

KOREA ELECTRIC POWER CORP
Form 6-K
April 08, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

**Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

For the Month of April 2008

KOREA ELECTRIC POWER CORPORATION

(Translation of registrant's name into English)

167, Samseong-dong, Gangnam-gu, Seoul 135-791, Korea

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will

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file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the
information contained in this form is also thereby furnishing the
information to the Commission pursuant to Rule 12g3-2(b) under the

Securities Exchange Act of 1934.

Yes No

If Yes is marked, indicate below the file number assigned to the
registrant in connection with Rule 12g3-2(b): 82- _____.

This Report of Foreign Private Issuer on Form 6-K is deemed filed for all purposes under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, including by reference in the Registration Statement on Form F-3 (Registration No. 33-99550) and the Registration Statement on Form F-3 (Registration No. 333-9180).

KOREA ELECTRIC POWER CORPORATION

NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2007

AND INDEPENDENT AUDITORS REPORT

Independent Auditors Report

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of

Korea Electric Power Corporation:

We have audited the accompanying non-consolidated balance sheet of Korea Electric Power Corporation (the Company) as of December 31, 2007, the related non-consolidated statements of income, appropriation of retained earnings, statements of cash flows and changes in shareholders equity for the year ended December 31, 2007, all expressed in Korean Won. These non-consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We did not audit the financial statements of Korea South-East Power Co., Ltd., Korea Midland Power Co., Ltd., Korea Western Power Co., Ltd. and Korea Southern Power Co., Ltd., which statements reflect 14.7 percent of the total assets as of December 31, 2007 and 36.2 percent of income before income tax expenses for the year ended December 31, 2007. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for those companies, is based solely on the reports of the other auditors. The accompanying non-consolidated balance sheet of the company as of December 31, 2006 and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the year then ended, which are presented for comparative purposes, were audited by other auditors whose report, dated January 31, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Korea Electric Power Corporation as of December 31, 2007, and the results of its operations, the changes in its retained earnings and shareholders equity, and its cash flows for the year then ended in conformity with the Korea Electric Power Corporation Act, the Accounting Regulations for Public Enterprise & Associate Government Agency and accounting principles generally accepted in the Republic of Korea.

Our audit also comprehended the translation of Korean Won amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside of Korea.

Accounting principles and audit standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations, cash flows and changes in shareholders' equity in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable about Korean accounting procedures and audit standards and their application in practice.

February 11, 2008

Notice to Readers

This report is effective as of February 11, 2008, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying non-consolidated financial statements and may result in modifications to the auditors' report.

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KOREA ELECTRIC POWER CORPORATION

NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2007 AND 2006

| | 2006 | Korean Won (In millions) | 2007 | Translation into U.S. Dollars (Note 2) 2007 (In thousands) |
|--|------------------|-----------------------------|------------------|---|
| Assets | | | | |
| Property, plant and equipment (Notes 3 and 5): | (Won) 46,072,258 | | (Won) 49,295,683 | \$ 52,542,829 |
| Less: accumulated depreciation | (12,556,783) | | (14,415,883) | (15,365,469) |
| Less: construction grants | (4,086,751) | | (6,126,776) | (6,530,351) |
| | 29,428,725 | | 28,753,024 | 30,647,009 |
| Construction in-progress | 2,122,773 | | 2,265,117 | 2,414,322 |
| Net property, plant and equipment | 31,551,498 | | 31,018,141 | 33,061,331 |
| Investments and other assets: | | | | |
| Investment securities (Notes 6 and 7) | 27,644,238 | | 28,956,430 | 30,863,814 |
| Long-term other accounts receivable, less allowance for doubtful accounts of nil in 2006 and (Won)13,066 million in 2007 (Notes 3, 21 and 30) | 44 | | 1,293,500 | 1,378,704 |
| Long-term loans (Note 8) | 195,413 | | 212,199 | 226,177 |
| Intangible assets (Note 4) | 214,141 | | 208,295 | 222,016 |
| Other non-current assets (Notes 9 and 21) | 262,153 | | 264,373 | 281,787 |
| Total non-current assets | 28,315,989 | | 30,934,797 | 32,972,498 |
| Current assets: | | | | |
| Cash and cash equivalents (Notes 10 and 21) | 129,225 | | 189,346 | 201,819 |
| Trade receivables, less allowance for doubtful accounts of (Won)48,559 million in 2006 and (Won)52,406 million in 2007 (Notes 21 and 30) | 2,249,045 | | 2,469,559 | 2,632,231 |
| Other accounts receivable, less allowance for doubtful accounts of (Won)5,724 million in 2006 and (Won)7,182 million in 2007 (Notes 21 and 30) | 264,305 | | 447,450 | 476,923 |
| Short-term financial instruments (Note 11) | 25,000 | | | |
| Currency swaps (Note 25) | 479,879 | | | |
| Currency forwards (Note 25) | 64 | | | |
| Inventories (Note 12) | 178,099 | | 225,435 | 240,285 |
| Deferred income tax assets, net (Note 28) | 251,413 | | 251,762 | 268,346 |
| Other current assets (Notes 13) | 91,684 | | 106,101 | 113,089 |
| Total current assets | 3,668,714 | | 3,689,653 | 3,932,693 |
| Total assets | (Won) 63,536,201 | | (Won) 65,642,591 | \$ 69,966,522 |

(Continued)

KOREA ELECTRIC POWER CORPORATION

NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2007 AND 2006

| | 2006 | Korean Won (In millions) | 2007 | Translation into U.S. Dollars (Note 2) 2007 (In thousands) |
|---|------------------|-----------------------------|------------------|---|
| Liabilities and Shareholders' Equity | | | | |
| Stockholders' equity: | | | | |
| Common stock of (Won)5,000 par value Authorized 1,200,000,000 shares Issued and outstanding 641,567,712 shares in 2007 and 2006 (Note 14) | (Won) 3,207,839 | | (Won) 3,207,839 | \$ 3,419,142 |
| Capital surplus (Notes 3 and 14) | 14,518,843 | | 14,513,011 | 15,468,995 |
| Capital adjustments (Note 15) | (796,980) | | (741,825) | (790,689) |
| Accumulated other comprehensive income (Notes 16 and 35) | 38,892 | | 122,543 | 130,615 |
| Retained earnings: | | | | |
| Appropriated (Note 17) | 23,922,207 | | 25,372,349 | 27,043,645 |
| Before appropriations | 2,071,223 | | 1,556,815 | 1,659,364 |
| Total shareholders' equity | 42,962,024 | | 44,030,732 | 46,931,072 |
| Long-term liabilities: | | | | |
| Long-term debt, net (Notes 20 and 30) | 10,230,839 | | 10,648,983 | 11,350,440 |
| Accrual for retirement and severance benefits, net (Note 22) | 557,887 | | 689,800 | 735,238 |
| Reserve for self insurance (Note 23) | 103,942 | | 109,273 | 116,471 |
| Other provisions (Note 23) | 50,641 | | 242,219 | 258,174 |
| Currency and interest rate swaps (Note 25) | | | | |
| Deferred income tax liabilities, net (Note 28) | 2,435,310 | | 2,513,867 | 2,679,457 |
| Other long-term liabilities (Note 31) | 338,421 | | 423,844 | 451,763 |
| Total long-term liabilities | 13,717,040 | | 14,627,986 | 15,591,543 |
| Current liabilities: | | | | |
| Trade payables (Note 30) | 1,776,592 | | 2,098,630 | 2,236,868 |
| Other accounts payable (Notes 21 and 30) | 421,832 | | 309,592 | 329,986 |
| Short-term borrowings (Note 19) | 200,000 | | 489,999 | 522,276 |
| Current portion of long-term debt, net (Note 20) | 3,363,742 | | 3,479,974 | 3,709,203 |
| Income tax payable | 423,120 | | | |
| Other current liabilities (Note 24) | 671,851 | | 605,678 | 645,574 |
| Total current liabilities | 6,857,137 | | 6,983,873 | 7,443,907 |
| Total liabilities | 20,574,177 | | 21,611,859 | 23,035,450 |
| Commitments and contingencies (Note 31) | | | | |
| Total shareholders' equity and liabilities | (Won) 63,536,201 | | (Won) 65,642,591 | \$ 69,966,522 |

See accompanying notes to non-consolidated financial statements

KOREA ELECTRIC POWER CORPORATION

NON-CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | 2006 | Korean Won (In millions) | 2007 | Translation into U.S. Dollars (Note 2) 2007 (In thousands) |
|---|------------------------|-----------------------------|------------------------|---|
| OPERATING REVENUES: | | | | |
| Sale of electricity (Note 30) | (Won) 26,900,604 | | (Won) 28,953,328 | \$ 30,860,508 |
| Other operating revenues (Note 30) | 78,429 | | 30,557 | 32,569 |
| | 26,979,033 | | 28,983,885 | 30,893,077 |
| OPERATING EXPENSES (Notes 30): | | | | |
| Power generation, transmission and distribution costs (Note 26) | 4,112,928 | | 4,609,631 | 4,913,271 |
| Purchased power | 20,347,128 | | 22,724,191 | 24,221,052 |
| Other operating costs | 85,611 | | 43,657 | 46,533 |
| Selling and administrative expenses (Note 27) | 1,201,775 | | 1,224,706 | 1,305,378 |
| | 25,747,442 | | 28,602,185 | 30,486,234 |
| OPERATING INCOME | 1,231,591 | | 381,700 | 406,843 |
| OTHER INCOME (EXPENSES): | | | | |
| Interest income | 15,702 | | 82,447 | 87,878 |
| Interest expense (Note 30) | (544,328) | | (602,489) | (642,176) |
| Gain on foreign currency transactions and translation, net | 236,336 | | (76,919) | (81,986) |
| Donations | (105,687) | | (73,997) | (78,871) |
| Rental income | 138,294 | | 154,567 | 164,748 |
| Equity income of affiliates, net (Note 7) | 1,589,394 | | 1,765,939 | 1,882,263 |
| Gain on disposal of property, plant and equipment, net | 6,784 | | 16,117 | 17,179 |
| Valuation loss on currency and interest rate swaps, net (Note 24) | (26,466) | | 2,594 | 2,765 |
| Other, net | 82,318 | | 247,780 | 264,102 |
| | 1,392,347 | | 1,516,039 | 1,615,902 |
| INCOME BEFORE INCOME TAX | 2,623,938 | | 1,897,739 | 2,022,745 |
| INCOME TAX EXPENSE (Note 28) | 553,395 | | 340,924 | 363,381 |
| NET INCOME | (Won) 2,070,543 | | (Won) 1,556,815 | \$ 1,659,364 |
| BASIC EARNINGS PER SHARE (Note 29) | (Won) 3,245 | | (Won) 2,504 | \$ 2.70 |
| DILUTED EARNINGS PER SHARE (Note 29) | (Won) 3,153 | | (Won) 2,461 | \$ 2.66 |

See accompanying notes to non-consolidated financial statements.

KOREA ELECTRIC POWER CORPORATION

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | 2006 | Korean Won (In millions) | 2007 | Translation into U.S. Dollars (Note 2) 2007 (In thousands) |
|---|-----------------|-----------------------------|-----------------|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Net income | (Won) 2,070,543 | | (Won) 1,556,815 | \$ 1,659,364 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 1,825,733 | | 1,891,759 | 2,016,370 |
| Property, plant and equipment removal cost | 229,417 | | 294,734 | 314,148 |
| Provision for severance and retirement benefits | 128,803 | | 159,266 | 169,757 |
| Bad debt expense | 21,814 | | 18,854 | 20,096 |
| Interest expense | 13,731 | | 32,341 | 34,471 |
| Gain on foreign currency translation, net | (197,115) | | 57,783 | 61,589 |
| Equity income of affiliates, net | (824,255) | | (1,017,030) | (1,084,023) |
| Gain on disposal of property, plant and equipment, net | (6,784) | | (16,117) | (17,179) |
| Gain on disposal of investments | (17) | | (13,021) | (13,878) |
| Contribution to self-insurance | 6,906 | | 7,191 | 7,665 |
| Contribution to other provisions | 53,708 | | 33,454 | 35,657 |
| Valuation loss (gain) on currency and interest rate swaps, net | 26,466 | | (2,594) | (2,765) |
| Transaction loss (gain) on currency and interest rate swaps, net | 8,747 | | (9,592) | (10,223) |
| Gain on retirement of bonds | (2,329) | | | |
| Others | 4,661 | | (145,211) | (154,775) |
| | 1,289,486 | | 1,291,817 | 1,376,910 |
| Changes in assets and liabilities: | | | | |
| Increase in trade receivables | (229,496) | | (239,386) | (255,155) |
| Increase in other accounts receivable | (3,037) | | (4,060) | (4,327) |
| Decrease (Increase) in inventories | (17,232) | | 35,340 | 37,668 |
| Increase in deferred income tax assets | (43,553) | | (348) | (371) |
| Increase in other current assets | (119,069) | | (42,270) | (45,054) |
| Increase (Decrease) in trade payables | (327,269) | | 322,037 | 343,250 |
| Increase (Decrease) in other accounts payable | 63,803 | | (112,240) | (119,633) |
| Increase (Decrease) in income tax payable | 317,024 | | (437,741) | (466,575) |
| Increase (Decrease) in other current liabilities | (58,106) | | 62,923 | 67,067 |
| Increase in deferred income tax liabilities | 136,118 | | 186,430 | 198,711 |
| Decrease in other long-term liabilities | (12,138) | | (8,664) | (9,236) |
| Payment of severance and retirement benefits, net | (20,862) | | (29,768) | (31,729) |
| Increase in severance insurance deposits | (475) | | (850) | (906) |
| Payment of self-insurance | (1,582) | | (1,860) | (1,982) |
| Provision for other estimated liabilities | (1,337) | | (29,248) | (31,175) |
| | (317,211) | | (299,705) | (319,447) |
| Net cash provided by operating activities | 3,042,818 | | 2,548,927 | 2,716,827 |

(Continued)

KOREA ELECTRIC POWER CORPORATION

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | 2006 | Korean Won (In millions) | 2007 | Translation into U.S. Dollars (Note 2) 2007 (In thousands) |
|---|-------|-----------------------------|---------------|---|
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Proceeds from disposal of property, plant and equipment | (Won) | 25,491 | (Won) 24,351 | \$ 25,955 |
| Additions to property, plant and equipment | | (3,657,394) | (4,030,212) | (4,295,685) |
| Receipt of construction grants | | 796,994 | 1,042,175 | 1,110,824 |
| Proceeds from disposal of investment securities | | 33 | 145,239 | 154,806 |
| Acquisition of investment securities | | (35,664) | (311,776) | (332,313) |
| Collection of loans | | 23,474 | 29,630 | 31,582 |
| Increase in long-term loans | | (40,210) | (46,215) | (49,259) |
| Acquisition of intangible assets | | (33,366) | (33,772) | (35,997) |
| Proceeds from short-term financial instruments | | 38,000 | 25,000 | 26,647 |
| Additions to short-term financial instruments | | (25,000) | | |
| Settlement under currency and interest rate swap contracts | | (51,574) | 485,429 | 517,405 |
| Other, net | | (16,467) | 313 | 334 |
| Net cash used in investing activities | | (2,975,683) | (2,669,838) | (2,845,701) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Proceeds from short-term borrowings | | 129,000 | 282,953 | 301,591 |
| Proceeds from long-term debt | | 3,725,919 | 3,829,716 | 4,081,983 |
| Proceeds from disposal of corporation own stock fund | | | 58,988 | 62,873 |
| Repayment of long-term debt | | (2,529,532) | (3,369,407) | (3,591,353) |
| Acquisition of treasury stock | | (740,949) | | |
| Dividends paid | | (730,858) | (621,218) | (662,138) |
| Other, net | | (3) | | |
| Net cash provided by (used in) financing activities | | (146,423) | 181,032 | 192,956 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (Note 32) | | | | |
| | | (79,288) | 60,121 | 64,082 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | | | | |
| | | 208,513 | 129,225 | 137,737 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | | | | |
| | (Won) | 129,225 | (Won) 189,346 | \$ 201,819 |

See accompanying notes to non-consolidated financial statements.

KOREA ELECTRIC POWER CORPORATION

NON-CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2007

| | Korean Won (In millions) | | | | | | |
|---|--------------------------|------------------|---------------------|--|-------------------|------------------|--|
| | Capital stock | Capital surplus | Capital adjustments | Accumulated other comprehensive income | Retained earnings | Total | |
| Beginning of January 1, 2007 | (Won) 3,207,839 | (Won) 14,518,843 | (Won) (796,980) | (Won) 38,892 | (Won) 25,993,431 | (Won) 42,962,024 | |
| Exercise of conversion right | | (9,903) | | | | (9,903) | |
| Treasury stock exchange of exchangeable bond | | 12,876 | | | | 12,876 | |
| Changes in treasury stock | | | 55,155 | | | 55,156 | |
| Gain on disposal of treasury stock | | 9,873 | | | | 9,873 | |
| Loss on valuation of available-for-sale securities, net | | | | (3,668) | | (3,668) | |
| Equity gain of affiliates | | | | 64,444 | | 64,444 | |
| Equity loss of affiliates | | | | 54,604 | | 54,604 | |
| Directly charged tax effect | | (18,678) | | (31,729) | | (50,407) | |
| Net income | | | | | 1,556,815 | 1,556,815 | |
| Dividends declared | | | | | (621,082) | (621,082) | |
| Balance at December 31, 2007 | (Won) 3,207,839 | (Won) 14,513,011 | (Won) (741,825) | (Won) 122,543 | (Won) 26,929,164 | (Won) 44,030,732 | |
| Translation into U.S. Dollars (In thousands) (Note 2) | \$ 3,419,142 | \$ 15,468,995 | \$ (790,689) | \$ 130,615 | \$ 28,703,009 | \$ 46,931,072 | |

See accompanying notes to non-consolidated financial statements.

KOREA ELECTRIC POWER CORPORATION

NON- CONSOLIDATED STATEMENT OF APPROPRIATION OF RETAINED EARNINGS

Years ended December 31, 2007 and 2006

Date of Appropriation for 2007: February 29, 2008

Date of Appropriation for 2006: March 26, 2007

| | 2006 | Korean Won (In millions) | 2007 | Translation into U.S. Dollars(Note 2) 2007 (In thousands) |
|---|-----------|-----------------------------|-----------|--|
| Unappropriated retained earnings: | | | | |
| Balance at beginning of year | (Won) | | (Won) | \$ |
| Change in retained earnings due to cumulative effect of accounting change | | | | |
| Change in retained earnings of affiliated companies due to cumulative effect of accounting changes | | 680 | | |
| Net income | 2,070,543 | | 1,556,815 | 1,659,364 |
| Balance at end of year before appropriation | 2,071,223 | | 1,556,815 | 1,659,364 |
| Appropriation of retained earnings: | | | | |
| Legal reserve | | | | |
| Reserve for investment in social overhead capital | | 60,000 | | |
| Reserve for research and human resource development | | 60,000 | | |
| Reserve for business expansion | 1,330,141 | | 1,089,851 | 1,161,640 |
| Dividends 15% on par value at 750 Won per share in 2007 and 20% on par value at 1,000 Won per share in 2006 | 621,082 | | 466,964 | 497,724 |
| | 2,071,223 | | 1,556,815 | 1,659,364 |
| Unappropriated retained earnings to be carried over to subsequent year | (Won) | | (Won) | \$ |

See accompanying notes to non-consolidated financial statements.

KOREA ELECTRIC POWER CORPORATION

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

1. GENERAL

Korea Electric Power Corporation (the Company or KEPCO) was incorporated on January 1, 1982 in accordance with the Korea Electric Power Corporation Act (the KEPCO Act) to engage in the generation, transmission and distribution of electricity and development of electric power resources in the Republic of Korea. The Company was given the status of a government-invested enterprise on December 31, 1983 following the enactment of the Government-Invested Enterprise Management Basic Act. The Company's stock was listed on the Korea Stock Exchange on August 10, 1989 and the Company listed its Depository Receipts (DR) on the New York Stock Exchange on October 27, 1994.

As of December 31, 2007, the Government of the Republic of Korea, Korea Development Bank (KDB), which is wholly owned by the Korean Government and foreign investors held 21.12%, 29.95% and 27.47%, respectively, of the Company's shares.

In accordance with the restructuring plan by the Ministry of Commerce, Industry and Energy (MOCIE) on January 21, 1999, the Company spun off its power generation division on April 2, 2001, resulting in the establishment of six power generation subsidiaries. In order to promote the internal competition, the Company organized SBU (Strategy Business Unit) on September 25, 2006 and had been operating it.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company maintains its accounting records in Korean Won and prepares statutory non-consolidated financial statements in the Korean language (Hangul) in conformity with the KEPCO Act, Accounting Regulations for Public Enterprise-Associate Government Agency, which have been approved by the Korean Ministry of Finance and Economy and, in the absence of specialized accounting regulations for utility companies, and the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these non-consolidated financial statements are intended solely for use by only those who are informed in Korean accounting principles and practices, KEPCO Act and Accounting Regulations for Public Enterprise & Associate Government Agency.

The accompanying non-consolidated financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language non-consolidated financial statements.

The Company's 2007 financial statements to be presented to the shareholders' meeting were approved at the board of director meeting on February 11, 2008.

The accompanying financial statements are stated in Korean Won, the currency of the country in which the Company is incorporated and operates. The translation of Korean Won amounts into U.S. dollar amounts is included solely for the convenience of the readers outside of the Republic of Korea and has been made at the rate of (Won)938.20 to US\$1.00 at December 31, 2007, the Base Rate announced by Seoul Money Brokerage Service, Ltd. Such translations should not be construed as representations that the Korean Won amounts could be converted at that or any other rate.

Certain information included in the Korean language non-consolidated financial statements, but not required for a fair presentation of the Company's financial position, results of operations, cash flows or changes in shareholders' equity is not presented in the accompanying non-consolidated financial statements

Significant accounting policies followed by the Company in preparing the accompanying non-consolidated financial statements are summarized as follows:

Adoption of Newly Effective Statements of Korea Accounting Standards

The Korea Accounting Standards Board (KASB) has published a series of Statements of Korea Accounting Standards (SKAS), which replace the existing financial accounting standards, established by the Korean Financial and Supervisory Board. The Company prepared its financial statements as of December 31, 2007 in accordance with Financial Accounting Standards and SKAS in the Republic of Korea.

The Company newly adopted SKAS No. 11- Discontinuing Operations , No. 21- Preparation and Presentation of Financial Statements , No. 22- Share-based Payment , No. 23- Earning per Share , No. 24- Preparation and Presentation of Financial Statements (Financial Industry) and No. 25- Consolidation Financial Statements , effective from January 1, 2007.

Pursuant to adoption of SKAS No. 21, statement of changes in shareholders' equity was prepared only for the year ended December 31, 2007 in accordance with the transitional provision of the above SKAS. Also, certain amounts and accounts of prior year's financial statements are reclassified to conform to the current period's presentation. This reclassification does not affect the net loss and net assets of the prior year.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, except in the case of revaluation made in accordance with the KEPCO Act and the Assets Revaluation Law of Korea. Significant additions or improvements extending useful lives of assets are capitalized. However, normal maintenance and repairs are charged to expense as incurred.

The Company capitalizes interest costs and other financial charges on borrowing associated with the manufacture, purchase, or construction of property, plant and equipment, incurred prior to completing the acquisition, as part of the cost of such assets. The calculation of capitalized interest includes exchange differences arising from foreign borrowings to the extent that they are regarded as an adjustment to interest costs, which is limited to the extent of interest cost calculated by the weighted average interest rate of local currency borrowings.

Depreciation is computed by the declining-balance method (straight-line method for buildings and structures) using rates based on the estimated useful lives as follows:

| | Estimated useful lives (years) |
|------------|---------------------------------------|
| Buildings | 8, 15, 30 |
| Structures | 8, 15, 30 |
| Machinery | 16 |
| Ships | 9 |
| Vehicles | 4 |
| Others | 4 |

Construction grants are initially recorded and presented in the accompanying non-consolidated financial statements as deductions from the assets acquired under such grants and are offset against depreciation expense during the estimated useful lives of the related assets.

Major maintenance and repair expenditure that increases the value of assets or increase the estimated useful life of assets are recorded as an increase of the book value, while ordinary expenditure that maintains normal operating condition is recorded as expense incurred.

Tangible assets are evaluated at each balance sheet date to determine whether there is any objective evidence of impairment loss. If future economic benefits can be less than carrying amount and the present value of expected future cash flows is less than the carrying amount, the company considers recognition of an impairment loss. The amount of impairment loss is measured as the difference between the recoverable amount and the carrying amount.

Intangibles Assets

Intangible assets, which consist of computer software, industrial rights, land rights and others, are stated at cost less accumulated amortization and impairment losses. Such intangible assets are amortized using the straight-line method (decline-balance method for other purchased computer software) over a reasonable period, from 4 years to 20 years, based on the nature of the asset.

| | Estimated useful lives (years) |
|------------------|--------------------------------|
| Software | 5 |
| Industrial right | 10 |
| Land right | 10 |
| Others | 4-20 |

Due to a significant adverse change in the extent or manner its being used, or a significant decrease in the market price of intangibles asset, if its future economic benefits are less than its carrying amount significantly, and the sum of the undiscounted cash flows expected to result from its use and eventual disposition is less than its carrying amount, the company considers recognition of an impairment loss.

Investment Securities Other than those Accounted for Using the Equity Method

Classification of Securities

At acquisition, the Company classifies securities into one of the three categories: trading, held-to-maturity or available-for-sale. Trading securities are those that were acquired principally to generate profits from short-term fluctuations in prices. Held-to-maturity securities are those with fixed and determinable payments and fixed maturity that an enterprise has the positive intent and ability to hold to maturity. Available-for-sale securities are those not classified either as held-to-maturity or trading securities. Trading securities are classified as short-term investment securities, whereas held-to-maturity and available-for-sale securities are classified as long-term investment securities, except for those whose maturity dates or whose likelihood of being disposed of are within one year from the balance sheet date, which are classified as short-term investment securities.

Valuation of Securities

Securities are recognized initially at cost (determined by the moving average method for equity securities and by the specific identification for debt securities), which includes the market value of the consideration given and incidental expenses. If the market price of the consideration given is not available, the market prices of the securities purchased are used as the basis for measurement. If neither the market prices of the consideration given nor those of the acquired securities are available, the acquisition cost is measured at the best estimates of its fair value.

After initial recognition, held-to-maturity securities are valued at amortized cost. The difference between their acquisition costs and face values (commonly referred to as discounts or premiums on debt securities) is amortized over the remaining term of the securities by applying the effective interest method and added to or subtracted from the acquisition costs and interest income of the remaining period.

Trading securities are valued at fair value, with unrealized gains or losses included in current operations. Available-for-sale securities are also valued at fair value, with unrealized gains or losses included in accumulated other comprehensive income (loss), until the securities are sold or if the securities are determined to be impaired and the lump-sum cumulative amount of accumulated other comprehensive income (loss) is reflected in current operations. For those securities that are traded in an active market (marketable securities), fair values refer to the quoted market prices, which are measured as the closing price at the balance sheet date. The fair values of non-marketable debt securities are measured at the discounted future cash flows by using the discount rate that appropriately reflects the credit rating of the issuing entity assessed by a publicly reliable independent credit rating agency. If application of such measurement method is not feasible, estimates of the fair values may be made using a reasonable valuation model or quoted market prices of similar debt securities issued by entities conducting similar business in similar industries.

Securities are evaluated at each balance sheet date to determine whether there is any objective evidence of impairment loss. When any such evidence exists, unless there is a clear counter-evidence that recognition of impairment is unnecessary, the Company estimates the recoverable amount of the impaired security and recognizes any impairment loss in current operations. The amount of impairment loss of the held-to-maturity security or non-marketable equity security is measured as the difference between the recoverable amount and the carrying amount.

The recoverable amount of held-to maturity security is the present value of expected future cash flows discounted at the securities' original effective interest rate. For available-for-sale debt or equity security stated at fair value, the amount of impairment loss to be recognized in the current period is determined by subtracting the amount of impairment loss of debt or equity security already recognized in prior period from the amount of amortized cost in excess of the recoverable amount for debt security or the amount of the acquisition cost in excess of the fair value for equity security. For non-marketable equity securities accounted for at acquisition costs, the impairment loss is equal to the difference between the recoverable amount and the carrying amount.

If the realizable value subsequently recovers, in case of a security stated at fair value, the increase in value is recorded in current operations, up to the amount of the previously recognized impairment loss, while for the security stated at amortized cost or acquisition cost, the increase in value is recorded in current operation, so that its recovered value does not exceed what its amortized cost would be as of the recovery date if there had been no impairment loss.

Reclassification of Securities

When transfers of securities between categories are needed because of changes in an entity's intention and ability to hold those securities, such transfer is accounted for as follows: trading securities cannot be reclassified into available-for-sale and held-to-maturity securities, and vice versa, except when certain trading securities lose their marketability. Available-for-sale securities and held-to-maturity securities can be reclassified into each other after fair value recognition. When held-to-maturity security is reclassified into available-for-sale security, the difference between the book value and fair value is reported in accumulated other comprehensive income. Whereas, in case available-for-sale security is reclassified into held-to-maturity securities, the difference is reported in accumulated other comprehensive income and amortized over the remaining term of the securities using the effective interest method.

Investment Securities Using the Equity Method

For investments in companies, whether or not publicly held, under the Company's significant influence, the Company utilizes the equity method of accounting. Significant influence is generally deemed to exist if the Company can exercise influence over the operating and financial policies of an investee. The ability to exercise that influence may be indicated in several ways, such as the Company's representation on its board of directors, the Company's participation in its policy making processes, material transactions with the investee, interchange of managerial personnel, or technological dependency. Also, if the Company owns directly or indirectly 20% or more of the voting stock of an investee, the Company generally presumes that the investee is under significant influence. The change in the Company's share of an investee's net equity resulting from a change in an investee's net equity is reflected in current operations, retained earnings, and accumulated other comprehensive income in accordance with the causes of the change which consist of the investee's net income (loss), changes in retained earnings and changes in capital surplus and accumulated other comprehensive income.

Under the equity method of accounting, the Company's initial investment is recorded at cost and is subsequently increased to reflect the Company's share of the investee income and reduced to reflect the Company's share of the investee losses or dividends received. The Company does not record its share of losses of an affiliate when such losses would make the Company's investment in such entity less than zero unless the Company has guaranteed obligations of the investee or is otherwise committed to provide additional financial support.

Any excess in the Company's acquisition cost over the Company's share of the net fair value of the investee's identifiable net assets is considered as goodwill and amortized by the straight-line method over the estimated useful life. The amortization of such goodwill is recorded against the equity income (losses) of affiliates. When events or circumstances indicate that carrying amount may not be recoverable, the Company reviews goodwill for any impairment.

Under the equity method of accounting, unrealized gains and losses on transactions with an investee are eliminated to the extent of the Company's interest in the investee. However, unrealized gains and losses from a down-stream transaction with a subsidiary are eliminated in their entirety.

Assets and liabilities of foreign-based companies accounted for using the equity method are translated at the current rate of exchange at the balance sheet date while profit and loss items in the statement of income are translated at the average rate and the capital account at the historical rate. The translation gains and losses arising from collective translation of the foreign currency financial statements of foreign-based companies are offset and the balance is recognized as accumulated other comprehensive income.

Cash and Cash Equivalents

The Company considers short-term financial instruments with maturities of three months or less at the acquisition date to be cash equivalents.

Financial Instruments

Short-term financial instruments are instruments managed by financial institutions which are held for short-term cash management purposes, maturing within one year, including time deposits, installment savings deposits. Long-term financial instruments are financial instruments not included in current assets.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection.

Inventories

Inventories are stated at the lower of cost or net realizable value, cost being determined using the weighted-average method for raw materials, moving-average method for supplies and specific-identification method for other inventories. The Company maintains perpetual inventory records, which are adjusted through physical counts.

Convertible Bonds

When issuing convertible bonds, the values of the conversion rights are recognized separately. Considerations for conversion rights are measured by deducting the present value of ordinary or straight debt securities from the gross proceeds of the convertible bonds received at the date of issuance. The amortization of the premium and conversion right adjustment is recorded as a component of interest expense.

Discount (Premium) on Debentures

Discount (premium) on debentures issued, which represents the difference between the face value and issuance price of debentures, is amortized using the effective interest method over the life of the debentures. The amount amortized is included in interest expense.

Retirement and Severance Benefits

Employees and directors who have been with the Company for more than one year are entitled to lump-sum payments based on current salary rates and length of service when they leave the Company. The Company's estimated liability under the plan which would be payable if all employees left on the balance sheet date is accrued in the accompanying non-consolidated balance sheets. A portion of the liability is covered by an employee's severance benefits trusts where the employees have a vested interest in the deposit with the insurance company in trust. The deposit for severance benefits held in trusts is, therefore, reflected in the accompanying non-consolidated balance sheets as a reduction of the liability for retirement and severance benefits.

Through March 1999, under the National Pension Scheme of Korea, the Company transferred a certain portion of retirement allowances for employees to the National Pension Fund. The amount transferred reduces the retirement and severance benefit amount payable to employees when they leave the Company and is accordingly reflected in the accompanying non-consolidated financial statements as a reduction of the retirement and severance benefit liability. However, due to the new regulation effective April 1999, such transfers to the National Pension Fund are no longer required.

Reserve for Self-Insurance

In accordance with the Accounting Regulations for Public Enterprise Associate Government Agency, the Company provides a self-insurance reserve for loss from accident and liability to third parties that may arise in connection with the Company's non-insured facilities. The self-insurance reserve is recorded until the amount meets a certain percentage of non-insured buildings and machinery. Payments made to settle applicable claims are charged to this reserve.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the balance sheet date, with the resulting gains and losses recognized in current results of operations. Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at (Won)938.20 to US\$1.00, the rate of exchange at December 31, 2007 that is permitted by the Financial Accounting Standards. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate ruling at the date of the transaction.

Foreign currency assets and liabilities of foreign-based operations and companies accounted for using the equity method are translated at current rate of exchange at the balance sheet date while profit and loss items in the statement of income are translated at average rate and capital account at historical rate. The translation gains and losses arising from collective translation of the foreign currency financial statements of foreign-based operations are offset and the balance is accumulated as accumulated other comprehensive income.

Derivatives

Derivative instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of derivative instruments are recognized immediately in current operations.

Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognized when all of the following are met: (1) an entity has a present obligation as a result of a past event, (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation. Where the effect to the time value of money is material, a provision is recorded at the present value of the expenditures expected to be required to settle the obligation.

Revenue Recognition

The Company recognizes revenue from the sale of electric power based on meter readings made on a monthly basis. Revenue other than sale of electric power is recognized when the Company's revenue-earning activities have been substantially completed, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Company.

Income Tax

Income tax on income or loss for the period consists of the corporate income tax and resident tax surcharges currently payable, and the changes in deferred income tax assets and liabilities during the period.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner in which the carrying amount of assets and liabilities will be realized or settled, using tax rates enacted or substantially enacted at the balance sheet date.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the Republic of Korea requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to financial statements. Actual results could differ from those estimates.

Prior Period Financial Statements Reclassification of Accounts

According to SKAS No.21- Preparation and presentation of Financial Statements , the Company restated financial statements as of December 31, 2006, which has no effect on the net assets, income before income tax and net income.

3. PROPERTY, PLANT AND EQUIPMENT

(a) Asset Revaluation

The Company revalued its property, plant and equipment in accordance with the KEPCO Act and the Asset Revaluation Law (the latest revaluation date was on January 1, 1999), and recorded a revaluation gain of (Won)12,552,973 million as a reserve for asset revaluation, as a component of capital surplus.

(b) Officially Declared Value of Land

The officially declared value of land at December 31, 2007, as announced by the Ministry of Construction and Transportation, is as follows:

| Purpose | Won (In millions) | |
|--|-------------------|-----------------|
| | Book value | Declared value |
| Land - transmission and distribution sites and other | (Won) 3,432,623 | (Won) 5,640,631 |

The officially declared value of land, which is used for government purposes, is not intended to represent fair value.

(c) Changes in Property, Plant and Equipment

Changes in property, plant and equipment for the year ended December 31, 2006 are as follows:

| | Won (In millions) | | | | | Book value as of December 31, 2006 |
|--------------------------|----------------------------------|-----------------|----------------|-------------------|-----------------|------------------------------------|
| | Book value as of January 1, 2006 | Acquisitions | Disposals | Depreciation | Others | |
| Land | (Won) 3,359,398 | (Won) 2,053 | (Won) (14,553) | (Won) | (Won) 46,240 | (Won) 3,393,138 |
| Buildings | 1,936,420 | 83 | (1,490) | (117,989) | 109,692 | 1,926,716 |
| Structures | 22,372,354 | 12,604 | | (998,744) | 1,977,316 | 23,363,530 |
| Machinery | 4,566,636 | 8,805 | (3,309) | (857,942) | 1,040,681 | 4,754,871 |
| Vehicles | 19,143 | 8,283 | (53) | (12,293) | 4,424 | 19,504 |
| Ships | 1,220 | | (6) | (345) | | 869 |
| Others | 54,294 | 15,020 | (2) | (33,924) | 21,460 | 56,848 |
| Construction in-progress | 2,118,540 | 3,610,546 | | | (3,606,313) | 2,122,773 |
| Construction grants(*) | (3,640,966) | (796,994) | | 265,175 | 86,034 | (4,086,751) |
| | (Won) 30,787,039 | (Won) 2,860,400 | (Won) (19,413) | (Won) (1,756,062) | (Won) (320,466) | (Won) 31,551,498 |

(*)

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In compliance with the Rules on Power Transmitting Facilities announced by MOCIE, the Company imposes construction costs and maintenance costs of power transmitting facilities to actual users, the Company's six power generation subsidiaries. The Company recorded the amount to be received from the Company's six power generation subsidiaries as long-term other accounts receivable.

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Changes in property, plant and equipment for the year ended December 31, 2007 are as follows:

| | Won (In millions) 2007 | | | | | Book value As of December 31, 2007 |
|-----------------------------|--|-----------------|---------------|-------------------|-------------------|--|
| | Book value as of January 1, 2007 | Acquisitions | Disposals | Depreciation | Others | |
| Land | (Won) 3,393,138 | (Won) 191 | (Won) (5,872) | (Won) (158,710) | (Won) 45,166 | (Won) 3,432,623 |
| Buildings | 1,926,716 | | (1,353) | (158,710) | 142,710 | 1,909,363 |
| Structures | 23,363,530 | 135 | | (1,030,019) | 1,939,312 | 24,272,958 |
| Machinery | 4,754,871 | 8,938 | (674) | (928,392) | 1,152,445 | 4,987,188 |
| Vehicles | 19,504 | | | (11,815) | 11,128 | 18,817 |
| Ships | 869 | | (5) | (268) | 814 | 1,410 |
| Others | 56,848 | 219,223 | (4) | (37,144) | 18,518 | 257,441 |
| Construction in-progress | 2,122,773 | 4,002,272 | | | (3,859,928) | 2,265,117 |
| Construction grants(*) | (4,086,751) | (1,042,175) | | 343,941 | (1,341,791) | (6,126,776) |
| | (Won) 31,551,498 | (Won) 3,188,584 | (Won) (7,908) | (Won) (1,822,407) | (Won) (1,891,626) | (Won) 31,018,141 |

(d) Capitalized Interest

For the year ended December 31, 2006 and 2007, the amount of capitalized interest was (Won)74,579 million and (Won)71,998 million, respectively. The net foreign currency transactions and translation gains excluded from the calculation of capitalized interest amounted to (Won)135,479 million and (Won)(55,089) million, respectively, for the year ended December 31, 2006 and 2007, respectively.

The impact on the Company's financial position as of and for the year ended December 31, 2007 if interest and other borrowing costs were expensed instead of being capitalized is as follows

| | Won (In millions) | | | |
|-------------|-----------------------------|------------------|---------------------|-----------------------------|
| | Construction in-progress | Total assets | Interest expense | Income before income tax |
| Capitalized | (Won) 1,821,548 | (Won) 65,642,591 | (Won) 602,489 | (Won) 1,897,739 |
| Expensed | 1,749,550 | 65,570,593 | 674,487 | 1,825,741 |
| | (Won) 71,998 | (Won) (71,998) | (Won) 71,998 | (Won) 71,998 |

4. INTANGIBLE ASSETS

Changes in intangible assets for the year ended December 31, 2006 are as follows:

| | Won (In millions) 2006 | | | |
|-------------------|---|--------------|----------------|---------------|
| | Book value as of January 1, 2006 | Acquisitions | Amortization | Others |
| Computer software | (Won) 167,879 | (Won) | (Won) (67,514) | (Won) 26,808 |
| Others | 67,161 | 33,366 | (2,157) | (11,402) |
| | | | | (Won) 127,173 |
| | | | | 86,968 |

(Won) 235,040 (Won) 33,366 (Won) (69,671) (Won) 15,406 (Won) 214,141

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Changes in intangible assets for the year ended December 31, 2007 are as follows:

| | Won (In millions) 2007 | | | | Book value as of December 31, 2007 |
|-------------------|--|--------------|----------------|--------------|--|
| | Book value as of January 1, 2007 | Acquisitions | Amortization | Others | |
| Computer software | (Won) 127,173 | (Won) 141 | (Won) (57,101) | (Won) 59,380 | (Won) 129,593 |
| Others | 86,968 | 33,631 | (12,251) | (29,646) | 78,702 |
| | (Won) 214,141 | (Won) 33,772 | (Won) (69,352) | (Won) 29,734 | (Won) 208,295 |

In addition, the Company expensed research and development costs amounting to (Won)185,087 million and (Won)216,051 million for the year ended December 31, 2006 and 2007, respectively.

5. INSURED ASSETS

Insured assets as of December 31, 2007 are as follows (Won in millions):

| Insured assets | Insurance type | Insured value | Insurer |
|--------------------------|------------------------|---------------|---|
| Buildings and machinery | Fire insurance | (Won)662,456 | Samsung Insurance Co., Ltd. and others |
| Buildings | General insurance | 173,577 | Hanwha Non-life Insurance Co., Ltd. and others |
| Construction in-progress | Construction insurance | 32,688 | Daehan Fire & Marine Insurance Co., Ltd. and others |
| | | (Won)868,721 | |

In addition, as of December 31, 2007, the Company carries marine cargo insurance for inventories, damage insurance for its light water nuclear reactor construction in North Korea, general group insurance for vehicles and others.

6. INVESTMENT SECURITIES OTHER THAN THOSE UNDER THE EQUITY METHOD

(a) Investment securities other than those under the equity method as of December 31, 2006 are summarized as follows:

| | Ownership (%) | Acquisition cost | Won (In millions) 2006 | | Book value |
|--|------------------|---------------------|-----------------------------|---------------|---------------|
| | | | Unrealized holding gains | Fair value | |
| Available-for-sale: | | | | | |
| Equity securities: | | | | | |
| Energy Savings Investment Cooperatives (*2) | 25.0~48.5 | (Won) 5,000 | (Won) | (Won) | (Won) 5,000 |
| Korea Power Exchange (*2, *3) | 50.0 | 63,920 | | | 63,920 |
| Hwan Young Steel Co., Ltd. (*4) | 0.1 | 1,091 | | | 96 |
| Equity securities in treasury stock fund (*5) | | 11,713 | 3,668 | 15,381 | 15,381 |

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| | | | | |
|---------------------------------------|----------|--------|-------|--------|
| KNOC Nigerian East Oil Co., Ltd. (*6) | 15.0 | 12 | | 12 |
| KNOC Nigerian West Oil Co., Ltd. (*6) | 15.0 | 12 | | 12 |
| Dolphin Property Ltd. (*6) | 15.0 | 12 | | 12 |
| Others | 5.6~10.0 | 6,200 | | 6,201 |
| | | 87,960 | 3,668 | 15,381 |
| | | | | 90,634 |

| | Ownership (%) | Acquisition cost | Won (In millions) | | |
|--------------------------|------------------|---------------------|-----------------------------|---------------|---------------|
| | | | 2006 | | |
| | | | Unrealized holding gains | Fair value | Book value |
| Held-to-maturity: | | | | | |
| Government bonds | | 23 | | 23 | 23 |
| Total | | (Won) 87,983 | (Won) 3,668 | (Won) 15,404 | (Won) 90,657 |

(b) Investment securities other than those under the equity method as of December 31, 2007 are summarized as follows:

| | Ownership (%) | Acquisition cost | Won (In millions) | | |
|---|------------------|---------------------|-----------------------------|-------------------|---------------|
| | | | 2007 | | |
| | | | Unrealized holding gains | Fair value(*1) | Book value |
| Available-for-sale: | | | | | |
| Equity securities: | | | | | |
| Energy Savings Investment Cooperatives (*2) | 48.0 | (Won) 2,400 | (Won) | (Won) | (Won) 2,400 |
| Korea Power Exchange (*2, *3) | 50.0 | 63,920 | | | 63,920 |
| Hwan Young Steel Co., Ltd. (*4) | 0.1 | 1,091 | | | 96 |
| KNOC Nigerian East Oil Co., Ltd. (*6) | 15.0 | 12 | | | 12 |
| KNOC Nigerian West Oil Co., Ltd. (*6) | 15.0 | 12 | | | 12 |
| Dolphin Property Ltd. (*6) | 15.0 | 12 | | | 12 |
| KEPCO Australia Pty Ltd. (*2) | 100.0 | 6,877 | | | 6,877 |
| KEPCO Canada Energy Ltd. | 12.5 | 823 | | | 823 |
| KEPCO Nigeria Ltd. (*2) | 100.0 | 76 | | | 76 |
| Others | 0.6~10.0 | 6,287 | | | 6,424 |
| | | 81,510 | | | 80,652 |
| Held-to-maturity: | | | | | |
| Government bonds | | 23 | | 23 | 23 |
| Total | | (Won) 81,533 | (Won) | (Won) 23 | (Won) 80,675 |

(*1) These available-for-sales non-marketable equity securities are stated at cost due to the lack of information to determining fair value.

(*2) As described in Note 2, investment in affiliates in which the Company owns 20% or more of the voting stock should be stated at an amount as determined using equity method of accounting. However, as allowed per SKAS No. 8 if the difference between the equity method and cost is considered to be immaterial, the Company can record the investment within available-for-sale securities at cost.

(*3) Korea Power Exchange operates under certain regulations as a government affiliated organization, electric power market managerial regulations, and the Electricity Enterprises Act. Moreover, when the purpose of establishment and articles of incorporation of Korea Power Exchange are considered, the Company does not appear to have significant influence and thus recorded the investment within available-for-sale securities at cost.

(*4) The recoverable amount of the investment in Hwan Young Steel Co., Ltd. was considered to be less than the carrying amount and an impaired loss of \1,244 million was recognized before prior year. Additionally, there was a reduction in capital stock of Hwan Young Steel Co., Ltd. for which the Company received cash in the amount of \23 million in prior year.

- (*5) In order to stabilize the price of the Company's common stock in the market, the Company established a treasury stock fund (the Fund) composed of treasury stock and other equity securities in December 1992. As of December 31, 2006 gains on the valuation of the Fund is recorded in capital adjustments, amounted to \2,659 million, net of tax. In 2007 the Company disposed all of the Fund and recorded the amount of \13,021 million as gains on disposition of investments.
- (*6) The Company invested in overseas oil development industry with a consortium of Korean companies (the Korean Consortium) consisting of the Company, Korea National Oil Corporation and Daewoo Shipbuilding & Marine Engineering Co., Ltd. The Korean Consortium, owning 60% equity interest in the joint venture incorporated with English Equator and Nigeria, invested in KNOC Nigerian East 323, KNOC Nigerian West 321 and Dolphin Property Ltd.

7. INVESTMENT SECURITIES USING THE EQUITY METHOD

- (a) Investment securities in affiliated companies accounted for using the equity method as of December 31, 2006 and 2007 are as follows:

| Affiliate | Ownership (%) | Won (In millions) | | |
|--|---------------|-------------------|-------------------------------|------------------|
| | | Acquisition cost | Proportionate Net asset value | Book value |
| 2006 | | | | |
| Listed: | | | | |
| Korea Gas Corporation (*1, *2) | 24.5 | (Won) 94,500 | (Won) 860,213 | (Won) 860,213 |
| Unlisted: | | | | |
| Korea Hydro & Nuclear Power Co., Ltd. | 100.0 | 9,364,799 | 13,250,521 | 13,251,529 |
| Korea South-East Power Co., Ltd. | 100.0 | 1,232,004 | 2,033,526 | 2,034,810 |
| Korea Midland Power Co., Ltd. | 100.0 | 1,325,891 | 2,424,516 | 2,425,990 |
| Korea Western Power Co., Ltd. | 100.0 | 1,442,638 | 2,301,747 | 2,303,488 |
| Korea Southern Power Co., Ltd. | 100.0 | 1,797,378 | 2,390,139 | 2,392,156 |
| Korea East-West Power Co., Ltd. | 100.0 | 2,322,905 | 2,567,155 | 2,568,814 |
| Korea Power Engineering Co., Ltd. (*1) | 97.9 | 4,991 | 204,903 | 41,114 |
| KEPCO KPS (formerly Korea Plant Service) (*1) | 100.0 | 6,000 | 340,459 | 304,587 |
| KEPCO Nuclear Fuel Co., Ltd. (*1) | 96.4 | 89,757 | 190,457 | 167,849 |
| Korea Electric Power Industrial Development, Ltd. (*1) | 49.0 | 7,987 | 48,238 | 48,238 |
| Korea Electric Power Data Network Co., Ltd. (*1) | 100.0 | 64,000 | 175,357 | 143,321 |
| Powercomm Corporation (*1) | 43.1 | 323,470 | 382,036 | 382,036 |
| Korea District Heating Co. (*1) | 26.1 | 5,660 | 184,074 | 184,074 |
| KEPCO International Hong Kong Ltd. (*1, *3) | 100.0 | 15,102 | 242,060 | 242,060 |
| KEPCO International Philippines Inc. (*1, *3) | 100.0 | 104,832 | 159,809 | 159,809 |
| KEPCO China International Ltd. (*1, *4) | 100.0 | 18,852 | 15,504 | 15,504 |
| KEPCO Gansu International Ltd. (*1, *5) | 100.0 | 7,145 | 5,820 | 5,820 |
| KEPCO Philippines Holdings Inc. (*1, *6) | 100.0 | 202 | 2,634 | 2,634 |
| KEPCO Asia International Ltd. (*1) | 58.0 | 864 | 815 | 815 |
| KEPCO Lebanon SARL (*1) | 100.0 | 292 | 658 | 658 |
| KEPCO Neimenggu International Ltd. (*1, *7) | 100.0 | 18,095 | 18,062 | 18,062 |
| | | (Won) 18,247,364 | (Won) 27,798,703 | (Won) 27,553,581 |

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| Affiliate | Ownership (%) | Won (In millions) | | Proportionate Net asset value | Book value |
|--|---------------|-------------------|------------------|-------------------------------|------------|
| | | Acquisition cost | 2007 | | |
| Listed: | | | | | |
| Korea Gas Corporation (*1, *2) | 24.5 | (Won) | 94,500 | (Won) | 938,136 |
| KEPCO KPS (formerly Korea Plant Service) (*1, *2, *9) | 80.0 | | 4,800 | | 286,767 |
| Unlisted: | | | | | |
| Korea Hydro & Nuclear Power Co., Ltd. | 100.0 | | 9,364,799 | | 13,650,396 |
| Korea South-East Power Co., Ltd. | 100.0 | | 1,232,004 | | 2,096,559 |
| Korea Midland Power Co., Ltd. | 100.0 | | 1,325,891 | | 2,574,532 |
| Korea Western Power Co., Ltd. | 100.0 | | 1,442,638 | | 2,429,546 |
| Korea Southern Power Co., Ltd. | 100.0 | | 1,797,378 | | 2,559,675 |
| Korea East-West Power Co., Ltd. | 100.0 | | 2,322,905 | | 2,590,231 |
| Korea Power Engineering Co., Ltd. (*1) | 97.9 | | 4,991 | | 26,895 |
| KEPCO Nuclear Fuel Co., Ltd. (*1) | 96.4 | | 89,757 | | 179,435 |
| Korea Electric Power Industrial Development, Ltd. (*1) | 49.0 | | 7,987 | | 29,379 |
| Korea Electric Power Data Network Co., Ltd. (*1) | 100.0 | | 64,000 | | 169,185 |
| Powercomm Corporation (*1) | 43.1 | | 323,470 | | 393,043 |
| Korea District Heating Co. (*1) | 26.1 | | 5,660 | | 187,502 |
| KEPCO International Hong Kong Ltd. (*1, *3) | 100.0 | | 15,102 | | 261,455 |
| KEPCO International Philippines Inc. (*1, *3) | 100.0 | | 104,832 | | 162,243 |
| KEPCO China International Ltd. (*1, *4) | 100.0 | | 18,852 | | 9,317 |
| KEPCO Gansu International Ltd. (*1, *5) | 100.0 | | 7,168 | | 7,552 |
| KEPCO Philippines Holdings Inc. (*1, *6) | 100.0 | | 202 | | 5,104 |
| KEPCO Asia International Ltd. (*1) | 58.0 | | 1,122 | | 1,079 |
| KEPCO Lebanon SARL (*1) | 100.0 | | 292 | | 1,547 |
| KEPCO Neimenggu International Ltd. (*1, *7) | 100.0 | | 60,950 | | 64,160 |
| KEPCO Shanxi International Ltd. (*1, *8) | 100.0 | | 253,039 | | 244,392 |
| KEPCO Energy Resource Nigeria Ltd. (*1, *8) | 30.0 | | 7,824 | | 7,625 |
| | | | (Won) 18,550,163 | (Won) | 29,100,570 |
| | | | | (Won) | 28,875,755 |

(*1) The Company used unaudited financial results of the above affiliated companies when applying the equity method of accounting. In subsequent periods, the Company adjusts the difference between the unaudited and audited results. Historically, the differences have been immaterial.

(*2) The quoted market value (based on closing Korea Stock Exchange Price) of Korea Gas Corporation and KEPCO KPS as of December 31, 2007 was (Won)1,224,720 million, (Won)778,680 million in 2006, and 232,560 million.

(*3) As KEPCO International Hong Kong Ltd. owns 100.0% of KEPCO Philippines Corporation (KEPHILCO) and KEPCO International Philippines Inc. owns 51.0% of KEPCO Ilijan Corporation (KEILCO). The Company accounts for the equity income from KEPCO International Hong Kong Ltd. and KEPCO International Philippines Inc., including the changes in the net equity of KEPHILCO and KEILCO.

Under the project agreement between the National Power Corporation of Philippines and KEPCO, the cooperation period of KEPHILCO and KEILCO is for 15 years commencing September 15, 1995 and 20 years commencing June 5, 2002, respectively. At the end of the agreement period, the power plant

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complex will be transferred to the National Power Corporation of Philippines free of any liens or encumbrances and without payment of compensation. KEPCO Ilijan Corporation's investment securities under the equity method held by KEPCO International Philippines Inc. were pledged as collateral to Japan Bank of International Corporation and others.

- (*4) As KEPCO China International Ltd. owns 77.0% of the shares of Jiaosuo KEPCO Power Co., Ltd., the Company accounts for the equity income from KEPCO China International Ltd. including the changes in the net equity of Jiaosuo KEPCO Power Co., Ltd.
- (*5) As KEPCO Gansu International Ltd. owns 40.0% of the shares of Gansu Datang Yumen Wind Power Co., Ltd., the Company accounts for the equity income from KEPCO Gansu International Ltd. including the changes in the net equity of Gansu Datang Yumen Wind Power Co., Ltd.
- (*6) As KEPCO Philippines Holdings Inc. owns 40.0% of the shares of Salcon Power Corporation, the Company accounts for the equity income from KEPCO Philippines Holdings Inc. including the changes in the net equity of Salcon Power Corporation.
- (*7) As KEPCO Neimenggu International Ltd. owns 40.0% of the shares of Datang Chifeng Renewable Co., Ltd., the Company accounts for the equity income from KEPCO Neimenggu International Ltd. including the changes in the net equity of Datang Chifeng Renewable Co., Ltd.
- (*8) In 2007, the Company acquired the shares of KEPCO Shanxi International Ltd. to cooperate for the construction and operation of facilities, which are used for electric power generation and a coal mine in Shanxi province, China. Additionally, the Company acquired the shares of KEPCO Energy Resource Nigeria Limited. to cooperate for the new business of Egbin power plant boiler restoration in Nigeria.
- (*9) In 2007, the Company disposed 20.0% of the shares of Korea Plant Service, and recorded the amount of (Won)59,143 million (including tax effect (Won)16,264 million), as unrealized equity gain of affiliates in accumulated other comprehensive income account (Note 16).

- (b) The Company eliminated unrealized gains arising from transactions with its affiliates and bad debt expense for receivables from its subsidiaries for the year ended December 31, 2006 and 2007 were as follows:

| Affiliate | Won (In millions) 2006 | | | | Total |
|---|-------------------------------------|----------------------|----------------------|--|-----------------|
| | Property, plant and equipment | Intangible assets | Trade receivables | Allowance for doubtful accounts | |
| Korea Hydro & Nuclear Power Co., Ltd. | (Won) (1,889) | (Won) | (Won) | (Won) 2,897 | (Won) 1,008 |
| Korea South-East Power Co., Ltd. | | | | 1,284 | 1,284 |
| Korea Midland Power Co., Ltd. | | | | 1,474 | 1,474 |
| Korea Western Power Co., Ltd. | | | | 1,741 | 1,741 |
| Korea Southern Power Co., Ltd. | | | | 2,017 | 2,017 |
| Korea East-West Power Co., Ltd. | | | | 1,659 | 1,659 |
| Korea Power Engineering Co., Ltd. | (163,789) | | | | (163,789) |
| KEPCO KPS (form | | | (36,596) | 724 | (35,872) |
| KEPCO Nuclear Fuel Co., Ltd. | (22,609) | | | 1 | (22,608) |
| Korea Electric Power Data Network Co., Ltd. | (13,827) | (18,463) | | 254 | (32,036) |
| | (Won) (202,114) | (Won) (18,463) | (Won) (36,596) | (Won) 12,051 | (Won) (245,122) |

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| Affiliate | Won (In millions) 2007 | | | | | Total |
|---|-------------------------------------|----------------------|----------------------|--|-------|-----------|
| | Property, plant and equipment | Intangible assets | Trade receivables | Allowance for doubtful accounts | | |
| Korea Hydro & Nuclear Power Co., Ltd. | (Won) (1,889) | (Won) | (Won) | (Won) 7,236 | (Won) | 5,347 |
| Korea South-East Power Co., Ltd. | | | | 6,887 | | 6,887 |
| Korea Midland Power Co., Ltd. | | | | 2,381 | | 2,381 |
| Korea Western Power Co., Ltd. | | | | 3,328 | | 3,328 |
| Korea Southern Power Co., Ltd. | | | | 3,724 | | 3,724 |
| Korea East-West Power Co., Ltd. | | | | 4,787 | | 4,787 |
| Korea Power Engineering Co., Ltd. | (191,602) | | | 14 | | (191,588) |
| KEPCO KPS (formerly Korea Plant Service) | | | (12,199) | 466 | | (11,733) |
| KEPCO Nuclear Fuel Co., Ltd. | (23,232) | | | 2 | | (23,230) |
| Korea Electric Power Data Network Co., Ltd. | (13,324) | (11,670) | | 275 | | (24,719) |
| | (Won) (230,047) | (Won) (11,670) | (Won) (12,199) | (Won) 29,100 | (Won) | (224,816) |

(c) Changes in investments in affiliated companies under the equity method for the year ended December 31, 2006 and 2007 were as follows:

| Affiliate | Won (In millions) 2006 | | | | | Book value as of December 31, 2006 |
|---|---|----------------------------|----------------------------------|----------------|-------|---|
| | Book value as of January 1, 2006 | Equity income (loss) | Other comprehensive income | Others (*) | | |
| Korea Gas Corporation | (Won) 819,100 | (Won) 60,356 | (Won) 4,949 | (Won) (24,192) | (Won) | 860,213 |
| Korea Hydro & Nuclear Power Co., Ltd. | 12,956,002 | 772,949 | 6,429 | (483,851) | | 13,251,529 |
| Korea South-East Power Co., Ltd. | 1,985,715 | 77,470 | 5,893 | (34,268) | | 2,034,810 |
| Korea Midland Power Co., Ltd. | 2,332,511 | 168,109 | (7,026) | (67,604) | | 2,425,990 |
| Korea Western Power Co., Ltd. | 2,199,988 | 159,509 | 1,015 | (57,024) | | 2,303,488 |
| Korea Southern Power Co., Ltd. | 2,220,258 | 207,387 | 299 | (35,788) | | 2,392,156 |
| Korea East-West Power Co., Ltd. | 2,572,239 | 45,489 | (13,563) | (35,351) | | 2,568,814 |
| Korea Power Engineering Co., Inc. | 55,602 | (12,471) | | (2,017) | | 41,114 |
| KEPCO KPS (formerly Korea Plant Service) | 285,715 | 34,272 | | (15,400) | | 304,587 |
| KEPCO Nuclear Fuel Co., Ltd. | 158,105 | 11,132 | | (1,388) | | 167,849 |
| Korea Electric Power Industrial Development, Ltd. | 24,525 | 29,103 | | (5,390) | | 48,238 |
| Korea Electric Power Data Network Co., Ltd. | 120,121 | 25,218 | (140) | (1,878) | | 143,321 |
| LG Powercomm | 407,666 | (24,991) | 8 | (647) | | 382,036 |

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| | | | | | |
|---|------------------|-----------------|-------------|-----------------|------------------|
| Korea District Heating Co. | 176,173 | 7,257 | 985 | (341) | 184,074 |
| KEPCO International Hong Kong Ltd. | 220,183 | 6,086 | 15,791 | | 242,060 |
| KEPCO International Philippines Inc. | 156,814 | 21,297 | (12,951) | (5,351) | 159,809 |
| KEPCO China International Ltd. | 9,786 | (1,528) | (555) | 7,801 | 15,504 |
| KEPCO Gansu International Ltd. | 2,733 | (7) | (1,318) | 4,412 | 5,820 |
| KEPCO Philippines Holdings Inc. | 202 | 2,394 | 38 | | 2,634 |
| KEPCO Aisa International Ltd. | | (17) | (32) | 864 | 815 |
| KEPCO Lebanon SARL | | 390 | (24) | 292 | 658 |
| KEPCO Neimenggu International Ltd. | | (10) | (23) | 18,095 | 18,062 |
| | (Won) 26,703,438 | (Won) 1,589,394 | (Won) (225) | (Won) (739,026) | (Won) 27,553,581 |

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| Affiliate | Won (In millions) 2007 | | | | | Book value as of December 31, 2007 |
|---|---|------------|----------------------------|----------------------------------|-----------------|---|
| | Book value as of January 1, 2007 | | Equity income (loss) | Other comprehensive income | Others (*) | |
| | (Won) | 860,213 | (Won) 90,741 | (Won) 7,972 | (Won) (20,790) | |
| Korea Gas Corporation | (Won) | 860,213 | (Won) 90,741 | (Won) 7,972 | (Won) (20,790) | (Won) 938,136 |
| KEPCO KPS (formerly Korea Plant Service) | | 304,587 | 72,041 | | (89,861) | 286,767 |
| Korea Hydro & Nuclear Power Co., Ltd. | | 13,251,529 | 788,799 | | (389,932) | 13,650,396 |
| Korea South-East Power Co., Ltd. | | 2,034,810 | 89,032 | (1,066) | (26,217) | 2,096,559 |
| Korea Midland Power Co., Ltd. | | 2,425,990 | 193,480 | 8,870 | (53,808) | 2,574,532 |
| Korea Western Power Co., Ltd. | | 2,303,488 | 176,366 | 943 | (51,251) | 2,429,546 |
| Korea Southern Power Co., Ltd. | | 2,392,156 | 228,106 | 5,866 | (66,453) | 2,559,675 |
| Korea East-West Power Co., Ltd. | | 2,568,814 | 36,920 | 2,080 | (17,583) | 2,590,231 |
| Korea Power Engineering Co., Inc. | | 41,114 | (10,514) | | (3,705) | 26,895 |
| KEPCO Nuclear Fuel Co., Ltd. | | 167,849 | 13,899 | | (2,313) | 179,435 |
| Korea Electric Power Industrial Development, Ltd. | | 48,238 | 6,142 | (11) | (24,990) | 29,379 |
| Korea Electric Power Data Network Co., Ltd. | | 143,321 | 28,012 | 51 | (2,199) | 169,185 |
| LG Powercomm | | 382,036 | 11,007 | | | 393,043 |
| Korea District Heating Co. | | 184,074 | 4,839 | (992) | (419) | 187,502 |
| KEPCO International Hong Kong Ltd. | | 242,060 | 17,185 | 32,282 | (30,072) | 261,455 |
| KEPCO International Philippines Inc. | | 159,809 | 27,666 | 1,837 | (27,069) | 162,243 |
| KEPCO China International Ltd. | | 15,504 | (6,920) | 733 | | 9,317 |
| KEPCO Gansu International Ltd. | | 5,820 | (29) | 1,738 | 23 | 7,552 |
| KEPCO Philippines Holdings Inc. | | 2,634 | (552) | 4,029 | (1,007) | 5,104 |
| KEPCO Aisa International Ltd. | | 815 | (2) | 7 | 259 | 1,079 |
| KEPCO Lebanon SARL | | 658 | 877 | 12 | | 1,547 |
| KEPCO Neimenggu International Ltd. | | 18,062 | 1,032 | 2,211 | 42,855 | 64,160 |
| KEPCO Shanxi International Ltd. | | | (1,301) | (7,346) | 253,039 | 244,392 |
| KEPCO Energy Resource Nigeria Ltd. | | | (887) | 688 | 7,824 | 7,625 |
| | (Won) | 27,553,581 | (Won) 1,765,939 | (Won) 59,904 | (Won) (503,669) | (Won) 28,875,755 |

(*) Others represent dividends from the affiliates, additions to the investments and disposal of the investments.

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- (d) Total assets, total liabilities, sales and net income (loss) of affiliated companies as of or for the year ended December 31, 2007 are as follows:

| Affiliate | Won (In millions) | | | |
|---|-------------------|-------------------|-----------------|-------------------|
| | Total assets | Total Liabilities | Sales | Net income (loss) |
| Korea Hydro & Nuclear Power Co., Ltd. | (Won) 23,470,417 | (Won) 9,825,367 | (Won) 5,508,342 | (Won) 784,461 |
| Korea South-East Power Co., Ltd. | 4,993,029 | 2,903,356 | 2,230,287 | 83,429 |
| Korea Midland Power Co., Ltd. | 4,277,797 | 1,705,645 | 2,826,668 | 192,574 |
| Korea Western Power Co., Ltd. | 3,885,134 | 1,458,915 | 3,069,137 | 174,779 |
| Korea Southern Power Co., Ltd. | 4,129,754 | 1,573,803 | 3,727,257 | 226,398 |
| Korea East-West Power Co., Ltd. | 4,734,751 | 2,149,308 | 2,892,228 | 33,828 |
| Korea Power Engineering Co., Inc. | 366,016 | 142,937 | 308,833 | 17,649 |
| KEPCO KPS (formerly Korea Plant Service) | 497,020 | 123,896 | 681,395 | 63,765 |
| KEPCO Nuclear Fuel Co., Ltd. | 309,141 | 98,812 | 110,891 | 18,018 |
| Korea Electric Power Industrial Development, Ltd. | 118,587 | 58,492 | 202,717 | 12,732 |
| Korea Electric Power Data Network Co., Ltd. | 316,578 | 122,674 | 371,634 | 20,695 |
| LG Powercomm | 1,663,383 | 752,070 | 1,109,618 | 25,522 |
| Korea Gas Corporation | 12,576,842 | 8,740,682 | 14,264,791 | 364,050 |
| Korea District Heating Co. | 1,998,662 | 1,279,503 | 686,212 | 14,964 |
| KEPCO International Hong Kong Ltd. | 261,548 | 93 | 18,387 | 17,186 |
| KEPCO International Philippines Inc. | 162,429 | 187 | 25,313 | 27,666 |
| KEPCO China International Ltd. | 10,417 | 1,101 | | (6,920) |
| KEPCO Gansu International Ltd. | 7,557 | 6 | | (30) |
| KEPCO Philippines Holdings Inc. | 52,644 | 26,678 | 1,724 | (552) |
| KEPCO Asia International Ltd. | 1,814 | | | (4) |
| KEPCO Lebanon SARL | 8,629 | 7,081 | 11,231 | 903 |
| KEPCO Neimenggu International Ltd. | 64,174 | 14 | | 1,032 |
| KEPCO Shanxi International Ltd. | 413,268 | 168,876 | | (1,301) |
| KEPCO Energy Resource Nigeria Ltd. | 28,600 | 3,183 | | (2,957) |

8. LOANS TO EMPLOYEES

The Company has provided housing and tuition loans to employees as of December 31, 2006 and 2007 as follows:

| | Won (In millions) | |
|--|-------------------|---------------|
| | 2006 | 2007 |
| Current portion of long-term loans (Note 13) | (Won) 13,921 | (Won) 13,039 |
| Long-term loans | 195,413 | 212,199 |
| | (Won) 209,334 | (Won) 225,238 |

9. OTHER NON-CURRENT ASSETS

Other non-current assets as of December 31, 2006 and 2007 are summarized as follows:

| | Won (In millions) | |
|----------------------------------|-------------------|--------------|
| | 2006 | 2007 |
| Deposits | (Won) 73,323 | (Won) 75,128 |
| Transferred equipments from KEDO | 94,088 | 93,971 |
| Others | 94,742 | 95,274 |

(Won) 262,153

(Won) 264,373

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2006 and 2007 are summarized as follows:

| | Won (In millions) | |
|-----------------------|-------------------|---------------|
| | 2006 | 2007 |
| Cash on hand | (Won) 1,497 | (Won) 1,624 |
| Passbook accounts (*) | 127,728 | 187,722 |
| | (Won) 129,225 | (Won) 189,346 |

(*) Passbook accounts restricted in use for expenditures for certain business purposes are (Won)75,514 million and (Won)75,023 million as of December 31, 2006 and 2007, respectively.

11. SHORT-TERM FINANCIAL INSTRUMENTS

Short-term financial instruments as of December 31, 2006 and 2007 are summarized as follows:

| | Won (In millions) | |
|-----------------------|-------------------|-------|
| | 2006 | 2007 |
| Repurchase agreements | (Won) 25,000 | (Won) |

12. INVENTORIES

Inventories as of December 31, 2006 and 2007 are summarized as follows:

| | Won (In millions) | |
|---------------|-------------------|---------------|
| | 2006 | 2007 |
| Raw materials | (Won) 5,817 | (Won) 5,226 |
| Supplies | 169,799 | 217,215 |
| Other | 2,483 | 2,994 |
| | (Won) 178,099 | (Won) 225,435 |

13. OTHER CURRENT ASSETS

Other current assets as of December 31, 2006 and 2007 are summarized as follows:

| | Won (In millions) | |
|------------------------------------|-------------------|--------------|
| | 2006 | 2007 |
| Current portion of long-term loans | (Won) 13,921 | (Won) 13,718 |
| Accrued income | 9,630 | 6,693 |
| Advanced payments | 2,435 | 2,339 |
| Prepaid expenses | 6,255 | 4,639 |
| Prepaid income taxes | | 19,232 |

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| | | |
|----------------------|--------------|---------------|
| Other current assets | 59,443 | 59,480 |
| | (Won) 91,684 | (Won) 106,101 |

14. COMMON STOCK AND SURPLUS

(a) Common Stock

The Company has authorized 1,200,000,000 shares of (Won)5,000 par value, of which 641,567,712 shares are issued and outstanding as of December 31, 2007.

(b) Capital Surplus

Capital surplus as of December 31, 2006 and 2007 are as follows:

| | Won (In millions) | |
|--|-------------------|------------------|
| | 2006 | 2007 |
| Paid-in capital in excess of par value | (Won) 835,139 | (Won) 835,139 |
| Reserves for asset revaluation | 12,552,973 | 12,552,973 |
| Others | 1,130,731 | 1,124,899 |
| | (Won) 14,518,843 | (Won) 14,513,011 |

The Company revalued its property, plant and equipment in accordance with the KEPCO Act and the then Asset Revaluation Law, and recorded a revaluation gain of (Won)12,552,973 million as a reserve for asset revaluation. The reserve for asset revaluation may be credited to paid-in capital or offset against any accumulated deficit by resolution of the shareholders.

15. CAPITAL ADJUSTMENTS

The Company has treasury stock amounting to (Won)796,980 million (treasury stock 19,284,016 shares and treasury stock funds 1,201,950 shares) and (Won)741,825 million (18,948,627 shares) as of December 31, 2006 and 2007, respectively.

16. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income as of December 31, 2006 and 2007 are as follows:

| | Won (In millions) | |
|---|-------------------|---------------|
| | 2006 | 2007 |
| Gain on valuation of available-for-sale securities, net | (Won) 2,659 | (Won) |
| Unrealized equity gain of affiliates | 139,710 | 186,432 |
| Unrealized equity loss of affiliates | (103,477) | (63,889) |
| | (Won) 38,892 | (Won) 122,543 |

17. APPROPRIATED RETAINED EARNINGS

Appropriated retained earnings as of December 31, 2006 and 2007 are summarized as follows:

| | Won (In millions) | |
|---|-------------------|-----------------|
| | 2006 | 2007 |
| Involuntary: | | |
| Legal reserve | (Won) 1,603,919 | (Won) 1,603,919 |
| Voluntary: | | |
| Reserve for investment on social overhead capital | 5,217,449 | 5,277,449 |
| Reserve for research and human development | 270,000 | 330,000 |
| Reserve for business rationalization | 31,900 | 31,900 |
| Reserve for business expansion | 16,588,939 | 17,919,081 |
| Reserve for dividend equalization | 210,000 | 210,000 |

| | | |
|--|------------------|------------------|
| | 22,318,288 | 23,768,430 |
| | (Won) 23,922,207 | (Won) 25,372,349 |

The KEPCO Act requires the Company to appropriate a legal reserve equal to at least 20 percent of net income for each accounting period until the reserve equals 50 percent of the common stock. The legal reserve is not available for cash dividends; however, this reserve may be credited to paid-in capital (a component of capital surplus) or offset against accumulated deficit by the resolution of the shareholders.

The reserve for the investment on social overhead capital and the reserve for research and human development are appropriated by the Company to avail qualified tax credits to reduce corporate tax liabilities. These reserves are not available for cash dividends for a certain period defined in the Special Tax Treatment Control Law.

Until December 10, 2002 under the Special Tax Treatment Control Law, investment tax credit was allowed for certain investments. The Company was, however, required to appropriate from retained earnings the amount of tax benefits received and transfer such amount into a reserve for business rationalization. Effective December 11, 2002, the Company is no longer required to establish a reserve for business rationalization despite tax benefits received for certain investments and, consequently, the existing balance is now regarded as a voluntary reserve.

The reserve for dividend equalization, which is considered a voluntary reserve, is appropriated by the Company to reduce fluctuation of dividend rates for the purpose of stabilizing the Company's stock price and credit rating.

18. DIVIDENDS

Details of dividends for the years ended December 31, 2006 and 2007 were as follows:

| | Won (millions) | |
|---|----------------|---------------|
| | 2006 | 2007 |
| Outstanding shares of common stock | 621,081,746 | 621,619,085 |
| Par value per share in Won | (Won) 5,000 | (Won) 5,000 |
| Dividend rate | 20.0% | 15.0% |
| Dividend per share in Won | 1,000 | 750 |
| Dividend amount | (Won) 621,082 | (Won) 466,964 |
| Net income | 2,070,543 | 1,556,815 |
| Dividends as a percentage of net income | 30.0% | 30.0% |
| Dividends per share in Won | (Won) 1,000 | (Won) 750 |
| Price per share in Won | 42,400 | 39,650 |
| Dividend yield | 2.4% | 1.9% |

19. SHORT-TERM BORROWINGS

Short-term borrowings as of December 31, 2006 and 2007 are as follows:

| Lender | Type | Annual interest rate (%) | Won (In millions) | |
|-----------------------|------|--------------------------|-------------------|---------------|
| | | | 2006 | 2007 |
| Local currency: | | | | |
| Woori Bank and Others | CP | variable | (Won) 200,000 | (Won) 290,000 |
| SMBC | Loan | 3M Libor + 0.436% | | 199,999 |
| | | | (Won) 200,000 | (Won) 489,999 |

The Company entered into short-term credit facilities with four banks including Woori Bank with total commitment up to (Won)1,530,000 million.

20. LONG-TERM DEBT

Long-term borrowings as of December 31, 2006 and 2007 are as follows:

(a) Long-term Borrowings

| Lender | Type | Maturity | Annual interest rate (%) | Won (In millions) | |
|--------------------------------|---------------------|-----------|------------------------------|-------------------|-----------------|
| | | | | 2006 | 2007 |
| Local Currency: | | | | | |
| Korea Development Bank | Industrial facility | 2007~2012 | 5.04~6.28 | (Won) 4,634,375 | (Won) 4,652,500 |
| Nong Hyup | Industrial facility | 2011 | 5.01 | 150,000 | 121,875 |
| Mizuho Corporate Bank | Industrial facility | 2009 | 4.82~5.21 | 650,000 | 650,000 |
| Korea Exchange Bank | Industrial facility | 2010 | 5.57~5.81 | | 300,000 |
| Korea Resources Corporation | overseas business | 2022 | 3.25 | | 4,971 |
| Others | Industrial facility | 2007~2042 | 0.5~2 | 34,572 | 57,421 |
| | | | | (Won) 5,468,947 | (Won) 5,786,767 |
| Foreign Currency: | | | | | |
| Korea National Oil Corporation | Oil production | 2021~2022 | 3 year treasury notes - 3.00 | 6,787 | 7,945 |
| | | | | 5,475,734 | 5,794,712 |
| Less: Current portion | | | | (1,352,884) | (1,469,502) |
| Long-term borrowing, net | | | | (Won) 4,122,850 | (Won) 4,325,210 |

(b) Debentures

| Type | Maturity | Annual interest rate (%) | Won (In millions) | |
|------------------------------------|----------|--------------------------|-------------------|-----------|
| | | | 2006 | 2007 |
| Local currency (Electricity bonds) | | | | |
| | 2007 | 4.11~4.31 | (Won) 885,000 | (Won) |
| | 2008 | 3.43~5.29 | 1,810,000 | 1,950,000 |
| | 2009 | 3.61~5.4 | 1,150,000 | 1,310,000 |
| | 2010 | 4.14~6.57 | 490,000 | 1,440,000 |
| | 2011 | 4.98~5.08 | 140,000 | 140,000 |
| | 2012 | 4.77~6.7 | | 910,000 |
| | 2013 | 4.90 | 120,000 | 120,000 |
| | | | 4,595,000 | 5,870,000 |

Foreign currency

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| | | | | |
|---|----------|-----------|-----------------|-----------------|
| | 2007 | 0.51~7.05 | 1,125,948 | |
| | 2008 (*) | 2.00 | 58,880 | 59,425 |
| | 2010 | 3.31 | 305,560 | 345,315 |
| | 2013 | 7.75 | 325,360 | 328,370 |
| | 2026 | 6.00 | 65,486 | 66,091 |
| | 2027 | 6.75~7.00 | 296,930 | 295,267 |
| | 2034 | 5.13 | 278,880 | 281,460 |
| | 2096 | 8.28 | 173,899 | 174,295 |
| | | | 2,630,943 | 1,550,223 |
| | | | 7,225,943 | 7,420,223 |
| Less: Current portion, net of discount of (Won)1,292 million in 2006 and (Won)1,448 million in 2007 | | | (2,009,149) | (2,010,859) |
| Discount on debentures issued | | | (10,606) | (13,094) |
| Debentures, net | | | (Won) 5,201,990 | (Won) 5,400,468 |

(*) In 2003, the Company issued foreign debentures to KEPCO Cayman Company Limited for US\$250 million and the right to exchange the debentures into shares of Powercomm Corporation held by the Company. KEPCO Cayman Company Limited issued foreign debentures of US\$250 million under substantially similar terms and conditions as the debentures issued by the Company to KEPCO Cayman Company Limited, the details of which are as follows:

- Maturity date: November 26, 2008
- Exchangeable upon Qualifying Public Offering (QPO): QPO means the first listing on the Korea Stock Exchange, New York Stock Exchange or National Association of Securities Dealers Automated Quotations (NASDAQ) meeting certain requirements. Powercomm Corporation is not required to complete a QPO prior to the maturity of the debentures. The Company does not guarantee the QPO of Powercomm Corporation.
- Shares to be exchanged: Powercomm Corporation's shares or Deposit Receipt (DR)
- Exchangeable period: From 10th day after the listing of Powercomm Corporation to 10th day before its maturity
- Exchange price: 120% of lower amount of market price on the listing day or weighted average price for 10 days after its listing.
- Early redemption: When certain conditions are met or after 3 years from the issuing, outstanding debentures are redeemable at the guaranteed return of 2.88% (102.74% of issuance amount)
- Repayment at the maturity: Repayment will be made with the guaranteed return of 3.68% (109.13% of issuance amounts).

Also, the Company is providing payment guarantees for the foreign currency debentures issued by KEPCO Cayman Company Limited. The Company has unconditionally and irrevocably guaranteed full and timely repayment of principal and interest of the debentures.

The Company received early redemption claim of US\$191.96 million (76.78% of issuance amount), on November 27, 2006 and the Company paid US\$197.22 million based on the guaranteed return of 2.88% (102.74% of issuance amount).

(c) Exchangeable Bonds

| Description | Annual interest rate (%) | Won (In millions) | |
|--|--------------------------|-------------------|-------------|
| | | 2006 | 2007 |
| Overseas exchangeable bonds (*1) | 0.00 | (Won) 10,642 | (Won) 1,343 |
| Overseas exchangeable bonds (*2) | 0.00 | 485,682 | 485,682 |
| Overseas exchangeable bonds (*2) | 0.00 | 555,114 | 555,114 |
| | | 1,051,438 | 1,042,139 |
| Less: Current portion, net of premium of nil million in 2006 and (Won)18 in 2007 and net of conversion right adjustment of nil million in 2006 and (Won)38 in 2007 | | (1,323) | |
| Plus: Premium on debentures issued | | 314 | |

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| | | |
|-------------------------------------|---------------|---------------|
| Less: Discount on debentures issued | (80,822) | (65,601) |
| Conversion right adjustment | (64,931) | (51,928) |
| Exchangeable bonds, net | (Won) 905,999 | (Won) 923,305 |

(*1) On November 4, 2003, the Company issued overseas exchangeable bonds of JPY 25,935,061,000. The details of the bonds were as follows:

- Maturity date: November 4, 2008
- Exchange period: From December 15, 2003 to 10th day prior to its maturity.
- Shares to be exchanged: Common stock of the Company or its equivalent Deposit Receipt (DR).
- Exchange price: W30,000 per share
- In accordance with Article 17 Issuance of Convertible Bonds and Article 11 Calculation of Dividend for New Shares of the Articles of Incorporation of the Company, distribution of dividends on new shares resulting from conversion of exchangeable bonds is deemed to have been issued at the end of the immediately preceding fiscal year.

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During 2005, the bondholders converted JPY14,438,543,500 into 344,704 shares of common stock and 10,444,768 shares of DR (equivalent to 5,222,384 shares of common stock). During 2006, exchangeable bonds of JPY10,501,022,500 were converted into 745,309 shares of common stock and 6,607,174 shares of DR (equivalent to 3,303,587 shares of common stock). During the first half of 2007, exchangeable bonds of JPY869,850,000 were converted into 335,389 shares of common stock. As of December 31, 2007, the remaining number of common stock to be converted is 48,445 shares if the conversion right is exercised.

(*2) On November 21, 2006, the Company issued overseas exchangeable bonds of JPY61,345,128,000 and EUR463,320,780 with a discount value (JPY60,810,000,000 and EUR401,700,000). The main issuing terms of the bonds are as follows.

- Maturity date: November 23, 2011
- Amount to be paid at maturity: JPY61,345,128,000 and EUR463,320,780
- Exchange period: From January 4, 2007 to 10th day prior to its maturity.
- Shares to be exchanged: Common stock of the Company or its equivalent DR
- Exchange price: (Won)51,000 per share
- Put option: Bondholders have a put option that they can exercise for JPY61,132,293,000 and EUR437,612,000 on November 23, 2009.

(d) Foreign currency debts as of December 31, 2006 and 2007 are as follows:

| | 2006 | | | | 2007 | | | |
|-----------------------|------------------------------------|------------|---------------------------------|-----------------|------------------------------------|------------|---------------------------------|-----------------|
| | Foreign currency (In thousands) | | Won equivalent (In millions) | | Foreign currency (In thousands) | | Won equivalent (In millions) | |
| Short-term borrowings | | | | | JPY 24,000,000 | | (Won) 199,999 | |
| Long-term borrowings | US\$ | 7,301 | (Won) | 6,787 | US\$ | 8,469 | | 7,945 |
| Debtures | US\$ | 2,285,270 | | 2,124,387 | US\$ | 1,284,277 | | 1,204,908 |
| | JPY | 20,000,000 | | 156,366 | JPY | | | |
| | EUR | 250,000 | | 305,560 | EUR | 250,000 | | 345,315 |
| | GBP | 24,467 | | 44,630 | GBP | | | |
| | | | | 2,630,943 | | | | 1,550,223 |
| Exchangeable bonds | JPY | 62,340,623 | | 496,324 | JPY | 61,470,773 | | 487,025 |
| | EUR | 463,321 | | 555,114 | EUR | 463,321 | | 555,114 |
| | | | | 1,051,438 | | | | 1,042,139 |
| | | | | (Won) 3,689,168 | | | | (Won) 2,800,306 |

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(e) Aggregate maturities of the Company's long-term debt as of December 31, 2007 are as follows:

| Won (In millions) | | | | | | |
|-----------------------------|---------------------------------|-----------------------------------|----------------------|-----------------------|-----------------------|------------------|
| Period ended December 31 | Local currency borrowings | Foreign currency borrowings | Electricity bonds | Foreign debentures | Exchangeable bonds | Total |
| 2008 | (Won) 1,469,502 | | (Won) 1,950,000 | (Won) 60,597 | (Won) 1,343 | (Won) 3,481,442 |
| 2009 | 2,140,725 | | 1,310,000 | 1,118 | 1,040,796 | 4,492,639 |
| 2010 | 1,328,303 | | 1,440,000 | 346,359 | | 3,114,662 |
| 2011 | 633,082 | | 140,000 | 953 | | 774,035 |
| 2012 | 164,583 | | 910,000 | 835 | | 1,075,418 |
| Thereafter | 50,572 | 7,946 | 120,000 | 1,140,361 | | 1,318,879 |
| | (Won) 5,786,767 | (Won) 7,946 | (Won) 5,870,000 | (Won) 1,550,223 | (Won) 1,042,139 | (Won) 14,257,075 |

21. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

Major assets and liabilities, except mentioned in Note 19(d), denominated in foreign currencies as of December 31, 2006 and 2007 are as follows:

| | 2006 | | 2007 | |
|---|---------------------------------------|------------------------------------|---------------------------------------|------------------------------------|
| | Foreign currency (In thousands) | Won equivalent (In millions) | Foreign currency (In thousands) | Won equivalent (In millions) |
| Cash and cash equivalents | US\$ 625 | (Won) 581 | US\$ 498 | (Won) 467 |
| Trade receivables | US\$ 1,607 | 1,494 | US\$ 1,751 | 1,643 |
| Short-term Loans | US\$ | | US\$ 705 | 661 |
| Long-term other accounts receivables | US\$ | | US\$ 1,174 | 1,100 |
| Other non-current assets | US\$ 125 | 117 | US\$ 213 | 200 |
| | JPY 14,091 | 110 | JPY 13,428 | 112 |
| | EUR 20 | 25 | EUR 22 | 30 |
| | | (Won) 2,327 | | (Won) 4,213 |
| Other accounts payable | US\$ 83 | (Won) 77 | US\$ 482 | (Won) 452 |

22. RETIREMENT AND SEVERANCE BENEFITS

Changes in retirement and severance benefits for the year ended December 31, 2006 and 2007 are summarized as follows:

| | Won (In millions) | |
|--|-------------------|---------------|
| | 2006 | 2007 |
| Estimated severance accrual at beginning of year | (Won) 549,415 | (Won) 657,355 |
| Provision for retirement and severance benefits | 128,802 | 162,531 |
| Payments | (20,862) | (29,770) |
| Estimated severance accrual at end of year | 657,355 | 790,116 |
| Less: Deposit for severance benefit insurance | (99,375) | (100,225) |
| Transfer to National Pension Fund | (93) | (91) |
| Net balance at end of year | (Won) 557,887 | (Won) 689,800 |

The Company entered into severance benefit trust arrangements with Samsung Life Insurance Co., Ltd. and other insurance companies, for which the deposits account for 12.68% and 15.12% of the total retirement and severance benefits as of December 31, 2007 and 2006, respectively. Severance benefit insurance deposit payable to employees in trust at insurance companies amounting to (Won)100,225 million and (Won)99,375 million as of December 31, 2007 and 2006, respectively, are presented as a deduction from the accrual for retirement and severance benefits.

23. OTHER PROVISIONS

- (a) Changes in reserve for self insurance for the year ended December 31, 2006 and 2007 are as follows.

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| | Won (In millions) | |
|------------------------------|-------------------|---------------|
| | 2006 | 2007 |
| Balance at beginning of year | (Won) 98,618 | (Won) 103,942 |
| Accretion of provisions | 6,906 | 7,191 |
| Payment of provisions | (1,582) | (1,860) |
| Balance at end of year | (Won) 103,942 | (Won) 109,273 |

(b) Changes in other provisions for the year ended December 31, 2006 and 2007 are as follows

| | Won (In millions) | | |
|------------------------------|---------------------------|----------------------------------|--------------|
| | Provision for Transformer | 2006 Provision for Litigation | Total |
| Balance at beginning of year | (Won) | (Won) 50,689 | (Won) 50,689 |
| Accretion of provisions | | 53,708 | 53,708 |
| Payment | | (1,337) | (1,337) |
| Return of provisions | | (2,311) | (2,311) |
| Others | | (50,108) | (50,108) |
| Balance at end of year | (Won) | (Won) 50,641 | (Won) 50,641 |

| | Won (In millions) | | |
|------------------------------|------------------------------|----------------------------------|---------------|
| | Provision for Transformer(*) | 2007 Provision for Litigation | Total |
| Balance at beginning of year | (Won) | (Won) 50,641 | (Won) 50,641 |
| Accretion of provisions | 21,938 | 11,516 | 33,454 |
| Liability incurred | 200,547 | | 200,547 |
| Payment | | (29,248) | (29,248) |
| Return of provisions | | (1,321) | (2,311) |
| Others | | (11,854) | (11,854) |
| Balance at end of year | (Won) 222,485 | (Won) 19,734 | (Won) 242,219 |

(*) In accordance with Persistent Organic Pollutants Management Act, the Company incur a legal obligation associated with retirement of transformer, related to the expense of inspection and disposal. The Company capitalizes a corresponding amount as part of the book value of the related utility.

24. OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2006 and 2007 are summarized as follows:

| | Won (In millions) | |
|-------------------|-------------------|---------------|
| | 2006 | 2007 |
| Advances received | (Won) 106,624 | (Won) 578 |
| Withholdings | 126,743 | 158,728 |
| Unearned revenue | 60,951 | 58,613 |
| Accrued expenses | 146,551 | 144,019 |
| Dividends payable | 3,075 | 2,595 |
| Currency swaps | 3,783 | |
| Others | 224,124 | 241,145 |
| | (Won) 671,851 | (Won) 605,678 |

25. DERIVATIVE INSTRUMENTS TRANSACTIONS

The Company has entered into various swap contracts to hedge risks involving foreign currency exchange rate and interest rate of long-term debentures. However, the Company does not apply hedge accounting and these contracts are recorded at the fair value with subsequent changes in fair value recorded in current income.

(a) Interest swap contracts as of December 31, 2007 are as follows:

| | Notional amount in millions (Won) | Contract interest rate per annum | | Term |
|---------------------|--------------------------------------|-------------------------------------|---------------|-----------|
| | | Pay (%) | Receive (%) | |
| | | | 5.57% | |
| Korea Exchange Bank | (Won) 50,000 | 5.19% | (3M CD+0.22%) | 2007~2010 |
| | | | 5.81% | |
| Korea Exchange Bank | (Won) 50,000 | 5.42% | (3M CD+0.21%) | 2007~2010 |
| | | | 5.58% | |
| Korea Exchange Bank | (Won) 100,000 | 5.42% | (3M CD+0.22%) | 2007~2010 |
| | | | 5.62% | |
| Korea Exchange Bank | (Won) 100,000 | 5.54% | (3M CD+0.27%) | 2007~2010 |

(b) Valuation and transaction gains and losses on swap contracts recorded as other income or expense for the year ended December 31, 2006 and 2007 are as follows:

| | Won (In millions) | |
|----------------------|-------------------|--------------|
| | 2006 | 2007 |
| Valuation | | |
| Currency swaps: | | |
| Gains | (Won) 4,324 | (Won) |
| Losses | (31,727) | |
| Currency forwards: | | |
| Gains | 64 | |
| Losses | (322) | |
| Interest rate swaps: | | |
| Gains | 1,196 | 2,594 |
| | (Won) (26,465) | (Won) 2,594 |
| Transaction | | |
| Derivatives: | | |
| Gains | (Won) 3,905 | (Won) 22,892 |
| Losses | (12,652) | (13,301) |
| | (Won) (8,747) | (Won) 9,591 |

(c) Interest rate swap contracts and currency swap contracts expired during 2007 were as follows:

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| Interest rate swap | Notional amount | | Contract interest rate per annum | | Term |
|---|-----------------|---------|----------------------------------|--------------------|-----------|
| | in thousands | | Pay (%) | Receive (%) | |
| Deutsche Bank (formerly, Bankers Trust Co.) | US\$ | 100,000 | Max[6.074-Libor,0] | Max[Libor-6.074,0] | 1998~2007 |
| Deutsche Bank (formerly Bankers Trust Co.) | US\$ | 100,000 | Max[Libor-6.074,0] | Max[6.074-Libor,0] | 1998~2007 |

| Currency swap | Contract year | Settlement year | Contract amounts in millions | | Contract interest rate per annum (%) | |
|-------------------------------------|---------------|-----------------|------------------------------|----------|--------------------------------------|-----------------|
| | | | Pay | Receive | Pay | Receive |
| JPMorgan Chase Bank & Deutsche Bank | 2002 | 2007 | JPY 76,700 | US\$ 650 | 1.18 | 4.25 |
| Barclays Bank PLC London | 2002 | 2007 | JPY 30,400 | US\$ 250 | 1.04 | 3M Libor + 0.75 |

26. POWER, TRANSMISSION AND DISTRIBUTION COSTS

Power, transmission and distribution costs for the year ended December 31, 2006 and 2007 are as follows:

| | Won (In millions) | |
|---|-------------------|-----------------|
| | 2006 | 2007 |
| Material expenses: | | |
| Oil | (Won) 34,659 | (Won) 35,734 |
| Labor expenses: | | |
| Salaries | 676,207 | 829,573 |
| Severance and retirement benefits | 74,764 | 105,092 |
| | 750,971 | 934,665 |
| Overhead expenses: | | |
| Employee benefits | 92,090 | 83,425 |
| Rent | 26,758 | 35,199 |
| Depreciation | 1,785,355 | 1,840,756 |
| Maintenance | 829,939 | 933,952 |
| Commission and consultation fees | 97,118 | 132,284 |
| Development expense | 149,102 | 180,328 |
| Property, plant and equipment removal costs | 234,257 | 304,617 |
| Others | 112,679 | 128,671 |
| | 3,327,298 | 3,639,232 |
| | (Won) 4,112,928 | (Won) 4,609,631 |

27. SELLING AND ADMINISTRATIVE EXPENSES

Details of selling and administrative expenses for the year ended December 31, 2006 and 2007 are summarized as follows:

| | Won (In millions) | |
|----------------------------------|-------------------|-----------------|
| | 2006 | 2007 |
| Labor | (Won) 427,260 | (Won) 448,631 |
| Employee benefits | 72,590 | 53,240 |
| Sales commission-others | 411,535 | 412,696 |
| Communication fees | 27,771 | 29,565 |
| Depreciation and amortization | 31,380 | 42,246 |
| Rent | 13,634 | 13,265 |
| Commission and consultation fees | 48,283 | 65,023 |
| Maintenance | 27,173 | 12,461 |
| Bad debt expense | 18,854 | 21,813 |
| Others | 123,295 | 125,766 |
| | (Won) 1,201,775 | (Won) 1,224,706 |

28. INCOME TAX

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(a) The components of income tax expense for the year ended December 31, 2006 and 2007 are summarized as follows:

| | Won (In millions) | |
|--|-------------------|---------------|
| | 2006 | 2007 |
| Current income tax expenses | (Won) 469,468 | (Won) 193,169 |
| Changes in deferred income tax, adjustment | 81,720 | 186,237 |
| Income taxes recorded in capital | 2,207 | (38,482) |
| Income tax expense | (Won) 553,395 | (Won) 340,924 |

- (b) The income tax calculated using statutory tax rates differs from the income tax in the income statement for the year ended December 31, 2006 and 2007 for the following reasons:

| | Won (In millions) | |
|---------------------------------------|-------------------|---------------|
| | 2006 | 2007 |
| Income tax at statutory tax rates | (Won) 721,570 | (Won) 521,865 |
| Tax effects of permanent differences: | | |
| Dividend income (*) | (162,860) | (138,770) |
| Tax credit | (1,204) | (923) |
| Other, net | (4,111) | (41,248) |
| Income tax in the income statement | (Won) 553,395 | (Won) 340,924 |

(*) Under the Corporate Income Tax Act, a certain portion of the dividend income is not taxable. In this connection, certain portions of equity in net income of affiliates are considered permanent differences in the calculation of deferred tax assets (liabilities).

- (c) The tax effects of temporary differences that result in significant portions of the deferred income tax assets and liabilities as of December 31, 2006 and 2007 are presented below.

| | Won (In millions) | |
|---|-------------------|-------------------|
| | 2006 | 2007 |
| Deferred tax assets: | | |
| Loss on valuation of derivatives | (Won) 56,493 | (Won) |
| Accrual for retirement and severance benefits | 108,438 | 141,208 |
| Deferred foreign exchange translation loss | 8,099 | 7,340 |
| Accounts payable - purchase of electricity | 214,194 | 223,954 |
| Other, net | 232,859 | 312,158 |
| | 620,083 | 684,660 |
| Deferred tax liabilities: | | |
| Gain on valuation of derivatives | (24,851) | (713) |
| Deferred foreign exchange translation gain | (19,200) | (17,189) |
| Reserve for social overhead capital investment | (71,564) | (49,197) |
| Reserve for research and human resource development | (57,347) | (39,963) |
| Equity income of affiliates | (2,547,692) | (2,809,485) |
| Other, net | (83,326) | (30,218) |
| | (2,803,980) | (2,946,765) |
| Net deferred tax liabilities | (Won) (2,183,897) | (Won) (2,262,105) |
| Current portion | (Won) 251,413 | (Won) 251,762 |
| Non-current portion | (Won) (2,435,310) | (Won) (2,513,867) |

29. EARNINGS PER SHARE

Basic earnings per share for the year ended December 31, 2006 and 2007 are calculated by dividing net income by the weighted-average number of shares of common stock outstanding.

| | Won (In millions except share data) | |
|--|-------------------------------------|--------------------|
| | 2006 | 2007 |
| Net income | (Won) 2,070,543 | (Won) 1,556,815 |
| Weighted-average number of common shares outstanding | 638,002,913 | 621,717,622 |
| Basic earnings per share in Won | (Won) 3,245 | (Won) 2,504 |

Diluted earnings per share for the year ended December 31, 2006 and 2007 are calculated by dividing net income available to common shareholders plus the effect of dilutive securities by the weighted-average number of shares of common and common equivalent shares.

| | Won (In millions) | |
|---|--------------------|--------------------|
| | 2006 | 2007 |
| Net income | (Won) 2,070,543 | (Won) 1,556,815 |
| Exchangeable bond interest | 2,207 | 20,031 |
| | 2,072,750 | 1,576,846 |
| Weighted-average number of common shares and diluted securities outstanding | 657,286,214 | 640,665,533 |
| Diluted earnings per share in Won | (Won) 3,153 | (Won) 2,461 |

30. TRANSACTIONS AND BALANCES WITH RELATED COMPANIES

(a) Transactions with related parties for the year ended December 31, 2006 and 2007 are as follows:

| Related party | Transaction | Won (In millions) | |
|---|------------------------------------|-------------------|-----------------|
| | | 2006 | 2007 |
| Sales and other income: | | | |
| Korea Hydro & Nuclear Power Co., Ltd. | Sales of electricity and others | (Won) 132,246 | (Won) 638,463 |
| Korea South-East Power Co., Ltd. | | 40,091 | 626,897 |
| Korea Midland Power Co., Ltd. | | 44,873 | 100,151 |
| Korea Western Power Co., Ltd. | | 44,202 | 212,466 |
| Korea Southern Power Co., Ltd. | | 20,657 | 153,930 |
| Korea East-West Power Co., Ltd. | | 53,898 | 337,920 |
| Others | | 109,636 | 81,525 |
| | | (Won) 445,603 | (Won) 2,151,352 |
| Purchases and others: | | | |
| Korea Hydro & Nuclear Power Co., Ltd. (*) | Purchase of electricity and others | (Won) 5,555,450 | (Won) 5,513,434 |
| Korea South-East Power Co., Ltd. (*) | | 1,974,030 | 2,145,893 |
| Korea Midland Power Co., Ltd. (*) | | 2,483,114 | 2,802,392 |
| Korea Western Power Co., Ltd. (*) | | 2,417,181 | 3,097,047 |

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| | | | |
|--|-------------------------------------|------------------|------------------|
| Korea Southern Power Co., Ltd. (*) | | 3,306,306 | 3,729,775 |
| Korea East-West Power Co., Ltd. (*) | | 2,512,554 | 2,867,866 |
| Korea Power Engineering Co., Inc. | Designing of power plant and others | 6,504 | 9,038 |
| KEPCO KPS (formerly Korea Plant Service) | Utility plant maintenance | 48,733 | 50,945 |
| Korea Electric Power Data Network, Co., Ltd. | Maintenance of computer system | 135,140 | 279,653 |
| Others | Commissions for service and others | 159,143 | 105,240 |
| | | (Won) 18,598,155 | (Won) 20,601,283 |

(*) The Company has purchased electricity from its power generation subsidiaries through Korea Power Exchange.

(b) Receivables arising from related parties transactions as of December 31, 2006 and 2007 are as follows:

| Related party | Won (In millions) | | |
|---------------------------------------|-------------------|-------------------|--------------|
| | 2006 | | Total |
| | Trade receivables | Other receivables | |
| Korea Hydro & Nuclear Power Co., Ltd. | (Won) 6,623 | (Won) 3,450 | (Won) 10,073 |
| Korea South-East Power Co., Ltd. | 2,604 | 347 | 2,951 |
| Korea Midland Power Co., Ltd. | 2,256 | 429 | 2,685 |
| Korea Western Power Co., Ltd. | 4,021 | 113 | 4,134 |
| Korea Southern Power Co., Ltd. | 769 | 719 | 1,488 |
| Korea East-West Power Co., Ltd. | 1,983 | 1,600 | 3,583 |
| Others | 2,898 | 18,651 | 21,549 |
| | (Won) 21,154 | (Won) 25,309 | (Won) 46,463 |

| Related party | Won (In millions) | | |
|---------------------------------------|-------------------|-------------------|-----------------|
| | 2007 | | Total |
| | Trade receivables | Other receivables | |
| Korea Hydro & Nuclear Power Co., Ltd. | (Won) 1,585 | (Won) 401,053 | (Won) 402,638 |
| Korea South-East Power Co., Ltd. | 2,793 | 549,284 | 552,077 |
| Korea Midland Power Co., Ltd. | 3,665 | 39,436 | 43,101 |
| Korea Western Power Co., Ltd. | 4,075 | 115,311 | 119,386 |
| Korea Southern Power Co., Ltd. | 424 | 117,760 | 118,184 |
| Korea East-West Power Co., Ltd. | 3,068 | 262,351 | 265,419 |
| Others | 33 | 12,641 | 12,674 |
| | (Won) 15,643 | (Won) 1,497,836 | (Won) 1,513,479 |

(c) Payables arising from related parties transactions as of December 31, 2006 and 2007 are as follows:

| Related party | Won (In millions) | | |
|--|-------------------|----------------|-----------------|
| | 2006 | | Total |
| | Trade payables | Other payables | |
| Korea Hydro & Nuclear Power Co., Ltd. (*) | (Won) 386,812 | (Won) 4,255 | (Won) 391,067 |
| Korea South-East Power Co., Ltd. (*) | 172,858 | 1,472 | 174,330 |
| Korea Midland Power Co., Ltd. (*) | 199,032 | 2,009 | 201,041 |
| Korea Western Power Co., Ltd. (*) | 235,881 | 1,302 | 237,183 |
| Korea Southern Power Co., Ltd. (*) | 276,381 | 1,397 | 277,778 |
| Korea East-West Power Co., Ltd. (*) | 225,331 | 1,668 | 226,999 |
| Korea Power Engineering Co., Inc. | | | |
| KEPCO KPS (formerly Korea Plant Service) | | 3,386 | 3,386 |
| Korea Electric Power Data Network, Co., Ltd. | | 49,142 | 49,142 |
| Others | | 14,568 | 14,568 |
| | (Won) 1,496,295 | (Won) 79,199 | (Won) 1,575,494 |

(*) The Company has purchased electricity from its power generation subsidiaries through Korea Power Exchange. The above trade payables represent the amount payable to the power generation subsidiaries.

| Related party | Won (In millions) | | |
|--|-------------------|----------------|-----------------|
| | 2007 | | |
| | Trade payables | Other payables | Total |
| Korea Hydro & Nuclear Power Co., Ltd. (*) | (Won) 430,943 | (Won) 3,281 | (Won) 434,224 |
| Korea South-East Power Co., Ltd. (*) | 189,252 | 1,614 | 190,866 |
| Korea Midland Power Co., Ltd. (*) | 265,932 | 1,506 | 267,438 |
| Korea Western Power Co., Ltd. (*) | 276,850 | 3,519 | 280,369 |
| Korea Southern Power Co., Ltd. (*) | 349,161 | 1,349 | 350,510 |
| Korea East-West Power Co., Ltd. (*) | 293,689 | 1,301 | 294,990 |
| Korea Power Engineering Co., Inc. | | 547 | 547 |
| KEPCO KPS (formerly Korea Plant Service) | | 3,623 | 3,623 |
| Korea Electric Power Data Network, Co., Ltd. | | 27,883 | 27,883 |
| Others | 5 | 8,258 | 8,263 |
| | (Won) 1,805,832 | (Won) 52,881 | (Won) 1,858,713 |

- (d) As discussed in Note 17, as of December 31, 2006 and 2007, the balances of long-term borrowings from Korea Development Bank amounted to (Won)4,634,375 million and (Won)4,652,500 million, respectively, and the related interest expense amounted to (Won)232,715 million and (Won)250,752 million for the year ended December 31, 2006 and 2007, respectively.
- (e) The Company has provided guarantees for related companies as of December 31, 2007 as follows:

| Type | Guaranteed company | US\$ (In thousands) | |
|-----------|--------------------|---------------------|--------|
| Other (*) | KEPCO Ilijan Co. | US\$ | 72,000 |

(*) KEPCO Ilijan Corporation, which is a subsidiary of KEPCO International Philippines Inc., is engaged in the power generation business in the Philippines and borrowed US\$281 million in 2000 as project financing from Japan Bank of International Corporation and others. In connection with the borrowing, KEPCO Ilijan Corporation's investment securities under the equity method held by KEPCO International Philippines Inc. were pledged as collateral. The Company has provided the National Power Corporation and others with the guarantee not to exceed US\$72 million on performance of the power generation business of KEPCO Ilijan Corporation.

- (f) The guarantees provided by related companies for the Company as of December 31, 2007 are as follows:

| Type | Related party | Currency | USD (In thousands) Guaranteed amounts |
|-----------------------|------------------------|----------|--|
| Payment guarantee (*) | Korea Development Bank | US\$ | 752,595 |

(*) Korea Development Bank has provided a repayment guarantee for certain foreign currency debentures of the Company, which existed at the time of spin-off, and for the capital on performance of the power generation business of KEPCO Ilijan Corporation, but which had not been redeemed as of December 31, 2007.

- (g) The salaries and other compensations the Company has paid to the key members of management for the year ended December 31, 2007 were as follows:

Won (In millions)
2007

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| | Annual compensation | Average payment |
|-----------------------------------|----------------------------|------------------------|
| Salaries | (Won) 2,027 | (Won) 113 |
| Retirement and severance benefits | 140 | 18 |

31. COMMITMENTS AND CONTINGENCIES

- (a) As of December 31, 2007, the Company is involved in 62 lawsuits as a plaintiff and 238 lawsuits as a defendant with claims amounting to (Won)38,834 million and (Won)270,790 million, respectively. As of December 31, 2007, the Company had recorded a liability related to the above claims amounting to (Won)478 million. The Company's management believes that the ultimate results of these lawsuits will not have a material adverse effect on the Company's financial position, results of operations or liquidity.
- (b) The Company entered into a subcontract arrangement with the Korea Peninsula Energy Development Organization (KEDO) on December 15, 1999, to construct two 1,000,000 KW-class pressurized light-water reactor units in North Korea. But, the executive board of KEDO decided to terminate the light water reactor project on May 31, 2006 due to the political environment surrounding the Korean peninsula. On December 12, 2006, the Company entered into the Termination Agreement (TA) with KEDO.

According to the TA, the Company mainly accepts all rights and obligations related to the light water reactor outside of North Korea, from KEDO. In exchange, the Company waives the right to claim any expenses incurred and any potential claims by subcontractors to KEDO. As a result, the Company recorded transferred equipment in accordance with TA as other non-current assets amounting to ₩93,971 million. In addition, the Company recorded the estimated claims by subcontractors as other long-term liabilities amounting to (Won)19,247 million.

At the same time the Company is in duty to report its disposal or reuse of the light water reactor equipment to negotiate with KEDO for the settlement of its occurring disposal profit. The Company's management believe that it is not available to measure reasonably the occurring profit on disposal of the light water reactor equipment.

- (c) The Company entered into power purchase agreements with GS EPS Co., Ltd. and other independent power producers for power purchases in accordance with the Electricity Business Act. These purchase agreements include minimum purchase requirements which the Company has historically exceeded. The power purchased under these agreements amounted to (Won)1,299,061 million and (Won)1,487,345 million for the year ended December 31, 2006 and 2007, respectively.
- (d) The payment guarantees provided by the bank as of December 31, 2007 were as follows:

| Bank | Currency | Limit | KRW(In millions) USD, EUR(In thousand) | |
|---|----------|---------|--|--|
| | | | Content | |
| Korea Exchange Bank | USD | 4,000 | an import credit memorandum | |
| | USD | 72,000 | performance guarantees related to the business of the Iljan power generation plant | |
| | USD | 66,620 | guarantees related to overseas oil development business | |
| National Federation of Fisheries Cooperatives | EUR | 88 | Others | |
| | KRW | 18,764 | an import credit memorandum | |
| Standard Chartered First Bank Korea Limited. | USD | 20,000 | guarantees related to the operation of the Lebanon power generation plant | |
| | USD | 757,595 | payment guarantees related to foreign currency debentures | |

- (e) The Company provides performance guarantees related to the operation of the Lebanon power generation plant amounting to US\$17,277 thousands to the Lebanon Electricity Agency.
- (f) As explained in note 6, the Company invested in overseas oil development industry with Korean Consortium owning 60% equity interest in the joint venture incorporated with English Equator and Nigeria, invested in KNOC Nigerian East 323, KNOC Nigerian West 321 and Dolphin Property Ltd. Additionally, the Company provides performance guarantees of US\$25 million related to the oil and gas producing activities and performance guarantees of US\$35 million and other payment guarantees of US\$7 million related to

the construction of power generation plants and gas pipes to the Nigerian government.

32. CASH FLOWS

Significant transactions not involving cash inflow and outflow for the year ended December 31, 2006 and 2007 are summarized as follows:

| | Won (In millions) | |
|----------------------------------|-------------------|-------------|
| | 2006 | 2007 |
| Conversion of exchangeable bonds | (Won) 108,265 | (Won) 9,014 |

33. SUPPLEMENTARY INFORMATION FOR COMPUTATION OF VALUE ADDED:

The accounts and amounts needed for the computation of value added in 2006 and 2007 are as follows (Won in millions):

| | Won (In millions) | |
|-------------------------------------|-------------------|-----------------|
| | 2006 | 2007 |
| Salaries | (Won) 1,071,301 | (Won) 1,242,494 |
| Provision for severance indemnities | 119,794 | 155,332 |
| Employee benefits | 166,139 | 137,749 |
| Rent | 40,601 | 48,648 |
| Depreciation & amortization | 1,816,735 | 1,883,003 |
| Taxes and dues | 44,865 | 65,342 |
| Net Interest Expenses | 542,629 | 588,135 |

34. THE FOURTH QUARTER'S RESULTS OF OPERATIONS

| | Won (In millions) | |
|----------------|------------------------|------------------------|
| | 4 th , 2006 | 4 th , 2007 |
| Sales | (Won) 6,561,219 | (Won) 7,239,616 |
| Net loss | (27,520) | (647,172) |
| Loss per share | (42) | (1,039) |

35. COMPREHENSIVE STATEMENTS OF INCOME

| | Won (In millions) | |
|---|-------------------|-----------------|
| | 2006 | 2007 |
| Net income | (Won) 2,070,543 | (Won) 1,556,815 |
| Gain (loss) on valuation of available-for-sale securities Tax effect : 2006 - (225) 2007 - (1,009) | (592) | (2,659) |
| Unrealized equity gain of affiliates Tax effect : 2006 - 6,527 2007 - 17,722 | 17,207 | 46,722 |
| Unrealized equity loss of affiliates Tax effect : 2006 - (6,589) 2007 - 15,016 | (17,370) | 39,588 |
| Comprehensive income | (Won) 2,069,788 | (Won) 1,640,466 |

Independent Accountant's Review Report

on Internal Accounting Control System (IACS)

English Translation of a Report Originally Issued in Korean

To the Chief Executive Officer of

Korea Electric Power Corporation:

We have reviewed the accompanying Report on the Management's Assessment of IACS (the Management's Report) of Korea Electric Power Corporation (the Company) as of December 31, 2007. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that based on our assessment of the IACS as of December 31, 2007, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2007, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, objective of which is to obtain a lower level of assurance than an audit, of the Management's Report in all material respects. A review includes obtaining an understanding of a company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

A company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2007, and we did not review its IACS subsequent to December 31, 2007. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

February 11, 2008

Notice to Readers

This report is annexed in relation to the audit of the non-consolidated financial statements as of December, 31, 2007 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By: /s/ Kim, Myung-Whan
Name: Kim, Myung-Whan
Title: Director

Finance Team

Date: April 7, 2008