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KOREA ELECTRIC POWER CORP
Form 6-K
March 24, 2004

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 March 2004

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
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).

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of
Korea Electric Power Corporation

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We have audited the accompanying non-consolidated balance sheets of Korea Electric Power Corporation (the "Company") as of December 31, 2003 and 2002, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Korea Hydro & Nuclear Power Co., Ltd. and Korea South-East Power Co., Ltd., which statements reflect 23.0 percent of the total non-consolidated assets as of December 31, 2003 and 32.2 percent of non-consolidated income before income tax for the year ended. Also, we did not audit the financial statements of Korea Hydro & Nuclear Power Co., Ltd and 3 other power generating subsidiaries, which statements reflect 30.4 percent of the total non-consolidated assets as of December 31, 2002 and 35.1 percent of non-consolidated income before income tax for the year ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those entities, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated 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 audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and 2002, and the results of its operations, changes in its retained earnings and its cash flows for the years then ended in conformity with the Korea Electric Power Corporation Act, the Accounting Regulations for Government Invested Enterprises and the financial accounting standards in the Republic of Korea (see Note 2).

The translated amounts in the accompanying financial statements have been translated in to U.S. dollars, solely for the convenience of the reader, on the basis set forth in Note 2.

As discussed in Note 18, sales and purchases to and from related parties, including the six power generation subsidiaries, amounted to W343,026 million and W14,792,969 million, respectively, for the year ended December 31, 2003 and W371,643 million and W13,713,243 million, respectively, for the year ended December 31, 2002. Related receivables and payables amount to W23,296 million and W1,241,020 million, respectively, as of December 31, 2003 and W31,954 million and W1,172,012 million, respectively, as of December 31, 2002.

As discussed in Note 1, the Company has been considering the gradual privatization of the Company's power generation subsidiaries and distribution business, which is in accordance with the restructuring plan, dated January 21, 1999, of the electricity industry in the Republic of Korea announced by the Ministry of Commerce, Industry and Energy ("Restructuring Plan"). This Restructuring Plan, which is intended to introduce a competitive system in the electricity industry, is expected to affect the determination of utility rates, result in changes in management structure, related laws and regulations, and affect electricity supply and demand policy.

As discussed in Note 2, in 2003, the Company adopted Statements of Korea Accounting Standards ("SKAS") No. 2, 3, 4, 5, 6, 7, 8 and 9, which are effective from January 1, 2003. Those statements provide accounting and reporting standards for the interim financial reporting, intangible assets, revenue

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recognition, tangible assets, events occurring after the balance sheet date, capitalization of financing costs, investment in securities and convertible securities. The prior year financial statements, which are presented for comparative purposes, were restated to conform to the provisions of those standards. As a result of the adoption of SKAS No. 6 - "Events Occurring after the Balance Sheet Date", shareholders' equity increased and current liabilities decreased by W511,350 million as of December 31, 2002.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. The Company's financial statements are prepared in accordance with the Korea Electric Power Corporation Act, Accounting Regulations for Government Invested Enterprises as well as generally accepted accounting principles in 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 financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice as well as the Korea Electric Power Corporation Act and Accounting Regulations for Government Invested Enterprises.

Anjin Deloitte LLC

Seoul, Korea
February 11, 2004

Notice to Readers

This report is effective as of February 11, 2004, 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 financial statements and may result in modifications to the auditors' report.

KOREA ELECTRIC POWER CORPORATION

NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2003 AND 2002

| | Korean Won | | |
|---|---------------|--------------|--------|
| | 2003 | 2002 | 2002 |
| ASSETS | (In millions) | | |
| ----- | ----- | | |
| Property, Plant and Equipment (Notes 3 and 18): | | | |
| Utility plant | W 37,235,281 | W 34,432,035 | \$ 31, |
| Less: accumulated depreciation | (7,472,373) | (5,939,623) | (6, |
| Less: construction grants | (2,758,789) | (2,321,138) | (2, |
| | ----- | ----- | ----- |

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| | | | |
|---|--------------|--------------|--------|
| Construction in-progress | 27,004,119 | 26,171,274 | 22, |
| | 2,266,928 | 1,986,138 | 1, |
| | 29,271,047 | 28,157,412 | 24, |
| Investments and others: | | | |
| Investment securities (Note 6) | 23,865,369 | 22,239,278 | 19, |
| Long-term loans (Note 7) | 142,368 | 128,656 | |
| Long-term other account receivables, net of discount on present value of W35,576 million in 2003 and W42,034 million in 2002 and allowance for doubtful accounts of W15,500 million in 2003 | 213,924 | 388,924 | |
| Currency and interest rate swaps (Note 14) | 124,345 | 320,641 | |
| Intangibles (Note 4) | 144,367 | 94,874 | |
| Other non-current assets (Note 13) | 143,111 | 130,074 | |
| | 24,633,484 | 23,302,447 | 20, |
| Current assets: | | | |
| Cash and cash equivalents (Note 13) | 366,817 | 610,056 | |
| Trade receivables, net of allowance for doubtful accounts of W 27,787 million in 2003 and W 21,588 million in 2002 (Notes 13 and 18) | 1,501,949 | 1,400,411 | 1, |
| Other account receivables, net of allowance for doubtful accounts of W 14,184 million in 2003 and W 3,007 million in 2002 (Notes 13 and 18) | 434,648 | 228,101 | |
| Short-term financial instruments | 61,000 | 79,000 | |
| Short-term loans (Note 7) | 9,267 | 8,450 | |
| Inventories (Note 8) | 78,796 | 65,217 | |
| Other current assets (Note 6) | 112,654 | 94,519 | |
| | 2,565,131 | 2,485,754 | 2, |
| Total Assets | W 56,469,662 | W 53,945,613 | \$ 47, |

(continued)

KOREA ELECTRIC POWER CORPORATION

NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2003 AND 2002

| | Korean Won | | U |
|--------------------------------------|---------------|------|---|
| | 2003 | 2002 | 2 |
| SHAREHOLDERS' EQUITY AND LIABILITIES | (In millions) | | |

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| | | | |
|--|---|------------|--------------------|
| Shareholders' equity (Notes 6 and 9): | | | |
| Common stock | W | 3,203,743 | W 3,200,504 \$ 2 |
| Capital surplus | | 14,373,779 | 14,311,579 12 |
| Retained earnings | | | |
| Appropriated | | 17,899,939 | 15,351,474 14 |
| Unappropriated (Net income of W 2,315,938 million in 2003 and W 3,059,815 million in 2002) | | 2,315,938 | 3,059,815 1 |
| Capital adjustments: | | (150,681) | 35,707 |
| | | ----- | ----- |
| Total Shareholders' Equity | | 37,642,718 | 35,959,079 31 |
| | | ----- | ----- |
| Long-term liabilities: | | | |
| Long-term debt (Note 11) | | 9,640,665 | 9,973,313 8 |
| Accrued severance indemnities, net (Note 2) | | 316,408 | 226,609 |
| Reserve for self insurance | | 87,926 | 82,537 |
| Currency and interest rate swaps (Note 14) | | 178,283 | 468,900 |
| Financial lease liabilities (Note 12) | | 372 | 4,993 |
| Deferred income tax liabilities (Note 17) | | 1,462,016 | 1,354,128 1 |
| Other long-term liabilities | | 486,981 | 325,533 |
| | | ----- | ----- |
| | | 12,172,651 | 12,436,013 10 |
| | | ----- | ----- |
| Current liabilities: | | | |
| Trade payables (Note 18) | | 1,256,526 | 1,238,749 1 |
| Other accounts payable (Note 18) | | 571,772 | 552,350 |
| Short-term borrowings (Note 11) | | 16,245 | - |
| Current portion of long-term debt (Note 11) | | 4,026,376 | 2,454,722 3 |
| Current portion of financial lease liabilities (Note 12) | | 4,276 | 8,538 |
| Income tax payable | | 164,170 | 682,777 |
| Accrued expenses | | 146,094 | 166,144 |
| Dividends payable | | 2,324 | 2,153 |
| Other current liabilities | | 466,510 | 445,088 |
| | | ----- | ----- |
| | | 6,654,293 | 5,550,521 5 |
| | | ----- | ----- |
| Total Liabilities | | 18,826,944 | 17,986,534 15 |
| | | ----- | ----- |
| Total Shareholders' Equity and Liabilities | W | 56,469,662 | W 53,945,613 \$ 47 |
| | | ===== | ===== |

See accompanying notes to non-consolidated financial statements.

KOREA ELECTRIC POWER CORPORATION

NON-CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | Korean Won | | U |
|--|------------|-------|-------|
| | 2003 | 2002 | 20 |
| | ----- | ----- | ----- |
| | 2003 | 2002 | 20 |
| | ----- | ----- | ----- |

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(In millions)

(In thousands, except per share)

| | | | | | | |
|---|---|------------|---|-------------|----|-------|
| OPERATING REVENUES (Note 18): | | | | | | |
| Sale of electricity | W | 22,087,455 | W | 20,716,297 | \$ | 18, |
| Other operating revenues | | 310,034 | | 331,578 | | |
| | | ----- | | ----- | | ----- |
| | | 22,397,489 | | 21,047,875 | | 18, |
| | | ----- | | ----- | | ----- |
| OPERATING EXPENSES (Notes 15, 16 and 18): | | | | | | |
| Power generation, transmission, distribution | | 3,560,513 | | 3,365,041 | | 2, |
| Purchased power | | 15,724,513 | | 14,532,830 | | 13, |
| Other operating costs | | 307,539 | | 327,226 | | |
| Selling and administrative expenses | | 992,115 | | 940,017 | | |
| | | ----- | | ----- | | ----- |
| | | 20,584,680 | | 19,165,114 | | 17, |
| | | ----- | | ----- | | ----- |
| OPERATING INCOME | | 1,812,809 | | 1,882,761 | | 1, |
| OTHER INCOME (EXPENSES): | | | | | | |
| Interest income | | 38,780 | | 23,710 | | |
| Interest expense | | (583,556) | | (627,954) | | (|
| Gain (loss) on foreign currency transactions and translation, net | | (183,676) | | 398,543 | | (|
| Donations | | (125,090) | | (76,825) | | (|
| Rent | | 121,535 | | 108,439 | | |
| Gain on valuation using the equity method of accounting (Note 6) | | 2,123,518 | | 2,178,492 | | 1, |
| Gain on disposal of investments, net (Note 6) | | 45,214 | | 433,335 | | |
| Loss on disposal of utility plant, net | | (2,755) | | (16,671) | | |
| Valuation gain (loss) on currency and interest rate swaps, net (Note 14) | | (59,689) | | 63,158 | | |
| Other, net (Note 6) | | (87,531) | | (38,695) | | |
| | | ----- | | ----- | | ----- |
| | | 1,286,750 | | 2,445,532 | | 1, |
| | | ----- | | ----- | | ----- |
| ORDINARY INCOME | | 3,099,559 | | 4,328,293 | | 2, |
| INCOME TAX EXPENSE (Note 17) | | (783,621) | | (1,268,478) | | (|
| | | ----- | | ----- | | ----- |
| NET INCOME | W | 2,315,938 | W | 3,059,815 | \$ | 1, |
| | | ===== | | ===== | | ===== |
| ORDINARY INCOME PER SHARE (Note 2) | W | 3,674 | W | 4,788 | \$ | |
| | | ===== | | ===== | | ===== |
| EARNINGS PER SHARE (Note 2) | W | 3,674 | W | 4,788 | \$ | |
| | | ===== | | ===== | | ===== |

See accompanying notes to non-consolidated financial statements.

KOREA ELECTRIC POWER CORPORATION

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

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FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | Korean Won | | U.S. |
|--|---------------|-----------|-----------|
| | 2003 | 2002 | 2003 |
| | (In millions) | | |
| RETAINED EARNINGS BEFORE APPROPRIATIONS: | | | |
| Unappropriated retained earnings carried over from prior years | W - | W - | \$ - |
| Net income | 2,315,938 | 3,059,815 | 1,938,000 |
| | 2,315,938 | 3,059,815 | 1,938,000 |
| APPROPRIATIONS OF RETAINED EARNINGS: | | | |
| Legal reserve | 1,619 | - | |
| Reserve for business expansion | 1,512,782 | 2,368,465 | 1,200,000 |
| Reserve for investment in social overhead capital | 80,000 | 120,000 | |
| Reserve for research and human development | 60,000 | 60,000 | |
| Cash dividends (Note 10) | 661,537 | 511,350 | 500,000 |
| | 2,315,938 | 3,059,815 | 1,938,000 |
| UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR | W - | W - | \$ - |

See accompanying notes to non-consolidated financial statements.

KOREA ELECTRIC POWER CORPORATION

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | Korean Won | | U.S. |
|---|---------------|-------------|--------------|
| | 2003 | 2002 | 2003 |
| | (In millions) | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | W 2,315,938 | W 3,059,815 | \$ 1,938,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |

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| | | | |
|---|-------------|-------------|-------|
| Depreciation and amortization | 1,589,864 | 1,485,956 | 1,32 |
| Utility plant removal cost | 243,184 | 256,010 | 20 |
| Provision for severance and retirement benefits | 94,166 | 92,915 | 7 |
| Provision for self insurance | 6,400 | 5,465 | |
| Allowance for doubtful accounts | 13,658 | 15,514 | 1 |
| Interest expense | 10,246 | 8,650 | |
| Loss (gain) on foreign currency translation, net | 189,650 | (370,871) | 15 |
| Gain on valuation using the equity method of accounting | (2,123,518) | (2,178,492) | (1,77 |
| Gain on disposal of investments, net | (45,214) | (433,335) | (3 |
| Loss on disposal of utility plant, net | 2,755 | 16,671 | |
| Valuation loss (gain) on currency and interest rate swaps | 59,689 | (63,158) | 4 |
| Increase in trade receivables | (115,201) | (109,221) | (9 |
| Increase in other account receivables | (58,270) | (20,915) | (4 |
| Decrease in inventories | 73,626 | 43,910 | 6 |
| Increase in other current assets | (76,215) | (58,614) | (6 |
| Increase in trade payables | 17,778 | 82,880 | 1 |
| Increase in other accounts payable | 19,422 | 95,643 | 1 |
| Increase(decrease) in income tax payable | (518,607) | 408,698 | (43 |
| Decrease in accrued expenses | (20,050) | (30,317) | (1 |
| Increase(decrease) in other current liabilities | 21,422 | (21,504) | 1 |
| Increase in deferred income tax liabilities | 107,888 | 335,622 | 9 |
| Increase in other long-term liabilities | 161,447 | 92,774 | 13 |
| Payment of severance and retirement benefits | (8,355) | (6,692) | (|
| Payment of self-insurance | (1,011) | (1,171) | |
| Other, net | 1,722 | (18,849) | |
| Net cash provided by operating activities | 1,962,414 | 2,687,384 | 1,6 |

(continued)

KOREA ELECTRIC POWER CORPORATION

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | Korean Won | | Tr |
|---|---------------|-------------|--------|
| | 2003 | 2002 | U.S. |
| | 2003 | 2002 | 2003 |
| | (In millions) | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Disposal of utility plant | W 35,992 | W 72,311 | \$ 30 |
| Additions to utility plant | (3,624,453) | (3,461,673) | (3,025 |
| Receipt of construction grants | 611,862 | 624,527 | 510 |
| Proceeds from disposal of investment securities | 555,940 | 746,633 | 464 |
| Acquisition of investment securities | (13,973) | (31,621) | (11 |
| Collection of long-term loans | 5,077 | - | 4 |
| Payment of long-term loans | (28,060) | (22,567) | (23 |
| Acquisition of intangibles | (6,297) | (30,790) | (5 |
| Collection of short-term loans | 8,455 | 7,868 | 7 |
| Withdrawal of short-term financial instruments | 84,000 | 119,587 | 70 |
| Acquisition of short-term financial instruments | (66,000) | (79,000) | (55 |

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| | | | |
|---|------------------|------------------|---------------|
| Decrease (increase) in other non-current assets | (13,026) | 8,097 | (10) |
| | | | |
| Net cash used in investing activities | (2,450,483) | (2,046,628) | (2,045) |
| | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from short-term borrowings | 16,245 | - | 13 |
| Proceeds from long-term debt | 3,583,164 | 1,909,246 | 2,991 |
| Payment of current portion of long-term debt | (2,454,218) | (1,358,240) | (2,048) |
| Payment of long-term debt | (33,341) | (760,084) | (27) |
| Acquisition of treasury stock | (180,120) | - | (150) |
| Cash dividends | (511,179) | (351,065) | (426) |
| Other, net | (175,721) | (30,428) | (146) |
| | | | |
| Net cash provided by (used in) financing activities | 244,830 | (590,571) | 204 |
| | | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (243,239) | 50,185 | (203) |
| | | | |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD | 610,056 | 559,871 | 509 |
| | | | |
| CASH AND CASH EQUIVALENTS, END OF THE PERIOD | W 366,817 | W 610,056 | \$ 306 |
| | | | |

See accompanying notes to non-consolidated financial statements.

KOREA ELECTRIC POWER CORPORATION

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

1. THE COMPANY:

Korea Electric Power Corporation (the "Company") 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. The Company was given a government investment status 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, 2003, the Government of the Republic of Korea, Korea Development Bank and foreign investors hold 32.42 percent, 21.55 percent and 28.98 percent of the Company's shares, respectively.

The Company spun off its Power Generation division on April 2, 2001, resulting in the establishment of six new power generation subsidiaries. The Company has been considering the gradual privatization of the Company's power generation subsidiaries and distribution business, which is in accordance with the restructuring plan, dated January 21, 1999, of the electricity industry in the Republic of Korea announced by the Ministry of Commerce, Industry and Energy

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("Restructuring Plan"). This Restructuring Plan, which is intended to introduce a competitive system in the electricity industry, is expected to affect the determination of utility rates, result in changes in management structure, related laws and regulations, and affect electricity supply and demand policy.

In common with other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement structural reforms to historical business practices including corporate governance. The Company may be either directly or indirectly affected by these economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic environment on the financial position and results of operations of the Company. Actual results may differ materially from management's current assessment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Financial Statement Presentation

The Company maintains its official accounting records in Korean won and prepares statutory non-consolidated financial statements in the Korean language (Hangul) in conformity with the Korea Electric Power Corporation Act ("KEPCO Act") the Accounting Regulations for Government Invested Enterprises, 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, the accompanying financial statements are intended for use by those who are informed about Korean accounting principles and practices, KEPCO Act and Accounting Regulations for Government Invested Enterprises. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company's financial position and results of operations, is not presented in the accompanying financial statements.

In 2003, the Company adopted Statements of Korea Accounting Standards ("SKAS") No 2, 3, 4, 5, 6, 7, 8 and 9, which are effective from January 1, 2003. Those statements provide accounting and reporting standards for the interim financial reporting, intangible assets, revenue recognition, tangible assets, events occurring after the balance sheet date, capitalization of financing costs, investment in securities and convertible securities. The prior year financial statements, which are presented for comparative purposes, were restated to conform to the provisions of those standards. As a result of the adoption of SKAS No. 6 - "Events Occurring After the Balance Sheet Date", shareholders' equity increased and current liabilities decreased by W511,350 million as of December 31, 2002.

The U.S. dollar amounts presented in these financial statements were computed by translating the Korean won into U.S. dollars based on the Bank of Korea Basic Rate of W1,197.80 to US \$1.00 at December 31, 2003, solely for the convenience of the reader. This convenience translation into U.S. dollars should not be construed as representations that the Korean won amounts have been, could have been, or could in the future be, converted at this or any other rate of exchange.

The significant accounting policies followed by the Company in the preparation

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of its non-consolidated financial statements are summarized below.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, except for assets revalued upward in accordance with the KEPCO Act and the Assets Revaluation Law of Korea, net of depreciations. Expenditures incurred after the acquisition of the property, plant and equipment that increases the future economic benefits beyond the property's most recently measured performance are capitalized as additions to property, plant and equipment.

The Company capitalizes interest and other borrowing costs on debt issued to finance capital expenditures as part of the acquisition cost of major facilities and equipment. For the years ended December 31, 2003 and 2002, the amount of capitalized interest was W127,367 million and W74,382 million, respectively, of which net foreign currency transactions and translation gains deducted from the capitalized interest amounted to W1,850 million for the year ended December 31, 2002.

The impact on the Company's financial position as of and for the year ended December 31, 2003, if the interest and other borrowing costs were expensed instead of being capitalized, are shown below (won in millions).

| | | Construction in-progress | | Total assets | | Interest expense | | Income bef Income tax e |
|-------------|---|-----------------------------|---|--------------|---|------------------|---|----------------------------|
| | | | | | | | | |
| Capitalized | W | 2,266,928 | W | 56,469,662 | W | 583,556 | W | 3 |
| Expensed | | 2,139,561 | | 56,342,295 | | 710,923 | | 2 |
| | | | | | | | | |
| | W | 127,367 | W | 127,367 | W | (127,367) | W | |
| | | | | | | | | |

Depreciation is computed using the declining-balance method (straight-line method for buildings and structures) based on the estimated useful lives described in the Korean Corporate Income Tax Law and as permitted under the Accounting Regulations for Government Invested Enterprises as follows:

| | Years |
|------------|-----------|
| | |
| Buildings | 8, 15, 30 |
| Structures | 8, 15, 30 |
| Machinery | 16 |
| Ships | 9 |
| Vehicles | 4 |
| Others | 4 |

The Company assesses any possible recognition of impairment loss when there is an indication that expected future economic benefits of a tangible asset is considerably less than its carrying amount as a result of technological obsolescence or rapid decline in market value. When it is determined that a tangible asset may have been impaired and that its estimated total future cash flows from continued use or disposal is less than its carrying amount, the carrying amount of a tangible asset is reduced to its recoverable amount and the difference is recognized as an impairment loss. If the recoverable amount of the impaired asset exceeds its carrying amount in subsequent reporting period, the amount equal to the excess is treated as reversal of the impairment loss; however, it cannot exceed the carrying amount that would have been determined had no impairment loss were recognized.

The Company records the following funds and materials, which relate to the construction of transmission and distribution facilities as construction grants:

- . Grants from the government or public institutions
- . Funds, construction materials or other items contributed by customers

Construction grants are initially recorded and presented in the accompanying 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. The Company received W611,862 million and W624,527 million of construction grants, and offset W123,862 million and W140,346 million against depreciation expense, and W50,349 million and W65,629 million against utility plant removal cost for the year ended December 31, 2003 and 2002, respectively.

Accounting for Leases

Lease agreements that include a bargain purchase option, result in the transfer of ownership by the end of the lease term, have a term equal to at least 75 percent of the estimated economic life of the leased property or where the present value of the minimum lease payments at the beginning of the lease term equals or exceeds 90 percent of the fair value of the leased property are accounted for as financial or capital leases. All other leases are accounted for as operating leases. Assets and liabilities related to financial leases are recorded as property and equipment and long term debt, respectively, and the related interest is calculated using the effective interest rate method. In respect to operating leases, the future minimum lease payments are expensed ratably over the lease term while contingent rentals are expensed as incurred.

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.

Valuation of Securities

Securities are recognized initially at cost determined using the weighted average method. The cost 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 face value and acquisition cost is amortized over the remaining term of the security using the effective interest method. Trading securities are valued at fair value, with unrealized gains and losses reflected in current operations. Available-for-sale securities are also valued at fair value, with unrealized gains and losses

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reflected in capital adjustments, until the securities are sold or if the securities are determined to be impaired and the lump-sum cumulative amount of capital adjustments are reflected in current operations. However, available-for-sale equity securities that are not traded in an active market and whose fair values cannot be reliably estimated are accounted for at their acquisition cost. For those securities that are traded in an active market, fair values refers to those quoted market prices, which are measured as the closing price at the balance sheet date. The fair value 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 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.

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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 security accounted for at acquisition cost, 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 operation, 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.

If the intent and ability to hold the securities change, transferred securities are accounted for at fair value. In case held-to-maturity securities are reclassified into available-for-sale securities, unrealized gain or loss between the book value and fair value is reported in shareholders' equity as a capital adjustment. In case the available for sale securities are reclassified into held-to maturity securities, the unrealized gain or loss at the date of the transfer continues to be reported in shareholder's equity as a capital adjustment, but it is amortized over the remaining term of the security using the effective interest method.

Investment Securities Using the Equity Method

Investments in equity securities of companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. The change in the Company's

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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 capital adjustment 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 capital adjustments.

Intangibles

Intangible assets are stated at cost, net of accumulated amortization computed using the straight-line method over the estimated useful lives, from 4 years to 20 years, of related assets.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on management's estimate of the collectibility of individual accounts and prior year collection experience.

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 or bonds with stock purchase warrants, the values of the conversion rights or stock warrants shall be recognized separately. Considerations for conversion rights or stock warrants shall be measured by deducting the present value of ordinary or straight debt securities from the gross proceeds of the convertible bonds or bonds with stock purchase warrants received at the date of issue.

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The value of the common shares issued pursuant to the exercise of the conversion rights shall be measured as the sum of the carrying amount, at the time of conversion, and the amount of consideration received for such rights, at the time of issuance, of those convertible bonds that are actually related to the exercise.

When the conversion rights are exercised during an accounting period, the value of common shares issued pursuant to the exercise shall be measured based on the carrying amount of the convertible bonds determined on the actual date such rights have been exercised.

Discount on Debentures

Discounts on debentures issued are amortized over the redemption period of debentures using the effective interest rate method. Amortization of discounts is recognized as interest expense.

Accrued Severance Indemnities

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with the Company, based on their length of service and rate of pay at the time of termination. The accrued severance indemnities that would be payable assuming all eligible

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employees were to resign are W316,503 million and W226,708 million as of December 31, 2003 and 2002, respectively. Actual severance payments were W8,355 million and W6,692 million for the years ended December 31, 2003 and 2002, respectively.

Before April 1999, the Company and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Company paid half of the employees' 6 percent portion and is paid back at the termination of service by offsetting the receivable against the severance payments. Such receivables, with a balance of W95 million and W99 million as of December 31, 2003 and 2002, respectively, are presented as a deduction from accrued severance benefits. Starting April 1999, the Company and its employees each pay 4.5 percent of monthly pay to the Fund under the revised National Pension Law of Korea.

Reserve for Self-Insurance

The Company provides a self-insurance reserve for liability to third parties that may arise in connection with the Company's non-insured facilities. Payments made to settle applicable claims are charged to this reserve.

Foreign Currency Transactions and Translation

The Company maintains its accounts in Korean won. Transactions in foreign currencies are recorded in Korean won based on the prevailing rates of exchange on the transaction date. Monetary assets and liabilities with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates prevailing at the balance sheet date. The balances have been translated using the Bank of Korea Basic Rate, which was W1,197.80 and W1,200.40 to US\$ 1.00 at December 31, 2003 and 2002, respectively. The translation gains or losses are reflected in current operations.

Accounting for Derivative Instruments

All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations. The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

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Revenue Recognition

The Company recognizes revenue from the sale of electric power based on meter readings made on a monthly basis. The Company does not accrue revenue for power sold after the meter readings but prior to the end of the accounting period. The Company recognizes revenue on long-term contracts, which are related to the construction of power plants in the Democratic Peoples Republic of Korea (North Korea), based on the percentage-of-completion method.

Income Tax Expense

The Company recognizes deferred income taxes arising from temporary differences between pretax accounting income and taxable income. Accordingly, the provision for income tax expense 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. However, deferred income tax assets are recognized only if the future tax benefits on accumulated temporary differences are realizable. The deferred income tax assets and liabilities will be charged or credited to income tax expense in the period each temporary difference reverses in the future. Deferred income taxes will be recalculated based on the actual tax rate in effect at each balance sheet date.

Ordinary Income Per Share and Earnings Per Share

Ordinary income per share and earnings per share are computed by dividing ordinary income (after deduction for tax effect) and net income by the weighted average number of common shares outstanding during the period. The number of shares used in computing earnings and ordinary income per share is 630,372,064 shares and 639,046,001 shares for the years ended December 31, 2003 and 2002, respectively.

3. PROPERTY, PLANT AND EQUIPMENT:

(1) Asset revaluation

The Company has revalued its property, plant and equipment in accordance with the KEPCO Act and the Asset Revaluation Law (the latest revaluation date was January 1, 1999). The gain from the asset revaluation was W12,552,973 million (See Note 9).

(2) Publicly announced land prices

The published price of the Company's land as announced by the Korean government is as follows (won in millions):

| Purpose | Area (Square meters) | Book value | |
|---|-------------------------|-------------|---|
| Transmission and distribution sites and other | 16,901,743 | W 3,327,851 | W |

(3) Changes in utility plant

Changes in cost of utility plant, accumulated depreciation and construction grants for the year ended December 31, 2003 are shown below (won in millions).

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| | [Cost] | | | | | |
|---------------|--------------|-------------|-------------|-------------|-----------|-----------|
| | December 31, | Increase | | Decrease | | December |
| | 2002 | Acquisition | Other | Disposal | Other | 2003 |
| Land | W 3,321,378 | W 457 | W 40,054 | W 34,038 | W - | W 3,327, |
| Buildings | 2,135,878 | 161 | 195,653 | 4,284 | 4,204 | 2,323, |
| Structures | 22,415,717 | 75 | 2,048,353 | - | 343,258 | 24,120, |
| Machinery | 6,266,774 | 3,962 | 988,597 | 200 | 122,513 | 7,136, |
| Vehicles | 55,333 | 9,025 | 347 | 4,348 | 1,346 | 59, |
| Ships | 266 | - | - | 14 | - | - |
| Others | 236,689 | 20,133 | 14,739 | 1,334 | 2,771 | 267, |
| Utility plant | 34,432,035 | 33,813 | 3,287,743 | 44,218 | 474,092 | 37,235, |
| Construction | | | | | | |
| in-progress | 1,986,138 | 3,590,641 | - | 3,257,619 | 52,232 | 2,266, |
| | W 36,418,173 | W 3,624,454 | W 3,287,743 | W 3,301,837 | W 526,324 | W 39,502, |

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| | [Accumulated depreciation] | | | | | |
|------------|----------------------------|--------------|-----------|-----------|---------|----------|
| | December 31, | Increase | | Decrease | | December |
| | 2002 | Depreciation | Other | Disposal | Other | 2003 |
| Buildings | W 344,789 | W 110,801 | W 11,612 | W 1,118 | W 746 | W 465, |
| Structures | 2,984,483 | 725,040 | 24,200 | 47,004 | - | 3,686, |
| Machinery | 2,371,808 | 684,739 | 72,913 | 73,432 | 116 | 3,055, |
| Vehicles | 45,307 | 6,668 | 22 | 1,337 | 4,347 | 46, |
| Ships | 196 | 19 | - | - | 10 | - |
| Others | 193,040 | 28,457 | 413 | 2,691 | 1,333 | 217, |
| | W 5,939,623 | W 1,555,724 | W 109,160 | W 125,582 | W 6,552 | W 7,472, |

| | [Construction grants] | | | | | |
|---------------------|-----------------------|-------------------------------|-------|-----------------------------------|---|---------------------------|
| | December 31, 2002 | Increase | | Decrease | | Offset agai removal co |
| | | Received from customers | Other | Offset against depreciation | | |
| Construction grants | W 2,321,138 | W 611,862 | W - | W 123,862 | W | 50,34 |

4. INTANGIBLES:

(1) Intangibles as of December 31, 2003 are shown below (won in millions).

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| | | Cost | | Accumulated amortization | | Impairment | | Book value |
|------------------|---|---------|---|-----------------------------|---|------------|---|------------|
| | | ----- | | ----- | | ----- | | ----- |
| Development cost | W | 158,399 | W | 51,565 | W | - | W | 106,834 |
| Others | | 127,817 | | 90,284 | | - | | 37,533 |
| | | ----- | | ----- | | ----- | | ----- |
| | W | 286,216 | W | 141,849 | W | - | W | 144,367 |
| | | ===== | | ===== | | ===== | | ===== |

(2) Changes in intangibles for the year ended December 31, 2003 are shown below (won in millions).

| | | December 31, 2002 | Increase | | Decrease | |
|------------------|---|----------------------|-------------|-------|--------------|--------|
| | | ----- | Acquisition | Other | Amortization | Other |
| | | ----- | ----- | ----- | ----- | ----- |
| Development cost | W | 63,659 | W | - | W | 21,956 |
| Others | | 31,215 | | 6,297 | | 12,184 |
| | | ----- | | ----- | | ----- |
| | W | 94,874 | W | 6,297 | W | 34,140 |
| | | ===== | | ===== | | ===== |

(3) Ordinary development expenses for the years ended December 31, 2003 and 2002 are as follows (won in millions):

| | | 2003 | 2002 | |
|-------------------------------|---|---------|-------|---------|
| | | ----- | ----- | |
| Ordinary development expenses | W | 131,545 | W | 106,730 |

5. INSURED ASSETS:

Insured assets as of December 31, 2003 are as follows (won in millions):

| Insured assets | Insurance type | Insured value |
|--------------------------|------------------------|---------------|
| ----- | ----- | ----- |
| Buildings and machinery | Fire insurance | W 386,458 |
| Buildings and machinery | Assemble insurance | 365,312 |
| Buildings | General insurance | 149,354 |
| Construction in progress | Construction insurance | 97,537 |

In addition, the Company carries damage insurance for its light water nuclear reactor construction in North Korea, general insurance for vehicles, loading insurance for inventories, general insurance for movables, insurance against cash theft, a casualty insurance for its employees and compensation liability insurance for its directors.

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6. INVESTMENT SECURITIES:

- (1) Investment securities as of December 31, 2003 and 2002 are as follows (won in millions):

| | 2003 | 2002 |
|-------------------------------------|---------------|---------------|
| | ----- | ----- |
| Other current assets | | |
| Held-to-maturity securities | W 5 | W - |
| | ----- | ----- |
| Investment securities | | |
| Available-for-sale-securities | 93,070 | 86,492 |
| Held-to-maturity securities | 35 | 55 |
| Securities subject to equity method | 23,772,264 | 22,152,731 |
| | ----- | ----- |
| | 23,865,369 | 22,239,278 |
| | ----- | ----- |
| | W 23,865,374 | W 22,239,278 |
| | ===== | ===== |

Held-to-maturity securities are government and municipal bonds.

- (2) Available-for-sale securities as of December 31, 2003 and 2002 are as follows (won in millions):

| | 2003 | | |
|--|------------------|---------------------|------------|
| Company name | Ownership (%) | Acquisition cost | Book value |
| ----- | ----- | ----- | ----- |
| Securities Market Stabilization Fund | 7.64 | W 7,763 | W 7,763 |
| Energy Savings Investment Cooperative | 40.6 | 5,000 | 5,000 |
| Korea Power Exchange | 50.0 | 62,606 | 62,606 |
| Hwan Young Steel Co., Ltd. | - | 1,364 | 120 |
| Investment securities in treasury stock fund | - | 26,295 | 17,581 |
| | | ----- | ----- |
| | | W 103,028 | W 93,070 |
| | | ===== | ===== |

The Company entered into a treasury stock fund, composed of treasury stock and other investment securities, and recorded other investment securities in available-for-sale securities. Losses on valuation of available for sale securities in the treasury stock fund, which are recorded in capital adjustments, amount to W8,714 million and W8,509 million as of December 31, 2003 and 2002, respectively.

Available-for-sales securities other than investment securities in treasury stock fund are non-marketable equity securities and stated at cost due to the lack of information to determine the fair value. But the Company recognized impairment loss of W1,244 million between the acquisition cost and the net asset value of Hwan Young Steel Co., Ltd.

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(3) Securities subject to the equity method as of December 31, 2003 and 2002 are as follows (won in millions):

| 2003 | | | | |
|---|---------------|------------------|-----------------|--------------|
| Company name | Ownership (%) | Acquisition cost | Net Asset Value | Book Value |
| Korea Hydro & Nuclear Power Co., Ltd. | 100.0 | W 9,364,799 | W 11,014,714 | W 11,014,714 |
| Korea South-East Power Co., Ltd. | 100.0 | 1,232,004 | 1,990,715 | 1,990,715 |
| Korea Midland Power Co., Ltd. | 100.0 | 1,325,891 | 2,080,695 | 2,080,695 |
| Korea Western Power Co., Ltd. | 100.0 | 1,442,638 | 1,988,052 | 1,988,052 |
| Korea Southern Power Co., Ltd. | 100.0 | 1,797,378 | 2,092,460 | 2,092,460 |
| Korea East-West Power Co., Ltd. | 100.0 | 2,322,905 | 2,424,164 | 2,424,164 |
| Korea Power Engineering Co., Ltd. | 97.9 | 4,991 | 195,624 | 195,624 |
| Korea Plant Service & Engineering Co., Ltd. | 100.0 | 6,000 | 267,041 | 267,041 |
| KEPCO Nuclear Fuel Co., Ltd. | 96.4 | 89,757 | 157,701 | 157,701 |
| Korea Electric Power Data Network Co., Ltd. | 100.0 | 64,000 | 129,724 | 129,724 |
| Korea Electric Power Industrial Development, Ltd. | 49.8 | 7,987 | 22,092 | 22,092 |

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| 2003 | | | | |
|--|---------------|------------------|-----------------|--------------|
| Company name | Ownership (%) | Acquisition cost | Net Asset Value | Book Value |
| Powercomm Corporation (*) | 43.1 | W 323,470 | W 363,687 | W 363,687 |
| Korea Gas Corporation | 24.5 | 94,500 | 740,280 | 740,280 |
| Korea District Heating Co. | 26.1 | 5,660 | 159,165 | 159,165 |
| KEPCO International Hong Kong Ltd. (*) | 100.0 | 15,102 | 173,629 | 173,629 |
| KEPCO International Philippines Inc. (*) | 100.0 | 104,832 | 126,052 | 126,052 |
| | | W 18,201,914 | W 23,925,795 | W 23,925,795 |
| | | ===== | ===== | ===== |

(*) The Company used draft financial statement of Powercomm Corporation, KEPCO International Hong Kong Ltd. and KEPCO International Philippines Inc. for equity method valuation.

If the difference between the cost of acquisition and the book value of the subsidiary is a positive goodwill, the difference is amortized using the straight-line method over five years from the year it was acquired, and if it is a negative goodwill, the difference related to the depreciable assets is amortized over the weighted average useful life of related assets from

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the year it was acquired and the difference related to the non-depreciable assets is amortized at the time assets are disposed of. As of December 31, 2003, there are no positive or negative goodwill.

The Company eliminates the unrealized gains arising from the transactions with affiliates in equity method valuation. The eliminated gain arising from the transaction with Korea Power Engineering Co., Ltd, KEPCO Nuclear Fuel Co., Ltd. and Korea Electric Power Data Network Co., Ltd. amounted to W 126,586 million, W12,603 million and W14,342 million, respectively, for the year ended December 31,2003 and W119,475 million, W15,562 million and W2,401 million, respectively, for the year ended December 31, 2002.

In 2003, the Company has disposed some of its investments in Korea Electric Power Industrial Development and Powercomm Corporation, with the gain on disposal of investments of W45,214 million and in 2002, the Company has disposed some of its investments in Powercomm Corporation, with the gain on disposal of investments of W433,335 million.

As KEPCO International Hong Kong Ltd. owns 100 percent of the shares of KEPCO Philippines Corporation ("KEPHILCO") and KEPCO International Philippines Inc. holds 51 percent of the shares of KEPCO Ilijan Corporation ("KEILCO"), the Company applied the equity method for KEPCO International Hong Kong Ltd. and KEPCO International Philippines Inc., reflecting the changes in the net equity of KEPHILCO and KEILCO. In 2003 and 2002, the Company acquired additional share of KEPCO International Philippines Inc. amounting to W1,223 million and W12,453 million, respectively.

- (4) Details of valuation using the equity method are as follows (won in millions):

| Company name | 2003 | | | | |
|--|--|--|-------------|--|---------------------------------------|
| | Book Value as of January 1, 2003 | Gain on valuation using the equity method of accounting | Others(*) | Book value as of December 31, 2003 | Book value as of Januar 1, 2002 |
| Korea Hydro & Nuclear Power Co., Ltd. | W 10,577,527 | W 652,182 | W (214,995) | W 11,014,714 | W 9,930,683 |
| Korea South-East Power Co., Ltd. | 1,679,117 | 345,669 | (34,071) | 1,990,715 | 1,398,275 |
| Korea Midland Power Co., Ltd. | 1,781,127 | 345,230 | (45,662) | 2,080,695 | 1,482,997 |
| Korea Western Power Co., Ltd. | 1,772,973 | 254,077 | (38,998) | 1,988,052 | 1,573,395 |
| Korea Southern Power Co., Ltd. | 1,953,743 | 182,849 | (44,132) | 2,092,460 | 1,813,187 |
| Korea East-West Power Co., Ltd. | 2,373,207 | 84,995 | (34,038) | 2,424,164 | 2,295,361 |
| Korea Power Engineering Co., Ltd. | 51,991 | 28,800 | (11,753) | 69,038 | 46,352 |

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| Company name | 2003 | | | | Book value as of December 31, 2002 |
|---|----------------------------------|---|-------------|------------------------------------|------------------------------------|
| | Book value as of January 1, 2003 | Gain on valuation using the equity method of accounting | Others (*) | Book value as of December 31, 2003 | |
| Korea Plant Service & Engineering Co., Ltd. | 238,947 | 37,094 | (9,000) | 267,041 | |
| KEPCO Nuclear Fuel Co., Ltd. | 134,538 | 12,487 | (1,927) | 145,098 | |
| Korea Electric Power Data Network Co., Ltd. | 118,075 | 1,807 | (4,500) | 115,382 | |
| Korea Electric Power Industrial Development, Ltd. | 40,730 | 3,114 | (21,752) | 22,092 | |
| Powercomm Corporation | 359,090 | 10,421 | (5,824) | 363,687 | |
| Korea Gas Corporation | 690,705 | 73,329 | (23,754) | 740,280 | |
| Korea District Heating Co. | 147,898 | 13,304 | (2,037) | 159,165 | |
| KEPCO International Hong Kong Ltd. | 124,808 | 56,817 | (7,996) | 173,629 | |
| KEPCO International Philippines Inc. | 108,255 | 21,343 | (3,546) | 126,052 | |
| | W 22,152,731 | W 2,123,518 | W (503,985) | W 23,772,264 | W 20,000,000 |

(*) Others are composed of acquisition (disposal) amounts of investment securities, dividends and the changes in investment securities in capital adjustments.

Gain on valuation of securities subject to equity method, which are recorded in capital adjustments amount to W 53,412 million and W 60,886 million as of December 31, 2003 and 2002, respectively.

7. LOANS TO EMPLOYEES:

The Company has provided housing and tuition loans to employees as follows (won in million):

| | 2003 | | 2002 | |
|------------------|------|---------|------|---------|
| Short-term loans | W | 9,267 | W | 8,450 |
| Long-term loans | | 142,368 | | 128,656 |
| | W | 151,635 | W | 137,106 |

8. INVENTORIES:

Inventories as of December 31, 2003 and 2002 consist of the following (won in millions):

| | 2003 | | 2002 | |
|---------------|------|--------|------|--------|
| Raw materials | W | 1,991 | W | 1,291 |
| Supplies | | 73,066 | | 57,169 |

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| | | |
|-------|--------|----------|
| Other | 3,739 | 6,757 |
| | ----- | ----- |
| W | 78,796 | W 65,217 |
| | ===== | ===== |

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9. SHAREHOLDERS' EQUITY:

(1) Capital

The Company has 1,200,000,000 authorized shares of W5,000 par value common stock, of which 640,748,573 shares are issued as of December 31, 2003. In 2003, the Company's capital was increased by W3,238 million (647,697 shares) in the form of fixed asset injection by the government of the Republic of Korea.

(2) Capital Surplus

Capital surplus as of December 31, 2003 and 2002 is as follows (won in millions):

| | | 2003 | | 2002 |
|--|---|------------|---|------------|
| | | ----- | | ----- |
| Paid-in capital in excess of par value | W | 811,301 | W | 799,876 |
| Reserves for asset revaluation | | 12,552,973 | | 12,552,973 |
| Other capital surplus | | 1,009,505 | | 958,730 |
| | | ----- | | ----- |
| | W | 14,373,779 | W | 14,311,579 |
| | | ===== | | ===== |

The Company revalued its property, plant and equipment in accordance with the KEPCO Act and the Asset Revaluation Law, and recorded a revaluation gain of W12,552,973 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.

(3) Retained earnings

Appropriated retained earnings as of December 31, 2003 and 2002 consist of the following (won in millions):

| | | 2003 | | 2002 |
|---|---|------------|---|------------|
| | | ----- | | ----- |
| Legal reserve | W | 1,600,252 | W | 1,600,252 |
| Reserve for business rationalization | | 31,900 | | 31,900 |
| Reserve for business expansion | | 10,925,338 | | 8,556,873 |
| Reserve for investment on social overhead capital | | 5,012,449 | | 4,892,449 |
| Reserve for research and human development | | 120,000 | | 60,000 |
| Voluntary reserve | | 210,000 | | 210,000 |
| | | ----- | | ----- |
| | W | 17,899,939 | W | 15,351,474 |
| | | ===== | | ===== |

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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 or offset against accumulated deficit by the resolution of the shareholders.

Prior to 1990, according to the KEPCO Act, at least 20 percent of net income in each fiscal year was required to be established as a reserve for business expansion until such reserve equals the common stock. Beginning in 1990, no percentage was specified in respect to this reserve and appropriations became optional.

The reserves for the investment on social overhead capital and research and human development are appropriated by the Company to avail of qualified tax credits to reduce corporate tax liabilities. This reserve is not available for cash dividends for a certain period as defined in the Tax Incentive Control Law. As of December 31, 2003, the amounts of reserves for the investment on social overhead capital and research and human development allowable under the Tax Incentive Control Law are W807,610 million and W175,885 million, respectively.

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(1) Capital adjustments

Capital adjustments as of December 31, 2003 and 2002 are as follows (won in millions):

| | 2003 | 2002 |
|--|-------------|------------|
| | ----- | ----- |
| Treasury stock | W (195,379) | W (16,670) |
| Valuation using the equity method | 53,412 | 60,886 |
| Investment securities in treasury stock fund | (8,714) | (8,509) |
| | ----- | ----- |
| | W (150,681) | W 35,707 |
| | ===== | ===== |

The Company has shares held as treasury stock amounting to W195,379 million (10,713,050 shares) and W 16,669 million (913,375 shares) as of December 31, 2003 and 2002, respectively, for the purpose of stock price stabilization.

10. DIVIDENDS:

Dividends as of December 31, 2003 and 2002 are as follows (won in millions, except per share data):

(1) Earnings available for dividend

| | 2003 | 2002 |
|--|-------|-------|
| | ----- | ----- |

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| | | | | |
|---|---|-------------|---|-------------|
| Retained earnings before appropriation | W | 2,315,938 | W | 3,059,815 |
| Transfer from the voluntary reserve | | - | | - |
| Appropriation of the legal reserve and others | | (1,654,401) | | (2,548,465) |
| Other appropriation of retained earnings | | - | | - |
| | | ----- | | ----- |
| Earnings available for dividends | W | 661,537 | W | 511,350 |
| | | ===== | | ===== |

(2) Dividend

| | Outstanding stocks | Dividend rate | Dividend per share | Total dividend |
|---|-----------------------|------------------|-----------------------|----------------|
| | ----- | ----- | ----- | ----- |
| 2003: | | | | |
| Outstanding stocks other than treasury stock | 630,035,523 | 21% | W 1,050 | W 661,537 |
| Treasury stock | 10,713,050 | - | - | - |
| | ----- | | | ----- |
| | 640,748,573 | | | W 661,537 |
| | ===== | | | ===== |
| 2002: | | | | |
| Outstanding stocks other than treasury stock | 639,187,501 | 16% | W 800 | W 511,350 |
| Treasury stock | 913,375 | - | - | - |
| | ----- | | | ----- |
| | 640,100,876 | | | W 511,350 |
| | ===== | | | ===== |

(3) Dividend to net income ratio (won in millions)

| | 2003 | 2002 |
|------------------------------|-------------|-------------|
| | ----- | ----- |
| Dividend | W 661,537 | W 511,350 |
| | ----- | ----- |
| Net income | W 2,315,938 | W 3,059,815 |
| | ----- | ----- |
| Dividend to net income ratio | 28.56% | 16.71% |
| | ===== | ===== |

(4) Dividend yield ratio

| | 2003 | 2002 |
|--------------------------------|----------|----------|
| | ----- | ----- |
| Dividend per share | W 1,050 | W 800 |
| | ----- | ----- |
| Stock price at the end of year | W 21,400 | W 18,250 |
| | ----- | ----- |
| Dividend yield ratio | 4.91% | 4.38% |

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11. BORROWINGS AND DEBENTURES:

(1) Short-term borrowings as of December 31, 2003 and 2002 are as follows (won in millions):

| Financial institution | Type | Annual interest rate (%) | 2003 | 2002 |
|--|-----------|--------------------------|----------|------|
| National Agricultural Cooperative Federation | Overdraft | floating | W 16,245 | W - |

(2) Long-term borrowings as of December 31, 2003 and 2002 are as follows (won in millions):

(a) Long-term borrowings denominated in Korean Won

| Financial institution | Type | Annual interest rate (%) | 2003 |
|------------------------|---------------------|--------------------------|-------------|
| Korea Development Bank | Industrial facility | 4.50~9.00 | W 3,505,628 |
| Kookmin Bank | General | 6.07~6.16 | - |
| Others | " | 5.50~6.00 | 35 |
| | | | 3,505,663 |
| Less: Current portion | | | (715,775) |
| | | | W 2,789,888 |

(b) Long-term borrowings denominated in foreign currency

| Financial institution | Type | Annual interest rate (%) | 2003 |
|--|------------|--------------------------|-----------|
| Barclays International Financial Services (Ireland) Ltd. | Commercial | 6M Libor-1.00 | 187,851 |
| Kredit Anstalt Fur Wieder Aufbau | Public | 6.00 | - |
| Asia Development Bank | " | 6.00 | - |
| | | | 187,851 |
| Less: Current portion | | | (187,851) |
| | | | W - |

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- (3) Debentures as of December 31, 2003 and 2002 are as follows (won in millions):

| Description | Annual interest rate (%) | 2003 | 2002 |
|---|-----------------------------|-------------|-------------|
| ----- | ----- | ----- | ----- |
| Domestic debentures (Electricity bonds) | 4.79~11.30 | W 4,235,000 | W 2,755,000 |
| Foreign debentures(*) | 1.18~8.28 | 5,530,157 | 6,637,477 |
| | | ----- | ----- |
| | | 9,765,157 | 9,392,477 |
| Less: Current portion | | (3,122,750) | (1,635,364) |
| Discount on debentures issued | | (46,055) | (19,834) |
| | | ----- | ----- |
| | | W 6,596,352 | W 7,737,279 |
| | | ===== | ===== |

(*) In 2003, the Company has sold to KEPCO Cayman Company Limited the foreign debentures of US\$ 250,000,000 and the right to exchange it into the shares of Powercomm Corporation held by the Company. Based on these assets, KEPCO Cayman Company Limited issued foreign debentures of US\$ 250,000,000, the details of which are as follows:

- Maturity date: November 26, 2008
- Qualifying Public Offering (QPO): QPO is the first listing on the Korea Stock Exchange, New York Stock Exchange or National Association of Securities Dealers Automated Quotations (NASDAQ) meeting certain requirements. It is not required that Powercomm Corporation must perform QPO prior to the maturity of the debentures, neither the Company guarantees the QPO of Powercomm Corporation.
- Shares to be exchanged: Powercomm Corporations shares or Deposit Receipt (DR)
- Exchange period: From 10/th/ day after the listing of Powercomm Corporation to 10/th/ day before its maturity

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- Exchange price: 120 % of lower amount of market price on 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 listing, 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).

The Company has provided the payment guarantees to KEPCO Cayman Company Limited for the principal and interest of the above foreign debentures.

- (4) Exchangeable bonds

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| Description | interest rate (%) | 2003 | 2002 |
|------------------------------------|-------------------|----------|-------|
| Overseas exchangeable bonds | 0.00 | 277,256 | - |
| Plus: Premium on debentures issued | | 20,987 | - |
| Less: Conversion right adjustment | | (43,818) | - |
| | | 254,425 | - |
| | | ===== | ===== |

On November 4, 2003, the Company has issued overseas exchangeable bonds of JPY 28,245,468,400 with the premium value. The details of the bonds are as follows:

- Maturity date: November 4, 2008
- Amount to be paid at maturity: JPY 25,935,061,000
- Exchange period: From December 15, 2003 to 10/th/ day prior to its maturity
- Shares to be exchanged: Common stock held by the Company or its equivalent Deposit Receipt (DR).
- Exchange price: W30,000 per share
- Put option: Bond holders have the put option that they can request redemption at JPY 26,834,000,000 on November 6, 2006.

(5) Foreign currency debts, by currency, as of December 31, 2003 and 2002 are as follows (won in millions):

| | 2003 | | | | 2002 | | | |
|----------------------|--------------------|-----------------|----------------|-----------|--------------------|-----------------|----------------|-------|
| | Foreign currencies | | Won equivalent | | Foreign currencies | | Won equivalent | |
| Long-term borrowings | US\$ | 150,000,000 | W | 187,851 | US\$ | 301,179,115 | W | |
| | | | | - | EUR | 143,104 | | |
| | | | | 187,851 | | | | |
| Debentures | US\$ | 2,902,030,395 | | 3,480,249 | US\$ | 3,980,542,219 | | 4 |
| | JPY | 175,060,000,000 | | 1,959,972 | JPY | 175,060,000,000 | | 1 |
| | EUR | 25,183,000 | | 37,839 | EUR | 25,183,000 | | |
| | GBP | 24,467,000 | | 52,097 | GBP | 24,467,000 | | |
| | | | | 5,530,157 | | | | 6 |
| Exchangeable bonds | JPY | 25,935,061,000 | | 277,256 | | | | |
| | | | W | 5,995,264 | | | W | 7 |
| | | | | ===== | | | | ===== |

(6) Aggregate maturities of the Company's long-term debt as of December 31, 2003 are as follows (won in millions):

| Year ended December 31 | Local currency borrowings | Foreign currency borrowings | Electricity bonds | Foreign debentures | Ex |
|---------------------------|---------------------------------|-----------------------------------|----------------------|-----------------------|----|
|---------------------------|---------------------------------|-----------------------------------|----------------------|-----------------------|----|

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| | | | | | | | | | |
|------------|---|-----------|---|---------|---|-----------|---|-----------|---|
| 2004 | W | 715,775 | W | 187,851 | W | 2,120,000 | W | 1,002,750 | W |
| 2005 | | 819,744 | | - | | 240,000 | | 1,277,043 | |
| 2006 | | 1,020,571 | | - | | 690,000 | | 348,656 | |
| 2007 | | 576,769 | | - | | 185,000 | | 1,242,099 | |
| 2008 | | 356,918 | | - | | 880,000 | | 328,287 | |
| Thereafter | | 15,886 | | - | | 120,000 | | 1,331,322 | |
| | W | 3,505,663 | W | 187,851 | W | 4,235,000 | W | 5,530,157 | W |

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12. LEASES:

- (1) The Company entered into a financial lease agreement with Korea Development Leasing Corporation for certain computer systems, of which the acquisition cost is W33,870 million as of December 31, 2003 and 2002, respectively. Depreciation of the leased assets amounted to W822 million and W10,235 million for the years ended December 31, 2003 and 2002, respectively.
- (2) Annual payments under these lease agreements as of December 31, 2003 are as follows (won in millions):

| Year ending December 31 | Amount | |
|-------------------------|-----------------|-----------------|
| | Financial lease | Operating lease |
| 2004 | W 4,414 | W 1,685 |
| 2005 | 375 | - |
| | 4,789 | 1,685 |
| Less: Interest | (141) | - |
| Current portion | (4,276) | - |
| | W 372 | W 1,685 |

13. FOREIGN CURRENCY DENOMINATED ASSETS:

There are no significant liabilities denominated in foreign currency other than those mentioned in Note 11 and significant assets denominated in foreign currencies as of December 31, 2003 and 2002 are as follows (won in millions):

| Account | 2003 | | | 2002 |
|---------------------------|--------------------|-----------------------|--------------------|------|
| | Foreign currencies | Equivalent Korean Won | Foreign currencies | |
| Cash and cash equivalents | US\$ 4,578,195 | W 5,484 | US\$ 16,395,438 | |

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| | | | | | | |
|---------------------------|------|-----------|--|-------|--------|-----------|
| Trade receivables | US\$ | 4,959,424 | | 5,940 | US\$ | 3,497,537 |
| Other account receivables | US\$ | 607,162 | | 727 | US\$ | 644,263 |
| Other non-current assets | US\$ | 11,560 | | 14 | US\$ | 11,560 |
| " | JPY | 5,859,783 | | 66 | JPY | 5,859,783 |
| | | | | ----- | | |
| | | | | W | 12,231 | |
| | | | | ===== | | |

14. SWAP TRANSACTIONS:

The Company entered into various swap contracts to hedge the fluctuation risk of exchange rate and interest rate of foreign currency debts.

- (1) Currency swap contracts as of December 31, 2003 are as follows (foreign currency in millions):

| | Contract year | Settlement year | Contract amounts in millions | | | | Contract Pay |
|--|------------------|--------------------|------------------------------|-------|---------|--------|-----------------|
| | | | Pay | | Receive | | |
| The Sumitomo Bank Ltd. | 1995 | 2005 | US\$ | 286 | JPY | 27,000 | 7.6 |
| Mizuho Co., Ltd. (former The Fuji Bank, Ltd.) | 1995 | 2005 | US\$ | 149 | JPY | 14,500 | 6M Lib 0.1 |
| Canadian Imperial Bank of Commerce | 1996 | 2006 | US\$ | 97 | JPY | 10,000 | Libor |
| J.P. Morgan Chase Bank | 1996 | 2006 | US\$ | 200 | JPY | 21,000 | Libor |
| Deutsche Bank (former Bankers Trust Co.) | 1998 | 2004 | JPY | 1,705 | | | 6. |
| | | | EUR | 13 | | | |
| | | | CHF | 20 | | | |
| | | | CAD | 20 | US\$ | 55 | |
| Deutsche Bank (former Bankers Trust Co.) | 1998 | 2004 | JPY | 2,945 | | | 6. |
| | | | EUR | 22 | | | |
| | | | CHF | 35 | | | |
| | | | CAD | 34 | US\$ | 95 | |

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| | Contract year | Settlement year | Contract amounts in millions | | | | Contract Pay |
|---|------------------|--------------------|------------------------------|---------|---------|-----|-----------------|
| | | | Pay | | Receive | | |
| J.P. Morgan Chase Bank & Deutsche Bank (*) | 2002 | 2007 | JPY | 76,700 | US\$ | 650 | 1.1 |
| Barclays Bank PLC, London | 2002 | 2007 | JPY | 30,400 | US\$ | 250 | 1.0 |
| Deutsche Bank (**) | 2003 | 2013 | KRW | 178,350 | US\$ | 150 | CD+3 |
| Union Bank of Switzerland (**) | 2003 | 2013 | KRW | 148,625 | US\$ | 125 | CD+3 |
| Credit Swiss First Boston (**) | 2003 | 2013 | KRW | 89,175 | US\$ | 125 | CD+3 |

(*) If the Republic of Korea declares default on its debts, KEPCO is to receive Korean government bonds instead of cash. Valuation for these embedded

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derivatives is reflected in the valuation of the currency swap.

(**) The Company has purchased call option in addition to these swaps, under which the Company can exchange each KRW 5,945,000,000 into the amounts of KRW 5,000,000 multiplied by Spot FX (US\$/KRW) until December 22, 2004, and the valuation for this call option is considered in the valuation of the swaps.

(2) Interest rate swap contracts as of December 31, 2003 are as follows:

| | Notional amount | | Contract interest rate p | |
|------------------------------|-----------------|---------|---------------------------|--------|
| | in millions | | Pay (%) | Recei |
| J.P. Morgan Chase Bank | US\$ | 149 | 6.91 | Libo |
| Korea Development Bank | US\$ | 97 | 6.10 | Lib |
| Barclays Bank PLC, London | US\$ | 150 | 6M Libor-1 | Lib |
| Shinhan Bank | US\$ | 100 | 6.50 | |
| Deutsche Bank | US\$ | 55 | 6.93 | |
| (formerly Bankers Trust Co.) | JPY | 1,705 | | |
| | EUR | 13 | | |
| | CHF | 20 | | |
| | CAD | 20 | | |
| Deutsche Bank | US\$ | 95 | 6.87 | |
| (formerly Bankers Trust Co.) | JPY | 2,945 | | |
| | EUR | 22 | | |
| | CHF | 35 | | |
| | CAD | 34 | | |
| Deutsche Bank | US\$ | 100 | Max(6,074-Libor, | Max(Li |
| (formerly Bankers Trust Co.) | | | 0) | |
| Deutsche Bank | US\$ | 100 | Max(Libor-6.074,0) | Max(6. |
| (formerly Bankers Trust Co.) | | | | |
| Deutsche Bank | KRW | 178,350 | 5%+2X[JPY/ KRW-11.03%] | C |
| Union Bank of Switzerland | KRW | 148,625 | 5%+2X[JPY/ KRW-11.03%] | C |
| Credit Swiss First Boston | KRW | 89,175 | 5%+2X[JPY/ KRW-11.03%] | C |

(3) The gains and losses on swap transactions for the years ended December 31, 2003 and 2002 are as follows (won in millions):

| | Other income (expense) | | | |
|--------------------|------------------------|-----------|------|----------|
| | 2003 | | 2002 | |
| Currency swap | | | | |
| Gains | W | 74,689 | W | 118,168 |
| Losses | | (121,984) | | (35,890) |
| Interest rate swap | | | | |
| Gains | | 13,975 | | 5,843 |
| Losses | | (26,369) | | (24,963) |
| | W | (59,689) | W | 63,158 |

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15. POWER GENERATION, TRANSMISSION AND DISTRIBUTION EXPENSES:

Power generation, transmission and distribution expenses for the years ended December 31, 2003 and 2002 are as follows (won in millions):

| | 2003 | 2002 |
|----------------------------------|-------------|-------------|
| | ----- | ----- |
| Fuel | 13,112 | 9,836 |
| Labor | 564,936 | 508,430 |
| Employee benefits | 61,140 | 52,137 |
| Taxes and dues | 16,199 | 15,708 |
| Rent | 21,258 | 20,010 |
| Depreciation | 1,546,209 | 1,437,953 |
| Maintenance | 775,661 | 778,500 |
| Commission and consultation fees | 80,318 | 52,834 |
| Compensation expense | 42,665 | 63,532 |
| Ordinary development expenses | 115,053 | 93,943 |
| Utility plant removal cost | 243,177 | 255,942 |
| Others | 80,785 | 76,216 |
| | ----- | ----- |
| | W 3,560,513 | W 3,365,041 |
| | ===== | ===== |

16. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the years ended December 31, 2003 and 2002 are as follows (won in millions):

| | 2003 | 2002 |
|----------------------------------|-----------|-----------|
| | ----- | ----- |
| Labor | W 357,918 | W 333,016 |
| Employee benefits | 42,150 | 37,286 |
| Taxes and dues | 16,580 | 15,677 |
| Rent | 13,996 | 16,207 |
| Depreciation | 33,457 | 48,004 |
| Maintenance | 25,517 | 14,924 |
| Commission and consultation fees | 73,255 | 78,470 |
| Ordinary development expenses | 16,492 | 12,788 |
| Collection expense | 280,051 | 253,040 |
| Promotion | 19,276 | 18,881 |
| Bad debts | 13,658 | 14,380 |
| Communication | 25,860 | 27,788 |
| Insurance | 12,296 | 11,701 |
| Rewards | 6,807 | 4,296 |
| Others | 54,802 | 53,559 |
| | ----- | ----- |
| | W 992,115 | W 940,017 |
| | ===== | ===== |

17. INCOME TAX EXPENSE:

(1) Income tax expense for the years ended December 31, 2003 and 2002 is as

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follows (won in millions):

| | 2003 | 2002 |
|----------------------------------|-----------|-------------|
| | ----- | ----- |
| Income tax currently payable | W 577,751 | W 928,844 |
| Changes in deferred income taxes | 205,870 | 339,634 |
| | ----- | ----- |
| Income tax expense | W 783,621 | W 1,268,478 |
| | ===== | ===== |

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- (2) Deferred income tax liabilities as of December 31, 2003 and 2002 are as follows (won in millions).

| Year | Accumulated temporary differences | Tax rate (%) | Deferred income tax liabilities |
|------|--------------------------------------|--------------|------------------------------------|
| ---- | ----- | ----- | ----- |
| 2002 | W (4,559,354) | 29.7, 27.5% | W (1,462,016) |
| 2001 | W (4,559,354) | 29.7 | W (1,354,128) |

Accumulated temporary differences and deferred income tax liabilities as of December 31, 2002 were adjusted by W 329,904 million and W 97,982 million, respectively, according to the 2002 actual tax return and regular tax investigation by National Tax Service in 2003.

Effectively January 1, 2005, the statutory tax rate including residual surcharge will be changed from 29.7 percent to 27.5 percent. Enacted future tax rate of 27.5 percent was applied to calculate the deferred income tax liabilities of which the tax effect will be realized after 2005.

18. RELATED PARTY TRANSACTIONS:

- (1) Transactions with related parties for the years ended December 31, 2003 and 2002 are as follows (won in millions):

| Related party | Transaction | 2003 |
|---------------------------------------|------------------------------------|----------|
| ----- | ----- | ----- |
| Sales and other income: | | |
| Korea Hydro & Nuclear Power Co., Ltd. | Sales of electricity and others | W 92, |
| Korea South-East Power Co., Ltd. | " | 49, |
| Korea Midland Power Co., Ltd. | " | 26, |
| Korea Western Power Co., Ltd. | " | 34, |
| Korea Southern Power Co., Ltd. | " | 18, |
| Korea East-West Power Co., Ltd. | " | 35, |
| Others | " | 86, |
| | | ----- |
| | | W 343, |
| | | ===== |
| Purchases and others: | | |
| Korea Hydro & Nuclear Power Co., Ltd. | Purchase of electricity and others | W 5,065, |
| Korea South-East Power Co., Ltd. | " | 1,454, |
| Korea Midland Power Co., Ltd. | " | 1,781, |

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| | | |
|---|---|-----------|
| Korea Western Power Co., Ltd. | " | 2,122, |
| Korea Southern Power Co., Ltd. | " | 2,048, |
| Korea East-West Power Co., Ltd. | " | 1,867, |
| Korea Power Engineering Co., Inc. | Designing of the power plant and others | 40, |
| Korea Plant Service & Engineering Co., Ltd. | Utility plant maintenance | 40, |
| Korea Electric Power Data Network Co., Ltd. | Maintenance of computer system | 203, |
| Others | Commissions for service and others | 168, |
| Total | | W 14,792, |

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- (2) Receivables arising from related parties transactions as of December 31, 2003 and 2002 are as follows (won in millions):

| Related party | 2003 | | |
|---------------------------------------|-------------------|-------------------------------------|----------|
| | Trade receivables | Other account receivables and other | Total |
| Korea Hydro & Nuclear Power Co., Ltd. | W - | W 319 | W 319 |
| Korea South-East Power Co., Ltd. | 1,778 | 367 | 2,145 |
| Korea Midland Power Co., Ltd. | 1,107 | 2,232 | 3,339 |
| Korea Western Power Co., Ltd. | 1,940 | 248 | 2,188 |
| Korea Southern Power Co., Ltd. | 1,157 | 360 | 1,517 |
| Korea East-West Power Co., Ltd. | 1,978 | 213 | 2,191 |
| Others | 1,990 | 9,607 | 11,597 |
| Total | W 9,950 | W 13,346 | W 23,296 |

- (3) Payables arising from related parties transactions as of December 31, 2003 and 2002 are as follows (won in millions):

| Related party | 2003 | | |
|---|----------------|----------------------------------|-----------|
| | Trade payables | Other accounts payable and other | Total |
| Korea Hydro & Nuclear Power Co., Ltd. | W 379,121 | W 1,954 | W 381,075 |
| Korea South-East Power Co., Ltd. | 117,954 | 4,411 | 122,365 |
| Korea Midland Power Co., Ltd. | 145,548 | 9,387 | 154,935 |
| Korea Western Power Co., Ltd. | 167,876 | 140 | 168,016 |
| Korea Southern Power Co., Ltd. | 179,803 | 93 | 179,896 |
| Korea East-West Power Co., Ltd. | 142,776 | 223 | 143,000 |
| Korea Power Engineering Co., Inc. | - | 5,909 | 5,909 |
| Korea Plant Service & Engineering Co., Ltd. | - | 5,509 | 5,509 |
| Korea Electric Power Data Network Co., Ltd. | - | 56,334 | 56,334 |
| Others | 4,363 | 19,619 | 23,982 |

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| | | | |
|-------|-------------------------------|-----------------------------|-------------------------------|
| Total | ----- W 1,137,441 ===== | ----- W 103,579 ===== | ----- W 1,240,020 ===== |
|-------|-------------------------------|-----------------------------|-------------------------------|

19. CONTINGENT LIABILITIES:

- (1) The Company is engaged in 226 lawsuits as a defendant and 36 lawsuits as a plaintiff. The total amount claimed from the Company is W88,666 million and the total amount claimed by the Company is W13,636 million as of December 31, 2003. The outcome of these lawsuits cannot presently be determined.
- (2) The Company has provided debt repayment guarantees for its related parties in connection with the related parties' borrowings as of December 31, 2003 as follows:

| Loan type | Guaranteed company | Financial institutions | |
|---------------|--------------------------------------|------------------------|------------------------|
| ----- | ----- | ----- | ----- |
| Foreign | KEPCO International Hong Kong Ltd. | Nippon Life Insurance | US\$ |
| currency loan | " | Norinchukin Bank | |
| | " | Korea Development Bank | |
| | KEPCO International Philippines Inc. | Korea Development Bank | |
| | | | ----- US\$ ===== |

- (3) KEPCO Ilijan Corporation, which is the subsidiary of KEPCO International Philippines Inc., is engaged in the power generation business in the Philippines and borrowed US\$ 393,458,586 as project financing from Japan Bank of International Cooperation and others for that business. The Company has provided Japan Bank of International Cooperation and others with the guarantees for performance of the power generation business of KEPCO Ilijan Corporation as well as with the partial guarantees for the repayment of that borrowing.

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- (4) The Company's debts of W17,646,157 million, including borrowings of W13,825,884 million, were transferred to the power generation subsidiaries at the time of spin-off. The Company has the collective responsibility together with the subsidiaries to repay those debts, which were transferred and outstanding, under the Commercial Code of the Republic of Korea. The balance of debts subject to those collective responsibilities as of December 31, 2003 is W4,652,007 million. (including the Company's borrowings of W1,203,052 million).
- (5) Korea Development Bank has provided the repayment guarantees of US\$151,263,250 for the Company's commercial borrowings. In addition, Korea Development Bank has also provided the repayment guarantee for some of foreign currency debentures of the Company, which existed at the time of spin-off, but not redeemed as of December 31, 2003, instead of the collective responsibilities of the power generation subsidiaries to facilitate the Restructuring Plan. Guarantee amounts by currency are as follows.

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| | USD ----- | JPY ----- | EUR ----- | GBP ----- |
|--|---------------|----------------|--------------|--------------|
| Guaranteed amounts (including interest) | 2,234,611,791 | 44,126,200,000 | 26,634,989 | 32,785,780 |

- (6) Five banks including the National Agricultural Cooperative Federation has provided the Company a credit (overdraft) line amounting to W245,000 million as of December 31, 2003.
- (7) The Company entered into a turnkey contract 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. The contract amount is US\$ 4,182 million and subject to adjustment to cover any changes in the price level. As of December 31, 2003, the construction projects are temporarily suspended due to the political environments surrounding the Korean peninsula.
- (8) The Company entered into the Power Purchase Agreement with LG Energy Co., Ltd. and other independent power producers for power purchases in accordance with the Electricity Business Act and power purchased from those companies amounted to W1,055,081 million and W 1,140,810 million for the years ended December 31, 2003 and 2002, respectively.

20. STATEMENTS OF CASH FLOWS:

Cash flows from operating activities were presented using the indirect method. Transactions not involving cash flows for the years ended December 31, 2003 and 2002 are as follows (won in millions):

| | 2003 ----- | 2002 ----- |
|---|---------------|---------------|
| Reclassification of long term loans to short-term loans | 9,272 | 8,618 |
| Reclassification of construction in-progress to utility plant | 3,257,619 | 4,100,723 |
| Reclassification of current portion of debentures | 3,122,750 | 1,632,145 |
| Reclassification of current portion of long term debt | 906,341 | 811,349 |

21. FINANCIAL INFORMATION FOR THE 4/TH/ QUARTER:

Major financial information for the 4/th/ quarter of 2003 and 2002 are as follows (won in millions except earnings per share amounts):

| | 2003 ----- | 2002 ----- |
|--------------------|---------------|---------------|
| Sales | W 5,571,580 | W 5,334,597 |
| Net income | 26,882 | 459,262 |
| Earnings Per Share | 43 | 719 |

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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.

KOREA ELECTRIC POWER CORPORATION

By: /s/ Lee, Do-Shik

Name: Lee, Do-Shik

Title: Head of Treasury Department

Date: March 23, 2004