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

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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 example, by using more environmentally-friendly technology and hardware. In addition, we also undertake measures to minimize losses during the transmission and distribution process by making our power distribution network more energy-efficient in terms of loss of power, as well as to lower consumption of energy, water and other natural resources. In addition, we and our subsidiaries have acquired the ISO 14000 certification which is an environmental management system widely adopted internationally and have made it a high priority to make our electricity generation and distribution more environmentally friendly.

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

As part of our long-term strategic initiatives, we plan to take other measures designed to promote the generation and use of environmentally friendly, or green, energy. See Item 4B. Business Overview Strategy.

Renewable Energy

Some of our generation facilities 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 our total generating capacity or 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 2010 of our generation facilities that are powered by renewable energy sources.

	Generating Capacity (megawatts)	Generation Volume (gigawatt-hours)
Hydraulic Power	563.2	1,588.6
Wind Power	52.2	121.7
Solar Energy	18.4	15.9
Fuel Cells	3.0	22.3
Subtotal	636.8	1,748.5
As percentage of total[1]	0.97%	0.41%

Note:

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

In order to deal with shortage of fuel and other resources and also to comply with various environmental standards, the Government is currently considering a plan to adopt the Renewable Portfolio Standard (RPS) policy, under which each generation subsidiary will be required to supply 2.0% and 10.0% of the total energy generated from such subsidiary in the form of renewable energy by 2012 and 2022, respectively, with fines being levied on any unit failing to do so in the prescribed timeline. We currently estimate that, if the RPS is implemented as currently planned, our generation subsidiaries will incur approximately Won 45 trillion in additional capital expenditure over the next 10 years. We expect that such additional capital expenditure will be covered by a corresponding increase in electricity tariff. However, there is no assurance that the Government will in fact raise the electricity tariff at a level sufficient to fully cover such additional capital expenditures or at all.

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In July 2005, nine government-invested utilities companies, including us, entered into a Renewable Portfolio Agreement (RPA) with the Government in order to expand the generation and distribution of renewable energy. This agreement contemplates two phases of capacity build-up for the generation and distribution of renewable energy. During Phase I, which lasted from 2006 to 2008, we made capital expenditures of Won 520.1 billion to construct renewable energy generation capacity of 184 megawatts, of which 63 megawatts capacity has been completed to-date. During Phase II, lasting from 2009 to 2011, we and our generation subsidiaries are scheduled to make capital expenditures of (Won)1,227 billion to construct renewable energy facilities with an aggregate generation capacity of 534 megawatts.

The breakdown of capital expenditures for Phase I and Phase II under the RPA by type of expenditure is as follows:

	Phase I (2006 2008)	Phase II (2009 2011)
	(in billions of Won)	
Facilities investment	(Won) 388.2	(Won) 1,128.4[(1)]
Research and development	128.0	79.6[(2)]
Promotion and other	3.9	18.9[(3)]
Total	(Won) 520.1	(Won) 1,226.9[(4)]

Notes:

(1) Includes capital expenditures of Won 829.5 billion to be made for the entire 2011.
(2) Includes capital expenditures of Won 38.9 billion to be made for the entire 2011.
(3) Includes capital expenditures of Won 11.5 billion to be made for the entire 2011.
(4) Includes capital expenditures of Won 879.9 billion to be made for the entire 2011.

We have financed, and plan to finance in the future, our capital investment programs primarily through net cash provided by our operating activities and financing in the form of debt securities and loans from domestic financial institutions, and to a lesser extent, from overseas financial institutions. In addition, in anticipation of potential liquidity shortage, we and KHNP also maintain global medium-term note programs in the aggregate amount of US$5 billion, of which approximately US$2 billion remains currently available for future drawdown. See Item 5B. Liquidity and Capital Resources Capital Resources.

Community Programs

Building goodwill with local communities is important to us 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 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.

Under the Act for Supporting the Communities Surrounding Power Plants, activities required to be undertaken under the Act are funded partly by the Electric Power Industry Basis Fund (see Sales and Customers Electricity Rates) and partly by KHNP as part of its budget. KHNP is required to make annual contributions to the affected local communities in an amount equal to Won 0.25 per kilowatt of electricity generated by its nuclear generation units during the one-year period before the immediately preceding fiscal year and Won 5 million per thousand kW of hydroelectric generation capacity. In addition, under the Korean tax law, KHNP is required to pay local tax levied on its nuclear generation units in an amount equal to Won 0.50 per kilowatt of their generation volume in the affected areas and Won 2 per 10 cube meters of water used for hydroelectric generation.

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, civic community groups may still oppose the construction and operation of generation units (including nuclear units), and such opposition could adversely impact our construction plans for generation units (including nuclear units) and have a material adverse effect on our business, results of operations and cash flow.

Nuclear Safety

KHNP takes nuclear safety as its top priority and continues to focus on ensuring the safe and reliable operation of nuclear power plants. KHNP also focuses on enhancing corporate ethics and transparency in the operation of its plants.

KHNP has a corporate code of ethics and is firmly committed to enhancing nuclear safety, developing new technologies and improving transparency. KHNP has also established the Statement of Safety Policy for Nuclear Power Plants to ensure the highest level of nuclear safety. Furthermore, KHNP invests approximately 5% of its total annual sales into research and development for the enhancement of nuclear safety and operational performance.

KHNP implements 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. These reviews have been completed for Kori units 1, 2, 3 and 4, Yonggwang units 1, 2, 3 and 4, Ulchin units 1, 2, 3 and 4 and Wolsong units 1, 2, 3 and 4. In order to enhance nuclear safety and plant performance, KHNP has established a maintenance effectiveness monitoring program in accordance with the maintenance rules issued by the United States Nuclear Regulatory Commission, which covers all of KHNP s nuclear power plants other than the Wolsong unit 1. KHNP is currently developing advanced maintenance rule implementation programs for Wolsong unit 1 and nuclear power plants to be constructed in the future.

KHNP has developed the Risk Monitoring System for operating nuclear power plants, which it implements in all of its nuclear power plants. The Risk Monitoring System is intended to help ensure nuclear plant safety. In addition, KHNP has developed and implemented the Severe Accident Management Guidelines in order to manage severe accidents for all of its nuclear power plants.

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 experts from academia and internal research institutes. KHNP maintains a close relationship with international nuclear organizations in order 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) and the Operational Safety Review Team to its nuclear plants for purposes of meeting international standards for independent review of its facilities. KHNP actively exchanges relevant operational information and technical expertise with its peers in other countries. For example, in March 2010, Shin-Kori 1 hosted the WANO Pre-Startup Peer Review. The recommendations and findings from this event were shared with KHNP s other nuclear plants to implement improvements at such plants.

The average level of radiation dose per unit amounted to a relatively low level of 0.79 man-Sv in 2010, which was substantially lower than the global average in 2010 of 0.89 man-Sv/year as reported in the WANO performance indicator report.

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Recently, in response to the damage to the nuclear facilities (including nuclear meltdowns) in Japan as a result of the tsunami and earthquake in March 2011, the Government announced plans to further enhance the safety and security of nuclear power facilities, including by establishing a nuclear safety commission in July 2011 for neutral and independent safety appraisals, subjecting nuclear power plants to additional safety inspections by governmental authorities and civic groups and requiring KHNP to prepare a comprehensive safety improvement plan. As a result of the foregoing, KHNP is expected to incur additional compliance costs and capital expenditures.

Low and intermediate level waste, or LILW, and spent fuels are stored in temporary storage facilities at each nuclear site of KHNP. The temporary LILW storage facilities at Ulchin and Wolsong reached their full capacity in 2008 and 2009, respectively, and facilities at Yonggwang and Kori are expected to reach their full capacity by 2012 and 2014, respectively. We expect that the Korea Radioactive Waste Management Corporation will complete the construction of a LILW disposal facility in the city of Gyeongju by December 2012, and starting from December 2010, LILW stored in temporary storage facilities at Ulchin and Wolsong was transferred to a disposal facility in the city of Gyeongju.

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, we expect 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.

The Radioactive Waste Management Act (RWMA) was enacted in an effort to centralize the disposal of spent fuel and low and intermediate level radioactive waste and enhance the security and efficiency of related management processes. The RWMA became effective on January 1, 2009 and designated the Korea Radioactive-waste Management Corporation (KRMC) to manage the disposal of spent fuels and low and intermediate level radioactive waste. Pursuant to the RWMA, the Government established the Radioactive Waste Management Fund. The management expense for LILW is paid when LILW is transferred to KRMC, and the charge for spent fuel is paid based on the quantity of spent fuel generated every quarter.

All of KHNP s nuclear plants are in compliance with Korean law and regulations and the safety standards of the IAEA.

Since the submission of our annual report on Form 20-F in 2010, there have been no significant safety-related events or accidents in KHNP s nuclear power plants that would have a material adverse effect on us.

Decommissioning

Decommissioning of a nuclear power unit is the process whereby the unit is shut down at the end of its life, the fuel is removed and the unit is eventually dismantled. KHNP implements a dismantling policy 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 in June 2007. KHNP obtained an approval to extend the Kori operation for another 10 years, and the unit resumed its operations in January 2008. Wolsong unit-1, the second nuclear power plant in Korea, will reach the end of its intended lifetime in November 2012. Applications for continued operation of Wolsong unit-1 were submitted to the Ministry of Education, Science and Technology in December 2009 and are currently being reviewed. Wolsong unit-1 is currently undergoing facility improvement until mid 2011.

While it does not carry a cash reserve for its decommissioning liability, KHNP retains financial responsibility for decommissioning its units. KHNP has accumulated the decommissioning cost as a liability since 1983. The decommissioning costs of nuclear facilities were estimated based on the study by the related committee and defined by the Radioactive-Waste Management Act, which requires KHNP to credit annual appropriations separately.

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For the accounting treatment of decommissioning costs, see Item 5A. Operating Results Critical Accounting Policies Decommissioning Costs.

Overseas Activities

We are actively engaged in a number of overseas activities. We believe that such activities help us to facilitate procurement of requisite fuels and diversify our revenue streams by leveraging the operational experience of us and our subsidiaries gathered from providing a full range of services, such as power plant construction, and 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.

The table set below summarizes the overseas projects that we are currently pursuing based on binding agreements.

Region	Project Period	Project Description
Malaya, Philippines	January 2011 to July 2011	650-megawatt oil-fired power plant operation and maintenance service
Ilijan, Philippines	March 1999 to June 2022	1,200-megawatt combined-cycle power plant project (BOT)(2)
Naga, Philippines	Since February 2006	448-megawatt power plant (ROMM/M&A)(1)
Shanxi, China	April 2007 to April 2056	4,472-megawatt coal-fired power plants (BOO)(3) and coal mine projects
Gansu, China	September 2005 to August 2026	98.8-megawatt wind power plants (BOO)(3)
Inner Mongolia, China	May 2007 to January 2034	1,123-megawatt wind power plants (BOO)(3)
Indonesia	Since July 2010	Acquisition of equity interest of PT Bayan Resources Tbk
Indonesia	Since July 2009	Acquisition of PT Adaro Energy Tbk
Nigeria	Since March 2006	Exploration of oil and gas for two offshore blocks
Jordan	May 2009 to October 2035	373-megawatt combined-cycle power plant (BOO)(3)
Mexico	January 2011 to May 2038	433-megawatt combined-cycle power plant project (BOT)(3)
Saudi Arabia	July 2009 to March 2033	1,204-megawatt oil-fired power plant (BOO)(3)
West Africa	September 2008 to October 2010	Line Route and Environmental and Social Impact Assessment Study
Niger	Since December 2009	Share subscription of ANCE, a uranium development company, and uranium procurement
Australia	Since January 2008	Moolarben thermal coal mine development
Australia	Since November 2007	Share subscription of Cockatoo Coal Limited
Australia	Since January 2010	Bylong thermal coal mine development

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Region	Project Period	Project Description
Canada	December 2007 to December 2011	Uranium exploration project in the Cree East
Canada	January 2008 to May 2013	Uranium exploration project in the Waterbury Lake
Canada	Since June 2009	Share subscription of Denison Mines, a uranium development company, and uranium procurement
France	June 2009 to 2015	Construction and operation of a uranium enrichment plant
Kazakhstan	February 2011 to 2013	Rehabilitation of 500kV, 220kV 17 substations
Kazakhstan	February 2011 to 2013	Construction 327km of 220kV transmission lines

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 our overseas activities, as currently being conducted, are not in the aggregate significant in terms of scope or amount compared to our domestic activities. In addition, a number of the overseas contracts currently being pursued are based on non-binding memoranda of understanding and the details of such projects may significantly change during the course of negotiating the definitive agreements.

A description of the material overseas activities by us and our subsidiaries by key geographic region is provided below.

Asia

China

In September 2005 and April 2006, we and China Datang Corporation of the PRC formed two joint ventures to build four wind-powered generation projects in China, consisting of one unit in Gansu province with total capacity of 49.3 megawatts and three units in Inner Mongolia with 139.4 megawatts. Since then, one unit with capacity of 49.5 megawatts has been added in Gansu and thirteen units have been added in Inner Mongolia with total capacity with 806.1 megawatts. In Liaoning province, we developed an additional four units under an understanding with the government of Chaoyang City. China Datang Corporation and we hold a 60:40 equity interest in the joint ventures. The joint ventures were capitalized with RMB 269 million for the Yumen projects in Gansu, RMB 3,137 million for the Inner Mongolia projects and RMB 573 for the Liaoning projects. One-third of the investment was funded with equity contribution and the remaining two-thirds with debt. These projects are currently in operation and generating additional revenue from the clean development mechanism, or CDM, business. Of 23 wind power generation units, 16 units with a total capacity of 727 megawatts are currently in operation.

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. As of December 31, 2010, the total installed capacity was 4,472 megawatts and our equity ownership in the partnership was 34.0%, representing 1,520 megawatts in installed capacity.

Philippines

We are currently engaged in four major power projects in the Philippines: (i) an operate and maintain 650-megawatt oil-fired power plant project in Malaya under a renewed contract with the new term expiring in July 2011, (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) acquisition in February 2006 of 40.0% equity interest in SPC Power Corporation, an independent power producer operating a 206-megawatt Naga power complex in Cebu, the Philippines, and (iv) construction, which began in February 2008, of a 200-megawatt CFBC coal power plant in Naga, Cebu where the current 206-megawatt Naga power complex exists, with target completion in May 2011. Our equity ratios are currently 51.0% for Ilijan project, and 60.0% for Cebu project, respectively.

Indonesia

On July 23, 2009, we, together with KOSEP, purchased 480 million shares, or 1.5% of the share capital, of PT Adaro Energy Tbk (Adaro) for an aggregate purchase price of US$46 million, as part of our efforts to secure stable coal supplies. Adaro is the second largest coal producer in Indonesia and the fifth largest coal exporter in the world, and produced a total of 43 million tons of coal in 2010. As part of this investment, we are entitled to an annual coal procurement of 3 million tons per year.

On July 21, 2010, our board of directors approved a plan to acquire a 20% equity interest in PT Bayan Resources Tbk (Bayan), an Indonesian mining company, for a purchase price of US$518 million. Our rationale for the acquisition is to secure fuel sources for power generation and hedge against fluctuations in fuel prices. Bayan is engaged in open cut mining of various coal qualities from mines located primarily in East and South Kalimantan, and produced 11 million tons of coal in 2010. In addition, because Bayan owns the largest coal terminal and the only floating transfer-station in Indonesia, we believe that the acquisition will improve our access to much-needed transportation infrastructure within Indonesia.

Kazakhstan

In March 2009, a consortium comprised of us and Samsung C&T was selected as a preferred bidder for the construction and operation of a coal power project in Balkash, Kazakhstan. We signed a framework agreement with Samruk Energy, Kazakh state-owned energy company. The build-own-operate project will produce 1,200 to 1,500 megawatt coal power plants in Kazakhstan, with target completion in 2017, subject to further change. We also acquired a priority right to construct an additional power plant in the event that the Kazakh government decides to build more plants in Balkhash area under its power supply plan.

On February 23, 2011, a consortium led by us, Hyundai Engineering & Construction and Hyundai Corporation won a power transmission and variation project from Kazakhstan Electricity Grid Operating Company (KEGOC), a Kazakhstan state-run company. Under this US$100 million project that will be conducted on an engineering, procurement and construction (EPC) basis, the consortium is required to complete the rehabilitation of the 500kV, 220kV 17 substations with voltages ranging from 220 kilovolts to 500 kilovolts by November 2013. In addition, on March 1, 2011 we won a US$46 million project to lay power lines in Kazakhstan.

Middle East

United Arab Emirates

On December 27, 2009, following an international open bidding process, we entered into a prime contract with the Emirates Nuclear Energy Corporation (the ENEC), a state-owned nuclear energy provider of the United Arab Emirates (UAE), to design, build and help operate four civil nuclear power generation units to be located in Braka, a region approximately 270 kilometers from Abu Dhabi, for the UAE s peaceful nuclear energy

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program. The contract amount for the project is US$18.6 billion, with the term of the contract to last from December 27, 2009 to May 1, 2020. Under the contract, we and the subcontractors, some of which are our subsidiaries, are to perform various duties in connection with the project, including, among others, (i) designing and constructing four nuclear power generation units (each with a capacity of 1,400 megawatts), (ii) supplying nuclear fuel for three fuel cycles including initial loading (with each cycle currently projected to last for approximately 18 months), and (iii) providing technical support, training and education to the plant operation personnel. The target completion dates for the four units are set for May 2017, May 2018, May 2019 and May 2020. In addition, in order to foster a long-term strategic partnership and stable management of the units post-construction, we currently plan to make an equity investment in an operation company to be established by ENEC. Details of such investment, including its size and structure, remain subject to further negotiation at this time, and we plan to make further disclosures regarding such investment in due course and as appropriate.

On October 18, 2010, a consortium including us was selected by Abu Dhabi Water & Electricity Authority (ADWEA), a state-run utilities provider in the United Arab Emirates, as the preferred bidder in an international bidding for the construction and operation of the combined-cycle natural gas-fired electricity generation facilities in Shuweihat, UAE with an expected aggregate generation capacity of 1,600 megawatts. On February 15, 2011, the consortium entered into a formal contract with ADWEA for the construction and operation of the generation facilities. This project is expected to involve three years of construction starting from March 2011, and operation for 25 years from March 2014 to March 2039. The total project cost is currently estimated to be US$1.5 billion, of which approximately 20% will be financed through equity investments by the consortium members and the remaining 80% through project financing. Equity interests in the consortium are owned by ADWEA (60.0%), Sumitomo (20.4%) and us (19.6%), subject to further change. The total amount of our equity investment in the project is expected to be approximately Won 60.4 billion, and we plan to participate in this project through a special purpose vehicle.

Jordan

In March 2008, a consortium consisting of us and Xenel was selected as the preferred bidder for a gas-fired power plant project located in Al Qatrana, near Amman, Jordan. The power plant is expected to have an installed capacity of 373 megawatts, incur construction cost of US$460 million and have an operating life of 25 years. The construction for the build-own-operate project began in May 2009 with target completion in August 2011. We and Xenel hold 80:20 equity interest, respectively, of the joint venture which will oversee the project. We believe that this project will help us to expand our business in the Middle East and position us as a competitive power producer in the global market.

Saudi Arabia

On December 1, 2008, we formed a consortium with ACWA Power International of Saudi Arabia and submitted a bid for the 1,204 megawatt oil-fired power project in Rabigh, Saudi Arabia. In March 2009, we were selected as the preferred bidder against competitors that included Suez of Belgium, IP of Britain and Oger of Saudi Arabia. The project s target completion date is 2013 and the project will involve operation of the plant for 20 years with an estimated project cost of US$2.5 billion. We are expected to hold a 40.0% equity interest in the joint venture which will oversee the project. On July 11, 2009, we entered into a power purchase agreement with Saudi Electricity Company to construct and operate a heavy oil power plant at Rabigh in Saudi Arabia.

North America

Canada

On December 14, 2007, a consortium consisting of four Korean companies, namely us, Korea Resources Corporation, Hanwha Corporation and SK Energy Co., Ltd., 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, Saskatchewan, Canada. Under the terms of the agreement, the consortium and CanAlaska each hold a 50.0% equity interest in the four-year project. The estimated capital expenditure for the project is C$19 million, all of which is to be borne by the consortium through cash contributions over the term of the project. We have invested C$4.75 million for which we have received a 12.5% equity interest in the project at the end of 2010. If additional capital expenditure is required, the amount in excess of C$19 million is to be shared equally between CanAlaska and the consortium.

On January 30, 2008, a consortium consisting of us, KHNP, 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 in Waterbury Lake, Saskatchewan, Canada. Under the terms of the agreement, each of the consortium and Fission Energy Corp. holds a 50.0% equity interest in the three-year project. The estimated capital expenditure for the project is C$15 million, all of which is to be borne by the consortium through cash contributions over the term of the project. Under the terms of the agreement, the consortium is required to purchase a 50.0% 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 have a 20.0% equity interest in the project and are expected to make estimated cash contributions of C$6 million. During the three-year exploration period, we discovered a high grade uranium mineralization after drilling 20 sites out of 97 sites. On August 16, 2010, the consortium entered into an agreement consisting of a limited partnership agreement, a shareholders agreement and a operating service agreement with Fission Energy Corp. to enlarge known mineralization and to produce a resource estimate. Under the terms of the agreement, each of the consortium and Fission Energy Corp. holds a 50.0% equity interest in a three-year term project, in which we are expected to make estimated cash contributions of C$6 million. On April 12, 2011, Fission Energy Corp. exercised a Back-In Option under the limited partnership agreement dated August 16, 2010, and provided to the consortium consideration of C$6 million. As a result of the exercise of the Back-In Option, the Fission Energy Corp. s equity interest increased by 10% and the consortium s equity interest was reduced by 10%. Currently, Fission Energy Corp. and the consortium hold a 60% and 40% equity interest, respectively, in the special purpose entity established to operate this project, of which we hold a 16% equity interest. Subsequent to the exercise of the Back-In Option, the consortium and Fission Energy Corp. is required to make estimated cash contributions for the project on the basis of their respective equity interest.

On June 15, 2009, we, together with KHNP, entered into a definitive agreement with Denison Mines Corporation (Denison) under which we currently hold a 17.1% equity interest in Denison Mines and remain the largest shareholder thereof. Under the terms of the agreement, we are entitled to procure up to approximately 20.0% of Denison s current annual uranium production, during the period from 2010 to 2015. For the period from 2016, we will also be entitled to procure up to 20.0% of Denison s then annual uranium production so long as we beneficially own 10.0% or more of Denison s share capital. We procured 159 metric tons of uranium in 2010 and anticipate that the amount will increase in the near future.

On January 22, 2010, we entered into a Green Energy Investment Agreement with the Government of Ontario, Canada, jointly with Samsung C&T Corporation under a consortium. Under the terms of the Green Energy Investment Agreement, the consortium will develop and construct wind and solar-powered electricity generation units in Ontario, Canada, from 2013 to 2016, following which the consortium shall operate the facilities for a period of 20 years. The Green Energy Investment Agreement has an approximate value of US$6 billion, and the roles and responsibilities between us and Samsung C&T will be decided based on further negotiations.

Mexico

On August 2, 2010, a consortium led by us was selected as the preferred bidder in an international auction for the construction and operation of the Norte II gas-fueled combined-cycle electricity generation facility in Chihuahua, Mexico, as ordered by the Comision Federal de Electricidad (CFE) of Mexico. This facility is expected to have a generation capacity of 433 megawatts, and the project will be undertaken on a build, own and operate basis. The total size of the project, which is expected to commence in September 2010 and end in

May 2038, is expected to be approximately US$430 million. We hold a 56% interest in the consortium, whose other members are Samsung C&T (with a 34% interest) and Techint, a Mexico company (with a 10% interest). The consortium established a special purpose vehicle, KST Electric Power Company (KST), to act as the operating entity, and on September 7, 2010, KST entered into a power purchase agreement with CFE to construct and operate a combined-cycle power plant at Chihuahua in Mexico. In October 2010 KST was licensed by the Mexican government as an independent power producer, which allows it to produce and sell electricity to CFE during the specified contract period.

Australia

On November 7, 2007, we and EWP entered into a share subscription agreement with Cockatoo Coal Limited (Cockatoo), a coal exploration and mining company located in Australia. We and EWP currently hold a 4.91% aggregate equity interest in Cockatoo after having made a total investment of A$21.8 million. Cockatoo has several coal exploration projects in Queensland and New South Wales and one production project in Bowen Basin, Queensland, Australia.

On January 2, 2008, a consortium consisting of Korea Resources Corporation, Hanwha Corporation, us and four of our wholly owned generation subsidiaries, namely, KOSEP, KOMIPO, KOWEPO and KOSPO, entered into an agreement with Felix Resources Limited, an Australian coal mining company, to develop the Moolarben coal mine located in Western Coal Fields, New South Wales, Australia. Under the terms of agreement, the consortium purchased 10% equity interest in the Moolarben project from Felix, of which we and our four generation subsidiaries own an aggregate of 5%, 80% equity interest of the project is held by Felix which was acquired by Yancoal Australia in December 2009. In 2010 Moolarben produced 3.38 million tons of coal, of which we imported 1.70 million tons in 2010. Our four generation subsidiaries have a coal off-take agreement for a total of 2.5 million tons of coal per annum.

On July 5, 2010, Kepco Australia Pty Ltd., our wholly-owned subsidiary, entered into an agreement with Anglo American Metallurgical Coal Assets Eastern Australia Ltd. to acquire 100% of the equity interest in Anglo Coal (Bylong) Pty Ltd., a wholly-owned subsidiary of Anglo, for a purchase price of A$402.8. Bylong owns a bituminous coal mine in New South Wales, Australia. From this acquisition, we expect to secure an average of 7.5 million tons of bituminous coal per year from this mine during the period from 2016 to 2045. We and Cockatoo will cooperate to further explore and develop coal that is of export quality.

Africa

In August 2005, a consortium consisting of us, Korea National Oil Corporation, a Government-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 60.0% of the equity interest in the special purpose vehicle established to carry out the project regarding these two blocks and we hold 8.8% of the interest in the consortium. In March 2006, the consortium entered into production sharing contracts with Nigerian National Petroleum Corporation 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. However, in January 2009, the government of Nigeria unilaterally decided to void allocation of the oil blocks granted to the consortium based on a claim that the consortium failed to pay full amount of the consideration. Korea National Oil Corporation has filed a suit in the Nigerian court challenging this assertion. On August 20, 2009, the Federal High Court in Nigeria ruled that the Nigerian government illegally cancelled offshore exploration rights with respect to the deep sea oil exploration projects and banned the Nigerian government from further interfering with the consortium. The Nigerian government subsequently appealed the ruling and the case is currently pending in court.

Another consortium consisting of us, KNOC and POSCO Engineering & Construction commenced the development of the downstream projects in Nigeria in 2006. While an agreement in-principle was entered into with the Nigerian authorities regarding the project development in October 2008, due to the court proceedings discussed above, these projects are currently on hold.

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In October 2007, we invested US$9.1 million in KEPCO Energy Resource Nigeria Ltd., or KERNL, a joint venture with the Nigerian government. We currently own 30.0% of KERNL s equity capital. In May 2007, KERNL entered into a share purchase agreement with the Nigerian government for the purchase of 51.0% 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. The acquisition remains to be completed.

On December 30, 2009, we and KHNP, our wholly-owned nuclear generation subsidiary, entered into a definitive agreement with Areva NC Expansion (ANCE) to purchase 1.0 million shares, or 15.0%, of the share capital of ANCE at an aggregate purchase price of EUR 170 million. We are entitled to procure up to approximately 10.0% of Imouraren SA s current annual uranium production in Niger, which is estimated to be 740 metric tons based on ANCE s annual production plan during the period between 2013 and 2036. Imouraren SA is an ANCE-invested mine operating company. After 2013, we will also be entitled to procure up to 10.0% of Imouraren SA s current annual uranium production so long as we beneficially own 10.0% or more of ANCE s share capital.

Europe

On June 30, 2009, KHNP acquired a 2.5% equity interest in Societe D. Enrichissement Du Tricastin (SET Holding), which was established by Areva for the purpose of constructing and operating a uranium enrichment plant in Tricastin, France. KHNP has invested approximately 129 million Euros for the 2.5% equity interest, and Kansai Electric Power in Japan and Suez Energy International in Belgium have also acquired 2.5% and 5.0% equity interest, respectively, in SET Holding. The maximum production capability of the uranium enrichment plant is eight million Separative Work Unit or, SWU. We believe that this investment will help us secure a more stable and economical supply of enriched uranium.

North Korea

Kaesong Complex

Since 2005, we have provided 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. 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.

In recent years, there have been heightened security concerns stemming from North Korea s military provocations, nuclear weapons and long-range missile programs and uncertainty regarding North Korea s actions and possible responses from the international community. Recently, in March 2010, a South Korean navy ship sank on the western coast of the Korean peninsula, allegedly as a result of a bombing by North Korean submarines, and in November 2010, North Korean forces fired artillery shells at Yeonpyeong Island off the west coast of Korea. Efforts at multilateral negotiations with North Korea have been made in response to North Korean provocations, but the prospects of such negotiations remain unclear. As of December 31, 2010, we supplied electricity to 238 units, including administrative agencies, support facilities and resident corporations, 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, a project suspension or failure of the project as a result of a breakdown or escalation of hostilities in the relationship between the Republic and North Korea.

See Item 3D. 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 our shares.

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. On December 12, 2006, we entered into a transfer agreement with KEDO. According to the transfer 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. Pursuant to the terms of the transfer agreement, we are required to report to KEDO the disposal or reuse of the transferred equipment. The gains and losses from the transfer agreement will be shared with KEDO through further negotiations between the two parties.

In 2010, we decided to dispose of transferred equipment, and as a result we recognized revenue of Won 376 million on the remaining advance payments previously received from KEDO and Won 27 million of impairment loss on other non-current assets related to the transferred equipment during the period. Furthermore, in accordance with the transfer agreement, we recorded as other non-current assets the transferred equipment at fair value of Won 67 million as of December 31, 2010. We recorded as other long-term liabilities estimated claims from subcontractors amounting to Won 15 million.

Insurance

We and our generation subsidiaries carry insurance covering against certain risks, including fire, in respect of key assets, including buildings, equipment, machinery, construction-in-progress and procurement in transit, as well as, in the case of KEPCO, directors and officers liability insurance.

We and our generation subsidiaries maintain casualty and liability insurance against risks related to our and our subsidiaries business to the extent we consider appropriate. As of December 31, 2010, we also self-insured against such risks to the extent permitted by law. We and our generation subsidiaries 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-insures 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, which amounts to approximately US$483 million, at the rate of 1 SDR = US$1.6096 as posted on the Internet homepage of the

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International Monetary Fund on April 26, 2011, per single accident; provided that such limitation will not apply where KHNP intentionally causes harm or knowingly fails 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 it is 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 3D. Risk Factors Risks Relating to KEPCO The amount and scope of coverage of our insurance are limited.

Competition

We currently transmit and distribute substantially all of the electricity in Korea. In addition to us, under the Community Energy System there are also 12 other entities in Korea that are licensed to supply electricity in limited geographical areas, but their aggregate market share has to-date been insignificant. 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. 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, 2011, 12 districts were using this system and four other districts were preparing to launch it and there were 12 independent entities that are licensed to distribute electricity in all of such 16 districts, to which we also transmit and distribute electricity. The generation capacity installed or under construction of the electricity suppliers in these 12 districts amounted to approximately 1% of the aggregate generation capacity of our generation subsidiaries as of April 30, 2011. Since the introduction of the Community Energy System in 2004, a total of 31 districts have obtained the license to supply electricity through the Community Energy System, but 15 of such districts have reportedly abandoned plans to adopt the Community Energy System, largely due to the relatively high level of capital expenditure required, the rise in fuel costs and the lower-than-expected electricity output per cost. However, if the Community Energy System is widely adopted, it will erode our market position in the generation and distribution of electricity in Korea, which has been virtually monopolized by us until recently, and may have a material adverse effect on our business, growth, revenues and profitability.

The electric power 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. See Item 4B. Business Overview Restructuring of the Electric Power Industry in Korea.

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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 other household appliances, which is available on commercially affordable terms.

In the commercial sector, electricity is the dominant energy source for lighting, office equipment and air conditioning. For 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 that are available on commercially affordable terms. 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 a stable supply of electric power and further contributing toward the sound development of the national economy through facilitating development of electric power resources and carrying out proper and effective operation of the electricity business. The KEPCO Act (including the amendment thereto) prescribes that we engage in the following activities:

- development of electric power resources;
- generation, transmission, transformation, distribution of electricity and other related business;
- investment, research and technology development related to the businesses mentioned in items 1 and 2;
- overseas business related to the businesses mentioned in items 1 through 3;
- investments or contributions related to the businesses mentioned in items 1 through 4;
- businesses incidental to items 1 through 5;
- development and operation of real estate holdings, subject to certain restrictions pursuant to Presidential Decree of the KEPCO Act; and
- other businesses entrusted 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 20.0% or more of profits as a legal reserve 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.

Based on our consolidated financial results as of December 31, 2010, the legal reserve was Won 1,604 billion, the reserve for business expansion was Won 16,011 billion, and the reserve for investment of social overhead capital was Won 5,277 billion.

Under an amendment to the KEPCO Act, which took effect on October 13, 2010, we are permitted to engage in the development and operation of our real estate holdings, subject to certain restrictions. The key provisions of the amendment relate to categorizing the development and operation of real estate holdings as one

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of our permitted business activities, provided that such activities will be conducted by a professional real estate management company commissioned or entrusted by us. The legislation requires prior approval by the Minister of the Ministry of Knowledge Economy prior to engaging in any such activity and proceeds from such activity are required to be used to fund construction of environment-friendly facilities related to electricity transmission, distribution and transformation, such as re-routing the transmission cables indoors or underground. We have also amended our Articles of Incorporation (included in this report) in line with the new amendment and plan to take follow-up measures related to engagement of professional real estate management companies.

We are under the supervision of the Ministry of Knowledge 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.

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 Item 4B. Business Overview Purchase of Electricity Cost-based Pool System. Each of our six generation subsidiaries holds an electricity generation license. We and 12 other electricity suppliers (we nationally and the 12 other suppliers for a total of 16 districts) have a license for the distribution of electricity under the Community Energy System as authorized by the Korea Electricity Commission and approved by the Minister of Knowledge Economy in accordance with the Electricity Business Act. The Electricity Business Act also governs the formulation and approval of electricity rates in Korea. See Sales and Customers Electricity 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

The following table summarizes our current plans for sale of certain of our assets. The consummation of these plans, however, is subject to, among others, related Government policies and market conditions.

Equity holdings	Primary business	Book value as of December 31, 2010	Ownership percentage as of December 31, 2010	Ownership percentage to be sold
		(in billions of Won)		
KEPCO Plant Service & Engineering Co., Ltd.	Overhauling and repairing power plants	342	75.0%	15.0%
LG Uplus Corp.	Electronics, telecommunications and Internet access services	351	7.5%	7.5%
KEPCO Engineering & Construction INC	Designing and engineering power plants	102	77.9%	20.0%
Korea Electric Power Industrial Development Co., Ltd.	Electricity metering	17	29.0%	29.0%

KEPCO Plant Service & Engineering Co., Ltd.

In December 2007, we completed the initial public offering of KEPCO Plant Service & Engineering Co., Ltd., or KPS, formerly our wholly-owned subsidiary, by listing approximately 20.0% of its equity interest on the Korea stock exchange for an aggregate consideration of Won 120 billion. Pursuant to the Third Phase of the Public Institution Reform Plan, we sold an additional 5.0% of KPS shares through a block sale and plan to sell an additional 15.0% of KPS s equity interest by the end of 2012.

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LG Uplus Corp.

We currently own a 7.46% equity interest in LG Uplus Corp., a telecommunications and Internet access service provider in Korea which is the surviving entity after the consolidation of LG Dacom, LG Telecom and LG Powercom in January 2010. Pursuant to the Fifth Phase of the Public Institution Reform Plan, we currently plan to sell our remaining equity interest in LG Uplus Corp. subject to prevailing economic and market conditions.

KEPCO Engineering & Construction Inc.

Pursuant to the Third Phase of the Public Institution Reform Plan announced by the Government in August 2008, we conducted the initial public offering of Korea Engineering and Construction Co., Ltd., or KEPCO E&C formerly known as Korea Power Engineering Co., Ltd., in December 2009. We owned 97.9% of KEPCO E&C s shares prior to the initial public offering and currently own 77.9% following the initial public offering. Gross proceeds from the initial public offering were Won 165.1 billion. In furtherance of the Third Phase of the Public Institution Reform Plan, we further plan to sell an additional 20.0% equity interest in KEPCO E&C by the end of 2012, subject to prevailing market conditions.

Korea Electric Power Industrial Development Co., Ltd.

In February 2003, we privatized Korea Electric Power Industrial Development, or KEPID, formerly our wholly-owned subsidiary, by selling 51.0% of its equity interest to Korea Freedom Federation. Pursuant to the Fifth Phase of the Public Institution Reform Plan announced by the Government in January 2009, we sold 20% of the KEPID shares through additional listing and currently plan to sell the remaining 29.0% of KEPID s equity interest based on, among others, considerations of economic and market conditions.

Item 4C. Organizational Structure

As of the date hereof, we have 37 subsidiaries and 20 affiliates (not including any special purpose entities).

Subsidiaries

Our wholly-owned six generation subsidiaries are KHNP, KOSEP, KOMIPO, KOWEPO, KOSPO and EWP. Our non-generation subsidiaries include KEPCO E&C, KEPCO KPS, KEPCO NF, and KEPCO KDN. For a full list of our subsidiaries, including foreign subsidiaries, and their respective jurisdiction of incorporation, please see Exhibit 8.1 attached to this report.

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Affiliated Companies

We define our principal affiliates as companies in which we hold at least 20.0% and not more than 50.0% of the share capital, whose accounts are not required to be consolidated in our financial statements. We record our equity interests in 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, 2010.

	Year of Incorporation	Ownership (Percent)	Principal Activities
Korea Gas Corporation	1983	24.5	Importing and wholesaling LNG
LG Uplus Corporation(2) (3)	1996	7.5	Telecommunication and Internet access services
Korea Electric Power Industrial Development Co., Ltd.	1990	29.0	Electricity metering
YTN(1)	1993	21.4	Broadcasting
Gansu Datang Yumen Windpower Co., Ltd.	2005	40.0	Construction and operation of utility plant
SPC 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
Gangwon Wind Power Co., Ltd.(3)	2001	15.0	Wind power generating
Hyundai Green Power Co. Ltd.	2007	29.0	Generating electricity
Cheongna Energy Co., Ltd.	2005	30.0	Generating and distributing vapor and hot/cold water
PT.Cirebon Electric Power	2007	27.5	Construction and operation of utility plant
Eco Biomass Energy Sdn. Bhd.	2009	40.0	Combined heat and power generation and clean development mechanism business
Denison Mines Corporation(3)	2003	17.1	Uranium exploration and development
Rabigh Electricity Company	2009	40.0	Construction and operation of utility plant
KNOC Nigerian East Oil Co., Ltd.(3)	2005	14.6	Oil and gas exploration in Nigeria
KNOC Nigerian West Oil Co., Ltd.(3)	2005	14.6	Oil and gas exploration in Nigeria
Areva NC Expansion(3)	2007	15.0	Imouraren uranium mine development in Niger
PT. Bayan Resources TBK.	2004	20.0	Resources development

Notes:

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

(2) LG Uplus Corp. is the surviving entity following the consolidation of LG Electronics, LG Telecom and LG Powercom in January 2010. Shares of LG Powercom held by us were exchanged into shares of LG Uplus Corp. following such consolidation.

(3) Although we hold less than 20% of the total number of voting stock of LG Uplus Corp., Gangwon Wind Power Co., Ltd., Denison Mines Corporation, KNOC Nigerian East Oil Co., Ltd., KNOC Nigerian West Oil Co., Ltd. and Areva NC Expansion, we use the equity method of accounting for such investment, as we possess significant influence over the operational and financial policies of these entities.

Item 4D. Property, Plant and Equipment

Our property consists mainly of power generation, transmission and distribution equipment and facilities in Korea. See Item 4B. Business Overview Power Generation, Transmission and Distribution and Capital Investment Program. In addition, we own our corporate headquarters building complex at 167 Samseong-dong, Gangnam-gu, Seoul 135-791, Korea. On June 24, 2005, the Government announced its policy to relocate the headquarters of government-invested enterprises, including us and certain of our subsidiaries, out of the Seoul metropolitan area to other provinces in Korea by the end of 2012. As of December 31, 2010, the net book value of our property was Won 78,890 billion. No significant amount of our properties is leased. There are no material encumbrances on our properties, including power generation, transmission and distribution equipment and facilities.

ITEM 4A. UNRESOLVED STAFF COMMENTS

We do not have any unresolved comments from the SEC staff regarding our periodic reports under the Securities Exchange Act of 1934, as amended (the Exchange Act).

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion on our operating and financial review and prospects together with our consolidated financial statements and the related notes which appear elsewhere in this report. Our results of operations, financial condition and cash flows may materially change from time to time due to various policy initiatives (including changes to the Restructuring Plan) by the Government in relation to the Korean electric power industry, and accordingly our historical performance may not be indicative of our future performance. See Item 4B. Business Overview Restructuring of the Electric Power Industry in Korea and Item 3D. Risk Factors The Government may adopt policy measures to substantially restructure the Korean electric power industry or our operational structure, which may have a material adverse effect on our business, operations and profitability.

Item 5A. Operating Results

Overview

In 2008, 2009 and 2010, we had operating revenues of Won 31,560 billion, Won 33,994 billion and Won 39,426 billion, respectively, principally from the sale of electricity. As we are a predominant market participant in the Korean electric power industry, our business is heavily regulated by the Government with respect to the rates we charge to customers for the electricity we sell. In addition, our business requires a high level of capital expenditures for the construction of electricity generation, transmission and distribution facilities and is subject to a number of variable factors, including demand for electricity in Korea and fluctuations in fuel costs, which are in turn impacted by the movements in the exchange rates between the Won and other currencies.

In 2009 and 2010, we recorded an operating income of Won 1,715 billion and Won 1,580 billion, respectively, compared to an operating loss of Won 2,798 billion in 2008. Under the Electricity Business Law and the Price Stabilization Act, the Government generally establishes electricity rates at levels that are expected to 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 a detailed description of the fair investment return, see Item 4B. Business Overview Sales and Customers Electricity Rates. Accordingly, we have recorded an operating income for every fiscal year since our inception in 1981, except in 2008 during which fuel prices rapidly increased beyond a level that could be offset by an increase in the electricity tariff rates we charge to our customers.

We estimate that fuel prices will continue to be volatile and accordingly have a material adverse effect on our results of operations and profitability in 2011 and beyond. In part to address these concerns, the Government from time to time increases the electricity tariff rates (most recently in June 2009 and August 2010). However, such increases may be insufficient to fully offset the adverse impact from the rise in the fuel costs, and since such increases typically require lengthy public deliberations in order to be implemented, the tariff increases often occur with a significant time lag and as a result our results of operations and cash flows may suffer.

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Recently, the Government announced that as of July 1, 2011 it will overhaul the existing tariff system by more closely aligning the tariff levels to fuel cost movements. We anticipate that the implementation of the new tariff system will reduce future uncertainties on our profitability arising from the volatility in fuel prices, leading to maintenance of a more stable financial structure. Furthermore, the implementation may lead to higher credit ratings and a reassessment of our share and shareholder value. However, details of the new tariff system remain subject to further discussion and there is no assurance that the new tariff system will be adopted as presently anticipated or at all. Furthermore, even if the new tariff system is implemented as currently anticipated, there is no assurance that the new tariff system will fully cover our expenses on a timely basis or at all, or will not have unintended consequences that we are not presently aware of which may have a material adverse effect on our business, financial condition, results of operation and cash flows. In addition, the Government may not maintain or raise the tariff level to ensure our profitability until the implementation of the new tariff system in July 2011. See Item 4B. Business Overview Recent Developments Proposed Changes to the Electricity Tariff System. While we will continue to negotiate with the Government for further measures to increase our profitability, we cannot guarantee that the Government will agree to such requests at the level desired by us or at all. If the new tariff system fails to fully cover our expenses or if our electricity tariff under the new tariff system fails to sufficiently offset the impact of rising fuel prices, fuel price increases may significantly hurt our business, results of operations and cash flows.

The results of our operations are largely affected by the following factors:

- demand and supply of electricity;
- electricity rates we charge to our customers;
- fuel costs; and
- the exchange rates of Won against other foreign currencies, in particular the U.S. dollar.

Demand and Supply of Electricity

Our sales are largely dependent on the level of 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 5.5% per annum for the five years ended December 31, 2010. According to The Bank of Korea, the compounded growth rate for real gross domestic product, or GDP, was approximately 3.8% during the same period. The GDP increased, on a year-on-year basis, by 0.2% in 2009 and by 6.2% in 2010 due to general economic recovery.

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).

	2006	2007	2008	2009	2010
Growth in GDP (at 2006 constant prices)	5.2%	5.1%	2.3%	0.3%	6.2%
Growth in electricity consumption	4.9%	5.7%	4.5%	2.4%	10.1%

Demand for electricity may be categorized either by the type of its usage or by the type of customers. The following describes the demand for electricity by the type of its usage, namely, industrial, commercial and residential:

- The industrial sector currently 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 the economic expansion in Korea, it has gradually declined as a percentage of total demand from 57.3% in 2000 to 53.6% in 2010. Demand from the industrial sector increased by 12.3% to 25,456 gigawatt hours in 2010 from 2009, largely due to the recovery of the Korean economy, which led to greater utilization of industrial plants.

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Demand for electricity from the commercial sector has increased in recent years, both in absolute terms and as a percentage of total demand, as a result of the continuing growth of the service sector in the Korean economy, which has led to an increased number of office buildings, 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 8.7% to 7,791 gigawatt hours in 2010 from 2009, largely due to the recovery of the Korean economy, including the commercial sector, and continued construction of large office buildings, which use a substantial amount of air conditioning.

Demand for electricity from the residential sector increased by 5.5% to 4,342 gigawatt hours in 2010 from 2009, largely as a result of the recovery of the Korean economy, which increased consumer confidence. In 2010, we provided electricity to approximately 19 million households, which represent substantially all of the households in Korea. Population growth and increased use of air conditioners and other electrical appliances continues to contribute to the increase in demand for electricity from the residential sector.

For a discussion on demand by the type of customers, see Item 4B. Business Overview Sales and Customers Demand by the Type of Usage.

As for the supply of electricity in Korea, we have since our inception had, and, subject to any substantial future developments in respect of the Restructuring Plan, expect to have, the predominant market share, in terms of generation of electricity as well as transmission and distribution thereof to the end-users. As for transmission and distribution of electricity, we accounted for approximately 99% of the market share, in terms of transmission and distribution capacity, in 2008, 2009 and 2010. While as of April 30, 2011, there were 12 other entities in Korea that are also licensed to supply electricity under the Community Energy System, these suppliers are, by the terms of their licenses, permitted to supply electricity to limited geographical areas, and their aggregate transmission and distribution capacity accounted for approximately 1% of our capacity. Furthermore, since the introduction of the Community Energy System in 2004, a total of 31 districts have obtained the license to supply electricity through the Community Energy System, but 15 of such districts have reportedly abandoned plans to adopt the Community Energy System, largely due to the relatively high level of capital expenditure required, the rise in fuel costs and the lower-than-expected electricity output per cost. See Item 4B. Business Overview Transmission and Distribution. As for the generation of electricity that we purchase for transmission and distribution to our end-users, our generation subsidiaries accounted for 93.5%, 93.8% and 91.5% in 2008, 2009 and 2010, respectively, with the remainder accounted for by independent power producers. We currently expect that our market dominance in the supply of electricity in Korea will continue for the foreseeable future, absent any substantial changes to the Restructuring Plan or other policy initiatives by the Government in relation to the Korean electric power industry, or an unexpected proliferation of districts opting for supply of electricity through the Community Energy System.

Electricity Rates

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 further discussion of fair investment return, see Item 4B. Business Overview Sales and Customers Electricity Rates.

From time to time, our actual rate of return on invested capital may differ significantly from the rate of return on invested capital assumed for the purposes of electricity tariff approvals, for reasons, among others, related to movements in fuel prices, exchange rates and demand for electricity that differ from what is assumed for determining our fair rate of return. For example, between 1987 and 1990, the actual rate of return was above the assumed rate of return due to declining fuel costs and rising demand for electricity at a rate not anticipated for purposes of determining our fair rate of return. Similarly, depreciation of the Won against the U.S. dollar accounted for our actual rates of return being lower than the assumed rate of return for the period from 1996 to 2000, and for the period since 2006, our actual rates of return have been lower than the assumed rates of return largely to a general increase in fuel costs and higher facility investment costs. Partly in response to the variance between our actual rates of return and the assumed rates of return, the Government from time to time adjusts the electricity tariff rates, but there typically is a significant time lag for the tariff adjustment as such adjustment requires a series of deliberative processes and administrative procedures and the Government also has to consider other policy considerations, such as the inflationary effect of overall tariff increases and the efficiency of energy use from sector-specific tariff increases. Furthermore, there is no assurance that the tariff adjustments will have the desired effect at a level anticipated or at all, or that they will not have unintended adverse consequences.

Recent adjustments to the electricity tariff rates by the Government involve the following:

- effective January 1, 2008, increases for industrial and night power tariff rates by 1.0% and 17.5%, respectively, and a decrease in commercial tariff rates by 3.2%, which had no material net effect on our average tariff rate. These changes were introduced principally to further rationalize the electricity tariff schedule by aligning the sector-specific prices to their related costs;

- effective June 27, 2009, a 3.9% overall increase in our average tariff rate, consisting of increases in the industrial, commercial, educational, street lighting and night power usage tariff rates by 6.5%, 2.3%, 6.9%, 6.9% and 8.0%, respectively, while making no changes to the residential and agricultural tariff rates. These changes were introduced principally in response to the rapidly rising fuel prices which seriously hurt our profitability; and

- effective August 1, 2010, a 3.5% overall increase in our average tariff rate, consisting of increases in the residential, educational, industrial, street lighting and night power usage tariff rates by 2.0%, 5.9%, 5.8%, 5.9% and 8.0%, while making no changes to the commercial and agricultural tariff. These changes were introduced principally in response to the rapidly rising fuel prices which seriously hurt our profitability.

On February 10, 2010, the Ministry of Knowledge Economy announced that it plans to overhaul the current system for determining electricity tariff chargeable to customers by more closely aligning the tariff levels to the movements in fuel prices, with the aim of providing more timely pricing signals to the market regarding the expected changes in electricity tariff levels and encouraging more efficient use of electricity by customers. For example, the new tariff system contemplates adjusting the tariff rates on a monthly basis based on the three-month average moving fuel costs with a time lag of two months for such adjustment. Currently scheduled to take effect on July 1, 2011, the new tariff system is also intended to provide greater financial stability and ensure a minimum return on investment to electricity suppliers, such as us. However, there is no assurance that the new tariff system will be adopted as presently anticipated or at all, or that the new tariff system in its final form will fully cover our expenses on a timely basis or at all, or that it will not have unintended consequences that we are not presently aware of. In addition, the Government may not maintain or raise the tariff level to ensure our profitability until the implementation of the new tariff system in July 2011. Any of such developments may have a material adverse effect on our business, financial condition, results of operations and cash flows.

See Item 4B. Business Overview Sales and Customers Electricity Rates and Item 4B. Recent Developments Proposed Changes to the Electricity Tariff System.

Fuel Costs

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 distribution 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 we 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 49.8%, 45.2% and 47.2% of our operating revenues and 45.8%, 47.5% and 49.1% of our operating expenses in 2008, 2009 and 2010, 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 from time to time subject to prevailing market conditions. See Item 4B. Business Overview Fuel.

Uranium accounted for 38.2%, 36.3% and 34.1% of our fuel requirements in 2008, 2009 and 2010, respectively. Coal accounted for 44.1%, 47.6% and 45.5% of our fuel requirements in 2008, 2009 and 2010, respectively. LNG accounted for 14.5%, 11.9% and 16.6% of our fuel requirements in 2008, 2009 and 2010, respectively. Oil accounted for 2.2%, 3.1% and 1.5% of our fuel requirements in 2008, 2009 and 2010, respectively. In each case, the fuel requirements are measured by the amount of electricity generated by us 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 the past few years, the price of bituminous coal underwent a wide fluctuation. For example, the price of bituminous coal increased substantially in the first half of 2008, after which it gradually decreased. However, it has increased again significantly from the second half of 2009. See Item 4B. Business Overview Fuel. In 2010, approximately 70.8% of the bituminous coal requirements of our generation subsidiaries were purchased under long-term contracts and 29.2% purchased on the spot market. The average free on board Newcastle coal price index was US$98.8 per ton in 2010 and increased to US$118.7 per ton as of June 3, 2011. If the bituminous coal price rises again to the level of 2008 or higher, our generation subsidiaries may not be able to secure their respective bituminous coal supplies at prices commercially acceptable to them. In addition, any significant interruption or delay in the supply of fuel, bituminous coal in particular, from any of their suppliers could cause our generation subsidiaries to purchase fuel on the spot market at prices higher than contracted, resulting in an increase in fuel cost. Furthermore, 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.

Nuclear power has a stable low-cost structure and forms a significant portion of electricity supplied in Korea. 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 20 to 30 days. In case of shortage in electricity generation resulting from stoppages of the nuclear power plants, we seek to make up for such shortage with power generated by our coal-fired power plants.

Because the Government heavily regulates the rates we charge for the electricity we sell (see Item 4B. Business Overview Sales and Customers Electricity Rates), our ability to pass on such cost increases to our customers is limited. For example, in 2008 we recorded the first operating loss in our operating history due to rapid rises in fuel costs that were neither timely nor sufficiently offset by a corresponding rise in electricity tariff rates. If the fuel prices remain at the current level or 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 sufficiently offset the impact of rising fuel prices, the price increases will significantly narrow our profit margins or even cause us to suffer net losses and our business, financial condition, results of operations and cash flows would seriously suffer.

Movements of the Won against the U.S. Dollar and Other Foreign Currencies

Korean Won has fluctuated significantly against major currencies in recent years. For fluctuations in exchange rates, see Item 3A. Selected Financial Data Currency Translations and Exchange Rates. In particular, Korean Won underwent substantial fluctuations during the recent global financial crisis, and has remained subject to significant volatility even in its aftermath. The Noon Buying Rate per one U.S. dollar decreased from Won 1,163.7 on December 31, 2009 to Won 1,130.6 on December 31, 2010, and was Won 1,078.7 on June 24, 2011. While Won has recently been appreciating against U.S. dollar and other foreign currencies, there were times in the past when it underwent steady depreciation, which resulted in a significant increase in the cost of fuel materials and equipment purchased from overseas as well as the cost of servicing our foreign currency debt. As of December 31, 2010, approximately 26.1% of our long-term debt (including the current portion and discounts on debentures but excluding premium on debentures) before accounting for swap transactions was denominated in foreign currencies, principally in U.S. dollar, Yen and Euro. The prices for substantially all of the fuel materials and a significant portion of the equipment we purchase are stated in currencies other than Won, generally in U.S. dollars. Since substantially all of our revenues are denominated in Won, we must generally obtain foreign currencies through foreign-currency denominated financings or from foreign currency exchange markets to make such purchases or service such debt, fulfill our obligations under existing overseas investments and make new overseas investments. As a result, any significant depreciation of Won against U.S. dollar or other foreign currencies will have a material adverse effect on our profitability and results of operations. See Item 3D. 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

In 2008, according to the revision of Clause 2, Article 1 of the Act on External Audit for Stock Companies, we renamed the balance sheet to statement of financial position with respect to corresponding financial statements issued for fiscal years beginning after January 1, 2009. In addition, balance sheet date changed to end of the reporting period.

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 accounting guidance for accounting for the effects of certain types of regulations, 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 this guidance, 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, 2010, the consolidated statements of financial position included regulatory liabilities of Won 430 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, 2010, we did not have any allowances or reserves related to regulatory assets.

Derivative Instruments

We record rights and obligations arising from derivative instruments as assets and liabilities, which are stated at fair value. The gains and losses that result from the change in the fair value of derivative instruments are reported in current earnings. However, for derivative instruments designated as hedging the exposure of variable cash flows, the effective portions of the gains or losses on the hedging instruments are recorded as accumulated other comprehensive income (loss) and credited or charged to operations at the time the hedged transactions affect earnings, and the ineffective portions of the gains or losses are credited or charged immediately to operations.

Significant management judgment is involved in determining the fair value of estimated derivative instruments. The estimates and assumptions used by our management to determine fair value can be impacted by many factors, such as the estimated discount factor derived from observable market data, and the estimated cash flow based on settlement period, interest convention, and other contract information of the derivative instruments.

As of December 31, 2009 and 2010, we recorded derivative instruments, net of assets and liabilities, in the amounts of Won 862 billion and Won 256 billion, respectively, under Korean GAAP, and Won 843 billion and 246 billion, respectively, under U.S. GAAP. The difference between Korean GAAP and U.S. GAAP amounts is due to credit value adjustment. Changes in the estimated discount factor or cash flow, or changes in the assumptions and judgments by management underlying these estimates, may cause material revisions to the estimated total gain or loss effect of derivative instruments, which could have a material effect on the recorded asset or liability.

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.

Significant management judgment is involved in determining the fair value of estimated decommissioning costs. The estimates and assumptions used by our management to determine fair value can be impacted by many factors, such as the estimated decommissioning costs based on engineering studies commissioned and approved by the Korean government, and changes in assumed dates of decommissioning, inflation rate, discount rate, decommissioning technology, regulation and the general economy.

As of December 31, 2009 and 2010, we recorded liability for decommissioning costs in the amounts of Won 5,695 billion and Won 5,976 billion, respectively. Changes in the estimated costs or timing of decommissioning, or changes in the assumptions and judgments by management underlying these estimates, may cause material revisions to the estimated total cost to decommission these facilities, which could have a material effect on the recorded liability. We used a discount rate of 4.36% and an inflation rate of 2.30% when calculating the decommissioning cost liability recorded as of December 31, 2009 and 2010. In addition, the following is a sensitivity analysis of the potential impact on decommissioning costs from a 0.10% increase or decrease in each of the inflation rate and the discount rate, assuming that all other aforementioned assumptions remain constant:

	Sensitivity to inflation rate		Sensitivity to discount rate	
	+0.10%	**-0.10%**	**+0.10%**	**-0.10%**
	(in billions of Won)			
Increase (decrease) of liability for decommissioning costs	(Won) 165	(Won) (160)	(Won) (126)	(Won) 129

See Note 22 and 38 of the notes to our consolidated financial statements for further related information.

Provision for Decontamination of Transformer

Under the Persistent Organic Pollutants Management Act which was enacted in 2007, we are required to remove the toxin polychlorinated biphenyls (PCBs) from our transformers insulating oil by 2015. We are also required to inspect the PCB levels in our transformers and dispose of any PCBs in excess of established safety standards.

As of December 31, 2009 and 2010, we recorded a liability of Won 231,470 million and Won 278,011 million, respectively, for inspection and disposal costs related to the decontamination of existing transformers.

The estimates and assumptions used by our management to determine fair value can be affected by many factors, such as the estimated costs of inspection and disposal, inflation rate, discount rate, regulations and the general economy.

Changes in the estimated costs or changes in the assumptions and judgments underlying these estimates may cause material revisions to the estimated total costs, which could have a material effect on our recorded liability. We used a discount rate of 6.49% and an inflation rate of 2.81% when calculating the provision for the decontamination of transformers recorded as of December 31, 2009 and 2010. In addition, the following is a sensitivity analysis of the potential impact on decontamination costs based on a 0.50% increase or decrease in each of the inflation rate and the discount rate, assuming that all other aforementioned assumptions remain constant:

	Sensitivity to inflation rate		Sensitivity to discount rate	
	+0.50%	**-0.50%**	**+0.50%**	**-0.50%**
	(in billions of Won)			
Increase (decrease) of liability for decommissioning costs	(Won) 4.0	(Won) (3.9)	(Won) (3.8)	(Won) 3.9

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, 2010. 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 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. If, based on the weight of available evidence, it is more likely than not that some or all of the portion of the deferred tax asset will not be realized, a valuation allowance is recognized.

We believe that the accounting estimate related to establishing tax valuation allowances is a critical accounting estimate because: (i) 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 (ii) 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, 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 and waste electric transformer, 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, 2010, totaled Won 78,900 billion representing more than 79.2% 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	4 ~ 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 cost of waste electric transformer	8
Capitalized asset retirement cost of loaded nuclear fuel	
Others	4 ~ 9

Generally, useful life 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: (i) if an indicator of impairment has occurred, (ii) how assets should be grouped, (iii) the forecast of undiscounted expected future cash flow over the asset s estimated useful life to determine if an impairment exists, and (iv) 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.

Accrual for Loss Contingencies for Legal Claims

We are involved in legal proceedings regarding matters arising in the ordinary course of business. Related to these matters, as of December 31, 2010, we were engaged in 442 lawsuits as a defendant and 112 lawsuits as a plaintiff. The total amount claimed against us was Won 127 billion and the total amount claimed by us was Won 145 billion as of December 31, 2010. As of December 31, 2010, we had an accrual for loss contingencies of Won 2.4 billion. We record liabilities for estimated loss contingencies when we assess that a loss is probable and the amount of the loss can be reasonably estimated. The determination for a loss contingency is based on management judgment and estimates with respect to the likely outcome of the matter, including the analysis of different scenarios. Liabilities are recorded or adjusted when events or circumstances cause these judgments or estimates to change. In assessing whether a loss is a reasonable possibility, we may consider the following factors: the nature of the litigation, claim or assessment, available information, opinions or views of legal counsel and other advisors, and the experience gained from similar cases. We provide disclosures for material contingencies when there is a reasonable possibility that a loss or an additional loss may be incurred.

As new developments occur or more information becomes available, our assumptions and estimates of these liabilities may change. Revisions to contingent liabilities are generally reflected in income when new or different facts or information become known or circumstances change that affect previous assumptions with respect to the likelihood or amount of loss. If changes in these or other assumptions or the anticipated outcomes we use to estimate contingencies cause a loss to become more likely, it could materially affect future results of operations for any particular quarterly or annual period.

Actual amounts realized upon settlement of contingencies may be different than amounts recorded and disclosed and could have a significant impact on the liabilities and expenses recorded on the consolidated financial statements.

Consolidated Results of Operations

2010 Compared to 2009

In 2010, our consolidated revenues from the sale of electric power, the principal component of our operating revenues, increased by 13.4% to Won 37,518 billion from Won 33,092 billion in 2009, reflecting primarily a 10.1% increase in the volume of electricity sold from 394,475 gigawatt hours in 2009 to 434,160 gigawatt hours in 2010 and a 3.5% increase in our overall average electricity tariff rates effective August 1, 2010. The overall increase in the volume of electricity sold was primarily attributable to a 12.3% increase in the volume of electricity sold to the industrial sector, which represents the largest segment of electricity consumption in Korea, from 207,216 gigawatt hours in 2009 to 232,672 gigawatt hours in 2010, and, to a lesser extent, an 8.7% increase in the volume of electricity sold to the commercial sector from 89,619 gigawatt hours in 2009 to 97,410 gigawatt hours in 2010, and a 5.5% increase in the volume of electricity sold to the residential sector, including overnight power usage, from 78,548 gigawatt hours in 2009 to 82,890 gigawatt hours in 2010. The increases in the volume of electricity sold to the industrial sector and the commercial sector were primarily due to the general increase in demand for electricity in these sectors in Korea as a result of the economic recovery, which involved an increased input of industrial output, greater capacity utilization in industrial plants, increased construction of commercial buildings and an increased use of air conditioning at commercial buildings. The increase in the volume of electricity sold to the residential sector was primarily due to an increased use of heaters, air conditioners and electrical appliances at home as well as an overall increase in consumer confidence from the general economic recovery. For a discussion of the increase in our electricity tariff rates, see Item 4B. Business Overview Sales and Customers Electricity Rates.

Our consolidated operating expenses increased by 17.2% to Won 37,846 billion in 2010 from Won 32,279 billion in 2009, primarily due to a 21.2% increase in fuel costs. Fuel costs increased from Won 15,348 billion in 2009 to Won 18,600 billion in 2010. The fuel costs accounted for 52.0% and 53.8% of the power generation, transmission, and distribution expenses in 2009 and 2010, respectively. Such increase in fuel costs was primarily due to a 55.6% increase in fuel cost for LNG, which was partially offset by a 0.6% decrease in fuel cost for coal. Fuel cost for LNG, which accounted for 41.8% of the total fuel cost in 2010, increased mainly due to a 5.17% increase in unit cost of LNG and a 48.0% increase in LNG consumption mainly due to increased energy consumption as a result of the general economic recovery and extreme weather conditions in 2010. Fuel cost for coal, which accounted for 42.3% of the total fuel cost in 2010, decreased by 0.6%, mainly due to a 7.4% decrease in unit cost for bituminous coal, which was partially offset by a 7.9% increase in the use of electricity mainly as a result of the general economic recovery. For further information on the increase in fuel costs, see Item 4B. Business Overview Fuel. Depreciation and amortization costs slightly increased by 0.4% from Won 5,423 billion in 2009 to Won 5,443 billion in 2010. Maintenance costs decreased by 19.9% from Won 1,623 billion in 2009 to Won 1,300 billion in 2010, primarily as a result of cost savings from technological, engineering and process innovations in facilities construction and operation. Purchased power, which accounted for 14.2% of the total operating expenses in 2010, increased by 46.8% to Won 5,382 billion in 2010 from Won 3,666 billion in 2009, primarily due to a 45.6% increase in the volume of power purchased from independent power producers (who generate electricity primarily through LNG-fired power plants), from 26,575 gigawatt hours in 2009 to 38,682 gigawatt hours in 2010, primarily to compensate for the shortfall in the supply of electricity due to the higher than anticipated rise in demand for electricity in 2010.

Our consolidated selling and administrative expenses increased by 7.4% to Won 1,659 billion in 2010 from Won 1,545 billion in 2009, primarily due to an increase in labor cost, which increased by 9.7% from Won 545 billion in 2009 to Won 598 billion in 2010, which was mainly due to a payout of performance incentives in 2010 based on comparative rankings among government-controlled entities, as well as an increase in fees and dues payable related to the increase in the sales of electricity. As a result of the foregoing, we recorded consolidated operating income of Won 1,580 billion in 2010 and Won 1,715 billion in 2009, respectively. Our consolidated operating profit margin decreased from 5.0% in 2009 to 4.0% in 2010, largely due to the 21.2% increase in fuel costs and the 46.8% increase in purchased power which more than offset the 13.4% increase in our revenue from the sale of electricity.

Our consolidated net non-operating loss decreased by 17.9% to Won 1,143 billion in 2010 from Won 1,392 billion in 2009, as a result of the reduction in volatility of Korean Won against U.S. dollar in 2010 compared to 2009, which resulted in a decrease in net valuation loss on financial derivatives.

As a result of the foregoing, we recorded consolidated income before income taxes of Won 437 billion in 2010 and Won 322 billion in 2009, respectively. We recorded consolidated income tax expenses of Won 457 billion in 2010 and Won 370 billion in 2009, respectively.

As a cumulative result of the above factors, our consolidated net loss decreased by 58.3% to Won 20 billion in 2010 from Won 48 billion in 2009, and our consolidated net loss margin remained unchanged at 0.1% in 2009 and 2010.

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2009 Compared to 2008

In 2009, our consolidated revenues from the sale of electric power, the principal component of our operating revenues, increased by 7.8% to Won 33,092 billion from Won 30,709 billion in 2008, reflecting primarily a 2.4% increase in the volume of electricity sold from 385,070 gigawatt hours in 2008 to 394,475 gigawatt hours in 2009 and a 3.9% increase in our overall average electricity tariff rates effective June 27, 2009. The overall increase in the volume of electricity sold was primarily attributable to a 1.8% increase in the volume of electricity sold to the industrial sector, which represents the largest segment of electricity consumption in Korea, from 203,475 gigawatt hours in 2008 to 207,216 gigawatt hours in 2009, and, to a lesser extent, a 3.2% increase in the volume of electricity sold to the commercial sector from 86,827 gigawatt hours in 2008 to 89,619 gigawatt hours in 2009, and a 1.7% increase in the volume of electricity sold to the residential sector, including overnight power usage, from 77,269 gigawatt hours in 2008 to 78,548 gigawatt hours in 2009. The increases in the volume of electricity sold to the industrial sector and the commercial sector were primarily due to the general increase in demand for electricity in these sectors in Korea as a result of the economic recovery in the second half of 2009. The increase in the volume of electricity sold to the residential sector was primarily due to an increased use of heaters, air conditioners and electrical appliances at home. For a discussion of the increase in our electricity tariff rates, see Item 4B. Business Overview Sales and Customers Electricity Rates.

Our consolidated operating expenses decreased by 6.1% to Won 32,279 billion in 2009 from Won 34,358 billion in 2008, primarily due to a 5.5% decrease in fuel costs. Fuel costs decreased from Won 16,139 billion in 2008 to Won 15,348 billion in 2009. The fuel costs accounted for 51.2% and 52.0% of the power generation, transmission, and distribution expenses in 2008 and 2009, respectively. Such decrease in fuel costs was primarily due to a 35.1% decrease in fuel cost for LNG, which was partially offset by a 26.4% increase in fuel cost for coal. Fuel cost for LNG, which accounted for 33.0% of the total fuel cost in 2009, decreased mainly due to a 22.0% decrease in unit cost of LNG and a 17.0% decrease in LNG consumption mainly due to a relative increase in the coal-fired generation capacity in 2009 in line with the planned capacity expansion plans. Fuel cost for coal, which accounted for 52.0% of the total fuel cost in 2009, increased by 26.4%, mainly due to a 16.4% and 8.6% increase in consumption and unit cost, respectively, for bituminous coal. For further information on the increase in fuel costs, see Item 4B. Business Overview Fuel. Depreciation and amortization costs increased by 2.0% from Won 5,315 billion in 2008 to Won 5,423 billion in 2009 mainly due to an increase in newly constructed facilities. Maintenance costs increased by 1.9% from Won 1,593 billion in 2008 to Won 1,623 billion in 2009, primarily as a result of the increased generation capacity. Purchased power, which accounted for 11.4% of the total operating expenses in 2009, decreased by 17.3% to Won 3,666 billion in 2009 from Won 4,434 billion in 2008, primarily due to a 2.0% decrease in the volume of power purchased from independent power producers (who generate electricity primarily through LNG-fired power plants), from 27,106 gigawatt hours in 2008 to 26,575 gigawatt hours in 2009, primarily due to our relatively greater ability to meet the electricity demand at peak hours with power generated by our generation subsidiaries using coal-fired generation facilities in light of the reduced peak demand following the downturn in Korean economy in the first half of 2009.

Our consolidated selling and administrative expenses decreased by 11.2% to Won 1,545 billion in 2009 from Won 1,740 billion in 2008, primarily due to a decrease in labor cost, which decreased by 16.3% from Won 651 billion in 2008 to Won 545 billion in 2009 primarily as a result of a decrease in bonus payouts, the amount of which is determined annually in accordance with the overall performance evaluation of us by the Government, as well as a decrease in general costs resulting from our cost reduction effort. As a result of the foregoing, we recorded consolidated operating income of Won 1,715 billion in 2009 compared to consolidated operating loss of Won 2,798 billion in 2008. We recorded a consolidated operating profit margin of 5.0% in 2009 compared to a consolidated operating loss margin of 8.9% in 2008, largely due to the 5.5% decrease in fuel costs and the 7.8% increase in our revenue from the sale of electricity.

Our consolidated net non-operating loss increased by 33.1% to Won 1,392 billion in 2009 from Won 1,046 billion in 2008, principally due to a net valuation loss on financial derivatives and a loss on foreign currency transaction resulting from fluctuations in foreign currency exchange rates as well as an increase in interest expenses resulting from an increase in debt related to capital expenditures and fuel purchases.

As a result of the foregoing, we recorded consolidated income before income taxes of Won 322 billion in 2009 compared to consolidated loss before income taxes of Won 3,844 billion in 2008. We recorded consolidated income tax expenses of Won 370 billion in 2009 compared to consolidated income tax benefit of Won 930 billion in 2008, largely due to the reasons set forth below. Equity income from a subsidiary is eliminated as part of our intercompany elimination process. However, the related tax effect of equity income is not eliminated because under Korean tax laws, equity income or losses are taxable or deductible only upon the sale of the subsidiary. We recorded income tax benefit of Won 930 billion and loss before income tax benefit of Won 3,844 billion in 2008 and income tax expense of Won 370 billion and income before income tax expense of Won 322 billion in 2009, which resulted in a significant increase in our consolidated effective tax rate from 24.2% in 2008 to 114.8% in 2009. In addition, we recorded the tax effects of equity income of consolidated subsidiaries of Won (40) billion and Won 328 billion in 2008 and 2009, respectively. The increase in the effective tax rate was mainly due to the increase in tax effects of our subsidiaries equity income which were not eliminated. The increase of such tax effects was mainly due to an increase in our generation subsidiaries net income from 2008 to 2009. However, on a consolidated basis, we recognized an overall loss and significantly low income during 2008 and 2009, respectively, due to the loss of the parent company (KEPCO) during these periods. However, as discussed above, the related tax effects were not eliminated resulting in a significantly increased effective tax rate. Accordingly, we recorded significantly higher overall income tax expenses and therefore a higher effective tax rate on a consolidated basis than on a non-consolidated basis due to the tax effect of equity income during periods where our subsidiaries record net income on a non-consolidated basis. See Note 28 of the notes to our consolidated financial statements included in this report.

As a cumulative result of the above factors, we recorded consolidated net loss of Won 48 billion in 2009 compared to consolidated net loss of Won 2,914 billion in 2008, and we recorded consolidated net loss margin of 0.1% in 2009 compared to consolidated net loss margin of 9.2% in 2008.

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.

Segment Results

We operate the following business segments: transmission and distribution, power generation and all other. The transmission and distribution segment, which is operated by KEPCO, the parent company, consists of operations related to the transmission, distribution and sale to end-users of electricity purchased from our generation subsidiaries as well as from independent power producers. The power generation segment, which is operated by KEPCO s six generation subsidiaries, consists of operations related to the generation of electricity sold to KEPCO through the Korea Power Exchange. The transmission and distribution segment and the power generation segment together represent our electricity business. The remainder of our operation is categorized as all other. The all other segment consists primarily of operations related to the engineering and maintenance of generation plants, information services, sales of nuclear fuel, communication line leasing, overseas businesses and others. In 2009 and 2010, the unaffiliated revenues of the power generation segment (representing the six generation subsidiaries) and all our other revenues in the aggregate amounted to only 2.4% and 4.8% of our consolidated revenues, respectively, and the results of operations for our business segments substantially mirror our consolidated results of operations.

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Item 5B. 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 4B. Business Overview Restructuring of the Electric Power Industry in Korea and Item 3D. Risk Factors Risks Relating to KEPCO The Government may adopt policy measures to substantially restructure the Korean electric power industry or our operational structure, which may have a material adverse effect on our business, operations and profitability.

Capital Requirements

We anticipate that the following represent the major sources of our capital requirements in the short-term to intermediate future:

- capital expenditures pursuant to our capital investment program;
- working capital requirements, the largest component of which is fuel purchases;
- payment of principal and interest on our existing debt;
- relocation expenses related to Government policy in 2005; and
- overseas investments.

In addition, if there were to occur unanticipated material changes to the Restructuring Plan, the Basic Plan or other major policy initiatives of the Government relating to the electric power industry, or natural disasters, such as the earthquake and tsunami that struck Japan and caused a meltdown in several nuclear reactors, such developments may require a significant amount of additional capital requirements.

Capital Expenditures

We anticipate that capital expenditures will be the most significant use of our funds for the next several years. Our capital expenditures relate primarily to the construction of new generation units, maintenance of existing generation units and a significant expansion of our transmission and distribution systems. Our capital expenditures generally follow budgets established under the fifth Basic Plan, which contains projections relating to the supply and demand of electricity of Korea based on which we plan the construction of additional generation units and transmission systems. See Item 4B. Business Overview Capital Investment Program for a further description of our capital investment program.

Our total capital expenditures were Won 8.9 trillion, Won 11.2 trillion and Won 10.8 trillion in 2008, 2009 and 2010, respectively, and, under our current budgets, are estimated to be approximately Won 12.8 trillion, Won 17.2 trillion and Won 17.9 trillion in 2011, 2012 and 2013, respectively. We plan to finance our capital expenditures primarily through borrowings from financial institutions, issuance of securities in the capital markets and construction grants.

In addition, in order to deal with shortage of fuel and other resources and also to comply with various environmental standards, in April 2010 the Government announced a plan to adopt the Renewable Portfolio Standard (RPS) policy, under which each of our generation subsidiaries will be required to supply 2.0% and 10.0% of the total electricity generated from it in the form of renewable energy by 2012 and 2022, respectively, with fines being levied on any unit failing to do so in the prescribed timeline. We currently estimate that, if the Renewable Portfolio Standard is implemented as currently planned, our generation subsidiaries will incur approximately Won 45 trillion in additional capital expenditure over the next 10 years. We expect that such additional capital expenditure will be covered by a corresponding increase in electricity tariff. However, there is no assurance that the Government will in fact raise the electricity tariff at a level sufficient to fully cover such additional capital expenditures or at all. See Item 4B. Business Overview Renewable Energy for a further description of the Renewable Portfolio Standard and our related past capital expenditures.

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Fuel Purchases

We require significant funds to finance our operations, principally in relation to the purchase of fuels by our generation subsidiaries for generation of electricity. In 2008, 2009 and 2010, fuel costs accounted for 49.8%, 45.2% and 47.2% of our operating revenues and 45.8%, 47.5% and 49.1% of our operating expenses, respectively. We plan to fund our fuel purchases primarily with net operating cash, although in cases of rapid increases in fuel prices as was the case in 2008, we may also rely on borrowings and issuance of debt securities in the capital markets.

Repayment of Existing Debt

Payments of principal and interest on indebtedness will require considerable resources. The table below sets forth the scheduled maturities of our outstanding debt as of December 31, 2010 for each year from 2011 to 2015 and thereafter:

Year ended December 31[1]	Local currency borrowings	Foreign currency borrowings	Domestic Debentures	Foreign debentures	Exchangeable bonds	Total
			(in millions of Won)			
2011	1,311,209	42,681	3,780,000	1,105,287	76,490	6,315,667
2012	686,285	89,148	4,180,000	710,172		5,665,605
2013	962,695	308,991	3,980,000	1,595,301		6,846,987
2014	42,500	234,864	3,890,000	1,879,814		6,047,178
2015	23,411	39,462	3,940,000	1,651,783		5,654,656
Thereafter	122,746	554,123	6,270,010	2,003,544		8,950,423
Total	3,148,846	1,269,269	26,040,010	8,945,901	76,490	39,480,516

Note:

(1) As of December 31, 2010, we had borrowings under conditional agreements of Won 18 billion, of which Won 8 billion was denominated in Won and Won 10 billion in foreign currencies, with maturity dates between 2021 and 2026. Such loans are not included in the above table. Under the terms of the conditional loans, we are not obligated to repay the principal and interest on such loans if the underlying projects fail.

We have incurred interest charges (including capitalized interest) of Won 1,311 billion, Won 1,878 billion and Won 2,119 billion in 2008, 2009 and 2010, respectively. 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 5.47%, 5.52% and 5.12% in 2008, 2009 and 2010, respectively.

We plan to repay the principal and interest on our existing debt primarily through borrowings from financial institutions, issuance of securities in the capital markets and net operating cash.

Relocation Expenses

In June 2005, the 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 Jeolla Province, which is approximately 300 kilometers south of Seoul, by the end of 2012, subject to market conditions and other policy considerations. In addition, the headquarters of certain of our subsidiaries are scheduled to be relocated to various other cities in Korea. Under the current relocation plan as approved by the Government in 2007 and in accordance with the relevant statute and related guidelines, the total relocation cost for us and our generation subsidiaries is estimated to be Won 1,425 billion, which will be paid out over the construction period. Under a special act enacted for this purpose, we are required to sell the property in our current headquarters within one year after the relocation.

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We plan to finance our relocation costs primarily through borrowings from financial institutions and issuance of securities in the capital markets, as well as net operating cash.

Overseas Investments

As part of our revenue diversification and fuel procurement strategy, we plan to continue to make overseas investments on a selective basis, which will be funded primarily through foreign currency-denominated borrowings and securities issuances as well as net operating cash from such projects.

Capital Resources

We have traditionally met our working capital and other capital requirements primarily from net cash provided by operating activities, issuance of debt securities, borrowings from financial institutions and construction grants. Net cash provided by operating activities was Won 1,961 billion, Won 5,738 billion and Won 5,638 billion in 2008, 2009 and 2010, respectively. Total long-term debt as of December 31, 2010 (including the current portion and discounts on debentures and excluding premium on debentures) was Won 39,499 billion, of which Won 29,199 billion was denominated in Won and an equivalent of Won 10,300 billion was denominated in foreign currencies, primarily U.S. dollars. Construction grants received were Won 1,142 billion, Won 1,197 billion and Won 1,293 billion in 2008, 2009 and 2010, respectively. In addition, in anticipation of potential liquidity shortage, we maintain several credit facilities with domestic financial institutions amounting to Won 3,155 billion and US$130 million, the full amount of which was available as of December 31, 2010. In addition, we and KHNP also maintain Won-denominated and U.S. dollar-denominated global medium-term note programs in the aggregate amount of US$5 billion, of which approximately US$2 billion remains currently available for future drawdown.

As of December 31, 2009 and 2010, our long-term debt, excluding the current portion thereof, as a percentage of shareholders equity was 67.3% and 79.8%, respectively. As of December 31, 2009 and 2010, the current portion of our long-term debt was Won 5,779 billion and Won 6,312 billion, respectively. As of December 31, 2009 and 2010, our short-term borrowings amounted to Won 684 billion and Won 457 billion, respectively. 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 increased from Won 8,532 billion as of December 31, 2009 to Won 10,300 billion as of December 31, 2010.

Our ability to incur long-term debt in the future is subject to a variety of factors, many of which are beyond our control, including, 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 incur our short-term borrowings primarily through commercial papers sold to domestic financial institutions. We have not had, and we do not expect to have, any material difficulties in obtaining short-term borrowings.

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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 Finance Corporation Act, through Korea Finance Corporation, 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 3D. Risk Factors Risks Relating to Korea and the Global Economy.

Our total stockholders equity increased from Won 41,404 billion as of December 31, 2009 to Won 41,489 billion as of December 31, 2010.

Liquidity

Our liquidity is substantially affected by our construction expenditures and fuel purchases. Construction in progress increased from Won 14,909 billion as of December 31, 2009 to Won 19,744 billion as of December 31, 2010. Fuel costs represented 44.9% and 48.3% of revenues from sale of electric power in 2009 and 2010, respectively.

Due to the capital-intensive nature of our business as well as significant volatility in fuel prices, from time to time we operate with a working capital deficit, and we may have substantial working capital deficit in the future. In order to meet capital requirements related to working capital deficit, 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. See Capital Resources. As of December 31, 2009 and 2010, we had a working capital surplus of Won 281 billion and Won 802 billion, respectively.

We may face liquidity concerns in the case of significant depreciation of Korean Won against major foreign currencies over a short period of time. While substantially all of our revenues are denominated in Won, we pay for substantially all of our fuel purchases in foreign currencies and a substantial portion of our long-term debt is denominated in foreign currencies, and payment of principal and interest thereon is made in foreign currencies. In the past, we have incurred foreign currency debt principally due to the limited availability and the high cost of Won-denominated financing in Korea. However, in light of the increasing sophistication of the Korean capital markets and the recent increase in liquidity in the Korean financial markets, we plan to reduce the portion of our debt which is denominated in foreign currencies although we intend to continue to raise certain amounts of capital through long-term foreign currency debt for purposes of maintaining diversity in our funding sources as well as paying for overseas investments in foreign currencies. As of December 31, 2010, 26.1% of our long-term debt (including the current portion and discounts on debentures but excluding premium on debentures) before accounting for swap transactions (or 7.5% after accounting for swap transactions), was denominated in currencies other than Won.

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 25 of the notes to our consolidated financial statements.

We did not pay any dividends in 2009 and 2010, and we currently have no plans to pay dividends in 2011 as we recorded net losses in 2010.

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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:

	2008	2009	2010	2010
	(In millions of Won and thousands of US$)			
NET INCOME (LOSS) UNDER KOREAN GAAP	(Won) (2,914,039)	(Won) (47,732)	(Won) (19,855)	$ (17,561)
ADJUSTMENTS:				
OPERATING INCOME				
Asset revaluation	341,605	286,749	324,781	287,264
Special depreciation	(2,776)			
Regulated operation	157,423	167,557	(23,768)	(21,022)
Capitalized foreign currency translation	134,714	123,738	107,463	95,050
Reversal of eliminated profit on transactions with subsidiaries and affiliates	(7,631)	(8,464)	14,130	12,498
Liabilities for decommissioning costs and capitalized asset retirement costs	(844,988)	54,192	51,598	45,638
Reserve for self-insurance	5,995	6,148	1,682	1,488
Revenue recognition	73,784	187,372	86,341	76,367
Intangible assets	(4,965)	15,135	(3,857)	(3,411)
Classification differences in the consolidated statements of income(1)	(25,807)	(3,113)	(8,963)	(7,928)
OTHER INCOME (EXPENSES)				
Asset revaluation equity investments	12,339	12,257	12,764	11,290
Capitalized foreign currency translation	(863)	(6,284)	12,860	11,375
Convertible bonds	(520,731)	659,405	25,973	22,973
Gain on disposal of subsidiaries				
Equity income of affiliates(2)	(110,871)	(52,516)	(84,401)	(56,151)
Scope of equity method (Note 38(s))		17,788	(20,102)	(17,780)
Credit valuation adjustment	(15,698)	13,719	5,086	4,498
Classification differences in the consolidated statements of income(1)	25,807	3,113	8,963	7,928
INCOME TAX EXPENSES				
Deferred income taxes	(198,222)	(336,739)	(134,255)	(118,747)
Change in enacted tax rates	6,366			
FIN48 Liabilities	(178)	6,449	2,171	1,920
Tax effect of gain on disposal of subsidiaries				
Tax effect of equity income of affiliates(2)	17,492	2,624	11,112	9,828
EQUITY INCOME OF AFFILIATES, NET OF TAX(2)	93,379	49,892	52,372	46,322
NET INCOME (LOSS) UNDER U.S. GAAP	(Won) (3,777,865)	(Won) 1,151,290	(Won) 443,012	$ 391,839
CONTROLLING INTEREST UNDER U.S. GAAP	(Won) (3,819,165)	(Won) 1,102,306	(Won) 390,711	$ 345,579
NONCONTROLLING INTEREST UNDER U.S. GAAP	(Won) 41,300	(Won) 48,984	(Won) 52,301	$ 46,260

Notes:

(1)

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.

(2) Under Korea GAAP, equity income of affiliates is presented as other income, while it is shown after income tax expense under U.S. GAAP.

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Adjustments to Stockholders Equity:

	Korean Won 2009	Korean Won 2010	Translation into U.S. Dollars 2010
	(In millions of Won and thousands of US$)		
SHAREHOLDERS EQUITY UNDER KOREAN GAAP	(Won) 41,403,807	(Won) 41,488,601	$ 36,696,091
ADJUSTMENTS:			
Current Asset			
Account Receivables Revenue recognition	1,256,543	1,342,884	1,187,762
UTILITY PLANT			
Asset revaluation	(6,138,447)	(5,813,666)	(5,142,107)
Capitalized asset retirement costs	(825,000)	(783,342)	(692,855)
Construction in progress			
Capitalized foreign currency translation	(929,493)	(809,170)	(715,700)
Reversal of eliminated profit on transactions with subsidiaries and affiliates	99,454	113,584	100,463
INTANGIBLE ASSETS			
Future radioactive wastes repository sites usage rights			
Research and development cost	(33,843)	(37,700)	(33,345)
Scope of consolidation		464,586	410,920
INVESTMENT SECURITIES			
Asset revaluation	(24,189)	(11,425)	(10,105)
Available-for-sale securities	10,873	56,649	50,105
Scope of equity method	20,575	72,472	64,100
Scope of consolidation		(464,586)	(410,920)
FINANCIAL DERIVATIVES			
Credit valuation adjustments	(20,387)	(14,475)	(12,803)
DEFERRED INCOME TAXES	1,007,101	842,018	744,753
LIABILITIES			
Liabilities for decommissioning costs	1,410,014	1,419,954	1,255,929
Regulated operation	(406,360)	(430,128)	(380,442)
Reserve for self-insurance	121,416	123,098	108,878
Convertible bonds	(27,856)	(1,883)	(1,665)
FIN48 Liabilities	(8,200)	(2,013)	(1,780)
Credit valuation adjustments	588	5,299	4,687
SHAREHOLDERS EQUITY UNDER U.S. GAAP	(Won) 36,916,566	(Won) 37,560,757	$ 33,221,966
CONTROLLING INTEREST UNDER U.S. GAAP	(Won) 36,539,993	(Won) 37,090,019	$ 32,805,605
NONCONTROLLING INTEREST UNDER U.S. GAAP	(Won) 376,573	(Won) 470,738	$ 416,361

Note 38 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 bill customers on a monthly basis. We do not accrue revenue for power sold to customers between the meter-reading date and end of the reporting period but record the revenue in the subsequent period. Under Korean GAAP, such practice is consistent with the Accounting Regulations for Public Enterprise Associated Government Agency, which have been approved by the Korean Ministry of Strategy and

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Finance (formerly the Korean Ministry of Finance and Economy) and considered by the utility industry in Korea as Korean GAAP. However under U.S. GAAP, we recognize unbilled revenue related to the sale of power between the meter-reading dates, at the end of each reporting period.

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. If an asset revaluation occurs, the revaluation becomes the new established basis for the property, plant and equipment.

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 considered in the 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, a special depreciation has been allowed prior to 1994, which represents an accelerated depreciation of certain facilities and equipment acquired for energy saving and anti-pollution purposes. However, such special depreciation is not in accordance with 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. In 2008, the related facilities and equipment became fully depreciated under U.S. GAAP and as such no reconcilable GAAP difference exists.

Accounting for Regulation

Under U.S. GAAP accounting guidance for accounting for the effects of certain types of regulation, 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, while under Korean GAAP no such guidance exists.

The Government approves the rates that we charge to our customers. Our utility rates are designed to recover our reasonable costs plus a fair investment return. However, on April 2, 2001, six power generation subsidiaries were established in accordance with the Restructuring Plan. Since the power generation subsidiaries rates are determined by a competitive system in the market, they no longer meet the criteria for application of the guidance. Accordingly, since 2001, only our power transmission and distribution divisions have been subject to the criteria for the application of the guidance.

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, 2009 and 2010.

	2009	2010	2010
	(In millions of Won and thousands of US$)		
Capitalized foreign currency translation	(Won) 559,357	(Won) 495,465	$ 438,232
Reserve for self-insurance	(121,416)	(123,098)	(108,878)
Deferred income taxes	(844,301)	(802,495)	(709,796)
Total	(Won) (406,360)	(Won) (430,128)	$ (380,442)

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The regulated assets resulting from capitalized foreign currency translation are anticipated to be recovered over the weighted-average 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 KEPCO and its affiliated companies is eliminated in the preparation of the consolidated financial statements. Under 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 no elimination of profit is necessary for reporting under purposes.

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 and 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, plants and equipment under Korean GAAP were reversed and recognized in current period earnings 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. Accordingly, 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 end of the reporting period, and the resulting foreign currency transaction gain or loss is recognized in the period s earnings.

Intangible Assets

Under Korean GAAP, all costs incurred during the research phase are expensed as incurred. Costs incurred during the development phase are recognized as 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, except for internal and external costs incurred to develop internal-use computer software during the application development stage, which should be capitalized.

Until 2008, under Korean GAAP, we recognized our payment to the City of Gyeongju, in the amount of Won 300,000 million, which was used for negotiations (based on government regulation) to establish a radioactive waste facility in the City, as an intangible asset. However, under U.S. GAAP, we recognized such amount as construction-in-progress for utility plants.

In 2009, due to the transfer of roles related to the disposal of radioactive waste to KRMC, we transferred our intangibles asset under Korean GAAP and our construction-in-progress under U.S. GAAP to KRMC. We reclassified such amounts from respective accounts to other receivables, resulting in no GAAP difference.

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Deferred Income Taxes

Under Korean GAAP, the effect of changes in tax law related to items recorded directly in shareholders equity is reflected directly in the shareholders equity, while under U.S. GAAP, the effect is reflected in continuing operations in the period of new tax law enactment.

Accounting for Uncertainty in Income Taxes

In July 2006, under U.S. GAAP new accounting guidance for uncertainty in income taxes, which sets out a consistent framework to be used to determine the appropriate level of tax reserve for uncertain tax positions was issued. This guidance uses a 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 has greater than 50.0% likelihood of being realized. The difference between the benefit recognized for a position in accordance with this guidance and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit, while under Korean GAAP no such guidance exists.

The beginning balance of unrecognized tax benefits reconciles to the balance as of December 31, 2009 and 2010 as follows:

	Korean Won		Translation into U.S. Dollars
	2009	2010	2010
	(In millions of Won and thousands of US$)		
Total unrecognized tax benefits at January 1	(Won) 12,695	(Won) 5,987	$ 5,295
Amount of increase for current year s tax position	71		
Gross amount of increases for prior years tax position	53	35	31
Gross amount of decreases for prior years tax position	(6,832)	(4,609)	(4,077)
Total unrecognized tax benefits at December 31	(Won) 5,987	(Won) 1,413	$ 1,249

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 December 31, 2009 and 2010, the unrecognized tax benefits included above which would, if recognized, affect the effective tax rate were Won 1,312 million and Won 755 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 the accounting guidance for uncertainty in income taxes, we have total gross accrual for interest expense and penalties of Won 2,213 million and Won 600 million as of December 31, 2009 and 2010, respectively.

Our major tax jurisdiction is the Republic of Korea, and during the years ended December 31, 2007 and 2008, tax audits by National Tax Service for six entities, including our corporate entity, were carried out. The unrecognized tax benefits of the entities as of December 31, 2009 and 2010 reflect the results of tax audits.

Liabilities for Decommissioning Costs

Under Korean GAAP, since 2004, we have adopted SKAS No. 17 which requires us to recognize our liability for decommissioning costs at estimated fair value. We should estimate the fair value using a discounted cash flow, for our asset retirement obligations for dismantling and disposal of the nuclear power plants, spent fuel and low & intermediate radioactive waste, along with recording a corresponding utility asset in the same amount. Expense is recorded for the period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows, as the balance is accreted to the ultimate amount payable.

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Under Korean GAAP, the discount rate of 4.36% was set upon adoption in 2004 for all liabilities prior to that date and such rate is used for those liabilities for all future periods. Liabilities incurred for facilities built subsequent to the adoption of this guidance are discounted at the then applicable discount rate under Korean GAAP. Upward and downward revisions to the undiscounted estimated cash flows are discounted at the initial rate used for that facility.

Under U.S. GAAP, we adopted the guidance related to asset retirement in 2003, which requires us to recognize an estimated liability for legal obligations associated with the retirement of tangible long-lived assets. The fair value of the liabilities for decommissioning costs is determined using a present value approach and expense is recorded in each period for the accretion due to the passage of time to the amount ultimately payable. A corresponding amount is recorded as part of the book value of the related long-lived assets and depreciated over the useful lives of the assets.

Under U.S. GAAP, the discount rate for existing decommissioning liabilities prior to 2003 was set at adoption, at 6.49%. Liabilities incurred for facilities built subsequent to the adoption of this guidance, should be discounted at the then applicable discount rate under U.S. GAAP also. In addition, 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 is reduced from the recorded discounted liability at the rate that was used at the time the obligation was originally recorded.

As a result, substantially all of the difference between the Korean GAAP liability and the U.S. GAAP liability is due to the different guidance adoption dates and the resulting different discount rates which impact the liabilities assessed prior to the respective adoption dates, as discussed above. Also, subsequent to 2004, we use the same discount rates under both GAAPs for liabilities related to new facilities, so no further GAAP differences will be created unless there are upward revisions in the amount payable.

In 2008, effective as of January 1, 2009, the Radioactive Waste Management Act (RWMA) was enacted by the Government, in an effort to centralize the disposal of spent fuel and low and intermediate radioactive waste and related management processes. The RWMA designated the Korea Radioactive Waste Management Corporation (KRMC) as the entity in charge of performing the disposal of spent fuel and low and intermediate radioactive waste. As a result, our related asset retirement obligation liabilities transferred to KRMC on the date the RWMA was enacted.

As a result of the RWMA, the GAAP differences related to the asset retirement obligation liabilities for disposal of spent fuel and low and intermediate radioactive waste (for such liabilities related to periods prior to respective guidances adoptions) were eliminated, as we no longer need to discount such liabilities at a different discount rate.

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:

	Korean Won		Translation into U.S. Dollars
	2009	2010	2010
	(In millions of Won and thousands of US$)		
Decrease in capitalized asset retirement costs, net of accumulated depreciation	(Won) (825,000)	(Won) (783,342)	$ (692,855)
Decrease in liabilities for decommissioning costs	1,410,014	1,419,954	1,255,929
Increase in shareholders equity	(Won) 585,014	(Won) 636,612	$ 563,074

Details of our asset retirement costs as of December 31, 2009 and 2010 under U.S. GAAP are as follows:

	Korean Won		Translation into U.S. Dollars
	2009	2010	2010
	(In millions of Won and thousands of US$)		
Capitalized asset retirement costs	(Won) 1,198,381	(Won) 1,239,066	$ 1,095,937
Less accumulated depreciation	(493,862)	(498,419)	(440,845)
	(Won) 704,519	(Won) 740,647	$ 655,092

Changes in liabilities for decommissioning costs for the years ended December 31, 2009 and 2010 under U.S. GAAP are as follows:

	Korean Won		Translation into U.S. Dollars
	2009	2010	2010
	(In millions of Won and thousands of US$)		
Balance at beginning of year	(Won) 4,073,284	(Won) 4,285,210	$ 3,790,209
Liabilities incurred	255,360	321,812	284,638
Accretion expense for the year	210,853	224,586	198,643
Payments	(254,287)	(275,236)	(243,442)
Balance at end of year	(Won) 4,285,210	(Won) 4,556,372	$ 4,030,048

Convertible Bonds

Under Korean GAAP, the value of conversion rights is recognized as capital surplus. In addition, convertible bonds are subject to foreign currency translation only when it is almost certain that a conversion right will not be exercised, as convertible bonds are generally regarded as non-monetary foreign currency liabilities.

Under U.S. GAAP, unless a conversion right is considered an embedded derivative instrument requiring bifurcation, no portion of the proceeds from the issuance of the convertible debt securities should be attributed to the conversion feature. We have determined that the conversion feature embedded in our convertible debt should not be bifurcated. In addition, the convertible bonds are subject to foreign currency translation as these convertible bonds are regarded as monetary foreign currency liabilities under U.S GAAP.

Principles of Consolidation

Under Korean GAAP, an entity is consolidated if we or our controlled subsidiaries own more than 30% of the total outstanding voting stock and are the largest stockholder of such entity. Generally under U.S. GAAP, an entity in which we own 20% to 50% percent of the total outstanding voting stock still may not be consolidated if we do not have control over such entity, and such entity should be accounted for under the equity method of accounting. For investments in entities in which we own 30% to 50%, the consolidated financial statements did not reflect an adjustment in the U.S. GAAP reconciliation as the impact is considered immaterial.

Under Korean GAAP, majority-owned subsidiaries with total assets below Won 10 billion at prior year end are not consolidated. Under U.S. GAAP, we are required to consolidate all majority-owned subsidiaries regardless of total asset size if we have control over such subsidiaries. Due to such differences, for U.S. GAAP purposes, KEPCO Bylong Australia Pty., Ltd., is consolidated for the year ended December 31, 2010, while under Korean GAAP the entity is considered as investment security. Except for KEPCO Bylong Australia Pty., Ltd., we did not consolidate majority-owned subsidiaries with total assets below Won 10 billion at prior year end as we believe the impact of such difference to be immaterial.

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Reserve for Self-insurance

Under Korean GAAP, in accordance with Accounting Regulations for Public Enterprise-Associate Government Agency, 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 on Valuation of Non-marketable Securities

Under Korean GAAP, non-marketable securities should be classified as available-for-sale and carried at cost or fair value if applicable, with unrealized holding gains and losses reported as other comprehensive income until realized.

Under U.S. GAAP, investments in non-marketable equity securities without significant influence that do not have a readily determinable fair value are stated at cost using the cost method.

Fair Value Hierarchy

We measure our investments in accordance with the following accounting guidance on fair value measurements:

(i) Defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value;

(ii) Establishes a three-level hierarchy for fair value measurements based upon the observable inputs to the valuation of an asset or liability at the measurement date;

(iii) Requires consideration of nonperformance risk when valuing liabilities; and

(iv) Expands disclosures about instruments measured at fair value.

We classify fair value balances based on the fair value hierarchy defined by the accounting guidance for fair value measurements. The classification of valuation hierarchy for fair value measurements is based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1	Quoted prices for identical instruments in active markets;
Level 2	Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose significant inputs are observable; and
Level 3	Instruments whose significant inputs are unobservable.

Effective January 1, 2010, we adopted the new fair value disclosure accounting guidance which requires a number of additional disclosures, including amounts and reasons for significant transfers between the three levels of the fair value hierarchy as well as the presentation of certain information in the reconciliation of recurring Level 3 measurements on a gross basis. As we do not have any instruments classified as a Level 3 instrument, the initial adoption of this accounting guidance resulted in additional disclosure in the notes to the consolidated

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financial statements but does not have an impact on our consolidated results of operations, cash flows or financial position. The adoption of the remaining portions of this accounting guidance will result in additional disclosure in the notes to the consolidated financial statements but is not expected to have an impact on our consolidated results of operations, cash flows or financial position. However, as discussed below in Transition to IFRS in 2011, we began financial reporting in accordance with IFRS as issued by the IASB in 2011.

Following is a description of the valuation methodologies we use for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities

We classify available-for-sale equity securities with marketability within Level 1 of the valuation hierarchy if quoted prices are available in an active market. We generally classify our securities within Level 2 of the valuation hierarchy if quoted prices for identical instruments in active markets are not available. We determine the fair values of our securities using pricing models, quoted prices of securities with similar characteristics or discounted cash flow models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures.

Derivatives

Derivatives consist of cross currency swaps and interest rate swaps are valued using internal models that use readily observable market inputs, such as foreign currency exchange rates and swap rates. We classify derivatives within Level 2 of the valuation hierarchy.

Under Korean GAAP, fair value of derivatives is determined assuming the same nonperformance risk for the entity and the counterparty. However, U.S. GAAP requires consideration of both the entity s nonperformance risk and counterparty nonperformance risk in determining the fair value of a derivative instrument. Due to such differences, for U.S. GAAP purpose, net loss decreased by Won 13,719 million and Won 5,086 million, and other comprehensive income increased by Won 50,856 million and Won 5,567 million, compared to those under Korean GAAP for year ended December 31, 2009 and 2010, respectively.

The following table presents assets and liabilities measured and recorded at fair value on a recurring basis as of December 31, 2010:

	Korean Won (in millions)					
	2009			2010		
	Level 1	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
Assets:						
Investment securities	(Won) 123,123	(Won) 9,980	(Won) 133,103	(Won) 864,051	(Won)	(Won) 864,051
Financial derivatives		880,096	890,076		461,429	461,429
Total Assets	(Won) 123,123	(Won) 880,096	(Won) 1,013,199	(Won) 864,051	(Won) 461,429	(Won) 1,325,480
Liabilities:						
Financial derivatives	(Won)	(Won) 36,996	(Won) 36,996	(Won)	(Won) 214,913	(Won) 214,913
Total Liabilities	(Won)	(Won) 36,996	(Won) 36,996	(Won)	(Won) 214,913	(Won) 214,913

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Fair Value of Financial Instruments

The following methods and assumptions have been 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.

Investments: The fair value of investments with marketability is estimated based on quoted market prices for those or similar investments. For other investments for which there are no quoted market prices, it is not practicable to estimate the fair value of investments in unlisted companies.

Long-term debt: The fair value of long-term debt is estimated based on the quoted market prices for the same or similar issues, or on the current rates offered for debt of the same remaining maturities.

The carrying amounts and estimated fair values of our consolidated financial instruments as of December 31, 2009 and 2010 are summarized as follows:

	2009		2010	
	Carrying Amount	Fair value	Carrying Amount	Fair value
	(In millions of Won and thousands of US$)			
Cash and cash equivalents	(Won) 1,489,390	(Won) 1,489,390	(Won) 2,097,285	(Won) 2,097,285
Short-term financial instruments	356,115	356,115	571,310	571,310
Trade receivables and account receivables-other	4,531,443	4,531,443	5,026,846	5,026,846
Investments:				
Practicable to estimate fair value	133,103	133,103	864,051	864,051
Not practicable	155,734	N/A	767,439	N/A
Short-term borrowings	(684,480)	(684,480)	(457,426)	(457,296)
Trade payables and accounts payable-other	(2,763,509)	(2,763,509)	(3,047,273)	(3,047,273)
Long-term other account payable	(3,576,369)	(3,576,369)	(3,894,914)	(3,894,914)
Long-term debt, including current portion	(33,634,756)	(33,221,281)	(39,419,407)	(40,155,473)

Supplementary U.S. GAAP Disclosures

Our supplementary information for the statement of cash flows is as follows:

	2008	2009	2010	
		(In millions of Won and thousands of US$)		
Interest paid, net of capitalized portion	(Won) 928,119	(Won) 1,378,799	(Won) 1,410,966	$ 1,247,980
Income taxes paid	699,070	428,371	174,939	154,731

Scope of Equity Method

Under Korean GAAP, a company should account for its investment under the equity method of accounting, if it has significant influence. A company is presumed to have significant influence if it has the ability to nominate a board member, regardless of overall ownership percentage or other conditions that would be considered under U.S. GAAP.

Under U.S GAAP, to presume that a company has significant influence, the following are some of the conditions it would consider: ability to nominate a board member, such board member s voting power and limitation (if any), overall ownership percentage, influence compared to other investors, relationship between the

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investor and investee, etc. Due to such difference in guidance and practice, certain investments which are accounted for under the equity method under Korean GAAP are accounted for as an available-for-sale investment under the cost basis with unrealized gains and losses reported as other comprehensive income until realized at each reporting date under U.S. GAAP. Under U.S. GAAP, net income decreased by Won 20,102 million and accumulated other comprehensive income increased by Won 74,786, compared to that under Korean GAAP for year ended December 31, 2010.

Transition to IFRS in 2011

As of January 1, 2011, we began preparing our financial statements in accordance with IFRS as adopted for use in the Republic of Korea and IFRS as issued by the IASB. Our transition date to IFRS is January 1, 2010.

Going forward, we will discontinue to report under Korean GAAP and will report under IFRS as issued by the IASB. As such, our 2010 consolidated financial statements under IFRS may be materially different than the accompanying 2010 consolidated financial statements under Korean GAAP.

Other

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

Item 5C. Research and Development, Patents and Licenses, etc.

Research and Development

We maintain a research and development program focused on developing highly advanced electric power technology necessary to become a global leader in the electric power industry. In order to achieve this goal, we have adopted the Electric Technology Development Plan toward 2010 which is expected to be modified in the near future to reflect the 2020 Mid- and Long-Term Strategic Management Plan that we announced in 2009. 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 created a Technology Roadmap to develop technologies in the area of thermal and nuclear generation. In addition, consistent with our goal of becoming a leading global utilities company, we have developed and adopted the Green Technology Development Strategy and Roadmap. This strategic roadmap consists of low carbon power generating technology, high efficiency power transmission and distribution technology and the demand-creating green technology.

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, environmentally-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 Basic Design for Advanced Power Reactor 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.

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 electrical power systems, such as the Development of Intelligent Robot System for the check-up of transmission line insulator. We have developed the technology for an efficient distribution system, preventive maintenance for substations, system automation, power utilization and power line communication.

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As part of our strategy for future growth, we have placed a high priority in the development of the following green energy projects:

- a dynamic simulator to test a 300 megawatt integrated gasification combined-cycle plant in Korea;
- a high-efficiency solid solvent for carbon capture;
- an infrastructure for electricity-powered vehicles;
- a high-tech smart grid test bed in Jeju Island;
- a conversion system for a 80kV high voltage direct current;
- export-level nuclear reactors; and
- an all-electrified house.

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

We invested approximately Won 321 billion in 2010 and currently plan to invest Won 411 billion in 2011 on research and development. We had approximately 588 employees engaged in research and development activities as of December 31, 2010. As a result of our research, 4,200 applications were submitted in Korea and abroad, out of which 2,146 applications have been registered to date. In addition, we are currently constructing management infrastructure to facilitate development of high value-added intellectual properties. We also seek to market the technologies we have developed by identifying key items that have market potential in light of intellectual property, overseas market conditions 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.

Item 5D. Trend Information

Trends, uncertainties and events which could have a material impact on our sales, operating revenues and liquidity and capital resources are discussed above in Item 5A. Operating Results and Item 5B. Liquidity and Capital Resources.

Item 5E. Off-Balance Sheet Arrangements

We have no significant off-balance sheet arrangements as of December 31, 2010.

Item 5F. Tabular Disclosure of Contractual Obligations

The following summarizes certain of our contractual obligations as of December 31, 2010 and the effect such obligations are expected to have on liquidity and cash flow in future periods.

Contractual Obligations[1]	Total	Payments Due by Period Less than 1 year	1 3 years	4 5 years	After 5 years
		(in billions of Won)			

Long-term debt(2)	(Won) 39,481	(Won) 6,316	(Won) 12,513	(Won) 11,702	(Won) 8,950
Interest payments on long-term debt(3)	10,552	1,914	3,123	1,758	3,757
Short-term borrowings	457	457			
Plant construction(4)	55,875	7,027	22,766	26,082	
Accrual for retirement and severance benefits(5)	1,320	26	121	299	874
Total	(Won) 107,436	(Won) 15,760	(Won) 38,504	(Won) 39,685	(Won) 13,487

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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, 2010 were immaterial.
(2) Includes the current portion and excludes amortization of note discount and issue costs.
(3) A portion of our long-term debt carried a variable rate of interest. We used the interest rate in effect as of December 31, 2010 for the variable rate of interest in calculating the interest payments on long-term debt for the periods indicated.
(4) Based on budgeted amounts, as of December 31, 2010, of capital expenditure for the construction of generation facilities through 2015. The budgeted amounts may differ from the actual amounts of expenditure.
(5) Represents, as of December 31, 2010, 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 33 of the notes to our consolidated financial statements.

We entered into a power purchasing agreement with GS EPS Co., Ltd. and other independent power producers, under which we are required to annually purchase a minimum amount of power from these companies. Power we purchased from these companies amounted to Won 2,228 billion, Won 1,508 billion and Won 2,195 billion for the years ended December 31, 2008, 2009 and 2010, 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 33 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 33 of the notes to our consolidated financial statements for further details of these contracts.

Under the Long-term Transmission and Substation Plan approved by the Ministry of Knowledge Economy, which took effect on March 13, 2009, we are liable for the construction of all of our power transmission facilities and the maintenance and repair expenses for such facilities.

In July 2005, nine government-invested utilities companies, including us, entered into a Renewable Portfolio Agreement with the Government in order to expand the generation and distribution of renewable energy. This agreement contemplates two phases of capacity build-up for the generation and distribution of renewable energy. Under the current phase, which is Phase II and lasts from 2009 to 2011, we and our generation subsidiaries are scheduled to make capital expenditures of Won 1,226.9 billion in the aggregate to construct renewable energy generation capacity of 534 megawatts.

Payment guarantee and short-term credit facilities from financial institutions as of December 31, 2010 were as follows:

Payment guarantee

Description	Financial Institutions	Credit Lines (In millions of Won or thousands of US$, JPY,INP,OMR,SAR, CHF, and EUR)	
Payment of import letter of credits	Korea Exchange Bank and others	(Won)	160,613
		USD	1,365,773
		THB	12,829
		GBP	61,169
Inclusive credits	Kookmin Bank and others	(Won)	215,100
	Hana Bank and others	US$	1,473
Borrowings	Korea Exchange Bank and others	(Won)	859,282
		US$	319,527
Guarantees for bid	Korea Exchange Bank	US$	118,816
		INR	30,000
Performance guarantees	Export-Import Bank of Korea and others	US$	440,880
		SAR	100,000
		AED	54,880
Payment of foreign currency	Shinhan Bank and others	(Won)	13,655
	Shinhan Bank and others	US$	244,537
	Bank of Kathmandu	NPR	228,429
Other guarantees	Seoul Guarantee Insurance Co., Ltd.	(Won)	1,650

Overdraft and Others

Description	Financial Institutions	Credit Lines (In millions of Won or thousands of US$, JPY)	
Overdraft	Korea Exchange Bank and others	(Won)	870,000
Commercial paper	Korea Exchange Bank and others	(Won)	2,215,000
		US$	130,000
Trade financing	Industrial Bank of Korea and others	(Won)	70,000
Repayment guarantees for foreign currency debentures	Korea Develop Bank	US$	617,385

(1) Surviving entity of the former Korea Development Bank.

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. We also provided six promissory notes and two blank checks to Korea Resource Corporation. 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 13,469 billion as of December 31, 2010 for construction of power plant facilities and facility maintenance.

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We have provided the following guarantees for our subsidiaries as of December 31, 2010:

Type	Guaranteed company	Amounts (thousands)
Subsidiary	KEPCO Ilijan Co.(1)	US$ 72,000
Subsidiary	KEPCO Shanxi International Ltd.(2)	US$ 180,000
		RMB800,000
Subsidiary	KEPCO Lebanon SARL.(3)	US$ 17,113
Subsidiary	KEPCO Netherlands B.V.(4)	SAR100,000
Subsidiary	Qatrana Electric Power Company(5)	US$ 17,600
Subsidiary	KOMIPO Global Pte Ltd.(6)	US$ 54,000
	KNOC Nigerian East Oil Co., Ltd.(7)	
Affiliate	KNOC Nigerian West Oil Co., Ltd.(7)	US$ 59,468

Notes:

(1) KEPCO Ilijan Corporation, which is a subsidiary of KEPCO International Philippines Inc., is engaged in the power generation business in the Philippines and borrowed US$242 million in 2000 as project financing from Japan Bank of International Cooperation and others. In connection with the borrowing, KEPCO Ilijan Corporation s investment securities held by KEPCO International Philippines Inc. were pledged as collateral. We have provided the National Power Corporation and others with the guarantee not to exceed US$72 million on performance of the power generation business of KEPCO Ilijan Corporation.

(2) KEPCO Shanxi International Ltd. (the wholly-owned subsidiary) formed the consortium with Deutsche Bank and Shanxi International Electric Power Ltd. to invest in the Chinese electric power generation business. The consortium established Gemeng International Energy Group Co., Ltd. (34.0% of ownership) to support this business. We have provided HSBC and Export-Import Bank of Korea (the EXIM Bank) with the payment guarantee for KEPCO Shanxi International Ltd. s loan of US$180 million. We agreed with Deutsche Bank to refund the investment of RMB800 million and pay the additional interest of Libor + 2% for the period from initial investment date to the unqualified date in accordance with terms of the agreement, if Gemeng International Energy Group Co., Ltd. fails to be listed on the Hong Kong stock exchange within six years from the establishment date.

(3) We have provided performance guarantees related to the operation of the Lebanon power generation plant amounting to US$17.2 million to the Lebanon Electricity Agency.

(4) We invested in power plant construction business in Rabigh, Saudi Arabia through KEPCO Netherlands B.V. (the wholly-owned subsidiary), and established Rabigh Electricity Company (having a 40% ownership) to operate this business. Rabigh Electricity Company has provided the Saudi Electricity Company with the performance guarantee for PPA contract through Saudi British Bank and counter guarantees through EXIM Bank. In relation to the guarantee, we have provided the payment guarantee amounting SAR 100 million to EXIM Bank for the above counter guarantees.

(5) We invested in a power plant construction project in Al Qatrana, Jordan through KEPCO Middle East Holding Company SPC (our wholly-owned subsidiary), and established the Qatrana Electric Power Company (80% of ownership) to operate this project. Qatrana Electric Power Company provided the Jordanian Electric Power Company with a performance guarantee for this project. We provided a payment guarantee of US$17.6 million to Qatrana Electric Power Company.

(6) We established PT Cirebon Electric Power (27.5% ownership) and its operating company, PT Cirebon Power Services (27.5% ownership) through KOMIPO Global Pte Ltd. with Marubeni Corporation, Samtan Co., Ltd. and PT Indika Energy Tbk for the construction and operation of a coal-fired power plant in Cirebon, Indonesia. In addition, our subsidiary, KOMIPO, provided a payment guarantee in relation to the payment obligation of KOMIPO Global Pte Ltd. to PT Cirebon Power Services (which includes obligations to pay for capital for establishment and additional capital, among others).

(7) 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 the exploration and production of oil in two off-shore blocks. This consortium holds a 60% equity interest in the special purpose vehicle established to carry out the project regarding these two blocks.

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We hold a 15% equity interest in the consortium. In March 2006, the consortium entered into production sharing contracts with the Nigerian National Petroleum Corporation 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. Regarding the exploration and development project, we provided the Nigeria government with a performance guarantee of US$59.5 million. However, on January 9, 2009, the consortium was informed of a unilateral decision by the government of Nigeria to void allocation of the oil blocks granted to the consortium and refund the prepaid signature bonus. The leader of the consortium, Korea National Oil Corporation has filed a suit in the Nigerian court and won the case on August 21, 2009. As of December 31, 2010, Nigeria s government has appealed a federal court s decision and the case is currently pending.

Other than as described in this report and also in Notes 32 and 33 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, 2010.

We are subject to a number of legal proceedings. For a description of our legal proceedings, see Item 8A. Consolidated Statements and Other Financial Information Legal Proceedings.

We also have contingent liabilities under the termination agreement with the Korean Peninsula Energy Development Organization. See Note 33(d) of the notes to our consolidated financial statements.

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Item 6A. Directors and Senior Management

Board of Directors

Under the KEPCO Act, the Public Agencies Management Act and our Articles of Incorporation, our board of directors, which is required to consist of not more than 15 directors, including the president, is vested with the authority over our management.

Pursuant to our Articles of Incorporation and the Public Agencies Management Act, we have two types of directors: standing directors (sangim-isa in Korean) and non-standing directors (bisangim-isa in Korean). The standing directors refer to our directors who serve their positions in full-time capacity. Many of our standing directors concurrently hold executive positions with us or our subsidiaries. The non-standing directors refer to our directors who do not serve their positions in full-time capacity. The non-standing directors currently do not hold any executive positions with us or our subsidiaries.

Under our Articles of Incorporation, there may not be more than seven standing directors, including our president, and 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 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 Ministry of Knowledge Economy following the nomination 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. Our controller & auditor general is appointed by the President of the Republic upon the motion of the Ministry of Strategy and Finance following the nomination 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 and controller & auditor general) are appointed by our president with the approval at the general meeting of our shareholders.

The non-standing directors must be appointed by the Ministry of Strategy and Finance following the review and resolution of the Public Agencies Operating Committee from a pool of candidates recommended by the director nomination committee and must 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 and administers our day-to-day business in all matters and bears the responsibility for the management s performance. The term of our president is three years, while that of our 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.

Attendance by a majority of the board members constitutes a voting quorum for our board meetings, and resolutions can be passed by a majority of the board members. In the event the president acts in violation of law or the Articles of Incorporation, is negligent in his duties, or otherwise is deemed to be significantly impeded in performing his official duties as chief executive officer, the board of directors may by resolution request the Minister of the Ministry of Knowledge Economy to dismiss or recommend the dismissal of the president.

Non-standing directors may request any information necessary to fulfill their duties from the chief executive officer, and except in special circumstances, the chief executive officer must comply with such request.

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The names, titles and outside occupations, if any, of the directors as of June 30, 2011 and the respective years in which they took office are set forth below.

Name	Age	Title	Outside Occupation	Position Held Since
Kim, Ssang-Su	(66)	President and Chief Executive Officer and Standing Director	None	August 27, 2008
Han, Dae-Soo	(66)	Standing Director and Controller & Auditor General	None	January 24, 2011
Kim, Woo-Kyum	(57)	Standing Director and Executive Vice President & Chief Operating Officer	None	May 17, 2010
Byun, Jun-Yeon	(56)	Standing Director and Executive Vice President & Chief Nuclear Project Officer	None	April 22, 2011
Cho, In-Kook	(56)	Standing Director and Executive Vice President & Chief Financial Officer	None	March 11, 2011
Kim, Jong-Ho	(56)	Standing Director and Executive Vice President & Chief Human Resources Officer	None	March 11, 2011
Kim, Chong-Young	(56)	Standing Director and Executive Vice President & Chief Technology Officer	None	March 11, 2011
Kim, Jung-Gook	(64)	Non-Standing Director and Member of the Audit Committee	Chief Executive Officer, Bogo Economic Research Institute	October 31, 2008
Chung, Dong-Rack	(65)	Non-Standing Director	Advisor, The National Unification Advisory Council.	October 19, 2009
Lee, Gi-Pyo	(53)	Non-Standing Director	Chief, Boyun Social Welfare Center of Busan	October 19, 2009
Kang, Seog-Hoon	(46)	Non-Standing Director	Professor, Department of Economics, Sungshin Women s University	July 5, 2010
Shin, Il-Soon	(63)	Non-Standing Director	Policy advisor of Grand National Party	April 11, 2011
Lee, Tae-Sik	(65)	Non-Standing Director	Advisor, SK Energy Co., Ltd.	June 8, 2011
Kim, Kyung-Min	(63)	Non-Standing Director	Professor, Department of Political Science and Diplomacy, Hanyang University	June 8, 2011
Chung, Hae-Joo	(68)	Non-Standing Director	Chairman of the Board, Korea Testing & Research Institute	June 30, 2011

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Kim, Ssang-Su has been our President, Chief Executive Officer and Standing Director since August 27, 2008. Prior to his current position, he served as Vice Chairman of, and subsequently as Senior Adviser to, LG Electronics, a leading electronics manufacturer based in Korea. Mr. Kim received a B.S. in mechanical engineering from Hanyang University.

Han, Dae-Soo has been our Standing Director and Controller & Auditor General since January 24, 2011. Prior to his current position, he served as Second Deputy Secretary-General of the Grand National Party, the current ruling political party in Korea. Mr. Han received an M.A. in public administration from Yonsei University.

Kim, Woo-Kyum has been our Standing Director since May 17, 2010. Mr. Kim also currently serves as our Executive Vice President and Chief Operating Officer and previously served as our Executive Vice President and Chief Construction Officer. Mr. Kim received an M.S. in electrical engineering from Hanyang University.

Byun, Jun-Yeon has been our Standing Director since April 22, 2011. Mr. Byun also currently serves as our Executive Vice President and Chief Nuclear Project Officer and previously served as our Executive Vice President and Chief Global Business Officer. Mr. Byun received a B.S. in electrical engineering from Korea University.

Cho, In-Kook has been our Standing Director since March 11, 2011. Mr. Cho also currently serves as our Executive Vice President and Chief Financial Officer and previously served as our Vice President of the KEPCO Academy. Mr. Cho received a B.A. in economics from Hanyang University.

Kim, Jong-Ho has been our Standing Director since March 11, 2011. Mr. Kim also currently serves as our Executive Vice President and Chief Human Resources Officer and previously served as our Vice President of the Labor Management Department. Mr. Kim received a B.A. in economics from Chung-Ang University.

Kim, Chong-Young has been our Standing Director since March 11, 2011. Mr. Kim also currently serves as our Executive Vice President and Chief Technology Officer and previously served as our Vice President of the KEPCO Research Institute. Mr. Kim received a D.S. in metallurgical engineering from Seoul National University.

Kim, Jung-Gook has been our Non-Standing Director since October 31, 2008 and member of our Audit Committee since December 8, 2008. Mr. Kim currently serves as the Chief Executive Officer of Bogo Economic Research Institute. Mr. Kim received his B.A. in business administration from Seoul National University.

Chung, Dong-Rack has been our Non-Standing Director since October 19, 2009. Mr. Chung is currently an advisor of the National Unification Advisory Council. Mr. Chung received a B.A. in law from Korea University.

Lee, Gi-Pyo has been our Non-Standing Director since October 19, 2009. Mr. Lee is currently a chief of Bohyun Social Welfare Center of Busan.

Kang, Seog-Hoon has been our Non-Standing Director since July 5, 2010. Mr. Kang is currently a professor of economics at Sungshin Women s University. Mr. Kang received a B.A. in economics from Seoul National University and a Ph.D in economics from University of Wisconsin-Madison.

Shin, Il-Soon has been our Non-Standing Director since April 11, 2011. Mr. Shin is currently a policy advisor to the Grand National Party. Mr. Shin received a B.S. in electrical engineering from U.S. Military Academy (West Point), an M.A. in military art and science from the United States Army Command and General Staff College and a M.A. in business administration from Kyungnam University.

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Lee, Tae-Sik has been our Non-Standing Director since June 8, 2011. Mr. Lee is currently an advisor of SK Energy Co., Ltd. Mr. Lee received a B.A. in political science from Seoul National University and an M.A. in international public policy from Johns Hopkins University.

Kim, Kyung-Min has been our Non-Standing Director since June 8, 2011. Mr. Kim is currently a professor of political science and diplomacy in Hanyang University. Mr. Kim received a B.A. in politics from Hanyang University and a Ph.D in political science from the University of Missouri.

Chung, Hae-Joo has been our Non-Standing Director since June 30, 2011. Mr. Chung is currently the chairman of the board of the Korea Testing & Research Institute. Mr. Jung received a B.A. in law from Seoul National University and completed a public policy course at Seoul National University Graduate School of Public Administration.

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

Audit Committee

Under the Public Agencies Management Act, which took effect as of April 1, 2007, we are designated as a market-oriented public enterprise and, as such, are required to establish an audit committee in lieu of the preexisting board of auditors upon expiration of the term of the last remaining member of the board of auditors. In September 2007, we amended our Articles of Incorporation to establish, in lieu of the pre-existing board of auditors, an audit committee meeting the requirements under the Sarbanes-Oxley Act. Under the Public Agencies Management Act, the Enforcement Decree of the Korean Commercial Code and the amended Articles of Incorporation, we are required to maintain an audit committee consisting of three members, of which not less than two members are required to be the non-standing directors. The roles and responsibilities of our audit committee members are to perform the functions of an audit committee meeting the requirements under the Sarbanes-Oxley Act. Our audit committee was established on December 8, 2008.

At an extraordinary general meeting of our shareholders held on December 8, 2008, we appointed three members of our board of directors, namely Kang, Seong-Chul, a standing director, Kim, Seon-Jin and Kim, Jung-Gook, each a non-standing director, to our audit committee. On May 17, 2010, at an extraordinary general meeting of the shareholders, Kim, Seon-Jin was reappointed as a non-standing director and a member of the audit committee for an additional term of one year. Following the expiry of Mr. Kang s term on December 7, 2010, Han, Dae Soo was appointed as a new standing director and as a standing member of the audit committee at an extraordinary general meeting of the shareholders held on January 17, 2011. At such meeting, Kim, Jung-Gook was reappointed as a non-standing member of the audit committee for an additional term of one year. Following the expiry of Kim, Seon-Jin s term on June 29, 2011, the board of directors resolved on June 16, 2011 to nominate Kim, Kyung-Min to succeed Kim, Seon-Jin as a non-standing director and member of the audit committee of the Company. Kim, Kyung-Min s appointment is subject to the shareholders approval at the extraordinary general meeting of shareholders to be held on July 5, 2011, and upon such approval, Kim, Kyung-Min will succeed Kim, Seon-Jin as a non-standing director and member of the audit committee of the Company.

All such members of the audit committee are independent within the meaning of the Korea Stock Exchange listing standards, the regulations promulgated under the Financial Investment Services and Capital Markets Act and the New York Stock Exchange listing standards.

Item 6B. Compensation of Directors and Supervisors

In 2010, the aggregate amount of remuneration paid and accrued to our directors and executive officers in the aggregate was Won 1,393 million. The aggregate amount we paid or accrued in 2010 to provide retirement and severance benefits for our directors and executive officers was Won 20 million.

Item 6C. Board Practices

Under the Public Agencies Management Act and our Articles of Incorporation, which became effective on April 1, 2007, the term of office for our directors and executive officers that are appointed after April 1, 2007 is three years for the president and two years for other executive officers and auditors. The officers, the directors

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and the auditors may be reappointed for an additional term of one year. In order to be reappointed, the president must be evaluated on the basis of his management performance; a standing director, on the basis of the performance of the duties for which he was elected to perform, or if the standing director has executed an incentive bonus contract, on the basis of his performance under the contract; and a non-standing director, on the basis of his performance of the duties for which he was elected to perform.

Our board currently does not maintain a compensation committee. See Item 16G. Corporate Governance. However, we currently maintain an audit committee meeting the requirements of the Sarbanes-Oxley Act to perform the roles and responsibilities of the compensation committee. Prior to the establishment of the audit committee on December 8, 2008 pursuant to the Public Agencies Management Act, we maintained a board of auditors, which performed the roles and responsibilities required of an audit committee under the Sarbanes-Oxley Act, including the supervision of the financial and accounting audit by the independent registered public accountants.

The president s management contract provides for benefits upon termination of his employment. The amount for termination benefits payable equals the average value of compensation for one month times the number of years the president is employed by us, provided that the president is only eligible for termination benefits after more than one year of continuous service.

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

See also Item 16G. Corporate Governance for a further description of our board practices.

Item 6D. Employees

As of December 31, 2010, we and our generation subsidiaries had a total of 37,332 regular employees, almost all of whom are employed within Korea. Approximately 8.8% of our regular employees (including employees of our generation subsidiaries) are located at our head office in Seoul.

The following table sets forth the number of and other information relating to our employees, not including directors or senior management, as of December 31, 2010.

	KEPCO	KHNP	KOSEP	KOMIPO	KOWEPO	KOSPO	EWP	Total
Regular Employees								
Administrative	4,429	675	224	214	210	225	212	6,189
Engineers	9,243	6,126	1,512	1,715	1,423	1,471	1,667	23,157
Others	6,031	1,046	231	217	174	176	111	7,986
Total	19,703	7,847	1,967	2,146	1,807	1,872	1,990	37,332
Head Office Employees	1,243	840	268	228	236	225	260	3,300
% of total	6.3	10.7	13.6	10.6	13.1	12.0	13.1	8.8
Members of Labor Union	14,892	4,924	1,334	1,463	1,145	1,230	1,377	26,365
% of total	75.6	62.8	67.8	68.2	63.4	65.7	69.2	70.6

We and each of our generation subsidiaries have separate labor unions. Approximately 70.6% of our employees in the aggregate are members of these labor unions, each of which negotiates a collective bargaining agreement for its members each year. Under applicable Korean law, an employee-employer cooperation committee, which is composed of eight representatives of management and eight representatives of labor, is required to be, and has been, established at KEPCO and at each of our generation subsidiaries. The committee meets periodically to discuss various labor issues.

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Since our formation in 1981, our businesses had not been interrupted by any work stoppages or strikes except in early 2002, when employees belonging to our five non-nuclear generation subsidiaries went on strike for six weeks to protest the Government s decision to privatize such non-nuclear generation subsidiaries according to the Restructuring Plan, which privatization plan has since been suspended indefinitely. See Item 3D. Risk Factors Risks Relating to KEPCO The Government may adopt policy measures to substantially restructure the Korean electric power industry or our operational structure, which may have a material adverse effect on our business, operations and profitability.

We believe our relations with our employees are generally good.

Item 6E. Share Ownership

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

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ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Item 7A. Major Shareholders

The following table sets forth certain information relating to certain owners of our capital stock as of June 7, 2011, the date we last closed our shareholders registry:

Title of Class	Identity of Person or Group	Shares Owned	Percentage of Class[1] (%)
Common stock	Government	135,917,118	21.17
	Korea Finance Corporation[2]	192,159,940	29.94
	Sub Total	328,077,058	51.11
	Korea Resolution & Collection Corporation[3]	32,210,933	5.02
	National Pension Corporation	18,959,398	2.95
	KEPCO (held in the form of treasury stock)	18,929,995	2.95
	Employee Stock Ownership Association		
	Directors and executive officers as a group		
	Public (non-Koreans)	163,767,966	25.51
	Common shares	99,804,011	15.55
	American depositary shares	63,963,955	9.96
	Sub Total	561,945,350	87.54
	Public (Koreans)	80,018,727	12.46
	Total	641,964,077	100.00

Notes:

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

(2) Following the split of Korea Development Bank into Korea Finance Corporation and KDB Financial Group pursuant to government policy as of October 28, 2009, the entire 192,159,940 common shares, or 29.95% of our common stock, held by Korea Development Bank as of such date, were transferred to Korea Finance Corporation, a Government-controlled entity. The total number of common shares held directly or indirectly by the Government, which amounted to 327,680,693 shares, or 51.07% of our outstanding common shares as of October 28, 2009, did not change as a result of the split of Korea Development Bank.

(3) Korea Resolution & Collection Corporation is a wholly owned subsidiary of the Korea Deposit Insurance Corporation that specializes in engaging in resolution, management and collection of debts and assets originated from troubled financial institutions.

All of our shareholders have equal voting rights. See Item 10B. Memorandum and Articles of Incorporation Description of Capital Stock Voting Rights.

Item 7B. Related Party Transactions

We are engaged in a variety of transactions with our affiliates. Our affiliates with whom we have related party transactions primarily consist of Korea Finance Corporation, one of our major shareholders, other Government-controlled entities such as Korea Gas Corporation, our consolidated subsidiaries and our equity investees. See Note 31 of the Notes to our consolidated financial statements included in this report for a description of transaction and balances with our related parties.

In the past three years, our related party transactions principally consisted of purchases of LNG from Korea Gas Corporation, sales of electricity to Korea District Heating Co., Ltd., and long-term borrowings from Korea Development Bank. In 2008, 2009 and 2010, we and our generation subsidiaries purchased LNG from Korea Gas Corporation in the aggregate amount of Won 7,882 billion, Won 6,023 billion and Won 6,930 billion, respectively. In 2008, 2009 and 2010, we sold electricity to Korea District Heating in the aggregate amount of Won 270 billion, Won 212 billion and Won 28 billion, respectively. As of December 31, 2010, we had long-term borrowings from Korea Finance Corporation in the aggregate amount of Won 1,029 billion.

We also engage in extensive transactions with our consolidated generation subsidiaries, including the purchase of electricity from them through Korea Power Exchange, sales of electricity to them, payment and receipt of commissions for services and receivables and payables transactions. These are eliminated in the consolidation process. We also provide guarantees for certain of our affiliates. See Item 5F. Tabular Disclosure of Contractual Obligations Overdraft and Others. We also have certain relationships with the Korea Power Exchange. See Item 4B. Business Overview Purchase of Electricity Cost-based Pool System.

For a further description of our transactions with our affiliates, see Note 31 of the Notes to our consolidated financial statements included in this report. For a further description of our transactions with our consolidated subsidiaries, see Note 32 of the Notes to our consolidated financial statements included in this report.

Item 7C. Interests of Experts and Counsel

Not Applicable

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ITEM 8. FINANCIAL INFORMATION

Item 8A. Consolidated Statements and Other Financial Information

We prepare our consolidated financial statements in compliance with requirements under Item 18. Financial Statements.

Legal Proceedings

As of December 31, 2010, we, including our generation subsidiaries, were engaged in 442 lawsuits as the defendant and 112 lawsuits as the plaintiff. As of the same date, the total amount of damages claimed against us was Won 127 billion, for which we have made a reserve of Won 2.4 billion as of December 31, 2010, and the total amount claimed by us was Won 145 billion as of December 31, 2010. 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.

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

Dividend Policy

For our dividend policy, see Item 10B. Memorandum and Articles of Incorporation Description of Capital Stock Dividend Rights. For a description of the tax consequences of dividends paid to our shareholders, see Item 10E. Taxation Korean Taxes Shares or ADSs Dividends on the Shares of Common Stock or ADSs and Item 10E. Taxation U.S. Federal Income and Estate Tax Consideration for U.S. Persons Tax Consequences with Respect to Common Stock and ADSs Distributions on Common Stock or ADSs.

Item 8B. Significant Changes

Not Applicable

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ITEM 9. THE OFFER AND LISTING

Item 9A. Offer and Listing Details

Notes

We have issued the following registered notes and debentures, which are traded principally in the over-the counter market:

7-3/4% Debentures due April 1, 2013 (the 7-3/4% Debentures);

7.40% Amortizing Debentures, due April 1, 2016 (the 7.40% Debentures);

7.95% Zero-To-Full Debentures, due April 1, 2096 (the 7.95% Debentures);

6% Debentures due December 1, 2026, (the 6% Debentures);

7% Debentures due February 1, 2027 (the 7% Debentures); and

6-3/4% Debentures due August 1, 2027 (the 6-3/4% Debentures, and together with the 7-3/4% Debentures, the 7.40% Debentures, the 7.95% Debentures, the 6% Debentures and the 7% Debentures, the Registered Debt Securities).

Sales prices for the Registered Debt Securities are not regularly reported on any United States securities exchange or other United States securities quotation service.

Share Capital

The principal trading market for our common stock is the Korea Exchange. Our common stock is also listed on the New York Stock Exchange in the form of ADSs. The ADSs have been issued by JPMorgan Chase Bank as depositary and are listed on the New York Stock Exchange under the symbol KEP. One ADS represents one-half of one share of our common stock. As of June 7, 2011, the date we last closed our shareholders registry, 127,927,910 ADSs representing 9.96% shares of our common stock were outstanding.

Common Stock

Shares of our common stock are listed on the KRX KOSPI Market of the Korea Exchange. The table below shows the high and low closing prices on the KRX KOSPI Market of the Korea Exchange for our common stock since January 1, 2006.

	Price	
Period	**High**	**Low**
	(In Won)	
2006		
First Quarter	42,800	37,200
Second Quarter	45,600	35,150
Third Quarter	37,850	34,000
Fourth Quarter	42,400	35,600
2007		

First Quarter	44,800	37,500
Second Quarter	42,300	37,500
Third Quarter	47,700	40,150
Fourth Quarter	43,300	37,250
2008		
First Quarter	39,500	28,200
Second Quarter	34,150	30,200
Third Quarter	42,300	37,500
Fourth Quarter	32,950	21,000

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Period	Price High	Price Low
	(In Won)	
2009		
First Quarter	32,500	23,000
Second Quarter	30,600	25,700
Third Quarter	35,800	28,000
Fourth Quarter	35,700	31,550
2010		
First Quarter	41,600	33,800
Second Quarter	36,600	30,700
Third Quarter	33,600	28,800
Fourth Quarter	32,700	27,700
2011		
First Quarter:		
January	30,050	28,000
February	29,350	27,600
March	27,600	25,800
Second Quarter (through June 8):		
April	27,550	25,600
May	30,000	26,100
June (through June 8)	28,950	28,000

ADSs

The table below shows the high and low trading prices on the New York Stock Exchange for the outstanding ADSs since January 1, 2006. Each ADS represents one-half of one share of our common stock.

Period	Price High	Price Low
	(In US$)	
2006		
First Quarter	22.90	19.76
Second Quarter	24.81	17.95
Third Quarter	20.19	17.81
Fourth Quarter	22.95	19.40
2007		
First Quarter	23.64	19.82
Second Quarter	22.77	20.38
Third Quarter	25.71	20.75
Fourth Quarter	23.87	19.75
2008		
First Quarter	20.66	13.99
Second Quarter	16.83	14.40
Third Quarter	16.32	12.08
Fourth Quarter	12.50	7.23
2009		
First Quarter	12.38	6.90
Second Quarter	12.37	9.34
Third Quarter	15.24	10.99
Fourth Quarter	15.25	13.52

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Period	Price High	Price Low
	(In US$)	
2010		
First Quarter	17.89	14.86
Second Quarter	16.55	12.70
Third Quarter	14.19	12.28
Fourth Quarter	14.54	11.91
2011		
First Quarter:		
January	13.48	12.43
February	13.10	12.20
March	12.43	11.39
Second Quarter (through June 8):		
April	12.56	11.86
May	13.74	12.24
June (through June 8)	13.18	12.98

Item 9B. Plan of Distribution

Not Applicable

Item 9C. Markets

The Korea Exchange

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

As of May 31, 2011, the aggregate market value of equity securities listed on the KOSPI of the Korea Exchange was approximately Won 1,201,535 billion. The average daily trading volume of equity securities for 2010 was approximately 381 million shares with an average transaction value of Won 5,620 billion.

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

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

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

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In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI in the past five years are set out in the following table:

	Opening	High	Low	Closing
2006	1,383.3	1,464.7	1,203.9	1,434.5
2007	1,435.3	2,064.4	1,192.8	1,897.1
2008	1,853.5	1,888.9	938.8	1,124.5
2009	1,157.4	1,718.9	1,018.8	1,682.8
2010	1,696.1	2,043.5	1,552.8	2,043.5
2011 (through June 8)	2,070.1	2,229.0	1,923.9	2,083.4

Source: The Korea Exchange

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

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

Previous Day s Closing Price (Won)		Rounded Down to (Won)
less than 5,000	(Won)	5
5,000 to less than 10,000		10
10,000 to less than 50,000		50
50,000 to less than 100,000		100
100,000 to less than 500,000		500
500,000 or more		1,000

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

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the securities companies. In addition, a securities transaction tax will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. A special agricultural and fishery tax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See Item 10E. Taxation Korean Taxes.

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

Year	Number of Listed Companies	Total Market Capitalization on the last day for each period (Millions of Won)	(Thousands of U.S. dollars)[(1)]	Average Daily Trading Volume, Value (Millions of Won)	(Thousands of U.S. dollars)[(1)]	Thousands of U.S. dollars)[(1)]
2006	731	704,587,508	757,946,975	279,096	3,435,180	3,595,353
2007	746	951,900,447	1,014,612,517	363,732	5,539,588	5,919,628
2008	765	576,927,703	458,789,426	355,205	5,189,644	4,126,953
2009	770	887,935,183	760,478,917	485,657	5,795,552	4,963,645
2010	777	1,141,885,458	1,002,621,352	380,859	5,619,768	4,934,382
2011 (as of May 31)	778	1,201,535,708	1,111,915,332	337,736	7,483,080	6,924,930

Source: The Korea Exchange

Note:

(1) Converted at the Concentration Base Rate of The Bank of Korea or the market average exchange rate as announced by Seoul Money Brokerage Services, Ltd. in Seoul, as the case may be, at the end of the periods indicated.

The Korean securities markets are principally regulated by the Financial Services Commission and the Financial Investment Services and Capital Markets Act. The law imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests. Beginning on February 4, 2009, the Korean securities markets became subject to the Financial Investment Services and Capital Markets Act.

Protection of Customer s Interest in Case of Insolvency of Financial Investment Companies with a Brokerage License

Under Korean law, the relationship between a customer and a financial investment company with a brokerage license in connection with a securities sell or buy order is deemed to be consignment, and the securities acquired by a consignment agent (i.e., the financial investment company with a brokerage license) through such sell or buy order are regarded as belonging to the customer insofar as the customer and the consignment agent s creditors are concerned. Therefore, in the event of bankruptcy or reorganization procedures involving a financial investment company with a brokerage license, the customer of such financial investment company is entitled to the proceeds of the securities sold by such financial investment company.

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

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

Under the Financial Investment Services and Capital Markets Act, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a financial investment company with a brokerage license which is a member of the Korea Exchange breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member.

As the cash deposited with a financial investment company with a brokerage license is regarded as belonging to such financial investment company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the financial investment company with a brokerage license if a bankruptcy or reorganization procedure is instituted against such financial investment company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that Korean Deposit Insurance Corporation will, upon the request of the investors, pay investors up to Won 50 million per depositor per financial institution in case of the such financial investment company s bankruptcy, liquidation, cancellation of securities business license or other insolvency events (collectively, the Insolvency Events). Pursuant to the Financial Investment Services and Capital Markets Act, subject to certain exceptions, financial investment companies with a brokerage license are required to deposit the cash received from their customers to the extent the amount is not covered by the Depositor Protection Act with the Korea Securities Finance Corporation, a special entity established pursuant to the Financial Investment Services and Capital Markets Act. Set-off or attachment of cash deposits by financial investment companies with a brokerage license is prohibited. The premiums related to this insurance under the Depositor Protection Act are paid by financial investment companies with a brokerage license.

Item 9D. Selling Shareholders

Not Applicable

Item 9E. Dilution

Not Applicable

Item 9F. Expenses of the Issue

Not Applicable

ITEM 10. ADDITIONAL INFORMATION

Item 10A. Share Capital

Not Applicable

Item 10B. Memorandum and Articles of Incorporation

Set forth below is information relating to our capital stock, including brief summaries of material provisions of our Articles of Incorporation, the KEPCO Act, the Financial Investment Services and Capital Markets Act, the Korean Commercial Code and certain related laws of Korea, all currently in effect. The following summaries are qualified in their entirety by reference to our Articles of Incorporation and the applicable provisions of the KEPCO Act, Financial Investment Services and Capital Markets Act, the Korean Commercial Code and certain related laws of Korea. In order to comply with the Public Agencies Management Act, we amended our Articles of Incorporation and our internal regulations in March 2009, and in March 2010 and March 2011, we again amended our Articles of Incorporation to reflect the amendments to the KEPCO Act, the Korean Commercial Code and the Public Agencies Management Act.

Objects and Purposes

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

- development of electric power resources;
- generation, transmission, transformation and distribution of electricity and other related business activities;
- related investment, research and technology development mentioned under the first two bullet points;
- overseas business related to the aforementioned bullet points;
- investments or contributions related to the aforementioned bullet points;
- businesses incidental to the aforementioned bullet points;
- development and operation of certain real estate holdings; and
- other businesses entrusted by the Government.

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

Directors

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

The standards of remuneration for our officers, including directors, shall be determined by a resolution of the board of directors, provided that the maximum amount of remuneration to be paid to our officers shall be determined by shareholder resolution and provided that the remuneration standards for the president and standing directors shall be determined by board resolution in accordance with the guideline thereon established by the Minister of the Ministry of Strategy and Finance through review and resolution of our management committee. Directors who have an interest may not participate in the meeting of the board of directors for determining the remuneration for officers.

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Neither the KEPCO Act nor our Articles of Incorporation have provisions relating to (i) borrowing powers exercisable by the directors and how such borrowing powers can be varied, (ii) retirement or non-retirement of directors under an age limit requirement, or (iii) the number of shares required for a director s qualification.

Share Capital

Currently, our authorized share capital is 1,200,000,000 shares, which consists of shares of common stock and shares of non-voting preferred stock, par value Won 5,000 per share. Under our Articles of Incorporation, we are authorized to issue up to 150,000,000 non-voting preferred shares. As of June 7, 2011, the last day on which the shareholder registry was closed for purposes of identifying shareholders of record, 641,964,077 common shares were issued and no non-voting preferred shares have been issued. As of June 7, 2011, we held 18,929,995 shares of our common stock as treasury stock. All of the issued and outstanding common shares are fully-paid and non-assessable and are in registered form. Share certificates are issued in denominations of 1, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

Description of Capital Stock

Dividend Rights

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

Under our Articles of Incorporation, holders of non-voting preferred shares (of which there are currently none) are entitled to receive an amount not less than 8% of their par value as determined by a resolution of the board of directors at the time of their issuance. However, if the dividends on our common shares exceed the dividends on our non-voting preferred shares, the holders of non-voting preferred shares will be entitled to participate in the distribution of such excess amount with the holders of the common shares at an equal rate.

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

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

The KEPCO Act provides that we shall not pay an annual dividend unless we have made up any accumulated deficit and set aside as a legal reserve an amount equal to 20.0% or more of our net profit until our accumulated reserve reaches one-half of our stated capital.

Distribution of Free Shares

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

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Voting Rights

Holders of our common shares are entitled to one vote for each common share, except that voting rights with respect to any common shares held by us or by a corporate shareholder, more than one-tenth of whose outstanding capital stock is directly or indirectly owned by us, may not be exercised. Any person (with certain exceptions) who holds more than 3% of our issued and outstanding shares cannot exercise voting rights with respect to the shares in excess of this 3% limit. See Limitation on Shareholdings. Pursuant to the Korean Commercial Code and the Financial Investment Services and Capital Markets Act, cumulative voting is permissible in relation to the appointment of directors. Under the Korean Commercial Code and the Financial Investment Services and Capital Markets Act, a cumulative vote can be requested by the shareholders of a corporation representing more than 1% of the total voting shares of such corporation if the relevant shareholders meeting is intended to elect more than two seats of the board of directors and the request for cumulative voting is made to the management of the corporation in writing at least six weeks in advance of the shareholders meeting. Under this new voting method, each shareholder will have multiple voting rights corresponding to the number of directors to be appointed in such voting and may exercise all such voting rights to elect one director. Shareholders are entitled to vote cumulatively unless the Articles of Incorporation expressly prohibit cumulative voting. Our current Articles of Incorporation do not prohibit cumulative voting. Except as otherwise provided by law or our Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by affirmative majority vote of the voting shares of the shareholders present or represented at a meeting, which must also represent at least one-fourth of the voting shares then issued and outstanding. The holders of our non-voting preferred shares (other than enfranchised preferred shares (as described below)) are not entitled to vote on any resolution or to receive notice of any general meeting of shareholders unless the agenda of the meeting includes consideration of a resolution on which such holders are entitled to vote. If we are unable to pay any dividend to holders of non-voting preferred shares as provided in our Articles of Incorporation, the holders of non-voting preferred shares will become enfranchised and will be entitled to exercise voting rights until such dividends are paid. The holders of these enfranchised preferred shares have the same rights as holders of our common shares to request, receive notice of, attend and vote at a general meeting of shareholders. Pursuant to the KEPCO Act and our Articles of Incorporation, the appointment of standing directors, the president and standing statutory auditor are subject to shareholder approval.

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

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

- amend our Articles of Incorporation;
- remove a director or statutory auditor;
- effect any dissolution, merger, consolidation or spin-off of us;
- transfer the whole or any significant part of our business;
- effect the acquisition by us of all of the business of any other company;
- effect the acquisition by us of the business of another company that may have a material effect on our business;
- reduce capital; or

issue any new shares at a price lower than their par value.

Under our Articles of Incorporation, an approval by the Ministry of Knowledge Economy is required in order to amend the Articles of Incorporation. Any change to our authorized share capital requires an amendment to our Articles of Incorporation.

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

A shareholder may exercise his voting rights by proxy. The proxy shall present the power of attorney prior to the start of the general meeting of shareholders. Under the Financial Investment Services and Capital Markets Act and our Articles of Incorporation, no one other than us may solicit a proxy from shareholders.

Subject to the provisions of the Deposit Agreement, holders of our American Depositary Shares (ADSs) are entitled to instruct the Depositary, whose agent is the record holder of the underlying common shares, how to exercise voting rights relating to those underlying common shares.

Preemptive Rights and Issuance of Additional Shares

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

Our Articles of Incorporation provide that new shares that are (1) publicly offered pursuant to the Financial Investment Services and Capital Markets Act, (2) issued to members of our employee stock ownership association, (3) represented by depositary receipts, (4) issued through offering to public investors, or (5) issued to investors in kind under the State Property Act may be issued pursuant to a resolution of the board of directors to persons other than existing shareholders, who in such circumstances will not have preemptive rights.

We may issue convertible bonds or bonds with warrants each up to an aggregate principal amount of Won 2,000 billion and Won 1,000 billion, respectively, to persons other than existing shareholders. However, the aggregate principal amount of convertible bonds and bonds with warrants so issued to persons other than existing shareholders may not exceed Won 2,000 billion.

Under the Financial Investment Services and Capital Markets Act and our Articles of Incorporation, members of our employee stock ownership association, whether or not they are our shareholders, have a preemptive right, subject to certain exceptions, to subscribe for up to 20.0% of any shares publicly offered pursuant to the Financial Investment Services and Capital Markets Act. This right is exercisable only to the extent that the total number of shares so acquired and held by members of our employee stock ownership association does not exceed 20.0% of the total number of shares then outstanding.

Liquidation Rights

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

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Rights of Dissenting Shareholders

In certain limited circumstances (including, without limitation, the transfer of the whole or any significant part of our business or the merger, or consolidation upon a split-off of us with another company), dissenting holders of shares have the right to require us to purchase their shares. To exercise such right, shareholders must submit a written notice of their intention to dissent to us prior to the general meeting of shareholders or the class meeting of holders of non-voting preferred shares, as the case may be. Within 20 days after the date on which the relevant resolution is passed at such meeting, such dissenting shareholders must request us in writing to purchase their shares. We are obligated to purchase the shares of dissenting shareholders within one month after the expiration of such 20-day period. The purchase price for such shares must be determined through negotiation between the dissenting shareholders and us. Under the Financial Investment Services and Capital Markets Act, if we cannot agree on a price through negotiation, the purchase price will be the average of (1) the weighted average of the daily share price on the Korea Exchange for a two-month period before the date of adoption of the relevant board resolution, (2) the weighted average of the daily share price on the Korea Exchange for the one month period before such date and (3) the weighted average of the daily share price on the Korea Exchange for the one week period before such date. However, if we or dissenting shareholders who requested us to purchase their shares oppose such purchase price, the determination of a purchase price may be filed with a court. Holders of ADSs will not be able to exercise dissenter s rights unless they have withdrawn the underlying Common Stock and become our direct shareholders.

Transfer of Shares

Under the Korean Commercial Code, the transfer of shares is effected by delivery of share certificates, but in order to assert shareholders rights against us, the transferee must have his name and address registered on our register of shareholders. For this purpose, shareholders are required to file one s name, address and seal with our transfer agent. Under our Articles of Incorporation, non-resident shareholders must appoint an agent authorized to receive notices on their behalf in Korea and file a mailing address in Korea. These requirements do not apply to the holders of ADSs. Under current Korean regulations, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized foreign custodians are authorized to act as agents and provide related services for foreign shareholders. Our transfer agent is the Kookmin Bank, located at 9-1, Namdaemun-ro, 2-ga, Chung-ku, Seoul, Korea. Certain foreign exchange controls and securities regulations apply to the transfer of our shares by non-residents of Korea or non-Koreans. See Item 9. The Offer and Listing.

Acquisition of Our Own Shares

We generally may not acquire our own shares except in certain limited circumstances, including, without limitation, a reduction in capital. Under the Korean Commercial Code, except in case of a reduction in capital, any of our shares acquired by us must be sold or otherwise transferred to a third party within a reasonable time. In general, our 50.0% or more owned-subsidiaries are not permitted to acquire our shares.

In addition, we may acquire our shares through purchase on the Korea Exchange or through a tender-offer. We may also acquire interests in our own shares through trust agreements with financial investment companies with a trust license. The aggregate purchase price for our shares may not exceed the total amount available of dividends at the end of the preceding fiscal year, less the amount of dividends and mandatory reserves required to be set aside for that fiscal year, subject to certain procedural requirements.

General Meeting of Shareholders

The ordinary general meeting of our shareholders is held within three months after the end of each fiscal year, and subject to board resolution or court approval, an extraordinary general meeting of our shareholders may be held as necessary or at the request of shareholders holding an aggregate of 1.5% or more of our outstanding

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common shares for at least six consecutive months. Under the Korean Commercial Code, an extraordinary general meeting of shareholders may be convened at the request of our audit committee, subject to a board resolution or court approval. Holders of non-voting preferred shares may only request a general meeting of shareholders once the non-voting preferred shares have become enfranchised as described under Description of Capital Stock Voting Rights above. Written notices setting forth the date, place and agenda of the meeting must be given to shareholders at least two weeks prior to the date of the general meeting of shareholders. However, pursuant to the Korean Commercial Code and our Articles of Incorporation, with respect to holders of less than 1% of the total number of our issued and outstanding shares which are entitled to vote, notice may be given by placing at least two public notices at least two weeks in advance of the meeting in at least two daily newspapers published in Seoul or by placing a public notice in the electrical disclosure system of the Financial Supervisory Service or the Korea Exchange, at least two weeks in advance of the meeting. Currently, for giving such notice, we use two daily newspapers published in Seoul as well as an electronic disclosure system available for access at a website maintained by the FSS (known as the Data Analysis, Retrieval and Transfer System, or DART). Shareholders not on the shareholders register as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at such meeting. Holders of the enfranchised preferred shares on the shareholders register as of the record date are entitled to receive notice of, and to attend and vote at, the general meetings. Otherwise, holders of non-voting preferred shares are not entitled to receive notice of general meetings of shareholders or vote at such meetings but may attend such meetings.

The general meeting of shareholders is held in Seoul.

Register of Shareholders and Record Dates

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

The record date for annual dividends is December 31. For the purpose of determining the holders of shares entitled to annual dividends, the register of shareholders may be closed from January 1 to January 31 of each year. Further, the Korean Commercial Code and our Articles of Incorporation permit us at least two weeks public notice to set a record date and/or close the register of shareholders for not more than three months for the purpose of determining the shareholders entitled to certain rights pertaining to our shares. The trading of our shares and the delivery of certificates in respect of them may continue while the register of shareholders is closed.

Annual Report

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

Under the Financial Investment Services and Capital Markets Act, we must file with the Financial Services Commission and the Korea Exchange an annual report within 90 days after the end of our fiscal year, a half-year report within 45 days after the end of the first six months of our fiscal year and quarterly reports within 45 days after the end of the first three months and nine months of our fiscal year. However, due to our adoption of IFRS starting in January 1, 2011 pursuant to regulatory requirements for listed companies in Korea, we are required to file half-year and quarterly reports containing interim financial statements and notes thereto on a consolidated basis in addition to non-consolidated basis. The filing deadline for such reports will be temporarily extended to 60 days for fiscal years 2011 and 2012. Therefore, we are required to file our half-year report within 60 days after the end of the first six months of 2011 and 2012 and our quarterly reports within 60 days after the end of the first three months and nine months of 2011 and 2012.

Limitation on Shareholdings

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

Change of Control

The KEPCO Act requires that the Government, directly or pursuant to the Korea Finance Corporation Act, through Korea Policy Banking Corporation, own not less than 51.0% of our capital.

Disclosure of Share Ownership

Under the Financial Investment Services and Capital Markets Act, any person whose direct or beneficial ownership of a listed company s shares with voting rights, equity-related debt securities including convertible bonds, bonds with warrants, exchangeable bonds, certificates representing the rights to subscribe for common shares, derivatives-linked securities and depository receipts of the aforementioned securities (collectively referred to as Equity Securities), together with the Equity Securities directly or beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of our total outstanding Equity Securities is required to report the status and purpose (in terms of whether the purpose of shareholding is to participate in the management of the issuer) of the holdings and the material contents of the agreements relating to the Equity Securities and other matters prescribed by the Presidential Decree under the Financial Investment Services and Capital Markets Act to the Financial Services Commission of Korea and the Korea Exchange within five business days after reaching the 5% ownership interest threshold.

In addition, any change (i) in the purpose of the shareholding or in the ownership, (ii) the major terms and conditions of agreements relating to Equity Securities owned (such as trust agreements and collateral agreements) to the extent the number of relevant Equity Securities is 1% or more of the total outstanding Equity Securities, or (iii) the type of ownership (direct ownership or holding) to the extent the number of relevant Equity Securities is 1% or more of the total outstanding Equity Securities, must be reported to the Financial Services Commission of Korea and the Korea Exchange within five business days from the date of such change (or by the 10^{th} day of the month following the month in which the change occurs, in the case of a person with no intent to seek management control). Notwithstanding the foregoing, certain professional investors designated by the Financial Services Commission may report such matters to the Financial Services Commission and the Korea Exchange by the tenth day of the month immediately following the end of the quarter in which such 5.0% ownership interest is reached or the change occurs.

When filing a report to the Financial Services Commission and the Korea Exchange in accordance with the reporting requirements described above, a copy of such report must be sent to the relevant listed company. Violation of these reporting requirements may subject a person to sanctions such as prohibition on the exercise of voting rights with respect to the Equity Securities for which the reporting requirement was violated or fines or imprisonment. Furthermore, the Financial Services Commission may order the disposal of the Equity Securities for which the reporting requirement was violated.

A person reporting to the Financial Services Commission and the Korea Exchange that his purpose of holding the Equity Securities is to participate in the management of the listed company is prohibited from acquiring additional Equity Securities of the listed company and exercising voting rights during the period commencing from the date on which the event triggering the reporting requirements occurs to the fifth day from the date on which the report is made.

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Item 10C. Material Contracts

Not applicable.

Item 10D. Exchange Controls

General

The Foreign Exchange Transaction Act and the Presidential Decree and regulations under that Act and Decree, or collectively the Foreign Exchange Transaction Laws, regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Non-residents may invest in Korean securities pursuant to the Foreign Exchange Transaction Laws. The Financial Services Commission has also adopted, pursuant to its authority under the Financial Investment Services and Capital Markets Act, regulations that regulate investment by foreigners in Korean securities and issuance of securities outside Korea by Korean companies.

Subject to certain limitations, the Ministry of Strategy and Finance has the authority to take the following actions under the Foreign Exchange Transaction Laws: (i) if the Government deems it necessary on account of war, armed conflict, natural disaster or grave, sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the Ministry of Strategy and Finance may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit, safe-keep or sell any instruments of payment to the Bank of Korea or certain other governmental agencies or financial institutions, and (ii) if the Government concludes that the international balance of payments and international financial markets are experiencing or are likely to experience significant disruption or that the movement of capital between Korea and other countries are likely to adversely affect the Korean Won, exchange rates or other macroeconomic policies, the Ministry of Strategy and Finance may take action to require any person who intends to effect or effects a capital transaction to deposit all or a portion of the instruments of payment acquired in such transactions with the Bank of Korea or certain other governmental agencies or financial institutions.

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

In order for us to issue debt securities of any series outside of the Republic, we are required to file a report with our designated foreign exchange bank or the Ministry of Strategy and Finance on the issuance of such debt securities, depending on the issuance amount. The Ministry of Strategy and Finance may at its discretion direct us to take measures as necessary to avoid undue exchange rate fluctuations before it accepts such report. Furthermore, in order for us to make payments of principal of or interest on the debt securities of any series and other amounts as provided in an indenture and such debt securities, we are required to present relevant documents to the designated foreign exchange bank at the time of each actual payment. The purpose of such presentation is to ensure that the actual remittance is consistent with the terms of the transaction reported to our designated foreign exchange bank or the Ministry of Strategy and Finance.

In order for us to offer for purchase shares of our common stock held in treasury in the form of ADSs or issue shares of our common stock represented by the ADSs, we are required to file a prior report of such offer or issuance with our designated foreign exchange bank or the Ministry of Strategy and Finance, depending on the offering amount. The Ministry of Strategy and Finance may at its discretion direct us to take measures as necessary to avoid undue exchange rate fluctuations before it accepts such report. No further Governmental approval is necessary for the initial offering and issuance of the ADSs.

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

In addition, we are also required to notify the Ministry of Strategy and Finance upon receipt of the full proceeds from the offering of ADSs. No additional Governmental approval is necessary for the offering and issuance of ADSs.

Reporting Requirements for Holders of Substantial Interests

Under the Financial Investment Services and Capital Markets Act, any person whose direct beneficial ownership of a listed company s Equity Securities, together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with such person, accounts for 5% or more of our total outstanding Equity Securities is required to report the status and purpose (namely, whether the purposes of the share ownership is to participate in the management of the issuer) of the holdings and the material contents of the agreements relating to the Equity Securities and other matters prescribed by the Presidential Decree under the Financial Investment Services and Capital Markets Act to the Financial Services Commission and the Korea Exchange within five business days after reaching the 5% ownership interest.

In addition, any change (i) in the purpose of the shareholding or in the ownership, (ii) the major terms and conditions of agreements relating to Equity Securities owned (such as trust agreements and collateral agreements) to the extent the number of relevant Equity Securities is 1% or more of the total outstanding Equity Securities, or (iii) the type of ownership (direct ownership or holding) to the extent the number of relevant Equity Securities is 1% or more of the total outstanding Equity Securities, must be reported to the Financial Services Commission of Korea and the Korea Exchange within five business days from the date of such change (or by the 10^{th} day of the month following the month in which the change occurs, in the case of a person with no intent to seek management control). Notwithstanding the foregoing, certain professional investors designated by the Financial Services Commission may report such matters to the Financial Services Commission and the Korea Exchange by the tenth day of the month immediately following the end of the quarter in which such 5.0% ownership interest is reached or the change occurs.

When filing a report to the Financial Services Commission and the Korea Exchange in accordance with the reporting requirements described above, a copy of such report must be sent to the relevant listed company. Violation of these reporting requirements may subject a person to sanctions such as prohibition on the exercise of voting rights with respect to the Equity Securities for which the reporting requirement was violated or fines or imprisonment. Furthermore, the Financial Services Commission may order the disposal of the Equity Securities for which the reporting requirement was violated.

A person reporting to the Financial Services Commission and the Korea Exchange that his purpose of holding the Equity Securities is to participate in the management of the listed company is prohibited from acquiring additional Equity Securities of the listed company and exercising voting rights during the period commencing from the date on which the event triggering the reporting requirements occurs to the fifth day from the date on which the report is made.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our voting stock and/or depository receipts for our voting stock accounts for 10.0% or more of the total issued and outstanding voting stock, whom we refer to as a major shareholder, must file a report to the Securities and Futures Commission and to the Korea Exchange within five business days after the date on which the person reached such shareholding limit. In addition, such person must file a report to the Securities and Futures Commission and to the Korea Exchange regarding any subsequent change in his/her shareholding. Such report on subsequent change in shareholding must be filed within five business days of the occurrence of any such change. Violation of these reporting requirements may subject a person to criminal sanctions such as fines and imprisonment.

Restrictions Applicable to ADSs

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

Special Reporting Requirement for Companies Whose Securities Are Listed on Foreign Exchanges

Under the regulations of the Financial Services Commission amended on December 24, 2009, (i) if a company listed on the Korea Exchange has submitted a public disclosure of material matters to a foreign financial investment supervisory authority pursuant to the laws of the foreign jurisdiction, then it must submit a copy of the public disclosure and a Korean translation thereof to the Financial Services Commission of Korea and the Korea Exchange, and (ii) if a company listed on the Korea Exchange is approved for listing on a foreign stock market or determined to be de-listed from the foreign stock market or actually listed on, or de-listed from, a foreign stock market, then it must submit a copy of any document, which it submitted to or received from the relevant foreign government, foreign financial investment supervisory authority or the foreign stock market, and a Korean translation thereof to the Financial Services Commission of Korea and the Korea Exchange.

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

Restrictions Applicable to Common Stock

Under the Foreign Exchange Transaction Laws and Financial Services Commission regulations promulgated thereunder (together, the Investment Rules), foreigners are permitted to invest, subject to certain exceptions and procedural requirements, in all shares of Korean companies unless prohibited by specific laws. Foreign investors may trade shares listed on the Korea Exchange only through the Korea Exchange except for certain limited circumstances. These circumstances include, among others, (1) odd-lot trading of shares, (2) acquisition of shares by a foreign company as a result of a merger, (3) acquisition or disposal of shares in connection with a tender offer, (4) acquisition of shares by exercise of warrant, conversion right under convertible bonds, exchange right under exchangeable bonds or withdrawal right under depositary receipts issued outside of Korea by a Korean company, such shares being Converted Shares, (5) acquisition of shares through exercise of rights under securities issued outside of Korea, (6) acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders rights (including preemptive rights or rights to participate in free distributions and receive dividends), (7) over-the-counter transactions between foreigners of a class of shares for which a ceiling on aggregate acquisition by foreigners (as explained below) exists and has been reached or exceeded, (8) acquisition of shares by direct investment under the Foreign Investment Promotion Law, (9) acquisition and disposal of shares on an overseas stock exchange market, if such shares are simultaneously listed on the KRX KOSPI Market or the KRX KOSDAQ Market of the Korea Exchange and such overseas stock exchange, and (10) arm s length transactions between foreigners in the event all such foreigners belong to an investment group managed by the same person. For over-the-counter transactions of shares listed on the Korea Exchange outside the Korea Exchange between foreigners of a class of shares for which a ceiling on aggregate acquisition by

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foreigners exists and has been reached or exceeded, a financial investment company with a brokerage license in Korea must act as an intermediary. Odd-lot trading of shares listed on the Korea Exchange outside the Korea Exchange must involve a financial investment company with a dealing license in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions with respect to shares subject to a ceiling on acquisition by foreigners.

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

Upon a foreign investor s purchase of shares through the Korea Exchange, no separate report by the investor is required because the Investment Registration Card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor s acquisition or sale of shares outside the Korea Exchange (as discussed above) must be reported by the foreign investor or his standing proxy to the Governor of the Financial Supervisory Service at the time of each acquisition or sale. However, a foreign investor must ensure that any acquisition or sale by it of shares outside the Korea Exchange in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the Governor of the Financial Supervisory Service by the Korea Securities Depository, financial investment companies with a dealing or brokerage license or securities finance companies engaged to facilitate such transactions. In the event a foreign investor desires to acquire or sell shares outside the Korea Exchange and the circumstances in connection with such sale or acquisition do not fall within the exceptions made for certain limited circumstances described above, then the foreign investor must obtain the prior approval of the Governor. In addition, in the event a foreign investor acquires or sells shares outside the Korea Exchange, a prior report to the Bank of Korea may also be required in certain circumstances. A foreign investor may appoint one or more standing proxies from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and certain eligible foreign custodians which will exercise shareholders rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the Governor of the Financial Supervisory Service in cases deemed inevitable by reason of conflict between the laws of Korea and those of the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and certain eligible foreign custodians are eligible to be a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits his shares with the Korea Securities Depository. Generally, a foreign investor may not permit any person, other than his/her standing proxy, to exercise rights relating to his shares or perform any tasks related thereto on his behalf. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the Governor of the Financial Supervisory Service in circumstances where compliance is made impracticable, including cases where such compliance would contravene the laws of the home country of the foreign investor.

Under the Investment Rules, with certain exceptions, a foreign investor may acquire shares of a Korean company without being subject to any single or aggregate foreign investment ceiling. However, certain designated public corporations are subject to a 40.0% ceiling on acquisitions of shares by foreigners in the aggregate and a ceiling on acquisitions of shares by a single foreign investor provided in the Articles of Incorporation of such corporations. Of the Korean companies listed on the Korea Exchange, we are so designated. The Financial Services Commission may increase or decrease these percentages if it deems it necessary for the public interest, protection of investors or industrial policy. Generally, the ownership of Converted Shares constitutes foreign ownership for purposes of such aggregate foreign ownership limit. However, the acquisition of Converted Shares is one of the exceptions under which foreign investors may acquire shares of designated corporations in excess of the 40.0% ceiling.

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

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

- shares by a depositary issuing depositary receipts representing such shares (whether newly issued shares or outstanding shares);
- Converted Shares;
- shares from the exercise of shareholders rights; or
- shares by gift, inheritance or bequest.

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

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a securities company. Funds in the foreign currency account may be remitted abroad without any governmental approval.

Dividends on shares of our common stock are paid in Won. No governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor s securities company or the investor s Won account. Funds in the investor s Won account may be transferred to his foreign currency account or withdrawn for local living expenses, provided that any withdrawal of local living expenses in excess of a certain amount is reported to the tax authorities by the foreign exchange bank at which Won account is maintained. Funds in the investor s Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

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

Item 10E. Taxation

Korean Taxes

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

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

- a resident of Korea;
- a corporation organized under Korean law or having its head office, principal place of business or place of effective management in Korea; or
- engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

Registered Debt Securities

Taxation of Interest

Pursuant to the Special Tax Treatment Control Law (STTCL), when we make payments of interest to you on the Registered Debt Securities, no amount will be withheld from such payments for, or on account of, any income taxes of any kind imposed, levied, withheld or assessed by Korea or any political subdivision or taxing authority thereof or therein.

If the tax exemption under the STTCL referred to above were to cease to be in effect, the rate of income tax or corporation tax applicable to the interest on the Registered Debt Securities would be 14% of income for a non-resident without a permanent establishment in Korea. In addition, a tax surcharge called a local income surtax would be imposed at the rate of 10.0% of the income tax or corporation tax (which would increase the total tax rate to 15.4%), unless reduction is available under an applicable income tax treaty. If you are a qualified resident in a country that has entered into a tax treaty with Korea, you may qualify for an exemption or a reduced rate of Korean withholding tax. See the discussion under Shares or ADSs Tax Treaties below for an additional explanation on treaty benefits.

In order to obtain the benefits of an exemption or a reduced withholding tax rate under a tax treaty, you must submit to us, prior to the interest payment date, such evidence of tax residence as may be required by the Korean tax authorities in order to establish your entitlement to the benefits of the applicable tax treaty.

Taxation of Capital Gains

Korean tax laws currently exclude from Korean taxation gains made by a non-resident without permanent establishment in Korea from the sale of a Registered Debt Security to another non-resident (except where a

non-resident sells Registered Debt Securities to another non-resident who has permanent establishments in Korea, if any). In addition, capital gains realized from the transfer of Registered Debt Securities outside Korea by non-residents with or without permanent establishments in Korea are currently exempt from taxation by virtue of the STTCL, provided that the issuance of such Registered Debt Securities is deemed to be an overseas issuance under the STTCL. If you sell or otherwise dispose of a Registered Debt Security through other ways than those mentioned above, any gain realized on the transaction will be taxable at ordinary Korean withholding tax rates (which is the lesser of 22.0% (including local income surtax) of the net gain or 11.0% (including local income surtax) of the gross sale proceeds, subject to the production of satisfactory evidence of the acquisition cost of such Registered Debt Securities and net of certain direct transaction costs attributable to the disposal of such Registered Debt Securities), unless an exemption is available under an applicable income tax treaty. See the discussion under Shares or ADSs Tax Treaties below for an additional explanation on treaty benefits.

Inheritance Tax and Gift Tax

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

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

Shares or ADSs

Dividends on the Shares of Common Stock or ADSs

We will deduct Korean withholding tax from dividends (whether in cash or in shares) paid to you at a rate of 22% (inclusive of local income surtax). If you are a qualified resident in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See the discussion under Tax Treaties below for an additional explanation on treaty benefits.

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

Taxation of Capital Gains

As a general rule, capital gains earned by non-residents upon the transfer of the common shares or ADSs would be subject to Korean withholding tax at a rate equal to the lesser of (i) 11.0% of the gross proceeds realized or (ii) 22.0% of the net realized gain (subject to the production of satisfactory evidence of the acquisition costs and certain direct transaction costs arising out of the transfer of such common shares or ADSs), unless such non-resident is exempt from Korean income taxation under an applicable Korean tax treaty into which Korea has entered with the non-resident s country of tax residence. Please see the discussion under Tax Treaties below for an additional explanation on treaty benefits. Even if you do not qualify for any exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you qualify for the relevant Korean domestic tax law exemptions discussed in the following paragraphs.

You will not be subject to Korean income taxation on capital gains realized upon the transfer of our common stocks or ADSs through the Korea Exchange if you (i) have no permanent establishment in Korea and (ii) did not own or have not owned (together with any shares owned by any entity which you have a certain

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special relationship with and possibly including the shares represented by the ADSs) 25.0% or more of our total issued and outstanding shares at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

It should be noted that (i) capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from the transfer of ADSs outside Korea will be exempted from Korean income taxation provided that ADSs are deemed to have been issued overseas, but (ii) if and when an owner of the underlying shares of stock transfers ADSs after conversion of the underlying shares into ADSs, the exemption described in (i) is not applicable.

If you are subject to tax on capital gains with respect to the sale of ADSs, or of shares of common stock which you acquired as a result of a withdrawal, the purchaser or, in the case of the sale of shares of common stock on the Korea Exchange or through an investment dealer or investment broker under the Financial Investment Services and Capital Markets Act, an investment dealer or investment broker is required to withhold Korean tax from the sales price in an amount equal to 11.0% (including resident surtax) of the gross realization proceeds and to make payment of these amounts to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law or produce satisfactory evidence of your acquisition cost and transaction costs for the shares of common stock or the ADSs.

However, if you transfer the ADSs following an exchange of the underlying shares of stock owned by you for ADSs, you are obligated to file a corporate income tax return and pay tax on gain realized from such transfer unless a purchaser or an investment dealer or investment broker, as the case may be, withholds and remits the tax on capital gains derived from transfer of ADSs, as discussed above. Further, if you transfer the shares of common stock outside of Korea (excluding a transfer on a foreign exchange) to non-residents or foreign companies without having permanent establishments in Korea, you are obligated to file an income tax return and pay income tax on capital gain realized from such transfer unless exempt under an applicable tax treaty or domestic law. If a purchaser or an investment dealer or investment broker, as the case may be, withhold and remits the tax on capital gains derived from transfer of shares of common stock or ADSs, your obligation to file an income tax return and pay income tax will be exempt.

To obtain the benefit of an exemption from tax pursuant to a tax treaty, you much submit to the purchaser or the investment dealer or the investment broker, or through the ADS depositary, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty benefits. Please see the discussion under Tax Treaties below for an additional explanation on claiming treaty benefits.

Tax Treaties

Korea has entered into a number of income tax treaties with other countries (including the United States), which would reduce or exempt Korean withholding tax on dividends on, and capital gains on transfer of, shares of our common stock or ADSs. For example, under the Korea-United States income tax treaty, reduced rates of Korean withholding tax of 16.5% or 11.0% (respectively, including local income surtax, depending on your shareholding ratio) on dividends and an exemption from Korean withholding tax on capital gains are available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains. However, under Article 17 (Investment of Holding Companies) of the Korea-United States income tax treaty, such reduced rates and exemption do not apply if (i) you are a United States corporation, (ii) by reason of any special measures, the tax imposed on you by the United States with respect to such dividends or capital gains is substantially less than the tax generally imposed by the United States on corporate profits, and (iii) 25.0% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Korea-United States income tax treaty, the exemption on capital gains does not apply if you are an individual, and (a) you maintain a fixed base in Korea for a period or periods aggregating 183 days or more during the taxable year and your ADSs or shares of common stock giving rise to capital gains are effectively connected with such fixed base or (b) you are present in Korea for a period or periods of 183 days or more during the taxable year.

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

Inheritance Tax and Gift Tax

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the shares of common stock underlying the ADSs. If the tax authority interprets depositary receipts as the underlying share certificates, you may be treated as the owner of the shares of common stock and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10.0% to 50.0%, depending on the value of the ADSs or shares of common stock.

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

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

Securities Transaction Tax

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

Under the Securities Transaction Tax Law, capital gains from a transfer of depositary receipts listed on the New York Stock Exchange, NASDAQ National Market or other qualified foreign exchanges will be exempt from the securities transaction tax.

In principle, the securities transaction tax, if applicable, must be paid by the transferor of the shares or rights. When the transfer is effected through the Korea Securities Depository, the Korea Securities Depository is generally required to withhold and pay the tax to the tax authorities. When such transfer is made through an investment dealer or investment broker under the Financial Investment Services and Capital Markets Act only, such investment dealer or investment broker is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through the Korea Securities Depository or an investment dealer or investment broker, the transferee is required to withhold the securities transaction tax for payment to the Korean tax authority.

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

The following is a summary of certain U.S. Federal income and estate tax consequences for beneficial owners of the Registered Debt Securities, common stock and ADSs that are U.S. Persons. For purposes of this summary, you are a U.S. Person if you are any of the following for U.S. Federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation, or other entity treated as a corporation for U.S. Federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. Federal income taxation regardless of its source; or
- a trust if (1) it is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) it has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary is based on current law, which is subject to change (perhaps retroactively), is for general purposes only and should not be considered tax advice. This summary does not represent a detailed description of the federal income and estate tax consequences to you in light of your particular circumstances. The discussion set forth below is applicable to you if (i) you are a resident of the United States for purposes of the current income tax treaty between the United States and Korea (the Treaty), (ii) your Registered Debt Securities, common stock or ADSs are not, for purposes of the Treaty, effectively connected with a permanent establishment in Korea and (iii) you otherwise qualify for the full benefits of the Treaty. Except where noted, it deals only with Registered Debt Securities, common stock or ADSs held as capital assets, and it does not represent a detailed description of the U.S. Federal income and estate tax consequences applicable to you if you are subject to special treatment under the U.S. Federal income tax laws (including if you are a dealer in securities or currencies, a financial institution, a regulated investment company, a real estate investment trust, an insurance company, a tax exempt organization, a person holding the Registered Debt Securities, common stock or ADSs as part of a hedging, integrated or conversion transaction, constructive sale or straddle, a person owning 10.0% or more of our voting stock, a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings, a person liable for the alternative minimum tax, an investor in a pass-through entity, or a U.S. Person whose functional currency is not the U.S. dollar). We cannot assure you that a change in law will not alter significantly the tax considerations that we describe in this summary.

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

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

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

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

Tax Consequences with Respect to Registered Debt Securities Generally

Payments

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

Although interest payments to you are currently exempt from Korean taxation, if the Korean law providing for the exemption is repealed, then, in addition to interest payments on the Registered Debt Securities and original issue discount (as defined below) on the ZTF Debentures, you will be required to include in income any additional amounts and any Korean tax withheld from interest payments notwithstanding that you in fact did not receive such withheld tax. You may be entitled to deduct or credit such Korean tax (up to the Treaty rate), subject to applicable limitations in the Internal Revenue Code of 1986, as amended (the Code). Your election to deduct or credit foreign taxes will apply to all of your foreign taxes for a particular taxable year. Interest income on a Registered Debt Security (including additional amounts and any Korean taxes withheld in respect thereof) and original issue discount on a ZTF Debenture generally will constitute foreign source income and generally will be considered passive category income for purposes of computing the foreign tax credit. You may be denied a foreign tax credit for Korean taxes imposed with respect to the Registered Debt Securities where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Original Issue Discount

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

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

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

Market Discount

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

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

Bond Premium

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

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

Sale, Exchange and Retirement of Registered Debt Securities

When you sell, exchange or retire a Registered Debt Security, you will recognize gain or loss equal to the difference between the amount you receive (not including an amount equal to any accrued qualified stated interest, which will be taxable as ordinary income to the extent not previously included in income) and your adjusted tax basis in the Registered Debt Security. Your tax basis in a Registered Debt Security other than a ZTF Debenture will generally be your cost of obtaining the Registered Debt Security increased by any market discount included in income and reduced by payments of principal you receive and any bond premium that you elect to amortize. Your adjusted tax basis in a ZTF Debenture will, in general, be your cost therefor, increased by any market discount and OID previously included in income and reduced by any cash payments on the ZTF Debentures and any bond premium that you elect to amortize. Your gain or loss realized on selling, exchanging or retiring a Registered Debt Security will generally be treated as United States source income. Consequently, you may not be able to use the foreign tax credit arising from any Korean tax imposed on the disposition of Registered Debt Securities unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. Except as described above with respect to market discount, your gain or loss will be capital gain or loss and will be long-term capital gain or loss if, at the time of the sale, exchange or retirement of a Registered Debt Security, you have held the Registered Debt Security for more than one year. If you are an individual and the Registered Debt Security being sold, exchanged or retired is a capital asset that you held for more than one year, you may be eligible for reduced rates of taxation on any capital gain recognized. Your ability to deduct capital losses is subject to limitations.

ZTF Debentures Treated as Equity

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

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

Tax Consequences with Respect to Common Stock and ADSs

In general, for U.S. Federal income tax purposes, holders of ADSs will be treated as the owners of the underlying common stock that is represented by such ADSs. Accordingly, deposits or withdrawals of common stock by holders of ADSs will not be subject to U.S. Federal income tax. However, the U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the security underlying the ADS may be taking actions that are inconsistent with the claiming of foreign tax credits by the holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate holders. Accordingly, the analysis of creditability of Korean taxes and the availability of the reduced tax rate for dividends received by certain non-corporate holders, each described below, could be affected by future actions that may be taken by such intermediaries.

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Distributions on Common Stock or ADSs

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

With respect to non-corporate U.S. Persons, certain dividends paid by a qualified foreign corporation and received by such holders in taxable years beginning before January 1, 2013 may be subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of an income tax treaty with the United States, if such treaty contains an exchange of information provision and the United States Treasury Department had determined that the treaty is satisfactory for purposes of the legislation. The United States Treasury Department has determined that the Treaty, which contains an exchange of information provision, is (in the absence of additional guidance) satisfactory for these purposes. In addition, we believe we are eligible for the benefits of the United States-Korean income tax treaty. However, a foreign corporation is also treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. Shares of our common stock will generally not be considered readily tradable for these purposes. However, United States Treasury Department guidance indicates that our ADSs, which are listed on the New York Stock Exchange, are readily tradable on an established securities market in the United States. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. Non-corporate U.S. Persons that do not meet a minimum holding period requirement during which they are not protected from a risk of loss or that elect to treat the dividend income as investment income pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. Holders should consult their own tax advisors regarding the application of the foregoing rules to their particular circumstances.

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

The maximum rate of withholding tax on dividends paid to you pursuant to the Treaty is 16.5%. You will be required to properly demonstrate to us and the Korean tax authorities your entitlement to the reduced rate of withholding under the Treaty. Subject to certain conditions and limitations, Korean withholding taxes (up to the Treaty rate) will be treated as foreign taxes eligible for credit against your U.S. Federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the common stock or ADSs will be treated as foreign source income and will generally constitute passive category income. Further, in certain circumstances, if you have held common stock or ADSs for less than a specified minimum period during which you are not protected from risk of loss, or are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on common stock or ADSs. The rules governing the foreign tax credit are complex. Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances including the possible adverse impact on creditability to the extent you are entitled to a refund of any Korean tax withheld or a reduced rate of withholding.

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

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

Sale, Exchange or Other Disposition of ADSs or Common Stock

Upon the sale, exchange or other disposition of ADSs or common stock, you generally will recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition and your adjusted tax basis in the ADSs or common stock. The capital gain or loss will be long-term capital gain or loss if at the time of sale, exchange or other disposition, the ADSs or common stock have been held by you for more than one year. Under current law, long-term capital gains of individuals are, under certain circumstances, taxed at lower rates than items of ordinary income. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as U.S. source gain or loss. Consequently, you may not be able to use the foreign tax credit arising from any Korean tax imposed on the disposition of ADSs or common stock unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

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

Estate and Gift Taxation

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

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Information Reporting and Backup Withholding

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

Item 10F. Dividends and Paying Agents

Not Applicable

Item 10G. Statements by Experts

Not Applicable

Item 10H. Documents on Display

We are subject to the information requirements of the Exchange Act, and, in accordance therewith, are required to file reports, including annual reports on Form 20-F, and other information with the U.S. Securities and Exchange Commission. You may inspect and copy these materials, including this report and the exhibits thereto, at SEC s Public Reference Room 100 Fifth Street, N.E., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are also required to make filings with the Commission by electronic means. Any filings we make electronically will be available to the public over the Internet at the Commission s web site at http://www.sec.gov.

Item 10I. Subsidiary Information

Not Applicable

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ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposures are to fluctuations in exchange rates, interest rates and fuel prices. We are exposed to foreign exchange risk related to foreign-currency denominated liabilities. As of December 31, 2010, approximately 26.1% of our long-term debt (including the current portion and discounts on debentures but excluding premium on debentures) before accounting for swap transactions was denominated in foreign currencies, principally in the U.S. dollar, Yen and Euro. However, substantially all of our revenues are denominated in Won. As a result, changes in exchange rates, particularly between the Won and the U.S. dollar, significantly affect us due to our significant amounts of foreign-currency denominated debt and the effect of such changes on the amount of funds required by us to make interest and principal payments on such debt. In order to reduce the impact of foreign exchange rate fluctuations on our results of operations, we have recently been reducing and plan to continue to reduce the proportion of our debt which is denominated in foreign currencies and the proportion of its foreign currency debt which is denominated in U.S. dollars.

We are also exposed to foreign exchange risk related to our purchases of fuels since we obtain substantially all of our fuel materials (other than anthracite coal) directly or indirectly from sources outside Korea. Prices for such fuel materials are quoted based on prices stated in, and in many cases are paid for in, currencies other than Won. In 2010, fuel costs represented 48.3% of our revenue from the sale of electric power.

We are exposed to interest rate risk due to significant amounts of debt. Upward fluctuations in interest rates increase the cost of additional debt and the interest cost of outstanding floating rate borrowings. We are also exposed to fluctuations in prices of fuel materials. In 2010, for electricity generation, uranium accounted for 34.1% of our fuel requirements, coal accounted for 45.5%, LNG accounted for 16.6% and oil accounted for 1.5%. In 2009, measured on the same basis, uranium accounted for 36.3% of our fuel requirements, coal accounted for 47.6%, LNG accounted for 11.9% and oil accounted for 3.1%, measured in each case by the amount of electricity we generated.

For additional discussions of our market risks, see Item 3D. Risk Factors and Item 5B. Liquidity and Capital Resources Liquidity.

We have entered into various swap contracts to hedge exchange rate risks arising from foreign currency-denominated debts. Details of currency swap contracts outstanding as of December 31, 2010 are as follows:

Counterparty	Contract Year	Settlement Year	Contract amounts in millions Pay		Receive		Contract interest rate per annum Pay (%)	Receive (%)
ANZ	2008	2011	KRW	52,025	USD	50	5.17	3M USD Libor + 1.80
Barclays	2008	2013	KRW	187,020	USD	200	7.5	7.75
Barclays	2006	2016	KRW	94,735	USD	100	5.26	6
Barclays	2010	2014	KRW	126,610	USD	100	5.29	6.25
BNP Paribas	2008	2011	KRW	52,375	USD	50	5.92	3M USD Libor + 1.80
BTMU	2009	2012	KRW	138,018	JPY	10,000	4.1	EuroYenTibor + 2.5
BTMU	2010	2013	KRW	56,525	USD	50	3.92	3M USD Libor + 0.91
CITI	2010	2014	KRW	126,610	USD	100	5.27	6.25
CITI	2010	2015	KRW	116,080	USD	100	3.97	3.125
Credit Agricole	2008	2011	KRW	52,375	USD	50	5.92	3M USD Libor + 1.80
Credit Suisse	2008	2013	KRW	140,265	USD	150	6.94	7.75
CSFB	2006	2016	KRW	94,735	USD	100	5.26	6

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Counterparty	Contract Year	Settlement Year	Contract amounts in millions Pay		Receive		Contract interest rate per annum Pay (%)	Receive (%)
CSFB	2009	2013	KRW	197,475	USD	150	5.12	4.75
DBS	2008	2011	KRW	51,730	USD	50	5.78	3M USD Libor + 1.70
DBS	2008	2011	KRW	52,375	USD	50	6.01	3M USD Libor + 1.80
DBS	2010	2013	KRW	226,900	USD	200	3.7	3M USD Libor + 0.25
Deutsche Bank	2009	2014	KRW	126,610	USD	100	5.39	6.25
Deutsche Bank	2010	2014	KRW	126,610	USD	100	4.93	6.25
Deutsche Bank	2010	2015	KRW	116,080	USD	100	3.98	3.13
HSBC	2010	2014	KRW	112,320	USD	100	6.71	5.5
HSBC	2010	2015	KRW	116,080	USD	100	3.23	3.13
ING	2008	2011	KRW	50,495	USD	50	6.24	6M USD Libor + 1.50
ING	2010	2012	KRW	117,900	USD	100	3.64	3M USD Libor + 1.37
JP Morgan	2010	2014	KRW	126,610	USD	100	4.93	6.25
MIZUHO	2008	2011	KRW	28,860	JPY	3,000	5.82	3M JPY Libor + 1.70
MIZUHO	2010	2013	KRW	56,750	USD	50	3.92	3M USD Libor + 0.92
Morgan Stanley	2010	2012	KRW	120,000	USD	100	3.75	3M USD Libor + 1.90
Morgan Stanley	2009	2014	KRW	126,610	USD	100	5.32	6.25
Morgan Stanley	2010	2014	KRW	126,610	USD	100	5.3	6.25
Morgan Stanley	2010	2014	KRW	112,320	USD	100	6.71	5.5
Morgan Stanley	2010	2015	KRW	118,800	USD	100	4.16	3M USD Libor + 1.64
M-UFJ	2010	2015	KRW	116,100	USD	100	4	3M USD Libor + 1.00
Nomura	2009	2014	KRW	253,220	USD	200	5.35	6.25
RBS	2010	2014	KRW	141,125	USD	125	6.78	5.5
RBS	2010	2014	KRW	126,610	USD	100	4.93	6.25
RBS	2010	2015	KRW	116,080	USD	100	3.97	3.13
SMBC	2010	2013	KRW	113,400	USD	100	3.92	3M USD Libor+0.90
UBS	2010	2015	KRW	116,080	USD	100	3.23	3.125
Shinhan Bank	2010	2014	KRW	84,615	USD	75	6.83	5.5
Woori Investment & Securities	2008	2011	KRW	10,346	USD	10	5.78	3M USD Libor + 1.70

Under these currency swap contracts, we recognized a valuation gain of Won 21,151 million and loss of Won 226,054 million in 2010.

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Details of interest rate contracts outstanding as of December 31, 2010 are as follows:

Counterparty	Notional amount in millions		Contract interest rate per annum Pay %	Receive (%)	Term
BNP Paribas	KRW	50,000	4.16	1M USD Libor	2009-2027
JP Morgan Chase Bank	KRW	50,000	4.65	Within 3 years: 4.875 After 42 years: 4.875-(10.9-JPY/ KRW Spot rate)	2005-2011
JP Morgan Chase Bank	KRW	100,000	6.13	3M CD + 0.54	2008-2011
KfW IPEX-Bank GmbH	KRW	100,000	4.16	6M USD Libor	2009-2027
RBS	KRW	100,000	4.79	3M CD + 0.55	2009-2012
Nonghyup Bank	KRW	100,000	4.9	3M CD + 1.05	2010-2015
Nonghyup Bank	KRW	200,000	4.83	3M CD + 0.90	2010-2015
Nonghyup Bank	KRW	100,000	4.77	3M CD + 0.90	2010-2015
Korea Industrial Bank	KRW	100,000	6.32	3M CD + 0.66	2008-2011
Korea Exchange Bank	KRW	200,000	5.3	3M CD + 0.35	2008-2011
Korea Exchange Bank	KRW	100,000	5.17	3M CD + 0.38	2008-2011
Korea Exchange Bank	KRW	200,000	4.69	3M CD + 0.50	2009-2011
Korea Exchange Bank	KRW	100,000	4.18	3M CD + 0.58	2010-2013
Korea Exchange Bank	KRW	200,000	4.88	3M CD + 0.54	2009-2012
Korea Exchange Bank	KRW	100,000	4.11	3M CD + 0.25	2010-2013

Under these interest rate swap contracts, we recognized a valuation gain of Won 2,693 million and loss of Won 5,445 million in 2010.

The following analysis sets forth the sensitivity of our consolidated net income before income taxes (our pre-tax income) to changes in exchange rates, interest rates and fuel costs. For purposes of this section, we and the generation subsidiaries will be deemed one entity. The range of changes in such risk categories represents our view of the changes that are reasonably possible over a one-year period, although it is difficult to predict such changes as a result of adverse economic developments in Korea. See Item 3D. Risk Factors Risks Relating to Korea and the Global Economy Unfavorable financial and economic conditions in Korea and globally may have a material adverse impact on us. The following discussion only addresses material market risks faced by us and does not discuss other risks which we face in the normal course of business, including country risk, credit risk and legal risk. Unless otherwise specified, all calculations are made under Korean GAAP.

The following modeling assumptions were made in the following sensitivity analysis for 2011:

(1) For any one year period, the Won/U.S. dollar exchange rate at the beginning of such period was assumed to be Won 1,138.90 to US$1.00, which was the market exchange rate as of December 31, 2010. For the purpose of calculating realized foreign exchange transaction losses, a selected change in the exchange rate was assumed to be the change in the average exchange rate for a one-year period;

(2) The amount of foreign currency debt to be incurred by us in 2011 was assumed to be US$2,900 million (or the equivalent amount thereof in other foreign currency) for each year; and

(3) For any one-year period, we used prices of fuel materials in our budget for 2011 as the beginning fuel prices.

If Won depreciates against U.S. dollar by 10% and all other variables are held constant from their levels as of December 31, 2010, we estimate that our unrealized foreign exchange translation losses will increase by Won 528 billion in 2011. Under Korean GAAP, such unrealized translation losses are to be credited or charged to

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current operations. However, realized and unrealized foreign exchange translation losses during the construction period on debt incurred for the construction of utility plants are permitted to be capitalized under Korean GAAP. Under U.S. GAAP, all such foreign exchange translation losses are included in the results of operations for the current period unless offset by the establishment of a regulatory asset. See Item 5B. Liquidity and Capital Resources Reconciliation to U.S. GAAP and Note 38 of the notes to our consolidated financial statements.

In addition, if Won depreciates against U.S. dollar by 10% and all other variables are held constant from their levels as of December 31, 2010, we estimate that our income before income taxes will decrease (1) as a result of increased realized foreign exchange transaction losses (not reflecting the fact that a portion of such transaction losses on debt incurred for construction of utility plant may be capitalized under Korean GAAP) by Won 40 billion in 2011, (2) as a result of increased interest expenses by Won 18 billion in 2011, and (3) as a result of increased fuel expenses by Won 1,853 billion in 2011.

If the foreign and domestic interest rates increase by 1% point and all other variables are held constant from their levels as of December 31, 2010, we estimate that our income before income taxes will decrease by Won 100 billion in 2011 (not reflecting the fact that a portion of such interest may be capitalized under Korean GAAP).

If the fuel prices of anthracite and bituminous coal, oil and LNG rise by 10% and all other variables are held constant at their levels as of December 31, 2010, we estimate that our income before income taxes will decrease by Won 1,853 billion in 2011.

The above discussion and the estimated amounts generated from the sensitivity analyses referred to above include forward-looking statements, which assume for analytical purposes that certain market conditions may occur. Accordingly, such forward-looking statements should not be considered projections by us of future events or losses.

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ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Item 12A. Debt Securities

Not applicable.

Item 12B. Warrants and Rights

Not applicable.

Item 12C. Other Securities

Not applicable.

Item 12D. Depositary Fees and Charges

Under the terms of the Deposit Agreement in respect of our ADSs, the holder and beneficiary owners of ADSs, any party depositing or withdrawing or surrendering ADSs or ADRs, whichever applicable, may be required to pay the following fees and charges to JPMorgan Chase Bank acting as depositary for our ADSs:

Item	Services	Fees
1	Taxes and other governmental charges	As applicable
2	Registration of transfer of common shares generally on our shareholders register, any institution authorized under the applicable law to effect book-entry transfers of securities (including Korea Securities Depositary), or any entity that presently carries out the duties of registrar for the common shares, and applicable to transfers of common shares to the name of the Depositary or its nominee on the making of deposits or withdrawals	A fee of $1.50 or less per ADS
3	Cable, telex and facsimile transmission expenses	As applicable
4	Expenses incurred by the Depositary in the conversion of foreign currency	As applicable
5	Execution and delivery of ADRs and the surrender of ADRs	Fee of $0.05 or less per ADS
6	Cash distribution made by the Depositary or its agent	Fee of $0.02 or less per ADS
7	Fee for the distribution of proceeds of sales of securities or rights for distribution other than cash, common shares or rights to subscribe for shares, distribution in shares or distribution in rights to subscribe for shares	Lesser of (i) the fee for the execution and delivery of ADRs referred to above which would have been charged as a result of the deposit by the holders of securities or common shares received in exercise of rights distributed to them, but which securities or rights are instead sold by the Depositary and the net proceeds distributed and (ii) the amount of such proceeds
8	Depositary services performed in administering the ADRs (which fee shall be assessed against holders of ADSs as of the record date or dates and shall be payable at the sole discretion of the Depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions)	Fee of US$0.02 or less per ADS per calendar year

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Depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly-issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these transaction fees to their clients.

Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date. The depositary fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividends, rights offerings), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or un-certificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts via the central clearing and settlement system, The Depository Trust Company (DTC), the depositary generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients ADSs in DTC accounts in turn charge their clients accounts the amount of the fees paid to the depositary.

In the event of refusal to pay the depositary fees, the depositary may, under the terms of the Deposit Agreement, refuse the requested service until payment is received or may set-off the amount of the depositary fees from any distribution to be made to the ADS holder.

The fees and charges the ADS holders may be required to pay may vary over time and may be changed by us and by the depositary. The ADS holders will receive prior notice of such changes.

Depositary Payments for the Fiscal Year 2010

The following table sets forth our expenses incurred in 2010, which were reimbursed by JPMorgan Chase Bank, N.A., acting as depositary for our ADSs:

		In thousands of U.S. dollars)
Reimbursement of listing fees on the New York Stock Exchange	US$	124
Reimbursement of legal fees		17
Reimbursement of accounting fees		422
Contributions towards our investor relations and other financing efforts (including investor conferences, non-deal roadshows and market information services)		1,962
Other		24
Total	US$	2,549

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Control

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2010. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that the design and operation of our disclosure controls and procedures as of December 31, 2010 were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decision regarding required disclosure.

Management s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, for our company. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of our internal control over financial reporting as of December 31, 2010 based on the framework established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company s assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company s receipts and expenditures are being made only in accordance with authorizations of a company s management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, management assessed the effectiveness of our internal control over financial reporting as of December 31, 2010 using criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2010 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The effectiveness of internal control over financial reporting has been audited by Deloitte Anjin LLC, an independent registered public accounting firm, who has also audited our consolidated financial statements for the year ended December 31, 2010.

Attestation Report of the Independent Registered Public Accounting Firm

Deloitte Anjin LLC has issued an attestation report on the effectiveness of our internal control over financial reporting under Auditing Standard No. 5 of the Public Company Accounting Oversight Board, which is filed as Exhibit 15.5 to this report.

Changes in Internal Controls

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We operate an integrated ERP system for a transparent and efficient management of the core ERP components, including personnel, accounting, procurement, construction and facilities maintenance. In addition, we also operate a strategic enterprise management system that includes business warehouse, management information and business planning and simulation systems. We continue to upgrade and improve the ERP system, which is being used as our core information infrastructure.

ITEM 16. *[RESERVED]*

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that we have at least one audit committee financial expert as such term is defined by the regulations of the Securities and Exchange Commission issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. Our audit committee financial expert is Kim, Jung-Gook. Such member currently remains a member of the audit committee and is independent within the meaning of the Korea Stock Exchange listing standards, the regulations promulgated under the Financial Investment Services and Capital Markets Act and the New York Stock Exchange listing standards. For biographic information of our audit committee financial expert, Kim, Jung-Gook, see Item 6A. Directors and Senior Management.

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics for our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions as required under Section 406 of the Sarbanes-Oxley Act of 2002, together with an insider reporting system in compliance with Section 301 of the Sarbanes-Oxley Act. The code of ethics is available on our website, www.kepco.co.kr. We have not granted any waiver, including an implicit waiver, from a provision of the code of ethics to any of the above-mentioned officers during our most recently completed fiscal year.

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ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees billed for each of the years ended December 31, 2009 and 2010 for professional services rendered by our principal accountants for such year, for various types of services and a brief description of the nature of such services. Deloitte Anjin LLC, a member firm of Deloitte Touche Tohmatsu, was our principal accountant for the years ended December 31, 2009 and 2010, and we currently expect them to serve as our principal accountant for the year ended December 31, 2011.

Type of services	Aggregate fees billed during the Year Ended December 31, 2009 (Deloitte Anjin)	2010 (Deloitte Anjin)	Nature of services
	(In millions of Won)		
Audit Fees	(Won) 1,687	(Won) 3,439	Audit service for KEPCO and its subsidiaries.
Audit-Related Fees	120	100	Accounting advisory service.
Tax Fees	14	4	Tax return and consulting advisory service.
All Other Fees	103		All other services which do not meet the three categories above.
Total	(Won) 1,924	(Won) 3,543	

United States law and regulations in effect since May 6, 2003 generally require all engagements of the principal accountants be pre-approved by an independent audit committee or, if no such committee exists with respect to an issuer, by the entire board of directors. We have adopted the following policies and procedures for consideration and approval of requests to engage our principal accountants to perform audit and non-audit services. Engagement requests of audit and non-audit services for us and our subsidiaries must in the first instance be submitted to our Treasury Department subject to reporting to our Chief Financial Officer. If the request relates to services that would impair the independence of our principal accountants, the request must be rejected. If the engagement request relates to audit and permitted non-audit services, it must be forwarded to our audit committee.

In addition, United States law and regulations in effect since May 6, 2003 permit the pre-approval requirement to be waived with respect to engagements for non-audit services aggregating no more than five percent of the total amount of revenues we paid to our principal accountants, if such engagements were not recognized by us at the time of engagement and were promptly brought to the attention of our audit committee or a designated member thereof and approved prior to the completion of the audit.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEE

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Neither we nor any affiliated purchaser, as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this report.

ITEM 16F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANTS

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

We are committed to high standards of corporate governance. We are in compliance with the corporate governance provisions of the KEPCO Act, the Public Agencies Management Act, the Korean Commercial Code, the Financial Investment Services and Capital Markets Act of Korea and the Listing Rules of the Korea Exchange. We, like all other companies in Korea, must comply with the corporate governance provisions under the Korean Commercial Code, except to the extent the KEPCO Act and the Public Agencies Management Act otherwise require. In addition, as a listed company, we are subject to the Financial Investment Services and Capital Markets Act of Korea, unless the Financial Investment Services and Capital Markets Act of Korea otherwise provides.

The Public Agencies Management Act

On April 1, 2007, the Government-Invested Enterprise Management Basic Act, which was enacted in 1984, was abolished and the Public Agencies Management Act took effect. Unless stated otherwise, the Public Agencies Management Act takes precedence over any other laws and regulations in the event of inconsistency. Under this Act, the Minister of the Ministry of Strategy and Finance designated us as a market-oriented public enterprise, as defined under this Act, on April 2, 2007, and we became subject to this Act accordingly.

The Public Agencies Management Act requires a number of changes in the appointment process for our executive officers, which we have incorporated in our amendment to our Articles of Incorporation in September 2007. 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 Ministry of Knowledge Economy following the nomination 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. Prior to the enactment of the Act, standing directors were appointed directly by the Minister of the Ministry of Knowledge Economy. 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 must 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.

Under the Public Agencies Management Act and our Articles of Incorporation, the term of office for directors that are appointed after the effective date of such act, or April 1, 2007, is three years for the president and two years for other directors. The directors may be reappointed for an additional term of one year. In order to be reappointed, the president must be evaluated on the basis of his management performance; a standing director, on the basis of the performance of the duties for which he was elected to perform, or if the standing director has executed an incentive bonus contract, on the basis of his performance under the contract; and a non-standing director, on the basis of his performance of the duties for which he was elected to perform.

Under the Public Agencies Management Act and our Articles of Incorporation, a recommendation from the director nomination committee is required for the appointment of our executive officers, except in the case of reappointments. The director nomination committee consists of five to fifteen members, including private-sector members appointed by the board of directors. Non-standing directors must comprise at least the majority of the director nomination committee. One of the private-sector members must be able to represent our opinion and must not be currently employed by us. As required under the Public Agencies Management Act, we established an audit committee. At least two-thirds of the audit committee members must be non-standing directors, and at least one committee member must be an expert in finance or accounting. 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.

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As required under Public Agencies Management Act, we submit to the Government by October 31 every year a report on our medium- to long-term management goals. Under the Public Agencies Management Act, we are also required to give separate public notice of important management matters, such as our budget and financial statements, status of directors and annual reports. In addition, for purposes of providing a comparison of the management performances of government agencies, we are required to post on a designated website a notice on a standard form detailing our management performance. Following consultation with the Minister of the Ministry of Knowledge Economy and the review and resolution of the operating committee, the Minister of Strategy and Finance must examine the adequacy and competency of government agencies and establish plans on merger, abolishment, restructuring and privatization of public agencies. In such case, the Minister of the Ministry of Knowledge Economy must execute these plans and submit a performance report to the Minister of Strategy and Finance.

The Korea Electric Power Corporation Act and other laws that had conflicted with the Public Agencies Management Act were amended on May 17, 2010. We amended our Articles of Incorporation to reflect the relevant provisions of the Public Agencies Management Act at a general meeting of our shareholders resolution on September 7, 2007. We also revised our internal regulations as necessary to comply with the Public Agencies Management Act.

Differences in Korean/New York Stock Exchange Corporate Governance Practices

We are a foreign private issuer (as such term is defined in Rule 3b-4 under the Exchange Act), and our ADSs are listed on the New York Stock Exchange, or NYSE. Under Section 303A of the NYSE Listed Company Manual, NYSE-listed companies that are foreign private issuers are permitted to follow home country practice in lieu of the corporate governance provisions specified by the NYSE with limited exceptions. Under the NYSE Listed Company Manual, we as foreign private issuers are required to disclose significant differences between NYSE s corporate governance standards and those we follow under Korean law. The following summarizes some significant ways in which our corporate governance practices differ from those followed by U.S. companies listed on the NYSE under the listing rules of the NYSE:

Majority of Independent Directors on the Board

Under the NYSE listing rules, U.S. companies listed on the NYSE must have a board the majority of which is comprised of independent directors satisfying the requirements of independence as set forth in Rule 10A-3 under the Exchange Act. No director qualifies as independent unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). The NYSE rules include detailed tests for determining director independence. While as a foreign private issuer, we are exempt from this requirement, our board of directors is in compliance with this requirement as it currently consists of 15 directors, of which eight directors satisfy the requirements of independence as set forth in Rule 10A-3 under the Exchange Act. U.S. companies listed on the NYSE are required to adopt and disclose corporate governance guidelines. Under the Public Agencies Management Act, more than one-half of our directors must be non-standing directors. The Financial Investment Services and Capital Markets Act of Korea deems a non-standing director nominated pursuant to other applicable laws (such as the Public Agencies Management Act) as an outside or non-executive director. Under the Public Agencies Management Act, a non-standing director is appointed by the Ministry of Strategy and Finance following the review and resolution of the Public Agencies Operating Committee from a pool of candidates recommended by the director nomination committee and must 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.

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Executive Session

Under the NYSE listing rules, non-management directors of U.S. companies listed on the NYSE are required to meet on a regular basis without management present and independent directors must meet separately at least once per year. While no such requirement currently exists under applicable Korean law, listing standards or our Articles of Incorporation, 12 exclusive sessions were held in 2010 in order to promote the exchange of diverse opinions by non-standing directors.

Audit Committee

Under the NYSE listing rules, listed companies must have an audit committee that has a minimum of three members, and all audit committee members must satisfy the requirements of independence set forth in Section 303A.02 of the NYSE Listed Company Manual and Rule 10A-3 under the Exchange Act. We are in compliance with this requirement as our audit committee is comprised of three outside directors meeting the requirements of independence set forth in Section 303A.02 of the NYSE Listed Company Manual and Rule 10A-3 under the Exchange Act. The audit committee must be directly responsible for the appointment, compensation, retention and oversight of the work of the independent registered public accountants. Consistent with the application of the legal requirements then in effect, in June 2005, we amended our Articles of Incorporation, among others, to comply with the general exemptions provided under the audit committee requirements of the Sarbanes-Oxley Act, embodied in Rule 10A-3 of the Exchange Act and established a board of auditors, consisting of one standing auditor and two non-standing auditors. Beginning in the second half of 2005, our board of auditors performed the roles and responsibilities required of an audit committee under the Sarbanes-Oxley Act, including the supervision of the audit by the independent registered public accountants. 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 upon expiration of the term of the last remaining member of the board of auditors. In September 2007, we further amended our Articles of Incorporation to establish, in lieu of the pre-existing board of auditors, an audit committee meeting the requirements under the Sarbanes-Oxley Act. Currently, our audit committee consists of three independent directors. Under the Korea Exchange listing rules and the Korean Commercial Code, a large listed company must also establish an audit committee of which at least two-thirds of its members must be outside directors and whose chairman must be an outside director. In addition, at least one member of the audit committee who is an outside director must also be an accounting or financial expert. We are also in compliance with the foregoing requirements.

Nomination/Corporate Governance Committee

Under the NYSE listing rules, U.S. companies listed on the NYSE must have a nomination/corporate governance committee composed entirely of independent directors. In addition to identifying individuals qualified to become board members, this committee must develop and recommend to the board a set of corporate governance principles. Under the Public Agencies Management Act, we are required to have a director nomination committee which consists of non-standing directors and ad hoc members appointed by our Board of Directors. Our standing directors and executives as well as governmental officials that are not part of the teaching staff in national and public schools are ineligible to become a member of our director nomination committee. There is no requirement to establish a corporate governance committee under applicable Korean law.

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

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Corporate Governance Guidelines and Code of Business Conduct and Ethics

Under the NYSE listing rules, U.S. companies listed on the NYSE are required to establish corporate governance guidelines and to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. As a foreign private issuer, we are exempt from this requirement. Pursuant to the requirements of the Sarbanes-Oxley Act, we have adopted a code of ethics applicable to our President & Chief Executive Officer and all other directors and executive officers including the Chief Financial Officer and the Chief Accounting Officer, as well as all financial, accounting and other officers that are involved in the preparation and disclosure of our consolidated financial statements and internal control of financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. We have also adopted an insider reporting system in compliance with Section 301 of the Sarbanes-Oxley Act. The code of ethics applicable to our executive officers as well as the financial officers of the holding company and its subsidiaries are available on www.kepco.co.kr.

Shareholder Approval of Equity Compensation Plans

Under the NYSE listing rules, shareholders of U.S. companies listed on the NYSE are required to approve all equity compensation plans. Meanwhile, we currently don t have any equity compensation plans.

Annual Certification of Compliance

Under the NYSE listing rules, a chief executive officer of a U.S. company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards. As a foreign private issuer, we are not subject to this requirement. However, in accordance with rules applicable to both U.S. companies and foreign private issuers, we are required to promptly notify the NYSE in writing if any executive officer becomes aware of any material noncompliance with the NYSE corporate governance standards applicable to us. In addition, foreign private issuers, including us, are required to submit to the NYSE an annual written affirmation relating to compliance with Sections 303A.06 and 303A.11 of the NYSE listed company manual, which are the NYSE corporate governance standards applicable to foreign private issuers. All written affirmations must be executed in the form provided by the NYSE, without modification. An annual written affirmation is required to be submitted to the NYSE within 30 days of filing with the SEC our annual report on Form 20-F. We have been in compliance with this requirement in all material respects and plan to submit such affirmation within the prescribed time line.

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PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

Reference is made to Item 19 Exhibits for a list of all financial statements and schedules filed as part of this report.

ITEM 19. EXHIBITS

(a) Financial Statements filed as part of this Annual Report

See Index to Financial Statements on page F-1 of this report.

(b) Exhibits filed as part of this Annual Report

See Index of Exhibits beginning on page E-1 of this report.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

KOREA ELECTRIC POWER CORPORATION

By:	/s/ Kim, Ssang-Su
Name:	**Kim, Ssang-Su**
Title:	**President and Chief Executive Officer**

Date: June 30, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC

ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders and Board of Directors of

Korea Electric Power Corporation:

We have audited the accompanying consolidated statements of financial position of Korea Electric Power Corporation and subsidiaries (collectively referred to as the Company) as of December 31, 2009 and 2010, and the related consolidated statements of operations, changes in shareholders equity, and cash flows for, each of the three years in the period ended December 31, 2010, all expressed in Korean Won. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries whose financial statements reflect 9.9 and 5.1 percent of consolidated total assets as of December 31, 2009 and 2010, and 26.0, 24.4 and 10.7 percent of consolidated total revenue for the years ended December 31, 2008, 2009 and 2010. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those companies, is based solely on the reports of the other auditors. As of December 31, 2009 and for the years ended December 31, 2008 and 2009 the financial statements of Korea Southern Power Co., Ltd. and Korea Midland Power Co., Ltd.; and as of and for the year ended December 31, 2010, the financial statements of Korea South-East Power Co., Ltd; were audited by other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditor provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Korea Electric Power Corporation and subsidiaries as of December 31, 2009 and 2010, and the results of their operations, changes in their shareholders equity and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with the Korea Electric Power Corporation Act, Accounting Regulations for Public Enterprise·Associate Government Agency and accounting principles generally accepted in the Republic of Korea.

Our audit also comprehended the translation of Korean Won amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis in Note 2 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside of the Republic Korea.

Accounting principles generally accepted in the Republic of Korea vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 38 of the consolidated financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31,2010, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 30, 2011 expressed an unqualified opinion on the Company s internal control over financial reporting based on our audits and the reports of the other auditors.

/s/ Deloitte Anjin LLC

Deloitte Anjin LLC

Seoul, Korea
June 30, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON

INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Shareholders and Board of Directors of

Korea Electric Power Corporation:

We have audited Korea Electric Power Corporation and subsidiaries (collectively referred to as the Company) internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit. We did not examine the effectiveness of internal control over financial reporting of certain subsidiaries whose financial statements reflect total assets and revenues constituting 5.1 percent and 10.7 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2010. The effectiveness of certain consolidated subsidiaries internal control over financial reporting was audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the effectiveness of certain consolidated subsidiaries internal control over financial reporting, is based solely on the reports of the other auditor.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit and the reports of the other auditor, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of the Company as of December 31, 2010, and the related consolidated statements of operations, changes in shareholders equity, and cash flows for the year then ended, our report dated June 30, 2011, expressed an unqualified opinion on those financial statements with explanatory paragraphs relating to our audits comprehending the translation of Korean won amounts to U.S. dollar amounts and information relating to the nature and effect of differences between accounting principles generally accepted in the Republic of Korea and accounting principles generally accepted in the United States of America.

/s/ Deloitte Anjin LLC

Deloitte Anjin LLC

Seoul, Korea

June 30, 2011

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Report of independent registered public accounting firm

The Board of Directors and Stockholder

Korea South-East Power Co., Ltd.

We have audited the statement of financial position of Korea South-East Power Co., Ltd. (the Company) as of December 31, 2010, and the related statements of income, appropriations of retained earnings, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Korea South-East Power Co., Ltd. at December 31, 2010, the results of its financial performance, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Accounting practices used by the Company in preparing the accompanying financial statements conform with generally accepted accounting principles in the Republic of Korea, but do not conform with accounting principles generally accepted in the United States of America. The description of the significant differences and the reconciliation of net income and stockholder s equity to U.S. generally accepted accounting principles are set forth in Note 32 to the financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Korea South-East Power Co., Ltd. s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 28, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young Han Young

June 28, 2011

Seoul, Republic of Korea

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Report of independent registered public accounting firm on

internal control over financial reporting

To the Board of Directors and Stockholder of

Korea South-East Power Co., Ltd.

We have audited Korea South-East Power Co., Ltd. s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Korea South-East Power Co., Ltd. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Korea South-East Power Co., Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the statement of financial position of Korea South-East Power Co., Ltd. as of December 31, 2010, and the related statements of income, appropriations of retained earnings, changes in equity, and cash flows for the year then ended and our report dated June 28 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young Han Young

June 28, 2011

Seoul, Republic of Korea

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder

Korea Southern Power Co., Ltd.:

We have audited consolidated statement of financial position of Korea Southern Power Co., Ltd. (a wholly owned subsidiary of Korea Electric Power Corporation (KEPCO)) and subsidiaries (the Company) as of December 31, 2009, and the related consolidated statements of operations, changes in stockholder s equity and cash flows for the years ended December 31, 2009 and 2008. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Korea Southern Power Co., Ltd. and subsidiaries as of December 31, 2009, and the results of their operations and their cash flows for the years ended December 31, 2009 and 2008 in conformity with accounting principles generally accepted in the Republic of Korea.

As further described in Note 7 to the consolidated financial statements, the Company derives substantially all of its operating revenue from KEPCO and engages in other significant transactions with related parties.

Accounting principles generally accepted in the Republic of Korea vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in the note 27 to the consolidated financial statements.

/s/ KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.

Seoul, Korea

June 25, 2010

KPMG Samjong Accounting Corp., a corporation established under Korean

law, is a member firm of KPMG International, a Swiss Cooperative.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder

Korea Midland Power Co., Ltd.:

We have audited consolidated statement of financial position of Korea Midland Power Co., Ltd. (a wholly owned subsidiary of Korea Electric Power Corporation (KEPCO)) and subsidiaries (the Company) as of December 31, 2009, and the related consolidated statements of operations, changes in stockholder s equity and cash flows for the years ended December 31, 2009 and 2008. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Korea Midland Power Co., Ltd. as of December 31, 2009, and the results of its operations and its cash flows for the years ended December 31, 2009 and 2008 in conformity with accounting principles generally accepted in the Republic of Korea.

As further described in Note 7 to the consolidated financial statements, the Company derives substantially all of its operating revenue from KEPCO and engages in other significant transactions with related parties.

Accounting principles generally accepted in the Republic of Korea vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in note 29 to the consolidated financial statements.

/s/ KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.

Seoul, Korea

June 28, 2010

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2009 AND 2010

	Won		U.S. dollars (Note 2)
	2009	**2010**	**2010**
	(In millions)		**(In thousands)**
Assets			
Property, plant and equipment (Notes 3 and 4):	(Won) 115,483,190	(Won) 122,262,324	$ 108,139,328
Less: accumulated depreciation	(50,183,508)	(56,099,984)	(49,619,657)
Less: accumulated impairment losses	(22,935)	(13,265)	(11,733)
Less: construction grants	(6,152,485)	(6,993,712)	(6,185,841)
	59,124,262	59,155,363	52,322,097
Construction in-progress	14,909,169	19,744,150	17,463,427
Net property, plant and equipment	74,033,431	78,899,513	69,785,524
Investments and other assets:			
Long-term investment securities (Note 6)	3,542,283	4,764,710	4,214,320
Long-term loans (Notes 7 and 20)	584,327	812,232	718,408
Financial derivatives (Note 25)	756,034	375,757	332,352
Intangible assets (Notes 5 and 32)	682,345	455,852	403,195
Deferred income tax assets (Note 28)	1,689,851	1,145,548	1,013,221
Other non-current assets (Notes 8, 9, 20 and 33)	890,860	768,286	679,538
Total non-current assets	82,179,131	87,221,898	77,146,558
Current assets:			
Cash and cash equivalents (Notes 9 and 20)	1,489,390	2,097,285	1,855,019
Trade receivables, less allowance for doubtful accounts of (Won)61,094 million in 2009 and (Won)30,961 million in 2010 (Notes 20, 31 and 32)	3,189,923	3,695,384	3,268,516
Other accounts receivable, less allowance for doubtful accounts of (Won)28,380 million in 2009 and (Won)25,420 million in 2010 (Notes 5, 20, 31 and 32)	1,341,520	1,331,462	1,177,660
Short-term investment securities (Note 6)	10,420	509	450
Short-term financial instruments (Notes 9 and 20)	356,115	571,310	505,316
Financial derivatives (Note 25)	144,449	100,148	88,580
Inventories (Notes 4 and 10)	3,894,878	3,479,690	3,077,737
Deferred income tax assets (Note 28)	353,103	786,630	695,763
Other current assets (Notes 7, 11 and 20)	249,102	326,082	288,415
Total current assets	11,028,900	12,388,500	10,957,456
Total assets	(Won) 93,208,031	(Won) 99,610,398	$ 88,104,014

(Continued)

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2009 AND 2010

	Won 2009	Won 2010	U.S. dollars (Note 2) 2010
	(In millions)	(In millions)	(In thousands)
Liabilities and Shareholders Equity			
Shareholders equity:			
Common stock of (Won)5,000 par value authorized 1,200,000,000 shares Issued and outstanding 641,567,712 shares in 2009 and 2010 (Note 12)	(Won) 3,207,839	(Won) 3,207,839	$ 2,837,289
Capital surplus (Notes 3 and 12)	14,668,563	14,764,631	13,059,111
Capital adjustments (Note 13)	(741,587)	(741,587)	(655,923)
Accumulated other comprehensive income (Notes 14)	487,211	453,928	401,493
Retained earnings:			
Appropriated (Note 15)	23,509,731	23,432,019	20,725,295
Before appropriations	(104,523)	(98,967)	(87,535)
Noncontrolling interest in consolidated subsidiaries	376,573	470,738	416,361
Total shareholders equity	41,403,807	41,488,601	36,696,091
Long-term liabilities:			
Long-term debt, net (Notes 18 and 31)	27,840,626	33,089,245	29,266,978
Borrowings under conditional agreements (Note 19)	15,317	18,295	16,182
Long-term other account payable (Note 22)	3,576,369	3,576,369	3,163,249
Accrual for retirement and severance benefits, net (Note 21)	1,772,680	1,688,189	1,493,180
Liability for decommissioning costs (Note 22)	5,695,224	5,976,326	5,285,977
Provision for decontamination of transformer (Note 23)	231,470	278,011	245,897
Reserve for self insurance	121,416	123,098	108,878
Financial derivatives (Note 25)	34,983	209,448	185,254
Deferred income tax liabilities (Note 28)	972,077	990,116	875,744
Other long-term liabilities	796,359	585,314	517,702
Total long-term liabilities	41,056,521	46,534,411	41,159,041
Current liabilities:			
Trade payables (Notes 20, 31 and 32)	1,928,442	2,425,394	2,145,227
Other accounts payable (Notes 20, 31 and 32)	835,067	621,879	550,043
Short-term borrowings (Note 17)	684,480	457,426	404,587
Current portion of long-term debt, net (Note 18)	5,778,813	6,311,867	5,582,759
Income tax payable	82,844	256,198	226,604
Accrued expense	531,167	605,595	535,640
Financial derivatives (Note 25)	3,023	10,763	9,520
Deferred income tax liabilities (Note 28)	18,023	9,065	8,018
Other current liabilities (Notes 20 and 24)	885,844	889,199	786,484
Total current liabilities	10,747,703	11,587,386	10,248,882
Total liabilities	51,804,224	58,121,797	51,407,923

Commitments and contingencies (Note 33)			
Total shareholders equity and liabilities	(Won) 93,208,031	(Won) 99,610,398	$ 88,104,014

See accompanying notes to the consolidated financial statements.

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010

	Won 2008	Won 2009	Won 2010	U.S. dollars (Note 2) 2010
	(In millions, except per share amounts)			(In thousands, except per share amounts)
OPERATING REVENUES: (Notes 31 and 32)				
Sale of electricity	(Won) 30,708,544	(Won) 33,091,577	(Won) 37,518,463	$ 33,184,560
Other operating revenues	851,556	902,275	1,907,497	1,687,155
	31,560,100	33,993,852	39,425,960	34,871,715
OPERATING EXPENSES (Notes 26, 27, 31 and 32):				
Power generation, transmission and distribution costs	27,101,532	25,829,287	29,185,920	25,814,541
Purchased power	4,433,889	3,666,468	5,382,428	4,760,683
Other operating costs	1,083,050	1,238,619	1,618,402	1,431,454
Selling and administrative expenses	1,739,702	1,544,656	1,659,057	1,467,413
	34,358,173	32,279,030	37,845,807	33,474,091
OPERATING INCOME (LOSS)	(2,798,073)	1,714,822	1,580,153	1,397,624
OTHER INCOME (EXPENSES):				
Interest income	170,951	113,865	119,477	105,676
Interest expenses	(1,000,773)	(1,583,863)	(1,624,824)	(1,437,134)
Gain (loss) on foreign currency transactions and translation, net	(1,845,392)	662,812	119,919	106,066
Donations	(40,112)	(21,109)	(30,884)	(27,316)
Equity income of affiliates, net (Note 6)	98,611	22,473	75,477	66,758
Gain on disposal of investments, net	4,241	310	4,482	3,964
Impairment loss on investment securities		(60,636)		
Gain on disposal of property, plant and equipment, net	14,305	38,896	21,921	19,389
Valuation gain (loss) on financial derivatives, net (Note 25)	1,341,887	(357,004)	(206,084)	(182,278)
Transaction loss (gain) on financial derivatives (Note 25)	(154,114)	42,856	3,456	3,057
Loss on early repayment of exchangeable bond (Note 18)		(540,593)		
Other, net	364,866	289,584	374,073	330,862
	(1,045,530)	(1,392,409)	(1,142,987)	(1,010,956)
INCOME (LOSS) BEFORE INCOME TAX	(3,843,603)	322,413	437,166	386,668

INCOME TAX EXPENSES (BENEFITS) (Note 28)		(929,564)		370,145		457,021		404,229
NET LOSS		(2,914,039)		(47,732)		(19,855)		(17,561)
Controlling interest	(Won)	(2,955,339)	(Won)	(96,716)	(Won)	(72,156)	$	(63,821)
Noncontrolling interest		41,300		48,984		52,301		46,260
	(Won)	(2,914,039)	(Won)	(47,732)	(Won)	(19,855)	$	(17,561)
BASIC LOSS PER SHARE (Note 29)	(Won)	(4,746)	(Won)	(155)	(Won)	(116)	$	(0.103)
DILUTED LOSS PER SHARE (Note 29)	(Won)	(4,746)	(Won)	(155)	(Won)	(116)	$	(0.103)

See accompanying notes to the consolidated financial statements.

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010

	Won (in millions)						
	Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Minority interests	Total
Balances at January 1, 2008	(Won) 3,207,839	(Won) 14,558,256	(Won) (741,825)	(Won) 83,915	(Won) 26,924,227	(Won) 234,441	(Won) 44,266,853
Net income (loss)					(2,955,339)	41,300	(2,914,039)
Dividends declared					(466,964)		(466,964)
Exercise of conversion right		(61)					(61)
Gain on disposal of subsidiary s securities		148					148
Gain on disposal of treasury stock, net of tax		188					188
Changes in treasury stock			336				336
Changes in unrealized losses on available-for-sale securities				(8,274)			(8,274)
Equity in other comprehensive income of affiliates				205,359			205,359
Changes in translation adjustments of foreign subsidiaries				45,266			45,266
Changes in valuation of derivatives				108,798			108,798
Changes in minority interests						37,204	37,204
Balances at December 31,2008	3,207,839	14,558,531	(741,489)	435,064	23,501,924	312,945	41,274,814
Net income (loss)					(96,716)	48,984	(47,732)
Changes in discount on stock issuance			(98)				(98)
Changes in other capital surplus		110,032					110,032
Changes in unrealized losses on available-for-sale securities				18,086			18,086
Equity in other comprehensive income of affiliates				107,968			107,968
Changes in translation adjustments of foreign subsidiaries				(31,303)			(31,303)
Changes in valuation of derivatives				(42,604)			(42,604)
Changes in minority interests						14,644	14,644

Balances at December 31,2009	3,207,839	14,668,563	(741,587)	487,211	23,405,208	376,573	41,403,807

(Continued)

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010

	Won (in millions)						
	Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Minority interests	Total
Net income (loss)					(72,156)	52,301	(19,855)
Gain on disposal of subsidiary s securities		96,101					96,101
Changes in other capital surplus		(33)					(33)
Changes in unrealized losses on available-for-sale securities				1,407			1,407
Equity in other comprehensive income of affiliates				(13,400)			(13,400)
Changes in translation adjustments of foreign subsidiaries				17,168			17,168
Changes in valuation of derivatives				(38,458)			(38,458)
Changes in minority interests						41,864	41,864
Balances at December 31, 2010	(Won) 3,207,839	(Won) 14,764,631	(Won) (741,587)	(Won) 453,928	(Won) 23,333,052	(Won) 470,738	(Won) 41,488,601
U.S. dollars (In thousands) (Note 2)	$ 2,837,289	$ 13,059,111	$ (655,923)	$ 401,493	$ 20,637,760	$ 416,361	$ 36,696,091

See accompanying notes to the consolidated financial statements.

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KOREA ELECTRIC POWER CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010

	2008	Won 2009 (In millions)	2010	U.S. dollars (Note 2) 2010 (In thousands)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	(Won) (2,914,039)	(Won) (47,732)	(Won) (19,855)	$ (17,561)
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	6,233,033	6,318,534	6,415,199	5,674,154
Property, plant and equipment removal loss	302,288	276,724	266,889	236,060
Provision for severance and retirement benefits	483,909	238,001	423,221	374,333
Provision for decommissioning costs, net	379,281	223,387	234,528	207,437
Provision for decontamination of Transformer, net	13,016	16,222	15,022	13,287
Bad debt expense	20,616	28,397	2,217	1,961
Amortization of discount on debentures Issued and long-term loans, net	38,735	197,217	182,624	161,528
Loss (gain) on foreign currency translation, net	1,586,241	(659,151)	(91,187)	(80,654)
Equity income of affiliates, net	(98,611)	(22,473)	(75,477)	(66,758)
Impairment loss on investment securities		60,636		
Gain on disposal of property, plant and equipment, net	(14,305)	(38,896)	(21,921)	(19,389)
Gain on disposal of investment assets, net			(4,482)	(3,964)
Deferred income tax expense, net	(1,540,780)	282,931	119,858	106,013
Valuation loss (gain) on financial derivatives	(1,341,887)	357,004	206,084	182,278
Transaction loss (gain) on financial derivatives	154,114	(42,856)	(3,456)	(3,057)
Loss on early repayment of exchangeable bond		540,593		
Other losses (gains), net	(135,364)	38,859	87,195	77,122
Changes in assets and liabilities:				
Trade receivables	(216,627)	(452,910)	(494,690)	(437,546)
Other accounts receivable	(176,891)	229,266	13,271	11,738
Inventories	(1,779,959)	(672,328)	(842,584)	(745,254)
Investments under the equity method	33,102	28,973	35,574	31,465
Other current assets	55,700	6,610	(76,684)	(67,826)
Trade payables	773,558	(315,952)	513,145	453,870
Other accounts payable	69,415	(33,951)	(302,523)	(267,577)
Income tax payable	(14,157)	(387,739)	173,832	153,752
Accrued expense	41,973	(9,150)	85,695	75,795
Other current liabilities	83,130	58,274	(4,437)	(3,924)
Payment of severance and retirement benefits, net	(78,204)	(173,430)	(579,624)	(512,669)
Payment of decommissioning costs	(8,791)	(254,287)	(275,238)	(243,444)
Payment of other provision	(54,238)	(114,793)	(91,608)	(81,026)
Other, net	67,032	62,511	(252,425)	(223,267)
Net cash provided by operating activities	1,961,290	5,738,491	5,638,163	4,986,877

(Continued)

KOREA ELECTRIC POWER CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010

	2008	Won 2009 (In millions)	2010	U.S. dollars (Note 2) 2010 (In thousands)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from disposal of property, plant and equipment	(Won) 47,669	(Won) 232,274	(Won) 100,766	89,126
Additions to property, plant and equipment	(8,924,622)	(11,243,965)	(10,813,733)	(9,564,597)
Receipt of construction grants	1,141,724	1,197,173	1,293,347	1,143,947
Proceeds from disposal of investment securities	71,308	119	1,210	1,070
Acquisition of investment securities	(164,014)	(752,164)	(1,155,326)	(1,021,870)
Increase in long-term loans, net	(177,278)	(2,628)	(302,684)	(267,720)
Acquisition of intangible assets	(360,604)	(249,677)	(59,437)	(52,571)
Increase (decrease) in other non-current assets, net	(157,363)	(330,207)	214,290	189,537
Increase (decrease) in short-term financial instruments, net	1,357,132	97,787	(205,340)	(181,620)
Decrease in current portion of long-term loans, net	23,095	39,616	38,227	33,811
Net cash used in investing activities	(7,142,953)	(11,011,672)	(10,888,680)	(9,630,887)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from long-term debt	9,887,176	11,821,305	11,511,316	10,181,599
Proceeds from borrowings under conditional agreements	3,032	3,447	2,041	1,805
Repayment of long-term debt	(4,681,712)	(5,964,054)	(5,790,266)	(5,121,410)
Proceed from short-term borrowings, net	509,670	(594,340)	(207,492)	(183,524)
Dividends paid	(492,286)	(45,920)	(32,498)	(28,744)
Settlement of financial derivatives	(211,688)	37,056	316,173	279,651
Other, net	11,023	35,772	53,062	46,933
Net cash provided by financing activities	5,025,215	5,293,266	5,852,336	5,176,310
INCREASE (DECREASE) FROM CHANGES IN CONSOLIDATED SUBSIDIARIES	(4,689)	661	10,586	9,363
CHANGE IN CASH AND CASH EQUIVALENTS FROM THE TRANSLATION OF FOREIGN SUBSIDIARIES	39,094	16,358	(4,510)	(3,989)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(122,043)	37,104	607,895	537,674
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,574,329	1,452,286	1,489,390	1,317,345
CASH AND CASH EQUIVALENTS, END OF YEAR	(Won) 1,452,286	(Won) 1,489,390	(Won) 2,097,285	$ 1,855,019

See accompanying notes to the consolidated financial statements.

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KOREA ELECTRIC POWER CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS DECEMBER 31, 2009 AND 2010

(1) Summary of Significant Accounting Policies and Basis of Presenting Consolidated Financial Statements

(a) Organization and Description of Business

Korea Electric Power Corporation (the KEPCO) was incorporated on January 1, 1982 in accordance with the Korea Electric Power Corporation Act (the KEPCO Act) to engage in the generation, transmission and distribution of electricity and development of electric power resources in the Republic of Korea. The Company was given the status of a government-invested enterprise on December 31, 1983 following the enactment of the Government-Invested Enterprise Management Basic Act. The Company s stock was listed on the Korea Stock Exchange on August 10, 1989 and the Company listed its Depository Receipts (DR) on the New York Stock Exchange on October 27, 1994. On April 1, 2007 KEPCO was designated as a market orientated enterprise by the Government of the Republic of Korea.

On October 28, 2009, Korea Development Bank (the KDB) transferred its 29.95% shares of the Company to Korea Finance Corporation (the KoFC); both are wholly owned companies of the Korean Government. As of December 31, 2010, the Korean Government, KoFC, and foreign investors held 21.12%, 29.95% and 23.09%, respectively of the Company s shares.

In accordance with the restructuring plan by the Ministry of Knowledge Economy (the MKE) on January 21, 1999 (the Restructuring Plan), the Company spun off its power generation division on April 2, 2001, resulting in the establishment of six power generation subsidiaries. In addition, KEPCO has been contemplating the gradual privatization of KEPCO s power generation subsidiaries and distribution business. In 2002, the Company commenced the sale of one of its generation subsidiaries. However, this sale was delayed due to unfavorable stock market conditions at the time. The Company intends to resume its stock-listing process in due course, after taking into consideration the overall stock market and other pertinent matters. The privatization of the power generation subsidiaries may result in a change in pricing of electric power, operational organization, related regulations and general policies for supply and demand of energy. The privatization of KEPCO s distribution business was discontinued according to the recommendation of the Korea Tripartite Commission on June 30, 2004. In lieu of privatization, the Korea Tripartite Commission recommended the creation of independent business divisions, namely, the strategic business units, to create internal competition among the business divisions and ultimately to improve efficiency. On September 25, 2006, KEPCO established nine strategy business units with a separate management structure with limited autonomy, separate financial accounting and performance evaluation criteria, which, together with certain other business units of KEPCO, were restructured into 13 integrated business units with a focus on profit maximization in December 2008, following a two-year evaluation period.

(b) Basis of Presenting Consolidated Financial Statements

KEPCO maintains its accounting records in Korean Won and prepares the consolidated financial statements in the Korean language (Hangul) in conformity with the KEPCO Act, Accounting Regulations for Public Enterprise Associate Government Agency, which have been approved by the Korean Ministry of Strategy and Finance and, in the absence of specialized accounting regulations for utility companies, the accounting principles generally accepted in the Republic of Korea (collectively Korean GAAP). Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these consolidated financial statements are intended solely for use by those who are informed about Korean accounting principles and practices, the KEPCO Act and Accounting Regulations for Public Enterprise Associate Government Agency. The accompanying consolidated financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language consolidated financial statements. Certain information included in the Korean language consolidated financial statements, but not required for a fair presentation of the Company s financial position, results of operations, changes in shareholders equity or cash flows, is not presented in the accompanying consolidated financial statements.

The Korea Accounting Standards Board (the KASB) has published a series of Statements of Korea Accounting Standards (SKAS), which replace the existing financial accounting standards, established by the Korean Financial and Supervisory Board. The Company prepared its financial statements as of December 31, 2010 in accordance with Financial Accounting Standards and SKAS in the Republic of Korea.

(c) Principles of Consolidation
The consolidated financial statements include the accounts of KEPCO and its controlled subsidiaries (collectively referred to as the Company). Controlled subsidiaries include majority-owned entities by either the Company or controlled subsidiaries and other entities where the Company or its controlled subsidiary owns more than 30% of total outstanding common stock and is the largest shareholder.

For investments in companies, whether or not publicly held, that are not controlled, but under the Company s significant influence, the Company utilizes the equity method of accounting. Significant influence is generally deemed to exist if the Company can exercise influence over the operating and financial policies of an investee. The ability to exercise that influence may be indicated in several ways, such as the Company s representation on its board of directors, the Company s participation in its policy making processes, material transactions with the investee, interchange of managerial personnel, or technological dependency. Also, if the Company owns directly or indirectly 20% or more of the voting stock of an investee and the investee is not required to be consolidated, the Company generally presumes that the investee is under significant influence.

When a controlling company still has control over its subsidiaries even after the controlling company sold a portion of its investment in the subsidiaries, the disposal gain or loss realized in connection with the sale of a subsidiary s common stock should be presented as additions or deductions of consolidated capital surplus in the consolidated financial statements.

All intercompany balances including trade receivables and trade payables are eliminated in consolidation. Profits and losses on intercompany sales of products, property or other assets are eliminated in the consolidated financial statements based on the gross profit or loss recognized. For downstream sales, the full amount of intercompany profit is eliminated in the consolidated statements of income. For upstream sales, the elimination is allocated proportionately to consolidated income and minority interests. Details of unrealized income eliminated as of December 31, 2009 and 2010 are summarized as follows:

	Won (millions)		
	2009		
Account	**Controlling interest**	**Minority interest**	**Total**
Property, plant and equipment	(Won) 251,903	55,359	307,262
Intangible assets	3,515	43	3,558
Others	(6,456)	(684)	(7,140)
	(Won) 248,962	54,718	303,680

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Account	Won (millions) 2010 Controlling interest	Minority interest	Total
Property, plant and equipment	(Won) 308,160	67,141	375,301
Intangible assets	3,177	58	3,235
Others	4,777	(2,589)	2,188
	(Won) 316,114	64,610	380,724

(d) Consolidated Subsidiaries

Subsidiaries	Year of establishment	Ownership percentage (%) 2009	2010	Primary business
Korea Hydro & Nuclear Power Co., Ltd.(*1)	2001	100.0	100.0	Power generation
Korea South-East Power Co., Ltd.(*1)	2001	100.0	100.0	Power generation
Korea Midland Power Co., Ltd.(*1)	2001	100.0	100.0	Power generation
Korea Western Power Co., Ltd.(*1)	2001	100.0	100.0	Power generation
Korea Southern Power Co., Ltd.(*1)	2001	100.0	100.0	Power generation
Korea East-West Power Co., Ltd.(*1)	2001	100.0	100.0	Power generation
KEPCO Engineering & Construction Inc.	1977	77.9	77.9	Engineering for utility plant
KEPCO Plant Service & Engineering Co., Ltd.	1984	75.0	75.0	Utility plant maintenance
KEPCO Nuclear Fuel Co., Ltd.	1982	96.4	96.4	Nuclear fuel
KEPCO Knowledge, Data & Network Co., Ltd.	1992	100.0	100.0	Information services
Garolim Tidal Power Plant Co., Ltd.(*4)	2007	49.0	49.0	Power generation
Daegu Green Power Co., Ltd.(*3, *5)	2010		41.0	Power generation
KEPCO International Hong Kong Ltd.	1995	100.0	100.0	Holding Company
KEPCO International Philippines Inc.	2000	100.0	100.0	Holding Company
KEPCO Gansu International Ltd.	2005	100.0	100.0	Holding Company
KEPCO Philippines Holdings Inc.	2005	100.0	100.0	Holding Company
KEPCO Asia International Ltd.	2005	85.0	85.0	Holding Company
KEPCO Philippines Corporation(*2)	1995	100.0	100.0	Utility plant rehabilitation and operation
KEPCO Ilijan Corporation(*2)	1997	51.0	51.0	Construction and operation of utility plant
KEPCO SPC Power Corporation	2005	60.0	60.0	Construction and operation of utility plant
KEPCO Lebanon SARL	2006	100.0	100.0	Operation of utility plant
KEPCO Neimenggu International Ltd.	2006	100.0	100.0	Holding Company

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Subsidiaries	Year of establishment	Ownership percentage (%) 2009	2010	Primary business
KEPCO Shanxi international Ltd.	2007	100.0	100.0	Holding Company
KOMIPO Global Pte Ltd.	2007	100.0	100.0	Construction and operation of utility plant
KEPCO Canada Energy Inc.	2008	100.0	100.0	Holding Company
KEPCO Netherlands B.V.	2009	100.0	100.0	Holding Company
KEPCO Imouraren Uranium Investment Ltd.	2009	100.0	100.0	Uranium mine development
KEPCO Australia Pty. Ltd.	2005	100.0	100.0	Resources development
KOSEP Australia Pty. Ltd.	2007	100.0	100.0	Resources development
KOMIPO Australia Pty. Ltd.	2007	100.0	100.0	Resources development
KOWEPO Australia Pty. Ltd.	2007	100.0	100.0	Resources development
KOSPO Australia Pty. Ltd.	2007	100.0	100.0	Resources development
KEPCO Middle East Holding Company(*3)	2008		100.0	Holding Company
Qatrana Electric Power Company(*3)	2009		80.0	Construction and operation of utility plant
PT Wampu Electric Power(*3, *5)	2008		46.0	Construction and operation of utility plant
KHNP Canada Energy Ltd.(*3)	2010		100.0	Resources development
KEPCO Canada Uranium Investment Limited Partnership(*3)	2009		100.0	Resources development

(*1) Six new power generation subsidiaries were established on April 2, 2001 through the spin-off of KEPCO s power generation division in accordance with the Restructuring Plan.

(*2) Under the project agreement between the National Power Corporation of Philippines and KEPCO, the cooperation period of KEPHILCO and KEILCO is until January 24, 2011 and June 4, 2022, respectively. At the end of the agreement period, the power plant complex will be transferred to the National Power Corporation in Philippines free of any liens or encumbrances and without payment of compensation. KEPCO Ilijan Corporation s investment securities under the equity method held by KEPCO International Philippines Inc. are pledged as collateral to Japan Bank of International Corporation and others.

(*3) As of December 31, 2010, Daegu Green Power Co., Ltd., KEPCO Middle East Holding Company, Qatrana Electric Power Company, PT Wampu Electric Power, KHNP Canada Energy Ltd. and KEPCO Canada Uranium Investment Limited Partnership were newly included in consolidation.

(*4) The Company owns less than 50% of the shares of Garolim Tidal Power Plant Co., Ltd. However, as the Company holds power to appoint or remove the majority of the members of the board of directors or equivalent governing body, Garolim Tidal Power Plant Co., Ltd. was included in consolidation.

(*5) The Company owns less than 50% of the shares of Daegu Green Power Co., Ltd. and PT Wampu Electric Power. However, they are included in consolidation since the Company is the largest shareholder as it holds more than 30% of total issued shares (except non-voting share).

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The power generation subsidiaries are primarily engaged in the sale of electricity to KEPCO through the Korea Power Exchange. Details of those subsidiaries are as follows:

Name of the subsidiaries	Major power plant
Korea Hydro & Nuclear Power Co., Ltd. (KHNP)	Hydroelectric power plant and nuclear power plant in Gori
Korea South-East Power Co., Ltd. (KOSEP)	Thermoelectric power plant in Samchonpo
Korea Midland Power Co., Ltd. (KOMIPO)	Thermoelectric power plant in Boryung
Korea Western Power Co., Ltd. (KOWEPO)	Thermoelectric power plant in Tae-an
Korea Southern Power Co., Ltd. (KOSPO)	Thermoelectric power plant in Hadong
Korea East-West Power Co., Ltd. (EWP)	Thermoelectric power plant in Dangjin

(e) Affiliates Accounted for Using the Equity Method

Affiliate	Ownership percentage (%) 2009	2010	Primary business
Korea Gas Corporation	24.5	24.5	Importing and wholesaling LNG
LG Uplus Corporation (formerly LG Telecom)		7.5	Telecommunications and Internet access services
Korea Electric Power Industrial Development Co., Ltd.	49.0	29.0	Electricity metering
YTN	21.4	21.4	Broadcasting
Gansu Datang Yumen Wind Power Co., Ltd.	40.0	40.0	Construction and operation of utility plant
SPC Power Corporation	40.0	40.0	Operation of utility plant
Datang Chifang Renewable Power Co., Ltd.	40.0	40.0	Construction and operation of utility plant
Gemeng International Energy Group Co., Ltd.	34.0	34.0	Construction and operation of utility plant
KEPCO Energy Resource Nigeria Ltd.	30.0	30.0	Construction and operation of utility plant
Gangwon Wind Power Co., Ltd	15.0	15.0	Wind power generating
Hyundai Green Power Co., Ltd.	29.0	29.0	Generating electricity
Cheongna Energy Co., Ltd.	30.0	30.0	Generating and distributing vapor and hot/cold water
PT. Cirebon Electric Power	27.5	27.5	Construction and operation of utility plant
Eco Biomass Energy Sdn. Bhd.	40.0	40.0	Combined heat and power generation and CDM business
Denison Mines Corporation	17.1	17.1	Uranium exploration and development
Rabigh Electricity Company	40.0	40.0	Construction and operation of utility

			plant
KNOC Nigerian East Oil Co., Ltd.	14.6	14.6	Oil and gas exploration in Nigeria
KNOC Nigerian West Oil Co., Ltd.	14.6	14.6	Oil and gas exploration in Nigeria
Areva NC Expansion	15.0	15.0	Uranium exploration and development
PT. Bayan Resources TBK.		20.0	Resources development

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(f) Property, Plant and Equipment

Property, 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. Significant additions or improvements extending useful lives of assets are capitalized. However, normal maintenance and repairs are charged to expense as incurred.

The Company capitalizes interest cost and other financial charges on borrowing associated with the manufacture, purchase, or construction of property, plant and equipment, incurred prior to completing the acquisition, as part of the cost of such assets. The calculation of capitalized interest includes exchange differences arising from foreign borrowings to the extent that they are regarded as an adjustment to interest costs, which is limited to the extent of interest cost calculated by the weighted average interest rate of local currency borrowings. For the years ended December 31, 2008, 2009 and 2010, the amounts of capitalized interest were (Won)309,971 million, (Won)293,999 million and (Won)494,430 respectively.

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 and waste electric transformer, 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 as follows:

	Estimated useful life
Buildings	8 ~ 40
Structures	8 ~ 30
Machinery	4 ~ 16
Vehicles	4 ~ 5
Loaded heavy water (included in loaded nuclear fuel)	30
Loaded nuclear fuel	
Capitalized asset retirement cost of nuclear power plants	30 ~ 40
Capitalized asset retirement cost of waste electric transformer	8
Capitalized asset retirement cost of loaded nuclear fuel	
Others	4 ~ 9

As described in Note 1(v), in 2004, the Company adopted SKAS No. 17, Provisions, Contingent Liabilities and Contingent Assets , and retrospectively adjusted the liability for decommissioning costs at the estimated fair value using discounted cash flows to settle the asset retirement obligations of dismantlement of the nuclear power plants, spent fuel and low & intermediate radioactive waste. In addition, the corresponding asset (calculated at the net book value amount as of January 1, 2004) related to all existing plants was recognized as a utility asset. The Company subsequently depreciates the capitalized asset retirement costs using the straight-line for dismantling costs and units-of-production depreciation method for spent fuel.

As described in Note 23, under the new regulation of Persistent Organic Pollutants Management Act, enacted in 2007, the Company is required to remove polychlorinated biphenyls (PCBs), a toxin, from the insulating oil of its transformers by 2015. According to the enactments, the Company is required to inspect the PCBs contents of transformers and dispose of PCBs in excess of safety standards under the legally settled procedures. The Company recognized related costs as a liability and capitalized the amount related to all existing utility plants.

When the Company receives grants which relate to the construction of transmission and distribution facilities, such amounts are initially recorded and presented in the accompanying consolidated financial statements as deductions from the assets acquired under such grants and are offset against depreciation expense during the estimated useful lives of the related assets.

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(g) Asset Impairment

When the book value exceeds the estimated recoverable value of an asset due to obsolescence, physical damage or decline in market value, and the amount is material, the impaired asset is recorded at the recoverable value with the resulting impairment loss charged to current operations. If the recoverable value exceeds the adjusted book value of the asset in a subsequent period, the recoveries of previously recognized losses are recognized as gain in subsequent periods to the extent the net realizable value equals the book value of the assets before the loss is recognized after consideration of accumulated depreciation.

The Company evaluates long-lived assets for impairment when events or changes in circumstances indicate, in management s judgment, that the carrying value of such assets may not be recoverable. These computations utilize judgments and assumptions inherent in management s estimate of undiscounted future cash flows to determine recoverability of an asset. Management uses its best estimate in making these evaluations and considers various factors, including the future prices of energy, fuel costs and operating costs. However, actual market prices and operating costs could vary from those used in the impairment evaluations, and the impact of such variations could be material. If management believes the assets may have declined in value based on these assumptions, the Company records impairment charges to reflect the estimated recoverable value.

(h) Investment Securities

Classification of Securities

At acquisition, the Company classifies securities into o