RISK FACTORS

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

Risks Relating to KEPCO

The Government's Plan for restructuring the electricity industry in Korea (the "Restructuring Plan") may have a material adverse effect on us.

On January 21, 1999, the Ministry of Commerce, Industry and Energy (the "MOCIE") announced the Restructuring Plan for the electricity industry in Korea. For a detailed description of the Restructuring Plan, see Item 4 "Information on the Company — Business Overview — Restructuring of the Electricity Industry in Korea".

The Government promulgated the Law on Promotion of Restructuring of Electricity Industry (the "Restructuring Law") and amended the Electricity Business Law on December 23, 2000, which allowed us to implement the Restructuring Plan. Pursuant to the Restructuring Law:

- on April 2, 2001, the Government established the Korea Power Exchange to deal with the sale of electricity and to work out regulations governing the electricity industry to allow for electricity distribution through a competitive bidding process;
- on April 2, 2001, the Government established a competitive bidding pool system for the sale and purchase of electricity; and
- on April 27, 2001, the Government established the Korean Electricity Commission to regulate the restructured Korean electricity industry and to ensure fair competition.

On February 23, 2001, our board of directors approved a new plan to split our non-nuclear and non-hydroelectric generating capacity into five wholly owned generation subsidiaries and our nuclear and hydroelectric generating capacity into a separate wholly-owned generation subsidiary. On March 16, 2001, our shareholders approved the plan to establish the generation subsidiaries and the allocation of our assets and liabilities to such generation subsidiaries, effective as of April 2, 2001.

In September 2003, a Joint Study Group on Reforming Electricity Distribution Network was established under the Tripartite Commission to propose a methodology of introducing distribution competition within the industry. Members of the Tripartite Commission include, among others, representatives from the Government and the labor union. In June 2004, based on the conclusion published by this Joint Study Group, the Tripartite Commission issued a resolution which recommended halting the plan to form and privatize the distribution subsidiaries. Instead, this resolution recommended the creation of independent business divisions within KEPCO, namely, Strategy Business Units, each with more autonomy and independence, to introduce internal competition among the business divisions and improve efficiency. This resolution was adopted by the MOCIE on June 17, 2004. Accordingly, we have been conducting research in preparation of implementing the new revised plan, which we expect to be completed in early 2006. Failure to successfully implement the revised plan could have an adverse effect on our business, results of operations and financial condition.

The Restructuring Plan still contemplates that we eventually dispose of our interests in our generation subsidiaries (excluding our nuclear and hydroelectric power generation subsidiary). In April 2002, the MOCIE released the basic privatization plan for five of our generation subsidiaries, excluding our nuclear and hydroelectric power generation subsidiary. In 2002, we commenced the sale of Korea South-East Power Co., Ltd. ("KOSEPCO"). According to the original privatization plan, the process of selling KOSEPCO was either to sell its management control or conduct an initial public offering. Due to market conditions, the process of selling KOSEPCO has tentatively been delayed. The aggregate foreign ownership of our generation subsidiaries will be limited to 30% of total power generation capacity in Korea. We cannot assure you as to the timing or the extent to which our divestiture will occur. In addition, it is possible that Korean law relating to anti-competitive practices as existing at that time may affect the manner in which we conduct our business through such subsidiaries.

Increase in fuel prices will adversely affect our results of operations and profitability.

Fuel costs constituted 27.6% and 33.9% of our operating revenues and operating expenses, respectively, for the year ended December 31, 2004. Our generation subsidiaries purchase substantially all of the fuel that they use (except for anthracite coal) from a small number of suppliers outside Korea at prices determined in part by prevailing market prices in currencies other than Won. In addition, our generation subsidiaries purchase a significant portion of their fuel requirements under contracts with limited quantity and duration. Pursuant to the terms of our long-term supply contracts, prices are adjusted annually in light of market conditions. See Item 4 "Information on the Company — Business Overview — Fuel". Most of the bituminous coal requirements are imported from China, Australia, Indonesia, Canada, Russia and the United States under long-term contracts. Approximately 38%, 26% and 25% of the annual bituminous coal requirements of our generation subsidiaries in 2004 were imported from Australia, Indonesia and China, respectively. Approximately 77.1% of the combined bituminous coal requirements of our generation subsidiaries are purchased under long-term contracts and 22.9% purchased on the spot market. Recently, due to increase in domestic demand in China and elsewhere in the world, the prices of bituminous coal have soared. As a result of this price increase and the effects of rising shipping cost for bituminous coal, our generation subsidiaries will be unable to secure their respective bituminous coal supply at prices comparable to those of prior periods. In addition, any significant interruption or delay in the supply of fuel, bituminous coal in particular, from any of the suppliers could cause our generation subsidiaries to purchase fuel on the spot market at prices higher than contracted, resulting in an increase in our fuel cost. In addition, there have been recent increases in oil prices, resulting in higher fuel cost. In May 2005, the price of oil (Dubai) exceeded US$44 per barrel as compared to an average of US$33.67 per barrel in 2004. Because the Government regulates the rates we charge for electricity we sell (see Item 4 "Information on the Company — Business Overview — Rates"), our ability to pass on such cost increases to our customers is limited. We estimate that the recent increase in fuel prices has had a material adverse effect on our results of operations and profitability in 2005 to date. We expect fuel prices to remain high throughout 2005. Accordingly, we expect our operating income and net income may be adversely impacted.

The impact of Won depreciation may have a material adverse effect on us.

The depreciation of Won against the U.S. dollar or the Japanese Yen in the past had a material effect on the cost of servicing our foreign currency debt and the cost of our purchases of fuel materials and equipment from overseas sources. As of December 31, 2004, approximately 27% of our debt was denominated in foreign currencies, principally in Dollars and Yen. The prices for substantially all of the fuel materials and a significant portion of the equipment we purchase are stated in currencies other than Won, generally in Dollars. Since substantially all of our revenues are denominated in Won, we must generally obtain foreign currencies through foreign-currency denominated financings or through the conversion of Won to effect such purchases or service such debt. As a result, any significant depreciation of the Won against the Dollar or other foreign currencies will adversely impact us.

Labor unrest may materially and adversely affect our operations.

As of December 31, 2004, approximately 62.1% of the employees of our generation subsidiaries were members of the Korean Power Plant Industry Union. The Restructuring Plan and the privatization plan for our non-nuclear generation subsidiaries have generated labor unrest. Labor unions to which our employees belong have voiced their opposition to the Restructuring Plan from its very inception. In particular, the prospect of privatizing some of our core assets has raised concerns among some of our employees. On February 25, 2002, employees belonging to labor unions of our five non-nuclear generation subsidiaries commenced a six-week strike to protest the Government's plans to privatize our five non-nuclear generation subsidiaries. The Korean Confederation of Trade Unions ("KCTU"), the second-largest governing body of labor unions in Korea with over 600,000 members, negotiated with the Government on behalf of the labor unions. After prolonged negotiations with the Government, KCTU directed the labor unions of our five non-nuclear generation subsidiaries to end their strike on April 2, 2002. We cannot assure you that a large-scale strike will not occur again in the future, or that any such labor unrest will be satisfactorily resolved. Such labor unrest may adversely affect our results of operations, including by severely disrupting the power supply as well as substantially hindering the implementation of the Restructuring Plan.

Inherent in the operation of nuclear power generation facilities are numerous hazards risks, any of which could result in a material loss of revenues or increased expenses.

Through Korea Hydro & Nuclear Power Co., Ltd. ("KHNP"), our wholly-owned nuclear subsidiary, we currently operate 19 nuclear-fuel generating units. The operation of nuclear power plants is subject to certain hazards, including environmental hazards such as leaks, ruptures and discharge of toxic and radioactive substances and materials. These hazards can cause personal injuries or loss of life, severe damage to or destruction of property and natural resources, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. Nuclear power has a stable and low cost structure that forms the base load and is the largest source of Korea's electricity supply accounting for 38.2% of electricity generated in Korea in 2004. Due to significantly lower fuel costs as compared with conventional power plants, our nuclear power plants are in general operated at full capacity with only routine shutdowns for check-up and overhaul consisting of 30 to 40 days. In December 2003, in response to concerns of potential exposure to radioactive materials arising from a release incident, we shut down Younggwang-5, one of our nuclear power plants for assessment, inspection and overhaul. This nuclear power plant resumed its operations on April 28, 2004. In November 2003, we shut down Younggwang-6, another of our nuclear power plants for planned overhaul, during which a mechanical problem was discovered giving rise to concerns as to its safety. After the overhaul, this nuclear power plant resumed its operations on April 6, 2004. The breakdown, failure or suspension of operation of a nuclear unit could result in a material loss of revenues, increase in fuel costs from alternative power sources and/or additional costs to repair, which could have a material adverse impact on our financial conditions and results of operation.

Opposition to the construction and operation of nuclear-fuel generating units may have adverse effect on us.

In 2004, 38.2% of the electricity generated in Korea was generated by nuclear generating units. In recent years, we have encountered increasing opposition in the Republic to the construction and operation of nuclear generating units. Although the Government and we have undertaken various community development programs to address concerns of residents of areas near nuclear units, community opposition to the construction and operation of nuclear units could result in construction delay or relocation of planned nuclear units which could have a material adverse impact on us. See Item 4 "Information on the Company — Business Overview — Power Generation — KHNP", "Business Overview — Environment and Community Programs" and "Business Overview — Insurance".

Insurance coverage may not be sufficient.

Risks of substantial liability arise from the operation of nuclear-fueled generating units and from the use and handling of nuclear fuel and possible radioactive emissions associated with such nuclear fuel. While KHNP carries insurance for its generation units and is the beneficiary of a certain Government indemnity with respect to such risks, the amounts and coverage thereof are limited and do not cover all types or amounts of loss which could arise in connection with the ownership and operation of nuclear plants, and material financial consequences could result from a significant accident.

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

Because we and our non-nuclear generation subsidiaries do not carry insurance against terrorist attacks, in the event of an act of terrorism, the coverage amount for their properties may not be enough. See Item 4 "Information on the Company — Business Overview — Insurance".

We anticipate that we need to incur additional indebtedness, which may be substantial, for future capital expenditures.

We anticipate that additional indebtedness, which may be substantial, will be required through the years in order to refinance existing debt and to make capital expenditures for construction of generation plants and other facilities. We expect that certain portion of our long-term debt will need to be raised through foreign currency borrowings and in international capital markets. It is possible that the cost at which such financing may be provided may not be acceptable to us.

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

The Korea Electric Power Corporation Act (the "KEPCO Act") requires that the Government, directly or pursuant to The Korea Development Bank Act (the "KDB Act"), through The Korea Development Bank (a statutory banking institution wholly-owned by the Government), own at least 51% of our capital stock. As of March 31, 2005, Government, directly or through The Korea Development Bank ("KDB"), owned 54% of our issued capital. Accordingly, without changes in the existing Korean law, it will be difficult or impossible for us to undertake any equity financing in the future (other than sales of treasury stock) without the participation of the Government.

Risks Relating to Korea and the Global Economy

Adverse developments in Korea could adversely affect us.

Beginning in late 1997, Korea experienced a significant financial and economic downturn which resulted in, among other things, a significant increase in the number and size of Korean companies filing for corporate reorganization and protection from their creditors. Although it is believed that the country's economy has recovered to a certain extent, there can be no assurance that the recovery will continue or that Korea's economy will not experience any adverse developments in the future. In addition, as recently acknowledged by the Korean government, the Korean economy has been experiencing a recession which had and is expected to continue to have a material impact on our operations.

Adverse economic developments in the Republic have had, and may have in the future, a significant impact on us. In general, the rate of growth in electricity demand in Korea has shown a proportionate positive correlation to the rate of growth in the overall economy, reflected in such measures as GDP. As a consequence of adverse economic conditions in Korea, the rate of growth in demand for electricity declined significantly in late 1997 and during 1998. Total demand for electricity increased by 11.8% in 2000 as compared to 1999, by 7.6% in 2001 as compared to 2000, by 8.0% in 2002 as compared to 2001, by 5.4% in 2003 as compared to 2002, and by 6.3% in 2004 as compared to 2003.

Developments that could hinder the Republic's economy include the following:

- social and labor unrest resulting from lay-offs, increasing unemployment and lower levels of income;
- a decrease in tax revenues and a substantial increase in the Government's expenditures for unemployment compensation and other social programs that together are expected to lead to an increased Government budget deficit;
- volatility in commodity prices (including oil prices), foreign currency reserve levels, exchange rates, interest rates and the stock market;
- increased reliance on exports to service foreign currency debts, which could cause friction with the Republic's trading partners;

- the current financial problems of certain former and current companies of Korean conglomerates, or chaebols, as well as companies which conduct business with those chaebols, or the failure of restructuring of chaebols, and their potential impact on the Republic's financial sector;
- political uncertainty or increasing strife among or within political parties in Korea;
- continued adverse developments in the economies of countries to which the Republic exports goods and services (such as the United States and Japan), or in emerging market economies in Asia or elsewhere; and
- a deterioration in economic or diplomatic relations between the Republic and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy.

Tensions with North Korea could have an adverse effect on us.

Relations between Korea and the Democratic People's Republic of Korea ("North Korea") have been tense over most of Korea's history. The level of tension between Korea and North Korea has fluctuated and may increase or change abruptly as a result of current and future events, including ongoing contacts at the highest levels of the governments of Korea and North Korea and increasing hostility between North Korea and the United States. This level of tension has increased recently as a result of public announcements that North Korea had developed and was in possession of nuclear weapons and that it may be planning an underground nuclear test. It also announced its indefinite withdrawal from further six-party talks which members include Korea, North Korea, the United States, China, Japan, and Russia. Representatives of Korea, the United States, China, Japan and Russia are currently making collaborative efforts to resume the six-party talks, however, future prospects for the six-party talks appear uncertain. Any further increase in tensions, resulting for example from a break-down in contacts or an outbreak in military hostilities, could hurt our business, results of operations and financial condition and could lead to a decline in the price of our common stock and our American depositary shares.

Unemployment and labor unrest in Korea may adversely affect our operations.

The economic downturn in Korea in 1997 and 1998 and the increase in the number of corporate reorganizations and bankruptcies thereafter caused layoffs and increasing unemployment in Korea, and a similar economic downturn in the future could lead to further layoffs. These factors could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programs. During 1998 and 1999, there were large-scale protests and labor strikes in Korea. According to statistics from the Bank of Korea, the unemployment rate generally decreased from 4.1% as of December 31, 2000 to 3.1% as of December 31, 2002, but increased to 3.6% as of December 31, 2003 and to 3.7% as of December 31, 2004. A continued increase in unemployment or labor unrest in Korea could adversely affect our operations and the financial conditions of Korean companies in general, depressing the price of securities on the Stock Market Division of the Korea Exchange (the "Korea Exchange") and the value of the Won relative to other currencies. These developments would likely have an adverse effect on our financial condition and results of operations.

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

The Korean market and the Korean economy are influenced by economic and market conditions in other countries, including emerging market countries. Financial turmoil in Asia and elsewhere in the world in recent years has adversely affected the Korean economy. Although economic conditions are different in each country, investors' reactions to developments in one country, such as Argentina or Brazil, can have adverse effects on the securities of companies in other countries, including Korea. A loss of investor confidence in the financial systems of emerging and other markets may cause increased volatility in Korean financial markets. We cannot assure you that financial events of the type that occurred in emerging markets in Asia in 1997 and 1998 will not happen again or will not have an adverse effect on our business.

Other Risks

We are jointly and severally liable for certain debt of our generation subsidiaries.

Under the relevant provisions of the Korean Commercial Code, we and each of our generation subsidiaries remain jointly and severally liable for all of our liabilities existing prior to the corporate split on April 2, 2001 and all liabilities that we transferred to generation subsidiaries unless such joint and several liability has been successfully eliminated through consents of creditors of affected debt, including consent by resolutions at bondholders' meetings, which resolutions are approved by the court. In order to facilitate the privatization of our generation subsidiaries, we eliminated the joint and several liabilities among us and our generation subsidiaries through the consent process described in Item 4. "Information on the Company — History and Development — Recent Developments — Debt Restructuring". As a result, as of April 30, 2005, our generation subsidiaries were released from the joint and several liability for our debts (except for W265.1 billion of loans from KDB for which we and our generation subsidiaries remained jointly and severally liable) existing prior to the corporate split on April 2, 2001 which were not transferred to our generation subsidiaries and the creditors of such debts no longer have direct claims as to the assets of our generation subsidiaries. The remaining obligations rank equally with our other unsecured debt, including the Notes.

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

Our consolidated financial statements are prepared in accordance with accounting regulations applicable to Government-invested companies and Korean GAAP, which differ in certain significant respects from U.S. GAAP. See Item 5 "Operating and Financial Review and Prospects — Liquidity and Capital Resources — Reconciliation to U.S. GAAP".

Korean GAAP and U.S. GAAP differ, among other ways, in respect of the following issues:

- treatment of asset revaluation;
- treatment of foreign exchange translation gains and losses; and
- the establishment of a regulatory asset and liability to offset the impact of foreign exchange translation losses and gains on our income statement, deferred income taxes and reserves for self-insurance.

See Item 5 "Operating and Financial Review and Prospects — Liquidity and Capital Resources — Reconciliation to U.S. GAAP" and Note 32 of the notes to our consolidated financial statements included elsewhere herein.

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 SEC and listed on the NYSE, we are, and in the future will be, subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). However, foreign private issuers, including us, are exempt from certain corporate governance standards required to be complied with under the Sarbanes-Oxley Act or under the rules of the NYSE. 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.