

TAXATION

Korean Taxes

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

The taxation of individuals not resident in Korea and non-Korean corporations (“non-residents”) generally depends on whether they have a permanent establishment in Korea to which the relevant income is attributable or with which such relevant income is effectively connected. Non-residents without such permanent establishment in Korea are subject to tax in the manner described below. Non-residents with such permanent establishment in Korea are generally taxed like their Korean counterparts with respect to the income attributable to or effectively connected with such permanent establishment. As a general matter (and subject to certain exceptions), a non-resident may be determined to have a permanent establishment in Korea if it maintains a fixed place of business in Korea through which it engages in industrial or commercial activity or if it engages in industrial or commercial activity in Korea through a dependent agent.

Taxation of Interest

Payments of interest to non-residents under the Registered Debt Securities are currently exempt from Korean income taxation by virtue of the Korean Tax Exemption and Limitation Law (“TELL”).

If interest payments become subject to Korean withholding taxes, KEPCO would, subject to certain exceptions, be obligated to withhold such taxes. Under the U.S.-Korea Tax Treaty, the gross amount of such interest payments would be subject to a maximum withholding rate (including local surtax) of 13.2%.

Taxation of Dividends

For the purpose of Korean taxation of distributions made on shares of our common stock represented by ADSs and for the purposes of the application of tax treaties entered into by Korea to such distributions, a non-resident will be treated as the owner of the shares of common stock represented by such ADSs. Dividends paid (whether in cash or in shares) to a non-resident are generally subject to withholding tax at the rate of 27.5% (including local surtax) or such lower rate as is applicable under a tax treaty between Korea and such non-resident’s country of tax residence. Under the U.S.-Korea Tax Treaty, dividends would be subject to a maximum withholding rate of 16.5% (including local surtax); except, however, that the maximum withholding rate would be 11% (including local surtax) if the recipient were a corporation which owned at least 10% of the outstanding shares of the voting stock of KEPCO during a part of KEPCO’s taxable year preceding the date of the dividend payment and during the whole of its prior taxable year, and certain other conditions are met. In order to obtain a reduced rate of withholding tax pursuant to an applicable tax treaty, the non-resident must submit to KEPCO, prior to the dividend payment date, such evidence of tax residence as the Korean tax authorities require in order to establish the non-resident’s entitlement to the benefits of the applicable tax treaty. Evidence of tax residence may be submitted to KEPCO through the Depository. In the absence of sufficient proof that a non-resident qualifies for the benefits of a tax treaty, tax at the rate of 27.5% (including local surtax) will be withheld. Korean tax law

does not explicitly entitle a non-resident to recover withheld tax from the government even if the non-resident subsequently produces evidence that it was entitled to have tax withheld at a lower rate.

Taxation of Capital Gains

Capital gains earned by non-residents without a permanent establishment in Korea from the transfer of the Registered Debt Securities to non-residents (other than their permanent establishments in Korea) are not subject to Korean tax. In addition, capital gains earned by non-residents with permanent establishments in Korea from the transfer outside Korea of the Registered Debt Securities to non-residents are currently exempt from taxation by virtue of the TELL, provided that the issuance of the Registered Debt Securities is deemed to be an overseas issuance under the TELL.

A non-resident will not be subject to Korean taxation on capital gains realized on sale of shares of our common stock acquired as a result of withdrawal of shares of common stock underlying ADSs if the non-resident (i) sells such shares on the Korea Stock Exchange, (ii) has no permanent establishment in Korea, and (iii) did or has owned, together with the shares of our common stock owned by any entity in a certain special relationship with such non-resident holder, less than 25% of the total issued and outstanding shares at any time in the calendar year of the sale date and during the five calendar years before the calendar year of the sale date. Further, the Korean taxation authorities issued a tax ruling confirming that (i) capital gains earned by a non-resident without a permanent establishment in Korea from the transfer of ADSs to another non-resident without a permanent establishment are not subject to income tax in Korea and (ii) capital gains earned by a non-resident (whether or not they have a permanent establishment in Korea) from the transfer outside Korea of ADSs are exempted from taxation by virtue of the TELL, provided that the issuance of the ADSs is deemed to be an overseas issuance under the TELL.

Capital gains with respect to the sale of ADSs, or shares of our common stock which were acquired by a non-resident as a result of a withdrawal, would be calculated based on the acquisition cost to such non-resident of the ADSs representing these shares of common stock, 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, capital gains which are subject to Korean tax will be subject to tax (including local surtax) at the lower of 11% of the gross realization proceeds (the "Gross Realization Proceeds") or subject to the production of satisfactory evidence of the acquisition cost or the transaction cost of the ADSs, 27.5% of the gains made, being the excess of the Gross Realization Proceeds over the non-resident's acquisition cost or the transaction cost for the ADSs.

Under the U.S.-Korea Tax Treaty, the capital gains of residents of the United States from the disposition of the Registered Debt Securities will generally remain exempt from Korean taxes unless the Registered Debt Securities are effectively connected with the United States residents' permanent establishment in Korea or, in the case of an individual, (i) such United States resident maintains a fixed base in Korea for a period aggregating 183 days or more during the taxable year and the Registered Debt Securities are effectively connected with such fixed base or (ii) such United States resident is present in Korea for 183 days or more during the taxable year.

With respect to interest, dividends and capital gains, tax benefits provided under the U.S.-Korea Tax Treaty would not be available, but the normal tax rate (applicable rate under Korean tax law) would rather apply, if the company deriving the interest, dividend or capital gains is owned 25% or more (directly or indirectly) by one or more persons who are not individual residents of the United States and, by reason of special measures, the tax imposed on such company by the United States with respect to such interest, dividends or capital gains is substantially less than the tax generally imposed by the United States on corporate profits.

Please note that, effective July 1, 2002, under Korean tax law, a non-resident 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 residence prior to making the tax payment in order to qualify for the exemption under the tax treaty. However, this requirement will not be applicable in respect of the exemption under Korean tax law.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (i) all assets (wherever located) of the deceased if he or she was domiciled in Korea at the time of his or her death and (ii) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a limit and vary according to the identity of the parties involved.

Under the Korean inheritance and gift tax laws, shares and debt securities issued by Korean corporations are deemed located in Korea irrespective of where the certificates are physically located or by whom they are owned.

Securities Transaction Tax

A securities transaction tax is payable on the transfer of shares issued by a Korean corporation or the right to subscribe to such shares. The securities transaction tax is assessed at the rate of 0.15% of the sale price of the share or rights to subscribe to shares when traded through the Korea Stock Exchange, (when the share or right is traded off the Korea Stock Exchange, the securities transaction tax is assessed at the rate of 0.5% of the sale price of the share or rights to subscribe to shares); however, securities transaction tax is not applicable if (i) the shares or rights to subscribe for shares are listed on certain recognized foreign stock exchanges and the sales are executed on such exchange or (ii) the shares or rights to subscribe for shares be sold to certain qualified underwriters in order for listing on such recognized foreign stock exchanges.

An additional agriculture and fishery special tax is payable on securities transactions of shares or rights on the Korea Stock Exchange at the rate of 0.15% of the sales price. Under the terms of the relevant law, this agriculture and fishery special tax expires on June 30, 2004. The transferor of the shares or rights must pay the securities transaction tax. When the transfer is effected through the Korean Securities Depository, the Korean Securities Depository will withhold the tax, and when such transfer is made through a securities company only, such securities company will make the withholding. Where the transfer is effected by a non-resident without a permanent establishment in Korea other than through the Korean Securities Depository or a securities company, the transferee is required to withhold the securities transaction tax. No securities transaction tax is payable on transfer of Registered Debt Securities.

Further, no securities transaction tax or agricultural and fishery special surtax is payable on the transfer of the ADSs.

According to a tax ruling issued by the Korean tax authorities, foreign shareholders will not be subject to a securities transaction tax upon the deposit of underlying stock and receipt of depository shares or upon the surrender of depository shares and withdrawal of the deposited underlying stock. However, questions have recently been raised by Korean tax officials as to whether this ruling also applies to the surrender of depository shares and withdrawal of underlying stock by a subsequent (as opposed to the initial) holder of depository shares. Accordingly, in the case of holders of ADSs other than an initial holder, the non-applicability of the securities transaction tax to withdrawals of common shares upon the surrender of ADSs is not entirely free from doubt under Korean tax law.

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

The following is a summary of certain U.S. Federal income tax consequences for beneficial owners of the Registered Debt Securities, common stock and ADRs that are “U.S. Persons” under the Internal Revenue Code (the “Code”). Under the Code, you are a “U.S. Person” if you are any of the following for U.S. Federal income tax purposes:

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

This summary is based on current law, which is subject to change (perhaps retroactively), is for general purposes only and should not be considered tax advice. This summary does not represent a detailed description of the federal income tax consequences to you in light of your particular circumstances. The discussion set forth below is applicable to you if (i) you are a resident of the United States for purposes of the current income tax treaty between the United States and Korea (the “Treaty”), (ii) your Registered Debt Securities, common stock and ADRs are not, for purposes of the Treaty, effectively connected with a permanent establishment in Korea, (iii) you are not present in Korea for 183 days or more during the taxable year and (iv) you otherwise qualify for the full benefits of the Treaty. Except where noted, it deals only with Registered Debt Securities, common stock or ADRs held as capital assets, and it does not represent a detailed description of the U.S. Federal income tax consequences applicable to you if you are subject to special treatment under the U.S. Federal income tax laws (including if you are a dealer in securities or currencies, a financial institution, a regulated investment company, a real estate investment trust, an insurance company, a tax exempt organization, a person holding the Registered Debt Securities, common stock and ADRs as part of a hedging, integrated or conversion transaction, constructive sale or straddle, a person owning 10% or more of our voting stock, traders in securities that elects to use a mark-to-market method of accounting for your securities holdings, or a U.S. Person whose “functional currency” is not the U.S. Dollar). We cannot assure you that a change in law will not alter significantly the tax considerations that we describe in this summary.

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

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

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

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

Tax Consequences with respect to Registered Debt Securities Generally

Payments

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

Although interest payments to you are currently exempt from Korean taxation, if the Korean law providing for the exemption is repealed, then, in addition to interest payments on the Registered Debt Securities and original issue discount (as defined below) on the ZTF Debentures, you will be required to include in income any Additional Amounts and any Korean tax withheld from interest payments notwithstanding that you in fact did not receive such withheld tax. You may be entitled to deduct or credit such Korean tax (up to the Treaty rate), subject to applicable limitations in the Code. Your election to deduct or credit foreign taxes will apply to all of your foreign taxes for a particular taxable year. Interest income on a Registered Debt Security (including Additional Amounts and any Korean taxes withheld in respect thereof) and original issue discount on a ZTF Debenture generally will constitute foreign source income and generally will be considered “passive” income or, for certain holders, “financial services” income, or if the rate of Korean withholding tax exceeds 5%, “high withholding tax interest” income, which are treated separately from other types of income in computing the foreign tax credit allowable to you under U.S. Federal income tax laws. Special rules apply to certain individuals whose foreign source income during the taxable year consists entirely of “qualified passive income” and whose creditable foreign taxes paid or accrued during the taxable year do not exceed \$300 (\$600 in the case of a joint return). The rules governing the foreign tax credit are complex. Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances. Guidance issued by the U.S. Treasury may deny a foreign tax credit for foreign taxes imposed with respect to Registered Debt Securities where you hold the Registered Debt Securities in arrangements in which your expected economic profits, after non-U.S. taxes, is insubstantial.

Original Issue Discount

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

The amount of OID includible in income by the initial holder of a ZTF Debenture is the sum of the “daily portions” of OID with respect to the ZTF Debenture for each day during the taxable year or portion of the taxable year in which such holder held such ZTF Debenture (“accrued OID”) (for a discussion relevant to subsequent purchasers, see “–Market Discount” and “–Bond Premium”, below). The daily portion is determined by allocating to each day in any “accrual period” a pro rata portion of the OID allocable to that accrual period. The “accrual period” for a ZTF Debenture may be of any length and may

vary in length over the term of the ZTF Debenture, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the product of the ZTF Debenture's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period). The "adjusted issue price" of a ZTF Debenture at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (for subsequent purchasers, determined without regard to the amortization of any acquisition or bond premium, as described below) and reduced by any payments made on such ZTF Debenture on or before the first day of the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. Under these rules, you will have to include in income increasingly greater amounts of OID in successive accrual periods. We are required to provide information returns stating the amount of OID accrued on ZTF Debentures held of record by persons other than corporations and other exempt holders.

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

Market Discount

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

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

Bond Premium

If you purchase a ZTF Debenture for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the ZTF Debenture after the purchase date other than payments of qualified stated interest (as defined in the Code), you will be considered to have purchased that ZTF Debenture at an "acquisition premium." Under the acquisition premium rules, the amount of OID that

you must include in gross income with respect to a ZTF Debenture for any taxable year will be reduced by the portion of the acquisition premium properly allocable to that year.

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

Sale, Exchange and Retirement of Registered Debt Securities

When you sell, exchange or retire a Registered Debt Security, you will recognize gain or loss equal to the difference between the amount you receive (not including an amount equal to any accrued interest you have not included in income, which will be taxable as ordinary income) and your adjusted tax basis in the Registered Debt Security. Your tax basis in a Registered Debt Security other than a ZTF Debenture will generally be your cost of obtaining the Registered Debt Security increased by any market discount included in income and reduced by payments of principal you receive and any bond premium that you elect to amortize. Your adjusted tax basis in a ZTF Debenture will, in general, be your cost therefore, increased by any market discount and OID previously included in income and reduced by any cash payments on the ZTF Debentures and any bond premium that you elect to amortize. Your gain or loss realized on selling, exchanging or retiring a Registered Debt Security will generally be treated as United States source income. Your gain or loss will be capital gain or loss and will be long-term capital gain or loss if, at the time of the sale, exchange or retirement of a Registered Debt Security, you have held the Registered Debt Security for more than one year. If you are an individual and the Registered Debt Security being sold, exchanged or retired is a capital asset that you held for more than one year, you may be eligible for reduced rates of taxation on any capital gain recognized. Your ability to deduct capital losses is subject to limitations.

ZTF Debentures Treated as Equity

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

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

Tax Consequences with respect to Common Stock and ADRs

In general for U.S. Federal income tax purposes, holders of ADRs will be treated as the owners of the underlying common stock that are represented by such ADRs. However, the U.S. Treasury has expressed concerns that parties involved in transactions in which depositary shares are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by the holders of ADRs. Accordingly, the analysis of creditability of Korean taxes described below could be affected by future actions that may be taken by the U.S. Treasury. Deposits or withdrawals of common stock by holders for ADRs will not be subject to U.S. Federal income tax.

Distributions on Common Stock or ADRs

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

With respect to U.S. holders who are individuals, certain dividends paid by a qualified foreign corporation and received by such holders before January 1, 2009 may be subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of an income tax treaty with the United States, if such treaty contains an exchange of information provision and the United States Treasury Department had determined that the treaty is satisfactory for purposes of the legislation. Legislative history indicates that the current income tax treaty between the United States and Korea, which contains an exchange of information provision, is (in the absence of additional guidance) satisfactory for these purposes. In addition, the Company believes it is eligible for the benefits of the United States-Korean income tax treaty. However, individuals that do not meet a minimum holding period requirement during which they are not protected from a risk of loss or that elect to treat the dividend income as “investment income” pursuant to section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation. Holders should consult their own tax advisors regarding the application of the foregoing rules to their particular circumstances.

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

The maximum rate of withholding tax on dividends paid to you pursuant to the Treaty is 15 percent. You will be required to properly demonstrate to the company and the Korean tax authorities your entitlement to the reduced rate of withholding under the Treaty. Subject to certain conditions and limitations, Korean withholding taxes (up to the Treaty rate) will be treated as foreign taxes eligible for credit against your U.S. Federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the common stock or ADRs will be treated as income from sources outside the United States and will generally constitute “passive income” or, in the case of certain holders, “financial services income”. Special rules apply to certain individuals whose foreign source income during the taxable year consists entirely of “qualified passive income” and whose creditable foreign taxes paid or accrued during

the taxable year do not exceed \$300 (\$600 in the case of a joint return). The rules governing the foreign tax credit are complex. Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances including the possible adverse impact on creditability to the extent you are entitled to a refund of any Korean tax withheld or a reduced rate of withholding.

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

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

Sale, Exchange or Other Disposition of ADRs or Common Stock

Upon the sale, exchange or other disposition of ADRs or common stock, you generally will recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition and your adjusted tax basis in the ADRs or common stock. The capital gain or loss will be long-term capital gain or loss if at the time of sale, exchange or other disposition, the ADRs or common stock have been held by you for more than one year. Under current law, long-term capital gains of individuals are, under certain circumstances, taxed at lower rates than items of ordinary income. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as U.S. source gain or loss.

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

Estate and Gift Taxation

Korean imposes an estate tax on a decedent who owns Registered Debt Securities and common stock (and possibly ADRs), even if the decedent was not a citizen or resident of Korea. See “— Korean Taxation-Estate Taxation and Gift Tax” above. The amount of any inheritance tax paid to Korea may be eligible for credit against the amount of U.S. Federal estate tax imposed on your estate. Prospective purchasers should consult their personal tax advisors to determine whether and to what extent they may be