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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)			
2010	1,130.6	1,158.7	1,253.2	1,104.0
2011	1,158.5	1,105.2	1,197.5	1,049.2
2012	1,063.2	1,119.6	1,185.0	1,063.2
2013	1,055.3	1,094.6	1,161.3	1,050.1
2014	1,090.9	1,054.0	1,117.7	1,008.9
October	1,073.1	1,073.1	1,074.4	1,043.9
November	1,112.1	1,112.1	1,114.7	1,077.0
December	1,090.9	1,090.9	1,117.7	1,080.8
2015 (through April 10)	1,093.1	1,101.5	1,135.7	1,075.3
January	1,104.3	1,104.3	1,109.1	1,075.3
February	1,100.7	1,100.7	1,112.8	1,086.8
March	1,107.7	1,107.7	1,135.7	1,095.7
April (through April 10)	1,093.1	1,093.1	1,098.1	1,083.4

Source: Federal Reserve Board

Note:

(1) Represents the average of the Noon Buying Rates on the last day of each month during the relevant period.

Item 3B. Capitalization and Indebtedness

Not Applicable

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 36.1% and 41.4% of our sales and cost of sales, respectively, in 2014. Our generation subsidiaries purchase substantially all of the fuel that they use (except for anthracite coal) from 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 44.1% of our entire fuel requirements in 2014 in terms of electricity output) are imported principally from Indonesia and Australia and, to a lesser extent, Russia, the United States and others, which accounted for approximately 41.6%, 40.2%, 10.4%, 6.8% and 0.9%, respectively, of the annual bituminous coal requirements of our generation subsidiaries in 2014. Approximately 84.5% of the bituminous coal requirements of our generation subsidiaries in 2014 were purchased under long-term contracts and the remaining 15.5% from the spot market. Pursuant to the terms of our long-term supply contracts, prices are adjusted periodically 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."

If fuel prices increase sharply within a short span of time, our generation subsidiaries may be unable to secure requisite fuel 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 may cause our generation subsidiaries to purchase fuel on the spot market at prices higher than the prices available under existing supply contracts, which would result in an increase in fuel costs. In recent years, however, the prices of our main fuel types, namely, bituminous coal, oil and liquefied natural gas, or LNG have generally declined in tandem with their international market prices. For example, the average "free on board" Newcastle coal 6300 GAR spot price index published by Platts declined from US$85.1 per ton in 2013 to US$70.7 per ton in 2014 and US$56.4 per ton as of April 10, 2015. 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 declined from US$105.4 per barrel in 2013 to US$96.6 per barrel in 2014 and to US$54.8 per barrel as of April 10, 2015. However, we cannot assure you that the fuel prices will remain at similarly low levels or will not significantly increase in the remainder of 2015 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 fuel and other cost increases to our customers is limited. If fuel prices increase rapidly and substantially 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 negatively affect 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 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. 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.

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 altered 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 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 thermal generation companies, in each case, to be wholly owned by us. In 2002, the Government introduced a plan to privatize one of our five thermal 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 14 such units in February 2012) that have a greater degree of autonomy with respect to management, financial accounting and performance evaluation while having a common focus on increasing profitability.

In August 2010, the Ministry of Trade, Industry and Energy announced the Proposal for the Improvement in the Structure of the Electric Power Industry, whose key initiatives included 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 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 Trade, Industry and Energy announced guidelines for a cooperative framework between us and our generation subsidiaries, and in January 2011 the five thermal 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 Korea appoints the president and the statutory auditor of each such subsidiary; the selection of outside directors of each such subsidiary is subject to approval by the minister of the Ministry of Strategy and Finance; the president of each such subsidiary is required to enter into a management contract directly with the minister of the Ministry of Trade, Industry and Energy; and the Public Enterprise Management Evaluation Commission conducts performance evaluation of such subsidiaries. Previously, our president appointed the president and the statutory auditor of each such subsidiary; the selection of outside directors of each such subsidiary was subject to approval by our president; the president of each such subsidiary entered into a management contract with our president; and our evaluation committee conducted performance evaluation of such subsidiaries.

Other than as set forth above and except as described below under *“—The newly adopted vesting contract system may not achieve desired benefits.”*, we are not aware of any specific plans 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, socio-political, 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 conditions. 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, and such initiatives may vary from the interest and objectives of our other shareholders.

The newly adopted vesting contract system may not achieve desired benefits.

On May 20, 2014, the Electricity Business Act was amended, with effect from November 21, 2014, to introduce a “vesting contract” system in determining the price and quantity of electricity to be sold and purchased through the Korea Power Exchange between the purchaser of electricity (namely, us) and the sellers of electricity (namely, our generation subsidiaries and independent power producers). While the vesting contract system will work in conjunction with the cost-based pool system, the former will also substantially revamp and rationalize the latter as currently in effect, particularly with respect to the adjusted coefficient component.

Under the vesting contract system as currently contemplated by the amended Electricity Business Act and the Enforcement Decree of the Electricity Business Act, producers of electricity to be generated from base load fuels (such as nuclear, coal, hydro and by-product gas) at a particular generation unit will be required to enter into a contract with the purchaser of electricity (namely, us), which will specify, among other things, the quantity of electricity to be generated and sold from such generation unit and the price at which such electricity will be sold and purchased. The contracted quantity will be subject to annual adjustment in consideration of past generation amounts, maintenance and overhaul periods, among others. The contracted price will be subject to monthly adjustment largely depending on the fuel price movements, provided that in the event of a drastic change in electricity tariff rates, inflation rate and the general market conditions of electricity supply and demand, the contracted price may be further adjusted on an as-needed basis. Generally, the contractual terms will be subject to prior consultation with the Korea Electricity Commission and approval by the Minister of the Ministry of Trade, Industry and Energy in order to ensure fair and standardized application of the vesting contract system to all producers of electricity.

In addition to aiming to stabilize the electricity supply market, a key feature of the vesting contract system is to provide a settlement mechanism that is designed to incentivize producers of electricity to supply electricity at or exceeding the contracted quantity. Under this settlement mechanism, an electricity producer is required to settle, among others, the difference between the contracted price and the market price of electricity sold at a given hour through the Korea Power Exchange (namely, the system marginal price), as multiplied by the contracted quantity of electricity. For further details of this settlement mechanism, see Item 4B. “Business Overview—Purchase of Electricity—Vesting Contract System”. Under this settlement mechanism, assuming sale of electricity in the contracted quantity and further assuming the system marginal price being higher than the contracted price, the consideration to be received by the seller of electricity net of the settlement amount will effectively amount to the product of the contracted quantity multiplied by the contracted price. If the seller sells a quantity of electricity exceeding the contracted quantity at a given hour, under the settlement mechanism and assuming the system marginal price being higher than the contracted price, the seller is entitled to an extra return (effectively, an incentive) equal to the product of the excess quantity multiplied by the difference between the system marginal price and the contracted price. On the other hand, if the seller sells a quantity of electricity falling short of the contracted quantity at a given hour, under the settlement mechanism and assuming the system marginal price being higher than the contracted price, the seller is required to pay an amount (effectively, a penalty) equal to the product of the shortfall quantity multiplied by the difference between the system marginal price and the contracted price. The foregoing notions of incentive and penalty are intended to minimize the additional cost of purchasing electricity at the higher system marginal price in the event that the seller of electricity fails to deliver the contracted quantity of electricity. Details of the settlement mechanism in the event of the system marginal price being lower than the contracted price have not yet been finalized.

The vesting contract system was introduced principally in order to prevent excessive profit-taking by low-cost producers of electricity by replacing the adjusted coefficient as the basis for determining the guaranteed return to generation companies, as well as to attain the following objectives. First, this system seeks to increase transactional certainty and stability of electricity supply and purchase by requiring that a relatively long-term (generally one-year) contract be entered in relation to electricity supply, which had been previously made entirely through what was effectively a spot market. Second, in order to foster responsible management of electricity supply by generation companies, the generation companies will become subject to minimum supply requirements and will be rewarded or penalized depending on whether they meet these requirements. Third, the introduction of standard contractual prices is designed to encourage cost savings and productivity enhancements on the part of the generation companies, who will be rewarded or penalized depending on whether they can supply electricity at such standard contractual prices.

In order to minimize undue impact on the electricity trading market in Korea, the vesting contract system will be implemented in phases, with the target date of implementation for hydro power in the second half of 2015, for coal-based electricity in 2016 and for nuclear power in 2017, although vesting contracts have been entered in February 2015 between us and two independent power producers of by-product gas-based electricity (namely, POSCO Energy and Hyundai Green Power) at a contractual price set a level at which the vesting contract system replaced the adjustment coefficient mechanism previously in effect with equal economic effect. By-product gas-based electricity accounted for 1.7% of electricity purchased by us in 2014. Since the vesting contract system is still in the early stages of implementation and many of the related details are still being finalized, it presently remains unclear in what final form the vesting contract system will actually operate, whether the vesting contract system will be able to achieve the desired results and whether there will be any adverse unintended consequences from the application of the system, and no assurance can be given that such system will not adversely affect our business, results of operation or financial condition in the future. See Item 4B. “Business—Purchase of Electricity—Vesting Contract System”.

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 revised and announced every two years by the Government. In February 2013, the Government announced the Sixth Basic Plan relating to the future supply and demand of electricity. The Sixth Basic Plan, which is effective for the period from 2013 to 2027, focuses on, among other things, (i) minimizing the need to construct new generation facilities through active consumer demand management, (ii) ensuring that we maintain adequate electricity reserve appropriate to the size of the national economy and (iii) expanding our generation capacity to promote efficient supply of electricity in consideration of the stability of the national electricity grid network and the specific needs of localities. In addition, while the Sixth Basic Plan did not contemplate the construction of additional nuclear plants in light of the heightened public concern over nuclear safety following the nuclear power plant meltdown in Japan in March 2011, there is no assurance that the Government will not implement a supplemental plan for the construction of additional nuclear plants in the future, which may increase the amount of our required capital expenditure.

In addition, on January 13, 2014, the Ministry of Trade, Industry and Energy adopted the Second Basic National Energy Plan following consultations with representatives from civic groups, the power industry and academia. The Second Basic National Energy Plan, which is a comprehensive plan that covers the entire spectrum of energy industries in Korea, will cover the period from 2013 to 2035 (compared to 2008 to 2030 under the First Basic National Energy Plan) and focuses on the following six key tasks: (i) shifting the focus of energy policy to demand management with a goal of reducing electricity demand by 15% by 2035, (ii) establishing a geographically decentralized electricity generation system so as to reduce transmission losses with a goal of supplying at least 15% of total electricity through such system by 2035, (iii) applying latest greenhouse gas emission reduction technologies to newly constructed generation units in order to further promote safety and environmental friendliness, (iv) strengthening exploration and procurement capabilities to enhance Korea’s energy security and to ensure stable supply of energy and increasing the portion of electricity supplied from renewable sources to 11% by 2035, (v) reinforcing the system for stable supply of conventional energy, such as oil and gas, and (vi) introducing in 2015 an energy voucher system in lieu of a tariff discount system for the benefit of consumers in the low income group. In addition, the Second Basic National Energy Plan contemplates revising the target level of electricity generated by nuclear sources as a percentage of total electricity generated to 29%, compared to 41% under the First Basic National Energy Plan announced in 2008.

We cannot assure that the Sixth Basic Plan, the Second Basic National Energy Plan or the respective plans to be subsequently adopted will successfully achieve their intended goals, the foremost of which is to ensure, through carefully calibrated capacity expansion and other means, balanced overall electricity supply and demand in Korea at affordable costs to the end users while promoting efficiency and environmental friendliness in the consumption and production of electricity. If there is a significant variance between the projected electricity supply and demand considered in planning our capacity expansions and the actual electricity supply and demand or if these plans otherwise fail to meet their intended goals or have other unintended consequences, 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, among others, 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. Such circumstances may lead to increased end-user complaints and greater public scrutiny, 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.

In light of these temporary power shortages, the Government has increasingly expanded its efforts to encourage conservation of electricity, including through a public relations campaign, but there is no assurance such efforts will have the desired effect of substantially reducing the demand for electricity or improving efficient use thereof.

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

We anticipate that a substantial amount of 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/or make acquisitions and investments related to overseas natural resources. In 2012, 2013 and 2014, our capital expenditures for construction of generation, transmission and distribution facilities amounted to Won 12,748 billion, Won 15,831 billion and Won 16,629 billion, respectively, and our budgeted capital expenditures for 2015, 2016 and 2017 amount to Won 17,629 billion, Won 14,917 billion and Won 14,873 billion, respectively. While we currently do not expect to face any material difficulties in procuring short-term borrowing to meet our liquidity and short-term capital requirements, there is no assurance that we will be able to do so. 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 or due to other factors beyond our control. If we are unable to obtain financing on commercially acceptable terms on a timely basis, or at all, we may be unable to meet our funding requirements or debt repayment obligations, which could have a material adverse impact on our business, results of operations and financial condition.

Recently, in light of the general policy guideline of the Government for public institutions (including us and our generation subsidiaries) in general to reduce their respective overall debt levels, we and our generation subsidiaries have, in consultation with the Government and as approved by the Committee for Management of Public Institutions, set target debt-to-equity levels and undertaken various programs to reduce debt and improve the overall financial health, including through rationalizing various aspects of our operations (both domestic and overseas), engaging private sector investments, disposing of non-core assets, reducing costs and exploring alternative ways to generate additional revenue. For further information, see Item 4B. “Business Overview—Recent Developments—Debt Reduction Program and Related Activities.” Despite our best efforts, however, for reasons beyond our control, including macroeconomic environments, government regulations and market forces (such as international market prices for our fuels), we cannot assure whether we or our generation subsidiaries will be able to successfully reduce debt burdens or otherwise improve our financial health to a level contemplated by the Government or to a level that would be optimal for our capital structure. If we or our generation subsidiaries fail to do so or the measures taken by us or our generation subsidiaries to reduce debt levels or improve financial health have unintended adverse consequences, such developments may have an adverse effect on our business, results of operation and financial condition.

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. See Item 3A. “Selected Financial Data—Currency Translations and Exchange Rates.” 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 by us from overseas since the prices for substantially all of the fuel materials and a significant portion of the equipment we purchase are denominated in currencies other than Won, generally in U.S. dollars. Changes in foreign exchange rates may also impact the cost of servicing our foreign currency-denominated debt. As of December 31, 2014, approximately 20.5% of our long-term debt (including the current portion but excluding issue discounts and premium) before accounting for swap transactions, was denominated in foreign currencies, principally U.S. dollars. In addition, even if we make payments in Won for certain fuel materials and equipment, some of these fuel materials may originate from other countries and their prices may be affected accordingly by the exchange rates between the Won and foreign currencies, especially the U.S. dollar. Since the substantial majority 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 (i) strengthen reliability of our domestic operations by enhancing efficiency of our generation, transmission and distribution networks, (ii) expand overseas business by selectively exploring renewable energy, smart transmission and distribution facilities and fuel procurement projects in the overseas markets along with our traditional businesses in the generation sector, (iii) create a platform for new business growth opportunities by gaining “first mover” advantages in new businesses through technological development, and (iv) fulfill social responsibilities as an electricity provider by seeking a balance between our public policy mandate and profitability.

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 new business opportunities 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 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 what we originally anticipated. In addition, we regularly review the profitability and growth potential of our existing and new businesses. As a result of such review, we may decide to exit from or to reduce the resources that we allocate to new or existing ventures in the future. There is a risk that these ventures may not achieve profitability or operational efficiencies to the extent originally anticipated, 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 operations, financial condition and cash flows.

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

While our operations have, to-date, been primarily based in Korea, we may expand, on a selective basis, our overseas operations in the future. In particular, we may 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 construction and operation of conventional thermal generation units) to include 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 inherent risks that are different from our traditional business of electricity power generation, transmission and distribution. While these new businesses in the aggregate currently do not comprise a material portion of our overall business, 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.

An increase in electricity generated by and/or sourced from private power producers may erode our market position and hurt our business, growth prospects, revenues and profitability.

As of December 31, 2014, we and our generation subsidiaries owned approximately 77.6% of the total electricity generation capacity in Korea (excluding plants generating electricity for private or emergency use). New entrants to the electricity business will erode our market share and create significant competition, which could have a material adverse impact on our financial conditions and results of operation.

In particular, we compete with independent power producers with respect to electricity generation. The independent power generators accounted for 15.1% of total power generation in 2014 and 22.4% of total generation capacity as of December 31, 2014. As of December 31, 2014, there were 10 independent power generators in Korea, excluding renewable energy producers. Prior to December 2010, private enterprises had not been permitted to own and operate coal-fired power plants in Korea. However, the Fifth Basic Plan announced in December 2010 included for the first time a plan for independent power producers to own and operate coal-fired power plants, namely four generation units with aggregate capacity of 2,290 megawatts for completion in 2016. In addition, in connection with the Sixth Basic Plan announced in February 2013, the Ministry of Trade, Industry and Energy accepted additional applications from independent power producers for construction of coal-fired power plants. 15 independent power producers applied for construction of a total of 40 additional coal-fired generation units with aggregate generation capacity of 37,100 megawatts, of which the Government approved applications for the construction of six generation units with aggregate generation capacity of 6,000 megawatts. The Government also approved applications from independent power producers for construction of two additional generation units with aggregate generation capacity of 2,000 megawatts to prepare for the contingency of failed or delayed construction of the foregoing generation units. Construction for the six generation units is scheduled to be completed between 2018 and 2021. While it remains to be seen whether construction of these generation units will be completed as scheduled, if it were to be completed as scheduled or independent power producers are permitted to build additional generation capacity (whether coal-fired or not), our market share in Korea may decrease, which may have a material adverse effect on our results of operations and financial condition.

In addition, under the Community Energy System adopted by the Government in 2004, a minimal amount of electricity is supplied directly to consumers on a localized basis by independent power producers 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 Korea Electricity Commission and be approved by the minister of the Ministry of Trade, Industry and Energy in accordance with the Electricity Business Act. The purpose of this system is to geographically decentralize electricity supply and thereby reduce transmission losses and improve the efficiency of energy use. These entities do not supply electricity on a national level but are licensed to supply electricity to limited geographic areas. As of March 31, 2015, the aggregate generation capacity of suppliers participating in the Community Energy System represented less than 1% of that of our generation subsidiaries in the aggregate. Accordingly, we currently do not expect the Community Energy System to be widely adopted, especially in light of the significant level of capital expenditure required for such direct supply. However, if the Community Energy System is widely adopted, it may erode our currently dominant market position in the generation and distribution of electricity in Korea, and may have a material adverse effect on our business, results of operations and financial condition.

Labor unrest may adversely affect our operations.

We and each of our generation subsidiaries have separate labor unions. As of December 31, 2014, approximately 70.3% of our and our generation subsidiaries' employees in the aggregate were members of these labor unions. Since a six-week labor strike in 2002 by union members of our generation subsidiaries in response to a proposed privatization of one of our generation subsidiaries, there has been no material labor dispute. However, we cannot assure you that there will not be a major labor strike or other material disruptions of operations 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.

Relocation of our headquarters and those of our generation subsidiaries may reduce our operational efficiency.

Pursuant to a Government plan announced in 2005, which mandated relocation of 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 as part of an initiative to foster balanced economic growth in the provinces, we and certain of our generation and other subsidiaries recently relocated our respective headquarters to the designated locations. Following relocation in November 2014, our headquarters are currently located in Naju in Jeollanam-do Province, which is approximately 300 kilometers south of Seoul. The designated locations for the headquarters of our six generation subsidiaries and other subsidiaries are various cities outside of Seoul across Korea. There is no assurance yet that, following such relocation, we have been or will be able to maintain the prior 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 23 nuclear-fuel generation units. Operation of nuclear power plants is subject to certain hazards, including environmental hazards such as leaks, ruptures and discharge of toxic and radioactive substances and materials. These hazards can cause personal injuries or loss of life, severe damage to or destruction of property and natural resources, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. Nuclear power has a stable and relatively inexpensive 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 30% of electricity generated in Korea in 2014. Due to significantly lower unit fuel costs compared to those for thermal power plants, our nuclear power plants are generally operated at full capacity with only routine shutdowns for fuel replacement and maintenance, with limited exceptions.

From time to time, our nuclear generation units may experience unexpected shutdowns. Any prolonged or substantial 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 political hostility to the use of nuclear power, any of which could have a material adverse impact on our financial conditions and results of operations.

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 took steps to further enhance the safety and security of nuclear power facilities, including by establishing the Nuclear Safety and Security Commission ("NSSC") 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 following the recent nuclear incident in Japan, KHNP plans to implement a significant number of measures to improve the safety and efficiency of its generation facilities for target completion by the end of 2015. We expect to incur additional compliance costs and capital expenditures in relation to our improvement measures, which could have a material adverse impact on our business, financial conditions and results of operation.

In addition, in December 2014, KHNP became subject to a cyber terror incident. According to the preliminary findings of the Prosecutor's Office announced in March 2015, hackers suspected to be affiliated with North Korean authorities stole and distributed a mock blueprint for a hypothetical nuclear unit that had been devised for educational purposes, hacked into the computer network of the KHNP employees and threatened to shut down certain of KHNP's nuclear plants. The hacking incident did not jeopardize our nuclear operation in any material respect and none of the stolen information was material to our nuclear operation or the national nuclear policy. In response to such incident, we and our subsidiaries have further bolstered anti-hacking and other preventive and remedial measures in relation to potential cyber terror. However, there is no assurance that a similar or more serious hacking or other forms of cyber terror will not happen with respect to us and our nuclear and non-nuclear generation subsidiaries, which could have a material adverse impact on our business, financial conditions and results of operation.

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Recent findings of falsified testing results and bribery and the subsequent prolonged shutdowns of certain of our nuclear generation units may adversely hurt our reputation, business, results of operations and financial condition.

In May 2013, the NSSC announced that it discovered certain control cables used in three of our then-operating nuclear generation units, Shin-Kori #1 and #2, Shin-Wolsong #1, and three units under construction, Shin-Kori #3 and #4 and Shin-Wolsong #2, had been supplied based on forged testing results. These parts were custom-made and have critical functions in the case of emergency for activating certain safety signals. The forgery was made by a testing facility in charge of performance evaluation of the parts before delivery.

Upon such discovery, KHNP immediately began internal investigation of related certification documents and reported to the Prosecutor's Office all testing facilities and suppliers suspected of forgery for further investigation. Currently, the NSSC, with the full cooperation of KHNP, is conducting a full scale investigation into the appropriateness of all testing results at all of our nuclear generation units. In addition, the Prosecutor's Office has been conducting extensive investigation on all parties suspected of having been involved in the forgery and has brought several criminal and civil charges, including against several of KHNP's former and current officers and employees. In addition, one of KHNP's former CEOs and several former and current officers and employees of KHNP were arrested on separate bribery charges brought by the Prosecutor's Office as part of a wider investigation into the nuclear power industry in general, and in June 2013, KHNP's then CEO was dismissed by the Government for failure of oversight. KHNP has been fully cooperating with the authorities on these investigations and have promptly taken all appropriate disciplinary actions against KHNP's employees allegedly involved in such incidents. KHNP has also immediately suspended all existing relationships with all of the entities alleged to have participated in any related illegal or improper activities. KHNP as an entity has not been subject to any criminal charges or sanctions.

Immediately following the discovery of the forgery incident, Shin-Kori #1 and #2 and Shin-Wolsong #1 were shut down in May 2013 for further safety inspections. Shin-Kori #3 and #4 and Shin-Wolsong #2, where such parts were also used, currently remain under construction. Shin-Kori #1 and #2 and Shin-Wolsong #1 resumed operations in January 2014 following parts replacement and the NSSC approval. While we expect that the construction of the other units will proceed as originally planned, we cannot assure you that any or all of these units will complete construction as currently scheduled. As a result of the shutdown, we incurred additional operating expenses, including as a result of having had to purchase electricity generated from more expensive fuel sources while the aforementioned nuclear plants were suspended from operation.

The foregoing incidents follow a discovery in November 2012 that certain machinery parts, such as fuses and switches, used in KHNP's nuclear-fuel generation units Hanbit #5 and Hanbit #6 had been supplied using forged quality certification documents. These parts were generic parts that were not essential to the function or safety of our nuclear generation, and the forgery was made by the suppliers of these parts. Following such discovery, relationships with these suppliers were immediately terminated and these units were shut down in November 2012 pending a Government investigation into the extent of the forgeries and the replacement of the affected parts, and the NSSC performed inspections on all generic supply parts at all of KHNP's nuclear-fuel generation units. Upon completion of such investigation and inspections, Hanbit #5 and Hanbit #6 resumed operation in December 2012 and January 2013, respectively.

These incidents have had a material adverse effect, and may have a further material adverse effect, on our reputation, business, results of operation, financial condition as well as the general acceptance of nuclear power, especially if, as a result of these incidents or otherwise, there are findings of other criminal or other illegal or improper activities or if there are additional shutdowns that lead to greater social and political concerns over nuclear safety to the effect of impeding with our normal operation of nuclear generation units.

The construction and operation of our generation, transmission and distribution facilities involve difficulties, such as opposition from civic groups, which may have an adverse effect on us.

From time to time, we encounter social and political opposition against construction and operation of our generation facilities (particularly nuclear units) and, to a lesser extent, our transmission and distribution facilities. For example, we recently faced intense opposition from local residents and civic groups to the construction of transmission lines in the Milyang area, which we resolved through various compensatory and other support programs. Such opposition delayed the schedule for completion of this project. Although we and the Government have undertaken various community programs to address concerns of residents in areas near our facilities, civic and community opposition could result in delayed construction or relocation of our planned facilities, which could have a material adverse impact on our business and results of operation.

We are subject to environmental regulations, including in relation to climate change, and our operations could expose us to substantial liabilities.

We are subject to national, local and overseas environmental laws and regulations, including increasing pressure to reduce emission of carbon dioxide relating to our electricity generation activities as well as our natural resource development endeavors overseas. Our operations could expose us to the risk of substantial liability relating to environmental or health and safety issues, such as those resulting from discharge of pollutants and carbon dioxide into the environment and the handling, storage and disposal of hazardous materials. We may be responsible for the investigation and remediation of environmental conditions at current or former operational sites. We may also be subject to related liabilities (including liabilities for environmental damage, third party property damage or personal injury) resulting from lawsuits brought by governments or private litigants. In the course of our operations, hazardous wastes may be generated, disposed of or treated at third party-owned or -operated sites. If those sites become contaminated, we could also be held responsible for the cost of investigation and remediation of such sites for any related liabilities, as well as for civil or criminal fines or penalties.

We currently operate extensive programs to comply with various environmental regulations, including the Renewable Portfolio Standard program, under which each generation subsidiary is required to generate a specified percentage of total electricity to be generated by such generation subsidiary in a given year in the form of renewable energy, with the target percentage being 2.5% in 2013 and 3.0% in 2014 and incrementally increasing to 10.0% by 2024. Fines are to be levied on any subsidiary that fails to do so in the prescribed timeline. In 2013, while one of our generation subsidiaries met 100% of its target, five others were unsuccessful to do so. Our six generation subsidiaries met, on average, 91.8% of the target for 2013 and accordingly were fined an aggregate amount of Won 44 billion. Compliance by our generation subsidiaries of the 2014 target is currently under evaluation, and if we are found to have failed to meet the target for 2014 or for subsequent years, our generation subsidiaries may become subject to additional fines or other penalties. There is no assurance that such fine or other penalty will not be substantial, and if substantial, such fine or other penalty may have a material adverse effect on our business, results of operations or financial condition. The budgeted amount of capital expenditure for implementation of the Renewable Portfolio Standard program as currently planned for the period from 2014 to 2024 is approximately Won 14.8 trillion. We expect that such additional capital expenditure to 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. See also Item 4B. “Business Overview—Environmental Programs.”

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, including in respect of climate change.

See Item 4B. "Business Overview—Environmental Programs."

Newly adopted coal consumption tax may have a material adverse effect on our business, operations and profitability.

Effective July 1, 2014, consumption tax has applied to bituminous coal, which previously was not subject to consumption tax unlike other fuel types such as LNG or bunker oil. The base tax rate (which is subject to certain adjustments) is Won 24 per kilogram for bituminous coal; however, due to concerns on the potential adverse effect on industrial activities, the applicable tax rate is Won 19 per kilogram for bituminous coal with net heat generation of 5,000 kilo calories or more per kilogram, and Won 17 per kilogram for bituminous coal with net heat generation of less than 5,000 kilo calories per kilogram. In contrast, the applicable tax rate for LNG was reduced from Won 60 per kilogram to Won 42 per kilogram. Since bituminous coal currently represents the largest fuel type for electricity generation, accounting for approximately 44.1% of our entire fuel requirements in 2014 in terms of electricity output, the newly adopted consumption tax thereon may result in an increase of our overall fuel costs, notwithstanding the decrease in the consumption tax rate for LNG, which accounted for approximately 15.5% of our entire fuel requirements in 2014 in terms of electricity output. While we expect that such additional fuel costs will be covered by a corresponding increase in electricity tariff, there is no assurance that the Government will in fact raise electricity tariff to a level sufficient to fully cover such additional costs in a timely manner or at all, and if the Government does not do so, the increase in our overall fuel costs arising from the newly adopted coal consumption tax will adversely affect our results of operation and financial condition.

Our risk management procedures may not prevent losses in debt and foreign currency positions.

We manage interest rate exposure for our debt instruments by limiting our variable rate debt exposure as a percentage of our total debt and closely monitoring the movements in market interest rates. We also actively manage currency exchange rate exposure for our foreign currency-denominated liabilities by measuring the potential loss therefrom using risk analysis software and entering into derivative contracts to hedge such exposure when the possible loss reaches a certain risk limit. To the extent we have unhedged positions or our hedging and other risk management procedures do not work as planned, our results of operations and financial condition may be adversely affected.

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 thermal 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 thermal 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.

In addition, because neither we nor our generation subsidiaries, other than KHNP, carry any insurance against terrorist attacks, an act of terrorism would result in significant financial losses. See Item 4B. “Business Overview—Insurance.”

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% of our issued capital stock. As of December 31, 2014 the last day on which our shareholder registry was closed, the Government, directly and through Korea Development Bank (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.

Following from the recent decision of the Supreme Court of Korea, we may be exposed to potential claims made by current or previous employees for unpaid wages for the past three years under the expanded scope of ordinary wages and become subject to additional labor costs arising from the broader interpretation of ordinary wages under such decision.

Under the Labor Standards Act, an employee is legally entitled to “ordinary wages.” Under the guidelines previously issued by the Ministry of Labor, ordinary wages include base salary and certain fixed monthly allowances for work performed overtime during night shifts and holidays. Prior to the Supreme Court decision described below, many companies in Korea had typically interpreted these guidelines as excluding from the scope of ordinary wages fixed bonuses that are paid other than on a monthly basis, namely on a bi-monthly, quarterly or biannually basis, although such interpretation had been a subject of controversy and had been overruled in a few court cases.

In December 2013, the Supreme Court of Korea ruled that regular bonuses fall under the category of ordinary wages on the condition that those bonuses are paid regularly and uniformly, and that any agreement which excludes such regular bonuses from ordinary wage is invalid. The Supreme Court further ruled that in spite of invalidity of such agreements, employees shall not retroactively claim additional wages incurred due to such court decision, in case that such claims bring to employees unexpected benefits which substantially exceeds the wage level agreed by employers and employees and cause an unpredicted increase in expenditures for their company, which would lead the company to material managerial difficulty or would threat to the existence of the company. In that case, the claim is not acceptable since it is unjust and is in breach of the principle of good faith. Prior to such Supreme Court ruling, we determined wages in accordance with budget instructions from the Ministry of Strategy and Finance, which excluded bonuses from ordinary wages and which was determined with the consent of the relevant labor unions.

In tandem with the above-mentioned proceeding at the Supreme Court of Korea, as of December 31, 2014 our six generation subsidiaries and another subsidiary, KPS, were subject to several lawsuits filed by various industry-wide and company-specific labor unions based on claims that ordinary wage had been paid without including certain items that should have been included as ordinary wage. In one of such lawsuits, in January 2015, the Seoul District Court found largely in favor of a company-specific labor union whose members consist of employees of KOSPO, and in February 2015, KOSPO filed an appeal with the Seoul High Court. In light of the District Court ruling and the wage structure of us and our subsidiaries, as of December 31, 2014 we have set aside a reserve on a consolidated basis in the aggregate amount of Won 174 billion to cover the likely future payments of additional ordinary wage in relation to the related lawsuits. We cannot presently assure you that there will not be further lawsuits in relation to ordinary wage or that the foregoing reserve amount will be sufficient to cover additional ordinary wage payments or other compensation and damages arising from the present or future litigation. If there are further litigation or if the actual compensation or other damages we become liable on a consolidated basis to pay in relation to these or other similar lawsuits were to be higher than our reserve amounts, it would adversely affect our results of operation.

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.

The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy. In light of the ongoing general economic weakness and political turbulence in Europe, signs of cooling economy for China and the continuing political instability in the Middle East and the former republics of the Soviet Union, including Russia, among others, significant uncertainty remains as to the global economic prospects in general and has adversely affected, and may continue to adversely affect, the Korean economy. In addition, as the Korean economy matures, it is increasing exposed to the risk of a "scissor effect", namely being pursued by competitors in less advanced economies while not having fully caught up with competitors in advanced economies, which risk is amplified by the fact that the Korean economy is heavily dependent on exports. The Korean economy also continues to face other difficulties, including sluggishness in domestic consumption and investment, weakness in the real estate market, rising household debt, potential declines in productivity due to aging demographics and a rise in youth unemployment. Any future deterioration of the global and Korean economies could adversely affect our business, financial condition and results of operations. As the Korean economy is highly dependent on the health and direction of the global economy, the prices of our securities may be adversely affected by investors' reactions to developments in other countries. In addition, the value of the Won relative to the U.S. dollar has also fluctuated significantly in recent years, which in turn also may adversely affect our financial condition and results of operation.

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.

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

- fiscal difficulties, political turbulence and increased sovereign default risks in select countries in Europe and the resulting adverse effects on the global financial markets;
- adverse change or increased volatility in macroeconomic indicators, including interest rates, inflation level, foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of U.S. Dollar, Euro or Japanese Yen or revaluation of the Renminbi), stock market indices and inflows and outflows of foreign capital;
- adverse developments in the economies of countries and regions that are Korea's important export markets (such as the United States, China and Japan) and deterioration in economic or diplomatic relations between Korea and its major trading partners or allies, including as a result of trading or territorial disputes or disagreements in foreign policy;
- continued sluggishness in the Korean real estate market;
- a continuing rise in the level of household debt and an increase in delinquency and credit default by retail or small- and medium-sized enterprise borrowers;
- a rise in unemployment or stagnation of real wages;
- an increase in social expenditures to support an aging population or decreases in productivity due to shifting demographics;

- social and labor unrest;
- a decline in consumer confidence and a slowdown in consumer spending and corporate investments;
- a widening fiscal deficit from a decrease in tax revenues and a substantial increase in the Government's expenditures for fiscal stimulus, unemployment compensation and other economic and social programs;
- political gridlock within the government or in the legislature, which prevents or disrupts timely and effective policy making;
- laws, regulations or other government actions (financial, economic or otherwise) that fail to achieve desired policy objectives, produce adverse unintended consequences or otherwise constrain or distort sound economic activities;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues, including in respect of certain *chaebols*; and
- any other developments that has a material adverse effect on the global or Korean economy, such geopolitical tensions (such as in the Crimea peninsula, certain former republics of the Soviet Union, the Middle East and the Korean peninsula), an act of war, a terrorist act, a breakout of an epidemic or natural or man-made disasters (such as the sinking of the Sewol ferry in April 2014, which significantly dampened consumer sentiment in Korea for months).

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

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 particular, there continues to be uncertainty regarding the long-term stability of North Korea's political leadership since the succession of Kim Jong-un to power following the death of his father in December 2011, which has raised concerns with respect to the political and economic future of the region.

In addition, there continues to be heightened security tension in the region stemming from North Korea's hostile military and diplomatic actions, including in respect of its nuclear weapons and long-range missile programs. Some examples from recent years include the following:

- In December 2014, North Korea allegedly hacked into Sony's network to prevent the airing of the movie "The Interview" which unfavorably portrays the North Korean leader, which has prompted the United States to consider implementing additional economic sanctions against North Korea.
- In March 2013, North Korea stated that it had entered "a state of war" with Korea, declaring the 1953 armistice invalid, and put its artillery at the highest level of combat readiness to protest the Korea-United States allies' military drills and additional sanctions imposed on North Korea for its missile and nuclear tests.
- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 to February 2013, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council unanimously passed resolutions that condemned North Korea for the nuclear tests and expanded sanctions against North Korea, most recently in March 2013.
- In December 2012, North Korea launched a satellite into orbit using a long-range rocket, despite concerns in the international community that such a launch would be in violation of the agreement with the United States as well as United Nations Security Council resolutions that prohibit North Korea from conducting launches that use ballistic missile technology.

North Korea’s economy also faces severe challenges, including severe inflation and food shortages, which may further aggravate social and political tensions within North Korea. In addition, reunification of Korea and North Korea may suddenly occur in the future, which would entail significant economic commitment and expenditure by Korea that may outweigh any resulting economic benefits of reunification. Any further increase in tension or uncertainty relating to the military, political or economic stability in the Korean peninsula, including a breakdown of diplomatic negotiations over the North Korean nuclear program, occurrence of military hostilities, heightened concerns about the stability of North Korea’s political leadership or its actual collapse, a leadership crisis, a breakdown of high-level contacts or accelerated reunification could have a material adverse effect on our business, financial condition and results of operations, as well as the price of our common shares and our American depositary shares.

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.

You may not be able to enforce a judgment of a foreign court against us.

We are a corporation with limited liability organized under the laws of Korea. Substantially all of our directors and officers and other persons named in this annual report reside in Korea, and all or a significant portion of the assets of our directors and officers and other persons named in this annual report and substantially all of our assets are located in Korea. As a result, it may not be possible for holders of the American depository shares to affect service of process within the United States, or to enforce against them or us in the United States judgments obtained in United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

Risks Relating to Our American Depositary Shares

There are restrictions on withdrawal and deposit of common shares under the depositary facility.

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the depositary bank’s custodian in Korea and obtain American depositary shares, and holders of American depositary shares may surrender American depositary shares to the depositary bank and receive shares of our common stock. However, under current Korean laws and regulations, the depositary bank is required to obtain our prior 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 for the issuance of American depositary shares (including deposits in connection with the initial and all subsequent offerings of American depositary shares and stock dividends or other distributions related to these American depositary shares) and (2) the number of shares on deposit with the depositary bank at the time of such proposed deposit. We have consented to the deposit of outstanding shares of common stock as long as the number of American depositary shares outstanding at any time does not exceed 80,153,810 shares. As a result, if you surrender American depositary shares and withdraw shares of common stock, you may not be able to deposit the shares again to obtain American depositary shares.

Ownership of our shares is restricted under Korean law.

Under the Financial Investment Services and Capital Markets Act, with certain exceptions, a foreign investor may acquire shares of a Korean company without being subject to any single or aggregate foreign investment ceiling. As one such exception, certain designated public corporations, such as us, are subject to a 40% ceiling on acquisitions of shares by foreigners in the aggregate. The Financial Services Commission may impose other restrictions as it deems necessary for the protection of investors and the stabilization of the Korean securities and derivatives market.

In addition to the aggregate foreign investment ceiling, the Financial Investment Services and Capital Markets Act and 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 our issued and outstanding shares in excess of such 3% ceiling cannot exercise voting rights with respect to our shares exceeding such 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);
- 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;
- shares from the exercise of shareholders’ rights; or
- shares by gift, inheritance or bequest.

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

Holders of our ADSs will not have preemptive rights in certain circumstances.

The Korean Commercial Code and our Articles of Incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the depositary bank, after consultation with us, may make the rights available to you or use reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The depositary bank, however, is not required to make available to you any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

- a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares; or
- the offering and sale of those shares is exempt from or is not subject to the registration requirements of the U.S. Securities Act.

We are under no obligation to file any registration statement with the U.S. Securities and Exchange Commission in relation to the registration rights. If a registration statement is required for you to exercise preemptive rights but is not filed by us, you will not be able to exercise your preemptive rights for additional shares and you will suffer dilution of your equity interest in us.

The market value of your investment in our ADSs may fluctuate due to the volatility of the Korean securities market.

Our common stock is listed on the KRX KOSPI Division of the Korea Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the Stock Market Division of the Korea Exchange. The Stock Market Division of the Korea Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the Stock Market Division of the Korea Exchange has prescribed a fixed range in which share prices are permitted to move on a daily basis. Like other securities markets, including those in developed markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

The Korean government has the ability to exert substantial influence over many aspects of the private sector business community, and in the past has exerted that influence from time to time. For example, the Korean government has promoted mergers to reduce what it considers excess capacity in a particular industry and has also encouraged private companies to publicly offer their securities. Similar actions in the future could have the effect of depressing or boosting the Korean securities market, whether or not intended to do so. Accordingly, actual or perceived actions or inactions by the government may cause sudden movements in the market prices of the securities of Korean companies in the future, which may affect the market price and liquidity of our common stock and ADSs.

Your dividend payments and the amount you may realize in connection with a sale of your ADSs will be affected by fluctuations in the exchange rate between the U.S. dollar and the Won.

Investors who purchase the American depositary shares will be required to pay for them in U.S. dollars. Our outstanding shares are listed on the Korea Exchange and are quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the American depositary shares will be paid to the depositary bank in Won and then converted by the depositary bank into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Won and the U.S. dollar will affect, among other things, the amounts a registered holder or beneficial owner of the American depositary shares will receive from the depositary bank in respect of dividends, the U.S. dollar value of the proceeds which a holder or owner would receive upon sale in Korea of the shares obtained upon surrender of American depositary shares and the secondary market price of the American depositary shares.

If the Government deems that certain emergency circumstances are likely to occur, it may restrict the depositary bank from converting and remitting dividends in U.S. dollars.

If the Government deems that certain emergency circumstances are likely to occur, it may impose restrictions such as requiring foreign investors to obtain prior Government approval for the acquisition of Korean securities or for the repatriation of interest or dividends arising from Korean securities or sales proceeds from disposition of such securities. These emergency circumstances include any or all of the following:

- sudden fluctuations in interest rates or exchange rates;
- extreme difficulty in stabilizing the balance of payments; and
- a substantial disturbance in the Korean financial and capital markets.

The depositary bank may not be able to secure such prior approval from the Government for the payment of dividends to foreign investors when the Government deems that there are emergency circumstances in the Korean financial markets.