

act as a custodian of shares for a nonresident or foreign investor. A foreign investor must ensure that his custodian deposits his shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the Financial Supervisory Service in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. With certain exceptions, companies designated by the Korean government as a "public corporation" may set a ceiling on the acquisition of shares by a single person within 3% of the total number of shares. A foreigner who has acquired shares in excess of any ceiling may not exercise his voting rights with respect to the shares exceeding the limit, and the Financial Supervisory Commission may take necessary corrective action against such foreigner pursuant to the Securities and Exchange Act. Currently, Korea Electric Power Corporation is the only designated public corporation which has set such a ceiling. Furthermore, an investment by a foreign investor in 10% or more of the outstanding shares with voting rights of a Korean company is defined as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to the Ministry of Commerce, Industry and Energy of Korea, which delegates its authority to receive such reports to foreign exchange banks or the Korea Trade Investment Promotion Agency under relevant regulations. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign or other shareholding restrictions in the event that the restrictions are prescribed in a specific law that regulates the business of the Korean company. For a description of such restrictions applicable to Korean banks, see "Item 4. Information on the Company – Supervision and Regulation – Principal Regulations Applicable to Banks – Restrictions on Bank Ownership."

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 Korean governmental approval.

Dividends on shares of Korean companies are paid in Won. No Korean 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 nonresident of Korea must be deposited either in a Won account with the investor's securities company or in his 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 exceeding a certain limit needs to be reported to the tax authorities by the foreign exchange bank at which the Won account is maintained. Funds in the Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Securities companies and asset management companies are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, 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 investors having to open their own accounts with foreign exchange banks.

TAXATION

The following summary is based upon tax laws of the United States and the Republic of Korea as in effect on the date of this Annual Report on Form 20-F, and is subject to any change in United States or Korean law that may come into effect after such date. Investors in shares of common stock or American

depository shares are advised to consult their own tax advisers as to the United States, Korean or other tax consequences of the purchase, ownership and disposition of such securities, including the effect of any national, state or local tax laws.

Korean Taxation

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

- a resident of Korea;
- a corporation organized under Korean law; or
- engaged in a trade or business in Korea through a permanent establishment or a fixed base.

Dividends on Shares of Common Stock or American Depositary Shares

We will deduct Korean withholding tax from dividends paid to you at a rate of 27.5%. If you are a resident of a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. For example, if you are a qualified resident of the United States for purposes of the income tax treaty currently in effect between Korea and the United States and you are the “beneficial owner” of a dividend, a reduced withholding tax rate of 16.5% will generally apply. You will not be entitled to claim treaty benefits if you are not the beneficial owner of a dividend.

In order to obtain the benefits of a reduced withholding tax rate under a tax treaty, you must submit to us, prior to the dividend payment date, such evidence of tax residence as may be required by the Korean tax authorities. Evidence of tax residence may be submitted to us through the depository bank. In addition, to obtain the benefit of a tax exemption available under applicable tax treaties, you must submit an application for exemption prior to the time of the first dividend payment, together with a certificate of your tax residence issued by a competent authority of your tax residence country. Excess taxes withheld may not be recoverable even if you subsequently produce evidence that you were entitled to have tax withheld at a lower rate.

If we distribute to you free shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in-capital, that distribution may be deemed a dividend which is subject to Korean tax.

Taxation of Capital Gains

You may be exempt from Korean taxation on capital gains recognized from the sale of our shares effected through the Korea Stock Exchange, if you have owned, together with certain related parties, less than 25% of our total issued and outstanding shares during the year of sale and the five calendar years before the year of sale. According to a ruling issued by the Korean taxation authorities, capital gains earned by a nonresident without any Korean permanent establishment from the transfer of American depository shares to other nonresidents (other than to such transferees’ permanent establishment in Korea) are not subject to Korean taxation. In addition, capital gains earned by a nonresident from the transfer of American depository shares outside of Korea are exempt from Korean taxation by virtue of the Tax Incentives Limitation Law, provided that the issuance of American depository shares is deemed to be an overseas issuance under the Tax Incentives Limitation Law.

If you are subject to tax on capital gains with respect to a sale of American depository shares, or of shares of common stock which you acquired as a result of a withdrawal, your gain will be calculated based on your cost of acquiring the American depository shares although there are no specific Korean tax provisions or rulings on this issue. In the absence of the application of a tax treaty which exempts or reduces the rate of tax on capital gains, the amount of Korean tax imposed on your capital gains will be the lesser of 11.0% of the gross realization proceeds or, subject to the production of satisfactory evidence of the acquisition cost of the American depository shares, 27.5% of the net capital gain.

If you sell your shares of common stock or American depository shares, the purchaser or, in the case of the sale of shares of common stock on the Korea Stock Exchange or through a licensed securities company in Korea, the licensed securities company is required to withhold Korean tax from the sales price in an amount

equal to 11.0% of the gross realization proceeds and to make payment of this amount to the Korean tax authorities, unless you establish your entitlement to an exemption or lower rate of taxation under an applicable tax treaty or produce satisfactory evidence of your acquisition cost for the shares of common stock or the American depositary shares. To obtain the benefit of an exemption or reduced rate of tax pursuant to a tax treaty, you must submit to the purchaser or the securities company, or through the depositary bank, 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 protection. Effective July 1, 2002, in order to qualify for the exemption under a tax treaty, a nonresident seller must submit an application for exemption together with a certificate of residence issued by a competent tax authority of the seller's country of tax residence prior to the time of the first dividend payment. Excess taxes withheld may not be recoverable even if you subsequently produce evidence that you were entitled to have taxes withheld at a lower rate.

Inheritance Tax and Gift Tax

If you die while holding an American depositary share or donate an American depositary share, 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 American depositary shares. If you are treated as the owner of the shares of common stock, your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10.0% to 50.0%, provided that the value of the American depositary shares is greater than a specified amount.

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

Securities Transaction Tax

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

To date, the imposition of the securities transaction tax has not been enforced on transfers of American depositary shares, however, the Ministry of Finance and Economy issued a ruling on February 25, 2004 to the Korean National Tax Service, in which it held that depositary receipts fall under the meaning of share certificates that are subject to the same securities transaction tax. In this ruling, the Ministry of Finance and Economy treats transfers of depositary receipts equally with the transfer of the underlying Korean shares. In light of this ruling, the securities transaction tax that would be due on transfers of American depositary shares will be 0.5% of the sales price of the American depositary shares, unless the American depositary shares are listed or registered on the New York Stock Exchange, Nasdaq National Market or other foreign exchanges that may be designated by the Ministry of Finance and Economy (the Ministry of Finance and Economy has not yet designated any other exchanges upon which the transfer of depositary shares will be exempted from the securities transaction tax), and transfer of the American Depositary shares takes place on such exchange. It is unclear as to when the Korean government will begin to enforce the imposition of the securities transaction tax, although they may start to do so at any time.

The securities transaction tax, if applicable, must be paid in principle by the transferor of the shares on the rights to subscribe to such shares. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay the tax to the Korean tax authority. When such transfer is made through a securities company, such securities company is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through a securities settlement company or a securities company, the transferee is required to withhold the securities transaction tax and pay it to the Korean tax authority. The failure to pay the securities transaction will result in a penalty of 10% of the tax due. The penalty is imposed on the party responsible for

paying the securities transaction tax or, if the securities transaction tax is to be paid via withholding, the penalty is imposed on the party that has the withholding obligation.

United States Taxation

The following summary describes the material United States federal tax considerations for beneficial owners of our shares or American depositary receipts that hold the shares or American depositary receipts as capital assets and are "U.S. holders". You are a "U.S. holder" if you are:

- (i) a citizen or resident of the United States;
- (ii) a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof;
- (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source;
- (iv) a trust that is subject to the primary supervision of a court within the United States and one or more U.S. persons has authority to control all substantial decisions of the trust; or
- (v) a trust that has a valid election in effect under applicable U.S. Treasury Department regulations to be treated as a U.S. person.

In addition, this summary only applies to you if you are a U.S. holder that is a resident of the United States for purposes of the current tax treaty between the United States and Korea, your shares or American depositary receipts are not, for purposes of the treaty, effectively connected with a permanent establishment in Korea and you otherwise qualify for the full benefits of the treaty.

This summary is based on current law, which is subject to change, perhaps retroactively. It is for general purposes only and you should not consider it to be tax advice. In addition, it is based in part on representations by the depositary and assumes that each obligation under the Deposit Agreement will be performed in accordance with its terms. This summary does not represent a detailed description of all the federal tax consequences to you in light of your particular circumstances. In addition, it does not represent a detailed description of the U.S. federal 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 bank;
- a dealer in securities or currencies;
- a financial institution or an insurance company
- a regulated investment company;
- a real estate investment trust;
- a tax-exempt entity;
- a trader in securities that elect to use a mark-to-market method of accounting for your securities holdings;
- a person holding shares or American depositary receipts as part of a hedging, conversion, constructive sale or integrated transaction or a straddle;
- a person liable for the alternative minimum tax;
- a person who owns 10% or more of our voting stock; or
- a person whose functional currency is not the U.S. dollar.

We cannot assure you that a later change in law will not alter significantly the tax considerations that we describe in this summary.

You should consult your own tax advisor concerning the particular U.S. federal tax consequences to you of the ownership and disposition of shares or American depositary receipts as well as any consequences arising under the laws of any other taxing jurisdiction.

If a partnership holds our shares or American depositary receipts, 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 shares or American depositary receipts, you are urged to consult you tax advisor.

American Depositary Receipts

In general for U.S. federal income tax purposes, a holder of American depositary receipts will be treated as the owner of the underlying shares that are represented by such American depositary receipts. However, the U.S. Treasury Department has expressed concerns that parties to whom depositary shares are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by the holders of American depositary receipts. Accordingly, the analysis of the creditability of Korean taxes described herein could be affected by future actions that may be taken by the U.S. Treasury Department. Deposits or withdrawal of shares for American depositary receipts generally will not be subject to U.S. federal income tax.

Distributions on Shares or American Depositary Receipts

Distributions on our shares or American depositary receipts will be taxable as dividends to the extent of our current and accumulated earnings and profits (as determined under U.S. federal income tax principles). Such income will be includable in your gross income as ordinary income on the day you receive it, in the case of our shares, or the day received by the depositary, in the case of American depositary receipts. Such dividends will not be eligible for the dividends-received deduction.

With respect to non-corporate U.S. holders, certain dividends received before January 1, 2009 from a qualified foreign corporation may be subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States which the U.S. Treasury Department determines to be satisfactory for these purposes and which includes an exchange of information provision. The U.S. Treasury Department has determined that the current income tax treaty between the United States and Korea meets these requirements, and we believe we are eligible for the benefits of that treaty. However, non-corporate U.S. holders that do not meet a minimum holding period requirement during which they are not protected from a risk of loss or that elect to treat the dividend income as "investment income" pursuant to section 163(d)(4) of the Internal Revenue Code of 1986, as amended (the "Code") will not be eligible for the reduced rates of taxation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. If you are a non-corporate U.S. holder, you should consult your own tax advisor regarding the application of these rules given your particular circumstances.

The amount of any dividend paid in Korean Won will equal the U.S. dollar value of the Korean Won received calculated by reference to the exchange rate in effect on the date you actually or constructively receive the dividend, in the case of our shares, or the date actually or constructively received by the depositary, in the case of American depositary receipts, regardless of whether the Korean Won are converted into U.S. dollars. If the Korean Won received are not converted into U.S. dollars on the day of receipt, you will have a basis in the Korean 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 Korean Won will be treated as U.S. source ordinary income or loss.

Subject to certain significant conditions and limitations, Korean taxes withheld from dividends (at the rate provided in the treaty) may be treated as foreign income tax eligible for credit against your U.S. federal income tax liability. See "– Korean Taxation – Dividends on Shares of Common Stock or American Depositary Shares" for discussion of the treaty rate. Korean taxes withheld in excess of the rate provided in the treaty will not be eligible for credit against your federal income tax until you exhausts all effective and practical remedies to recover such excess withholding, including the seeking of competent authority assistance

from the U.S. Internal Revenue Service. For purposes of the foreign tax credit, dividends paid on our shares or American depositary receipts will be treated as income from sources without the United States and will generally constitute “passive income” or, in the case of certain holders, “financial services income.”

Disposition of Shares or American Depositary Receipts

Subject to the discussion under “– Passive Foreign Investment Company Rules”, upon the sale, exchange or other disposition of our shares or American depositary receipts, 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 our shares or American depositary receipts as the case may be. The capital gain or loss will be long-term capital gain or loss if at the time of sale, exchange or other disposition our shares or American depositary receipts have been held for more than one year. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation depending upon the holding period of such capital assets. The deductibility of capital losses is subject to limitations. Any gain or loss you recognize on the sale, exchange or other disposition of our shares or American depositary receipts will generally be treated as U.S. source gain or loss.

You should note that any Korean securities transaction tax generally 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.

Passive Foreign Investment Company Rules

Based on the projected composition of our income and valuation of our assets, including goodwill, we do not believe that we will be a passive foreign investment company for the current taxable year and do not expect to become one in the future, although there can be no assurance in this regard. However, passive foreign investment company status is a factual determination that is made annually. Accordingly, it is possible that we may become a passive foreign investment company in the current or any future taxable year due to changes in valuation or composition of our income or assets. In addition, this determination is based in part upon certain proposed U.S. Treasury regulations that are not yet in effect and are subject to change in the future. Those regulations and other administrative pronouncements from the Internal Revenue Service provide special rules for determining the character of income and assets derived in the banking business for purposes of the passive foreign investment company rules. Although we believe we have adopted a reasonable interpretation of the regulations and administrative pronouncements, there can be no assurance that the Internal Revenue Service will follow the same interpretation.

In general, we will be considered a passive foreign investment company for any taxable year if either:

- at least 75% of our gross income is passive income, or
- at least 50% of the value of our assets is attributable to assets that produce or are held for the production of passive income.

The 50% of value test is based on the average of the value of our assets for each quarter during the taxable year. If we own at least 25% by value of another company’s stock, we will be treated, for purposes of the passive foreign investment rules, as owning our proportionate share of the assets and receiving our proportionate share of the income of that company.

If we are a passive foreign investment company for any taxable year during which you hold our shares or American depositary receipts, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from the sale or other disposition (including a pledge) of our shares or American depositary receipts. These special tax rules generally will apply even if we cease to be a passive foreign investment company in future years. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for our shares or American depositary receipts will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the preferred share units,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we are a passive foreign investment company, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year, and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

Alternatively, you could make a mark-to-market election, under which in lieu of being subject to the passive foreign investment company rules discussed above, you will include gain on our shares or American depositary receipts as ordinary income, provided that our shares or American depositary receipts are regularly traded on a qualified exchange or other market. Our shares are listed on the Korea Stock Exchange, which must meet certain trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable U.S. Treasury regulations for purposes of the mark-to-market election, and no assurance can be given that the shares are or will continue to be “regularly traded” for purposes of the mark-to-market election. Our American depositary receipts are currently listed on the New York Stock Exchange, although there can be no assurance that the American depositary receipts are or will be “regularly traded”. If you made a valid mark-to-market election, you will include in each year as ordinary income the excess of the fair market value of your passive foreign investment company shares or American depositary receipts at the end of the year over your adjusted tax basis in the shares or American depositary receipts. You will be entitled to deduct as an ordinary loss each year the excess of your adjusted tax basis in the shares or American depositary receipts over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

A U.S. holder’s adjusted tax basis in passive foreign investment company shares or American depositary receipts will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If a U.S. Holder makes a mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the shares or American depositary receipts are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You should consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable with respect to your particular circumstances.

In addition, a holder of shares in a passive foreign investment company can sometimes avoid the rules described above by electing to treat the company as a “qualified electing fund” under section 1295 of the Code. This option is not available to you because we do not intend to comply with the requirements necessary to permit holders to make this election.

If you hold our shares or American depositary receipts in any year in which we are classified as a passive foreign investment company, you would be required to file Internal Revenue Service Form 8621.

Non-corporate U.S. holders will not be eligible for reduced rates of taxation on any dividends received from us prior to January 1, 2009, if we are a passive foreign investment company in the taxable year in which such dividends are paid or in the preceding taxable year. You should consult your tax advisor concerning the determination of our passive foreign investment company status and the U.S. federal income tax consequences of holding our shares or American depositary receipts if we are considered a passive foreign investment company in any taxable year.

Estate and Gift Taxation

Korea may impose an inheritance tax on a decedent who owns our shares (and possibly American depositary receipts), even if the decedent was not a citizen or resident of Korea. See “– Korean Taxation – Inheritance Tax and Gift Tax”. 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 the estate of a U.S. holder. Korea may also impose a gift tax. The Korean gift tax generally will not be treated as a creditable foreign tax for U.S. tax purposes. You