

KOREA ELECTRIC POWER CORP
Form 6-K
April 27, 2006

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 2006

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

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

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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

December 31, 2005 and 2004

(With Independent Auditors' Report Thereon)

Independent Auditors Report

Based on a report originally issued in Korean

The Board of Directors and Stockholders

Korea Electric Power Corporation:

We have audited the accompanying non-consolidated balance sheets of Korea Electric Power Corporation (the Company) as of December 31, 2005 and 2004, and the related non-consolidated statements of income, appropriation of retained earnings and cash flows for the years then ended. 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 conducted our audits 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 about 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Korea Electric Power Corporation as of December 31, 2005 and 2004, and the results of its operations, the appropriation of 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 accounting principles generally accepted in the Republic of Korea.

The accompanying non-consolidated financial statements as of and for the years ended December 31, 2005 and 2004 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the non-consolidated financial statements expressed in Korean Won have been translated into dollars on the basis set forth in note 2 to the financial statements.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 1(b) to the non-consolidated financial statements, accounting principles and auditing 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 and cash flows 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 financial statements are for use by those knowledgeable about Korean accounting principles, the Korea Electric Power Corporation Act, the Accounting Regulations for Government Invested Enterprises, and Korean accounting procedures and auditing standards and their application in practice.

As discussed in notes 1(e) and 1(u) to the non-consolidated financial statements, effective January 1, 2005, the Company adopted Statement of Korea Accounting Standards (SKAS) No. 15 *Investments in Associates* and No. 16 *Income Taxes*. As allowed by these standards, prior year balances were not reclassified to conform with the current year presentation.

As discussed in note 27 to the non-consolidated financial statements, the Company had sales and purchases with related parties, including the six power generation subsidiaries for the year ended December 31, 2005 and related receivables and payables as of December 31, 2005. Also, as of December 31, 2005, the Company has short-term borrowings and long-term borrowings (including current portion) from Korea Development Bank (KDB). The Company is providing debt guarantees to its foreign subsidiaries. In addition, KDB, one of the Company's major shareholders, is providing guarantees for some of the Company's foreign currency debt.

Seoul, Korea

January 27, 2006

This report is effective as of January 27, 2006, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

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Korea Electric Power Corporation

Non-consolidated Balance Sheets

December 31, 2005 and 2004

(In millions of Korean Won and in thousands of U.S. dollars)

| Assets | Won | | U.S. dollars (note 2) | |
|---|------------------|-------------|-----------------------|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| Property, plant and equipment (notes 3 and 5): | (Won) 43,163,840 | 40,125,462 | \$ 42,609,911 | 39,610,525 |
| Less: accumulated depreciation | (10,854,375) | (9,107,944) | (10,715,078) | (8,991,060) |
| Less: construction grants | (3,640,966) | (3,182,366) | (3,594,242) | (3,141,527) |
| | 28,668,499 | 27,835,152 | 28,300,591 | 27,477,938 |
| Construction in-progress | 2,118,540 | 2,110,396 | 2,091,353 | 2,083,313 |
| | 30,787,039 | 29,945,548 | 30,391,944 | 29,561,251 |
| Investments and other assets: | | | | |
| Investment securities (note 6) | 26,797,485 | 25,462,887 | 26,453,588 | 25,136,118 |
| Long-term loans (note 7) | 180,084 | 163,525 | 177,773 | 161,427 |
| Currency and interest rate swaps (note 22) | 549,668 | 312,611 | 542,614 | 308,599 |
| Intangible assets (note 4) | 235,040 | 233,016 | 232,023 | 230,026 |
| Other non-current assets (notes 8 and 19) | 151,854 | 148,158 | 149,906 | 146,256 |
| | 27,914,131 | 26,320,197 | 27,555,904 | 25,982,426 |
| Current assets: | | | | |
| Cash and cash equivalents (notes 9 and 19) | 208,513 | 445,863 | 205,837 | 440,141 |
| Trade receivables, less allowance for doubtful accounts of (Won)44,330 in 2005 and (Won)33,810 in 2004 (note 27) | 2,041,366 | 1,576,542 | 2,015,169 | 1,556,310 |
| Other accounts receivable, less allowance for doubtful accounts of (Won)5,232 in 2005 and (Won)19,944 in 2004 and present value discount of nil in 2005 and (Won)14,125 in 2004 (notes 19, 21 and 27) | 263,041 | 465,821 | 259,665 | 459,843 |
| Short-term financial instruments (note 10) | 38,000 | 46,000 | 37,512 | 45,410 |
| Inventories (note 11) | 92,741 | 70,484 | 91,551 | 69,580 |
| Deferred income tax assets (note 25) | 207,860 | | 205,192 | |
| Other current assets (notes 7 and 12) | 74,150 | 46,869 | 73,199 | 46,267 |
| | 2,925,671 | 2,651,579 | 2,888,125 | 2,617,551 |
| Total assets | (Won) 61,626,841 | 58,917,324 | \$ 60,835,973 | 58,161,228 |

Korea Electric Power Corporation

Non-consolidated Balance Sheets, Continued

December 31, 2005 and 2004

(In millions of Korean Won and in thousands of U.S. dollars, except share data)

| Liabilities and Shareholders' Equity | Won | | U.S. dollars (note 2) | |
|---|------------------|------------|-----------------------|------------|
| | 2005 | 2004 | 2005 | 2004 |
| Stockholders' equity: | | | | |
| Common stock of (Won)5,000 par value Authorized - 1,200,000,000 shares Issued - 641,567,712 shares in 2005 and 640,748,573 shares in 2004 (note 13) | (Won) 3,207,839 | 3,203,743 | \$ 3,166,672 | 3,162,629 |
| Capital surplus (notes 3 and 13) | 14,422,727 | 14,372,895 | 14,237,637 | 14,188,446 |
| Retained earnings (note 14): | | | | |
| Appropriated | 22,209,291 | 19,554,340 | 21,924,275 | 19,303,395 |
| Unappropriated | 2,444,451 | 3,379,107 | 2,413,082 | 3,335,742 |
| Capital adjustments (note 15) | (78,646) | (233,151) | (77,636) | (230,159) |
| Total shareholders' equity | 42,205,662 | 40,276,934 | 41,664,030 | 39,760,053 |
| Long-term liabilities: | | | | |
| Long-term borrowings, net (notes 18 and 27) | 10,430,342 | 10,118,184 | 10,296,488 | 9,988,336 |
| Accrual for retirement and severance benefits, net (note 20) | 450,422 | 439,701 | 444,641 | 434,058 |
| Reserve for self insurance | 98,618 | 93,352 | 97,353 | 92,154 |
| Currency and interest rate swaps (note 22) | 56,388 | 158,060 | 55,665 | 156,032 |
| Deferred income tax liabilities (note 25) | 2,300,950 | 1,822,513 | 2,271,422 | 1,799,125 |
| Other long-term liabilities | 401,270 | 381,942 | 396,119 | 377,040 |
| | 13,737,990 | 13,013,752 | 13,561,688 | 12,846,745 |
| Current liabilities: | | | | |
| Trade payables (note 27) | 2,103,862 | 1,377,976 | 2,076,863 | 1,360,292 |
| Other accounts payable (note 27) | 358,007 | 506,049 | 353,412 | 499,555 |
| Short-term borrowings (note 17) | 71,000 | 200,172 | 70,089 | 197,603 |
| Current portion of long-term borrowings, net (note 18) | 2,328,206 | 2,198,443 | 2,298,328 | 2,170,230 |
| Income tax payable | 97,189 | 677,599 | 95,942 | 668,903 |
| Accrued interest expense | 81,749 | 95,858 | 80,700 | 94,628 |
| Other current liabilities (note 21) | 643,176 | 570,541 | 634,921 | 563,219 |
| | 5,683,189 | 5,626,638 | 5,610,255 | 5,554,430 |
| Total liabilities | 19,421,179 | 18,640,390 | 19,171,943 | 18,401,175 |
| Commitments and contingencies (note 29) | | | | |
| Total shareholders' equity and liabilities | (Won) 61,626,841 | 58,917,324 | \$ 60,835,973 | 58,161,228 |

See accompanying notes to non-consolidated financial statements.

Korea Electric Power Corporation

Non-consolidated Statements of Income

For the years ended December 31, 2005 and 2004

(In millions of Korean Won and in thousands of U.S. dollars, except earnings per share)

| | Won | | U.S. dollars (note 2) | |
|---|------------------------|------------------|-----------------------|------------------|
| | 2005 | 2004 | 2005 | 2004 |
| Operating revenues: | | | | |
| Sale of electricity (notes 27 and 32) | (Won) 24,995,344 | 23,490,001 | \$ 24,674,575 | 23,188,550 |
| Other operating revenues (note 27) | 116,987 | 109,912 | 115,486 | 108,501 |
| | 25,112,331 | 23,599,913 | 24,790,061 | 23,297,051 |
| Operating expenses (notes 27 and 29): | | | | |
| Power generation, transmission and distribution costs (note 23) | 3,964,824 | 3,687,105 | 3,913,942 | 3,639,788 |
| Purchased power | 18,543,717 | 16,766,232 | 18,305,742 | 16,551,068 |
| Other operating costs | 122,680 | 112,369 | 121,106 | 110,927 |
| Selling and administrative expenses (note 24) | 1,155,193 | 1,061,048 | 1,140,370 | 1,047,430 |
| | 23,786,414 | 21,626,754 | 23,481,160 | 21,349,213 |
| Operating income | 1,325,917 | 1,973,159 | 1,308,901 | 1,947,838 |
| Other income (expense): | | | | |
| Interest income | 16,001 | 36,079 | 15,796 | 35,616 |
| Interest expense | (472,979) | (562,971) | (466,909) | (555,747) |
| Gain on foreign currency transactions and translation, net | 235,946 | 616,592 | 232,918 | 608,680 |
| Donations (note 31) | (108,636) | (81,682) | (107,241) | (80,634) |
| Rental income (note 28) | 128,469 | 130,237 | 126,820 | 128,565 |
| Equity income of affiliates, net (note 6) | 1,912,194 | 1,793,808 | 1,887,655 | 1,770,788 |
| Gain on disposal of property, plant and equipment, net | 22,359 | 5,887 | 22,072 | 5,811 |
| Valuation gain on currency and interest rate swaps, net (note 22) | 127,363 | 20,806 | 125,729 | 20,539 |
| Other, net | (5,593) | 56,848 | (5,523) | 56,118 |
| | 1,855,124 | 2,015,604 | 1,831,317 | 1,989,736 |
| Income before income taxes | 3,181,041 | 3,988,763 | 3,140,218 | 3,937,574 |
| Income taxes (note 25) | (732,430) | (1,107,993) | (723,031) | (1,093,774) |
| Net income | (Won) 2,448,611 | 2,880,770 | \$ 2,417,187 | 2,843,800 |
| Basic earnings per share (note 26) | (Won) 3,854 | 4,574 | \$ 3,805 | 4,515 |
| Diluted earnings per share (note 26) | (Won) 3,830 | 4,507 | \$ 3,781 | 4,449 |

See accompanying notes to non-consolidated financial statements.

Korea Electric Power Corporation

Non-consolidated Statements of Appropriation of Retained Earnings

For the years ended December 31, 2005 and 2004

Date of Appropriation for 2005: March 17, 2006

Date of Appropriation for 2004: March 18, 2005

(In millions of Korean Won and in thousands of U.S. dollars)

| | 2005 | Won 2004 | U.S. dollars (note 2) | |
|---|-----------|-------------|-----------------------|-----------|
| | | | 2005 | 2004 |
| Unappropriated retained earnings: | | | | |
| Balance at beginning of year | | (Won) | \$ | |
| Change in retained earnings due to cumulative effect of accounting change (note 1(u)) | 12,422 | | 12,263 | |
| Change in retained earnings of affiliated companies due to cumulative effect of accounting changes (notes 1(s) and 6) | (16,581) | 498,337 | (16,368) | 491,942 |
| Net income | 2,448,611 | 2,880,770 | 2,417,187 | 2,843,800 |
| Balance at end of year before appropriation | 2,444,452 | 3,379,107 | 2,413,082 | 3,335,742 |
| Appropriation of retained earnings: | | | | |
| Legal reserve | 2,048 | | 2,022 | |
| Reserve for investment on social overhead capital | 65,000 | 60,000 | 64,166 | 59,230 |
| Reserve for research and human development | 60,000 | 30,000 | 59,230 | 29,615 |
| Reserve for business expansion | 1,585,869 | 2,564,951 | 1,565,517 | 2,532,035 |
| Dividends 23% on par value at 1,150 Won per share in 2005 and 2004 (note 16) | 731,535 | 724,156 | 722,147 | 714,862 |
| | 2,444,452 | 3,379,107 | 2,413,082 | 3,335,742 |
| Unappropriated retained earnings to be carried over to subsequent year | | (Won) | \$ | |

See accompanying notes to non-consolidated financial statements.

Korea Electric Power Corporation

Non-consolidated Statements of Cash Flows

For the years ended December 31, 2005 and 2004

(In millions of Korean Won and in thousands of U.S. dollars)

| | Won | | U.S. dollars (note 2) | |
|---|-----------------|-------------|-----------------------|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| Cash flows from operating activities: | | | | |
| Net income | (Won) 2,448,611 | 2,880,770 | \$ 2,417,187 | 2,843,800 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 1,860,860 | 1,696,501 | 1,836,980 | 1,674,730 |
| Property, plant and equipment removal cost | 193,232 | 191,777 | 190,753 | 189,316 |
| Provision for severance and retirement benefits | 122,383 | 133,450 | 120,812 | 131,738 |
| Bad debt expense | 23,732 | 19,530 | 23,427 | 19,280 |
| Interest income | (4,262) | (21,451) | (4,208) | (21,175) |
| Interest expense | 14,091 | 16,275 | 13,910 | 16,066 |
| Gain on foreign currency translation, net | (167,898) | (542,002) | (165,744) | (535,047) |
| Equity income of affiliates, net | (1,912,194) | (1,793,808) | (1,887,655) | (1,770,788) |
| Gain on disposal of investment, net | | (7,472) | | (7,376) |
| Gain on disposal of property, plant and equipment, net | (22,359) | (5,887) | (22,072) | (5,811) |
| Deferred income tax expense | 264,321 | 164,877 | 260,929 | 162,761 |
| Valuation gain on currency and interest rate swaps, net | (127,363) | (20,806) | (125,729) | (20,539) |
| Changes in operating assets and liabilities: | | | | |
| Trade receivables | (488,556) | (92,097) | (482,286) | (90,915) |
| Other accounts receivable | 220,955 | 213,716 | 218,119 | 210,973 |
| Inventories | 58,471 | 83,449 | 57,721 | 82,378 |
| Other current assets | (106,294) | (20,403) | (104,930) | (20,142) |
| Trade payables | 725,886 | 121,450 | 716,570 | 119,891 |
| Other accounts payable | (148,065) | (65,717) | (146,165) | (64,874) |
| Income tax payable | (604,518) | 513,430 | (596,760) | 506,841 |
| Accrued interest expense | (14,109) | (27,713) | (13,927) | (27,357) |
| Other current liabilities | 114,722 | 178,108 | 113,251 | 175,822 |
| Other long-term liabilities | (31,338) | (105,040) | (30,936) | (103,692) |
| Payment of severance and retirement benefits | (12,762) | (10,159) | (12,598) | (10,029) |
| Deposit of severance and retirement benefits | (98,900) | | (97,631) | |
| Payment of self-insurance | (1,535) | (848) | (1,515) | (837) |
| Other, net | 60,118 | (20,813) | 59,347 | (20,545) |
| Net cash provided by operating activities | (Won) 2,367,229 | 3,479,117 | \$ 2,336,850 | 3,434,469 |

Korea Electric Power Corporation

Non-consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2005 and 2004

(In millions of Korean Won and in thousands of U.S. dollars)

| | Won | | U.S. dollars (note 2) | |
|--|---------------|-------------|-----------------------|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| Cash flows from investing activities: | | | | |
| Proceeds from disposal of property, plant and equipment | (Won) 65,382 | 16,311 | \$ 64,543 | 16,102 |
| Additions to property, plant and equipment | (3,643,081) | (3,329,195) | (3,596,329) | (3,286,470) |
| Receipt of construction grants | 679,692 | 617,366 | 670,969 | 609,443 |
| Proceeds from disposal of investment securities | 559 | 15,239 | 552 | 15,034 |
| Receipt of dividends | 658,065 | 798,319 | 649,620 | 788,084 |
| Acquisition of investment securities | (11,629) | (5,783) | (11,480) | (5,709) |
| Collection of loans | 19,259 | 14,643 | 19,011 | 14,455 |
| Increase in long-term loans | (38,275) | (36,591) | (37,784) | (36,121) |
| Acquisition of intangible assets | (25,459) | (16,010) | (25,132) | (15,804) |
| Other, net | 5,988 | 7,427 | 5,912 | 7,329 |
| Net cash used in investing activities | (2,289,499) | (1,918,274) | (2,260,118) | (1,893,657) |
| Cash flows from financing activities: | | | | |
| Proceeds from short-term borrowings | | 183,927 | | 181,567 |
| Proceeds from long-term borrowings | 2,934,965 | 3,422,194 | 2,897,300 | 3,378,276 |
| Repayment of short-term borrowings | (129,172) | | (127,515) | |
| Repayment of long-term borrowings | (2,192,577) | (4,239,104) | (2,164,439) | (4,184,703) |
| Dividends paid | (723,876) | (661,360) | (714,586) | (652,873) |
| Payments under currency and interest rate swap contracts | (204,443) | (187,454) | (201,819) | (185,048) |
| Other, net | 23 | | 23 | |
| Net cash used in financing activities | (315,080) | (1,481,797) | (311,036) | (1,462,781) |
| Net increase (decrease) in cash and cash equivalents | (237,350) | 79,046 | (234,304) | 78,031 |
| Cash and cash equivalents, at beginning of the year | 445,863 | 366,817 | 440,141 | 362,110 |
| Cash and cash equivalents, at end of the year | (Won) 208,513 | 445,863 | \$ 205,837 | 440,141 |

See accompanying notes to non-consolidated financial statements.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements

December 31, 2005 and 2004

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements

(a) Organization and Description of Business

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, 2005, the Government of the Republic of Korea, Korea Development Bank (KDB), which is wholly owned by the Korean Government and foreign investors hold 24.07%, 29.95% and 29.59%, respectively, of the Company's shares.

In accordance with the restructuring plan by the Ministry of Commerce, Industry and Energy 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. The Company purchases substantially all of its electricity from the power generation subsidiaries. In addition, the Company has been contemplating the gradual privatization of the Company's power generation subsidiaries. The privatization of power generation subsidiaries may result in change in pricing of electric power, operation organization, related regulations and general policies for supply and demand of energy.

In addition, the Company was also planning to privatize its distribution business. However, the privatization of the Company's distribution business was discontinued according to the recommendation of the Korea Tripartite Commission on June 30, 2004.

(b) Basis of Presenting Financial Statements

The Company maintains its accounting records in Korean Won and prepares statutory 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, 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 financial statements are intended for use only by those who are informed about Korean accounting principles and practices, KEPCO Act and Accounting Regulations for Government Invested Enterprises. The accompanying non-consolidated 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, results of operations or cash flows, is not presented in the accompanying non-consolidated financial statements.

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

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

(b) Basis of Presenting Financial Statements, Continued

As discussed in notes 1(e) and 1(u), effective January 1, 2005, the Company adopted Statement of Korea Accounting Standards (SKAS) No. 15 Investments in Associates and No. 16 Income Taxes . As allowed by these standards, prior year balances were not reclassified to conform with the current year presentation.

(c) 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. For the years ended December 31, 2005 and 2004, the amount of capitalized interest was (Won)58,490 million and (Won)63,564 million, respectively. The net foreign currency transactions and translation gains excluded from the calculation of capitalized interest amounted to (Won)133,186 million and (Won)210,794 million, respectively for the years ended December 31, 2005 and 2004.

The impact on the Company's financial position as of and for the year ended December 31, 2005 if interest and other borrowing costs were expensed instead of being capitalized is as follows:

| | | Won (millions) | | |
|-------------|-----------------|----------------|----------|---------------|
| | | Total | Interest | Income before |
| | Construction | assets | expense | income taxes |
| | in-progress | | | |
| Capitalized | (Won) 2,118,540 | 61,626,841 | 472,979 | 3,181,041 |
| Expensed | 2,060,050 | 61,568,351 | 531,469 | 3,122,551 |
| | (Won) 58,490 | 58,490 | (58,490) | 58,490 |

Depreciation is computed by the declining-balance method (straight-line method for buildings and structures) using rates 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:

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

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

(c) Property, Plant and Equipment, Continued

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 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. The Company received (Won)679,692 million and (Won)617,366 million of construction grants, and offset (Won)166,773 million and (Won)145,310 million against depreciation expense, and (Won)54,319 million and (Won)48,479 million against property, plant and equipment removal cost for the years ended December 31, 2005 and 2004, respectively.

(d) Investment 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 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.

On a continuous basis, the Company evaluates the cost basis of an available-for-sale security for possible impairment at the balance sheet date. Factors considered in assessing whether an indication of other-than-temporary impairment exists include: the degree of change in the ratio of market prices per share to book value per share at the date of evaluation compared to that at the date of acquisition, the financial condition and prospects of each investee company, industry conditions in which the investee company operates, the fair value of an available-for-sale security relative to the cost basis of the investment, the period of time the fair value of an available-for-sale security has been below the cost basis of the investment and other relevant factors. The Company evaluates at the balance sheet date the cost basis of a held-to-maturity security for possible impairment by taking into consideration the financial condition, business prospects and credit worthiness of the issuer.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

(d) Investment Securities, Continued

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 securities 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 securities 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 cost, the impairment loss is equal to the difference between the recoverable amount and the carrying amount.

If the investment 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 operations, 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 rate method.

(e) Investment Securities under the Equity Method of Accounting

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 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.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(e) Investment Securities under the Equity Method of Accounting, Continued

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.

Prior to January 1, 2005, dividends from affiliated companies were not recorded by the Company until paid. Additionally, bad debt expense for receivables to subsidiaries was not eliminated in the non-consolidated financial statements. Effective January 1, 2005, the Company adopted Statement of Korea Accounting Standards (SKAS) No. 15 *Investments in Associates*. In accordance with SKAS No. 15 *Investments in Associates*, dividends from affiliated companies are recorded when declared at the shareholders' meeting of the affiliated companies and bad debt expense for receivables to subsidiaries is eliminated. As a result of such changes, for the year ended December 31, 2005, equity income of affiliates arising from eliminated bad debt expense increased by (Won)14,144 million (note 6(c)) and income taxes arising from this change in the timing of recognizing dividends from affiliates decreased by (Won)135,016 million (notes 1(u) and 26(b)). As allowed by this standard, the Company did not restate the 2004 financial statements.

Prior to 2005, the amounts of equity income (loss) of affiliates were recorded as a net amount within capital adjustments. However, upon adoption of SKAS No. 15 *Investments in Associates* effective January 1, 2005, equity income of affiliates and equity loss of affiliates is required to be presented on a gross basis within capital adjustments (see note 15).

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 accumulated as capital adjustment.

Certain affiliates apply different accounting methods for cost of inventory and the depreciation method of fixed assets and intangible assets than those of the Company since the effect of using different accounting methods is not considered material.

(i) Cost of Inventory

| Company | Raw materials | Supplies | Others |
|---|----------------------|-------------------|-------------------------|
| KEPCO | Weighted-average | Moving-average | Specific identification |
| Korea Hydro & Nuclear Power Co., Ltd. | Moving-average | Moving-average | Moving-average |
| Korea Western Power Co., Ltd. | Weighted-average | Weighted- average | Weighted-average |
| Korea Power Engineering Co., Ltd. | Weighted-average | FIFO | FIFO |
| Korea Plant Service & Engineering Co., Ltd. | Weighted-average | FIFO | Specific identification |
| KEPCO Nuclear Fuel Co., Ltd. | Weighted-average | Weighted- average | Specific identification |
| Korea Electric Power Data Network Co., Ltd. | Moving-average | Moving-average | Moving-average |

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

(e) Investment Securities under the Equity Method of Accounting, Continued

(ii) Depreciation Methods

| Company | Machinery | Vehicles | Others | Computer software |
|---|--------------------|--------------------|--------------------|--------------------|
| KEPCO | Declining- balance | Declining- balance | Declining- balance | Straight-line |
| Korea Hydro & Nuclear Power Co., Ltd. | Declining- balance | Declining- balance | Declining- balance | Declining- balance |
| Korea Plant Service & Engineering Co., Ltd. | Declining- balance | Declining- balance | Declining- balance | Declining- balance |
| KEPCO Nuclear Fuel Co., Ltd. | Straight-line | Straight-line | Straight-line | Straight-line |
| Korea Electric Power Data Network Co., Ltd. | Straight-line | Straight-line | Straight-line | Straight-line |

(f) Intangible 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 over a reasonable period, from 4 years to 20 years, based on the nature of the asset.

(g) Asset Impairment

When the book value of asset exceed the recoverable value of the assets due to obsolescence, physical damage or sharp decline in market value, the impaired assets are recorded at the estimated recoverable value and the resulting impairment loss is charged to current operations. When the recoverable value exceeds the adjusted book value of the assets in the following year, the recoveries of previously recognized losses are recognized as gain in subsequent periods until the net realizable value equals the book value of the assets before the loss was recognized.

The Company evaluates long-lived assets for impairment when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. These computations utilize judgments and assumptions inherent in management's estimate of undiscounted future cash flows to determine recoverability of an asset. If management's assumptions about these assets change as a result of events or circumstances, and management believes the assets may have declined in value, then the Company may record impairment charges, resulting in lower profits. Management uses its best estimate in making these evaluations and considers various factors, including the future prices of energy, fuel costs and operating costs. However, actual market prices and operating costs could vary from those used in the impairment evaluations, and the impact of such variations could be material.

(h) Cash Equivalents

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

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

(i) Financial Instruments

Short-term financial instruments are instruments handled by financial institutions which are held for short-term cash management purposes or will mature within one year, including time deposits, installment savings deposits and restricted bank deposits.

(j) Allowance for Doubtful Accounts

The allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection. Smaller-balance homogeneous receivables are evaluated considering current economic conditions and trends, prior charge-off experience and delinquencies.

(k) 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 at the end of each year.

(l) Valuation of Receivables and Payables at Present Value

Receivables and payables arising from long-term cash loans/borrowings and other similar transactions are stated at present value. The difference between nominal value and present value is deducted directly from the nominal value of related receivables or payables and is amortized using the effective interest method. The amount amortized is included in interest expense or interest income.

(m) 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.

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. Convertible bonds are not subject to foreign currency translation because convertible bonds are regarded as non-monetary foreign currency liabilities in accordance with Korean GAAP. 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.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

(n) 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.

(o) 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 rates of pay 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 balance sheets.

Funding of the retirement and severance benefits is not required; however, tax deductions are limited if the liability is not funded. During 2005, the Company has purchased severance insurance deposits, which meet the funding requirement for tax deduction purposes. These consist of individual severance insurance deposits, in which the beneficiary is the respective employee, with a balance of (Won)98,900 million as of December 31, 2005. Such amounts are presented as a deduction from the accrual of retirement and severance benefits.

Through March 1999, under the National Pension Scheme of Korea, the Company transferred a certain portion of retirement allowances of employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount to be payable to the employees when they leave the Company and is accordingly reflected in the accompanying financial statements as a reduction of the retirement and severance benefit liability. However, due to a new regulation applied since April 1999, such transfers to the National Pension Fund have no longer been required.

(p) Reserve for Self-Insurance

In accordance with the Accounting Regulations for Government Invested Enterprises, 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.

(q) 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)1,013.0 to US\$1, the rate of exchange on December 31, 2005 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 capital adjustment.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

(r) Derivatives

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.

(s) Contingent Liabilities

In October 2004, Korea Accounting Standard Board issued Statement of Korea Accounting Standards (SKAS) No. 17 *Provisions, Contingent Liabilities, and Contingent Assets* . In January 2005, the Company decided to early adopt SKAS No. 17 *Provisions, Contingent Liabilities, and Contingent Assets* retroactively to January 1, 2004. In accordance with the statement, contingent liabilities 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. The only impact of adopting this new standard is described in the following paragraphs:

Prior to 2004, Korea Hydro & Nuclear Power Co., Ltd., one of the Company's power generation subsidiaries, recorded a liability for the estimated decommissioning costs of nuclear facilities based on engineering studies and the expected decommissioning dates of the nuclear power plant. Additions to the liability were in amounts such that the current costs would be fully accrued for at estimated dates of decommissioning on a straight-line basis.

As noted above, in January 2005, the Company early adopted SKAS No. 17 *Provisions, Contingent Liabilities, and Contingent Assets* retroactively to January 1, 2004. Under this standard, Korea Hydro & Nuclear Co., Ltd. retrospectively adjusted the liability for decommissioning costs at the estimated fair value using discounted cash flows (also based on engineering studies and the expected decommissioning dates) to settle the asset retirement obligations of dismantlement of the nuclear power plants, spent fuel and radioactive waste and the same amount was recognized as an utility asset. The liability for decommissioning costs is adjusted based on the best estimates on each balance sheet dates. Accretion expense consists of period-to-period changes in the liability for decommissioning costs resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

(s) Contingent Liabilities, Continued

Korea Hydro & Nuclear Co., Ltd. subsequently depreciates the asset retirement costs using the straight-line and units-of-production depreciation method. The accounting change of Korea Hydro & Nuclear Power Co., Ltd., recorded as of January 1, 2004, resulted in increase in its utility plant, net of (Won)1,504,173 million, reserve for decommissioning costs of (Won)556,088 million, deferred income tax liabilities of (Won)260,724 million and retained earnings of (Won)687,361 million, respectively. As a result of such change, as of January 1, 2004, investment in affiliated company, deferred income tax liabilities and retained earnings of the Company increased by (Won)687,361 million, (Won)189,024 million and (Won)498,337 million, respectively.

(t) 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 People's Republic of Korea (North Korea), based on the percentage-of-completion method. Revenue other than sale of electric power and revenue on long-term contracts 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.

(u) Income Taxes

The Company recognizes deferred income taxes arising from temporary differences between pretax accounting income and taxable income. Accordingly, provision for income tax expense consists of the corporate income tax and resident tax surcharges currently payable, and the changes in deferred income 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 enacted future tax rate in effect at each balance sheet date.

The Company assesses the likelihood that deferred tax assets will be recovered from future taxable income, and, to the extent the Company believes that recovery is not likely, such deferred tax assets are reduced by direct write-down. Estimates of future taxable income involve judgments with respect to future economic factors that are difficult to predict and are beyond management's control. As a result, actual amounts could differ from these estimates and the amount of the deferred tax assets recognized would need to be increased or decreased accordingly.

Prior to January 1, 2005, deferred taxes were not recognized for temporary differences related to unrealized gains and losses on investment securities and conversion right of convertible bond that were reported as a separate component of stockholders' equity. However, effective January 1, 2005, the Company adopted Statement of Korea Accounting Standards (SKAS) No. 16 *Income Taxes*. In accordance with this standard, deferred taxes are recognized on the temporary differences related to unrealized gains and losses on investment securities and the conversion rights of the convertible bonds are reported as a separate component of stockholders' equity.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(u) Income Taxes, Continued

The impact of adopting this new standard is as follows:

(i) Conversion Right of Convertible Bond

Prior to January 1, 2005, the tax effect of the temporary difference arising from the conversion right of the convertible bond issued in 2003 amounted to (Won)12,422 million. This amount was expensed during 2003. However, effective January 1, 2005, per SKAS No. 16 *Income Taxes*, the tax effect amounting to (Won)12,422 million should be directly charged to capital surplus. As a result of such change, as of January 1, 2005, capital surplus decreased and retained earnings increased by (Won)12,422 million.

(ii) Capital Adjustments

In accordance with SKAS No. 16 *Income Taxes*, deferred taxes are recognized on the temporary differences related to unrealized gains and losses on investment securities that are reported as a separate component of capital adjustments. As of December 31, 2005, the deferred income tax assets and liabilities that were directly charged or credited to capital adjustments are as follows:

| | Temporary differences | Won (millions) Income taxes | Deferred tax assets (liabilities) |
|--|--------------------------|-----------------------------------|--------------------------------------|
| Gain on disposal of treasury stock | (Won) (87,662) | 24,107 | |
| Equity income of affiliates | (168,969) | | (46,467) |
| Equity loss of affiliates | 118,768 | | 32,661 |
| Gain on valuation of available-for-sale securities | (4,485) | | (1,233) |
| | (Won) (142,348) | 24,107 | (15,039) |

Prior to January 1, 2005, all deferred tax assets and liabilities were recorded as non-current. Effective January 1, 2005, per SKAS No. 16, *Income Taxes*, deferred tax assets and liabilities are classified as current or non-current based on the classification of the related asset or liability for financial reporting or the expected reversal date of the temporary difference. The deferred tax amounts are presented as a net current asset or liability and a net non-current asset or liability. However, deferred income tax assets and liabilities as of December 31, 2004 were not reclassified based on the transitional clause of SKAS No. 16 *Income Taxes*. If SKAS No. 16 *Income Taxes* had been in effect as of December 31, 2004, the current portion of deferred income tax assets, net would have increased by (Won)176,573 million and the non-current deferred income tax liabilities, net would have increased by the same amount.

(v) Dividends Payable

Annual dividends are recorded when resolved by the board of directors and approved by the shareholders.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

(w) Prior Period Adjustments

Prior period adjustments resulting from other than fundamental errors are charged or credited to result of operations for the current period. Fundamental errors are defined as errors with such a significant effect on the financial statements for one or more prior periods that those financial statements can no longer be considered to have been reliable at the date of their issue. Prior period adjustments resulting from fundamental errors are charged or credited to the beginning balance of retained earnings, and the financial statements of the prior year are restated.

(x) Earnings Per Share

Basic earnings per common share are calculated by dividing net earnings available to common stock holders by the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share are calculated by dividing net earnings available to common stock holders plus interest expense, net of tax, of convertible notes by the weighted-average number of shares of common stock outstanding adjusted to include the potentially dilutive effect of the convertible notes.

(y) 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.

(z) Application of the Statements of Korea Financial Accounting Standards

The Korea Accounting Standards Board (KASB) has published a series of Statements of Korea Accounting Standards (SKAS), which will gradually replace the existing financial accounting standards established by the Korea Financial Supervisory Board. On January 1, 2006, SKAS No. 18 *Interests in Joint Ventures* and No. 19 *Leases* will become effective for the Company according to the effective date set forth in these standards. The Company does not expect the adoption of these standards to have a material impact on the non-consolidated financial statements.

(2) Basis of Translating Financial Statements

The non-consolidated financial statements are expressed in Korean Won and, solely for the convenience of the reader, the non-consolidated financial statements as of and for the years ended December 31, 2005 and 2004, have been translated into United States dollars at the rate of (Won)1,013.0 to US\$1, of the basic exchange rate on December 31, 2005. The translation should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.

(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, a component of capital surplus.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(3) Property, Plant and Equipment, Continued(b) Officially Declared Value of Land

The officially declared value of land at December 31, 2005, as announced by the Minister of Construction and Transportation, is as follows:

| Purpose | Won (millions) | |
|---|-----------------|----------------|
| | Book value | Declared value |
| Land- transmission and distribution sites and other | (Won) 3,359,398 | 4,340,865 |

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 and construction grants for the year ended December 31, 2005 are as follows:

| | Won (million) 2005 | | | | | Book value as of December 31, 2005 |
|--------------------------|---|--------------|-----------|--------------|-------------|--|
| | Book value as of January 1, 2005 (Won) | Acquisitions | Disposals | Depreciation | Others | |
| Land | 3,347,702 | 9,711 | (37,253) | | 39,238 | 3,359,398 |
| Buildings | 1,868,661 | 91 | (4,070) | (142,871) | 214,609 | 1,936,420 |
| Structures | 21,583,385 | 34,535 | | (897,449) | 1,651,883 | 22,372,354 |
| Machinery | 4,143,156 | 16,885 | (789) | (857,575) | 1,264,959 | 4,566,636 |
| Vehicles | 17,792 | 14,680 | (23) | (12,683) | (623) | 19,143 |
| Others | 56,822 | 17,105 | (8) | (37,540) | 19,135 | 55,514 |
| Construction in-progress | 2,110,396 | 3,550,074 | | | (3,541,930) | 2,118,540 |
| Construction grants | (3,182,366) | (679,692) | | 166,773 | 54,319 | (3,640,966) |
| | (Won) 29,945,548 | 2,963,389 | (42,143) | (1,781,345) | (298,410) | 30,787,039 |

Changes in property, plant and equipment and construction grants for the year ended December 31, 2004 are as follows:

| Book value as of | Won (million) 2004 | | | | Book value as of |
|---------------------|-----------------------|-----------|--------------|--------|---------------------|
| | Acquisitions | Disposals | Depreciation | Others | |

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| | January 1, 2004 | | | | December 31, 2004 | | |
|--------------------------|------------------|-----------|---------|-------------|-------------------|--|-------------|
| Land | (Won) 3,327,851 | 7,297 | (7,676) | | 20,230 | | 3,347,702 |
| Buildings | 1,857,866 | 485 | (864) | (131,418) | 142,592 | | 1,868,661 |
| Structures | 20,434,168 | 54,982 | (6) | (831,322) | 1,925,563 | | 21,583,385 |
| Machinery | 4,080,708 | 15,441 | (944) | (777,800) | 825,751 | | 4,143,156 |
| Vehicles | 12,698 | 14,148 | | (9,045) | (9) | | 17,792 |
| Others | 49,617 | 30,194 | (1) | (34,745) | 11,757 | | 56,822 |
| Construction in-progress | 2,266,928 | 3,206,648 | | | (3,363,180) | | 2,110,396 |
| Construction grants | (2,758,789) | (617,366) | | 145,310 | 48,479 | | (3,182,366) |
| | (Won) 29,271,047 | 2,711,829 | (9,491) | (1,639,020) | (388,817) | | 29,945,548 |

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(4) Intangible Assets

Changes in intangible assets for the year ended December 31, 2005 are as follows:

| | Book value | | Won (million) 2005 | | | Book value |
|-------------------|-----------------|--------------|-----------------------|--------|-------------------|------------|
| | as of | Acquisitions | Amortization | Others | as of | |
| | January 1, 2005 | | | | December 31, 2005 | |
| Computer software | (Won) 180,365 | | (58,577) | 46,091 | 167,879 | |
| Others | 52,651 | 25,459 | (20,938) | 9,989 | 67,161 | |
| | (Won) 233,016 | 25,459 | (79,515) | 56,080 | 235,040 | |

Changes in intangible assets for the year ended December 31, 2004 are as follows:

| | Book value | | Won (million) 2004 | | | Book value |
|-------------------|-----------------|--------------|-----------------------|---------|-------------------|------------|
| | as of | Acquisitions | Amortization | Others | as of | |
| | January 1, 2004 | | | | December 31, 2004 | |
| Computer software | (Won) 106,834 | | (38,952) | 112,483 | 180,365 | |
| Others | 37,533 | 16,010 | (18,529) | 17,637 | 52,651 | |
| | (Won) 144,367 | 16,010 | (57,481) | 130,120 | 233,016 | |

In addition, the Company expensed research and development costs amounting to (Won)166,680 million and (Won)159,762 million for the years ended December 31, 2005 and 2004, respectively.

(5) Insured Assets

Insured assets as of December 31, 2005 are as follows:

| Insured assets | Insurance type | Won (millions) Insured value | Insurer |
|--------------------------|------------------------|---------------------------------|---|
| Buildings and machinery | Fire insurance | (Won) 531,359 | Samsung Insurance Co., Ltd. and others |
| Buildings | General insurance | 178,699 | Daehan Fire & Marine Insurance Co., Ltd. and others |
| Construction in-progress | Construction insurance | 37,855 | Samsung Insurance Co., Ltd. and others |

(Won) 747,913

In addition, as of December 31, 2005, the Company carries marine cargo insurance for inventories, damage insurance for its light water nuclear reactor construction in North Korea, group general insurance for vehicles, casualty insurance for its employees and responsibility insurance for its directors.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(6) Investment Securities

(a) Investments other than those under the equity method as of December 31, 2005 and 2004 are summarized as follows:

| | Ownership (%) | Won (millions) | | | |
|---|------------------|---------------------|--------------------------------|---------------|---------------|
| | | Acquisition cost | Unrealized holding gains | Fair value | Book value |
| Available-for-sale: | | | | | |
| Equity securities: | | | | | |
| Energy Savings Investment Cooperatives (*2) | 25.0~48.5 | (Won) 5,000 | | (*1) | 5,000 |
| Korea Power Exchange (*3) | 50.0 | 63,920 | | (*1) | 63,920 |
| Hwan Young Steel Co., Ltd. | 0.1 | 1,364 | | (*1) | 120 |
| Equity securities in treasury stock fund (*4) | | 18,253 | 4,485 | 22,738 | 22,738 |
| Others | 10.0~15.0 | 2,246 | | (*1) | 2,246 |
| | | 90,783 | 4,485 | 22,738 | 94,024 |
| Held-to-maturity: | | | | | |
| Government bonds | | 23 | | 23 | 23 |
| Total | | (Won) 90,806 | 4,485 | 22,738 | 94,047 |

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

(*2) As described in note 2(e), 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, 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 the regulations for 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 management control. Therefore, the investment is accounted for under the cost method.

(*4) The Company entered into a treasury stock fund (the Fund) composed of treasury stock and other equity securities. The treasury stock (excluded from the above table) is recorded at cost within capital adjustments (note 15). The other equity securities in the Fund are recorded at fair value within available-for-sale securities. As of December 31, 2005, gains on the valuation of these available-for-sale securities in the Fund, which are recorded in capital adjustments, amount to (Won)3,252 million excluding deferred tax effect of (Won)1,233 million (note 25(d)). As of December 31, 2004, losses on these securities of (Won)2,893 were recorded in capital adjustments.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(6) Investment Securities, Continued

| | Ownership % | Won (millions) | | | |
|--|----------------|---------------------|---------------------------------|---------------|---------------|
| | | 2004 | | | |
| | | Acquisition cost | Unrealized holding losses | Fair value | Book value |
| Available-for-sale: | | | | | |
| Equity securities: | | | | | |
| Energy Savings Investment Cooperatives | 25.0~48.5 | (Won) 5,000 | | (*) | 5,000 |
| Korea Power Exchange | 50.0 | 64,475 | | (*) | 64,475 |
| KEPCO China International Ltd. | 100.0 | 2,891 | | (*) | 2,891 |
| Hwan Young Steel Co., Ltd. | 0.1 | 1,364 | | | 120 |
| Equity securities in treasury stock fund | | 12,535 | (2,893) | 9,642 | 9,642 |
| Others | 10.0 | 1,000 | | (*) | 1,000 |
| | | 87,265 | (2,893) | 9,642 | 83,128 |
| Held-to-maturity: | | | | | |
| Government bonds | | 56 | | | 56 |
| Total | | (Won) 87,321 | (2,893) | 9,642 | 83,184 |

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

(b) Investments in affiliated companies accounted for using the equity method as of December 31, 2005 are as follows:

| Affiliate | Ownership % | Won (millions) | | |
|--|----------------|----------------|-------------------------------------|---------------|
| | | 2005 | | |
| | | Cost | Proportionate net asset value | Book value |
| Listed: | | | | |
| Korea Gas Corporation (*1, *5) | 24.5 | (Won) 94,500 | 819,100 | 819,100 |
| Unlisted: | | | | |
| Korea Hydro & Nuclear Power Co., Ltd. | 100.0 | 9,364,799 | 12,954,252 | 12,956,002 |
| Korea South-East Power Co., Ltd. | 100.0 | 1,232,004 | 1,984,138 | 1,985,715 |
| Korea Midland Power Co., Ltd. | 100.0 | 1,325,891 | 2,330,504 | 2,332,511 |
| Korea Western Power Co., Ltd. | 100.0 | 1,442,638 | 2,198,199 | 2,199,988 |
| Korea Southern Power Co., Ltd. | 100.0 | 1,797,378 | 2,217,965 | 2,220,258 |
| Korea East-West Power Co., Ltd. | 100.0 | 2,322,905 | 2,570,302 | 2,572,239 |
| Korea Power Engineering Co., Ltd. (*1) | 97.9 | 4,991 | 196,086 | 55,602 |
| Korea Plant Service & Engineering Co., Ltd. (*1) | 100.0 | 6,000 | 293,958 | 285,715 |
| KEPCO Nuclear Fuel Co., Ltd. (*1) | 96.4 | 89,757 | 176,314 | 158,105 |
| Korea Electric Power Industrial Development, Ltd. (*1) | 49.0 | 7,987 | 24,525 | 24,525 |

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| | | | | |
|--|-------|------------------|------------|------------|
| Korea Electric Power Data Network Co., Ltd. (*1) | 100.0 | 64,000 | 163,758 | 120,121 |
| Powercomm Corporation (*1) | 43.1 | 323,470 | 407,666 | 407,666 |
| Korea District Heating Co. (*1) | 26.1 | 5,660 | 176,173 | 176,173 |
| KEPCO International Hong Kong Ltd. (*1, *2) | 100.0 | 15,102 | 220,183 | 220,183 |
| KEPCO International Philippines Inc. (*1, *2) | 100.0 | 104,832 | 156,814 | 156,814 |
| KEPCO China International Ltd. (*1, *3) | 100.0 | 11,051 | 9,786 | 9,786 |
| KEPCO Gansu International Ltd. (*1, *4) | 100.0 | 2,733 | 2,733 | 2,733 |
| KEPCO Philippines Holdings Inc. (*1) | 100.0 | 202 | 202 | 202 |
| | | (Won) 18,215,900 | 26,902,658 | 26,703,438 |

(*1) The Company uses 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.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(6) Investment Securities, Continued

- (*2) As KEPCO International Hong Kong Ltd. owns 100.0% of the shares of KEPCO Philippines Corporation (KEPHILCO) and KEPCO International Philippines Inc. holds 51.0% of the shares of KEPCO Ilijan Corporation (KEILCO), when applying the equity method, the Company accounts for the equity income from KEPCO International Hong Kong Ltd. and KEPCO International Philippines Inc., that include the changes in the net equity of KEPHILCO and KEILCO, respectively.

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

- (*3) As KEPCO China International Ltd. owns 76.8% of the shares of Jiaosuo KEPCO Power Co., Ltd., when applying the equity method, the Company accounts for the equity income from KEPCO China International Ltd. that include the changes in the net equity of Jiaosuo KEPCO Power Co., Ltd.
- (*4) As KEPCO Gansu International Ltd. owns 40.0% of the shares of Gansu Datang Yumen Wind Power Co., Ltd., when applying the equity method, the Company accounts for the equity income from KEPCO Gansu International Ltd. that include the changes in the net equity of Gansu Datang Yumen Wind Power Co., Ltd.

- (*5) The quoted market value (based on closing Korea Stock Exchange Price) of Korea Gas Corporation as of December 31, 2005 is (Won)625,535 million.

Investments in affiliated companies accounted for using equity method as of December 31, 2004 are as follows:

| Affiliate | Ownership % | Won (millions) | | |
|--|----------------|----------------|-------------------------------------|------------|
| | | Cost | Proportionate net asset value | Book value |
| 2004 | | | | |
| Listed: | | | | |
| Korea Gas Corporation | 24.5 | (Won) 94,500 | 787,842 | 787,842 |
| Unlisted: | | | | |
| Korea Hydro & Nuclear Power Co., Ltd. | 100.0 | 9,364,799 | 12,290,606 | 12,290,606 |
| Korea South-East Power Co., Ltd. | 100.0 | 1,232,004 | 1,978,170 | 1,978,170 |
| Korea Midland Power Co., Ltd. | 100.0 | 1,325,891 | 2,170,337 | 2,170,337 |
| Korea Western Power Co., Ltd. | 100.0 | 1,442,638 | 2,059,733 | 2,059,733 |
| Korea Southern Power Co., Ltd. | 100.0 | 1,797,378 | 2,120,602 | 2,120,602 |
| Korea East-West Power Co., Ltd. | 100.0 | 2,322,905 | 2,472,368 | 2,472,368 |
| Korea Power Engineering Co., Ltd. (*1) | 97.9 | 4,991 | 191,294 | 59,875 |
| Korea Plant Service & Engineering Co., Ltd. | 100.0 | 6,000 | 277,932 | 277,932 |
| KEPCO Nuclear Fuel Co., Ltd. (*1) | 96.4 | 89,757 | 168,558 | 156,750 |
| Korea Electric Power Industrial Development, Ltd. (*1) | 49.0 | 7,987 | 23,315 | 23,315 |
| Korea Electric Power Data Network Co., Ltd. | 100.0 | 64,000 | 153,771 | 110,238 |
| Powercomm Corporation | 43.1 | 323,470 | 388,422 | 388,422 |

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| | | | | |
|---|-------|------------------|------------|------------|
| Korea District Heating Co. | 26.1 | 5,660 | 169,527 | 169,527 |
| KEPCO International Hong Kong Ltd. (*1) | 100.0 | 15,102 | 196,751 | 196,751 |
| KEPCO International Philippines Inc. (*1) | 100.0 | 104,832 | 117,235 | 117,235 |
| | | (Won) 18,201,914 | 25,566,463 | 25,379,703 |

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(6) Investment Securities, Continued

(*1) The Company uses 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.

(c) The Company eliminates unrealized gains arising from transactions with its affiliates. The eliminated unrealized gains arising from transactions with Korea Power Engineering Co., Ltd., KEPCO Nuclear Fuel Co., Ltd. and Korea Electric Power Data Network Co., Ltd. amounted to (Won)131,419 million, (Won)11,808 million and (Won)43,533 million, respectively, for the year ended December 31, 2004. The eliminated unrealized gains arising from transactions with its affiliates and bad debt expense for receivables to its subsidiaries for the year ended December 31, 2005 are as follows:

| Affiliate | Fixed assets | Won (millions) | | Total |
|---|-----------------|-------------------|-------------------------------------|-----------|
| | | Intangible assets | Allowance for doubtful accounts (*) | |
| Korea Hydro & Nuclear Power Co., Ltd. | (Won) (1,889) | | 3,639 | 1,750 |
| Korea South-East Power Co., Ltd. | | | 1,577 | 1,577 |
| Korea Midland Power Co., Ltd. | | | 2,007 | 2,007 |
| Korea Western Power Co., Ltd. | | | 1,789 | 1,789 |
| Korea Southern Power Co., Ltd. | | | 2,293 | 2,293 |
| Korea East-West Power Co., Ltd. | | | 1,937 | 1,937 |
| Korea Power Engineering Co., Ltd. | (140,484) | | | (140,484) |
| Korea Plant Service & Engineering Co., Ltd. | (8,940) | | 697 | (8,243) |
| KEPCO Nuclear Fuel Co., Ltd. | (18,210) | | 1 | (18,209) |
| Korea Electric Power Data Network Co., Ltd. | (14,579) | (29,262) | 204 | (43,637) |
| | (Won) (184,102) | (29,262) | 14,144 | (199,220) |

(*) As described in note 1(e), prior to 2005, bad debt expense for receivables to the Company's subsidiaries was not eliminated in the non-consolidated financial statements. Effective January 1, 2005, the Company adopted SKAS No. 15 *Investments in Associates*. Under this standard, bad debt expense for receivables to the Company's subsidiaries is eliminated. As allowed by this standard, the Company did not restate the 2004 financial statements.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(6) Investment Securities, Continued

(d) Changes in investments in affiliated companies under the equity method for the year ended December 31, 2005 are as follows:

| Affiliate | Won (millions) | | | | Book value as of December 31, 2005 |
|---|-------------------------------------|-------------------------|------------------------|------------|---------------------------------------|
| | Book value as of January 1, 2005 | Equity income (loss) | Capital adjustments | Others(*1) | |
| Korea Gas Corporation | (Won) 787,842 | 63,604 | 7,344 | (39,690) | 819,100 |
| Korea Hydro & Nuclear Power Co., Ltd. | 12,290,606 | 1,011,290 | (6,429) | (339,465) | 12,956,002 |
| Korea South-East Power Co., Ltd. | 1,978,170 | 107,355 | | (99,810) | 1,985,715 |
| Korea Midland Power Co., Ltd. | 2,170,337 | 218,815 | (1,120) | (55,521) | 2,332,511 |
| Korea Western Power Co., Ltd. | 2,059,733 | 182,343 | 1,384 | (43,472) | 2,199,988 |
| Korea Southern Power Co., Ltd. | 2,120,602 | 109,445 | 16,534 | (26,323) | 2,220,258 |
| Korea East-West Power Co., Ltd. | 2,472,368 | 104,337 | 21,048 | (25,514) | 2,572,239 |
| Korea Power Engineering Co., Ltd. | 59,875 | (1,657) | | (2,616) | 55,602 |
| Korea Plant Service & Engineering Co., Ltd. | 277,932 | 22,483 | | (14,700) | 285,715 |
| KEPCO Nuclear Fuel Co., Ltd. | 156,750 | 2,855 | | (1,500) | 158,105 |
| Korea Electric Power Industrial Development, Ltd. | 23,315 | 5,534 | | (4,324) | 24,525 |
| Korea Electric Power Data Network Co., Ltd. | 110,238 | 12,890 | 458 | (3,465) | 120,121 |
| Powercomm Corporation | 388,422 | 19,872 | 19 | (647) | 407,666 |
| Korea District Heating Co. | 169,527 | 7,664 | | (1,018) | 176,173 |
| KEPCO International Hong Kong Ltd. | 196,751 | 22,992 | 15,150 | (14,710) | 220,183 |
| KEPCO International Philippines Inc. | 117,235 | 23,554 | 17,896 | (1,871) | 156,814 |
| KEPCO China International Ltd. | | (1,182) | (83) | 11,051 | 9,786 |
| KEPCO Gansu International Ltd. | | | | 2,733 | 2,733 |
| KEPCO Philippines Holdings Inc. | | | | 202 | 202 |
| | (Won) 25,379,703 | 1,912,194 | 72,201 | (660,660) | 26,703,438 |

(*1) Others represent dividends from the affiliates and changes in investments in affiliated companies, which were reflected into retained earnings.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(6) Investment Securities, Continued

Changes in investments in affiliated companies under the equity method for the year ended December 31, 2004 are as follows:

| Affiliate | Won (millions) | | | | |
|---|------------------|---------------|-------------|------------|----------------|
| | Book value | | 2004 | | |
| | as of | Equity income | Capital | Others(*1) | Book value |
| | January 1, 2004 | (loss) | adjustments | | as of December |
| | (Won) | | | | 31, 2004 |
| Korea Gas Corporation | 740,280 | 82,366 | 2,996 | (37,800) | 787,842 |
| Korea Hydro & Nuclear Power Co., Ltd. (*2) | 11,014,714 | 826,156 | | 449,736 | 12,290,606 |
| Korea South-East Power Co., Ltd. | 1,990,715 | 153,805 | | (166,350) | 1,978,170 |
| Korea Midland Power Co., Ltd. | 2,080,695 | 207,336 | 78 | (117,772) | 2,170,337 |
| Korea Western Power Co., Ltd. | 1,988,052 | 160,987 | (3,066) | (86,240) | 2,059,733 |
| Korea Southern Power Co., Ltd. | 2,092,460 | 101,204 | (8,410) | (64,652) | 2,120,602 |
| Korea East-West Power Co., Ltd. | 2,424,164 | 99,763 | (17,745) | (33,814) | 2,472,368 |
| Korea Power Engineering Co., Ltd. | 69,038 | 4,941 | | (14,104) | 59,875 |
| Korea Plant Service & Engineering Co., Ltd. | 267,041 | 29,691 | | (18,800) | 277,932 |
| KEPCO Nuclear Fuel Co., Ltd. | 145,098 | 13,675 | | (2,023) | 156,750 |
| Korea Electric Power Industrial Development, Ltd. | 22,092 | 5,143 | | (3,920) | 23,315 |
| Korea Electric Power Data Network Co., Ltd. | 115,382 | (2,918) | 174 | (2,400) | 110,238 |
| Powercomm Corporation | 363,687 | 25,429 | 600 | (1,294) | 388,422 |
| Korea District Heating Co. | 159,165 | 11,813 | (397) | (1,054) | 169,527 |
| KEPCO International Hong Kong Ltd. | 173,629 | 54,990 | (31,868) | | 196,751 |
| KEPCO International Philippines Inc. | 126,052 | 19,427 | (17,773) | (10,471) | 117,235 |
| | (Won) 23,772,264 | 1,793,808 | (75,411) | (110,958) | 25,379,703 |

(*1) Others represent dividends from the affiliates and changes in investments in affiliated companies, which were reflected into retained earnings.

(*2) As described in note 1(s), effective January 1, 2004, Korea Hydro & Nuclear Power Co., Ltd., one of the Company's power generation subsidiaries, reflected the cumulative effect of accounting change incurred as a result of the early adoption of SKAS No. 17 *Provisions, Contingent Liabilities, and Contingent Assets* into the beginning balance of retained earnings. As a result of such change, investment in affiliated company, deferred income tax liabilities and retained earnings of the Company increased by (Won)687,361 million, (Won)189,024 million and (Won)498,337 million, respectively.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(6) Investment Securities, Continued

(e) Total assets, total liabilities, sales and net income (loss) of affiliated companies as of or for the year ended December 31, 2005 are as follows:

| Affiliate | Total assets | Won (millions) | | Net income (loss) |
|---|------------------|----------------------|------------|-------------------------|
| | | Total liabilities | Sales | |
| Korea Gas Corporation | (Won) 11,316,498 | 7,967,095 | 11,070,038 | 246,414 |
| Korea Hydro & Nuclear Power Co., Ltd. | 22,019,249 | 9,064,997 | 5,628,679 | 1,009,540 |
| Korea South-East Power Co., Ltd. | 3,546,581 | 1,562,443 | 2,095,374 | 105,779 |
| Korea Midland Power Co., Ltd. | 3,282,275 | 951,771 | 2,244,572 | 216,808 |
| Korea Western Power Co., Ltd. | 3,262,478 | 1,064,279 | 2,227,014 | 180,554 |
| Korea Southern Power Co., Ltd. | 3,575,572 | 1,357,607 | 2,847,096 | 107,152 |
| Korea East-West Power Co., Ltd. | 4,459,885 | 1,889,583 | 2,175,269 | 102,401 |
| Korea Power Engineering Co., Ltd. | 276,307 | 76,096 | 272,401 | 6,885 |
| Korea Plant Service & Engineering Co., Ltd. | 379,596 | 85,638 | 545,187 | 30,729 |
| KEPCO Nuclear Fuel Co., Ltd. | 268,388 | 85,407 | 109,555 | 9,611 |
| Korea Electric Power Data Network Co., Ltd. | 149,159 | 99,108 | 184,621 | 12,239 |
| Korea Electric Power Industrial Development, Ltd. | 230,720 | 66,962 | 308,880 | 12,994 |
| Powercomm Corporation | 1,567,329 | 622,112 | 638,430 | 46,075 |
| Korea District Heating Co. | 1,374,437 | 698,733 | 562,303 | 29,396 |
| KEPCO International Hong Kong Ltd. | 220,196 | 13 | 26,595 | 22,992 |
| KEPCO International Philippines Inc. | 155,625 | 1,045 | 24,997 | 23,554 |
| KEPCO China International Ltd. | 9,748 | 14 | | (1,182) |
| KEPCO Gansu International Ltd. | 2,733 | | | |
| KEPCO Philippines Holdings Inc. | 202 | | | |

(7) Loans to Employees

The Company has provided housing and tuition loans to employees as of December 31, 2005 and 2004 as follows:

| | Won (millions) | |
|----------------------------|----------------|---------|
| | 2005 | 2004 |
| Short-term loans (note 12) | (Won) 12,514 | 10,057 |
| Long-term loans | 180,084 | 163,525 |
| | (Won) 192,598 | 173,582 |

(8) Other Non-current Assets

Other non-current assets as of December 31, 2005 and 2004 are as follows:

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| | Won (millions) | |
|------------------|----------------|---------|
| | 2005 | 2004 |
| Deposit received | (Won) 72,800 | 66,538 |
| Others | 79,054 | 81,620 |
| | (Won) 151,854 | 148,158 |

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(9) Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2005 and 2004 are summarized as follows:

| | Won (millions) | |
|----------------------------|----------------|---------|
| | 2005 | 2004 |
| Cash and cash equivalents: | | |
| Cash on hand | (Won) 1,181 | 1,893 |
| Passbook accounts (*) | 207,332 | 443,970 |
| | (Won) 208,513 | 445,863 |

(*) Passbook accounts restricted in use for expenditures for certain business purposes are (Won)70,217 million and (Won)94,626 million, respectively as of December 31, 2005 and 2004.

(10) Short-term Financial Instruments

Short-term financial instruments as of December 31, 2005 and 2004 are summarized as follows:

| | Won (millions) | |
|-----------------------|----------------|--------|
| | 2005 | 2004 |
| Repurchase agreements | (Won) 38,000 | 46,000 |

(11) Inventories

Inventories as of December 31, 2005 and 2004 are summarized as follows:

| | Won (millions) | |
|---------------|----------------|--------|
| | 2005 | 2004 |
| Raw materials | (Won) 4,297 | 4,315 |
| Supplies | 79,820 | 58,426 |
| Other | 8,624 | 7,743 |
| | (Won) 92,741 | 70,484 |

(12) Other Current Assets

Other current assets as of December 31, 2005 and 2004 are summarized as follows:

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| | Won (millions) | |
|--|----------------|--------|
| | 2005 | 2004 |
| Held-to-maturity securities (*) | (Won) 33 | 2 |
| Short-term loans to employees (note 7) | 12,514 | 10,057 |
| Accrued income | 30,945 | 1,826 |
| Advance payments | 2,724 | 2,663 |
| Prepaid expenses | 2,703 | 2,730 |
| Other current assets | 25,231 | 29,591 |
| | (Won) 74,150 | 46,869 |

(*) Held-to-maturity securities consist of government and municipal bonds.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(13) Common Stock and Capital Surplus(a) Common Stock

The Company has 1,200,000,000 authorized shares of (Won)5,000 par value common stock, of which 641,567,712 shares are issued as of December 31, 2005. In 2005, the Company issued 819,139 shares with par value (Won)5,000 to the government of the Republic of Korea in return for certain fixed assets related to power distribution. The value of these shares were recorded as common stock of (Won)4,096 million and paid-in capital in excess of par value of (Won)23,846 million.

(b) Capital Surplus

Capital surplus as of December 31, 2005 and 2004 are as follows:

| | Won (millions) | |
|--|------------------|------------|
| | 2005 | 2004 |
| Paid-in capital in excess of par value | (Won) 835,142 | 811,296 |
| Reserves for asset revaluation | 12,552,973 | 12,552,973 |
| Other capital surplus (*) | 1,034,612 | 1,008,626 |
| | (Won) 14,422,727 | 14,372,895 |

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 (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.

(*) As described in note 1(u), effective January 1, 2005, the Company adopted SKAS No. 16 *Income Taxes*. As a result, deferred taxes are recognized on temporary differences related to conversion right of convertible bond that is reported as a component of capital surplus.

(14) Appropriated Retained Earnings

Appropriated retained earnings as of December 31, 2005 and 2004 are summarized as follows:

| | Won (millions) | |
|---|-----------------|------------|
| | 2005 | 2004 |
| Involuntary: | | |
| Legal reserve | (Won) 1,601,871 | 1,601,871 |
| Voluntary: | | |
| Reserve for investment on social overhead capital | 5,152,449 | 5,092,449 |
| Reserve for research and human development | 210,000 | 180,000 |
| Reserve for business rationalization | 31,900 | 31,900 |
| Reserve for business expansion | 15,003,071 | 12,438,120 |
| Reserve for dividend equalization | 210,000 | 210,000 |

20,607,420 17,952,469

(Won) 22,209,291 19,554,340

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.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(14) Appropriated Retained Earnings, Continued

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.

The reserve for the investment on social overhead capital and the reserve for research and human development are appropriated by the Company to avail itself of 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 rate for the purpose of stock price and credit rating stabilization.

(15) Capital Adjustments

Capital adjustments as of December 31, 2005 and 2004 are as follows:

| | Won (millions) | |
|--|-----------------|-----------|
| | 2005 | 2004 |
| Treasury stock | (Won) (118,293) | (208,260) |
| Gain (loss) on valuation of available-for-sale securities, net (note 6(a)) | 3,252 | (2,893) |
| Equity gain of affiliates (note 1(e)) | 122,502 | |
| Equity loss of affiliates (note 1(e)) | (86,107) | (21,998) |
| | (Won) (78,646) | (233,151) |

The Company has shares held as treasury stock amounting to (Won)118,293 million (5,450,062 shares) and (Won)208,260 million (11,048,050 shares) as of December 31, 2005 and 2004, respectively.

(16) Dividends

Details of dividends for the years ended December 31, 2005 and 2004 are as follows:

| | Won (millions) | |
|------------------------------------|----------------|-------------|
| | 2005 | 2004 |
| Outstanding shares of common stock | 636,117,650 | 629,700,523 |
| Par value per share | 5,000 | 5,000 |
| Dividend rate | 23.0% | 23.0% |
| Dividend per share in Won | 1,150 | 1,150 |

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| | | |
|---|-----------|-----------|
| Dividend amount | 731,535 | 724,156 |
| Net income | 2,448,611 | 2,880,770 |
| Dividends as a percentage of net income | 29.88% | 25.14% |

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(17) Short-term Borrowings

Short-term borrowings as of December 31, 2005 and 2004 are as follows:

| Lender | Type | Annual Interest rate (%) | Won (millions) | |
|--|------------------|--|----------------|---------|
| | | | 2005 | 2004 |
| Local currency: | | | | |
| National Agricultural Cooperative Federation | Overdraft | | (Won) | 172 |
| Woori Bank | Commercial paper | CD+0.03 (4.07 at December 31, 2005) | 71,000 | 150,000 |
| Chohung Bank | Commercial paper | | | 50,000 |
| | | | (Won) 71,000 | 200,172 |

As described in note 29, the Company entered into short-term credit facilities with five banks that provide for up to (Won)1,160,000 million in short-term borrowings. As of December 31, 2005 and December 31, 2004, borrowings under these facilities amounted to (Won)71,000 million and (Won)200,172 million, respectively.

(18) Long-term Borrowings

Long-term borrowings as of December 31, 2005 and 2004 are as follows:

(a) Long-term Debt

| Lender | Type | Maturity | Annual interest rate (%) | Won (millions) | |
|------------------------|---------------------|------------|-----------------------------|-----------------|-----------|
| | | | | 2005 | 2004 |
| Korea Development Bank | Industrial facility | 2009 | 4.50~5.50 | (Won) 1,428,125 | 1,428,125 |
| Korea Development Bank | Industrial facility | 2010 | 3.50~4.50 | 3,173,958 | 2,523,958 |
| Korea Development Bank | Industrial facility | 2007~ 2039 | 3.50~7.50 | 25,992 | 389,124 |
| | | | | 4,628,075 | 4,341,207 |
| Less: Current portion | | | | (1,170,644) | (819,801) |
| | | | | (Won) 3,457,431 | 3,521,406 |

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(18) Long-term Borrowings, Continued(b) Debentures

| Lender | Maturity | Annual interest rate (%) | Won (millions) | |
|--|----------|-----------------------------|-----------------|-------------|
| | | | 2005 (Won) | 2004 |
| | 2005 | | | 240,000 |
| | 2006 | 5.32 | 200,000 | 200,000 |
| Local currency debentures (Electricity bonds) | 2007 | 5.32 | 185,000 | 185,000 |
| | 2009 | 3.61~5.32 | 1,330,000 | 1,330,000 |
| | 2010 | 3.43~4.68 | 1,530,000 | |
| | 2013 | 3.79~5.32 | 1,490,000 | 1,490,000 |
| | | | 4,735,000 | 3,445,000 |
| | 2005 | | | 1,036,770 |
| | 2007 | 1.04~1.18 | 911,700 | 939,420 |
| | 2008 | 2.00 | 276,372 | 284,774 |
| Foreign currency debentures (*) | 2010 | 3.13 | 300,038 | |
| | 2013 | 5.00+2x(JPY/KRW-11.03) | 354,550 | 365,330 |
| | 2027 | 6.75~8.50, 6M+Libor+0.14 | 462,502 | 582,449 |
| | 2034 | 0.51, 4.50+(JPY/KRW-11.02) | 475,908 | 515,554 |
| | 2096 | 6.00~8.28, 6M+Libor+0.14 | 529,007 | 585,511 |
| | | | 3,310,077 | 4,309,808 |
| | | | 8,045,077 | 7,754,808 |
| Less: Current portion | | | (1,157,948) | (1,378,892) |
| Discount | | | (31,077) | (38,125) |
| | | | (Won) 6,856,052 | 6,337,791 |

(*) In 2003, the Company issued foreign debentures to KEPCO Cayman Company Limited of 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 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

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- 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).
- The Company has unconditionally and irrevocably guaranteed full and timely repayment of principal and interest of the debentures.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(18) Long-term Borrowings, Continued(c) Exchangeable Bonds

| Description | Annual interest rate (%) | Won (millions) | |
|------------------------------------|-----------------------------|----------------|----------|
| | | 2005 | 2004 |
| Overseas exchangeable bonds | 0.00 | (Won) 122,902 | 277,256 |
| Plus: Premium on debentures issued | | 5,556 | 16,794 |
| Less: Conversion right adjustment | | (11,599) | (35,063) |
| | | (Won) 116,859 | 258,987 |

On November 4, 2003, the Company issued overseas exchangeable bonds of JPY28,245,468,400 with a premium value. During 2005, the bond holders converted JPY14,438,543,000 into 344,704 shares of common stock and 10,444,768 shares of DR (equivalent to 5,222,384 shares of common stock). As of December 31, 2005, the remaining number of common stock to be converted is 4,432,737 shares if the conversion right is exercised. As of December 31, 2005, the details of the bonds are as follows:

- Maturity date: November 4, 2008
- Amount to be paid at maturity: JPY11,496,518,000
- 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: (Won)30,000 per share
- Put option: Bond holders have a put option that they can request redemption at JPY 11,895,000,000 on November 6, 2006.
- 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.

(d) Foreign currency debts, by currency, as of December 31, 2005 and 2004 are as follows:

| | 2005 | | 2004 | |
|--------------------|------------------------------------|---------------------------------|------------------------------------|---------------------------------|
| | Foreign currency (thousands) | Won equivalent (millions) | Foreign currency (thousands) | Won equivalent (millions) |
| Debentures | US\$ 2,496,270 | (Won) 2,528,721 | US\$ 2,894,107 | (Won) 3,020,868 |
| | JPY 51,000,000 | 438,620 | JPY 122,500,000 | 1,239,786 |
| | EUR 250,000 | 300,038 | EUR | |
| | GBP 24,467 | 42,698 | GBP 24,467 | 49,154 |
| | | 3,310,077 | | 4,309,808 |
| Exchangeable bonds | JPY 11,496,518 | 122,902 | JPY 25,935,061 | 277,256 |
| | | (Won) 3,432,979 | | (Won) 4,587,064 |

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(18) Long-term Borrowings, Continued

(e) Aggregate maturities of the Company's long-term borrowings as of December 31, 2005 are as follows:

| Period ended | Local currency borrowings | Won (millions) | | Exchangeable bonds | Total |
|--------------|---------------------------------|----------------------|-----------------------|-----------------------|------------|
| | | Electricity bonds | Foreign debentures | | |
| December 31, | | | | | |
| 2006 | (Won) 1,170,644 | 890,000 | 267,948 | | 2,328,592 |
| 2007 | 1,324,759 | 885,000 | 1,223,951 | | 3,433,710 |
| 2008 | 1,240,326 | 1,720,000 | 277,638 | 122,902 | 3,360,866 |
| 2009 | 702,661 | 630,000 | 186,925 | | 1,519,586 |
| 2010 | 177,463 | 490,000 | 300,038 | | 967,501 |
| Thereafter | 12,222 | 120,000 | 1,053,577 | | 1,185,799 |
| | (Won) 4,628,075 | 4,735,000 | 3,310,077 | 122,902 | 12,796,054 |

(19) Assets Denominated in Foreign Currencies

There are no significant liabilities denominated in foreign currencies other than those mentioned in note 18(d). Major assets denominated in foreign currencies as of December 31, 2005 and 2004 are as follows:

| | 2005 | | 2004 | |
|---------------------------|------------------------------------|---------------------------------|------------------------------------|---------------------------------|
| | Foreign currency (thousands) | Won equivalent (millions) | Foreign currency (thousands) | Won equivalent (millions) |
| Cash and cash equivalents | US\$ 203 | (Won) 206 | US\$ 184 | (Won) 192 |
| Other accounts receivable | US\$ 11,662 | 11,813 | US\$ 1,661 | 1,734 |
| Other non-current assets | US\$ 119 | 120 | US\$ 113 | 118 |
| | JPY 10,239 | 88 | JPY 9,706 | 98 |
| | EUR 20 | 23 | EUR 5 | 7 |
| | | (Won) 12,250 | | (Won) 2,149 |

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(20) Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2005 and 2004 are summarized as follows:

| | Won (millions) | |
|--|----------------|----------|
| | 2005 | 2004 |
| Estimated severance accrual at beginning of year | (Won) 439,794 | 316,503 |
| Provision for retirement and severance benefits | 122,383 | 133,450 |
| Payments | (12,762) | (10,159) |
| Estimated severance accrual at end of year | 549,415 | 439,794 |
| Deposit for severance benefit insurance | (98,900) | |
| Transfer to National Pension Fund | (93) | (93) |
| Net balance at end of year | (Won) 450,422 | 439,701 |

The Company entered into retirement benefit insurance with Samsung Life Insurance Co., Ltd. and other insurance companies, for which the deposits account for 18.0% of the total retirement and severance benefits as of December 31, 2005. Retirement insurance benefit deposits at the insurance companies amounting (Won)98,900 million are presented as a deduction from the accrual for retirement and severance benefits.

(21) Other Current Liabilities

Other current liabilities as of December 31, 2005 and 2004 are as follows:

| | Won (millions) | |
|--------------------------|----------------|---------|
| | 2005 | 2004 |
| Advances received | (Won) 100,721 | 109,905 |
| Withholdings | 200,768 | 231,237 |
| Unearned revenue | 14,121 | 2,895 |
| Accrued other expenses | 49,172 | 19,662 |
| Dividends payable | 2,781 | 2,501 |
| Currency swaps (note 22) | 33,803 | |
| Customer deposits | 69,600 | 72,138 |
| Rent deposits | 34,342 | 33,705 |
| Others | 137,868 | 98,498 |
| | (Won) 643,176 | 570,541 |

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(22) 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 borrowings. These contracts are recorded at fair value with the unrealized gains and losses being recorded in the non-consolidated statements of income.

(a) Currency swap contracts as of December 31, 2005 are as follows:

| | Contract Settlement | | Contract amounts | | | | Contract interest rate | |
|--|---------------------|------|------------------|---------|--------------|------------------------|------------------------|--|
| | Year | Year | in millions | | per annum(%) | | Receive | |
| | | | Pay | Receive | Pay | Receive | | |
| Canadian Imperial Bank of Commerce | 1996 | 2006 | US\$ | 97 | JPY 10,000 | 6M LIBOR+ 0.13 | 3.80 | |
| JPMorgan Chase Bank | 1996 | 2006 | US\$ | 200 | JPY 21,000 | 6M LIBOR+ 0.14 | 4.00 | |
| JPMorgan Chase Bank & Deutsche Bank (*1, *2) | 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 | |
| Deutsche Bank (*3) | 2003 | 2013 | KRW | 178,350 | US\$ 150 | CD+3.3 | 7.75 | |
| UBS (*3) | 2003 | 2013 | KRW | 148,625 | US\$ 125 | CD+3.3 | 7.75 | |
| Credit Suisse First Boston (*3) | 2003 | 2013 | KRW | 89,175 | US\$ 75 | CD+3.3 | 7.75 | |
| Barclays Bank PLC, London (*4) | 2004 | 2014 | KRW | 106,200 | US\$ 100 | [4.5+(JPY/KRW) -11.02] | 5.125 | |
| Credit Suisse First Boston (*4) | 2004 | 2014 | KRW | 106,200 | US\$ 100 | [4.5+(JPY/KRW) -11.02] | 5.125 | |
| UBS (*4) | 2004 | 2014 | KRW | 106,200 | US\$ 100 | [4.5+(JPY/KRW) -11.02] | 5.125 | |

(*1) If the Republic of Korea declares default on its debts, KEPCO is entitled to receive Korean government bonds instead of cash. Valuation for these embedded derivatives is reflected in the valuation of the currency swap.

(*2) The Company pays JPY7,670 million which is 10% of the contract amount every March and September and will receive US\$650 million in September 2007.

(*3) The Company exercised a call option in addition to these swaps with the foreign currency exchange rate of (Won)1,056.7 in December 2004, which the Company exchanged each (Won)5,945 million with the amounts of US\$5,000,000 multiplied by Spot FX rate (KRW/US\$).

(*4) The Company exercised a reset option in addition to these swaps with the foreign currency exchange rate of (Won)1,034.0, which the Company reset each (Won)10,620 million to the amounts of US\$10,000,000 multiplied by spot FX rate (KRW/US\$).

(b) Interest rate swap contracts as of December 31, 2005 are as follows

| | Notional amount | | Contract interest rate per annum | | |
|--|-----------------|-----|----------------------------------|-------------------------|-----------|
| | in millions | | Pay (%) | Receive (%) | Term |
| Deutsche Bank (formerly Bankers Trust Co.) | US\$ | 100 | Max (6,074-LIBOR, 0) | Max (LIBOR-6.074, 0) | 1998-2007 |
| Deutsche Bank (formerly Bankers Trust Co.) | US\$ | 100 | Max (LIBOR-6.074,0) | Max (6.074-LIBOR, 0) | 1998-2007 |

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| | | | | | |
|----------------------------|-----|---------|---------------------------|--------|-----------|
| Deutsche Bank | KRW | 178,350 | 5%+2×[JPY/ KRW-11.03%] | CD+3.3 | 2003-2013 |
| UBS | KRW | 148,625 | 5%+2×[JPY/ KRW-11.03%] | CD+3.3 | 2003-2013 |
| Credit Suisse First Boston | KRW | 89,175 | 5%+2×[JPY/ KRW-11.03%] | CD+3.3 | 2003-2013 |

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(22) Derivative Instruments Transactions, Continued

- (c) Valuation and transaction gains and losses on swap contracts recorded as other income or expense for the years ended December 31, 2005 and 2004 are as follows:

| | Won (millions) | |
|----------------------|----------------|-----------|
| | 2005 | 2004 |
| Valuation | | |
| Currency swaps: | | |
| Gains | (Won) 114,081 | 31,043 |
| Losses | (50,420) | (131,250) |
| Interest rate swaps: | | |
| Gains | 63,702 | 121,013 |
| | (Won) 127,363 | 20,806 |
| Transaction | | |
| Derivatives: | | |
| Gains | | 8,136 |
| Losses | (26,880) | (5,986) |

(23) Power Generation, Transmission and Distribution Costs

Power generation, transmission and distribution costs for the years ended December 31, 2005 and 2004 are as follows:

| | Won (millions) | |
|---|----------------|-----------|
| | 2005 | 2004 |
| Material expenses: | | |
| Oil | (Won) 29,201 | 21,864 |
| Labor expenses: | | |
| Salaries | 626,596 | 549,577 |
| Severance and retirement benefits | 70,786 | 74,954 |
| | 697,382 | 624,531 |
| Overhead expenses: | | |
| Employee benefits | 91,234 | 84,006 |
| Taxes and dues | 10,632 | 16,782 |
| Rent | 24,015 | 23,321 |
| Depreciation | 1,816,025 | 1,650,692 |
| Maintenance | 736,219 | 738,430 |
| Commission and consultation fees | 123,191 | 97,560 |
| Compensation expense | 9,944 | 14,538 |
| Development expenses | 137,972 | 136,992 |
| Property, plant and equipment removal costs | 203,151 | 197,970 |
| Others | 85,858 | 80,419 |

3,238,241 3,040,710

(Won) 3,964,824 3,687,105

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(24) Selling and Administrative Expenses

Details of selling and administrative expenses for the years ended December 31, 2005 and 2004 are as follows:

| | Won (millions) | |
|----------------------------------|-----------------|-----------|
| | 2005 | 2004 |
| Labor | (Won) 426,084 | 392,200 |
| Employee benefits | 73,366 | 65,609 |
| Sales commission - others | 397,344 | 346,463 |
| Communication fees | 33,026 | 27,850 |
| Depreciation and amortization | 35,020 | 35,072 |
| Taxes and dues | 18,444 | 20,291 |
| Commission and consultation fees | 40,619 | 63,307 |
| Rent | 13,372 | 11,482 |
| Maintenance | 18,572 | 17,399 |
| Others | 99,346 | 81,375 |
| | (Won) 1,155,193 | 1,061,048 |

(25) Income Taxes

(a) The Company is subject to a number of income taxes based on taxable at the following normal tax rates:

| Taxable earnings | Prior to 2005 | Thereafter |
|------------------------|---------------|------------|
| Up to (Won)100 million | 16.5% | 14.3% |
| Over (Won)100 million | 29.7% | 27.5% |

In December 2003, the Korean government reduced the corporate income tax rate beginning in 2005. Specifically, effective from January 1, 2005, the income tax rate was reduced from 29.7% to 27.5%.

The components of income tax expense for the years ended December 31, 2005 and 2004 are summarized as follows:

| | Won (millions) | |
|--|----------------|-----------|
| | 2005 | 2004 |
| Current income tax expense | (Won) 492,216 | 943,116 |
| Income taxes recorded in capital adjustments | (24,107) | |
| Deferred income tax expense | 264,321 | 164,877 |
| | (Won) 732,430 | 1,107,993 |

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(25) Income Taxes, Continued

- (b) The provision for income taxes calculated using the normal tax rates differs from the actual provision for the years ended December 31, 2005 and 2004 for the following reasons:

| | Won (millions) | |
|--|----------------|-----------|
| | 2005 | 2004 |
| Provision for income taxes at normal tax rates | (Won) 874,773 | 1,184,649 |
| Tax effects of permanent differences: | | |
| Dividend income (*) | (135,016) | (65,539) |
| Other | (5,476) | (16,264) |
| Tax credit | (2,253) | (3,767) |
| Other, net | 402 | 8,914 |
| Actual provision for income taxes | (Won) 732,430 | 1,107,993 |

- (*) Under the Corporate Income Tax Act Article 18 paragraph 3, 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).

As described in note 1(e), effective January 1, 2005, the Company adopted SKAS No. 16 *Income Taxes*. Under this standard, dividends from affiliated companies are recorded when declared at the shareholders' meeting of the affiliated companies. Prior to 2005, the tax effect related to dividend income was reflected into the non-consolidated financial statements when dividends were paid. As allowed by this standard, the prior year balance was not restated.

The effective tax rates, after adjustments for certain differences between amounts reported for financial accounting and income tax purposes, were approximately 23.02% and 27.78% for the years ended December 31, 2005 and 2004, respectively.

- (c) The tax effects of temporary differences that result in significant portions of the deferred income tax assets and liabilities as of December 31, 2005 and 2004 are presented below:

| | Won (millions) | |
|--|----------------|-----------|
| | 2005 | 2004 |
| Deferred tax assets: | | |
| Loss on valuation of derivatives | (Won) 105,185 | 143,407 |
| Accrual for retirement and severance benefits | 90,108 | 72,135 |
| Deferred foreign exchange translation loss | 9,037 | 11,139 |
| Accounts payable - purchase of electricity | 182,642 | 167,132 |
| Other, net | 154,679 | 51,831 |
| Total deferred tax assets | 541,651 | 445,644 |
| Deferred tax liabilities: | | |
| Gain on valuation of derivatives | (112,507) | (127,534) |
| Deferred foreign exchange translation gain | (22,099) | (27,243) |
| Reserve for social overhead capital investment | (89,248) | (133,439) |

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| | | |
|--------------------------------|-------------------|-------------|
| Equity income of affiliates | (2,320,592) | (1,979,941) |
| Other, net | (90,295) | |
| Total deferred tax liabilities | (2,634,741) | (2,268,157) |
| Net deferred tax liabilities | (Won) (2,093,090) | (1,822,513) |

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(25) Income Taxes, Continued

As of December 31, 2005, the temporary differences arising from equity loss amounting to (Won)1,182 million of KEPCO China International Ltd. and Jiaosuo KEPCO Power Co., Ltd. have not been recognized as deferred tax assets because it is not probable that future profit will be available against which the Company can utilize the related benefit.

- (d) As discussed in note 1(u), effective January 1, 2005, the Company adopted SKAS No. 16 *Income Taxes*. As a result, deferred taxes are recorded on the temporary differences related to unrealized gains and losses on investment securities that are reported as a separate component of capital adjustments.
- (e) Under SKAS No. 16 *Income Taxes*, the deferred tax amounts should be presented as a net current asset or liability and a net non-current asset or liability. In addition, the Company is required to disclose aggregate deferred tax assets (liabilities). As of December 31, 2005, details of aggregate deferred tax assets (liabilities) are as follows:

| | Temporary differences at December 31, 2005 | Won (millions) | | Deferred tax assets (liabilities) | |
|--|--|---------------------------|-------------|-----------------------------------|-------------|
| | | Estimated reversal timing | Thereafter | Current | Non-current |
| | | Within one year | | | |
| Assets: | | | | | |
| Loss on valuation of derivatives | (Won) (382,490) | | 382,490 | | 105,185 |
| Accrual for retirement and severance benefits | (327,668) | | 327,668 | | 90,108 |
| Deferred foreign exchange translation loss | (32,861) | | 32,861 | | 9,037 |
| Accounts payable - purchase of electricity | (664,155) | 664,155 | | 182,642 | |
| Other, net | (671,846) | 155,200 | 516,646 | 36,118 | 118,561 |
| | (2,079,020) | 819,355 | 1,259,665 | 218,760 | 322,891 |
| Liabilities: | | | | | |
| Gain on valuation of derivatives | 409,118 | | (409,118) | | (112,507) |
| Deferred foreign exchange translation gain | 80,361 | | (80,361) | | (22,099) |
| Reserve for social overhead capital investment | 324,539 | | (324,539) | | (89,248) |
| Equity income of affiliates | 8,437,335 | | (8,437,335) | | (2,320,592) |
| Other, net | 328,349 | (333,040) | 4,691 | (10,900) | (79,395) |
| | 9,579,702 | (333,040) | (9,246,662) | (10,900) | (2,623,841) |
| | (Won) 7,500,682 | 486,315 | (7,986,997) | 207,860 | (2,300,950) |

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(26) Earnings Per Share

Basic earnings per common share are calculated by dividing net income by the weighted-average number of shares of common stock outstanding.

| | Won (millions except share data) | |
|--|----------------------------------|--------------|
| | 2005 | 2004 |
| Net income | (Won) 2,448,611 | 2,880,770 |
| Weighted-average number of common shares outstanding | 635,289,794 | 629,868,023 |
| Basic earnings per common share in Won | (Won) 3,854 | 4,574 |

Diluted earnings per share is calculated by dividing diluted net income by the weighted average number of shares of common equivalent stock outstanding.

| | Won (millions) | |
|---|--------------------|--------------|
| | 2005 | 2004 |
| Net income | (Won) 2,448,611 | 2,880,770 |
| Exchangeable bond interest | 1,490 | 3,204 |
| | 2,450,101 | 2,883,974 |
| Weighted-average number of common shares and diluted securities outstanding | 639,722,531 | 639,867,870 |
| Diluted earnings per share in Won | (Won) 3,830 | 4,507 |

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(27) Transactions and Balances with Related Companies

(a) Transactions with related parties for the years ended December 31, 2005 and 2004 are as follows:

| Related party | Transactions | Won (millions) | |
|--|---|------------------|------------|
| | | 2005 | 2004 |
| Sales and other income: | | | |
| Korea Hydro & Nuclear Power Co., Ltd. | Sales of electricity and others | (Won) 123,545 | 129,617 |
| Korea South-East Power Co., Ltd. | „ | 34,455 | 39,630 |
| Korea Midland Power Co., Ltd. | „ | 20,364 | 17,844 |
| Korea Western Power Co., Ltd. | „ | 36,054 | 37,456 |
| Korea Southern Power Co., Ltd. | „ | 18,228 | 16,100 |
| Korea East-West Power Co., Ltd. | „ | 35,289 | 28,486 |
| Others | „ | 139,564 | 98,015 |
| | | (Won) 407,499 | 367,148 |
| Purchases and others: | | | |
| Korea Hydro & Nuclear Power Co., Ltd. (*) | Purchase of electricity and others | (Won) 5,626,416 | 5,077,306 |
| Korea South-East Power Co., Ltd. (*) | „ | 2,008,079 | 1,654,792 |
| Korea Midland Power Co., Ltd. (*) | „ | 2,227,464 | 1,897,358 |
| Korea Western Power Co., Ltd. (*) | „ | 2,213,277 | 2,049,316 |
| Korea Southern Power Co., Ltd. (*) | „ | 2,837,823 | 2,738,995 |
| Korea East-West Power Co., Ltd. (*) | „ | 2,123,280 | 2,058,906 |
| Korea Power Engineering Co., Inc. | Designing of the power plant and others | 6,872 | 12,220 |
| Korea Plant Service & Engineering Co., Ltd. | Utility plant maintenance | 47,504 | 39,615 |
| Korea Electric Power Data Network, Co., Ltd. | Maintenance of computer system | 151,109 | 212,053 |
| Others | Commissions for service and others | 162,494 | 180,838 |
| | | (Won) 17,404,318 | 15,921,399 |

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

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(27) Transactions and Balances with Related Companies, Continued

(b) Receivables arising from related parties transactions as of December 31, 2005 and 2004 are as follows:

| Related party | Won (millions) | | |
|---------------------------------------|----------------------|------------------------------|--------|
| | Trade receivables | 2005 Other receivables | Total |
| Korea Hydro & Nuclear Power Co., Ltd. | (Won) 7,436 | 4,226 | 11,662 |
| Korea South-East Power Co., Ltd. | 2,454 | 283 | 2,737 |
| Korea Midland Power Co., Ltd. | 1,112 | 559 | 1,671 |
| Korea Western Power Co., Ltd. | 2,457 | 357 | 2,814 |
| Korea Southern Power Co., Ltd. | 992 | 315 | 1,307 |
| Korea East-West Power Co., Ltd. | 1,885 | 1,659 | 3,544 |
| Others | 4,328 | 24,934 | 29,262 |
| | (Won) 20,664 | 32,333 | 52,997 |

| Related party | Won (millions) | | |
|---------------------------------------|----------------------|------------------------------|--------|
| | Trade receivables | 2004 Other receivables | Total |
| Korea Hydro & Nuclear Power Co., Ltd. | (Won) | 7,185 | 7,185 |
| Korea South-East Power Co., Ltd. | 1,984 | 1,130 | 3,114 |
| Korea Midland Power Co., Ltd. | 183 | 9,808 | 9,991 |
| Korea Western Power Co., Ltd. | 2,115 | 114 | 2,229 |
| Korea Southern Power Co., Ltd. | 1,242 | 199 | 1,441 |
| Korea East-West Power Co., Ltd. | 2,306 | 101 | 2,407 |
| Others | 4,790 | 9,903 | 14,693 |
| | (Won) 12,620 | 28,440 | 41,060 |

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(27) Transactions and Balances with Related Companies, Continued

(c) Payables arising from related parties transactions as of December 31, 2005 and 2004 are as follows:

| Related party | Won (millions) | | |
|---|-----------------|----------------|-----------|
| | Trade payables | 2005 | |
| | | Other payables | Total |
| Korea Hydro & Nuclear Power Co., Ltd. (*) | (Won) 491,173 | 8,459 | 499,632 |
| Korea South-East Power Co., Ltd. (*) | 210,825 | 2,795 | 213,620 |
| Korea Midland Power Co., Ltd. (*) | 272,328 | 5,847 | 278,175 |
| Korea Western Power Co., Ltd. (*) | 246,305 | 3,042 | 249,347 |
| Korea Southern Power Co., Ltd. (*) | 314,867 | 2,626 | 317,493 |
| Korea East-West Power Co., Ltd. (*) | 265,266 | 3,931 | 269,197 |
| Korea Power Engineering Co., Inc. | 1,653 | | 1,653 |
| Korea Plant Service & Engineering Co., Ltd. | 5,935 | 12 | 5,947 |
| Korea Electric Power Data Network Co., Ltd. | 23,237 | 1,341 | 24,578 |
| Others | 2,905 | 18,528 | 21,433 |
| | (Won) 1,834,494 | 46,581 | 1,881,075 |

(*) 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 (millions) | | |
|---|-----------------|----------------|-----------|
| | Trade payables | 2004 | |
| | | Other payables | Total |
| Korea Hydro & Nuclear Power Co., Ltd. (*) | (Won) 403,299 | 48 | 403,347 |
| Korea South-East Power Co., Ltd. (*) | 153,429 | 111 | 153,540 |
| Korea Midland Power Co., Ltd. (*) | 146,735 | 8,458 | 155,193 |
| Korea Western Power Co., Ltd. (*) | 169,362 | 117 | 169,479 |
| Korea Southern Power Co., Ltd. (*) | 227,978 | 84 | 228,062 |
| Korea East-West Power Co., Ltd. (*) | 160,231 | 126 | 160,357 |
| Korea Power Engineering Co., Inc. | | 1,515 | 1,515 |
| Korea Plant Service & Engineering Co., Ltd. | | 6,275 | 6,275 |
| Korea Electric Power Data Network Co., Ltd. | | 43,845 | 43,845 |
| Others | 1,044 | 17,453 | 18,497 |
| | (Won) 1,262,078 | 78,032 | 1,340,110 |

(*) 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.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(27) Transactions and Balances with Related Companies, Continued

(d) As discussed in note 18, as of and for the years ended December 31, 2005 and 2004, the balances of long-term borrowings from Korea Development Bank amounted to (Won)4,628,074 million and (Won)4,341,204 million, respectively and the related interest expense amounted to (Won)197,613 million and (Won)188,988 million, respectively.

(e) The guarantees the Company has provided for related companies as of December 31, 2005 are as follows:

| Type | Loan type | Guaranteed company | Financial institutions | US\$ (thousands) |
|-------------------|-----------------------|-----------------------|------------------------|------------------|
| Payment guarantee | Foreign currency loan | KEPCO Philippines Co. | Korea Development Bank | US\$ 9,087 |
| Other (*) | | KEPCO Ilijan Co. | | 105,000 |
| | | | | US\$ 114,087 |

(*) 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\$319 million in 2000 as project financing from Japan Bank of International Corporation and others for that business. In connection to the borrowing, KEPCO Ilijan Corporation's investment securities under equity method held by KEPCO International Philippines Inc. were pledged as collateral. The Company has provided National Power Corporation and others with the guarantees to the extent not exceeding US\$72 million for performance of the power generation business of KEPCO Ilijan Corporation as well as with the partial guarantees to the extent not exceeding US\$33 million for the repayment of that borrowing.

(f) The guarantees provided by related companies for the Company as of December 31, 2005 are as follows:

| Type | Related party | Currency | Guaranteed amounts | | Type of borrowings | Balance of borrowing as of December 31, 2005 | |
|-----------------------|------------------------|----------|--------------------|------------------------------|-----------------------|--|------------------------------|
| | | | Won (millions) | USD, JPY and GBP (thousands) | | USD, JPY and GBP (thousands) | USD, JPY and GBP (thousands) |
| Payment guarantee (*) | Korea Development Bank | US\$ | 1,311,025 | | Foreign currency bond | US\$ | 1,004,028 |
| | | JPY | 31,013,147 | | | JPY | 31,000,000 |
| | | GBP | 28,626 | | | GBP | 24,467 |

(*) Korea Development Bank has provided a 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, 2005, instead of the collective responsibilities of the power generation subsidiaries to facilitate the Restructuring Plan described in note 1(a).

(g)

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On July 25, 2005, the joint and several liabilities of the Company and its generation subsidiaries for loans from Korea Development Bank (KDB) and others were eliminated through agreements among KDB, other third parties, KEPCO and the generation subsidiaries. As a result, the Company and the generation subsidiaries no longer remain jointly and severally liable for any of the liabilities existing prior to the corporate split on April 2, 2001.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(28) Non-cash Investing and Financing Activities

Significant non-cash investing and financing activities for the years ended December 31, 2005 and 2004 are summarized as follows:

| | Won (millions) | |
|---|-----------------|-----------|
| | 2005 | 2004 |
| Construction in-progress transferred to property, plant and equipment | (Won) 3,502,838 | 3,363,180 |
| Construction grants offset against depreciation expense | 166,773 | 145,310 |
| Conversion of exchangeable bonds | 146,763 | |
| Investment in kind | 27,949 | |

(29) Commitments and Contingencies

- (a) As of December 31, 2005, the Company is engaged in 35 lawsuits as a plaintiff and 229 lawsuits as a defendant. The amount of the related lawsuits as a plaintiff and defendant was (Won)5,844 million and (Won)101,630 million, respectively, as of December 31, 2005. As of December 31, 2005, the Company has recorded a liability related to the above claims amounted to (Won)50,690 million. In the opinion of management, the ultimate results of these lawsuits will not have a material adverse effect on the Company's financial position, results of operation or liquidity.
- (b) As described in note 17, five banks including Korea Exchange Bank have provided the Company credit (overdraft) lines and credit facilities amounting to (Won)210,000 million and (Won)950,000 million as of December 31, 2005.
- (c) 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 the Democratic People's Republic of Korea (North Korea). The contract amount is US\$4,182 million and subject to adjustment to cover any changes in the price level. The construction projects have been suspended from December 1, 2003 due to the political environment surrounding the Korean peninsula. During 2005 and 2004, the Company continued to provide routine maintenance for the construction projects. In December 2005, KEDO sent a delegation to North Korea to discuss the issues regarding the project's termination and demobilization. During the meeting, North Korea notified KEDO to withdraw all personnel. On January 8, 2006, KEDO completed the withdrawal of all workers from the project site, pending a final decision on the future of the project. In connection with the above construction maintenance, the Company recognized revenue amounting to (Won)108,586 million and (Won)97,172 million, respectively, for the years ended December 31, 2005 and 2004. Also, the balances of advances received and other accounts receivable amounted to (Won)449,949 million and (Won)21,190 million, respectively, as of December 31, 2005. The Company has received cash advances from other parties which consist of other current liabilities amounting to (Won)100,683 million and other long-term liabilities amounting to (Won)349,266 million as of December 31, 2005. Under the terms of the contract between KEDO and the Company, KEDO shall have the obligation to reimburse all the costs incurred in terminating the project.
- (d) 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. The power purchased under these agreements amounted to (Won)1,170,094 million and (Won)1,019,528 million for the years ended December 31, 2005 and 2004.

Korea Electric Power Corporation

Notes to Non-consolidated Financial Statements, Continued

(30) Added Value

The components of power generation, transmission and distribution costs and selling and administrative expenses which are necessary in calculating added value at December 31, 2005 and 2004 are as follows:

| | Won (millions) | |
|-----------------------------------|-----------------|-----------|
| | 2005 | 2004 |
| Salaries | (Won) 1,021,512 | 907,490 |
| Severance and retirement benefits | 115,362 | 124,775 |
| Employee benefits | 166,216 | 151,259 |
| Rent | 37,554 | 34,960 |
| Depreciation | 1,851,046 | 1,685,764 |
| Taxes and dues | 29,152 | 37,156 |
| Net financial charges | 479,398 | 556,627 |
| | (Won) 3,700,240 | 3,498,031 |

(31) Employee Welfare and Contributions to Society

For employee welfare, the Company maintains a refectory, an infirmary, athletic facilities, a scholarship fund, workmen's accident compensation insurance, unemployment insurance and medical insurance. The Company donated (Won)108,636 million and (Won)81,682 million to the fund for the welfare of the Company's employees and others for the years ended December 31, 2005 and 2004, respectively.

(32) Financial Information for the 4th Quarter (Unaudited)

Financial information for the 4th quarter of 2005 and 2004 is as follows:

| | Won (millions except earnings per share) | |
|----------------------------------|--|-----------|
| | 2005 | 2004 |
| Operating revenues | (Won) 6,221,778 | 5,756,722 |
| Net income (loss) | (138,714) | 183,173 |
| Earnings (loss) per share in Won | (218) | 291 |

(33) Approval of Non-consolidated Financial Statements

Non-consolidated financial statements of the Company are scheduled to be approved at the shareholders' meeting, which is scheduled to be held on March 17, 2006.

Internal Accounting Control System Review Report

English translation of a Report Originally Issued in Korean

President and CEO

Korea Electric Power Corporation:

We have reviewed the report of management's assessment of internal accounting control system (IACS) of Korea Electric Power Corporation (the Company) as of December 31, 2005. In accordance with Article 2-2 of the Act on External Audit for Stock Companies (the External Audit Law) of the Republic of Korea, the Company's management is responsible for assessing the design and operating effectiveness of its IACS. Our responsibility is to review management's assessment and issue a report based on our review.

We conducted our review in accordance with Article 2-3 of the External Audit Law. Our review included inquiries of management and employees, inspection of related documents and evaluation of the operating effectiveness of the Company's IACS. We did not perform an audit of the Company's IACS and accordingly, we do not express an audit opinion.

As this report is based on Interim Guidelines on Auditors' Review and Report on Management's Assessment of IACS, issued by the Korean Audit Standards Committee on March 29, 2005, it applies only from that date until the date the Final Standard for Management's Assessment of IACS and Final Standard for Auditors' Review and Report on Management Assessment of IACS become effective. A review performed based on the final standards may have different results and accordingly, the content of our report may be different.

Based on our review, no material weakness in the design or operating effectiveness of the Company's IACS under Article 2-2 of the External Audit Law as of December 31, 2005 has come to our attention.

This report applies to the Company's IACS in existence as of December 31, 2005. We did not review the Company's IACS subsequent to December 31, 2005. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

Seoul, Korea

January 27, 2006

Notice to Readers

This report is annexed in relation to the audit of the financial statements as of December 31, 2005 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 : General Manager
International Finance Department

Date: April 26, 2006