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 Commission are among others from Government and labor union. In June 2004, based on the conclusion of this study group, the Tripartite Commission resolved that it would be in the best interest of the Republic and the Korean electricity industry to suspend the formation and the privatization of the distribution subsidiaries. Following this resolution and recommendation of the Tripartite Committee, the MOCIE announced on June 17, 2004 to suspend the plan to form and privatize the distribution subsidiaries, which implies suspending the plan of introducing a two-way bidding pool system.

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. ("KOSEP"). According to the original privatization plan, the process of selling KOSEP was to sell the management control and involve domestic initial public offering and strategic stake sale. Due to market conditions, the process of selling KOSEP 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.

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

Fuel costs constituted 21.3% and 29.7% of our sales and cost of sales, respectively, for the year ended December 31, 2003. 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 31% and 45% of the annual bituminous coal requirements of our generation subsidiaries in 2003 were imported from China and Australia, respectively. Approximately 74% of the combined bituminous coal requirements of our generation subsidiaries are purchased under long-term contracts and 26% 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 2004, the price of oil (Dubai) exceeded US$34.00 per barrel as compared to an average of US$26.82 per barrel in 2003. 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 2004 to date. We expect fuel prices to remain high throughout 2004. Accordingly, we expect our operating income and net income may decrease significantly in 2004 and beyond compared to prior periods.

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, 2003, approximately 36.2% 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 affect 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, 2003, approximately 62.5% 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 18 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 40.2% of electricity generated in Korea in 2003. 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. For details of these incidents, see Item 4 "Information on the Company—Business Overview—Environment and Community Programs—Nuclear Safety". 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 2003, 40.2% 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 substantial indebtedness for future capital expenditures.

We anticipate that a substantial additional indebtedness 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, 2003, 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. Recent developments that have hurt and may continue to hurt Korea's economy include, for example, financial difficulties experienced by SK Networks (formerly known as SK Global Co., Ltd.), which admitted in March 2003 that it had falsified its financial statements, and the increase in the credit card delinquencies causing the financial difficulties experienced by banks and credit card companies, including LG Credit Card Co., Ltd., which is suffering from insolvency.

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 and by 5.4% in 2003 as compared to 2002.

Developments that could hinder the Republic's economic recovery 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;
- 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.

In recent months, the level of tension between Korea and the Democratic People's Republic of Korea ("North Korea"), as well as among North Korea, the United States and Japan, has increased. In response to North Korea's admission to maintaining a nuclear weapons program in breach of the peace accord executed in October 1994 (the "1994 Accord"), the United States, Japan, Korea and the European Union (which became party to the 1994 Accord in November 2002) suspended shipments of oil to North Korea under the 1994 Accord and reiterated their demands to North Korea to halt its nuclear weapons program. Following the suspension of oil shipments, North Korea removed seals and surveillance equipment from its Yongbyon nuclear power plant and evicted nuclear inspectors from the United Nations International Atomic Energy Agency (the "IAEA") in December 2002. In January 2003, North Korea announced its intention to withdraw from the Nuclear Non-Proliferation Treaty, refusing to abandon its nuclear power and arms program unless the United States were to execute a non-aggression pact. Media reports have stated that North Korea has reactivated a reactor at its main nuclear complex, the Yongbyon nuclear power plant. In February 2003, the IAEA referred the nuclear issue to the United Nations Security Council. In an effort to secure a peaceful negotiated resolution to these events, the two Koreas continue to hold ministerial talks. In July 2003 and February 2004, the representatives of the United States, North Korea, China, Russia, Japan and Korea met to resolve issues relating to North Korea's nuclear weapons program. In the recent multilateral discussions, Korea, North Korea, the United States, China, Japan and Russia agreed to establish a working group for detailed discussions and hold the next discussions before the end of June 2004. The parties also expressed their commitment to a nuclear-weapons-free Korean peninsula and willingness to coexist peacefully. However, there can be no assurance that the level of tensions will not escalate and have a serious adverse impact on us.

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. 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 Korea Stock 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.

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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, our generation subsidiaries are released from the joint and several liability for all of our foreign debts 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. However, we and our generation subsidiaries remain jointly and severally liable for bonds issued prior to April 2, 2001 in the domestic market, for which KDB Guarantee (as defined in Item 4. “Information on the Company—History and Development—Recent Developments—Debt Restructuring”) has not yet been provided. We are jointly and severally liable for domestic debt of us and our generation subsidiaries in the aggregate amount of approximately (Won)3,090 billion (US$2,580 million), consisting of (Won)1,747 billion (US$1,459 million) of domestic bonds and (Won)1,343 billion (US$1,121 million) of domestic borrowings, outstanding as of February 29, 2004. These obligations will rank equally with our other unsecured debt.

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 retirement obligations;
- 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 22 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.

ITEM 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT

General Information

We were established by the Government on December 31, 1981 as the successor to Korea Electric Company and, until 1989, were wholly owned by the Government. Our registered office is located at 167 Samseong-Dong, Gangnam-Gu, Seoul, Korea, and our telephone number is 82-2-3456-4264.

In 1989, the Government sold 21% of our common stock as part of a planned partial privatization. Such partial privatization was one of several sales by the Government of shares of Government-owned companies undertaken. In 1994, we sold 1.2% of our shares in a global offering. In 1995, we sold 1.1% of our shares in another global offering. From November 1997 to February 1998 the Government injected capital into KDB, The Export-Import Bank of Korea, Korea First Bank and Seoul Bank with our shares to support those financial institutions. In March 1999, the Government sold 5% of our shares in a global offering. As a result, as of December 31, 2000, the Government owned, directly or indirectly, 54% of our issued common stock (including treasury stock). On June 20, 2001, the Government transferred 127,086,334 shares of our common stock held by it, which represents 19.85% of our outstanding capital, to KDB, and on April 30, 2004, the Government transferred 34,511,869 shares of our common stock, which represents 5.39% of our outstanding capital, to KDB to strengthen its capital base. As a result of such transfer, the Government and KDB own 27.03% and 26.93%, respectively, of the outstanding shares of our common stock as of the end of April 2004. See the table setting forth certain information relating to certain owners of our capital stock as of April 30, 2004 in Item 7 "Major Shareholders and Related Party Transactions—Major Shareholders".

The KEPCO Act requires that the Government, directly or pursuant to the KDB Act, through KDB, own at least 51% of our capital. Direct or indirect ownership of more than 50% of our outstanding common stock enables the Government to control the approval of certain corporate matters which require a stockholders' resolution, including approval of dividends. The Government's and KDB's rights as holders of our common stock are exercised by the MOCIE based on the Government's ownership of our common stock and a proxy to be received from KDB in consultation with the Ministry of Finance and Economy ("MOFE").

We operate under the general supervision of the MOCIE. The MOCIE, in consultation with the MOFE, has responsibility for approving the electric power rates we charge after review by the Korean Electricity Commission. See "—Business Overview—Rates". We furnish reports to officials of the MOCIE, the MOFE and other Government agencies and regularly consult with such officials on matters relating to our business and affairs. See "—Business Overview—Regulation".

Pursuant to our articles of incorporation, our directors are classified into two categories: standing directors and non-standing directors. The number of standing directors shall be not more than seven, including the president (who is our Chairman and CEO), and the non-standing directors shall be not more than eight. In any case, the number of standing directors may not exceed the number of non-standing directors. The standing directors other than our president shall be appointed by the MOCIE upon the motion of our president with the approval at the general meeting of our shareholders. The non-standing directors shall be appointed from among specialists in the private sector with knowledge of business management by the Minister of Planning and Budget of the Republic upon the motion of our president. Our president shall be appointed by the president of the Republic upon the motion of the MOCIE after shareholders' approval following the nomination by a president nomination committee which is composed of the non-standing directors and other members from the private sector appointed by the board of directors. The president serves as our chief executive officer and represents us and administers our day-to-day business in all matters not specifically designated as responsibilities of the board of directors.

Our statutory auditor is appointed by the President of the Republic upon the motion of the Minister of the Planning and Budget of Korea following a resolution at the general meeting of our shareholders. The auditor is