KOREA ELECTRIC POWER CORP
Form 20-F
April 30, 2014
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As filed with the Securities and Exchange Commission on April 30, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549 F

Form 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2013

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

For the transition period from to

Commission File Number: 001-13372

KOREA ELECTRIC POWER CORPORATION

(Exact name of registrant as specified in its charter)

N/A
(Translation of registrant s name into English)

The Republic of Korea
(Jurisdiction of incorporation or organization)

512 YEONGDONGDAERO, GANGNAM-GU, SEOUL 135-791, KOREA

(Address of principal executive offices)

Younseung Lee, +822 3456 4217, winstraight@kepco.co.kr, +822 3456 4299

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:	**Name of each exchange on which registered:**
Common stock, par value Won 5,000 per share	**New York Stock Exchange***
American depositary shares, each representing one-half of share of common stock	**New York Stock Exchange**

* Not for trading, but only in connection with the listing of American depositary shares on the New York Stock Exchange, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

Twenty Year 7.40% Amortizing Debentures, due April 1, 2016

One Hundred Year 7.95% Zero-to-Full Debentures, due April 1, 2096

6% Debentures due December 1, 2026

7% Debentures due February 1, 2027

6 3/4% Debentures due August 1, 2027

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the last full fiscal year covered by the annual report:

641,964,077 shares of common stock, par value of Won 5,000 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

If this annual report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨ International Financial Reporting Standards as issued by the International Accounting Standards Board þ Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ¨ No ¨

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CERTAIN DEFINED TERMS AND CONVENTIONS

All references to Korea or the Republic in this annual report on Form 20-F, or this annual report, are references to the Republic of Korea. All references to the Government in this annual report are references to the government of the Republic. All references to we, us, our, ours, the Company or KEPCO in this annual report are references to Korea Electric Power Corporation and, as the context may require, its subsidiaries, and the possessive thereof, as applicable. All references to the Ministry of Trade, Industry and Energy and the Ministry of Strategy and Finance include the respective predecessors thereof. All references to tons are to metric tons, equal to 1,000 kilograms, or 2,204.6 pounds. Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding. All references to IFRS in this annual report are references to the International Financial Reporting Standards as issued by the International Accounting Standard Board. Unless otherwise stated, all of our financial information presented in this annual report has been prepared on a consolidated basis and in accordance with IFRS.

In addition, in this annual report, all references to:

KHNP are to Korea Hydro & Nuclear Power Co., Ltd.,

EWP are to Korea East-West Power Co., Ltd.,

KOMIPO are to Korea Midland Power Co., Ltd.,

KOSEP are to Korea South-East Power Co., Ltd.,

KOSPO are to Korea Southern Power Co., Ltd., and

KOWEPO are to Korea Western Power Co., Ltd.,

each of which is our wholly-owned generation subsidiary.

FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements (as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934), including statements regarding our expectations and projections for future operating performance and business prospects. The words believe, expect, anticipate, estimate, project and similar words used in connection with any discussion of our future operation or financial performance identify forward-looking statements. In addition, all statements other than statements of historical facts included in this annual report are forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this annual report.

This annual report discloses, under the caption Item 3D. Risk Factors and elsewhere, important factors that could cause actual results to differ materially from our expectations (Cautionary Statements). All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Item 3A. Selected Financial Data

The selected consolidated financial data set forth below as of and for the years ended December 31, 2010, 2011, 2012 and 2013 have been derived from our audited consolidated financial statements which have been prepared in accordance with IFRS.

You should read the following data with the more detailed information contained in Item 5. Operating and Financial Review and Prospects and our consolidated financial statements included in Item 18. Financial Statements. Historical results do not necessarily predict future results.

Consolidated Statement of Comprehensive Income (Loss) Data

	2010	2011	2012	2013	
	(in billions of Won and millions of US$, except per share data)[1]				
Sales	39,507	43,175	49,121	53,713	$ 50,898
Gross Profit	3,319	450	661	3,117	2,954
Selling and administrative expenses	1,645	1,752	1,780	1,923	1,822
Other gains (losses)	118	166	(1,782)	129	122
Operating profit (loss)	2,260	(685)	(2,300)	1,948	1,846
Finance income (expense), net	(1,967)	(1,911)	(1,940)	(2,302)	(2,181)
Income (loss) before income taxes	370	(2,473)	(4,063)	(396)	(376)
Income tax (expense) benefit	(439)	(820)	985	571	541
Profit (loss) for the period	(69)	(3,293)	(3,078)	174	165
Other comprehensive income (loss)	(43)	(262)	(322)	186	176
Total comprehensive income (loss)	(112)	(3,555)	(3,400)	360	341
Profit (loss) attributable to:					
Owners of the Company	(120)	(3,370)	(3,167)	60	57
Non-controlling interests	51	77	89	114	108
Total comprehensive income (loss) attributable to:					
Owners of the Company	(152)	(3,628)	(3,448)	245	233
Non-controlling interests	40	73	48	115	109
Earnings (loss) per share					
Basic[2]	(193)	(5,411)	(5,083)	96	91
Earnings (loss) per ADS					
Basic[2]	(97)	(2,706)	(2,542)	48	46
Dividends per share				90	85

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Consolidated Statements of Financial Position Data

	As of December 31,				
	2010	2011	2012	2013	
	(in billions of Won and millions of US$, except share and per share data)[1]				
Net working capital deficit[3]	(916)	(3,973)	(4,884)	(4,945)	$ (4,686)
Property, plant and equipment, net	107,406	112,385	122,376	129,638	122,844
Total assets	129,518	136,468	146,153	155,527	147,377
Total shareholders equity	57,277	53,804	51,064	51,451	48,755
Equity attributable to owners of the Company	56,818	53,270	49,889	50,260	47,626
Non-controlling interests	459	534	1,175	1,191	1,129
Share capital	3,208	3,210	3,210	3,210	3,042
Number of common shares as adjusted to reflect any changes in capital stock	641,567,712	641,964,077	641,964,077	641,964,077	641,964,077
Long-term debt (excluding current portion)	32,848	39,198	45,525	52,801	50,034
Other long term liabilities	25,321	25,725	30,747	31,062	29,434

Notes:

(1) The financial information denominated in Won as of and for the year ended December 31, 2013 has been translated into U.S. dollars at the exchange rate of Won 1,055.3 to US$1.00, which was the Noon Buying Rate as of December 31, 2013.

(2) Basic earnings per share are calculated by dividing net income available to holders of our common shares by the weighted average number of common shares issued and outstanding for the relevant period. Dilutive loss per share is not presented as such amount was anti-dilutive for the periods indicated.

(3) Net working capital is defined as current assets minus current liabilities. For the periods indicated, current liabilities exceeded current assets, which gave rise to working capital deficit.

Currency Translations and Exchange Rates

In this annual report, unless otherwise indicated, all references to Won or are to the currency of Korea, and all references to U.S. dollars, Dollars, $ or US$ are to the currency of the United States of America, all references to Euro or are references to the currency of the Europ Union, and all references to Yen or ¥ are references to the currency of Japan. Unless otherwise indicated, all translations from Won to U.S. dollars were made at Won 1,055.3 to US$1.00, which was the noon buying rate of the Federal Reserve Board (the Noon Buying Rate) in effect as of December 31, 2013, which rates are available on the H.10 statistical release of the Federal Reserve Board. On April 11, 2014, the Noon Buying Rate was Won 1,035.4 to US$1.00. The exchange rate between the U.S. dollar and Korean Won may be highly volatile from time to time and the U.S. dollar amounts referred to in this annual report should not be relied upon as an accurate reflection of our results of operations. No representation is made that the Won or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all.

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The following table sets forth, for the periods and dates indicated, certain information concerning the Noon Buying Rate in Won per US$1.00.

Year Ended December 31,	At End of Period	Average[1]	High	Low
		(Won per US$1.00)		
2009	1,163.7	1,274.6	1,570.1	1,149.0
2010	1,130.6	1,155.7	1,253.2	1,104.0
2011	1,158.5	1,106.9	1,197.5	1,049.2
2012	1,063.2	1,126.2	1,185.0	1,063.2
2013	1,055.3	1,094.7	1,161.3	1,050.1
October	1,060.8	1,065.9	1,075.5	1,057.5
November	1,057.8	1,061.6	1,072.7	1,054.8
December	1,055.3	1,055.6	1,061.4	1,050.1
2014 (through April 11)	1,035.4	1,067.1	1,084.2	1,035.4
January	1,080.4	1,067.1	1,083.7	1,050.3
February	1,066.0	1,071.3	1,084.2	1,062.1
March	1,064.7	1,070.5	1,079.6	1,064.1
April (through April 11)	1,035.4	1,050.1	1,058.3	1,035.4

Source: Federal Reserve Board.

Note:

(1) Represents the daily average of the Noon Buying Rates during the relevant period.

Item 3B. Capitalization and Indebtedness

Not Applicable

Item 3C. Reasons for the Offer and Use of Proceeds

Not Applicable

Item 3D. Risk Factors

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

Risks Relating to KEPCO

Increases in fuel prices will adversely affect our results of operations and profitability as we may not be able to pass on the increased cost to consumers at a sufficient level or on a timely basis.

Fuel costs constituted 45.1% and 47.8% of our sales and cost of sales, respectively, in 2013. Our generation subsidiaries purchase substantially all of the fuel that they use (except for anthracite coal) from suppliers outside Korea at prices determined in part by prevailing market prices in currencies other than Won. For example, most of the bituminous coal requirements (which accounted for approximately 43.0% of our entire fuel requirements in 2013 in terms of electricity output) are imported principally from Indonesia and Australia and, to a lesser extent, the United States and Russia, which accounted for approximately 41.6%, 38.2%, 9.5% and 9.5%, respectively, of the annual bituminous coal requirements of our generation subsidiaries in 2013. Approximately 89.0% of the bituminous coal requirements of our generation subsidiaries in 2013 were purchased under long-term contracts and the remaining 11.0% from the spot market. Pursuant to the terms of our long-term supply contracts,

prices are adjusted periodically based on prevailing market conditions. In addition, our generation subsidiaries purchase a significant portion of their fuel requirements under contracts with limited duration. See Item 4B. Business Overview Fuel.

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If fuel prices increase sharply within a short span of time, our generation subsidiaries may be unable to secure requisite fuel supplies at prices commercially acceptable to them. In addition, any significant interruption or delay in the supply of fuel, bituminous coal in particular, from any of their suppliers may cause our generation subsidiaries to purchase fuel on the spot market at prices higher than the prices available under existing supply contracts, which would result in an increase in fuel costs. In recent years, however, the prices of our main fuel types, namely, bituminous coal, oil and liquefied natural gas, or LNG have generally declined in tandem with their international market prices. For example, the average free on board Newcastle coal 6300 GAR spot price index published by Platts declined from US$96.2 per ton in 2012 to US$85.1 per ton in 2013 and US$73.8 per ton as of April 11, 2014. The prices of oil and LNG are substantially dependent on the price of crude oil, and according to Bloomberg (Bloomberg Ticker: PGCRDUBA), the average daily spot price of Dubai crude oil declined from US$108.9 per barrel in 2012 to US$105.4 per barrel in 2013 and to US$104.1 per barrel as of April 11, 2014. However, we cannot assure you that the fuel prices will remain at similarly low levels or will not significantly increase in the remainder of 2014 or thereafter.

Because the Government regulates the rates we charge for the electricity we sell to our customers (see Item 4B. Business Overview Sales and Customers Electricity Rates), our ability to pass on fuel and other cost increases to our customers is limited. If fuel prices increase rapidly and substantially and the Government, out of concern for inflation or for other reasons, maintains the current level of electricity tariff or does not increase it to a level to sufficiently offset the impact of high fuel prices, the fuel price increases will negatively affect our profit margins or even cause us to suffer operating and/or net losses (as was the case from 2008 to 2012 when we suffered consecutive net losses and, from time to time, operating losses) and our business, financial condition, results of operations and cash flows would suffer. In addition, partly because the Government may have to undergo a lengthy deliberative process to approve an increase in electricity tariff, which represents a key component of the consumer price index, the electricity tariff may not be adjusted to a level sufficient to ensure a fair rate of return to us in a timely manner or at all. Similarly, we cannot assure that any future tariff increase by the Government will be sufficient to fully offset the adverse impact on our results of operations from the current or potential rises in fuel costs.

Further to the announcement by the Ministry of Trade, Industry and Energy in February 2010, a new electricity tariff system went into effect on July 1, 2011. This system is designed to overhaul the prior system for determining electricity tariff chargeable to customers by more closely aligning the tariff levels to movements in fuel prices, with the aim of providing more timely pricing signals to the market regarding the expected changes in electricity tariff levels and encouraging more efficient use of electricity by customers. Previously, the electricity tariff consisted of two components: (i) base rate and (ii) usage rate based on the cost of electricity and the amount of electricity consumed by the end-users. Under the new tariff system, the electricity tariff also has a third component of fuel cost pass-through adjustment (FCPTA) rate, which is to be added to or subtracted from the sum of the base rate and the usage rate on a monthly basis based on the three-month average movements of coal, LNG and oil prices. The new tariff system is intended to provide greater financial stability and ensure a minimum return on investment to electricity suppliers, such as us. However, due to inflationary and other policy considerations relating to protecting the consumers from sudden and substantial rises in electricity tariff, the Ministry of Trade, Industry and Energy issued a hold order on July 29, 2011 suspending our billing and collecting of the FCPTA amount. The hold order remains in effect to-date. Furthermore, on January 11, 2013, the Ministry of Trade, Industry and Energy informed us that the FCPTA system needed to be reassessed in light of the other factors such as the prolonged unbilled period since the announcement of the FCPTA system. There is no assurance as to when the Government will lift the hold order and allow us to bill and collect the accumulated FCPTA amount or whether the new tariff system will undergo other amendments to the effect that it will not fully cover our fuel and other costs on a timely basis or at all, or will not have unintended consequences that we are not presently aware of. Any such development may have a material adverse effect on our business, financial condition, results of operations and cash flows. For further discussion, including in relation to accounting, see Item 5A. Operating and Financial Review and Prospects Critical Accounting Policy Correction of Accounting for Fuel Cost Pass-through Adjustment.

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The Government may adopt policy measures to substantially restructure the Korean electric power industry or our operational structure, which may have a material adverse effect on our business, operations and profitability.

From time to time, the Government considers various policy initiatives to foster efficiency in the Korean electric power industry, and at times have adopted policy measures that have substantially altered our business and operations. For example, in January 1999, with the aim of introducing greater competition in the Korean electric power industry and thereby improving its efficiency, the Government announced a restructuring plan for the Korean electric power industry, or the Restructuring Plan. For a detailed description of the Restructuring Plan, see Item 4B. Business Overview Restructuring of the Electric Power Industry in Korea. As part of this initiative, in April 2001 the Government established the Korea Power Exchange to enable the sale and purchase of electricity through a competitive bidding process, established the Korea Electricity Commission to ensure fair competition in the Korean electric power industry, and, in order to promote competition in electricity generation, split off our electricity generation business to form one nuclear generation company and five thermal generation companies, in each case, to be wholly owned by us. In 2002, the Government introduced a plan to privatize one of our five thermal generation subsidiaries, but this plan was suspended indefinitely in 2003 due to prevailing market conditions and other policy considerations.

In 2003, the Government established a Tripartite Commission consisting of representatives of the Government, leading businesses and labor unions in Korea to deliberate on ways to introduce competition in electricity distribution, such as by forming and privatizing new distribution subsidiaries. In 2004, the Tripartite Commission recommended not pursuing such privatization initiatives but instead creating independent business divisions within us to improve operational efficiency through internal competition. Following the adoption of such recommendation by the Government in 2004 and further studies by Korea Development Institute, in 2006 we created nine strategic business units (which, together with our other business units, were subsequently restructured into 14 such units in February 2012) that have a greater degree of autonomy with respect to management, financial accounting and performance evaluation while having a common focus on increasing profitability.

In August 2010, the Ministry of Trade, Industry and Energy announced the Proposal for the Improvement in the Structure of the Electric Power Industry, whose key initiatives included the following: (i) maintain the current structure of having six generation subsidiaries, (ii) designate the six generation subsidiaries as market-oriented public enterprises under the Public Agency Management Act in order to foster competition among them and autonomous and responsible management by them, (iii) create a supervisory unit to act as a control tower in reducing inefficiencies created by arbitrary division of labor among the six generation subsidiaries and fostering economies of scale among them and require the presidents of the generation subsidiaries to hold regular meetings, (iv) create a nuclear power export business unit to systematically enhance our capabilities to win projects involving the construction and operation of nuclear power plants overseas, (v) further rationalize the electricity tariff by adopting a fuel-cost based tariff system in 2011 and a voltage-based tariff system in a subsequent year, and (vi) create separate accounting systems for electricity generation, transmission, distribution and sales with the aim of introducing competition in electricity sales in the intermediate future. Pursuant to this Proposal, in December 2010 the Ministry of Trade, Industry and Energy announced guidelines for a cooperative framework between us and our generation subsidiaries, and in January 2011 the five thermal generation subsidiaries formed a joint cooperation unit and transferred their pumped-storage hydroelectric business units to KHNP. Furthermore, in January 2011 the six generation subsidiaries were officially designated as market-oriented public enterprises, whereupon the President of Korea appoints the president and the statutory auditor of each such subsidiary; the selection of outside directors of each such subsidiary is subject to approval by the minister of the Ministry of Strategy and Finance; the president of each such subsidiary is required to enter into a management contract directly with the minister of the Ministry of Trade, Industry and Energy; and the Public Enterprise Management Evaluation Commission conducts performance evaluation of such subsidiaries. Previously, our president appointed the president and the statutory auditor of each such subsidiary; the selection of outside directors of each such subsidiary was subject to approval by our president; the president of each such subsidiary entered into a management contract with our president; and our evaluation committee conducted performance evaluation of such subsidiaries.

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Other than as set forth above, we are not aware of any specific plans by the Government to resume the implementation of the Restructuring Plan or otherwise change the current structure of the electric power industry or the operations of us or our generation subsidiaries in the near future. However, for reasons relating to changes in policy considerations, socio-political, economic and market conditions and/or other factors, the Government may resume the implementation of the Restructuring Plan or initiate other steps that may change the structure of the Korean electric power industry or the operations of us or our generation subsidiaries. Any such measures may have a negative effect on our business, results of operation and financial conditions. In addition, the Government, which beneficially owns a majority of our shares and exercises significant control over our business and operations, may from time to time pursue policy initiatives with respect to our business and operations, and such initiatives may vary from the interest and objectives of our other shareholders.

Our capacity expansion plans, which are based on projections on long-term supply and demand of electricity in Korea, may prove to be inadequate.

We and our generation subsidiaries make plans for expanding or upgrading our generation capacity based on the Basic Plan Relating to the Long-Term Supply and Demand of Electricity, or the Basic Plan, which is generally revised and announced every two years by the Government. In February 2013, the Government announced the Sixth Basic Plan relating to the future supply and demand of electricity. The Sixth Basic Plan, which is effective for the period from 2013 to 2027, focuses on, among other things, (i) minimizing the need to construct new generation facilities through active consumer demand management, (ii) ensuring that we maintain adequate electricity reserve appropriate to the size of the national economy and (iii) expanding our generation capacity to promote efficient supply of electricity in consideration of the stability of the national electricity grid network and the specific needs of localities. In addition, while the Sixth Basic Plan did not contemplate the construction of additional nuclear plants in light of the heightened public concern over nuclear safety following the nuclear power plant meltdown in Japan in March 2011, there is no assurance that the Government will not implement a supplemental plan for the construction of additional nuclear plants in the future, which may increase the amount of our required capital expenditure.

In addition, on January 13, 2014, the Ministry of Trade, Industry and Energy adopted the Second Basic National Energy Plan following consultations with representatives from civic groups, the power industry and academia. The Second Basic National Energy Plan, which is a comprehensive plan that covers the entire spectrum of energy industries in Korea, will cover the period from 2013 to 2035 (compared to 2008 to 2030 under the First Basic National Energy Plan) and focuses on the following six key tasks: (i) shifting the focus of energy policy to demand management with a goal of reducing electricity demand by 15% by 2035, (ii) establishing a geographically decentralized electricity generation system so as to reduce transmission losses with a goal of supplying at least 15% of total electricity through such system by 2035, (iii) applying latest greenhouse gas emission reduction technologies to newly constructed generation units in order to further promote safety and environmental friendliness, (iv) strengthening exploration and procurement capabilities to enhance Korea s energy security and to ensure stable supply of energy and increasing the portion of electricity supplied from renewable sources to 11% by 2035, (v) reinforcing the system for stable supply of conventional energy, such as oil and gas, and (vi) introducing in 2015 an energy voucher system in lieu of a tariff discount system for the benefit of consumers in the low income group. In addition, the Second Basic National Energy Plan contemplates revising the target level of electricity generated by nuclear sources as a percentage of total electricity generated to 29%, compared to 41% under the First Basic National Energy Plan announced in 2008.

We cannot assure that the Sixth Basic Plan, the Second Basic National Energy Plan or the respective plans to be subsequently adopted will successfully achieve their intended goals, the foremost of which is to ensure, through carefully calibrated capacity expansion and other means, balanced overall electricity supply and demand in Korea at affordable costs to the end users while promoting efficiency and environmental friendliness in the consumption and production of electricity. If there is a significant variance between the projected electricity supply and demand considered in planning our capacity expansions and the actual electricity supply and demand or if these plans otherwise fail to meet their intended goals or have other unintended consequences, this may

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result in inefficient use of our capital, mispricing of electricity and undue financing costs on the part of us and our generation subsidiaries, among others, which may have a material adverse effect on our results of operations, financial condition and cash flows.

From time to time, we may experience temporary power shortages or circumstances bordering on power shortages due to factors beyond our control, such as extreme weather conditions. For example, due to extremely cold weather during winters of recent years, our electricity reserve level fell from time to time to a level lower than the normal level despite emergency measures mandated by the Government, such as reduced daytime railway services and reduced daytime industrial use of electricity during peak hours. In addition, due to the unanticipated late heat wave in mid-September 2011 and the resulting spike in the use of air conditioning, our reserve level fell to a level that resulted in temporary suspensions of electricity supply across several regions of Korea for several hours to prevent a full-scale blackout. Circumstances such as these may lead to increased end-user complaints and greater public scrutiny, which may in turn result in our need to modify our capacity expansion plans, and if we were to substantially modify our capacity plans, this may result in additional capital expenditures, which may have a material adverse effect on our results of operations, financial condition and cash flows.

In light of these temporary power shortages, the Government has increasingly expanded its efforts to encourage conservation of electricity, including through a public relations campaign, but there is no assurance such efforts will have the desired effect of substantially reducing the demand for electricity or improving efficient use thereof.

We may require a substantial amount of additional indebtedness to refinance existing debt and for future capital expenditures.

We anticipate that a substantial amount of additional indebtedness will be required in the coming years in order to refinance existing debt, make capital expenditures for construction of generation plants and other facilities and/or make acquisitions and investments related to overseas natural resources. In 2011, 2012 and 2013, our capital expenditures for construction of generation, transmission and distribution facilities amounted to Won 11,984 billion, Won 12,751 billion and Won 15,831 billion, respectively, and our budgeted capital expenditures for 2014, 2015 and 2016 amount to Won 19,898 billion, Won 18,479 billion and Won 16,339 billion, respectively. While we currently do not expect to face any material difficulties in procuring short-term borrowing to meet our liquidity and short-term capital requirements, there is no assurance that we will be able to do so. We expect that a portion of our long-term debt will need to be paid or refinanced through foreign currency-denominated borrowings and capital raising in international capital markets. Such financing may not be available on terms commercially acceptable to us or at all, especially if the global financial markets experience significant turbulence or a substantial reduction in liquidity or due to other factors beyond our control. If we are unable to obtain financing on commercially acceptable terms on a timely basis, or at all, we may be unable to meet our funding requirements or debt repayment obligations, which could have a material adverse impact on our business, results of operations and financial condition.

Recently, in light of the general policy guideline of the Government for public enterprises (including us and our generation subsidiaries) in general to reduce their respective overall debt levels, including by way of disposing of non-core assets, we are currently evaluating ways to reduce our debt levels. We cannot assure whether we or our generation subsidiaries will be able to successfully reduce debt burdens to a level contemplated by the Government or to a level that would be optimal for our capital structure. If we or our generation subsidiaries fail to reduce debt burdens to a level contemplated by the Government or the measures taken by us or our generation subsidiaries to reduce debt levels have unintended adverse consequences, such developments may have an adverse effect on our business, results of operation and financial condition.

The movement of Won against the U.S. dollar and other currencies may have a material adverse effect on us.

The Won has fluctuated significantly against major currencies in recent years, especially as a result of the ongoing difficulties in the global financial markets. See Item 3A. Selected Financial Data Currency Translations

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and Exchange Rates. Depreciation of Won against U.S. dollar and other foreign currencies typically results in a material increase in the cost of fuel and equipment purchased by us from overseas since the prices for substantially all of the fuel materials and a significant portion of the equipment we purchase are denominated in currencies other than Won, generally in U.S. dollars. Changes in foreign exchange rates may also impact the cost of servicing our foreign currency-denominated debt. As of December 31, 2013, approximately 20.9% of our long-term debt (including the current portion but excluding issue discounts and premium) before accounting for swap transactions, was denominated in foreign currencies, principally U.S. dollars. In addition, even if we make payments in Won for certain fuel materials and equipment, some of these fuel materials may originate from other countries and their prices may be affected accordingly by the exchange rates between the Won and foreign currencies, especially the U.S. dollar. Since the substantial majority of our revenues are denominated in Won, we must generally obtain foreign currencies through foreign currency-denominated financings or from foreign currency exchange markets to make such purchases or service such debt. As a result, any significant depreciation of Won against the U.S. dollar or other major foreign currencies will have a material adverse effect on our profitability and results of operations.

We may not be successful in implementing new business strategies.

As part of our overall business strategy, we plan to (i) strengthen reliability of our domestic operations by enhancing efficiency of our generation, transmission and distribution networks, (ii) expand overseas business by selectively exploring renewable energy, smart transmission and distribution facilities and fuel procurement projects in the overseas markets along with our traditional businesses in the generation sector, (iii) create a platform for new business growth opportunities by gaining first mover advantages in new businesses through technological development, and (iv) fulfill social responsibilities as an electricity provider by seeking a balance between our public policy mandate and profitability.

Due to their inherent uncertainties, such new and expanded strategic initiatives expose us to a number of risks and challenges, including the following:

- new and expanded business activities may require unanticipated capital expenditures and involve additional compliance requirements;
- new and expanded business activities may result in less growth or profit than we currently anticipate, and there can be no assurance that such business activities will become profitable at the level we desire or at all;
- certain of our new and expanded businesses, particularly in the areas of renewable energy, require substantial government subsidies to become profitable, and such subsidies may be substantially reduced or entirely discontinued;
- we may fail to identify and enter into new business opportunities in a timely fashion, putting us at a disadvantage vis-à-vis competitors, particularly in overseas markets; and
- we may need to hire or retrain personnel to supervise and conduct the relevant business activities.

As part of our business strategy, we may also seek, evaluate or engage in potential acquisitions, mergers, joint ventures, strategic alliances, restructurings, combinations, rationalizations, divestments or other similar opportunities. The prospects of these initiatives are uncertain, and there can be no assurance that we will be able to successfully implement or grow new ventures, and these ventures may prove more difficult or costly than what we originally anticipated. In addition, we regularly review the profitability and growth potential of our existing and new businesses. As a result of such review, we may decide to exit from or to reduce the resources that we allocate to new or existing ventures in the future. There is a risk that these ventures may not achieve profitability or operational efficiencies to the extent originally anticipated, and we may fail to recover investments or expenditures that we have already made. Any of the foregoing may have a material adverse effect on our reputation, business, results of operations, financial condition and cash flows.

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We plan to pursue international expansion opportunities that may subject us to different or greater risks than those associated with our domestic operations.

While our operations have, to-date, been primarily based in Korea, we may expand, on a selective basis, our overseas operations in the future. In particular, we may further diversify the geographic focus of our operations from Asia to the rest of the world, including the resource-rich Middle East, Australia and Africa as well as expand our project portfolio (which has to-date involved primarily construction and operation of conventional thermal generation units) to include construction and operation of nuclear power plants as well as mining and development of fuel sources in order to increase the level of self-sufficiency in the procurement of fuels.

Overseas operations generally carry risks that are different from those we face in our domestic operations. These risks include:

- challenges of complying with multiple foreign laws and regulatory requirements, including tax laws and laws regulating our operations and investments;
- volatility of overseas economic conditions, including fluctuations in foreign currency exchange rates;
- difficulties in enforcing creditors rights in foreign jurisdictions;
- risk of expropriation and exercise of sovereign immunity where the counterparty is a foreign government;
- difficulties in establishing, staffing and managing foreign operations;
- differing labor regulations;
- political and economic instability, natural calamities, war and terrorism;
- lack of familiarity with local markets and competitive conditions;
- changes in applicable laws and regulations in Korea that affect foreign operations; and
- obstacles to the repatriation of earnings and cash.

Any failure by us to recognize or respond to these differences may adversely affect the success of our operations in those markets, which in turn could materially and adversely affect our business and results of operations.

Furthermore, while we seek to enter into business opportunities in a prudent and selective manner, some of our new international business ventures, such as mining and resource exploration, carry inherent risks that are different from our traditional business of electricity power generation, transmission and distribution. While these new businesses in the aggregate currently do not comprise a material portion of our overall business, as we are relatively inexperienced in these types of businesses, the actual revenues and profitability from, and investments and expenditures into, these business ventures may be substantially different from what we planned or anticipated and have a material adverse impact on our overall business, results of operations, financial condition and cash flows.

An increase in electricity generated by and/or sourced from private power producers may erode our market position and hurt our business, growth prospects, revenues and profitability.

As of December 31, 2013, we and our generation subsidiaries owned approximately 81.5% of the total electricity generation capacity in Korea (excluding plants generating electricity for private or emergency use). New entrants to the electricity business will erode our market share and create significant competition, which could have a material adverse impact on our financial conditions and results of operation.

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In particular, we compete with independent power producers with respect to electricity generation. The independent power generators accounted for 13.2% of total power generation in 2013 and 18.5% of total generation capacity as of December 31, 2013. As of December 31, 2013, there were 10 independent power generators in Korea, excluding renewable energy producers. Prior to December 2010, private enterprises had not been permitted to own and operate coal-fired power plants in Korea. However, the Fifth Basic Plan announced in December 2010 included for the first time a plan for independent power producers to own and operate coal-fired power plants, namely four generation units with aggregate capacity of 2,290 megawatts for completion in 2016. In addition, in connection with the Sixth Basic Plan announced in February 2013, the Ministry of Trade, Industry and Energy accepted additional applications from independent power producers for construction of coal-fired power plants. 15 independent power producers applied for construction of a total of 40 additional coal-fired generation units with aggregate generation capacity of 37,100 megawatts, of which the Government approved applications for the construction of six generation units with aggregate generation capacity of 6,000 megawatts. The Government also approved applications from independent power producers for construction of two additional generation units with aggregate generation capacity of 2,000 megawatts to prepare for the contingency of failed or delayed construction of the foregoing generation units. Construction for the six generation units is scheduled to be completed between 2018 and 2021. While it remains to be seen whether construction of these generation units will be completed as scheduled, if it were to be completed as scheduled or independent power producers are permitted to build additional generation capacity (whether coal-fired or not), our market share in Korea may decrease, which may have a material adverse effect on our results of operations and financial condition.

In addition, under the Community Energy System adopted by the Government in 2004, a minimal amount of electricity is supplied directly to consumers on a localized basis by independent power producers without having to undergo the cost-based pool system used by our generation subsidiaries and most independent power producers to distribute electricity nationwide. A supplier of electricity under the Community Energy System must be authorized by Korea Electricity Commission and be approved by the minister of the Ministry of Trade, Industry and Energy in accordance with the Electricity Business Act. The purpose of this system is to geographically decentralize electricity supply and thereby reduce transmission losses and improve the efficiency of energy use. These entities do not supply electricity on a national level but are licensed to supply electricity to limited geographic areas. As of March 31, 2014, the aggregate generation capacity of suppliers participating in the Community Energy System represented less than 1% of that of our generation subsidiaries in the aggregate. Accordingly, we currently do not expect the Community Energy System to be widely adopted, especially in light of the significant level of capital expenditure required for such direct supply. However, if the Community Energy System is widely adopted, it may erode our currently dominant market position in the generation and distribution of electricity in Korea, and may have a material adverse effect on our business, results of operations and financial condition.

Labor unrest may adversely affect our operations.

We and each of our generation subsidiaries have separate labor unions. As of December 31, 2013, approximately 69.7% of our and our generation subsidiaries employees in the aggregate were members of these labor unions. Since a six-week labor strike in 2002 by union members of our generation subsidiaries in response to a proposed privatization of one of our generation subsidiaries, there has been no material labor dispute. However, we cannot assure you that there will not be a major labor strike or other material disruptions of operations by the labor unions of us and our generation subsidiaries if the Government resumes privatization or other restructuring initiatives or for other reasons, which may adversely affect our business and results of operations.

Planned relocation of the headquarters of us and our generation subsidiaries may reduce our operational efficiency.

In June 2005, as part of an initiative to foster balanced economic growth in the provinces, the Government announced a plan to relocate the headquarters of select government-invested enterprises, including us and our six

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generation and certain other subsidiaries, from the Seoul metropolitan area to other provinces in Korea. Currently, our headquarters and those of our generation subsidiaries are within close vicinity of each other in the City of Seoul. Pursuant to the Government s relocation policy, our headquarters are scheduled to be relocated to Naju in Jeolla Province, which is approximately 300 kilometers south of Seoul. Although the relocation was initially scheduled to occur by the end of 2012, due to construction delays, we currently expect that the relocation will occur by the end of 2014. In addition, the headquarters of certain of our subsidiaries are scheduled to be relocated to various other cities in Korea. While we intend to comply with the relocation plan, there can be no assurance that, following such relocation, we will be able to maintain the current level of operational efficiency due to geographic dispersion of our business units.

Operation of nuclear power generation facilities inherently involves numerous hazards and risks, any of which could result in a material loss of revenues or increased expenses.

Through KHNP, we currently operate 23 nuclear-fuel generation units. Operation of nuclear power plants is subject to certain hazards, including environmental hazards such as leaks, ruptures and discharge of toxic and radioactive substances and materials. These hazards can cause personal injuries or loss of life, severe damage to or destruction of property and natural resources, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. Nuclear power has a stable and relatively inexpensive cost structure (which is least costly among the fuel types used by our generation subsidiaries) and is the second largest source of Korea s electricity supply, accounting for 27% of electricity generated in Korea in 2013. Due to significantly lower unit fuel costs compared to those for thermal power plants, our nuclear power plants are generally operated at full capacity with only routine shutdowns for fuel replacement and maintenance, with limited exceptions.

From time to time, our nuclear generation units may experience unexpected shutdowns. For example, on February 9, 2012, Kori-1 experienced a station blackout for approximately 12 minutes during a scheduled maintenance overhaul. This incident was reported to the Nuclear Safety and Security Commission on March 12, 2012, leading to a further safety evaluation, after which Kori-1 resumed operations in August 2012. The breakdown, failure or suspension of operation of a nuclear unit could result in a material loss of revenues, an increase in fuel costs related to the use of alternative power sources, additional repair and maintenance costs, greater risk of litigation and increased social and political hostility to the use of nuclear power, any of which could have a material adverse impact on our financial conditions and results of operation.

In response to the damage to the nuclear facilities (including nuclear meltdowns) in Japan as a result of the tsunami and earthquake in March 2011, the Government announced plans to further enhance the safety and security of nuclear power facilities, including by establishing the Nuclear Safety and Security Commission (NSSC) in July 2011 for neutral and independent safety appraisals, subjecting nuclear power plants to additional safety inspections by governmental authorities and civic groups and requiring KHNP to prepare a comprehensive safety improvement plan. As a result of the foregoing, as well as a generally higher level of public and regulatory scrutiny of nuclear power following the recent nuclear incident in Japan, KHNP plans to implement a significant number of measures to improve the safety and efficiency of its generation facilities for target completion by 2015. We expect to incur additional compliance costs and capital expenditures in relation to our improvement measures, which could have a material adverse impact on our financial conditions and results of operation.

Recent findings of falsified testing results and bribery and the subsequent prolonged shutdowns of certain of our nuclear generation units may adversely hurt our reputation, business, results of operations and financial condition.

In May 2013, the Nuclear Safety and Security Commission (NSSC) announced that it discovered certain control cables used in three of our then-operating nuclear generation units, Shin-Kori #1 and #2, Shin-Wolsung #1, and three units under construction, Shin-Kori #3 and #4 and Shin-Wolsung #2, had been supplied based on

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forged testing results. These parts were custom-made and have critical functions in the case of emergency for activating certain safety signals. The forgery was made by a testing facility in charge of performance evaluation of the parts before delivery.

Upon such discovery, KHNP immediately began internal investigation of related certification documents and reported to the Prosecutor s Office all testing facilities and suppliers suspected of forgery for further investigation. Currently, the NSSC, with the full cooperation of KHNP, is conducting a full scale investigation into the appropriateness of all testing results at all of our nuclear generation units. In addition, the Prosecutor s Office has been conducting extensive investigation on all parties suspected of having been involved in the forgery and has brought several criminal and civil charges, including against several of KHNP s former and current officers and employees. In addition, one of KHNP s former CEOs and several former and current officers and employees of KHNP were arrested on separate bribery charges brought by the Prosecutor s Office as part of a wider investigation into the nuclear power industry in general, and in June 2013, KHNP s then CEO was dismissed by the Government for failure of oversight. KHNP has been fully cooperating with the authorities on these investigations and have promptly taken all appropriate disciplinary actions against KHNP s employees allegedly involved in such incidents. KHNP has also immediately suspended all existing relationships with all of the entities alleged to have participated in any related illegal or improper activities. KHNP as an entity has not been subject to any criminal charges or sanctions. The investigations by the NSSC and the Prosecutor s Office are still ongoing.

Immediately following the discovery of the forgery incident, Shin-Kori #1 and #2 and Shin-Wolsung #1 were shut down in May 2013 for further safety inspections. Shin-Kori #3 and #4 and Shin-Wolsung #2, where such parts were also used, currently remain under construction. Shin-Kori #1 and #2 and Shin-Wolsung #1 resumed operations in January 2014 following parts replacement and the NSSC approval. While we expect that the construction of the other units will proceed as originally planned, we cannot assure you that any or all of these units will complete construction as currently scheduled. As a result of the shutdown, we incurred additional operating expenses, including as a result of having had to purchase electricity generated from more expensive fuel sources while the aforementioned nuclear plants were suspended from operation.

The foregoing incidents follow a discovery in November 2012 that certain machinery parts, such as fuses and switches, used in KHNP s nuclear-fuel generation units Hanbit #5 and Hanbit #6 had been supplied using forged quality certification documents. These parts were generic parts that were not essential to the function or safety of our nuclear generation, and the forgery was made by the suppliers of these parts. Following such discovery, relationships with these suppliers were immediately terminated and these units were shut down in November 2012 pending a Government investigation into the extent of the forgeries and the replacement of the affected parts, and the NSSC performed inspections on all generic supply parts at all of KHNP s nuclear-fuel generation units. Upon completion of such investigation and inspections, Hanbit #5 and Hanbit #6 resumed operation in December 2012 and January 2013, respectively.

These incidents have had a material adverse effect, and may have a further material adverse effect, on our reputation, business, results of operation, financial condition as well as the general acceptance of nuclear power, especially if, as a result of these incidents or otherwise, there are findings of other criminal or other illegal or improper activities or if there are additional shutdowns that lead to greater social and political concerns over nuclear safety to the effect of impeding with our normal operation of nuclear generation units. See Item 4B. Business Recent Developments Recent incidents involving certain of our nuclear units.

The construction and operation of our generation, transmission and distribution facilities involve difficulties, such as opposition from civic groups, which may have an adverse effect on us.

From time to time, we encounter social and political opposition against construction and operation of our generation facilities (particularly nuclear units) and, to a lesser extent, our transmission and distribution facilities.

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As a recent example, we are currently facing intense opposition from local residents and civic groups to the construction of transmission lines in the Milyang area despite having offered various compensatory and other support programs. Such opposition has delayed the schedule for completion of this project. Although we and the Government have undertaken various community programs to address concerns of residents in areas near our facilities, civic and community opposition could result in delayed construction or relocation of our planned facilities, which could have a material adverse impact on our business and results of operation.

We are subject to environmental regulations, including in relation to climate change, and our operations could expose us to substantial liabilities.

We are subject to national, local and overseas environmental laws and regulations, including increasing pressure to reduce emission of carbon dioxide relating to our electricity generation activities as well as our natural resource development endeavors overseas. Our operations could expose us to the risk of substantial liability relating to environmental or health and safety issues, such as those resulting from discharge of pollutants and carbon dioxide into the environment and the handling, storage and disposal of hazardous materials. We may be responsible for the investigation and remediation of environmental conditions at current or former operational sites. We may also be subject to related liabilities (including liabilities for environmental damage, third party property damage or personal injury) resulting from lawsuits brought by governments or private litigants. In the course of our operations, hazardous wastes may be generated, disposed of or treated at third party-owned or -operated sites. If those sites become contaminated, we could also be held responsible for the cost of investigation and remediation of such sites for any related liabilities, as well as for civil or criminal fines or penalties.

We currently operate extensive programs to comply with various environmental regulations, including the Renewable Portfolio Standard (RPS) program, under which each generation subsidiary is required to generate a specified percentage of total electricity to be generated by such generation subsidiary in a given year in the form of renewable energy, with the target percentage being 2.0% in 2012, 2.5% in 2013 and incrementally increasing to 10.0% by 2022. Fines are to be levied on any subsidiary that fails to do so in the prescribed timeline. In 2012, while one of our generation subsidiaries met 100% of its target, five others were unsuccessful to do so. Our six generation subsidiaries met, on average, 90.8% of the target for 2012 and accordingly were fined an aggregate amount of Won 23.7 billion. Compliance by our generation subsidiaries of the 2013 target is currently under evaluation, and if we are found to have failed to meet the target for 2013 or for subsequent years, our generation subsidiaries may become subject to additional fines or other penalties. There is no assurance that such fine or other penalty will not be substantial, and if substantial, such fine or other penalty may have a material adverse effect on our business, results of operations or financial condition. The budgeted amount of capital expenditure for implementation of the RPS as currently planned for the period from 2013 to 2022 is approximately Won 13.7 trillion. We expect that such additional capital expenditure to be covered by a corresponding increase in electricity tariff. However, there is no assurance that the Government will in fact raise the electricity tariff to a level sufficient to fully cover such additional capital expenditures or at all. See also Item 4B. Business Overview Renewable Energy.

Our environmental measures, including the use of environmentally friendly but more expensive parts and equipment and budgeting capital expenditures for the installation of such facilities, may result in increased operating costs and liquidity requirement. The actual cost of installation and operation of such equipment and related liquidity requirement will depend on a variety of factors which may be beyond our control. There is no assurance that we will continue to be in material compliance with legal or social standards or requirements in the future in relation to the environment, including in respect of climate change. See Item 4B. Business Overview Environmental Programs and Business Overview Renewable Energy.

Newly adopted coal consumption tax may have a material adverse effect on our business, operations and profitability.

On January 1, 2014, largely based on policy considerations of tax equity among different fuel types as well as environmental concerns, the Ministry of Strategy and Finance announced that, effective July 1, 2014,

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consumption tax will apply to bituminous coal, which previously was not subject to consumption tax unlike other fuel types such as LNG or bunker oil. The base tax rate (which is subject to certain adjustments) will be Won 24 per kilogram for bituminous coal; however, due to concerns on the potential adverse effect on industrial activities, the applicable tax rate will be Won 19 per kilogram for bituminous coal with net heat generation of 5,000 kilo calories or more per kilogram, and Won 17 per kilogram for bituminous coal with net heat generation of less than 5,000 kilo calories per kilogram. In contrast, the applicable tax rate for LNG will be reduced from Won 60 per kilogram to Won 42 per kilogram. Since bituminous coal currently represents the largest fuel type for electricity generation, accounting for approximately 43.0% of our entire fuel requirements in 2013 in terms of electricity output, we expect the newly adopted consumption tax thereon will result in an increase of our overall fuel costs, notwithstanding the decrease in the consumption tax rate for LNG, which accounted for approximately 19.7% of our entire fuel requirements in 2013 in terms of electricity output. While we expect that such additional fuel costs will be covered by a corresponding increase in electricity tariff, there is no assurance that the Government will in fact raise electricity tariff to a level sufficient to fully cover such additional costs in a timely manner or at all, and if the Government does not do so, the increase in our overall fuel costs arising from the newly adopted coal consumption tax will adversely affect our results of operation and financial condition.

Our risk management procedures may not prevent losses in debt and foreign currency positions.

We manage interest rate exposure for our debt instruments by limiting our variable rate debt exposure as a percentage of our total debt and closely monitoring the movements in market interest rates. We also actively manage currency exchange rate exposure for our foreign currency-denominated liabilities by measuring the potential loss therefrom using risk analysis software and entering into derivative contracts to hedge such exposure when the possible loss reaches a certain risk limit. To the extent we have unhedged positions or our hedging and other risk management procedures do not work as planned, our results of operations and financial condition may be adversely affected.

The amount and scope of coverage of our insurance are limited.

Substantial liability may result from the operations of our nuclear generation units, the use and handling of nuclear fuel and possible radioactive emissions associated with such nuclear fuel. KHNP carries insurance for its generation units and nuclear fuel transportation, and we believe that the level of insurance is generally adequate and is in compliance with relevant laws and regulations. In addition, KHNP is the beneficiary of Government indemnity which covers a portion of liability in excess of the insurance. However, such insurance is limited in terms of amount and scope of coverage and does not cover all types or amounts of losses which could arise in connection with the ownership and operation of nuclear plants. Accordingly, material adverse financial consequences could result from a serious accident or a natural disaster to the extent it is neither insured nor covered by the government indemnity.

In addition, our thermal generation subsidiaries carry insurance covering certain risks, including fire, in respect of their key assets, including buildings and equipment located at their respective power plants, construction-in-progress and imported fuel and procurement in transit. Such insurance and indemnity, however, cover only a portion of the assets that the thermal generation subsidiaries own and operate and do not cover all types or amounts of loss that could arise in connection with the ownership and operation of these power plants. In addition, unlike us, our generation subsidiaries are not permitted to self-insure, and accordingly have not self-insured, against risks of their uninsured assets or business. Accordingly, material adverse financial consequences could result from a serious accident to the extent it is uninsured.

In addition, because neither we nor our generation subsidiaries, other than KHNP, carry any insurance against terrorist attacks, an act of terrorism would result in significant financial losses. See Item 4B. Business Overview Insurance.

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

Under applicable laws, the Government is required to directly or indirectly own at least 51% of our issued capital stock. As of February 17, 2014 the last day on which our shareholder registry was closed, the Government, directly and through Korea Finance Corporation (a statutory banking institution wholly owned by the Government), owned 51.1% of our issued capital stock. Accordingly, without changes in the existing Korean law, it may be difficult or impossible for us to undertake, without the participation of the Government, any equity financing in the future.

Following from the recent decision of the Supreme Court of Korea, we may be exposed to potential claims made by current or previous employees for unpaid wages for the past three years under the expanded scope of ordinary wages and become subject to additional labor costs arising from the broader interpretation of ordinary wages under such decision.

Under the Labor Standards Act, an employee is legally entitled to ordinary wages. Under the guidelines previously issued by the Ministry of Labor, ordinary wages include base salary and certain fixed monthly allowances for work performed overtime during night shifts and holidays. Prior to the Supreme Court decision described below, many companies in Korea had typically interpreted these guidelines as excluding from the scope of ordinary wages fixed bonuses that are paid other than on a monthly basis, namely on a bi-monthly, quarterly or biannually basis, although such interpretation had been a subject of controversy and had been overruled in a few court cases.

In December 2013, the Supreme Court of Korea ruled that regular bonuses fall under the category of ordinary wages on the condition that those bonuses are paid regularly and uniformly, and that any agreement which excludes such regular bonuses from ordinary wage is invalid. The Supreme Court further ruled that in spite of invalidity of such agreements, employees shall not retroactively claim additional wages incurred due to such court decision, in case that such claims bring to employees unexpected benefits which substantially exceeds the wage level agreed by employers and employees and cause an unpredicted increase in expenditures for their company, which would lead the company to material managerial difficulty or would threat to the existence of the company. In that case, the claim is not acceptable since it is unjust and is in breach of the principle of good faith. Prior to such Supreme Court ruling, we determined wages in accordance with budget instructions from the Ministry of Strategy and Finance, which excluded bonuses from ordinary wages and which was determined with the consent of the relevant labor unions.

Following the Supreme Court decision, the Korea Power Plant Industry Union and others filed lawsuits in an aggregate amount of Won 44.6 billion against our six generation subsidiaries, based on claims that ordinary wage was paid without including certain items that should have been included as ordinary wage. Our management currently believes that we are not presently obligated to make any payments in relation to this matter and we accordingly had not made any provision in relation thereto as of December 31, 2013 since it is unclear how the Supreme Court ruling should be applied and it is not possible to reasonably estimate the amount of potential loss since such amount will depend on the nature of the future agreement between management and relevant labor unions and/or the outcome of the foregoing or related lawsuits. However, should the outcome of these or other lawsuits be finally determined against us, the resulting compensation we will be required to pay and any related increase in labor costs will have an adverse effect on our results of operation and cash flows.

Risks Relating to Korea and the Global Economy

Unfavorable financial and economic conditions in Korea and globally may have a material adverse impact on us.

We are incorporated in Korea, where most of our assets are located and most of our income is generated. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea, and our business, results of operation and financial condition are substantially dependent on the Korean consumers demand for

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electricity, which are in turn largely dependent on developments relating to the Korean economy. The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets.

While in the aftermath of the global financial crisis that started in the second half of 2008 there have been mixed signs of recovery for the global and Korean economy, substantial uncertainties remain in the form of anticipated tightening of the U.S. monetary policy, continued fiscal and financial challenges for the European, U.S. and global economies, fluctuations in oil and commodity prices, signs of cooling of the Chinese economy and a rise of military and political tension in the Crimean peninsula and former members of the Soviet Union. Accordingly, the overall prospects for the Korean and global economy in 2014 and beyond remain uncertain. While our aggregate financial exposure to the European countries that have been significantly affected by the ongoing fiscal and financial crisis remains less than 1% of our consolidated total assets, any future deterioration of the global economy may have an adverse impact on the Korean economy, which in turn could adversely affect our business, financial condition and results of operations. As the Korean economy is highly dependent on the health and direction of the global economy, the prices of our securities may be adversely affected by investors reactions to developments in other countries. In addition, due to the ongoing volatility in the global financial markets, the value of the Won relative to the U.S. dollar has also fluctuated significantly in recent years, which in turn also may adversely affect our financial condition and results of operation.

Factors that determine economic and business cycles of the Korean or global economy are for the most part beyond our control and inherently uncertain. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on our business and profitability.

More specifically, factors that could hurt the Korean economy in the future include, among others:

- monetary tightening by the U.S. government known as tapering, further deterioration of the fiscal and financial difficulties in Europe, the slowdowns of the Chinese economy, as well as rising military and political tension in the Crimean peninsula and former members of the Soviet Union, which could have adverse effects on the global, and in turn Korean credit and financial markets as well as the exchange rates of Won to other major foreign currencies, particularly U.S. dollar;

- increases in inflation levels, volatility in foreign currency reserve levels, commodity prices (including coal, oil, LNG prices), exchange rates (including fluctuation of U.S. dollar and Japanese Yen exchange rates or revaluation of the Renminbi), interest rates, stock market prices and inflows and outflows of foreign capital, either directly, into the stock markets, through derivatives or otherwise;

- potential friction with Korea s trading partners arising, in part, from Korea s heavy reliance on exports;

- adverse developments in the economies of countries to which Korea exports goods and services (such as China, the United States and Japan), or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;

- the continued emergence of China, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and relocation of the manufacturing base from Korea to China);

- social and labor unrest or declining consumer confidence or spending resulting from layoffs, increasing unemployment and lower levels of income;

- uncertainty and volatility in real estate prices arising, in part, from the Government s policy-driven tax and other regulatory measures;

rising fiscal deficit as a result of a decrease in tax revenues and a substantial increase in the Government s expenditures for welfare and other social programs;

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political uncertainty or increasing strife among or within political parties in Korea, including as a result of the continued polarization of the positions of the ruling conservative party and the progressive opposition;

deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy;

any other development that has a material adverse effect in the global economy, such as an act of war, a terrorist act or a breakout of an epidemic such as SARS, avian flu or swine flu or natural disasters such as earthquakes and tsunamis and the related disruptions in the relevant economies with global repercussions;

hostilities involving oil-producing countries in the Middle East and elsewhere and any material disruption in the supply of oil or a material increase in the price of oil resulting from such hostilities; and

an increase in the level of tensions or an outbreak of hostilities in the Korean peninsula.

Any future deterioration of the Korean economy could have an adverse effect on our business, financial condition and results of operation.

Tensions with North Korea could have an adverse effect on us and the market value of our shares.

Relations between Korea and North Korea have been tense throughout Korea s modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events.

There recently has been increased uncertainty about the future of North Korea s political leadership and its implications for the economic and political stability of the region. Shortly after the death of Kim Jong-il, a long-standing former ruler of North Korea, in December 2011 his son Kim Jong-un was named North Korea s Supreme Commander of the Armed Forces. Whether Kim Jong-un will successfully solidify his political power or whether he will implement policies that will successfully assist North Korea in withstanding the many challenges it faces, however, remains uncertain. If the consolidation of power by Kim Jong-un is not successful or there exist any material conflicts among different political factions, there may be significant uncertainty regarding the policies, actions and initiatives that North Korea might pursue in the future. For example, in December 2013, Jang Sung-Taek, husband to Kim Jong-un s aunt, who was widely speculated to be the second in command, was executed on charges of sedition, among others. Although the implications of such developments remain uncertain, it may cause further political and social instability in North Korea and/or adoption of more hostile policies that could enhance friction with Korea and the rest of the world.

In recent years, there have been heightened security concerns stemming from North Korea s nuclear weapons and long-range missile programs and increased uncertainty regarding North Korea s actions and possible responses from the international community. In January 2003, North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty and conducted multiple rounds of nuclear tests between October 2006 and February 2013, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council unanimously passed resolutions that condemned North Korea for the nuclear tests and expanded sanctions against North Korea, most recently in March 2013.

North Korea has recently undertaken other hostile actions. For example, in March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea s Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government

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condemned North Korea for the attack and vowed stern retaliation should there be further provocation. In March 2013, North Korea declared the 1953 armistice invalid, stated that it had entered a state of war with Korea, and put its artillery at the highest level of combat readiness to protest the Korea-United States allies military drills and additional sanctions imposed on North Korea for its missile and nuclear tests.

On April 3, 2013, North Korea blocked South Koreans from entering the Kaesong Industrial Complex, an economic cooperation zone within North Korea and on April 26, 2013 South Korea decided to withdraw its workers from the complex. In September 2013, however, Korea and North Korea reached an agreement and resumed operation of the Kaesong Industrial Complex, and have since made efforts to improve the business environment of the complex, including by building radio frequency identification data transfer systems and launching internet service, among others. In February 2014, the U.S. Congressional Research Service reported that the Government s approach towards the expansion and internationalization of the Kaesong Industrial Complex could conflict with U.S. legislative efforts to expand its sanctions on North Korea, and there is no assurance that the Government will not reverse or reduce its such efforts at detente.

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future. Furthermore, North Korea s economy also faces severe challenges, including severe inflation and food shortages, which may further aggravate social and political tensions within North Korea. In addition, reunification of Korea and North Korea could occur in the future, which would entail significant economic expenditure and commitment by Korea. Any further increase in economic or political difficulties within North Korea or escalation of military tension between Korea and North Korea could have a material adverse effect on the Company s business, financial condition and results of operations as well as lead to a decline in the market value of our common shares and our American depositary shares.

We are generally subject to Korean corporate governance and disclosure standards, which differ in significant respects from those in other countries.

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies which differ in many respects from standards applicable in other countries, including the United States. As a reporting company registered with the Securities and Exchange Commission and listed on the New York Stock Exchange, we are, and will continue to be, subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002, as amended. However, foreign private issuers, including us, are exempt from certain corporate governance standards required under the Sarbanes-Oxley Act or the rules of the New York Stock Exchange. For a description of significant differences in corporate governance standards, see Item 16G. Corporate Governance. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information could result in less than satisfactory corporate governance practices or disclosure to investors in certain countries.

You may not be able to enforce a judgment of a foreign court against us.

We are a corporation with limited liability organized under the laws of Korea. Substantially all of our directors and officers and other persons named in this annual report reside in Korea, and all or a significant portion of the assets of our directors and officers and other persons named in this annual report and substantially all of our assets are located in Korea. As a result, it may not be possible for holders of the American depository shares to affect service of process within the United States, or to enforce against them or us in the United States judgments obtained in United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

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Risks Relating to Our American Depositary Shares

There are restrictions on withdrawal and deposit of common shares under the depositary facility.

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the depositary bank s custodian in Korea and obtain American depositary shares, and holders of American depositary shares may surrender American depositary shares to the depositary bank and receive shares of our common stock. However, under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of American depositary shares (including deposits in connection with the initial and all subsequent offerings of American depositary shares and stock dividends or other distributions related to these American depositary shares) and (2) the number of shares on deposit with the depositary bank at the time of such proposed deposit. We have consented to the deposit of outstanding shares of common stock as long as the number of American depositary shares outstanding at any time does not exceed 80,153,810 shares. As a result, if you surrender American depositary shares and withdraw shares of common stock, you may not be able to deposit the shares again to obtain American depositary shares.

Ownership of our shares is restricted under Korean law.

Under the Financial Investment Services and Capital Markets Act, with certain exceptions, a foreign investor may acquire shares of a Korean company without being subject to any single or aggregate foreign investment ceiling. As one such exception, certain designated public corporations, such as us, are subject to a 40% ceiling on acquisitions of shares by foreigners in the aggregate. The Financial Services Commission may impose other restrictions as it deems necessary for the protection of investors and the stabilization of the Korean securities and derivatives market.

In addition to the aggregate foreign investment ceiling, the Financial Investment Services and Capital Markets Act and our Articles of Incorporation set a 3% ceiling on acquisition by a single investor (whether domestic or foreign) of the shares of our common stock. Any person (with certain exceptions) who holds our issued and outstanding shares in excess of such 3% ceiling cannot exercise voting rights with respect to our shares exceeding such limit.

The ceiling on aggregate investment by foreigners applicable to us may be exceeded in certain limited circumstances, including as a result of acquisition of:

- shares by a depositary issuing depositary receipts representing such shares (whether newly issued shares or outstanding shares);
- shares by exercise of warrant, conversion right under convertible bonds, exchange right under exchangeable bonds or withdrawal right under depositary receipts issued outside of Korea;
- shares from the exercise of shareholders rights; or
- shares by gift, inheritance or bequest.

A foreigner who has acquired our shares in excess of any ceiling described above may not exercise his voting rights with respect to our shares exceeding such limit and the Financial Services Commission may take necessary corrective action against him.

Holders of our ADSs will not have preemptive rights in certain circumstances.

The Korean Commercial Code and our Articles of Incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the depositary bank, after consultation with us, may make the rights available to you or use

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reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The depositary bank, however, is not required to make available to you any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares; or

the offering and sale of those shares is exempt from or is not subject to the registration requirements of the U.S. Securities Act.

We are under no obligation to file any registration statement with the U.S. Securities and Exchange Commission in relation to the registration rights. If a registration statement is required for you to exercise preemptive rights but is not filed by us, you will not be able to exercise your preemptive rights for additional shares and you will suffer dilution of your equity interest in us.

The market value of your investment in our ADSs may fluctuate due to the volatility of the Korean securities market.

Our common stock is listed on the KRX KOSPI Division of the Korea Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the Stock Market Division of the Korea Exchange. The Stock Market Division of the Korea Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the Stock Market Division of the Korea Exchange has prescribed a fixed range in which share prices are permitted to move on a daily basis. Like other securities markets, including those in developed markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

The Korean government has the ability to exert substantial influence over many aspects of the private sector business community, and in the past has exerted that influence from time to time. For example, the Korean government has promoted mergers to reduce what it considers excess capacity in a particular industry and has also encouraged private companies to publicly offer their securities. Similar actions in the future could have the effect of depressing or boosting the Korean securities market, whether or not intended to do so. Accordingly, actual or perceived actions or inactions by the government may cause sudden movements in the market prices of the securities of Korean companies in the future, which may affect the market price and liquidity of our common stock and ADSs.

Your dividend payments and the amount you may realize in connection with a sale of your ADSs will be affected by fluctuations in the exchange rate between the U.S. dollar and the Won.

Investors who purchase the American depositary shares will be required to pay for them in U.S. dollars. Our outstanding shares are listed on the Korea Exchange and are quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the American depositary shares will be paid to the depositary bank in Won and then converted by the depositary bank into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Won and the U.S. dollar will affect, among other things, the amounts a registered holder or beneficial owner of the American depositary shares will receive from the depositary bank in respect of dividends, the U.S. dollar value of the proceeds which a holder or owner would receive upon sale in Korea of the shares obtained upon surrender of American depositary shares and the secondary market price of the American depositary shares.

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If the Government deems that certain emergency circumstances are likely to occur, it may restrict the depositary bank from converting and remitting dividends in U.S. dollars.

If the Government deems that certain emergency circumstances are likely to occur, it may impose restrictions such as requiring foreign investors to obtain prior Government approval for the acquisition of Korean securities or for the repatriation of interest or dividends arising from Korean securities or sales proceeds from disposition of such securities. These emergency circumstances include any or all of the following:

- sudden fluctuations in interest rates or exchange rates;
- extreme difficulty in stabilizing the balance of payments; and
- a substantial disturbance in the Korean financial and capital markets.

The depositary bank may not be able to secure such prior approval from the Government for the payment of dividends to foreign investors when the Government deems that there are emergency circumstances in the Korean financial markets.

ITEM 4. INFORMATION ON THE COMPANY

Item 4A. History and Development of the Company

General Information

Our legal and corporate name is Korea Electric Power Corporation. We were established by the Government on December 31, 1981 as a statutory juridical corporation in Korea under the Korea Electric Power Corporation (KEPCO) Act as the successor to Korea Electric Company. Our registered office is located at 512 Yeongdongdaero, Gangnam-gu, Seoul, Korea, and our telephone number is 82-2-3456-4217. Our website address is www.kepco.co.kr. Our agent in the United States is Korea Electric Power Corporation, New York Office, located at 7th Floor, Parker Plaza, 400 Kelby Street, Fort Lee, NJ 07024.

The Korean electric utility industry traces its origin to the establishment of the first electric utility company in Korea in 1898. On July 1, 1961, the industry was reorganized by the merger of Korea Electric Power Company, Seoul Electric Company and South Korea Electric Company, which resulted in the formation of Korea Electric Company. From 1976 to 1981, the Government acquired the private minority shareholdings in Korea Electric Company. After the Government acquired all the remaining shares of Korea Electric Company, Korea Electric Company was dissolved, and we were incorporated in 1981 and assumed the assets and liabilities of Korea Electric Company. We ceased to be wholly owned by the Government in 1989 when the Government sold 21% of our common stock. As of February 17, 2014, the last day on which our shareholder registry was closed, the Government maintained 51.1% ownership in aggregate of our common shares by direct holdings by the Government and indirect holdings through Korea Finance Corporation, a statutory banking institution wholly owned by the Government.

Under relevant laws of Korea, the Government is required to own, directly or indirectly, at least 51% of our capital. Direct or indirect ownership of more than 50% of our outstanding common stock enables the Government to control the approval of certain corporate matters relating to us that require a shareholders resolution, including approval of dividends. The rights of the Government and Korea Finance Corporation as holders of our common stock are exercised by the Ministry of Trade, Industry and Energy, based on the Government s ownership of our common stock and a proxy received from Korea Finance Corporation, in consultation with the Ministry of Strategy and Finance.

We operate under the general supervision of the Ministry of Trade, Industry and Energy. The Ministry of Trade, Industry and Energy, in consultation with the Ministry of Strategy and Finance, is responsible for approving, subject to review by the Korea Electricity Commission, the electricity rates we charge our customers. See Item 4B. Business Overview Sales and Customers Electricity Rates. We furnish reports to officials of

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the Ministry of Trade, Industry and Energy, the Ministry of Strategy and Finance and other Government agencies and regularly consult with such officials on matters relating to our business and affairs. See Item 4B. Business Overview Regulation. Our non-standing directors, who comprise the majority of our board of directors, must be appointed by the Ministry of Strategy and Finance following the review and resolution of the Public Agencies Operating Committee from a pool of candidates recommended by our director nomination committee and must have ample knowledge and experience in business management, and our President must be appointed by the President of the Republic upon the motion of the minister of the Ministry of Trade, Industry and Energy following the nomination by our director nomination committee, the review and resolution of the Public Agencies Operating Committee and an approval at the general meeting of shareholders. See Item 6A. Directors and Senior Management Board of Directors.

Item 4B. Business Overview

Introduction

We are an integrated electric utility company engaged in the transmission and distribution of substantially all of the electricity in Korea. Through our six wholly-owned generation subsidiaries, we also generate the substantial majority of electricity produced in Korea. As of December 31, 2013, we and our generation subsidiaries owned approximately 81.5% of the total electricity generation capacity in Korea (excluding plants generating electricity primarily for private or emergency use). In 2013, we sold to our customers approximately 474,849 gigawatt-hours of electricity. We purchase electricity principally from our generation subsidiaries and to a lesser extent from independent power producers. Of the 479,287 gigawatt-hours of electricity we purchased in 2013, 28.8% was generated by KHNP, our wholly-owned nuclear and hydroelectric power generation subsidiary, 60.6% was generated by our wholly-owned five thermal generation subsidiaries and 10.6% was generated by independent power producers. Our five thermal generation subsidiaries are KOSEP, KOMIPO, KOWEPO, KOSPO and EWP, each of which is wholly owned by us and is incorporated in Korea. We derive substantially all of our revenues and profit from Korea, and substantially all of our assets are located in Korea.

In 2013, we had sales of Won 53,713 billion and net profit of Won 174 billion, compared to sales of Won 49,121 billion and net loss of Won 3,078 billion in 2012.

Our revenues are closely tied to demand for electricity in Korea. Demand for electricity in Korea increased at a compounded average growth rate of 4.3% per annum from 2009 to 2013, compared to the real gross domestic product, or GDP, which increased at a compounded average growth rate of 3.2% during the same period, according to the Bank of Korea. The GDP growth rate was 3.0% during 2013 while demand for electricity in Korea increased by 1.8% during 2013.

Strategy

In October 2013, we announced our corporate strategy titled Global Top Green & Smart Energy Pioneer. Under this strategy, we seek to become a leading global energy enterprise through enhanced global competitiveness and strengthening our contribution to the global environmental campaigns through continued development of green and smart power-related technologies. We also aim to adapt to the growing uncertainties in global economy by selectively pursuing new business opportunities and through development of innovative technologies. In addition, we are in the process of integrating a creating shared value platform to our business model and operating strategy so as to enhance our social contributions as well as financial profitability in the form of creating new business opportunities while promoting energy welfare for our consumers.

Strengthen reliability of our domestic operations. Our primary strategies in this connection are to enhance efficiency of our electricity generation, transmission and distribution networks and acceptability of the construction and operation of our related facilities. Toward this end, we will strategically focus on ensuring stable supply of electricity, making our electricity networks smarter

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and more intelligent, creating customer-oriented marketing solutions, hiring outside agencies to assist with site selection for our facilities and improving the compensation system in relation to our facilities. We also aim to strengthen our marketing capabilities in anticipation of increasing competition, as well as bolster programs designed to encourage efficient energy use. We believe these measures will be instrumental to reinforcing our dominance in the Korean electricity market.

Expand overseas business. Our primary strategies in this connection are to develop tailored expansion plans specific to the target region, increase the level of our control over the proposed projects and procure secure supply of fuels. In this connection, we plan to expand our thermal and nuclear power projects as well as selectively explore renewable energy, smart transmission and distribution facilities and fuel procurement projects in the overseas markets.

Create a platform for new business growth opportunities. Our primary objectives in this connection are to gain first mover advantages in new businesses through technological development and to create opportunities for synergy through formation of an integrated energy network connecting Northeast Asia. Towards these goals, we plan to focus on development of high value-added electricity-related technology, commercialization of our strategic projects and establishment of super grids in Northeast Asia.

Fulfill social responsibilities as an electricity provider. In this connection, we will continue to seek a balance between our public policy mandate and profitability and develop sustainable products, including through leadership in low-carbon clean energy business, development of a sustainable energy business model and actualization of results-oriented social responsibility as a global corporate citizen.

Recent Developments

Increase in Electricity Tariff Rates

Effective November 21, 2013, the Government increased the electricity rates that we charge to the end-users by an average of 5.4% as further set forth in the following table:

		Commercial			Industrial						
Type of Usage	**Residential**	**Less than 300 kW**	**300 kW or more**	**Average**	**Less than 300 kW**	**300 kW or more**	**Average**	**Educational**	**Agricultural**	**Street Lighting**	**Overnight Usage**
% increase	2.7	5.2	6.4	5.8	6.4	6.4	6.4	3.0	5.4	5.4	

Effective January 14, 2013, the Government further increased the electricity rates that we charge to the end-users by an average of 4.0% as further set forth in the following table:

		Commercial			Industrial						
Type of Usage	**Residential**	**Low-voltage**	**High-voltage**	**Average**	**Low-voltage**	**High-voltage**	**Average**	**Educational**	**Agricultural**	**Street Lighting**	**Overnight Usage**
% increase	2.0	2.7	6.3	4.6	3.5	4.4	4.4	3.5	3.0	5.0	5.0

We cannot assure you that such tariff increases will be sufficient to fully offset the adverse impact on our results of operations from the current or future movements in fuel costs.

Proposed Second Basic National Energy Plan

On January 13, 2014, the Ministry of Trade, Industry and Energy adopted the Second Basic National Energy Plan following consultations with representatives from civic groups, the power industry and academia. The Second Basic National Energy Plan, which is a comprehensive plan that covers the entire spectrum of energy industries in Korea, will cover the period from 2013 to 2035 (compared to 2008 to 2030 under the First Basic National Energy Plan) and focuses on the following six key tasks: (i) shifting the focus of energy policy to demand management with a

goal of reducing electricity demand by 15% by 2035, (ii) establishing a geographically decentralized electricity generation system so as to reduce transmission losses with a goal of

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supplying at least 15% of total electricity through such system by 2035, (iii) applying latest greenhouse gas emission reduction technologies to newly constructed generation units in order to further promote safety and environmental friendliness, (iv) strengthening exploration and procurement capabilities to enhance Korea s energy security and to ensure stable supply of energy and increasing the portion of electricity supplied from renewable sources to 11% by 2035, (v) reinforcing the system for stable supply of conventional energy, such as oil and gas, and (vi) introducing in 2015 an energy voucher system in lieu of a tariff discount system for the benefit of consumers in the low income group. In addition, the Second Basic National Energy Plan contemplates revising the target level of electricity generated by nuclear sources as a percentage of total electricity generated to 29%, compared to 41% under the First Basic National Energy Plan announced in 2008.

Additional Entry of Private Enterprises in the Coal-Fired Power Generation Business

In connection with the Sixth Basic Plan announced in February 2013, the Ministry of Trade, Industry and Energy accepted additional applications from independent power producers for construction of coal-fired power plants. The Fifth Basic Plan announced in December 2010 included for the first time a plan for independent power producers to own and operate coal-fired power plants, namely two such generation units with aggregate capacity of 2,000 megawatts for completion in 2016. Prior to December 2010, private enterprises had not been permitted to own and operate coal-fired power plants in Korea. For the Sixth Basic Plan, 15 independent power producers applied for construction of a total of 40 additional coal-fired generation units with aggregate generation capacity of 37,100 megawatts, of which the Government approved applications for the construction of six generation units with aggregate generation capacity of 6,000 megawatts. The Government also approved applications from independent power producers for construction of two additional generation units with aggregate generation capacity of 2,000 megawatts to prepare for the contingency of failed or delayed construction of the foregoing generation units. Construction for the six generation units is scheduled to be completed between 2018 and 2021.

Coal Consumption Tax

On January 1, 2014, largely based on policy considerations of tax equity among different fuel types as well as environmental concerns, the Ministry of Strategy and Finance announced that, effective July 1, 2014, consumption tax will apply to bituminous coal, which previously was not subject to consumption tax unlike other fuel types such as LNG or bunker oil. The base tax rate (which is subject to certain adjustments) will be Won 24 per kilogram for bituminous coal; however, due to concerns on the potential adverse effect on industrial activities, the applicable tax rate will be Won 19 per kilogram for bituminous coal with net heat generation of 5,000 kilo calories or more per kilogram, and Won 17 per kilogram for bituminous coal with net heat generation of less than 5,000 kilo calories per kilogram. In contrast, the applicable tax rate for LNG will be reduced from Won 60 per kilogram to Won 42 per kilogram. Since bituminous coal currently represents the largest fuel type for electricity generation, accounting for approximately 43.0% of our entire fuel requirements in 2013 in terms of electricity output, we expect the newly adopted consumption tax thereon will result in an increase of our overall fuel costs, notwithstanding the decrease in the consumption tax rate for LNG, which accounted for approximately 19.7% of our entire fuel requirements in 2013 in terms of electricity output. While we expect that such additional fuel costs will be covered by a corresponding increase in electricity tariff, there is no assurance that the Government will in fact raise electricity tariff to a level sufficient to fully cover such additional costs in a timely manner or at all, and if the Government does not do so, the increase in our overall fuel costs arising from the newly adopted coal consumption tax will adversely affect our results of operation and financial condition.

Recent Incidents Involving Certain of Our Nuclear Generation Units

In May 2013, the NSSC announced that it discovered certain control cables used in three of our then-operating nuclear generation units, Shin-Kori #1 and #2, Shin-Wolsung #1, and three units under construction, Shin-Kori #3 and #4 and Shin-Wolsung #2, had been supplied based on forged testing results. These parts were custom-made and have critical functions in the case of emergency for activating certain safety signals. The forgery was made by a testing facility in charge of performance evaluation of the parts before delivery.

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Upon such discovery, KHNP immediately began internal investigation of related certification documents and reported to the Prosecutor s Office all testing facilities and suppliers suspected of forgery for further investigation. Currently, the NSSC, with the full cooperation of KHNP, is conducting a full scale investigation into the appropriateness of all testing results at all of our nuclear generation units. In addition, the Prosecutor s Office has been conducting extensive investigation on all parties suspected of having been involved in the forgery and has brought several criminal and civil charges, including against several of KHNP s former and current officers and employees. In addition, one of KHNP s former CEOs and several former and current officers and employees of KHNP were arrested on separate bribery charges brought by the Prosecutor s Office as part of a wider investigation into the nuclear power industry in general, and in June 2013, KHNP s then CEO was dismissed by the Government for failure of oversight. KHNP has been fully cooperating with the authorities on these investigations and have promptly taken all appropriate disciplinary actions against KHNP s employees allegedly involved in such incidents. KHNP has also immediately suspended all existing relationships with all of the entities alleged to have participated in any related illegal or improper activities. KHNP as an entity has not been subject to any criminal charges or sanctions. The investigations by the NSSC and the Prosecutor s Office are still ongoing.

Immediately following the discovery of the forgery incident, Shin-Kori #1 and #2 and Shin-Wolsung #1 were shut down in May 2013 for further safety inspections. Shin-Kori #3 and #4 and Shin-Wolsung #2, where such parts were also used, currently remain under construction. Shin-Kori #1 and #2 and Shin-Wolsung #1 resumed operations in January 2014 following parts replacement and the NSSC approval. While we expect that the construction of the other units will proceed as originally planned, we cannot assure you that any or all of these units will complete construction as currently scheduled. As a result of the shutdown, we incurred additional operating expenses, including as a result of having had to purchase electricity generated from more expensive fuel sources while the aforementioned nuclear plants were suspended from operation.

In response to the recent scandals, the Ministry of Trade, Industry and Energy has announced a number of measures to enhance the integrity, transparency and overall quality of the procurement, testing and verification processes with respect to parts used at our nuclear generation units, including: (i) encouraging open hiring (including outside experts) to reduce the chances of collusion, (ii) establishing a Government-supervised independent testing verification agency for nuclear generation parts, (iii) requiring KHNP to obtain testing results directly from testing facilities instead of indirectly from suppliers as has been the existing practice, (iv) increasing criminal and civil penalties for wrongdoings related to quality certifications, and (v) enhancing transparency in KHNP s procurement process. We are actively and promptly implementing these measures. In addition, KHNP has filed a lawsuit seeking compensation for damages against the supplier and testing facility that were responsible for the forgery.

These incidents have had a material adverse effect, and may have a further material adverse effect, on our reputation, business, results of operation, financial condition as well as the general acceptance of nuclear power, especially if, as a result of these incidents or otherwise, there are findings of other criminal or other illegal or improper activities or if there are additional shutdowns that lead to greater social and political concerns over nuclear safety to the effect of impeding with our normal operation of nuclear generation units. See Item 3D. Risk Factors Recent findings of falsified testing results and bribery and the subsequent prolonged shutdowns of certain of our nuclear generation units may adversely hurt our reputation, business, results of operations and financial condition.

Coal-Fired Power Plant Project in Vietnam

On March 19, 2013, a consortium consisting of us and Marubeni, a Japanese corporation, was selected by the Ministry of Industry and Trade of Vietnam for the construction and operation of a 1,200 megawatt coal-fired power plant in Thanh Hoa province, Vietnam. Construction will begin in December 2014 with target completion

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by December 2018, after which we will operate the plant for 25 years. We have entered into a power purchase agreement with Electricity of Vietnam (EVN). Total project cost is expected to be US$2.3 billion, of which 25% will be funded by capital contribution and the remaining 75% by debt financing. The share capital of the special purpose entity that will be in charge of this project will be US$ 575 million, and KEPCO and Marubeni will each hold a 50% equity interest in such entity.

Electricity Storage System and Smart Grid Initiatives

We have recently been actively participating in the Government s initiative for wider distribution and use of electricity storage systems (ESS). An ESS is a facility that stores electricity generated during times of low demand and transmits such electricity during times of high demand. Since our generation units currently set aside part of their capacity for frequency adjustment, replacing such parts with ESSs is expected to result in significant fuel cost savings and efficiency enhancement for the generation process. We plan to establish and operate ESSs with total capacity of 50 megawatts in 2014 and gradually increase the capacity to 500 megawatts by 2017, which we believe will result in fuel cost savings of approximately Won 300 billion per year.

We are also involved in a number of smart-grid related initiatives. For example, we are participating in the Government s Smart Grid Expansion Business along with 47 other corporations and agencies. This initiative involves setting out a realistic business model for commercialization of smart grid technologies for general use and distribution. The consortium is currently working on the details of such model. In addition, after completing the experimentation stage at one of our office buildings, we plan to roll out smart grid stations, which include facilities that integrate renewable energy production, electricity storage, advanced metering and/or building automation, to our office buildings in 210 locations nationwide. We are also in the process of developing micro-grids, for which the experimentation stage was completed, as replacement for long-distance transmission grids. Furthermore, we are also upgrading our current facility management programs and office software to comprehensively integrate smart grid and advanced metering operating systems.

Government Ownership and Our Interactions with the Government

The KEPCO Act requires that the Government own at least 51% of our capital stock. Direct or indirect ownership of more than 50% of our outstanding common stock enables the Government to control the approval of certain corporate matters which require a shareholders resolution, including approval of dividends. The rights of the Government and Korea Finance Corporation as holders of our common stock are exercised by the Ministry of Trade, Industry and Energy in consultation with the Ministry of Strategy and Finance. We are currently not aware of any plans of the Government to cease to own, directly or indirectly, at least 51% of our outstanding common stock.

We play an important role in the implementation of the Government s national energy policy, which is established in consultation with us, among other parties. As an entity formed to serve public policy goals of the Government, we seek to maintain a fair level of profitability and strengthen our capital base in order to support the growth of our business in the long term.

The Government, through its various policy initiatives for the Korean energy industry as well as direct and indirect supervision of us and our industry, plays an important role in our business and operations. Most importantly, the electricity tariff rates we charge to our customers are regulated by the Government taking into account, among others, our needs to recover the costs of operations, make capital investments and recoup a fair return on capital invested by us, as well as the Government s overall policy considerations, such as inflation. See Item 4B. Business Overview Sales and Customers Electricity Rates.

In addition, pursuant to the Basic Plan determined by the Government, we and our generation subsidiaries have made, and plan to make, substantial expenditures for the construction of generation plants and other facilities to meet demand for electric power. See Item 5B. Liquidity and Capital Resources Capital Requirements.

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Restructuring of the Electric Power Industry in Korea

On January 21, 1999, the Ministry of Trade, Industry and Energy published the Restructuring Plan. The overall objectives of the Restructuring Plan consisted of: (i) introducing competition and thereby increasing efficiency in the Korean electric power industry, (ii) ensuring a long-term, inexpensive and stable electricity supply, and (iii) promoting consumer convenience through the expansion of consumer choice.

The following provides further details relating to the Restructuring Plan.

Phase I

During Phase I, which served as a preparatory stage for Phase II and lasted from the announcement of the Restructuring Plan in January 1999 until April 2001, we undertook steps to split our generation business units off into one wholly-owned nuclear generation subsidiary (namely, KHNP) and five wholly-owned thermal generation subsidiaries (namely, KOSEP, KOMIPO, KOWEPO, KOSPO and EWP), each with its own management structure, assets and liabilities. These steps were completed upon the approval of the split-off at our shareholders meeting in April 2001.

The Government s principal objectives in the split-off of the generation units into separate subsidiaries were to: (i) introduce competition and thereby increase efficiency in the electricity generation industry in Korea, and (ii) ensure a stable supply of electricity in Korea.

Following the implementation of Phase I, we have substantial monopoly with respect to the transmission and distribution of electricity in Korea.

While our ownership percentage of the thermal generation subsidiaries will depend on the further adjustments to the Restructuring Plan to be adopted by the Government, we plan to retain 100% ownership of both KHNP and our transmission and distribution business.

Phase II

At the outset of Phase II in April 2001, the Government introduced a cost-based competitive bidding pool system under which we purchase power from our generation subsidiaries and other independent power producers for transmission and distribution to customers. For a further description of this system, see Purchase of Electricity Cost-based Pool System below.

In order to support the logistics of the cost-based pool system, the Government established the Korea Power Exchange in April 2001 pursuant to the Electricity Business Law. The primary function of the Korea Power Exchange is to deal with the sale of electricity and implement regulations governing the electricity market to allow for electricity distribution through a competitive bidding process. The Government also established the Korea Electricity Commission in April 2001 to regulate the Korean electric power industry and ensure fair competition among industry participants. To facilitate this goal, the Korea Power Exchange established the Electricity Market Rules relating to the operation of the bidding pool system. To amend the Electricity Market Rules, the Korea Power Exchange must have the proposed amendment reviewed by the Korea Electricity Commission and then obtain the approval of the Ministry of Trade, Industry and Energy.

The Korea Electricity Commission s main functions include implementation of standards and measures necessary for electricity market operation and review of matters relating to licensing participants in the Korean electric power industry. The Korea Electricity Commission also acts as an arbitrator in tariff-related disputes among participants in the Korean electric power industry and investigates illegal or deceptive activities of the industry participants.

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Privatization of Thermal Generation Subsidiaries

In April 2002, the Ministry of Trade, Industry and Energy released the basic privatization plan for five of our generation subsidiaries other than KHNP. Pursuant to this plan, we commenced the process of selling our equity interest in KOSEP in 2002. According to the original plan, this process was, in principle, to take the form of a sale of management control, potentially supplemented by an initial public offering as a way of broadening the investor base. In November 2003, KOSEP submitted its application to the Korea Exchange for a preliminary screening review, which was approved in December 2003. However, in June 2004, KOSEP made a request to the Korea Exchange to delay its stock listing due to unfavorable stock market conditions at that time. We may resume the stock listing process for KOSEP in due course, after taking into consideration the overall stock market conditions and other pertinent matters. The aggregate foreign ownership of our generation subsidiaries is limited to 30% of total power generation capacity in Korea. In consultation with us, the Government will determine the size of the ownership interest to be sold and the timing of such sale, with a view to encouraging competition and assuring adequate electricity supply and debt service capability.

We believe the Government currently has no specific plans to resume the public offering of KOSEP or commence the same for any of our other generation subsidiaries in the near future. However, we cannot assure that our generation subsidiaries will not become part of Government-led privatization initiatives in the future for reasons relating to a change in Government policy, economic and market conditions and/or other factors.

Suspension of the Plan to Form and Privatize Distribution Subsidiaries

In 2003, the Government established a Tripartite Commission consisting of representatives of the Government, leading businesses and labor unions in Korea to deliberate on ways to introduce competition in electricity distribution, such as by forming and privatizing new distribution subsidiaries. In 2004, the Tripartite Commission recommended not pursuing such privatization initiatives but instead creating independent business divisions within us to improve operational efficiency through internal competition. Following the adoption of such recommendation by the Government in 2004 and further studies by Korea Development Institute, in 2006 we created nine strategic business units (which, together with our other business units, were subsequently restructured into 14 such units in February 2012) that have a greater degree of autonomy with respect to management, financial accounting and performance evaluation while having a common focus on increasing profitability.

Initiatives to Improve the Structure of Electricity Generation

In August 2010, based on deliberations with various interested parties, the Ministry of Trade, Industry and Energy announced the Proposal for the Improvement in the Structure of the Electric Power Industry, whose key initiatives include the following: (i) maintain the current structure of having six generation subsidiaries, (ii) designate the six generation subsidiaries as market-oriented public enterprises under the Public Agency Management Act in order to foster competition among them and autonomous and responsible management by them, (iii) create a supervisory unit to act as a control tower in reducing inefficiencies created by arbitrary division of labor among the six generation subsidiaries and fostering economies of scale among them and require the presidents of the generation subsidiaries to hold regular meetings, (iv) create a nuclear power export business unit to systematically enhance our capabilities to win projects involving the construction and operation of nuclear power plants overseas, (v) further rationalize the electricity tariff by adopting a fuel-cost based tariff system in 2011 and a voltage-based tariff system in a subsequent year, and (vi) create separate accounting systems for electricity generation, transmission, distribution and sales with the aim of introducing competition in electricity sales in the intermediate future.

Pursuant to this Proposal, in December 2010 the Ministry of Trade, Industry and Energy announced guidelines for a cooperative framework between us and our generation subsidiaries, and in January 2011 the five thermal generation subsidiaries formed a joint cooperation unit and transferred their pumped-storage hydroelectric

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business units to KHNP. Furthermore, in January 2011 the six generation subsidiaries were officially designated as market-oriented public enterprises, whereupon the President of Korea appoints the president and the statutory auditor of each such subsidiary; the selection of outside directors of each such subsidiary is subject to approval by the minister of the Ministry of Strategy and Finance; the president of each such subsidiary is required to enter into a management contract directly with the minister of the Ministry of Trade, Industry and Energy; and the Public Enterprise Management Evaluation Commission conducts performance evaluation of such subsidiaries. Previously, our president appointed the president and the statutory auditor of each such subsidiary; the selection of outside directors of each such subsidiary was subject to approval by our president; the president of each such subsidiary entered into a management contract with our president; and our evaluation committee conducted performance evaluation of such subsidiaries.

Purchase of Electricity

Cost-based Pool System

Since April 2001, the purchase and sale of electricity in Korea is required to be made through the Korea Power Exchange, which is a statutory not-for-profit organization established under the Electricity Business Act with responsibilities for setting the price of electricity, handling the trading and collecting relevant data for the electricity market in Korea. The suppliers of electricity in Korea consist of our six generation subsidiaries, which were spun off from us in April 2001, and independent power producers, which numbered 10 (excluding renewable energy producers) as of December 31, 2013. We distribute electricity purchased through the Korea Power Exchange to the end users.

Our Relationship with the Korea Power Exchange

The key features of our relationships with the Korea Power Exchange include the following: (i) we and our six generation subsidiaries are member corporations of the Korea Power Exchange and collectively own 100% of its share capital, (ii) three of the 10 members of the board of directors of the Korea Power Exchange are currently our or our subsidiaries employees, and (iii) one of our employees is currently a member in three of the key committees of the Korea Power Exchange that are responsible for evaluating the costs of producing electricity, making rules for the Korea Power Exchange and gathering and disclosing information relating to the Korean electricity market.

Notwithstanding the foregoing relationships, however, we do not have control over the Korea Power Exchange or its policies since, among others, (i) the Korea Power Exchange, its personnel, policies, operations and finances are closely supervised and controlled by the Government, namely through the Ministry of Trade, Industry and Energy, and are subject to a host of laws and regulations, including, among others, the Electricity Business Act and the Public Agencies Management Act, as well as the Articles of Incorporation of the Korea Power Exchange, (ii) we are entitled to elect no more than one-third of the Korea Power Exchange directors and our representatives represent only a minority of its board of directors and committees (with the other members being comprised of representatives of the Ministry of Trade, Industry and Energy, employees of the Korea Power Exchange, businesspersons and/or scholars), and (iii) the role of our representatives in the policy making process for the Korea Power Exchange is primarily advisory based on their technical expertise derived from their employment at us or our generation subsidiaries. Consistent with this view, the Finance Supervisory Service issued a ruling in 2005 that stated that we are not deemed to have significant influence or control over the decision-making process of the Korea Power Exchange relating to its business or financial affairs.

Pricing Factors

The price of electricity in the Korean electricity market is determined principally based on the cost of generating electricity using a system known as the cost-based pool system. Under the cost-based pool system, the price of electricity has two principal components, namely the marginal price (representing in principle the variable cost of generating electricity) and the capacity price (representing in principle the fixed cost of generating electricity).

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Under the merit order system, the electricity purchase allocation, the system marginal price (as described below) and the final allocation adjustment are automatically determined based on an objective formula. The variable cost (including the adjusted coefficient as described below) and the capacity price are determined in advance of trading by the Cost Evaluation Committee. Accordingly, a supplier of electricity cannot exercise control over the merit order system or its operations to such supplier s strategic advantage.

Marginal Price

The primary purpose of the marginal price is to compensate the generation companies for fuel costs, which represents the principal component of the variable costs of generating electricity. We currently refer such marginal price as the system marginal price.

The system marginal price represents, in effect, the marginal price of electricity at a given hour at which the projected demand for electricity and the projected supply of electricity for such hour intersect, as determined by the merit order system, which is a system used by the Korea Power Exchange to allocate which generation units will supply electricity for which hour and at what price. To elaborate, the projected demand for electricity for a given hour is determined by the Korea Power Exchange based on a forecast made one day prior to trading, and such forecast takes into account, among others, historical statistics relating to demand for electricity nationwide by day and by hour, seasonality and on-peak-hour versus off-peak hour demand analysis. The projected supply of electricity at a given hour is determined as the aggregate of the available capacity of all generation units that have submitted bids to supply electricity for such hour. These bids are submitted to the Korea Power Exchange one day prior to trading.

Under the merit order system, the generation unit with the lowest variable cost of producing electricity among all the generation units that have submitted a bid for a given hour is first awarded a purchase order for electricity up to the available capacity of such unit as indicated in its bid. The generation unit with the next lowest variable cost is then awarded a purchase order up to its available capacity in its bid, and so forth, until the projected demand for electricity for such hour is met. We refer to the variable cost of the generation unit that is the last to receive the purchase order for such hour as the system marginal price, which also represents the highest price at which electricity can be supplied at a given hour based on the demand and supply for such hour. Generation units whose variable costs exceed the system marginal price for a given hour do not receive purchase orders to supply electricity for such hour. The variable cost of each generation unit is determined by the Cost Evaluation Committee (comprised of representatives from the Ministry of Trade, Industry and Energy, the Korea Power Exchange, generation companies, scholars and researchers as well as us) on a monthly basis and reflected in the following month based on the fuel costs two months prior to such determination. The purpose of the merit order system is to encourage generation units to reduce its electricity generation costs by making its generation process more efficient, sourcing fuels from most cost-effective sources or adopting other cost savings programs.

The final allocation of electricity supply is further adjusted on the basis of other factors, including the proximity of a generation unit to the geographical area to which power is being supplied, network and fuel constraints and the amount of power loss. This adjustment mechanism is designed to adjust for transmission losses in order to improve overall cost-efficiency in the transmission of electricity to end-users.

The price of electricity at which our generation subsidiaries sell electricity to us is determined using the following formula:

Variable cost + [System marginal price Variable cost] * Adjusted coefficient

The adjusted coefficient is determined based on considerations of, among others, electricity tariff rates, the differential generation costs for different fuel types and the relative fair returns on investment in respect of us compared to our generation subsidiaries. The purpose of the adjusted coefficient is to prevent electricity trading from resulting in undue imbalances as to the relative financial results among generation subsidiaries as well as

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between us (as the purchaser of electricity) and our generation subsidiaries (as sellers of electricity). Such imbalances may arise from excessive profit taking by base load generators (on account of their inherently cheaper fuel cost structure compared to non-base load generators) as well as from fluctuations in fuel prices (it being the case that during times of rapid and substantial rises in fuel costs which are not offset by corresponding rises in electricity tariff rates charged by us to end-users, on a non-consolidated basis our profitability will decline compared to that our generation subsidiaries since our generation subsidiaries are entitled to sell electricity to us at cost plus a guaranteed margin).

The adjusted coefficient applies in principle to all generation units that use the same type of fuel, except for independent power producers that use LNG or oil as fuel. Independent power producers that use coal as fuel will be entitled to the adjusted coefficient upon commencement of commercial operation beginning from 2016. The adjusted coefficient is currently set at the highest level for the marginal price of electricity generated using nuclear fuel, followed by coal, oil and LNG. The differentiated adjusted coefficients reflect the Government s current energy policy objectives and have the effect of setting priorities in the fuel types to be used in electricity generation. The adjusted coefficient is determined by the Cost Evaluation Committee in principle on an annual basis, although in exceptional cases driven by external factors such as material developments in fuel costs and electricity tariff rates, the adjusted coefficient may be adjusted on a quarterly basis.

Capacity Price

In addition to payment in respect of the variable cost of generating electricity, generation units receive payment in the form of capacity price, the purpose of which is to compensate them for the costs of constructing generation facilities and to provide incentives for new construction. The capacity price is determined annually by the Cost Evaluation Committee based on the construction costs and maintenance costs of a standard generation unit and is paid to each generation company for the amount of available capacity indicated in the bids submitted the day before trading, subject to such capacity being actually available on the relevant day of trading. From time to time, the capacity price is adjusted in ways to soften the impact of changes in the marginal price over time based on the expected rate of return for our generational subsidiaries. Currently, the capacity price is Won 7.46/kW-h and is applied equally to all generation units, regardless of fuel types used.

Effective as of January 1, 2007, a regionally differentiated capacity price system was introduced by setting a standard capacity reserve margin in the range of 12.0% to 20.0% in order to prevent excessive capacity build-up as well as induce optimal capacity investment at the regional level. The capacity reserve margin is the ratio of peak demand to the total available capacity. Under this system, generation units in a region where available capacity is insufficient to meet demand for electricity as evidenced by a failure to meet the standard capacity reserve margin receive increased capacity price. Conversely, generation units in a region where available capacity exceeds demand for electricity as evidenced by exceeding the standard capacity reserve margin receive reduced capacity price. Since 2006, the capacity price received by generation units has been subject to hourly and seasonal adjustments in order to incentivize our generation subsidiaries to operate their generation facilities at full capacity during periods of highest demand. For example, the capacity price paid differs depending on whether the relevant hour is a on-peak hour, a mid-peak hour or an off-peak hour (it being highest for the on-peak hours and lowest for the off-peak hours) and the capacity price paid is highest during the months of January, July and August when electricity usage is highest due to weather conditions. Other than subject to the aforementioned variations, the same capacity pricing mechanism applies to all generation units regardless of fuel types used.

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Power Trading Results

The results of power trading, as effected through the Korea Power Exchange, for our generation subsidiaries for the year ended December 31, 2013 are as follows:

	Items	Volume (Gigawatt hours)	Percentage of Total Volume (%)	Sales to KEPCO (in billions of Won)	Percentage of Total Sales (%)	Unit Price (Won/kWh)
Generation Companies	KHNP	137,948	28.8	6,289	14.9	45.59
	KOSEP	59,211	12.3	4,040	9.5	68.23
	KOMIPO	55,631	11.6	5,659	13.4	101.72
	KOWEPO	55,954	11.7	5,755	13.6	102.86
	KOSPO	65,685	13.7	7,136	16.9	108.64
	EWP	54,069	11.3	5,301	12.5	98.04
	Others[(1)]	50,788	10.6	8,109	19.2	159.67
	Total	479,287	100.0	42,288	100.0	88.23
Energy Sources	Nuclear	132,396	27.6	5,179	12.2	39.12
	Bituminous coal	186,886	39.0	10,972	26.1	58.71
	Anthracite coal	7,367	1.5	676	1.6	91.73
	Oil	14,750	3.1	3,271	7.8	221.78
	LNG	4,462	0.9	1,040	2.5	215.31
	Combined-cycle	115,420	24.1	18,238	43.4	158.52
	Hydro	3,558	0.7	608	1.4	170.92
	Pumped-storage	4,086	0.9	835	2.0	204.42
	Others	10,361	2.2	1,469	3.0	120.62
	Total	479,287	100.0	42,288	100.0	88.23
Load	Base load	323,099	67.4	16,442	38.9	50.89
	Non-base load	156,188	32.6	25,846	61.1	165.48
	Total	479,287	100.0	42,288	100.0	88.23

Note:

(1) Others represent independent power producers that trade electricity through the cost-based pool system of power trading (excluding independent power producers that supply electricity under power purchase agreements with us).

Power Purchased from Independent Power Producers Under Power Purchase Agreements

In 2013, we purchased an aggregate of 16,892 gigawatt hours of electricity generated by independent power producers under existing power purchase agreements. These independent power producers had an aggregate generation capacity of 4,268 megawatts as of December 31, 2013.

Power Generation

As of December 31, 2013, we and our generation subsidiaries had a total of 598 generation units, including nuclear, thermal, hydroelectric and internal combustion units, representing total installed generation capacity of 70,845 megawatts. Our thermal units produce electricity using

steam turbine generators fired by coal, oil and LNG. Our internal combustion units use oil or diesel-fired gas turbines and our combined-cycle units are primarily LNG-fired. We also purchase power from several generation plants not owned by our generation subsidiaries.

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The table below sets forth as of and for the year ended December 31, 2013 the number of units, installed capacity and the average capacity factor for each type of generating facilities owned by our generation subsidiaries.

	Number of Units	Installed Capacity[1] (Megawatts)	Average Capacity Factor[2] (Percent)
Nuclear	23	20,716	75.5
Thermal:			
Coal	51	24,534	93.6
Oil	16	3,950	40.3
LNG	4	888	45.4
Total thermal	71	29,372	85.0
Internal combustion	208	330	23.8
Combined-cycle	107	14,886	63.5
Hydro	71	5,334	12.2
Wind	40	94	17.1
Solar	70	70	13.6
Fuel cell	7	14	66.1
Biogas	1	30	45.0
Total	598	70,845	71.0

Notes:

(1) Installed capacity represents the level of output that may be sustained continuously without significant risk of damage to plant and equipment.

(2) Average capacity factor represents the total number of kilowatt hours of electricity generated in the indicated period divided by the total number of kilowatt hours that would have been generated if the generation units were continuously operated at installed capacity, expressed as a percentage.

The expected useful life of a unit, assuming no substantial renovation, is approximately as follows: nuclear, over 40 years; thermal, over 30 years; internal combustion, over 25 years; and hydroelectric, over 55 years. Substantial renovation can extend the useful life of thermal units by up to 20 years.

We seek to achieve efficient use of fuels and diversification of generation capacity by fuel type. In the past, we relied principally upon oil-fired thermal generation units for electricity generation. Since the oil shock in 1974, however, Korea s power development plans have emphasized the construction of nuclear generation units. While nuclear units are more expensive to construct than thermal generation units of comparable capacity, nuclear fuel is less expensive than fossil fuels in terms of electricity output per unit cost. However, efficient operation of nuclear units requires that such plants be run continuously at relatively constant energy output levels. As it is impractical to store large quantities of electrical energy, we seek to maintain nuclear power production capacity at approximately the level at which demand for electricity is continuously stable. During those times when actual demand exceeds the usual level of electricity supply from nuclear power, we rely on units fired by fossil fuels and hydroelectric units, which can be started and shut down more quickly and efficiently than nuclear units, to meet the excess demand. Bituminous coal is currently the least expensive thermal fuel per kilowatt-hour of electricity produced, and therefore we seek to maximize the use of bituminous coal for generation needs in excess of the stable demand level, except for meeting short-term surges in demand which require rapid start-up and shutdown. Thermal units fired by LNG, hydroelectric units and internal combustion units are the most efficient types of units for rapid start-ups and shutdowns, and therefore we use such units principally to meet short-term surges in demand. Anthracite coal is a less efficient fuel source than bituminous coal in terms of electricity output per unit cost.

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Our generation subsidiaries have constructed and recommissioned thermal and internal combustion units in order to help meet power demand. Subject to market conditions, our generation subsidiaries plan to continue to add additional thermal and internal combustion units. These units generally take less time to complete construction than nuclear units.

The high average age of our oil-fired thermal units is attributable to our reliance on oil-fired thermal units as the primary means of electricity generation until mid-1970s. Since then, we have diversified our fuel sources and constructed relatively few oil-fired thermal units compared to units of other fuel types.

The table below sets forth, for the periods indicated, the amount of electricity generated by facilities linked to our grid system and the amount of power used or lost in connection with transmission and distribution.

	2009	2010	2011	2012	2013	% of 2013 Gross Generation[1]
	(in gigawatt hours, except percentages)					
Electricity generated by us and our generation subsidiaries:						
Nuclear	147,771	148,596	154,723	150,327	138,784	26.8
Coal	193,803	198,287	199,516	199,329	201,119	38.8
Oil	11,970	10,874	9,456	13,553	13,941	2.7
LNG	762	2,288	2,233	3,453	2,950	0.6
Internal combustion	697	731	821	752	741	0.1
Combined-cycle	47,580	70,081	71,668	75,751	85,703	16.6
Hydro	4,091	4,393	4,815	5,140	5,679	1.1
Wind	82	91	117	127	155	0.03
Solar and fuel cells	24	44	60	83	251	0.05
Total generation by us and our generation subsidiaries	406,780	435,384	443,409	448,516	449,323	86.8
Electricity generated by IPPs:						
Thermal	25,274	37,197	42,240	48,043	54,242	10.5
Hydro and other renewable	1,550	2,079	11,244	13,015	14,149	2.7
Total generation by IPPs	26,824	39,276	53,484	61,058	68,391	13.2
Gross generation	433,604	474,660	496,893	509,574	517,714	100
Auxiliary use[2]	18,258	19,372	19,689	20,154	21,303	4.1
Pumped-storage[3]	3,713	3,663	4,257	4,789	5,408	1.0
Total net generation[4]	411,631	451,625	472,947	484,631	491,003	94.8
Transmission and distribution losses[5]	16,770	18,034	17,430	17,292	18,311	3.73

IPPs = Independent power producers

Notes:

(1) Unless otherwise indicated, percentages are based on gross generation.
(2) Auxiliary use represents electricity consumed by generation units in the course of generation.
(3) Pumped-storage represents electricity consumed during low demand periods in order to store water which is utilized to generate hydroelectric power during peak demand periods.

(4) Total net generation is gross generation minus auxiliary and pumped-storage use.
(5) Total transmission and distribution losses divided by total net generation.

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The table below sets forth our total capacity at the end of, and peak and average loads during, the indicated periods.

	2009	2010	2011	2012	2013
			(Megawatts)		
Total capacity	73,470	76,078	76,649	81,806	82,296
Peak load	66,797	71,308	73,137	75,987	76,522
Average load	49,498	54,185	56,723	58,012	58,615

Korea Hydro & Nuclear Power Co., Ltd.

We commenced nuclear power generation activities in 1978 when our first nuclear generation unit, Kori-1, began commercial operation. On April 2, 2001, all of nuclear and hydroelectric power generation assets and liabilities of our thermal generation subsidiaries were transferred to KHNP.

KHNP owns and operates 23 nuclear generation units at four power plant complexes in Korea, located in Kori, Wolsong, Yonggwang (Hanbit) and Ulchin (Hanul), 50 hydroelectric generation units including 16 pumped storage hydro generation units as well as five solar generation units and one wind generation unit as of December 31, 2013.

The table below sets forth the number of units and installed capacity as of December 31, 2013 and the average capacity factor by types of generation units in 2013.

	Number of Units	Installed Capacity[(1)] (Megawatts)	Average Capacity Factor[(2)] (Percent)
Nuclear	23	20,716	75.5
Hydroelectric	50	5,307	12.0
Solar	5	16	15.3
Wind	1	0.8	7.1
Total	79	26,040	

Notes:

(1) Installed capacity represents the level of output that may be sustained continuously without significant risk of damage to plant and equipment.

(2) Average capacity factor represents the total number of kilowatt hours of electricity generated in the indicated period divided by the total number of kilowatt hours that would have been generated if the generation units were continuously operated at installed capacity, expressed as a percentage.

Shin-Kori-2 and Shin-Wolsong-1, each with a 1,000 megawatt capacity, commenced commercial operation in July 2012. We are currently building five additional nuclear generation units, consisting of one unit with a 1,000 megawatt capacity and four units each with a 1,400 megawatt capacity at the Shin-Kori and Shin-Hanul sites, respectively. We expect to complete these units between 2014 and 2018. In addition, we plan to build four additional nuclear units, each with a 1,400 megawatt capacity, and two additional nuclear units, each with a 1,500 megawatt capacity at the Shin-Kori and Shin-Hanul sites between 2019 and 2024.

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Nuclear

The table below sets forth certain information with respect to the nuclear generation units of KHNP as of December 31, 2013.

Unit	Reactor Type[1] (Megawatts)	Reactor Design[2]	Turbine and Generation[3]	Commencement of Operations	Installed Capacity
Kori-1	PWR	W	GEC, Hitachi, D	1978	587
Kori-2	PWR	W	GEC	1983	650
Kori-3	PWR	W	GEC, Hitachi	1985	950
Kori-4	PWR	W	GEC, Hitachi	1986	950
Shin-Kori-1	PWR	D, KOPEC, W	D, GE	2011	1,000
Shin-Kori-2	PWR	D, KOPEC, W	D, GE	2012	1,000
Wolsong-1	PHWR	AECL	P	1983	679
Wolsong-2	PHWR	AECL, H, K	H, GE	1997	700
Wolsong-3	PHWR	AECL, H	H, GE	1998	700
Wolsong-4	PHWR	AECL, H	H, GE	1999	700
Shin-Wolsong-1	PWR	D, KOPEC, W	D, GE	2012	1,000
Hanbit-1	PWR	W	W, D	1986	950
Hanbit-2	PWR	W	W, D	1987	950
Hanbit-3	PWR	H, CE, K	H, GE	1995	1,000
Hanbit-4	PWR	H, CE, K	H, GE	1996	1,000
Hanbit-5	PWR	D, CE, W, KOPEC	D, GE	2002	1,000
Hanbit-6	PWR	D, CE, W, KOPEC	D, GE	2002	1,000
Hanul-1	PWR	F	A	1988	950
Hanul-2	PWR	F	A	1989	950
Hanul-3	PWR	H, CE, K	H, GE	1998	1,000
Hanul-4	PWR	H, CE, K	H, GE	1999	1,000
Hanul-5	PWR	D, KOPEC, W	D, GE	2004	1,000
Hanul-6	PWR	D, KOPEC, W	D, GE	2005	1,000
Total nuclear					20,716

Notes:

(1) PWR means pressurized light water reactor; PHWR means pressurized heavy water reactor.

(2) W means Westinghouse Electric Company (U.S.A.); AECL means Atomic Energy Canada Limited (Canada); F means Framatome (France); H means Hanjung; CE means Combustion Engineering (U.S.A.); D means Doosan Heavy Industries; K means Korea Atomic Energy Research Institute.

(3) GEC means General Electric Company (U.K.); P means Parsons (Canada and U.K.); W means Westinghouse Electric Company (U.S.A.); A means Alsthom (France); H means Hanjung; GE means General Electric (U.S.A.); D means Doosan Heavy Industries; Hitachi mean Hitachi Ltd. (Japan).

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The table below sets forth the average capacity factor and average fuel cost per kilowatt for 2013 with respect to each nuclear generation unit of KHNP.

Unit	Average Capacity Factor (Percent)	Average Fuel Cost Per kWh (Won)
Kori-1	49.9	5.9
Kori-2	80.9	6.4
Kori-3	100.1	5.3
Kori-4	75.5	6.7
Shin-Kori-1	26.6	12.8
Shin-Kori-2	40.8	6.5
Wolsong-1		
Wolsong-2	83.7	7.5
Wolsong-3	92.6	7.4
Wolsong-4	90.3	7.6
Shin-Wolsong-1	38.1	8.2
Hanbit-1	82.4	6.5
Hanbit -2	75.2	5.3
Hanbit -3	54.1	6.1
Hanbit -4	86.6	5.7
Hanbit -5	94.1	4.8
Hanbit -6	98.1	5.0
Hanul-1	85.8	5.7
Hanul-2	88.2	5.7
Hanul-3	100.0	5.3
Hanul-4	37.8	6.1
Hanul-5	85.5	5.6
Hanul-6	99.8	5.0
Total nuclear	75.5	6.1

Under extended-cycle operations, nuclear units can be run continuously for periods longer than the conventional 12-month period between scheduled shutdowns for refueling and maintenance. Since 1987, we have adopted the mode of extended-cycle operations for all of our pressurized light water reactor units and plan to use it for our newly constructed units. The duration of shutdown for fuel replacement and maintenance was 117.5 days per unit in 2013, which was higher than that for previous years due to the quality assurance-related incidents which led to a shutdown of a number of KHNP s nuclear units from May 2013 until January 2014 (see Item 3D. Risk Factors Risks Relating to KEPCO Recent findings of falsified testing results and bribery and the subsequent prolonged shutdowns of certain of our nuclear generation units may adversely hurt our reputation, business, results of operations and financial condition.) as well as scheduled long-term overhauls. In addition, KHNP s nuclear units experienced an average of 0.26 unplanned shutdowns per unit in 2013. In the ordinary course of operations, KHNP s nuclear units routinely experience damage and wear and tear, which are repaired during routine shutdown periods or during unplanned temporary suspensions of operations. No significant damage has occurred in any of KHNP s nuclear reactors, and no significant nuclear exposure or release incidents have occurred at any of KHNP s nuclear facilities since the first nuclear plant commenced operation in 1978.

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Hydroelectric

Effective January 1, 2011, pursuant to the Government s Proposal for Improvements in the Structure of the Electric Power Industry announced in August 2010, our five thermal generation subsidiaries transferred all of the assets and liabilities relating to their pumped-storage and hydroelectric business units to KHNP. The table below sets forth certain information, including the installed capacity as of December 31, 2013 and the average capacity factor in 2013.

Location of Unit	Number of Units	Classification	Year Built	Installed Capacity (Megawatts)	Average Capacity Factor (%)
Hwacheon	4	Dam waterway	1944	108.0	23.4
Chuncheon	2	Dam	1965	62.3	23.6
Euiam	2	Dam	1967	48.0	31.8
Cheongpyung	4	Dam	1943	140.1	43.4
Paldang	4	Dam	1973	120.0	44.1
Seomjingang	3	Basin deviation	1945	34.8	51.5
Boseonggang	2	Basin deviation	1937	4.5	58.3
Kwoesan	2	Dam	1957	2.6	58.2
Anheung	3	Dam waterway	1978	0.5	52.0
Kangreung	2	Basin deviation	1991	82.0	
Topyeong	1	Dam	2011	0.05	44.1
Muju(1)	1	Dam	2003	0.4	17.5
Sancheong(1)	1	Dam	2001	1.0	42.4
Yangyang(1)	2	Dam	2005	1.4	25.5
Yecheon(1)	1	Dam	2011	1.0	19.4
Cheongpeoung(1)	2	Pumped Storage	1980	400.0	6.5
Samrangjin(1)	2	Pumped Storage	1985	600.0	9.5
Muju(1)	2	Pumped Storage	1995	600.0	10.8
Sancheong(1)	2	Pumped Storage	2001	700.0	10.1
Yangyang(1)	4	Pumped Storage	2006	1,000.0	9.7
Cheongsong(1)	2	Pumped Storage	2006	600.0	11.1
Yecheon(1)	2	Pumped Storage	2011	800.0	10.7
Total	50			5,307	12.0

Note:

(1) Indicates facilities that have been transferred from our five thermal generation companies to KHNP as of January 1, 2011.

Solar/Wind

The table below sets forth certain information, including the installed capacity as of December 31, 2013 and the average capacity factor in 2013, regarding each solar and wind power unit of KHNP. Yecheon-units 1 and 2 began commercial operation in July 2012 and December 2012, respectively. KHNP added a 11-megawatt capacity unit to the Younggwang Solar Park, for which commercial operation began in November 2012.

Location of Unit	Classification	Year Built	Installed Capacity	Average Capacity

			(Megawatts)	Factor (Percent)
Yonggwang	Solar	2008	13.9	15.3
Yecheon	Solar	2012	2.0	15.9
Kori	Wind	2008	0.8	7.1
Total			16.7	

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K-Water (formerly Korea Water Resources Corporation), which is a Government-owned entity, assumes full control of multi-purpose dams, while KHNP maintains the dams used for power generation. Existing hydroelectric power units have exploited most of the water resources in Korea available for commercially viable hydroelectric power generation. Consequently, we expect that no new major hydroelectric power plants will be built in the foreseeable future. Due to the ease of its start-up and shut-down mechanism, hydroelectric power generation is reserved for peak demand periods.

Korea South-East Power Co., Ltd.

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2013 and the average capacity factor and average fuel cost per kilowatt in 2013 based upon the net amount of electricity generated, of KOSEP.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
Bituminous:				
Samchunpo #1, 2, 3, 4, 5, 6	22.1	3,240	93.9	57.0
Yong Hung #1, 2, 3, 4	7.3	3,340	91.6	57.5
Yosu # 2	36.5	328.6	79.2	95.6
Anthracite:				
Yongdong #1, 2	37.3	325	83.3	99.0
Combined cycle and internal Combustion:				
Bundang gas turbine #1,2,3,4,5,6,7,8; steam turbine #1, 2	20.0	922	52.1	200.3
Hydro, Solar and other renewable energy		70.3		149.5
Total	21.3	8,226	86.8	70.4

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Korea Midland Power Co., Ltd.

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2013 and the average capacity factor and average fuel cost per kilowatt in 2013 based upon the net amount of electricity generated, of KOMIPO.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
Bituminous:				
Boryeong #1, 2, 3, 4, 5, 6, 7, 8	18.9	4,000	95.0	41.8
Anthracite:				
Seocheon #1, 2	30.5	400	83.4	82.1
Oil-fired:				
Jeju #2, 3	13.5	150	72.4	208.8
LNG-fired:				
Seoul #4, 5	44.1	388	39.5	209.3
Incheon #1, 2	41.4	500	36.8	195.5
Combined-cycle and internal combustion:				
Boryeong gas turbine #1, 2, 3, 4, 5, 6 ; steam turbine #1, 2, 3	14.8	1,350	52.4	143.6
Incheon gas turbine #1, 2, 3, 4, 5, 6 ; steam turbine #1, 2, 3	8.8	1,462.4	84.1	138.2
Sejong gas turbine #1, 2 ; steam turbine #1	0.1	530.4	73.6	78.5
Jeju Gas Turbine #3	36.1	55	0.8	724.3
Jeju Internal Combustion Engine #1, 2	6.6	80	68.7	181.4
Wind-powered:				
Yangyang #1, 2	7.5	3.0	19.9	10.8
Hydroelectric:				
Boryeong	4.8	7.5	28.7	0.5
Photovoltaic (PV) power and fuel cell generation:				
Boryeong (PV) site	5.6	0.6	10.8	14.3
Seocheon (PV) site	5.9	1.2	12.6	
Jeju (PV) site	1.8	1.1	13.4	
Seoul (PV) site	2.3	1.3	14.9	2.7
Yeosu (PV) site	1.8	2.2	17.1	
Incheon (PV) site	2.0	0.3	13.8	
Boryeong (fuel cell) site	5.3	0.3	90.6	182.4
Total	18.3	8,933	78.0	85.6

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Korea Western Power Co., Ltd.

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2013 and the average capacity factor and average fuel cost per kilowatt in 2013 based upon the net amount of electricity generated, of KOWEPO.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
Bituminous:				
Taean #1, 2, 3, 4, 5, 6, 7, 8	13.4	4,000	96.7	41.3
Oil-fired:				
Pyeongtaek #1, 2, 3, 4	32.1	1,400	30.0	189.1
Combined cycle:				
Pyeongtaek #1, 2	11.0	964	36.2	175.7
Gunsan	3.6	718.4	85.1	133.5
West Incheon	21.5	1,800	80.7	140.9
Hydroelectric:				
Taean	6.3	2.2	21.7	
Solar:				
Taean	8.4	0.1	12.7	
Taean 2	1.9	0.6	14.0	
Gunsan	3.5	0.3	14.8	
Samryangjin	6.1	3.0	14.7	
Sejong City	1.5	4.9	14.8	
Gyeonggi-do	0.7	2.5	13.5	
Yeongam	0.8	13.3	16.4	
Total	16.9	8,909	76.2	87.03

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Korea Southern Power Co., Ltd.

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2013 and the average capacity factor and average fuel cost per kilowatt in 2013 based upon the net amount of electricity generated, of KOSPO.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
Bituminous:				
Hadong #1, 2, 3, 4, 5, 6, 7, 8	12.3	4,000	95.0	40.0
Oil-fired:				
Youngnam #1, 2	41.9	400	33.2	214.7
Nam Jeju #3, 4	7.0	200	74.9	209.5
Combined cycle:				
Shin Incheon #1, 2, 3, 4	17.2	1,800	83.4	139.3
Busan #1, 2, 3, 4	10.2	1,800	91.4	133.3
Yeongwol #1	3.6	848	60.9	139.0
Hallim	17.5	105	14.9	305.4
Wind power:				
Hankyung	7.2	21	28.7	
Seongsan	4.2	20	29.9	
Solar	3.2	6	13.7	
Total	13.2	9,200	84.5	92.8

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Korea East-West Power Co., Ltd.

The table below sets forth, by fuel type, the weighted average age and installed capacity as of December 31, 2013 and the average capacity factor and average fuel cost per kilowatt in 2013 based upon the net amount of electricity generated, of EWP.

	Weighted Average Age of Units (Years)	Installed Capacity (Megawatts)	Average Capacity Factor (Percent)	Average Fuel Cost per kWh (Won)
Bituminous:				
Dangjin #1, 2, 3, 4, 5, 6,7,8	9.5	4,000	78.3	39.5
Honam #1, 2	40.8	500	87.9	60.2
Anthracite:				
Donghae #1, 2	14.8	400	78.3	61.7
Oil-fired:				
Ulsan #1, 2, 3, 4, 5, 6	46.7	1,800	43.4	194.4
Combined cycle:				
Ulsan gas turbine #1, 2, 3, 4, 5, 6; steam turbine #1, 2, 3	16.9	1,686	49.0	153.4
Ilsan gas turbine #1, 2, 3, 4, 5, 6; steam turbine #1, 2	18.3	900	49.7	175.2
Mini hydro:				
Dangjin	4.0	5.0	62.7	
Photovoltaic:				
Dangjin	3.0	1.0	14.6	
Ulsan	2.0	0.5	13.3	1.8
Kwangyang	2.1	2.3	12.4	3.1
Dangjin Storage Facility	1.0	0.7	14.2	
Dangjin Floating System	0.5	1.0	14.6	
Dangjin Waste Treatment Facility	2.0	1.3	11.6	
Donghae	7.0	1.0	12.6	1.0
Fuel cell:				
Ilsan # 1	4.1	2.4	83.8	171.7
Ilsan # 2	2.1	2.8	73.6	189.7
Ilsan # 3	0.8	2.8	77.1	176.5
Ulsan	0.2	2.8	24.9	115.0
Wind Power:				
YeongGwang Jisan	1.2	3.0	11.6	153.4
Biomass:				
Donghae	0.5	30.0	82.4	175.2
Total	8.0	9,342.6	71.4	2.9

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Power Plant Remodeling and Recommissioning

Our generation subsidiaries supplement power generation capacity through remodeling or recommissioning of thermal units. Recommissioning includes installation of anti-pollution devices, modification of control systems and overall rehabilitation of existing equipment. The following table shows recent remodeling and recommissioning initiatives by our generation subsidiaries.

Power Plant	Capacity	Completed (Year)	Extension	Company
Taean #1-8	4,000 MW (500 MW×8)	EP[1] upgrade (#4, 2011) EP[1] upgrade (#1, 2012)	Anti-pollution	KOWEPO
Pyeongtaek #1-4	1,400 MW (350 MW ×4)	Steam turbine upgrade (#1, 4, 2013)	10-year performance-improvement	KOWEPO
Boryeong #1-8	4,000 MW (500 MW ×8)	Control System upgrade (#6, 2011, #3,5, 2012)	Performance-improvement	KOMIPO
Incheon CC #2	508.9 MW (gas turbines 164 MW ×2) (steam turbines 181 MW ×1)	SCR[2] : 2012	Anti-pollution	KOMIPO
Yosu #1	350 MW	2016	30 years	KOSEP
Yosu #2	328.6 MW	2013	30 years	KOSEP
Yonghung #5-6	1,740 MW (870 MW ×2)	2014	30 years	KOSEP

Notes:

(1) EP means an electrostatic precipitation system.
(2) SCR means a selective catalytic reduction system.

Transmission and Distribution

We currently transmit and distribute substantially all of the electricity in Korea.

As of December 31, 2013, our transmission system consisted of 32,249 circuit kilometers of lines of 765 kilovolts and others including high-voltage direct current lines, and we had 790 substations with aggregate installed transformer capacity of 279,520 megavolt-amperes.

As of December 31, 2013, our distribution system consisted of 105,740 megavolt-amperes of transformer capacity and 8,698,776 units of support with a total line length of 449,683 circuit kilometers.

In recent years, we have made substantial investments in our transmission and distribution systems to increase geographic coverage and improve efficiency. Our current projects principally focus on increasing capabilities of the existing lines and reducing our transmission and distribution loss, which was 3.73% of our gross generation in 2013. In light of the increased damage to large-scale transmission and distribution facilities, we plan to reinforce stability of our transmission and distribution facilities through stricter design and material specifications. In addition, we also

plan to expand underground transmission and distribution facilities to meet customer demand for more environment-friendly facilities. In order to reduce the interruption time in power distribution, which is an indicator of the quality of electricity transmission, we are also continuing to invest in automation of electricity transmission and development of new transmission technologies, among others.

In particular, as part of our overall business strategy, we are currently developing, or seek to develop, an intelligent power transmission and distribution network, or smart grids, based on advanced information technology, in order to promote a more efficient allocation and use of electricity by consumers. We expect that

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such technology will improve efficiency and reduce electricity loss over the course of electricity transmission and distribution. In July 2012, the Government implemented a master plan to build out a smart grid, which includes the Advanced Metering Infrastructure (AMI) roadmap. In accordance with such plan, we will install smart meters and related communication networks and operating systems for 22 million households as part of the smart grid initiative in an effort to enhance efficiency in the power electricity industry and alleviate growing energy shortage concerns. Smart meters refer to digital meters that record, on a real-time basis, electricity consumption within a household and the effective tariff rate at the time of electricity usage so that consumers will have a price-based incentive to enhance efficiency in their electricity usage. On the other hand, the smart grid refers to the next-generation network for electricity distribution that integrates information technology into the existing power grid with the aim of enabling two-way real time exchange of information between electricity suppliers and consumers for optimal efficiency in electricity use. The smart grid project is scheduled to be completed in 2030, and the AMI project is currently scheduled to be completed in 2020. We expect that the smart grid initiative would significantly increase efficient energy consumption by providing real-time data to customers, which would in turn help to reduce greenhouse gas emission and decrease Korea s reliance on foreign energy sources. As of December 31, 2013, we have installed 2.5 million smart meter units, and plan to install an additional 2.3 million units in 2014. The AMI project is expected to cost Won 1.7 trillion by 2020.

Some of the facilities we own and use in our distribution system use rights of way and other concessions granted by municipal and local authorities in areas where our facilities are located. These concessions are generally renewed upon expiration.

Fuel

Nuclear

Uranium, the principal fuel source for nuclear power, accounted for 34.9%, 33.5% and 30.9% of our fuel requirements for electricity generation in 2011, 2012 and 2013, respectively.

All uranium ore concentrates are imported from, and conversion and enrichment of such concentrates are provided by, sources outside Korea and are paid for with currencies other than Won, primarily U.S. dollars.

In order to ensure stable supply, KHNP enters into long-term and medium-term contracts with various suppliers and supplements such supplies with purchases in spot markets. In 2013, KHNP purchased 100%, or approximately 4,238 tons, of its uranium concentrate requirement under both long-term and spot supply contracts with suppliers in the United Kingdom, Kazakhstan, France, Germany, Niger, Canada, Japan and Australia. Under the long-term supply contracts, the purchase prices of uranium concentrates are adjusted annually based on base prices and spot market prices prevailing at the time of actual delivery. The conversion and enrichment services of uranium concentrates are provided by suppliers in Canada, France, Germany, Japan, China, Russia, the United Kingdom and the United States. A Korean supplier typically provides fabrication of fuel assemblies. Except for certain fixed contract prices, contract prices for processing of uranium are adjusted annually in accordance with the general rate of inflation. KHNP intends to obtain its uranium requirements in the future, in part, through purchases under medium- to long-term contracts and, in part, through spot market purchases.

Coal

Bituminous coal accounted for 43.1%, 42.5% and 43.0% of our fuel requirements for electricity generation in 2011, 2012 and 2013, respectively, and anthracite coal accounted for 1.9%, 2.0% and 1.8% of our fuel requirements for electricity generation in 2011, 2012 and 2013, respectively.

In 2013, our generation subsidiaries purchased approximately 79.5 million tons of bituminous coal, of which approximately 41.6%, 38.2%, 9.5%, 9.5% and 1.2% were imported from Indonesia, Australia, the United States, Russia, and others, respectively. Approximately 89.0% of the bituminous coal requirements of our generation

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subsidiaries in 2013 were purchased under long-term contracts with the remaining 11.0% purchased in the spot market. Some of our long-term contracts relate to specific generating plants and extend through the end of the projected useful lives of such plants, subject in some cases to periodic renewal. Pursuant to the terms of our long-term supply contracts, prices are adjusted periodically based on market conditions. The average cost of bituminous coal per ton purchased under such contracts amounted to Won 116,073, Won 113,705 and Won 94,217 in 2011, 2012 and 2013, respectively.

In 2013, our generation subsidiaries purchased approximately 0.8 million tons of anthracite coal. The prices for anthracite coal under such contracts are set by the Government. The average cost of anthracite coal per ton purchased under such contracts was Won 136,471, Won 141,669 and Won 126,425 in 2011, 2012 and 2013, respectively.

Oil

Oil accounted for 2.4%, 3.2% and 3.3% of our fuel requirements for electricity generation in 2011, 2012 and 2013, respectively.

In 2013, our generation subsidiaries purchased approximately 21.7 million barrels of fuel oil, substantially all of which was purchased from domestic refiners through competitive open bidding. Purchase prices are based on the spot market price in Singapore. The average cost per barrel was Won 128,395, Won 139,204 and Won 123,402 in 2011, 2012 and 2013, respectively.

LNG

LNG accounted for 16.7%, 17.7% and 19.7% of our fuel requirements for electricity generation in 2011, 2012 and 2013, respectively. In 2013, for use in electricity generation we purchased approximately 12.3 million tons of LNG from Korea Gas Corporation, a Government-controlled entity in which we currently own a 24.5% equity interest. In 2013, we purchased all of our LNG requirements for use in power generation from Korea Gas Corporation. Under the terms of the LNG contract with Korea Gas Corporation, all of our five thermal generation subsidiaries jointly and severally agreed to purchase a total of 11.4 million tons of LNG in 2013, subject to an automatic price adjustment annually based on a pre-determined formula if the actual purchased amount exceeds or falls short of the contracted amount. We believe the quantities of LNG provided under such contract will be adequate to meet the needs of our generation subsidiaries for LNG for the next several years. The LNG supply contracts between our generation subsidiaries and Korea Gas Corporation generally have a term of 20 years and provide for minimum purchase requirements for our generation subsidiaries, the specific terms of which are subject to negotiation between Korea Gas Corporation and our generation subsidiaries and approval by the Government. The average cost per ton of LNG under our contract with Korea Gas Corporation was Won 888,808, Won 1,020,528 and Won 1,002,323 in 2011, 2012 and 2013, respectively.

Hydroelectric

Hydroelectric power generation accounted for 1.1%, 1.1% and 1.3% of our fuel requirements for electricity generation in 2011, 2012 and 2013, respectively. The availability of water for hydroelectric power depends on rainfall and competing uses for available water supplies, including residential, commercial, industrial and agricultural consumption. Pumped storage enables us to increase the available supply of water for use during periods of peak electricity demand.

As of January 1, 2011, assets and liabilities relating to the pumped storage units of the five thermal generation subsidiaries were transferred to KHNP pursuant to the Government s Proposal for Improvements in the Korean Electric Power Industry.

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Sales and Customers

Our sales depend principally on the level of demand for electricity in Korea and the rates we charge for the electricity we sell to the end-users.

Demand for electricity in Korea grew at a compounded average rate of 4.3% per annum for the five years ended December 31, 2013. According to the Bank of Korea, the compounded growth rate for real gross domestic product, or GDP, was approximately 3.2% for the same period. The GDP growth rate was approximately 3.7%, 2.3% and 3.0% during 2011, 2012 and 2013, respectively.

The table below sets forth, for the periods indicated, the annual rate of growth in Korea s gross domestic product, or GDP, and the annual rate of growth in electricity demand (measured by total annual electricity consumption) on a year-on-year basis.

	2009	2010	2011	2012	2013
Growth in GDP	0.7%	6.5%	3.7%	2.3%	3.0%
Growth in electricity consumption	2.4%	10.1%	4.8%	2.5%	1.8%

Electricity demand in Korea varies within each year for a variety of reasons other than the general growth in GDP demand. Electricity demand tends to be higher during daylight hours due to heightened commercial and industrial activities and electronic appliance use. Due to the use of air conditioning during the summer and heating during the winter, electricity demand is higher during these two seasons than the spring or the fall. Variation in weather conditions may also cause significant variation in electricity demand.

We do not use any marketing channels, including any special sales methods, to sell electricity to our customers, other than to install electricity meters on-site and take monthly readings of such meters, based upon which invoices are sent to our customers.

Demand by the Type of Usage

The table below sets forth consumption of electric power, and growth of such consumption on a year-on-year basis, by the type of usage (in gigawatt hours) for the periods indicated.

	2009 (GWh)	YoY growth (%)	2010 (GWh)	YoY growth (%)	2011 (GWh)	YoY growth (%)	2012 (GWh)	YoY growth (%)	2013 (GWh)	YoY growth (%)	% of Total 2013
Residential	59,426	2.7	63,200	6.3	63,524	0.5	65,484	3.1	65,815	0.5	13.9
Commercial	89,619	3.2	97,410	8.7	99,504	2.1	101,593	2.1	102,196	0.6	21.5
Educational	6,465	11.8	7,453	15.3	7,568	1.5	7,860	3.9	7,947	1.1	1.7
Industrial	207,216	1.8	232,672	12.3	251,491	8.1	258,102	2.6	265,373	2.8	55.9
Agricultural	9,671	9.0	10,654	10.2	11,232	5.4	12,776	13.8	13,866	8.5	2.9
Street lighting	2,954	3.8	3,081	4.3	3,145	2.1	3,158	0.4	3,156	(0.1)	0.7
Overnight Power	19,122	(1.4)	19,690	3.0	18,606	(5.5)	17,620	(5.3)	16,496	(6.4)	3.4
Total	394,475	2.4	434,160	10.1	455,070	4.8	466,593	2.5	474,849	1.8	100.0

The industrial sector represents the largest segment of electricity consumption in Korea. Demand for electricity from the industrial sector was 265,373 gigawatt hours in 2013, representing a 2.8% increase from 2012, largely due to continued export-led growth of the Korean economy. Demand for electricity from the commercial sector has increased in recent years, largely due to increased commercial activities in Korea and the rapid expansion of the service sector of the Korean economy, which has resulted in increased office building construction, office automation and use of air conditioners. Demand for electricity from the commercial sector, however, remained largely stable at 102,196 gigawatt hours in 2013, representing a 0.6% increase from 2012.

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In 2013, we distributed electricity to approximately 22 million households, which represent substantially all of the households in Korea. Demand for electricity from the residential sector is largely dependent on population growth and use of heaters, air conditioners and other electronic appliances. Demand for electricity from the residential sector remained relatively stable at 65,815 gigawatt hours in 2013, representing a 0.5% increase compared to 2012.

Demand Management

Our ability to provide adequate supply of electricity is principally measured by the facility capacity reserve margin and the supply reserve margin. The facility capacity reserve margin represents the difference between the peak usage during a year and the installed capacity at the time of such peak usage, expressed as a percentage of such installed capacity. The supply reserve margin represents the difference between the peak usage in a year and the average available capacity at the time of such peak usage, expressed as a percentage of such peak usage. The following table sets forth our facility reserve margin and supply reserve margin for the periods indicated.

	2009	2010	2011	2012	2013
Facility reserve margin	10.0%	6.7%	4.8%	7.7%	7.5%
Supply reserve margin	7.9%	6.2%	5.5%	5.2%	5.5%

While we seek to meet the growing demand for electricity in Korea primarily by continuing to expand our generation capacity, we also implement several measures to curtail electricity consumption, especially during peak periods. We apply time-of-use and seasonality tariff, which are structured so that higher tariffs are charged at the time and months of peak demand to select types of customers, and we also apply a progressive rate structure for the residential use of electricity. We have several demand management programs to control demand and induce power conservation during peak hours and peak seasons such as providing incentives for reducing power consumption during peak hours.

Electricity Rates

The Electricity Business Law and the Price Stabilization Act of 1975, each as amended from time to time, prescribe the procedures for the approval and establishment of rates charged for the electricity we sell. We submit our proposals for revisions of rates or changes in the rate structure to the Ministry of Trade, Industry and Energy. The Ministry of Trade, Industry and Energy then reviews these proposals and, following consultation with the Electricity Rates Expert Committee of the Ministry of Trade, Industry and Energy and the Ministry of Strategy and Finance, makes the final decision. Under the Electricity Business Law, the Korea Electricity Commission must review our proposals prior to the Ministry of Trade, Industry and Energy s final decision.

Under the Electricity Business Law and the Price Stabilization Act, electricity rates are established at levels that would enable us to recover our operating costs attributable to our basic electricity generation, transmission and distribution operations as well as receive a fair investment return on capital used in those operations. For the purposes of rate approval, operating costs are defined as the sum of our operating expenses (which principally consists of cost of sales and selling and administrative expenses) and our adjusted income taxes.

Fair investment return represents an amount equal to the rate base multiplied by the rate of return. The rate base is equal to the sum of:

- net utility plant in service (which is equal to utility plant minus accumulated depreciation minus revaluation reserve);
- working capital for two months (equal to one-sixth of our annual operating expenses other than depreciation expenses and any other non-cash expenses);
- our equity interests in generation subsidiaries; and
- the portion of construction-in-progress which is charged from our retained earnings.

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The amounts used for the variables in the rates are those projected by us for the periods to be covered by the rate approval. There is no provision for prior period adjustments to compensate us.

For the purpose of determining the fair rate of return, the rate base is divided into two components in proportion to our total shareholders equity and our total debt. The rate of return permitted in relation to the debt component of the rate base is set at a level designed to approximate the weighted average interest cost on all types of borrowing for the periods covered by the rate approval. The rate of return permitted in relation to the equity component of the rate base is set by applying the capital asset pricing model which takes account of the risk-free rate, the return on the Korea Stock Price Index, KOSPI, a Korean equity market index, and the correlation of the stock price of our company with KOSPI. In 2012, the approved rate of return on the debt component of the rate base was 3.2% while the approved rate of return on the equity component of the rate base was 6.6%. As a result of such approved rates of returns, the fair rate of return in 2012 was determined to be 4.8%. The fair rate of return for 2013 has not yet been determined.

The Electricity Business Law and the Price Stabilization Act do not specify a basis for determining the reasonableness of our operating expenses or any other items (other than the level of the fair investment return) for the purposes of the rate calculation. However, the Government exercises substantial control over our budgeting and other financial and operating decisions.

In addition to the calculations described above, a variety of other factors are considered in setting overall tariff levels. These other factors include consumer welfare, our projected capital requirements, the effect of electricity tariff on inflation in Korea and the effect of tariff on demand for electricity.

From time to time, our actual rate of return on invested capital may differ significantly from the fair rate of return on invested capital assumed for the purposes of electricity tariff approvals, for reasons, among others, related to movements in fuel prices, exchange rates and demand for electricity that differ from what is assumed for determining our fair rate of return. For example, between 1987 and 1990, the actual rate of return was above the fair rate of return due to declining fuel costs and rising demand for electricity at a rate not anticipated for purposes of determining our fair rate of return. Similarly, depreciation of the Won against the U.S. dollar accounted for our actual rates of return being lower than the fair rate of return for the period from 1996 to 2000. For the period since 2006, our actual rates of return have been lower than the fair rate of return largely due to a general increase in fuel costs and additional facility investment costs incurred, the effects of which were not offset by timely increases in our tariff rates. Partly in response to the variance between our actual rates of return and the fair rates of return, the Government from time to time increases the electricity tariff rates, but there typically is a significant time lag for the tariff increases as such increases requires a series of deliberative processes and administrative procedures and the Government also has to consider other policy considerations, such as the inflationary effect of overall tariff increases and the efficiency of energy use from sector-specific tariff increases.

Recent increases to the electricity tariff rates by the Government involve the following, which were made principally in response to the rising fuel prices which hurt our profitability as well as to encourage a more efficient use of electricity by the different sectors:

- effective August 1, 2011, a 4.9% overall increase in our average tariff rate, consisting of increases in the industrial, commercial, residential, educational, street lighting and overnight power usage tariff rates by 6.1%, 4.4%, 2.0%, 6.3%, 6.3% and 8.0%, while making no changes to the agricultural tariff.

- effective December 5, 2011, a 4.5% overall increase in our average tariff rate, consisting of increases in the industrial, commercial, educational and street lighting tariff rates by 6.5%, 4.5%, 4.5% and 6.5%, while making no changes to the residential, agricultural and overnight power usage tariff.

- effective August 6, 2012, a 4.9% overall increase in our average tariff rate, consisting of increases in the residential, commercial, educational, industrial, street lighting, agricultural and overnight power usage tariff rates by 2.7%, 4.4%, 3.0%, 6.0%, 4.9%, 3.0% and 4.9%, respectively.

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effective January 14, 2013, a 4.0% overall increase in our average tariff rate, consisting of increases in the residential, commercial, industrial, educational, agricultural, street lighting and overnight power usage tariff rates by 2.0%, 4.6%, 4.4%, 3.5%, 3.0%, 5.0% and 5.0%, respectively.

effective November 21, 2013, a 5.4% overall increase in our average tariff rate, consisting of increases in the residential, commercial, industrial, agricultural, street lighting and overnight power usage tariff rates by 2.7%, 5.8%, 6.4%, 3.0%, 5.4% and 5.4%, respectively, while making no change to the educational tariff.

The tariff rates we charge for electricity vary among the different classes of consumers, which principally consist of industrial, commercial, residential, educational and agricultural consumers. The tariff also varies depending upon the voltage used, the season, the time of usage, the rate option selected by the user and, in the residential sector, the amount of electricity used per household, as well as other factors. For example, we adjust for seasonal tariff variations by applying higher rates when demand tends to rise such as during the months of June, July and August (when the demand tends to rise due to increased use of air conditioning) and November, December, January and February (when demand tends to rise due to increased use of heating), which reflects the policy of the Korean government to cope with the rise in electricity demand during peak seasons by encouraging a more efficient use of electricity by customers.

Our current tariff schedule, which became effective as of November 21, 2013, is summarized below by the type of usage:

Industrial. The basic charge varies from Won 5,550 per kilowatt to Won 9,810 per kilowatt depending on the type of contract, the voltage used and the rate option. The energy usage charge varies from Won 53.7 per kilowatt hour to Won 196.6 per kilowatt hour depending on the type of contract, the voltage used, the season, the time of day and the rate option.

Commercial. The basic charge varies from Won 6,160 per kilowatt to Won 9,810 per kilowatt depending on the type of contract, the voltage used and the rate option. The energy usage charge varies from Won 53.7 per kilowatt hour to Won 196.6 per kilowatt hour depending on the type of contract, the voltage used, the season, the time of day and the rate option.

Residential. Residential tariff includes a basic charge ranging from Won 410 for electricity usage of less than 100 kilowatt hours to Won 12,940 for electricity usage in excess of 500 kilowatt hours. Residential tariff also includes an energy usage charge ranging from Won 60.7 to Won 709.5 per kilowatt hour for electricity usage depending on the amount of usage and voltage.

Educational. The basic charge varies from Won 5,230 per kilowatt to Won 6,980 per kilowatt depending on the voltage used and the rate option. The energy usage charge varies from Won 43.8 per kilowatt hour to Won 160.4 per kilowatt hour depending on the voltage used, the season and the rate option.

Agricultural. The basic charge varies from Won 360 per kilowatt to Won 1,210 per kilowatt depending on the type of usage. The energy usage charge varies from Won 21.6 per kilowatt-hour to Won 41.9 per kilowatt hour depending on the type of contract, the voltage used and the season.

Street-lighting. The basic charge is Won 6,290 per kilowatt and the energy usage charge is Won 85.9 per kilowatt hour. For electricity capacity of less than 1 kilowatt or for places where the installation of the electricity meter is difficult, a fixed rate of Won 37.5 per watt applies, with the minimum charge per month of Won 1,220.

In 2001, as part of implementing the Restructuring Plan, the Ministry of Trade, Industry and Energy established the Electric Power Industry Basis Fund to enable the Government to take over certain public services previously performed by us. In 2013, 3.7% of the tariff we collected from our customers was transferred to this fund prior to recognizing our sales revenue.

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Fuel Cost Pass-through Adjustment to the Tariff System

Further to the announcement by the Ministry of Trade, Industry and Energy in February 2010, a new electricity tariff system went into effect on July 1, 2011. This system is designed to overhaul the prior system for determining electricity tariff chargeable to customers by more closely aligning the tariff levels to the movements in fuel prices, with the aim of providing more timely pricing signals to the market regarding the expected changes in electricity tariff levels and encouraging more efficient use of electricity by customers. Previously, the electricity tariff consisted of two components: (i) base rate and (ii) usage rate based on the cost of electricity and the amount of electricity consumed by the end-users. Under the new tariff system, the electricity tariff is also to have a third component of FCPTA rate, which is to be added to or subtracted from the sum of the base rate and the usage rate on a monthly basis based on the three-month average movements of coal, LNG and oil prices. The new tariff system is intended to provide greater financial stability and ensure a minimum return on investment to electricity suppliers, such as us. However, due to inflationary and other policy considerations relating to protecting the consumers from sudden and substantial rises in electricity tariff, the Ministry of Trade, Industry and Energy issued a hold order on July 29, 2011 suspending our billing and collecting of the FCPTA amount. The hold order remains in effect to-date. In addition, on January 11, 2013, we were informed by the Ministry of Trade, Industry and Energy that the fuel cost pass-through adjustment system would need to be reassessed in light of the prolonged unbilled period after the announcement of such system. There is no assurance as to when the Government will lift the hold order and allow us to bill and collect the accumulated FCPTA amount or whether the new tariff system will undergo other amendments to the effect that it will not fully cover our fuel and other costs on a timely basis or at all, or will not have unintended consequences that we are not presently aware of. Any such development may have a material adverse effect on our business, financial condition, results of operations and cash flows. See Item 5B. Operating and Financial Review and Prospects Critical Accounting Policy Fuel Cost Pass-through Adjustment.

Power Development Strategy

We and our generation subsidiaries make plans for expanding or upgrading our generation capacity based on the Basic Plan Relating to the Long-Term Supply and Demand of Electricity, or the Basic Plan, which is generally revised and announced every two years by the Government. In February 2013, the Government announced the Sixth Basic Plan relating to the future supply and demand of electricity. The Sixth Basic Plan, which is effective for the period from 2013 to 2027, focuses on, among other things, (i) minimizing the need to construct new generation facilities through active consumer demand management, (ii) ensuring that we maintain adequate electricity reserve appropriate to the size of the national economy and (iii) expanding our generation capacity to promote efficient supply of electricity in consideration of the stability of the national electricity grid network and the specific needs of localities. In addition, while the Sixth Basic Plan did not contemplate the construction of additional nuclear plants in light of the heightened public concern over nuclear safety following the nuclear power plant meltdown in Japan in March 2011, there is no assurance that the Government will not implement a supplemental plan for the construction of additional nuclear plants in the future, which may increase the amount of our required capital expenditure.

In addition, on January 13, 2014, the Ministry of Trade, Industry and Energy adopted the Second Basic National Energy Plan following consultations with representatives from civic groups, the power industry and academia. The Second Basic National Energy Plan, which is a comprehensive plan that covers the entire spectrum of energy industries in Korea, will cover the period from 2013 to 2035 (compared to 2008 to 2030 under the First Basic National Energy Plan) and focuses on the following six key tasks: (i) shifting the focus of energy policy to demand management with a goal of reducing electricity demand by 15% by 2035, (ii) establishing a geographically decentralized electricity generation system so as to reduce transmission losses with a goal of supplying at least 15% of total electricity through such system by 2035, (iii) applying latest greenhouse gas emission reduction technologies to newly constructed generation units in order to further promote safety and environmental friendliness, (iv) strengthening exploration and procurement capabilities to enhance Korea s energy security and to ensure stable supply of energy and increasing the portion of electricity supplied

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from renewable sources to 11% by 2035, (v) reinforcing the system for stable supply of conventional energy, such as oil and gas, and (vi) introducing in 2015 an energy voucher system in lieu of a tariff discount system for the benefit of consumers in the low income group. In addition, the Second Basic National Energy Plan contemplates revising the target level of electricity generated by nuclear sources as a percentage of total electricity generated to 29%, compared to 41% under the First Basic National Energy Plan.

We cannot assure that the Sixth Basic Plan, the Second Basic National Energy Plan or the respective plans to be subsequently adopted will successfully achieve their intended goals, the foremost of which is to ensure, through carefully calibrated capacity expansion and other means, balanced overall electricity supply and demand in Korea at affordable costs to the end users while promoting efficiency and environmental friendliness in the consumption and production of electricity. If there is a significant variance between the projected electricity supply and demand considered in planning our capacity expansions and the actual electricity supply and demand or if these plans otherwise fail to meet their intended goals or have other unintended consequences, this may result in inefficient use of our capital, mispricing of electricity and undue financing costs on the part of us and our generation subsidiaries, among others, which may have a material adverse effect on our results of operations, financial condition and cash flows.

Capital Investment Program

The table below sets forth, for each of the years ended December 31, 2011, 2012 and 2013, the amounts of capital expenditures for the construction of generation, transmission and distribution facilities.

2011	2012	2013
	(In billions of Won)	
11,984	12,751	15,831

The table below sets forth the currently estimated installed capacity for new or expanded generation units to be completed by our generation subsidiaries in each year from 2014 to 2017.

Year	Number of Units	Type of Units	Total Installed Capacity[(1)] (Megawatts)
2014	1	Nuclear power	1,400
	2	Coal-fired	1,740
	3	LNG-combined	1,007
2015	2	Coal-fired	2,020
2016	6	Coal-fired	5,470
	3	LNG-combined	1,200
2017	1	Nuclear power	1,400
	1	Coal-fired	1,000
	1	LNG-combined	900

Note:

(1) Does not include installed capacity for two nuclear units with an aggregate installed capacity of 2,400 megawatts that were expected to be completed in 2013 but for which construction has been delayed.

For the period from 2018 to 2027, our generation subsidiaries currently plan to complete seven additional nuclear units with an aggregate installed capacity of 10,000 megawatts (subject to any further plan to be announced by the Government in relation to the construction of additional nuclear generation capacity which was not included in the Sixth Basic Plan) and four additional coal-fired units with an aggregate installed capacity of 2,740 megawatts.

As part of our capital investment program, we also intend to add new transmission lines and substations, continue to replace overhead lines with underground cables and improve the existing transmission and distribution systems.

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The actual number and capacity of generation units and transmission and distribution facilities we construct and the timing of such construction are subject to change depending upon a variety of factors, including, among others, changes in the Basic Plan, demand growth projections, availability and cost of financing, changes in fuel prices and availability of fuel, ability to acquire necessary plant sites, environmental considerations and community opposition.

The table below sets forth, for the period from 2014 to 2017, the budgeted amounts of capital expenditures for the construction of generation, transmission and distribution facilities pursuant to our capital investment program. The budgeted amounts may vary from the actual amounts of capital expenditures for a variety of reasons, including, among others, the implementation of the Sixth Basic Plan, changes in the number of units to be constructed, the actual timing of such construction, changes in rates of exchange between the Won and foreign currencies and changes in interest rates.

	2014	2015	2016	2017	Total
			(in billions of Won)		
Generation[(1)]:					
Nuclear	4,844	5,231	6,137	6,423	22,634
Thermal	7,963	5,673	2,895	3,009	19,539
Sub-total	12,807	10,903	9,032	9,431	42,173
Transmission and Distribution:					
Transmission	2,492	2,441	2,982	2,324	10,240
Distribution	2,509	2,773	2,553	2,414	10,249
Sub-total	5,001	5,214	5,535	4,739	20,489
Others[(2)]	2,090	2,361	1,772	1,422	7,646
Total	19,898	18,479	16,339	15,592	70,307

Notes:

(1) The budgeted amounts for our generation facilities are based on the Sixth Basic Plan.
(2) Principally consists of investments in renewable energy generation, among others.

We have financed, and plan to finance in the future, our capital investment programs primarily through net cash provided by our operating activities and financing in the form of debt securities and loans from domestic financial institutions, and to a lesser extent, borrowings from overseas financial institutions. In addition, in order to prepare for potential liquidity shortage, we and our generation subsidiaries maintain several credit facilities with domestic financial institutions in the aggregate amounts of Won 2,550 billion and US$4,549 million, the full amount of which was available as of December 31, 2013. We, KHNP and KOWEPO also maintain global medium-term note programs in the aggregate amount of US$10 billion, of which approximately US$4 billion remains currently available for future drawdown. See also Item 5B. Liquidity and Capital Resources Capital Resources.

Environmental Programs

The Environmental Policy Basic Act, the Air Quality Preservation Act, the Water Quality Preservation Act, the Marine Pollution Prevention Act and the Waste Management Act, collectively referred in this annual report as the Environmental Acts, are the major laws of Korea that regulate atmospheric emissions, waste water, noise and other emissions from our facilities, including power generators and transmission and distribution units. Our existing facilities are currently in material compliance with the requirements of these environmental laws and international agreements, such as the United Nations Framework Convention on Climate Change, the Montreal Protocol on Substances that Deplete the Ozone Layer, the Stockholm Convention on Persistent Organic Pollutants and the Basel Convention on the Control of Transboundary

Movements of Hazardous Wastes and

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Their Disposal. In order to foster coordination among us and our generation subsidiaries in respect of climate change and development of renewable energy sources, we formed the Committee on Climate Change and the Committee on Renewable Energy in 2005. In 2011 the Ministry of Security and Public Administration issued guidelines for the reduction of nationwide greenhouse gas emissions and energy conservation, pursuant to which we are intensifying our efforts to reduce the levels of carbon emission in order to help meet the national target for greenhouse gas emission reduction.

In 2005, we became the first public company in Korea to join the United Nations Global Compact, an international voluntary initiative designed to hold a forum for corporations, United Nations agencies, labor and civic groups to promote reforms in economic, environmental and social policies. As part of our involvement with such initiative, since September 2005, we have issued an annual report named the Sustainability Report to disclose our activities from the perspectives of economy, environment and society, in accordance with the reporting guidelines of the Global Reporting Initiative, the official collaborating center of the United Nations Environment Program that works in cooperation with United Nations Secretary General. In November 2010, our report on the Communication on Progress was reviewed favorably by the United Nations Global Compact and was subsequently posted on its website in recognition of our strong commitment to compliance with the principles of United Nations Global Compact. In May 2013, we obtained the Carbon Trust Standard, a certificate issued by Carbon Trust, an agency of the British government for excellence in demonstrated efforts to reduce carbon footprint. We are also a participant of the Carbon Disclosure Project, an international organization that promotes transparency in informational disclosure of carbon management process. We aim to become a global leader in carbon management and reduction.

Atmospheric emissions from generating plants burning fossil fuels include, among others, sulfur dioxide, nitrogen oxide and particulates. The Environmental Acts establish emissions standards relating to, among other things, sulfur dioxide, nitrogen oxide and particulates. Such standards have become more stringent from January 1999 to reduce the amount of permitted emissions.

The table below sets forth the number of emission control equipment installed at coal-fired power plants by our generation subsidiaries as of December 31, 2013.

	KOSEP	KOMIPO	KOWEPO	KOSPO	EWP
Flue Gas Desulphurization System	11	12	12	12	13
Selective Non-catalytic Reduction System		2			3
Selective Catalytic Reduction System	9	18	12	12	13
Electrostatic Precipitation System	13	20	12	12	18
Low NO2 Combustion System	16	28	26	29	30
Total	49	80	62	65	77

The table below sets forth the amount of annual emission from all generating facilities of our generation subsidiaries for the periods indicated. The amount of CO2 emissions may increase in the near future due to the construction of additional coal thermal power plants but is expected to decrease in the long-term, principally due to an increased use of nuclear power and renewable energy.

Year	Sox (g/MWh)	NOx (g/MWh)	Dust (g/MWh)	CO2 (kg/MWh)
2011	148	284	8	464
2012	165	297	8	471
2013	155	283	7	487

In order to comply with the current and expected environmental standards and address related legal and social concerns, we intend to continue to install additional equipment, make related capital expenditures and

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undertake several environment-friendly measures to foster community goodwill. For example, in October 2004, we and our generation subsidiaries reached an agreement with the Ministry of Environment and civic organizations to completely remove polychlorinated biphenyl, or PCB, a toxin, from the insulating oil of our transformers by 2015. In addition, when constructing certain large new transmission and distribution facilities, we assess and disclose their environmental impact at the planning stage of such construction, as well as consult with local residents, environmental groups and technical experts to generate community support for such projects. We exercise additional caution in cases where such facilities are constructed near ecologically sensitive areas such as wetlands or preservation areas. We also make reasonable efforts to minimize any negative environmental impact, for example, by using more environment-friendly technology and hardware. In addition, we also undertake measures to minimize losses during the transmission and distribution process by making our power distribution network more energy-efficient in terms of loss of power, as well as to lower consumption of energy, water and other natural resources. In addition, we and our subsidiaries have acquired the ISO 14000 certification which is an environmental management system widely adopted internationally and have made it a high priority to make our electricity generation and distribution more environmentally friendly. In 2013, we further reinforced our environmental management system by acquiring the ISO 14001 certification as well as a domestic certification of the green management system that relates to the management of resources, energy, green house effects and social responsibilities.

Our environmental measures, including the use of environment-friendly but more expensive parts and equipment and allocation of capital expenditures for the installation of such facilities, may result in increased operating costs and liquidity requirement. The actual cost of installation and operation of such equipment and related liquidity requirement will depend on a variety of factors which may be beyond our control. There is no assurance that we will continue to be in material compliance with legal or social standards or requirements in the future in relation to the environment.

As part of our long-term strategic initiatives, we plan to take other measures designed to promote the generation and use of environmentally friendly, or green, energy. See Item 4B. Business Overview Strategy.

Some of our generation facilities are powered by renewable energy sources, such as solar energy, wind power and hydraulic power. While such facilities are currently insignificant as a proportion of our total generation capacity or generation volume of our generation subsidiaries, we expect that the portion will increase in the future, especially since we are required to comply with the Renewable Portfolio Standard policy as described below.

The following table sets forth the generation capacity and generation volume in 2013 of our generation facilities that are powered by renewable energy sources.

	Generation Capacity (megawatts)	Generation Volume (gigawatt-hours)
Hydraulic Power	5,334	5,679
Wind Power	94	155
Solar Energy, Fuel Cells and Biogas	114	251
Subtotal	5,542	6,086
As percentage of total[(1)]	7.8%	1.4%

Note:

(1) As a percentage of the total generation capacity or total generation volume, as applicable, of us and our generation subsidiaries.

In order to deal with shortage of fuel and other resources and also to comply with various environmental standards, in 2012 the Government adopted the Renewable Portfolio Standard (RPS) program, which replaced the Renewable Portfolio Agreement which had been in effect from 2006 to 2011. Under the RPS program, each generation subsidiary is required to generate a specified percentage of total electricity to be generated by such

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generation subsidiary in a given year in the form of renewable energy, with the target percentage being 2.0% in 2012, 2.5% in 2013 and incrementally increasing to 10.0% by 2022. Fines are to be levied on any subsidiary that fails to do so in the prescribed timeline. In 2012, while one of our generation subsidiaries met 100% of its target, five others were unsuccessful to do so. Our six generation subsidiaries met, on average, 90.8% of the target for 2012 and accordingly were fined an aggregate amount of Won 23.7 billion. Compliance by our generation subsidiaries of the 2013 target is currently under evaluation, and if our generation subsidiaries are found to have failed to meet the target for 2013 or for subsequent years, our generation subsidiaries may become subject to additional fines or other penalties. The budgeted amount of capital expenditure for implementation of the RPS as currently planned for the period from 2013 to 2022 is approximately Won 13.7 trillion. We expect that such additional capital expenditure to be covered by a corresponding increase in electricity tariff. However, there is no assurance that the Government will in fact raise the electricity tariff to a level sufficient to fully cover such additional capital expenditures or at all.

As to how we plan to finance our capital expenditures related to our environmental programs, see Capital Investment Program.

Community Programs

Building goodwill with local communities is important to us in light of concerns among the local residents and civic groups in Korea regarding construction and operation of generation units, particularly nuclear generation units. The Act for Supporting the Communities Surrounding Power Plants requires that the generation companies and the affected local governments carry out various activities up to a certain amount annually to address neighboring community concerns. Pursuant to this Act, we and our generation subsidiaries, in conjunction with the affected local and municipal governments, undertake various programs, including scholarships and financial assistance to low-income residents.

Under the Act for Supporting the Communities Surrounding Power Plants, activities required to be undertaken under the Act are funded partly by the Electric Power Industry Basis Fund (see Sales and Customers Electricity Rates) and partly by KHNP as part of its budget. KHNP is required to make annual contributions to the affected local communities in an amount equal to Won 0.25 per kilowatt hour of electricity generated by its nuclear generation units during the one-year period before the immediately preceding fiscal year and Won 5 million per thousand kilowatts of hydroelectric generation capacity. In addition, under Korean tax law, KHNP is required to pay local tax levied on its nuclear generation units in an amount equal to Won 0.50 per kilowatt hour of their generation volume in the affected areas and Won 2 per 10 cubic meters of water used for hydroelectric generation.

Prior to the construction of a generation unit, our generation subsidiaries perform an environmental impact assessment which is designed to evaluate public hazards, damage to the environment and concerns of local residents. A report reflecting this evaluation and proposing measures to address the problems identified must be submitted to and approved by the Ministry of Trade, Industry and Energy following agreement with related administrative bodies, including the Ministry of Environment prior to the construction of the unit. Our generation subsidiaries are then required to implement the measures reflected in the approved report. Despite these activities, civic community groups may still oppose the construction and operation of generation units (including nuclear units), and such opposition could adversely impact our construction plans for generation units (including nuclear units) and have a material adverse effect on our business, results of operations and cash flow.

Nuclear Safety

KHNP takes nuclear safety as its top priority and continues to focus on ensuring the safe and reliable operation of nuclear power plants. KHNP also focuses on enhancing corporate ethics and transparency in the operation of its plants.

KHNP has a corporate code of ethics and is firmly committed to enhancing nuclear safety, developing new technologies and improving transparency. KHNP has also established the Statement of Safety Policy for

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Nuclear Power Plants to ensure the highest level of nuclear safety. Furthermore, KHNP invests approximately 5% of its total annual sales into research and development for the enhancement of nuclear safety and operational performance.

KHNP implements comprehensive programs to monitor, ensure and improve safety of nuclear power plants. In order to enhance nuclear safety through risk-informed assessment, KHNP conducts probabilistic safety assessments, including for low power-shutdown states, for all its nuclear power plants. In order to systematically verify nuclear safety and identify the potential areas for safety improvements, KHNP performs periodic safety reviews on a 10-year frequency basis for all its operating units. These reviews have been completed for Kori units 1, 2, 3 and 4, Hanbit units 1, 2, 3 and 4, Hanul units 1, 2, 3 and 4 and Wolsong units 1, 2, 3 and 4. Reviews for Hanbit units 5 and 6 and Hanul units 5 and 6 are in progress. In order to enhance nuclear safety and plant performance, KHNP has established a maintenance effectiveness monitoring program based on the maintenance rules issued by the United States Nuclear Regulatory Commission, which covers all of KHNP s nuclear power plants in commercial operation.

KHNP has developed the Risk Monitoring System for operating nuclear power plants, which it implements in all of its nuclear power plants. The Risk Monitoring System is intended to help ensure nuclear plant safety. In addition, KHNP has developed and implemented the Severe Accident Management Guidelines and is developing the Severe Accident Management Guidelines for Low Power-Shutdown States in order to manage severe accidents for all of its nuclear power plants.

KHNP conducts various activities to enhance nuclear safety such as quality assurance audits and reviews by the KHNP Nuclear Review. KHNP maintains a close relationship with international nuclear organizations in order to enhance nuclear safety. In particular, KHNP invites international safety review teams such as the World Association of Nuclear Operators (WANO) Peer Review Team and the Expert Mission Team to its nuclear plants for purposes of meeting international standards for independent review of its facilities. KHNP actively exchanges relevant operational information and technical expertise with its peers in other countries. For example, in November 2013, Wolsung 2 hosted the WANO Peer Review and Hanul 3 conducted the WANO Follow-up Peer Review in February 2014. KHNP also invited the WANO Corporate Peer Review Team for the first time in November 2013. The recommendations and findings from this event were shared with KHNP s other nuclear plants to implement improvements at such plants.

The average level of radiation dose per unit amounted to a relatively low level of 0.46 man-Sv in 2012, which was substantially lower than the global average in 2012 of 0.76 man-Sv/year as reported in the WANO performance indicator report.

In response to the damage to the nuclear facilities in Japan as a result of the tsunami and earthquake in March 2011, the Government conducted additional safety inspections on nuclear power plants by a group of experts from governmental authorities, civic groups and academia. As a result of such inspections, the Government required KHNP to perform 46 comprehensive safety improvement measures. The Government also established the Nuclear Safety & Security Commission in October 2011 for neutral and independent safety appraisals. KHNP developed 10 additional measures through benchmarking overseas cases and the internal analysis of current operations. KHNP plans to implement these measures, which are expected to be completed by 2015, at total expected cost of approximately Won 1.1 trillion. As of December 31, 2013, KHNP had completed 32 of such measures.

Low and intermediate level waste, or LILW, and spent fuels are stored in temporary storage facilities at each nuclear site of KHNP. The temporary LILW storage facilities at the nuclear sites will be sufficient to accommodate all LILWs produced up to 2014. We expect that Korea Radioactive Waste Agency (KORAD) will complete the construction of a LILW disposal facility in the city of Gyeongju by June 2014, and starting from December 2010, LILW stored in temporary storage facilities at Hanul and Wolsong was transferred to a disposal facility in the city of Gyeongju.

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In order to increase the storage capacity of temporary storage facilities for spent fuels, KHNP has been pursuing various projects, such as installing high-density racks in spent fuel pools and building dry storage facilities. Through these activities, we expect that the storage capacity for spent fuels in all nuclear sites will be sufficient to accommodate all the spent fuels produced by 2016. The policy for spent fuel management options is currently under development.

In 2009, the Radioactive Waste Management Act (RWMA) was enacted in an effort to centralize management of the disposal of spent fuel and LILW and enhance the security and efficiency of related management processes. The RWMA designates KORAD to manage the disposal of spent fuels and LILW. Pursuant to the RWMA, the Government has established the Radioactive Waste Management Fund. The management expense for LILW is paid when LILW is transferred to KORAD, and the charge for spent fuel is paid based on the quantity generated every quarter. LILW-related management costs and charges for spent fuel are reviewed by the Ministry of Trade, Industry and Energy every two years. In December 2012, such costs and charges were increased by a committee composed of Government officials, KHNP, Korea Radioactive Waste Management Corporation and experts in finance and accounting. This may result in an increase in future expenses that KHNP may incur in relation to radioactive waste.

All of KHNP s nuclear plants are currently in compliance with Korean law and regulations and the safety standards of the IAEA in all material respects. For a description of certain past incidents relating to quality assurance in respect of KHNP, see Item 3D. Risk Factors Recent findings of falsified testing results and bribery and the subsequent prolonged shutdowns of certain of our nuclear generation units may adversely hurt our reputation, business, results of operations and financial condition.

Decommissioning

Decommissioning of a nuclear power unit is the process whereby the unit is shut down at the end of its life, the fuel is removed and the unit is eventually dismantled. KHNP implements a dismantling policy under which dismantling would take place five to ten years after the unit s closure. KHNP renewed the operation license of Kori-1, the first nuclear power plant constructed in Korea, which commenced operation in 1978, for an additional 10 years in 2007. KHNP is also in the process of renewing the operation license of Wolsung-1 to extend its life cycle, whose original operation license expired in November 2012. If the Wolsung-1 license is extended, decommissioning of a nuclear power generation unit is not expected to commence before 2017. While it does not carry a cash reserve for its decommissioning liability, KHNP retains full financial and operational responsibility for decommissioning its units.

KHNP has accumulated the decommissioning cost as a liability since 1983. The decommissioning costs of nuclear facilities are defined by the Radioactive-Waste Management Act, which requires KHNP to credit annual appropriations separately. These costs are estimated based on studies conducted by the relevant committees, and are reviewed by the Ministry of Trade, Industry and Energy every two years. In December 2012, estimated decommissioning costs were increased in consideration of overseas cases of decommissioning, inflation rate assumptions, changes in the operating environment and other criteria. As a result, KHNP was required to accrue additional provisions due to increased future decommissioning costs, and as of December 31, 2013, KHNP accrued Won 15,427 billion for the cost of dismantling and decontaminating existing nuclear power plants, which consisted of dismantling costs of nuclear plants of Won 9,888 billion and dismantling costs of spent fuel and radioactive waste of Won 5,539 billion. For accounting treatment of decommissioning costs, see Item 5A. Operating and Financial Review and Prospects Critical Accounting Policies Decommissioning Costs.

Overseas Activities

We are engaged in a number of overseas activities. We believe that such activities help us diversify our revenue streams by leveraging the operational experience of us and our subsidiaries gathered from providing a

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full range of services, such as power plant construction and specialized engineering and maintenance services in Korea, as well as to establish strategic relationships with countries that are or may become providers of fuels.

The table set below summarizes our overseas projects.

Country	Project Period	Project Description
Generation Projects:		
United Arab Emirates	December 2009 to May 2020	Construction, operation and support for four 1,400 megawatt nuclear power generation units
United Arab Emirates	March 2011 to August 2039	1,600 megawatt combined-cycle gas power plant project (BOO)[4]
Jordan	October 2009 to December 2035	373 megawatt combined-cycle power plant in Al Qatrana (BOO)[4]
Jordan	September 2012 to June 2039	573 megawatt diesel engine power plant in Almanakher (BOO)[4]
Jordan	January 2013 to January 2035	Construction and operation of a wind farm in Fujeij (BOO)[4]
Rabigh, Saudi Arabia	July 2009 to April 2033	1,204 megawatt oil-fired power plant (BOO)[4]
Shanxi, China	April 2007 to April 2056	6,887 megawatt coal-fired power plants (BOO)[4] and coal mine projects
Gansu, China	September 2005 to April 2029	99 megawatt wind power plants (BOO)[4]
Inner Mongolia, China	December 2006 to December 2032	991 megawatt wind power plants (BOO)[4]
Liaoning, China	July 2012 to July 2032	226 megawatt wind power plant (BOO)[4]
Vietnam	December 2014 to December 2043	1,200 megawatt coal-fired power plants project (BOT)[1]
Thailand	2011 to 2037	111 megawatt combined-cycle power plant (BOO)[4]
Thailand	2012 to 2033	8 megawatt solar power plant (BOO)[4]
Ilijan, Philippines	November 1997 to May 2022	1,200 megawatt combined-cycle power plant project (BOT)[1]
Naga, Philippines	Since February 2006	200.8 megawatt power plant (O&M)[2]
Cebu, Philippines	February 2008 to May 2036	200 megawatt CFBC[3] coal-fired power plant (BOO)[4]
India	February 2012 to December 2039	Construction, O&M of a 388 megawatt combined-cycle power plant
United States	2013 to 2065	300 megawatt solar power plant in Nevada (BOO)[4]
United States	Since September 2012	Construction and operation of a 80 megawatt Novus 1 wind farm project

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Country	Project Period	Project Description
United States	Since December 2012	Construction and operation of a 40 megawatt Novus 2 wind farm project
Mexico	September 2010 to May 2038	433 megawatt combined-cycle power plant project (BOO)[4]
Chile	June 2014 to October 2031	517 megawatt combined cycle gas turbine power plant (BOO)
Nigeria	Since 2007	Acquisition of an equity interest in Egbin Power Plc for operation and maintenance of a 1,320 megawatt gas-fired power plant in Nigeria
Exploration and Production Projects:		
Indonesia	Since July 2009	Purchase of equity interest of PT Adaro Energy Tbk
Indonesia	Since August 2010	Purchase of equity interest of PT Bayan Resources Tbk
Indonesia	Since August 2011	Purchase of equity interest of LongDaliq mines
Australia	Since January 2008	Moolarben thermal coal mine development
Australia	Since November 2007	Share subscription of Cockatoo Coal Limited, a coal development company
Australia	Since July 2010	Bylong thermal coal mine development
Australia	Since June 2012	Acquisition of equity interest of Amber Energy Company, an operator of Decker and Black Cutte mines
Canada	Since June 2009	Share subscription of Denison Mines, a uranium development company
Canada	From December 2007	Uranium exploration project in the Cree East
Canada	January 2008 to May 2013	Uranium exploration project in the Waterbury Lake
United States	Since July 2012	Acquisition of minority interest in Energy Fuel Inc., a Denver-based uranium producer, in exchange for equity interest in Strathmore Minerals Corp.
Niger	Since December 2009	Share subscription of ANCE, a uranium development company
Nigeria	Since March 2006	Exploration of oil and gas for two offshore blocks
Nigeria	Since October 2008	Development of downstream projects in Nigeria
France	June 2009 to 2015	Construction and operation of a uranium enrichment plant

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Country	Project Period	Project Description
Transmission and Distribution projects:		
India	September 2011 to 2014	11kV feeder separation program for separation of non-agricultural and agricultural consumers, replacement of bare low tension line with aerial bunched cable and meterization of unmetered consumers in rural areas
Kazakhstan	February 2011 to December 2014	Modernization of 17 substations in Actub, Kazakhstan
Dominican Republic	May 2011 to May 2014	Rehabilitation of electricity distribution networks

Notes:

(1) Represents build, operate and transfer projects.
(2) Represents rehabilitation, operation, maintenance and management projects
(3) Represents circulating fluidized bed combustion projects.
(4) Represents build, own and operate projects.

While strategically important, we believe that our overseas activities, as currently being conducted, are not in the aggregate significant in terms of scope or amount compared to our domestic activities. In addition, a number of the overseas contracts currently being pursued are based on non-binding memoranda of understanding and the details of such projects may significantly change during the course of negotiating the definitive agreements.

A further description of the material overseas activities by us and our subsidiaries is provided below.

Generation projects

United Arab Emirates

In December 2009, following an international open bidding process, we entered into a prime contract with the Emirates Nuclear Energy Corporation (the ENEC), a state-owned nuclear energy provider of the United Arab Emirates (UAE), to design, build and help operate four civil nuclear power generation units to be located in Barakah, a region approximately 270 kilometers from Abu Dhabi, for the UAE s peaceful nuclear energy program. The contract amount for the project is US$18.6 billion, with the term of the contract to last from December 27, 2009 to May 1, 2020. Under the contract, we and the subcontractors, some of which are our subsidiaries, are to perform various duties in connection with the project, including, among others, (i) designing and constructing four nuclear power generation units (each with a capacity of 1,400 megawatts), (ii) supplying nuclear fuel for three fuel cycles including initial loading (with each cycle currently projected to last for approximately 18 months), and (iii) providing technical support, training and education to the plant operation personnel. The target completion dates for the four units are set for May 2017, May 2018, May 2019 and May 2020.

In addition, in order to foster a long-term strategic partnership and stable management of the units post-construction, we currently plan to make an equity investment in a project company established by ENEC. Details of such investment, including its size and structure, remain subject to further negotiation at this time, and we plan to make further disclosures regarding such investment in due course and as appropriate.

In October 2010, a consortium, which included us, was selected by Abu Dhabi Water & Electricity Authority (ADWEA), a state-run utilities provider in the United Arab Emirates, as the preferred bidder in an

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international bidding for the construction and operation of the combined-cycle natural gas-fired electricity generation facilities in Shuweihat, UAE with an expected aggregate generation capacity of 1,600 megawatts. In February 2011, the consortium entered into a formal contract with ADWEA for the construction and operation of the generation facilities. This project involves three years of construction starting from March 2011, and 25 years of operation by us following its completion in August 2014. The total project cost is estimated to be US$1.5 billion, of which approximately 20% will be financed through equity investments by the consortium members and the remaining 80% through project financing. Equity interests in the consortium are owned by ADWEA (60.0%), Sumitomo (20.4%) and us (19.6%). The total amount of our equity investment in the project is expected to be approximately US$56 million, and we are participating in this project through a special purpose vehicle.

Jordan

In July 2008, a consortium consisting of us and Xenel was selected as the preferred bidder to build, own and operate a gas-fired power plant with installed capacity of 373 megawatts in Al Qatrana, near Amman, Jordan. After entering into definitive agreements in October 2009, construction of the power plant began in March 2010 and was completed in December 2011. The total cost of construction was approximately US$460 million. Operation of the power plant will be for a period of 25 years until 2035. We and Xenel established a joint venture to oversee the project, with us and Xenel holding an 80:20 equity interest, respectively. We expect our total investment in the project to be approximately US$96 million. We believe that this project will help us expand our business in the Middle East and position us as a competitive power producer in the global market.

In January 2012, a consortium consisting of us, Mitsubishi Corporation and Wartsila Development & Financial Services was selected by National Electric Power Corporation, a state-run electricity provider in Jordan, to construct and operate a diesel engine power project in Almanakher with an expected total generation capacity of 573 megawatts. In August 2012, we established a special-purpose vehicle for the purpose of carrying out the project and on September 24, 2012, the consortium entered into a power purchase agreement with the National Electric Power Company. This project is comprised of three phases and is scheduled for completion by September 2014. The project is expected to require a construction period of two years followed by an operational period of 25 years. The total project cost will be funded primarily through debt financing and the remaining will be financed through equity investments by the consortium members. We hold a 60% equity interest in the consortium.

In January 2013, we were selected by Ministry of Energy and Mineral Resources of Jordan as an independent power producer to build, own and operate a wind farm with installed capacity of 99 megawatts in Fujeij, which is located on plateau 150 kilometers south of Amman, Jordan. This is the first of a series of projects to take place in Jordan, and we expect to build wind turbines with total capacity amounting up to 1,800 megawatts by 2020. The project involves 20 months of construction and 20 years of operation. Under the contract with Jordan s Ministry of Energy and Mineral Resources, construction is scheduled to begin in 2014 for completion by the end of 2016. The total project cost is approximately US$200 million, of which approximately 42% will be financed through equity investments solely from us, and we will be the 100% equity holder of the project and the remaining 58% through debt financing. With this project, we expect to diversify our business portfolio in the Middle East from the existing nuclear and thermal power plants to renewable energy.

Saudi Arabia

In December 2008, we formed a consortium with ACWA Power International of Saudi Arabia and submitted a bid for the 1,204 megawatt oil-fired power project in Rabigh, Saudi Arabia. In March 2009, we were selected as the preferred bidder, and in July 2009, we entered into a power purchase agreement with Saudi Electricity Company. Construction of the project was completed in April 2013, and we will participate in the operation of the plant for 20 years. This project has an estimated project cost of US$2.5 billion. We currently hold a 40.0% equity interest in the joint venture entity, Rabigh Electricity Company, which will oversee the project.

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China

In April 2007, we formed a limited partnership with Shanxi International Electricity Group and Deutsche Bank in China to develop and operate power projects and coal mines in Shanxi province, China, which was approved by the Chinese government. As of December 31, 2013, total capital investment in these projects amounted to US$1.3 billion. We are expected to participate in the operation of the project for a period of 50 years ending 2056. As of December 31, 2013, the total installed capacity was 6,887 megawatts and our equity interest in the partnership was 34%.

In September 2005 and April 2006, we and China Datang Corporation of the People s Republic of China formed joint ventures to build four wind-powered generation projects in China, consisting of one project in Gansu province with total capacity of 49.3 megawatts and three projects in Inner Mongolia with total capacity of 139.4 megawatts. Since then, one project with capacity of 49.5 megawatts has been added in Gansu and 15 projects with total capacity with 851.4 megawatts have been added in Inner Mongolia. In Liaoning province, we are developing five projects with total capacity of 226 megawatts under an understanding with the government of Chaoyang City. As of December 2013, 642.5 megawatts and 178.0 megawatts of the aforementioned projects had been developed in Inner Mongolia and Liaoning province, respectively. The joint ventures were capitalized with RMB 271 million for the Gansu projects, RMB 3,297 million for the Inner Mongolia projects and RMB 678 million for the Liaoning projects. One-third of the investment was funded with equity contribution and the remaining two-thirds with debt. We and China Datang Corporation hold 40% and 60% of equity interests, respectively, in each of the aforementioned joint ventures and we are participating in the projects through our wholly-owned subsidiaries. Of the 25 wind power generation projects in the aforementioned areas in China, 20 projects with a total capacity of 919 megawatts are currently in operation. The other five projects are still in the preparation stage.

Vietnam

In March 2013, a consortium consisting of us and Marubeni, a Japanese corporation, was selected by the Ministry of Industry and Trade of Vietnam for the construction and operation of a 1,200 megawatt coal-fired power plant in Thanh Hoa province, Vietnam. Construction will begin in December 2014 with target completion by December 2018, following which we will handle operation for 25 years. We have entered into a power purchase agreement with Electricity of Vietnam. Total project cost is expected to be US$2.3 billion, of which 25% will be funded by capital contribution and the remaining 75% by debt financing. The share capital of the special purpose entity that will be in charge of this project will be US$ 575 million, and KEPCO and Marubeni will each hold 50% equity interest in such entity.

Thailand

In December 2011, KOMIPO agreed to purchase a 29% equity interest in Navanakorn Electric Co., a Thailand power company, to jointly develop a combined-cycle power plant project in Thailand with generation capacity of 111 megawatts. The total project cost is currently estimated to be US$187 million, and KOMIPO expects to invest approximately US$15.6 million into this project. Following the completion of construction in 2013, this project commenced commercial operation on October 31, 2013 for a period of 25 years.

In September 2012, KOMIPO entered into an agreement with Toyo-Thai Corp. PCL to build and operate a 8 megawatt solar power plant in Ang Thong. The total project cost is currently estimated to be US$26 million, and KOMIPO invested approximately US$0.9 million into this project and acquired a 10% equity interest. Following the completion of construction in 2013, this project commenced commercial operation in March 2013 for a period of 20 years.

Philippines

We are currently engaged in three major power projects in the Philippines: (i) a build, operate and transfer of a 1,200-megawatt combined-cycle power plant project in Ilijan, construction of which began in November 1997 and

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was completed in June 2002, and operation by us until 2022 (the project cost of the Ilijan project was US$721 million, for which project finance on a limited recourse basis was provided), and (ii) ownership of a 39.6% equity interest in SPC Power Corporation, an independent power producer operating a 200.8-megawatt Naga power complex in Cebu, in which we initially acquired a 40.0% equity interest in February 2006 pursuant to a rehabilitation, operation, maintenance and management (ROMM) agreement, which was completed in March 25, 2012 followed by an approximately two-year operation and maintenance period thereafter and (iii) a build, operate and own of a 200-megawatt CFBC coal power plant in Cebu for which construction began in February 2008 and was completed in May 2011, followed by operation thereof until 2036. The project cost of the Cebu project was US$451 million, for which project finance on a limited recourse basis was provided.

India

In 2012, KOWEPO purchased a 40% equity interest in Pioneer Gas Power for a purchase price of approximately US$35 million to construct a 388-megawatt combined-cycle power plant in Maharashtra, India. The total size of the project, which commenced in February 2012, is expected to be approximately US$274 million and we expect the power facility to begin commercial operation in 2014. KOWEPO will be responsible for operation and maintenance of the project until December 2039.

United States

In October 2011, a consortium consisting of our wholly-owned generation subsidiary, KOMIPO, and POSCO Engineering Co., was selected by the City of Boulder as the winning bidder in an auction for the construction and operation of a US$1 billion solar power plant project in Nevada, the United States with generation capacity of 300-megawatts. The total size of the project is expected to be approximately US$300 million, and KOMIPO expects to invest approximately US$90 million and hold a 30% equity interest in the project. Construction of the project commenced in September 2013 and is expected to be completed by December 2014, to be followed by 50 years of operation from 2015 to 2065.

In 2012, KOSEP completed construction of wind farm projects in Oklahoma, KODE Novus 1 LLC and KODE Novus 2 LLC. The two wind farm projects have generation capacities of 80 megawatts and 40 megawatts, respectively, and KOSEP commenced operation of these projects in December 2012 for a term of 20 years. The total project cost is expected to be US$27.8 million, and KOSEP will hold a 50% and 49% equity interest in these wind farm projects, respectively.

Mexico

In August 2010, a consortium led by us was selected as the preferred bidder in an international auction for the construction and operation of the Norte II gas-fueled combined-cycle electricity generation facility in Chihuahua, Mexico, as ordered by the Commission Federal de Electricidad (CFE) of Mexico. The consortium established a special purpose vehicle, KST Electric Power Company (KST), to act as the operating entity, and in September 2010, KST entered into a power purchase agreement with CFE in relation to the construction and operation of a 433-megawatt combined-cycle power plant at Chihuahua in Mexico. In October 2010, KST was licensed by the Mexican government as an independent power producer, which allows it to produce and sell electricity to CFE during the specified contract period. The project will be undertaken on a build, own and operate basis. The total cost of the project is approximately US$430 million. We hold a 56% equity interest in the consortium, with the remaining equity interests held by Samsung C&T (with a 34% equity interest) and Techint, a Mexico company (with a 10% equity interest). Approximately 22.5% of the total project costs will be financed through equity investments by the consortium and the remaining 77.5% through project financing. Commercial operation commenced in December 2013 following completion of the construction, and the operation period will run for 25 years until 2038. Our wholly-owned subsidiary, KEPCO Energy Service Company, currently manages the operation of the project.

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Chile

In November 2013, following an international competitive bidding process, KOSPO and Samsung C&T Corporation were awarded a 517 megawatt combined cycle gas turbine power plant project by BHP Billiton and entered into a long-term contract to build, own, operate and maintain the power plant to supply electric power to a copper mines in Chile. The term of the contract is 15 years from the commercial operation date, with an option to extend the term three times by five years each. In order to facilitate project management, KOSPO established a wholly-owned subsidiary, KOSPO Chile SpA, which made an investment into a special purpose company, Kelar S.A. As of December 31, 2013, KOSPO Chile SpA s equity interest in the project was 65%. Construction for the project is scheduled to begin in June 2014 with commercial operation expected to begin in October 2016.

Nigeria

In October 2007, we invested US$9.1 million in KEPCO Energy Resource Nigeria Ltd. (KERNL), a joint venture with Energy Resource Ltd., a Nigerian company. We currently own 30.0% of KERNL s equity capital. In May 2007, KERNL entered into a share purchase agreement with the Nigerian government for the purchase of 70% of the equity capital of Egbin Power Plc in Nigeria, which owns and operates the Egbin power plant, a 1,320-megawatt gas-fired power plant in Lagos, Nigeria for a consideration of approximately US$407 million. The acquisition was completed in October 2013, and in June 2013, we entered into a contract with Egbin Power Plc for the operation and maintenance of the Egbin power plant. The contract price was US$315 million. In November 2013, we commenced operation and maintenance services for a term of five years and will expire in October 2018.

Exploration and Production Projects

Indonesia

In July 2009, we, together with KOSEP, purchased a 1.5% equity interest in PT Adaro Energy Tbk (Adaro) for an aggregate purchase price of US$47 million. Adaro is the second largest coal producer in Indonesia and the fifth largest coal exporter in the world, and has produced a total of 52 million tons of coal in 2013. As part of this investment, we are entitled to an annual coal procurement of 3 million tons per year. In August 2010, we purchased a 20% equity interest in PT Bayan Resources Tbk (Bayan), an Indonesian mining company, for a purchase price of US$518 million. Bayan is engaged in open cut mining of various coal qualities from mines located primarily in East and South Kalimantan, and has produced approximately 13 million tons of coal in 2013. In addition, because Bayan owns the largest coal terminal and the only floating transfer-station in Indonesia, we believe that the acquisition will improve our access to much-needed transportation infrastructure within Indonesia. As part of this investment, we are entitled to an annual coal procurement of 2 million tons per year between 2012 and 2014 and 7 million tons per year beginning in 2015. We expect that both of our investments in Indonesia will help us secure more stable supply of coal for power generation and help us hedge against fluctuations in fuel prices.

In August 2011, KOSPO entered into an agreement with PT. Kedap Sayaaq to acquire a 10% equity interest in LongDaliq mines located in western Kalimantan, Indonesia. KOSPO acquired such equity interest in 2013, and will secure up to three million tons of coal per year through a coal off-take agreement.

Australia

In January 2008, a consortium consisting of Korea Resources Corporation, a Government-controlled enterprise, Hanwha Corporation, us and four of our wholly owned generation subsidiaries, namely, KOSEP, KOMIPO, KOWEPO and KOSPO, entered into an agreement with Felix Resources Limited, an Australian coal mining company, to develop the Moolarben coal mine located in Western Coal Fields, New South Wales, Australia. Under the terms of agreement, the consortium purchased a 10% equity interest in the Moolarben

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project from Felix, of which we and our four generation subsidiaries own an aggregate of 5% and 80% equity interests, respectively of the project is held by Felix which was acquired by Yancoal Australia in December 2009. In 2013 Moolarben produced 6.4 million tons of coal, of which we and our four generation subsidiaries imported 2.5 million tons in 2013. We and our four generation subsidiaries have a coal off-take agreement for a total of 2.5 million tons of coal per annum.

In November 2007, we and EWP entered into a share subscription agreement with Cockatoo Coal Limited (Cockatoo), a coal exploration and mining company located in Australia. We and EWP currently hold a 1.1% equity interest, in aggregate, in Cockatoo after having made a total investment of A$21.8 million. Cockatoo has several coal exploration projects in Queensland and New South Wales and one production project in Bowen Basin, Queensland, Australia.

In July 2010, Kepco Australia Pty Ltd., our wholly-owned subsidiary, entered into an agreement with Anglo American Metallurgical Coal Pty Ltd. to acquire 100% of the equity interest in Anglo Coal (Bylong) Pty Ltd., a wholly-owned subsidiary of Anglo, for a purchase price of A$403 million. Bylong owns a bituminous coal mine in New South Wales, Australia. From this acquisition, we expect to secure an average of 5.1 million tons of bituminous coal per year from this mine during the period from 2017 to 2052. We and Cockatoo are currently undergoing a feasibility study for this project to explore and develop coal that is of export quality.

In June 2012, KOSPO entered into an agreement with Amber Energy Company, which is the operator of Decker and Black Cutte mines located in Brisbane, Australia. In the event of the initial public offering, which has not yet taken place, KOSPO is entitled to convert convertible bonds to an equity interest within one year period from the initial public offering. KOSPO is also entitled to secure up to two million tons of coal per year through a coal off-take agreement.

Canada

In June 2009, we, together with KHNP, entered into a definitive agreement with Denison Mines Corporation (Denison) under which we currently hold a 9.05% equity interest in Denison Mines. Under the terms of the agreement, we are entitled to procure up to approximately 20.0% of Denison s current annual uranium production, during the period from 2010 to 2015.

In December 2007, a consortium consisting of four Korean companies, namely us, Korea Resources Corporation, Hanwha Corporation and SK Innovation Co., Ltd., entered into an agreement with CanAlaska Uranium, Ltd., a uranium exploration company located in Canada (CanAlaska), to carry out a joint uranium exploration project to search for uranium deposits across mines in the Cree East area, Saskatchewan, Canada. Under the terms of the agreement, the consortium and CanAlaska each hold a 50.0% equity interest in the four-year project. The estimated capital expenditure for the project is C$19 million, all of which is to be paid by the consortium through cash contributions over the term of the project. We have invested C$4.75 million for which we have received a 12.5% equity interest in the project at the end of 2010. If additional capital expenditure is required, the amount in excess of C$19 million is to be shared equally between CanAlaska and the consortium.

In January 2008, a consortium consisting of us, KHNP, KEPCO Nuclear Fuel Co., Ltd., Hanwha Corporation and Gravis Capital Corp., a Canadian company, entered into an agreement with Fission Energy Corp., a uranium exploration company located in Canada, to carry out a joint uranium exploration project in Waterbury Lake, Saskatchewan, Canada. Under the terms of the agreement, each of the consortium and Fission Energy Corp. holds a 50% equity interest in the three-year project. The estimated capital expenditure for the project is C$15 million, all of which is to be paid by the consortium through cash contributions over the term of the project. Under the terms of the agreement, the consortium is required to purchase a 50% equity interest in the project held by Fission Energy Corp. upon the final payment of cash contributions by the consortium during the term of the project. We have a 20% equity interest in the project and are expected to make estimated cash contributions of C$6 million. During the three-year exploration period, which ended in April 2010, we

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discovered a high grade uranium mineralization after drilling 20 out of 97 sites. In August 2010, the consortium entered into additional agreements consisting of a limited partnership agreement, a shareholders agreement and an operating service agreement with Fission Energy Corp. and extended the exploration period to May 2013 in order to enlarge known mineralization and to produce a resource estimate. In April 2011, Fission Energy Corp. exercised a Back-In Option under the limited partnership agreement and provided to the consortium consideration of C$6 million. As a result of the exercise of the Back-In Option, the Fission Energy Corp. s equity interest increased by 10% and the consortium s equity interest was reduced by 10%. Currently, Fission Energy Corp. and the consortium hold a 60% and 40% equity interest, respectively, in the special purpose entity established to operate this project, of which we hold a 16% equity interest. Subsequent to the exercise of the Back-In Option, the consortium and Fission Energy Corp. are required to make estimated cash contributions for the project on the basis of their respective equity interest.

United States

On July 2, 2012, we and KHNP acquired a 9.4% equity interest in Energy Fuel Inc. (EFI), a Denver-based uranium producer, from Denison in exchange for the equity interest we held in Strathmore Minerals Corp. in connection with Denison s restructuring of its assets based in the United States, including the sale of Strathmore to EFI. EFI will assume the off-take contract between us and Denison. Following the off-take contract, we and KHNP will secure 160 tons of uranium per year until 2015, and will renegotiate on the procurement amounts in 2016.

Niger

In December 2009, we and KHNP, our wholly-owned nuclear generation subsidiary, entered into a definitive agreement with Areva NC Expansion (ANCE) to purchase 1.0 million shares, or 15.0%, of the share capital of ANCE at an aggregate purchase price of EUR 170 million. We are entitled to procure up to approximately 9.0% of Imouraren SA s annual uranium production in Niger, which is estimated to be 626 metric tons based on ANCE s annual production plan during the period between 2017 and 2052. Imouraren SA is an ANCE-invested mine operating company. We and KHNP currently hold a 13.5% equity interest in aggregate in ANCE.

Nigeria

In August 2005, a consortium consisting of us, Korea National Oil Corporation (KNOC), a Government-owned entity, and Daewoo Shipbuilding & Marine Engineering won a bid from the federal government of Nigeria for exploration and production of oil in two off-shore blocks. The consortium, of which we hold a 8.8% equity interest, holds 60.0% of the equity interest in the special purpose vehicle established to carry out the project regarding these two blocks. In March 2006, the consortium entered into production sharing contracts with Nigerian National Petroleum Corporation in connection with this project. However, in January 2009, the government of Nigeria unilaterally decided to void allocation of the two blocks granted to the consortium based on a claim that the consortium failed to pay full amount of the consideration. KNOC filed a suit in the Nigerian court challenging this decision in August 2009, the final outcome of which is currently pending. In the meanwhile, our projects in Nigeria remain on hold.

France

In June 2009, KHNP acquired a 2.5% equity interest in Societe D. Enrichissement Du Tricastin (SET Holding), which was established by Areva for the purpose of constructing and operating a uranium enrichment plant in Tricastin, France. KHNP has invested approximately 129 million Euros for a 2.5% equity interest, and COGAC SAS and a group led by Japan France Enrichment Investing and Kansai Electric Power Co. have

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acquired a 5% and 4.5% equity interest, respectively, in SET Holding. The maximum production capability of the uranium enrichment plant is 7,500 ton Separative Work Unit or, SWU. We believe that this investment will help us secure a more stable and economical supply of enriched uranium.

Transmission and Distribution Projects

India

In September 2011, a joint venture company established by us and Megha Engineering & Infrastructures Ltd. (Megha) entered into an agreement with M.P. Paschim Kshetra Vidyut Vitaran Co. Ltd., Indore (Paschim) and M.P. Poorv Kshetra Vidyut Vitaran Co. Ltd., Jabalpur (Poorv), each a state-controlled electricity provider in India, to improve the overall power distribution network in Madhya Pradesh, India through a feeder separation program, including improvements of transmission lines and installation of power meters in seven rural areas. The joint venture company will be responsible for five of the projects in conjunction with Megha. In addition, we will be separately responsible for the remaining two projects. The total project cost is estimated to be US$100 million, of which US$32 million will be invested in the projects conducted by us and the remaining US$68 million in the projects conducted in conjunction with Megha. Construction for the project began in September 2011 and is expected to be completed in 2014.

Kazakhstan

On February 23, 2011, a consortium led by us, Hyundai Engineering and Hyundai Corporation won a power transmission project from Kazakhstan Electricity Grid Operating Company (KEGOC), a Kazakhstan state-run company. This US$100 million project will be conducted on an engineering, procurement and construction (EPC) basis, in connection with which are modernizing 17 substations in Actub, Kazakhstan. The project is expected to be completed by the end of 2014.

Dominican Republic

In May 2011, we entered into an agreement with Corporación Dominicana de Empresas Eléctricas Estatales (CDEEE) to improve power distribution networks in three local districts in Dominican Republic. We will construct 1,294 kilometers of distribution lines and 12,644 electricity poles as part of the rehabilitation project. Total project cost is expected to be US$51 million, and we will be in charge of design, procurement and construction. We expect to complete construction of such lines and poles by May 2014.

North Korea

Kaesong Complex

Since 2005, we have provided electricity to the industrial complex located in Kaesong, North Korea, which was established pursuant to an agreement made during the summit meeting of the two Koreas in June 2000. The Kaesong complex is the largest economic project between the two Koreas and is designed to combine the Republic s capital and entrepreneurial expertise with the availability of land and labor of North Korea. In March 2005, we built a 22.9 kilovolt distribution line from Munsan substation in Paju, Gyeonggi Province to the Kaesong complex and became the first to supply electricity to pilot zones such as ShinWon Ebenezer. In April 2006, we started to construct a 154 kilovolt, 16 kilometer transmission line connecting Munsan substation to the Kaesong complex as well as Pyunghwa substation in the complex and began operations in May 2007.

As of December 31, 2013, we supplied electricity to 245 units, including administrative agencies, support facilities and resident corporations, using a tariff structure identical to that of South Korea. No assurance can be given that we will not experience any material losses from this project as a result of, among other things, a project suspension or failure of the project as a result of a breakdown or escalation of hostilities in the relationship between the Republic and North Korea. See Item 3D. Risk Factors Risks Relating to Korea and the Global Economy Tensions with North Korea could have an adverse effect on us and the market value of our shares.

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The Light Water Reactor Project

The Korean Peninsula Development Organization, or KEDO, was chartered in March 1995 as an international consortium stipulated by the Agreed Framework, which was signed by the United States and North Korea in October 1994. KEDO signed an agreement with North Korea in December 1995 to construct two light water reactors in North Korea in return for certain nuclear nonproliferation steps to be taken by North Korea. KEDO designated us as its prime contractor to build two units of pressurized light water reactors with total capacity of 2,000 megawatts. We entered into a fixed price turnkey contract with KEDO in 2000. However, when North Korea did not meet the conditions required for the continuation of the project, KEDO suspended the project in December 2003. Following the suspension, KEDO notified us of the termination of the project and the related turnkey contract between KEDO and us. In 2006, we entered into a transfer agreement with KEDO. According to the transfer agreement, we assumed substantially all of KEDO s rights and obligations related to the light water reactor outside of North Korea. In exchange, we waived the right to claim any expenses incurred and any potential claims by subcontractors to KEDO. Pursuant to the terms of the transfer agreement, we are required to report to KEDO the disposal or reuse of the transferred equipment. The gains from the transfer agreement will be shared with KEDO through further negotiations between the two parties.

We decided to dispose of transferred equipment in 2010, the majority of which we sold through an international open bidding process and negotiated agreements in 2011. In January 2012, we disposed of the remaining transferred equipment through a sales contract with KHNP for the remaining Nuclear Steam Supply System equipment. In March 2012, we submitted to KEDO the Final Report on Resale for the transferred equipment under the terms of the transfer agreement. In January 2013, KEDO gave us a final notice that all related terms and conditions of the transfer agreement were terminated.

Insurance

We and our generation subsidiaries carry insurance covering against certain risks, including fire, in respect of key assets, including buildings, equipment, machinery, construction-in-progress and procurement in transit, as well as, in the case of KEPCO, directors and officers liability insurance. We and our generation subsidiaries maintain casualty and liability insurance against risks related to our business to the extent we consider appropriate. Other than KHNP, neither we nor our generation subsidiaries separately insure against terrorist attacks. These insurance and indemnity policies, however, cover only a portion of the assets that we own and operate and do not cover all types or amounts of loss that could arise in connection with the ownership and operation of these assets.

Substantial liability may result from the operations of our nuclear generation units, the use and handling of nuclear fuel and possible radioactive emissions associated with such nuclear fuel. KHNP maintains property and liability insurance against risks of its business to the extent required by the related law and regulations or considered as appropriate and otherwise self-insures against such risks. KHNP carries insurance for its generation units against certain risks, including property damage, nuclear fuel transportation and liability insurance for personal injury and property damage. KHNP carries property damage insurance covering up to US$1 billion per accident for all properties within its plant complexes, which includes property insurance coverage for acts of terrorism up to US$300 million and for breakdown of machinery up to US$300 million. KHNP maintains nuclear liability insurance for personal injury and third-party property damage for coverage of up to Won 50 billion per accident per plant complex, for a total coverage of Won 250 billion. Under the terms of an agreement between KHNP and the Korean Atomic Insurance Pool, this coverage can be extended from Won 50 billion to Won 100 to 120 billion (Won 100 billion for a plant complex with under four units, and additional Won 10 billion added per unit for a plant complex with more than four units). KHNP is also the beneficiary of a Government indemnity with respect to such risks for damage claims of up to Won 50 billion per nuclear plant complex, for a total coverage of Won 250 billion. Under the Nuclear Damage Compensation Act of 1969, as amended, KHNP is liable only up to 300 million Special Drawing Rights, or SDRs, which amounts to approximately US$463 million, at the rate of 1 SDR = US$1.54171 as posted on the Internet homepage of the

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International Monetary Fund on April 7, 2014, per single accident; provided that such limitation will not apply where KHNP intentionally causes harm or knowingly fails to prevent the harm from occurring. KHNP will receive the Government s support, subject to the approval of the National Assembly, if (i) the damages exceed the insurance coverage amount of Won 50 billion and (ii) the Government deems such support to be necessary for the purposes of protecting damaged persons and supporting the development of nuclear energy business. The amount of Government s support to KHNP for such qualifying nuclear incident would be 300 million SDRs, or the limit of KHNP s liability, minus the coverage amount of up to Won 50 billion as determined by the National Assembly. While KHNP carries insurance for its generation units and nuclear fuel transportation, the level of insurance is generally adequate and is in compliance with relevant laws and regulations, and KHNP is the beneficiary of a certain Government indemnity which covers a portion of liability in excess of the insurance. Such insurance is limited in terms of amount and scope of coverage and does not cover all types or amounts of losses which could arise in connection with the ownership and operation of nuclear plants. Accordingly, material adverse financial consequences could result from a serious accident to the extent it is neither insured nor covered by the government indemnity.

See Item 3D. Risk Factors Risks Relating to KEPCO The amount and scope of coverage of our insurance are limited.

Competition

As of December 31, 2013, we and our generation subsidiaries owned approximately 81.5% of the total electricity generation capacity in Korea (excluding plants generating electricity for private or emergency use). New entrants to the electricity business will erode our market share and create significant competition, which could have a material adverse impact on our financial conditions and results of operation.

In particular, we compete with independent power producers with respect to electricity generation. The independent power generators accounted for 13.2% of total power generation in 2013 and 18.5% of total generation capacity as of December 31, 2013. As of December 31, 2013, there were 10 independent power generators in Korea, excluding renewable energy producers. Prior to December 2010, private enterprises had not been permitted to own and operate coal-fired power plants in Korea. However, the Fifth Basic Plan announced in December 2010 included for the first time a plan for independent power producers to own and operate coal-fired power plants, namely four generation units with aggregate capacity of 2,290 megawatts for completion in 2016. In addition, in connection with the Sixth Basic Plan announced in February 2013, the Ministry of Trade, Industry and Energy accepted additional applications from independent power producers for construction of coal-fired power plants. 15 independent power producers applied for construction of a total of 40 additional coal-fired generation units with aggregate generation capacity of 37,100 megawatts, of which the Government approved applications for the construction of six generation units with aggregate generation capacity of 6,000 megawatts. The Government also approved applications for construction of two additional generation units with aggregate generation capacity of 2,000 megawatts to prepare for the contingency of failed or delayed construction of the foregoing generation units. Construction for the six generation units is scheduled to be completed between 2018 and 2021. While it remains to be seen whether construction of these generation units will be completed as scheduled, if it were to be completed as scheduled or independent power producers are permitted to build additional generation capacity (whether coal-fired or not), our market share in Korea may decrease, which may have a material adverse effect on our results of operations and financial condition.

In addition, under the Community Energy System adopted by the Government in 2004, a minimal amount of electricity is supplied directly to consumers on a localized basis by independent power producers without having to undergo the cost-based pool system used by our generation subsidiaries and most independent power producers to distribute electricity nationwide. A supplier of electricity under the Community Energy System must be authorized by Korea Electricity Commission and be approved by the minister of the Ministry of Trade, Industry and Energy in accordance with the Electricity Business Act. The purpose of this system is to geographically decentralize electricity supply and thereby reduce transmission losses and improve the efficiency

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of energy use. These entities do not supply electricity on a national level but are licensed to supply electricity to limited geographic areas. As of March 31, 2014, the aggregate generation capacity of suppliers participating in the Community Energy System represented less than 1% of that of our generation subsidiaries in the aggregate. Accordingly, we currently do not expect the Community Energy System to be widely adopted, especially in light of the significant level of capital expenditure required for such direct supply. However, if the Community Energy System is widely adopted, it may erode our currently dominant market position in the generation and distribution of electricity in Korea, and may have a material adverse effect on our business, results of operations and financial condition.

The electric power industry, which began its liberalization process with the establishment of our power generation subsidiaries in April 2001, may become further liberalized in accordance with the Restructuring Plan. See Item 4B. Business Overview Restructuring of the Electric Power Industry in Korea.

In the residential sector, consumers may use natural gas, oil and coal for space and water heating and cooking. However, currently there is no practical substitute for electricity for lighting and other household appliances, which is available on commercially affordable terms.

In the commercial sector, electricity is the dominant energy source for lighting, office equipment and air conditioning. For its other uses, such as space and water heating, natural gas and, to a lesser extent, oil, provide competitive alternatives to electricity.

In the industrial sector, electricity is the dominant energy source for a number of industrial applications, including lighting and power for many types of industrial machinery and processes that are available on commercially affordable terms. For other uses, such as heating, electricity competes with oil and natural gas and potentially with gas-fired combined heating and power plants.

Regulation

We are a statutory juridical corporation established under the KEPCO Act for the purpose of ensuring a stable supply of electric power and further contributing toward the sound development of the national economy through facilitating development of electric power resources and carrying out proper and effective operation of the electricity business. The KEPCO Act (including the amendment thereto) prescribes that we engage in the following activities:

1. development of electric power resources;

2. generation, transmission, transformation and distribution of electricity and other related business activities;

3. research and development of technology related to the businesses mentioned in items 1 and 2;

4. overseas businesses related to the businesses mentioned in items 1 through 3;

5. investments or contributions related to the businesses mentioned in items 1 through 4;

6. businesses incidental to items 1 through 5;

7. Development and operation of certain real estate held by us to the extent that:

    a. it is necessary to develop certain real estate held by us due to external factors, such as relocation, consolidation, conversion to indoor or underground facilities or deterioration of our substation or office; or

b. it is necessary to develop certain real estate held by us to accommodate development of relevant real estate due to such real estate being incorporated into or being adjacent to an area under planned urban development; and

8. other activities entrusted by the Government.

The KEPCO Act currently requires that our profits be applied in the following order of priority:

first, to make up any accumulated deficit;

second, to set aside 20.0% or more of profits as a legal reserve until the accumulated reserve reaches one-half of our capital;

third, to pay dividends to shareholders;

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fourth, to set aside a reserve for expansion of our business;

fifth, to set aside a voluntary reserve for the equalization of dividends; and

sixth, to carry forward surplus profit.

As of December 31, 2013, the legal reserve was Won 1,604 billion and the voluntary reserve was Won 22,753 billion, which consisted of reserve for business expansion of Won 16,936 billion, reserve for investment in social overhead capital of Won 5,277 billion, research for research and human development of Won 330 billion and reserve for equalizing dividends of Won 210 billion.

We are under the supervision of the Ministry of Trade, Industry and Energy, which has principal responsibility with respect to director and management appointments and rate approval.

Because the Government owns part of our capital stock, the Government s Board of Audit and Inspection may audit our books.

The Electricity Business Act requires that licenses be obtained in relation to generation, transmission, distribution and sales of electricity, with limited exceptions. We hold the license to generate, transmit, distribute and sell electricity. Each of our six generation subsidiaries holds an electricity generation license. The Electricity Business Act governs the formulation and approval of electricity rates in Korea. See Sales and Customers Electricity Rates above.

Our operations are subject to various laws and regulations relating to environmental protection and safety. See Community Programs above.

Proposed Sale of Certain Power Plants and Equity Interests

The following table summarizes our current plans for sale of certain of our assets. The consummation of these plans, however, is subject to, among others, related Government policies and market conditions.

Equity Holdings	Primary Business	Fair Value as of December 31, 2013 (in billions of Won)	Ownership Percentage as of December 31, 2013	Ownership Percentage to be Sold
KEPCO Plant Service & Engineering Co., Ltd.	Utility plant maintenance	1,554	63.0%	12.0%
KEPCO Engineering & Construction Co., Inc.	Architectural engineering for utility plants	1,639	70.9%	19.9%
LG Uplus Corp.	Telecommunications and Internet access services	413	8.8%	8.8%
Korea Electric Power Industrial Development Co., Ltd.	Electricity metering	39	29.0%	29.0%

KEPCO Plant Service & Engineering Co., Ltd.

In December 2007, we completed the initial public offering of KEPCO Plant Service & Engineering Co., Ltd., or KPS, formerly our wholly-owned subsidiary, by listing approximately 20.0% of its equity interest on the Korea Stock Exchange for gross proceeds of Won 120 billion. Pursuant to the Third Phase of the Public Institution Reform Plan, we sold through block sales to third party investors 5.0% of KPS shares in December 2012, 5.0% in September 2012 and another 7.0% of KPS shares in December 2013. We currently hold a 63.0% equity interest in KPS.

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KEPCO Engineering & Construction Co., Inc.

Pursuant to the Third Phase of the Public Institution Reform Plan announced by the Government in August 2008, we conducted the initial public offering of Korea Engineering and Construction Co., Ltd., or KEPCO E&C formerly known as Korea Power Engineering Co., Ltd., in December 2009 for gross proceeds to us of Won 165 billion, following which we owned 77.9% of KEPCO E&C s shares. In furtherance of the Third Phase of the Public Institution Reform Plan, we sold 3.08% of our shares in KEPCO E&C in November 2011 to third party investors for gross proceeds of approximately Won 101 billion. In December 2013, we further sold a 4.0% equity interest in KEPCO E&C to third party investors for gross proceeds of approximately Won 85 billion. We currently hold a 70.9% equity interest in KEPCO E&C.

LG Uplus Corp.

We currently own a 8.8% equity interest in LG Uplus Corp., a telecommunications and Internet access service provider in Korea which is the surviving entity after the consolidation of LG Dacom, LG Telecom and LG Powercom in January 2010. Pursuant to the Fifth Phase of the Public Institution Reform Plan, we currently plan to sell our remaining equity interest in LG Uplus Corp. subject to prevailing economic and market conditions.

Korea Electric Power Industrial Development Co., Ltd.

In 2003, we privatized Korea Electric Power Industrial Development, or KEPID, formerly our wholly-owned subsidiary, by selling 51.0% of its equity interest to Korea Freedom Federation. Pursuant to the Fifth Phase of the Public Institution Reform Plan announced by the Government in 2009, we sold 20% of the KEPID shares through additional listing. We currently plan to sell the remaining 29.0% of KEPID s equity interest based on, among others, considerations of economic and market conditions.

Item 4C. Organizational Structure

As of December 31, 2013, we had 80 subsidiaries, 58 associates and 36 joint ventures (not including any special purpose entities).

Subsidiaries

Our wholly-owned six generation subsidiaries are KHNP, KOSEP, KOMIPO, KOWEPO, KOSPO and EWP. Our non-generation subsidiaries include KEPCO E&C, KEPCO KPS, KEPCO NF, and KEPCO KDN. For a full list of our subsidiaries, including foreign subsidiaries, and their respective jurisdiction of incorporation, please see Exhibit 8.1 attached to this annual report.

Associates and Joint Ventures

An associate is an entity over which we have significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control over those policies. According to IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. As a result of IFRS 11, we have changed our accounting policy for our interests in joint arrangements. Under IFRS 11, we have classified our interests in joint arrangements as either joint operations (if we have rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if we have rights only to the net assets of an arrangement). When making this assessment, we considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification. We have re-evaluated our involvement in our only joint arrangement and have reclassified the investment from a jointly controlled entity to a joint venture. See Note 17 of the notes to our financial statements.

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The table below sets forth for each of our principal associates and joint ventures the name and our percentage shareholdings and their principal activities as of December 31, 2013.

	Ownership (Percent)	Principal Activities
Associates:		
Daegu Green Power Co., Ltd.	48	Power generation
Korea Gas Corporation	20	Importing and wholesaling LNG
Korea Electric Power Industrial Development Co., Ltd.	29	Electricity metering
YTN Co., Ltd.	21	Broadcasting
Cheongna Energy Co., Ltd.	44	Generating and distributing vapor and hot/cold water
Gangwon Wind Power Co., Ltd.[1]	15	Wind power generation
Hyundai Green Power Co., Ltd.	29	Power generation
Korea Power Exchange[2]	100	Management of power market
AMEC Partners Korea[3]	19	Resources development
Hyundai Energy Co., Ltd.[4]	29	Power generation
Ecollite Co., Ltd.	36	Artificial light-weight aggregate
Taebaek Wind Power Co., Ltd.	25	Power generation
Alternergy Philippine Investments Corporation	50	Power generation
Muju Wind Power Co., Ltd.	25	Power generation
Pyeongchang Wind Power Co., Ltd.	25	Power generation
Daeryun Power Co., Ltd.	20	Power generation
JinanJangsu Wind Power Co., Ltd.	25	Power generation
Changjuk Wind Power Co., Ltd.	30	Power generation
KNH Solar Co., Ltd.	27	Power generation
SPC Power Corporation	38	Power generation
Gemeng International Energy Co., Ltd.	34	Power generation
PT. Cirebon Electric Power	28	Power generation
KNOC Nigerian East Oil Co., Ltd.[5]	15	Resources development
KNOC Nigerian West Oil Co., Ltd.[5]	15	Resources development
Dolphin Property Limited[5]	15	Rental company
E-Power S.A.	30	Operation of utility plant and sales of electricity
PT Wampu Electric Power	46	Power generation
PT. Bayan Resources TBK	20	Resources development
S-Power Co., Ltd.	40	Power generation
Pioneer Gas Power Limited[6]	40	Power generation
Eurasia Energy Holdings	40	Power generation and resources development
Xe-Pian Xe-Namnoy Power Co., Ltd.	25	Power generation
Busan Solar Co., Ltd.[3]	20	Power generation
Hadong Mineral Fiber Co., Ltd.	25	Recycling fly ashes
Green Biomass Co., Ltd.	34	Power generation
Gumi-Ochang Photovoltaic Power Co., Ltd.[1]	10	Power generation
Chungbuk Photovoltaic Power Co., Ltd.[1]	10	Power generation
Cheonan Photovoltaic Power Co., Ltd.[1]	10	Power generation
PT. Mutiara Jawa	29	Manufacturing and operating floating coal terminal
Hyundai Asan Solar Power Co., Ltd.	10	Power generation

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	Ownership (Percent)	Principal Activities
Heang Bok Do Si Photovoltaic Power Co., Ltd.	28	Power generation
Jeonnam Solar Co., Ltd.	10	Power generation
DS POWER Co., Ltd.	11	Power generation
D Solarenergy Co., Ltd.(1)	10	Power generation
Dongducheon Dream Power Co., Ltd.	44	Power generation
KS Solar Corp. Ltd.(3)	19	Power generation
KOSCON Photovoltaic Co., Ltd.(1)	19	Power generation
Yeongwol Energy Station Co., Ltd.(1)	13	Power generation
Yeonan Photovoltaic Co., Ltd. (1)	19	Power generation
Q1 Solar Co., Ltd.	28	Power generation
Jinbhuvish Power Generation(1)	5	Power generation
Best Solar Energy Co., Ltd.	23	Power generation
Seokcheon Solar Power Co., Ltd.(1)	10	Power generation
SE Green Energy Co., Ltd.	48	Power generation support
Daegu Photovoltaic Co., Ltd.	29	Power generation
Jeongam Wind Power Co., Ltd.	40	Power generation
Korea Power Engineering Service Co., Ltd.	29	Construction and service
Golden Route J Solar Power Co., Ltd.(1)	10	Photovoltaic power generation
Joint Ventures:		
KEPCO-Uhde Inc.(7)	66	Power generation
Eco Biomass Energy Sdn. Bhd.(7)	62	Power generation
Datang Chaoyang Renewable Power Co., Ltd.	40	Power generation
Shuweihat Asia Power Investment B.V.	49	Holding company
Shuweihat Asia Operation & Maintenance Company(7)	55	Maintenance of utility plant
Waterbury Lake Uranium L.P.	40	Power generation
ASM-BG Investicii AD	50	Power generation
RES Technology AD	50	Power generation
KV Holdings, Inc.	40	Power generation
KEPCO SPC Power Corporation(7)	75	Construction and operation of utility plant
Canada Korea Uranium Limited Partnership(8)	13	Resources development
KEPCO Energy Resource Nigeria Limited	30	Holding company
Gansu Datang Yumen Wind Power Co., Ltd.	40	Power generation
Datang Chifeng Renewable Power Co., Ltd.	40	Power generation
Datang KEPCO Chaoyang Renewable Power Co., Ltd.	40	Power generation
Rabigh Electricity Company	40	Sales of electricity
Rabigh Operation & Maintenance Company	40	Maintenance of utility plant
Jamaica Public Service Company Limited	40	Power generation
KW Nuclear Components Co., Ltd.	45	Research and development
Busan Shinho Solar power Co., Ltd.	25	Power generation
STX Electric Power Co., Ltd.	49	Power generation
YEONGAM Wind Power Co., Ltd.	49	Power generation
Global Trade of Power System Co., Ltd.	29	Exporting products and technology of small or medium business by proxy
Expressway Solar-light Power Generation Co., Ltd	29	Power generation
KODE NOVUS 1 LLC.	50	Power generation
KODE NOVUS 2 LLC.	49	Power generation

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	Ownership (Percent)	Principal Activities
Daejung Offshore Wind Power Co., Ltd.	50	Power generation
Arman Asia Electric Power Company[7]	60	Power generation
KEPCO-ALSTOM Power Electronics Systems, Inc.[7]	51	Research and development
Dongbu Power Dangjin Corporation	40	Power generation
Honam Wind Power Co., Ltd.	46	Power generation
Nepal Water & Energy Development Company Pty Ltd.	44	Power generation
Kelar S.A.[7]	65	Power generation
PT. Tanjung Power Indonesia	35	Power generation
Incheon New Power Co., Ltd.	29	Power generation
Seokmun Energy Co., Ltd.	34	Integrated energy business

Notes:

(1) We can exercise significant influence by virtue of our contractual right to appoint directors to the board of directors of the entity, and by special decision criteria of our financial and operating policy of the board of directors.
(2) The Government regulates our ability to make operating and financial decisions over the entity, as the Government requires maintaining arms-length transactions between KPX and our other subsidiaries. We can exercise significant influence by its right to nominate directors to the board of directors of the entity.
(3) We can exercise significant influence by virtue of our contractual right to appoint a director to the board of directors of the entity.
(4) As of December 31, 2013, NH Power II Co., Ltd. and NH Bank collectively held a 16% equity interest in Hyundai Energy Co., Ltd. According to the shareholders agreement in March 2011, we have a call option to acquire the equity interest in Hyundai Energy Co., Ltd. held by NH Power II Co., Ltd. and NH Bank provided that we pay them a certain rate of return thereon, and NH Power II Co., Ltd. and NH Bank have put options to dispose of their equity interests to us. In connection with this agreement, we applied the equity method of investment in Hyundai Energy Co., Ltd. based on a deemed ownership of an 45% equity interest therein.
(5) We can exercise significant influence by virtue of our contractual right to appoint one out of four members of the steering committee of the entity. Moreover, we have significant financial transactions with the associate, through which we can exercise significant influence on the entity.
(6) As of the reporting date, the reporting periods of all associates and joint ventures end on December 31, except for Pioneer Gas Power Limited whose reporting period ends on March 31.
(7) According to the shareholder agreement, all critical financial and operating decisions must be agreed by all parties with ownership interests. For these reasons, the entities are classified as joint ventures.
(8) We have joint control on the associates by virtue of our contractual right to appoint directors to the board of directors of the entity, and by special decision criteria of our financial and operating policy of the board of directors.

Item 4D. Property, Plant and Equipment

Our property consists mainly of power generation, transmission and distribution equipment and facilities in Korea. See Item 4B. Business Overview Power Generation, Transmission and Distribution and Capital Investment Program. In addition, we own our corporate headquarters building complex at 512 Yeongdongdaero, Gangnam-gu, Seoul 135-791, Korea. In June 2005, the Government announced its policy to relocate the headquarters of government-invested enterprises, including us and certain of our subsidiaries, out of the Seoul metropolitan area to other provinces in Korea. As of December 31, 2013, the net book value of our property, plant and equipment was Won 129,638 billion. As of December 31, 2013, investment property, which

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is accounted for separately from our property, plant and equipment, amounted to Won 538 billion. No significant amount of our properties is leased. There are no material encumbrances on our properties, including power generation, transmission and distribution equipment and facilities.

ITEM 4A. UNRESOLVED STAFF COMMENTS

We do not have any unresolved comments from the SEC staff regarding our periodic reports under the Securities Exchange Act of 1934, as amended (the Exchange Act).

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion on our operating and financial review and prospects together with our consolidated financial statements and the related notes which appear elsewhere in this annual report. Our results of operations, financial condition and cash flows may materially change from time to time, for reasons including various policy initiatives (including changes to the Restructuring Plan) by the Government in relation to the Korean electric power industry, and accordingly our historical performance may not be indicative of our future performance. See Item 4B. Business Overview Restructuring of the Electric Power Industry in Korea and Item 3D. Risk Factors The Government may adopt policy measures to substantially restructure the Korean electric power industry or our operational structure, which may have a material adverse effect on our business, operations and profitability.

Item 5A. Operating Results

Overview

We are a predominant market participant in the Korean electric power industry, and our business is heavily regulated by the Government, including with respect to the rates we charge to customers for the electricity we sell. In addition, our business requires a high level of capital expenditures for the construction of electricity generation, transmission and distribution facilities and is subject to a number of variable factors, including demand for electricity in Korea and fluctuations in fuel costs, which are in turn impacted by the movements in the exchange rates between the Won and other currencies.

Under the Electricity Business Law and the Price Stabilization Act, the Government generally establishes electricity rates at levels that are expected to permit us to recover our operating costs attributable to our basic electricity generation, transmission and distribution operations in addition to receiving a fair investment return on capital used in those operations. For a detailed description of the fair investment return, see Item 4B. Business Overview Sales and Customers Electricity Rates. From 2008 to 2012, we had consecutive net losses and, from time to time, operating losses, due to substantial increases in fuel prices which have more than offset the effect from the increases in the electricity tariff rates we charge to our customers. In 2013, largely due to increases in electricity tariff rates and the general decline of fuel prices, we had an operating profit and a net profit.

If fuel prices were to rise substantially and rapidly in the future, such rise may have a material adverse effect on our results of operations and profitability. In part to address these concerns, the Government from time to time increases the electricity tariff rates (most recently in January and November 2013). However, such increases may be insufficient to fully offset the adverse impact from the rise in fuel costs, and since such increases typically require lengthy public deliberations in order to be implemented, the tariff increases often occur with a significant time lag and as a result our results of operations and cash flows may suffer.

Further to the announcement by the Ministry of Trade, Industry and Energy in February 2010, a new electricity tariff system went into effect on July 1, 2011. This system is designed to overhaul the prior system for determining electricity tariff chargeable to customers by more closely aligning the tariff levels to movements in

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fuel prices, with the aim of providing more timely pricing signals to the market regarding the expected changes in electricity tariff levels and encouraging more efficient use of electricity by customers. Previously, the electricity tariff consisted of two components: (i) base rate and (ii) usage rate based on the cost of electricity and the amount of electricity consumed by the end-users. Under the new tariff system, the electricity tariff also has a third component of fuel cost pass-through adjustment (FCPTA) rate, which is to be added to or subtracted from the sum of the base rate and the usage rate on a monthly basis based on the three-month average movements of coal, LNG and oil prices. The new tariff system is intended to provide greater financial stability and ensure a minimum return on investment to electricity suppliers, such as us. However, due to inflationary and other policy considerations relating to protecting the consumers from sudden and substantial rises in electricity tariff, the Ministry of Trade, Industry and Energy issued a hold order on July 29, 2011 suspending our billing and collecting of the FCPTA amount. The hold order remains in effect to-date. Furthermore, on January 11, 2013, the Ministry of Trade, Industry and Energy informed us that the FCPTA system needed to be reassessed in light of the other factors such as the prolonged unbilled period since the announcement of the FCPTA system. There is no assurance as to when the Government will lift the hold order and allow us to bill and collect the accumulated FCPTA amount or whether the new tariff system will undergo other amendments to the effect that it will not fully cover our fuel and other costs on a timely basis or at all, or will not have unintended consequences that we are not presently aware of. Any such development may have a material adverse effect on our business, financial condition, results of operations and cash flows. For further discussion, including in relation to accounting, see Item 5A. Operating and Financial Review and Prospects Critical Accounting Policy Correction of Accounting for Fuel Cost Pass-through Adjustment.

The results of our operations are largely affected by the following factors:

- demand for electricity;
- electricity rates we charge to our customers;
- fuel costs; and
- the exchange rates of Won against other foreign currencies, in particular the U.S. dollar.

Demand for Electricity

Our sales are largely dependent on the level of demand for electricity in Korea and the rates we charge for the electricity we sell.

Demand for electricity in Korea grew at a compounded average rate of 4.3% per annum for the five years ended December 31, 2013. According to the Bank of Korea, the compounded growth rate for real gross domestic product, or GDP, was approximately 3.2% during the same period. The GDP increased, on a year-on-year basis, by 3.7% in 2011, by 2.3% in 2012 and by 3.0% in 2013.

The table below sets forth, for the periods indicated, the annual rate of growth in Korea s gross domestic product, or GDP, and the annual rate of growth in electricity demand (measured by total annual electricity consumption).

	2009	2010	2011	2012	2013
Growth in GDP	0.7%	6.5%	3.7%	2.3%	3.0%
Growth in electricity consumption	2.4%	10.1%	4.8%	2.5%	1.8%

Demand for electricity may be categorized either by the type of its usage or by the type of customers. The following describes the demand for electricity by the type of its usage, namely, industrial, commercial and residential:

The industrial sector represents the largest segment of electricity consumption in Korea. Demand for electricity from the industrial sector was 265,373 gigawatt hours in 2013, representing a 2.8% increase from 2012, largely due to continued export-led growth of

the Korean economy.

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Demand for electricity from the commercial sector has increased in recent years, largely due to increased commercial activities in Korea and the rapid expansion of the service sector of the Korean economy, which has resulted in increased office building construction, office automation and use of air conditioners. Demand for electricity from the commercial sector remained largely stable at 102,196 gigawatt hours in 2013, representing a 0.6% increase from 2012.

In 2013, we distributed electricity to approximately 22 million households, which represent substantially all of the households in Korea. Demand for electricity from the residential sector is largely dependent on population growth and use of heaters, air conditioners and other electronic appliances. Demand for electricity from the residential sector remained relatively stable at 65,815 gigawatt hours in 2013, representing a 0.5% increase compared to 2012.

For a discussion on demand by the type of customers, see Item 4B. Business Overview Sales and Customers Demand by the Type of Usage.

Since our inception, we have had the predominant market share in terms of electricity generated in Korea. As for electricity we purchase from the market for transmission and distribution to our end-users, our generation subsidiaries accounted for 88.9%, 90.9% and 89.4% in 2011, 2012 and 2013, respectively, while the remainder was accounted for by independent power producers. As for transmission and distribution of electricity, we have historically handled, expect to continue to handle, substantially all of such activities in Korea.

We expect that we will continue to have a dominant market share in the generation, transmission and distribution of electricity in Korea for the foreseeable future, absent any substantial changes to the Restructuring Plan or other policy initiatives by the Government in relation to the Korean electric power industry, or an unexpected level of market penetration by independent power producers or localized electricity suppliers under the Community Energy System. See Item 4B. Business Overview Competition.

Electricity Rates

Under the Electricity Business Law and the Price Stabilization Act, electricity rates are established at levels that will permit us to recover our operating costs attributable to our basic electricity generation, transmission and distribution operations in addition to receiving a fair investment return on capital used in those operations. For further discussion of fair investment return, see Item 4B. Business Overview Sales and Customers Electricity Rates.

From time to time, our actual rate of return on invested capital may differ significantly from the fair rate of return on invested capital assumed for the purposes of electricity tariff approvals, for reasons, among others, related to movements in fuel prices, exchange rates and demand for electricity that differs from what is assumed for determining our fair rate of return. For example, between 1987 and 1990, the actual rate of return was above the fair rate of return due to declining fuel costs and rising demand for electricity. In contrast, depreciation of the Won against the U.S. dollar accounted for our actual rates of return being lower than the fair rate of return for the period from 1996 to 2000. Partly in response to the variance between our actual rates of return and the fair rate of return, the Government from time to time increases the electricity tariff rates, but there typically is a significant time lag for the tariff increase as such increase requires a series of deliberative processes and administrative procedures and the Government also has to consider other policy considerations, such as the inflationary effect of overall tariff increases and the efficiency of energy use through sector-specific tariff increases. For the period since 2006, our actual rate of return has been lower than the fair rate of return largely due to increases in fuel costs and additional facility investment costs, the effects of which were not offset by timely increases in the electricity tariff rates.

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Recent increases to the electricity tariff rates by the Government involve the following, which were made principally in response to the rising fuel prices which hurt our profitability as well as to encourage a more efficient use of electricity by the different sectors:

- effective August 1, 2011, a 4.9% overall increase in our average tariff rate, consisting of increases in the industrial, commercial, residential, educational, street lighting and overnight power usage tariff rates by 6.1%, 4.4%, 2.0%, 6.3%, 6.3% and 8.0%, while making no changes to the agricultural tariff.

- effective December 5, 2011, a 4.5% overall increase in our average tariff rate, consisting of increases in the industrial, commercial, educational and street lighting tariff rates by 6.5%, 4.5%, 4.5% and 6.5%, while making no changes to the residential, agricultural and overnight power usage tariff.

- effective August 6, 2012, a 4.9% overall increase in our average tariff rate, consisting of increases in the residential, commercial, educational, industrial, street lighting, agricultural and overnight power usage tariff rates by 2.7%, 4.4%, 3.0%, 6.0%, 4.9%, 3.0% and 4.9%, respectively.

- effective January 14, 2013, a 4.0% overall increase in our average tariff rate, consisting of increases in the residential, commercial, industrial, educational, agricultural, street lighting and overnight power usage tariff rates by 2.0%, 4.6%, 4.4%, 3.5%, 3.0%, 5.0% and 5.0%, respectively.

- effective November 21, 2013, a 5.4% overall increase in our average tariff rate, consisting of increases in the residential, commercial, industrial, agricultural, street lighting and overnight power usage tariff rates by 2.7%, 5.8%, 6.4%, 3.0%, 5.4% and 5.4%, respectively, while making no change to the educational tariff.

Fuel Costs

Our results of operations are also significantly affected by the cost of producing electricity, which is subject to a variety of factors, including, in particular, the cost of fuel.

Cost of fuel in any given year is a function of the volume of fuels consumed and the unit fuel cost for the various types of fuel used for generation of electricity which affects the cost structure for both our generation subsidiaries and independent power producers from whom we purchase electric power. A significant change in the unit fuel costs materially impacts the costs of electricity generated by our generation subsidiaries, which mainly comprise our fuel costs under the cost of sales, as well as, to our knowledge, the costs of electricity generated by the independent power producers that sell their electricity to us (see Item 4A. Purchase of Electricity Cost-based Pool System), which mainly comprise our purchased power costs under the cost of sales. We are however unable to provide a comparative analysis since the unit fuel cost information for independent power producers and their cost structures are proprietary information.

Fuel costs accounted for 49.7%, 48.5% and 45.1% of our sales and 50.2%, 49.2% and 47.8% of our cost of sales in 2011, 2012 and 2013, respectively. Substantially all of the fuel (except for anthracite coal) used by our generation subsidiaries is imported from outside of Korea at prices determined in part by prevailing market prices in currencies other than Won. In addition, our generation subsidiaries purchase a significant portion of their fuel requirements under contracts with limited quantity and duration. Pursuant to the terms of our long-term supply contracts, prices are adjusted from time to time subject to prevailing market conditions. See Item 4B. Business Overview Fuel.

Uranium accounted for 34.9%, 33.5% and 30.9% of our fuel requirements in 2011, 2012 and 2013, respectively. Coal accounted for 43.1%, 42.5% and 43.0% of our fuel requirements in 2011, 2012 and 2013, respectively. LNG accounted for 16.7%, 17.7% and 19.7% of our fuel requirements in 2011, 2012 and 2013, respectively. Oil accounted for 2.4%, 3.2% and 3.3% of our fuel requirements in 2011, 2012 and 2013, respectively. In each case, the fuel requirements are measured by the amount of electricity generated by us and our generation subsidiaries and do not include electricity purchased from independent power producers. In order to ensure stable supplies of fuel materials, our generation subsidiaries enter into long-term and medium-term contracts with various suppliers and supplement such supplies with fuel materials purchased on spot markets.

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The price of bituminous coal fluctuates significantly from time to time. See Item 4B. Business Overview Fuel. In 2013, approximately 89.0% of the bituminous coal requirements of our generation subsidiaries were purchased under long-term contracts and 11.0% purchased on the spot market. The average free on board Newcastle coal 6300 GAR spot price index published by Platts declined from US$96.2 per ton in 2012 to US$85.1 per ton in 2013 and US$73.8 per ton as of April 11, 2014. If the price of bituminous coal were to sharply rise, our generation subsidiaries may not be able to secure their respective bituminous coal supplies at prices commercially acceptable to them. In addition, any significant interruption or delay in the supply of fuel, bituminous coal in particular, from any of their suppliers could cause our generation subsidiaries to purchase fuel on the spot market at prices higher than contracted, resulting in an increase in fuel cost.

Nuclear power has a stable and relatively low-cost structure and forms a significant portion of electricity supplied in Korea. Due to significantly lower unit fuel costs compared to those for thermal power plants, our nuclear power plants are generally operated at full capacity with only routine shutdowns for fuel replacement and maintenance, with limited exceptions. In case of shortage in electricity generation resulting from stoppages of the nuclear power plants, we seek to make up for such shortage with power generated by our thermal power plants.

Because the Government heavily regulates the rates we charge for the electricity we sell (see Item 4B. Business Overview Sales and Customers Electricity Rates), our ability to pass on such cost increases to our customers is limited. For example, from 2008 to 2012 we had consecutive net losses and, from time to time, operating losses, largely due to sustained rises in fuel costs that were neither timely nor sufficiently offset by a corresponding rise in electricity tariff rates. If fuel prices substantially increase and the Government, out of concern for inflation or for other reasons, maintains the current level of electricity tariff and does not increase it to a level to sufficiently offset the impact of rising fuel prices or prolongs the hold-order on the fuel cost pass-through adjustment system or amend or modify it to the effect that we are prevented from billing and collection of the fuel cost pass-through adjustment amount on a timely basis or at all, the price increases will negatively affect our profit margins or even cause us to suffer net losses and our business, financial condition, results of operations and cash flows would suffer.

Movements of the Won against the U.S. Dollar and Other Foreign Currencies

Korean Won fluctuates significantly against major currencies from time to time. For fluctuations in exchange rates, see Item 3A. Selected Financial Data Currency Translations and Exchange Rates. In particular, Korean Won underwent substantial fluctuations during the recent global financial crisis, and remains subject to significant volatility. The Noon Buying Rate per one U.S. dollar decreased from Won 1,158.5 on December 31, 2011 to Won 1,063.2 on December 31, 2012 and to Won 1,055.3 on December 31, 2013 and was Won 1,035.4 on April 11, 2014. While the Won generally appreciated against U.S. dollar and other foreign currencies in 2013, Won also depreciates from time to time, and such depreciation may result in a significant increase in the cost of fuel materials and equipment purchased from overseas as well as the cost of servicing our foreign currency debt. As of December 31, 2013, approximately 20.9% of our long-term debt (including the current portion but excluding issue discounts and premium) before accounting for swap transactions was denominated in foreign currencies, principally U.S. dollars. The prices for substantially all of the fuel materials and a significant portion of the equipment we purchase are stated in currencies other than Won, generally in U.S. dollars. Since a substantial portion of our revenues is denominated in Won, we must generally obtain foreign currencies through foreign currency-denominated financings or from foreign currency exchange markets to make such purchases or service such debt, fulfill our obligations under existing overseas investments and make new overseas investments. As a result, any significant depreciation of Won against U.S. dollar or other foreign currencies will have a material adverse effect on our profitability and results of operations. See Item 3D. Risk Factors Risks Relating to KEPCO The movement of Won against the U.S. dollar and other currencies may have a material adverse effect on us.

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Recent Accounting Changes

New Amendments Adopted

New amendments to IFRS and other accounting standards are set forth below. These amendments had no impact on our consolidated financial statements included in this annual report.

Amendments to IFRS 10 Consolidated Financial Statements

Amendments to IFRS 11 Joint Arrangement

Amendments to IFRS 12 Disclosure of Interests in Other Entities

Amendments to IFRS 13 Fair Value Measurement

Amendments to IAS 19 Employee Benefits

Amendments to IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

See Note 2 of the notes to our consolidated financial statements included in this annual report for further related information.

New Amendments Not Yet Adopted

The following new amendments to existing IFRS and other standards have been published for mandatory application for annual periods beginning after January 1, 2014. We have not early adopted them. We are in the process of evaluating the impact on our consolidated financial statements upon the adoption of these amendments.

Amendments to IFRS 7 Financial Instruments: Disclosures

Amendments to IFRIC 21 Levies

See Note 2 of the notes to our consolidated financial statements included in this annual report for further related information.

Critical Accounting Policies

The following discussion and analysis are based on our consolidated financial statements included in this annual report. The fundamental objective of financial reporting is to provide useful information that allows a reader to comprehend our business activities. To aid in that understanding, our management has identified critical accounting policies.

We make a number of estimates and judgments in preparing our consolidated financial statements. These estimates may differ from actual results and have a significant impact on our recorded assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We consider an estimate to be a critical accounting estimate if it requires a high level of subjectivity or judgment, and a significant change in the estimate would have a material impact on our financial condition or results of operations. Further discussion of these critical accounting estimates and policies is included in the notes to our consolidated financial statements included in this annual report.

The accounting policies set out below have been applied consistently by us and our subsidiaries to all periods presented in the consolidated annual financial statements, unless otherwise indicated.

Sale and Purchase of Electricity

The Government approves the rates we charge to customers. Our utility rates are designed to recover our reasonable costs plus a fair investment return. We purchase electricity principally from our generation subsidiaries based on a competitive bidding process though the Korea Power Exchange.

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We recognize electricity sales revenue based on power sold (transferred to the customer) up to the reporting date. To determine the amount of power sold, we make reasonable estimates on daily power volumes for residential, commercial, industrial and other uses. The differences between the current month s estimated amounts and actual (meter-read) amounts are adjusted (trued-up) during the next month period.

Correction of Accounting for Fuel Cost Pass-through Adjustment

As of July 1, 2011, a new electricity tariff system approved by the Government took effect featuring a fuel cost pass-through adjustment (FCPTA). This system is intended to allow us to pass through fluctuations in fuel costs ultimately to customers. The FCPTA amount is determined based on a prior three-month period moving average of international fuel prices and other factors, and such amount is reflected two months later. On July 29, 2011, out of inflationary and other policy considerations, the Government issued a hold-order suspending us from billing or collecting the FCPTA amount from customers.

Our accounting policy was to recognize unbilled fuel cost adjustments as assets under the IFRS Conceptual Framework when we concluded that it is probable that future economic benefits would flow to us. We had concluded that we controlled a resource as a result of past events from which future economic benefits were expected to flow to us. The Regulation for Electricity Service, which regulates the FCPTA system, provides a legal resource or right to bill where the costs we incur will result in future cash flows. The operation of the FCPTA system creates a right to charge rates in amounts that would permit us to recover the related costs, such amounts being subject to government approval. In addition, we relied on the authority of the Ministry of Trade, Industry and Energy, which regulates and approves the electricity tariff we charge to our customers, including the FCPTA system. As of December 31, 2011, we determined that it was probable that economic benefits associated with the unbilled fuel cost adjustments would be realizable based on the authority of the Ministry of Trade, Industry and Energy in setting and enforcing electricity rates for customers. Therefore, we concluded that as of December 31, 2011 it was probable that our unbilled FCPTA amount would be collected.

We previously recognized revenue and a receivable for the FCPTA amounts subject to the hold order in the amount of Won 357,085 million at December 31, 2011. However, we came to realize that our FCPTA rate regulatory scheme closely resembles a cost-of service scheme, and have therefore determined that the appropriate accounting for the unbilled FCPTA amounts is to reduce cost of sales by the unbilled FCPTA amounts and recognize a related non-financial asset by the same amount, which is more consistent with accounting policies for rate regulated assets of other standard-setting bodies. In accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, we used judgment in developing and applying an accounting policy that results in information that is relevant and reliable. In making that judgment, management considered pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices. We have concluded that the aforementioned error is immaterial, and corrected the accounting for our unbilled FCPTA amounts in our consolidated financial statements as of and for the year ended December 31, 2011 included in Item 18. Financial Statements.

During the fourth quarter of 2012, we had further consultations with the Ministry of Trade, Industry and Energy as to the outlook for the lifting the hold-order. Furthermore, on January 11, 2013, the Ministry of Trade, Industry and Energy informed us that the FCPTA system needed to be reassessed in light of other factors such as the prolonged unbilled period since the announcement of the FCPTA system. We have therefore concluded that, in consideration of the prolonged unbilled period and recent consultations with, and information from, the Ministry, we would not be able to bill and collect the unbilled FCPTA amounts for the foreseeable future. As a result, we wrote off the entire unbilled FCPTA amounts of Won 1,877 billion recognized through December 31, 2012, including the unbilled FCPTA amounts as of December 31, 2011. As a result, there were no FCPTA amounts remaining in the consolidated statement of financial position as of December 31, 2012 and 2013.

Furthermore, we will cease recording a regulatory asset prospectively related to the FCPTA amounts unless and until the likelihood of recovery once again satisfies the probable threshold contained in the IFRS Conceptual Framework or enacted IFRS at such time.

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Derivative Instruments

We recognize rights and obligations arising from derivative instruments as assets and liabilities, which are stated at fair value. The gains and losses that result from the change in the fair value of derivative instruments are reported in current earnings. However, for derivative instruments designated as hedging the exposure of variable cash flows, the effective portions of the gains or losses on the hedging instruments are recorded as accumulated other comprehensive income (loss) and credited or charged to operations at the time the hedged transactions affect earnings, and the ineffective portions of the gains or losses are credited or charged immediately to operations.

Significant management judgment is involved in determining the fair value of estimated derivative instruments. The estimates and assumptions used by our management to determine fair value can be impacted by many factors, such as the estimated discount factor derived from observable market data, credit risk of the counterparty and the estimated cash flow based on settlement period, interest convention, and other contract information of the derivative instruments.

As of December 31, 2011, we had Won 244 billion of net amounts as assets, and as of December 31, 2012, we had Won 376 billion of net amounts as liabilities. As of December 31, 2013, we had Won 614 billion of net amounts as liabilities. Changes in the estimated discount factor or cash flow, or changes in the assumptions and judgments by management underlying these estimates, may cause material revisions to the estimated total gain or loss effect of derivative instruments, which could have a material effect on the recorded asset or liability.

Decommissioning Costs

We recognize the fair value of estimated decommissioning costs as a liability in the period in which we incur a legal obligation associated with retirement of long-lived assets that result from acquisition, construction, development and/or normal use of the assets. We also recognize a corresponding asset that is depreciated over the life of the asset. 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. Depreciation and accretion expenses are included in the cost of electric power in the accompanying consolidated statements of comprehensive income.

Significant management judgment is involved in determining the fair value of estimated decommissioning costs. The estimates and assumptions used by our management to determine fair value can be impacted by many factors, such as the estimated decommissioning costs based on engineering studies commissioned and approved by the Korean government, and changes in assumed dates of decommissioning, inflation rate, discount rate, decommissioning technology, regulation and the general economy.

As of December 31, 2011, 2012 and 2013, we had a liability for decommissioning costs in the amounts of Won 6,727 billion, Won 11,913 billion and Won 12,348 billion, respectively. Changes in the estimated costs or timing of decommissioning, or changes in the assumptions and judgments by management underlying these estimates, may cause material revisions to the estimated total cost to decommission these facilities, which could have a material effect on the recorded liability. We used discount rates of 4.36%, 4.49% and 4.49% and inflation rates of 2.30%, 2.93% and 2.93% when calculating the decommissioning cost liability recorded as of December 31, 2011, 2012 and 2013, respectively. In addition, the following is a sensitivity analysis of the potential impact on decommissioning costs from a 0.1% increase or decrease in each of the inflation rate and the discount rate, assuming that all other aforementioned assumptions remain constant:

	Sensitivity to inflation rate		Sensitivity to discount rate	
	+0.10%	-0.10%	+0.10%	-0.10%
	(in billions of Won)			
Increase (decrease) of liability for decommissioning costs	289	(281)	(268)	276

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See Notes 26 and 43 of the notes to our consolidated financial statements included in this annual report for further related information.

Provision for Decontamination of Transformer

Under the Persistent Organic Pollutants Management Act which was enacted in 2007, we are required to remove the toxin polychlorinated biphenyls (PCBs) from our transformers insulating oil by 2015. We are also required to inspect the PCB levels in our transformers and dispose of any PCBs in excess of established safety standards.

As of December 31, 2011, 2012 and 2013, we had liabilities of Won 215 billion, Won 220 billion and Won 220 billion, respectively, for inspection and disposal costs related to the decontamination of existing transformers.

The estimates and assumptions used by our management to determine fair value can be affected by many factors, such as the estimated costs of inspection and disposal, inflation rate, discount rate, regulations and the general economy.

Changes in the estimated costs or changes in the assumptions and judgments underlying these estimates may cause material revisions to the estimated total costs, which could have a material effect on our recorded liability. When calculating the provision for the decontamination of our transformers, we used a discount rate of 5.84% and an inflation rate of 3.34% as of December 31, 2011, a discount rate of 4.92% and an inflation rate of 3.10% as of December 31, 2012 and a discount rate of 4.92% and an inflation rate of 3.10% as of December 31, 2013.

Deferred Tax Assets

In assessing the realizability of the deferred tax assets, our management considers whether it is probable that a portion or all of the deferred tax assets will not be realized. The ultimate realization of our deferred tax assets is dependent on whether we are able to generate future taxable income in specific tax jurisdictions during the periods in which temporary differences become deductible. Our management has scheduled the expected future reversals of the temporary differences and projected future taxable income in making this assessment. Based on these factors, our management believes that it is probable that we will realize the benefits of these temporary differences as of December 31, 2013. However, the amount of deferred tax assets that is realized may be different if we do not realize estimated future taxable income during the carry forward periods as originally expected.

In relation to the deferred tax assets recognized for tax loss, future taxable income is estimated considering the followings: (i) five-year mid- to long-term financial forecasts of earnings before tax approved by management and submitted to the Ministry of Strategy and Finance, and (ii) average amount of tax adjustments for the recent three years. Based on the estimated amount and timing of future taxable profit, our management determined that all tax losses for the year ended December 31, 2013 could be recognized as an asset.

For tax credits carried forward, similar to deferred tax assets recognized for tax loss, our management estimates the probability timing of future taxable profits in determining the probability of utilization of tax credits carried forward. In addition, our management considers the possible carry forward period and available tax credit or deductible temporary differences within the tax laws of each country in which the tax credits originated.

Similarly, our management also estimates the probability of utilization of temporary differences considering the probability of generating future taxable profits in the periods that the deductible temporary differences reverse. We do not recognize deferred tax assets for certain temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures considering future dividends or disposals.

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We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities at each separate taxpaying entity. Under IFRS, a deferred tax asset is recognized for temporary difference that will result in deductible amounts in future years and for carry forwards. If, based on the weight of available evidence, it is more likely that some or the entire portion of the deferred tax asset will not be realized, that portion is deducted directly from the deferred tax asset.

We believe that the accounting estimate related to the realizability of deferred tax asset is a critical accounting estimate because: (i) it requires management to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning opportunities, and (ii) the difference between these assessments and the actual performance could have a material impact on the realization of tax benefits as reported in our results of operations. Management s assumptions require significant judgment because actual performance has fluctuated in the past and may continue to do so.

Useful Lives of Property, Plant and Equipment

Property, plant and equipment are initially measured at cost, and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Economic useful life is the duration of time the asset is expected to be productively employed by us, which may be less than its physical life. Management s assumptions on the following factors, among others, affect the determination of estimated economic useful life: wear and tear, obsolescence, technical standards, changes in market demand and technological changes.

The estimated useful lives of our property, plant and equipment are as follows:

	Useful lives (years)
Buildings	8 ~ 40
Structures	8 ~ 50
Machinery	6 ~ 32
Vehicles	4
Loaded heavy water	30
Asset retirement costs	18, 30, 40
Finance lease assets	20
Ships	9
Others	4 ~ 9

A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. In 2012, we changed the estimated useful lives of certain buildings. As a result of the change in accounting estimate, depreciation expenses decreased by Won 85,388 million and Won 57,378 million in 2012 and 2013, respectively. In addition, we estimate that depreciation expense will decrease by Won 31,979 million and Won 22,158 million in 2014 and 2015, respectively.

Impairment of Long-lived Assets

At the end of each reporting period, we review the carrying amounts of tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and

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consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in income or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

In the event that an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, ensuring that such carrying amount increase does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in income or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

The assessment of impairment is a critical accounting estimate, because significant management judgment is required to determine: (i) whether an indicator of impairment has occurred, (ii) how assets should be grouped, and (iii) the recoverable amount of the asset or asset group in the case of an impairment. 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, we may record impairment charges, resulting in lower profits. Our management uses its best estimate in making these evaluations and considers various factors, including the future prices of energy, fuel costs and other 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. There was no impairment for the past three years and no cash-generating units were at risk of impairment as of December 31, 2013.

Accrual for Loss Contingencies for Legal Claims

We are involved in legal proceedings regarding matters arising in the ordinary course of business. In relation to these matters, as of December 31, 2013, we were engaged in 597 lawsuits as a defendant and 119 lawsuits as a plaintiff. The total amount claimed against us was Won 402 billion and the total amount claimed by us was Won 109 billion as of December 31, 2013. As of December 31, 2013, our provisions for these legal claims amounted to Won 24 billion. These provisions are adjusted when events or circumstances cause these judgments or estimates to change.

Actual amounts of our liabilities as determined upon settlement of legal claims or by final decisions of the courts in relation thereto may be substantially different from the amounts of provisions recognized or contingent liabilities disclosed. If the actual amounts are higher than the amounts of related provisions, the resulting additional liabilities would adversely impact our results of operations, financial condition and cash flows.

Consolidated Results of Operations

2013 Compared to 2012

In 2013, our consolidated sales, which is principally derived from the sale of electric power, increased by 9.3% to Won 53,713 billion from Won 49,121 billion in 2012, reflecting primarily a 7.3% overall increase in our

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average electricity tariff rates in 2013 (as a result of a 4.0% increase effective January 14, 2013 and a 5.4% increase effective November 21, 2013) and a 1.8% increase in the volume of electricity sold from 466,593 gigawatt hours in 2012 to 474,849 gigawatt hours in 2013. The overall increase in the volume of electricity sold was primarily attributable to a 2.8% increase in the volume of electricity sold to the industrial sector, which represents the largest segment of electricity consumption in Korea, from 258,102 gigawatt hours in 2012 to 265,373 gigawatt hours in 2013, and, to a lesser extent, a 0.6% increase in the volume of electricity sold to the commercial sector from 101,593 gigawatt hours in 2012 to 102,196 gigawatt hours in 2013 and a 0.5% increase in the volume of electricity sold to the residential sector, from 65,484 gigawatt hours in 2012 to 65,815 gigawatt hours in 2013. The increase in the volume of electricity sold to the industrial sector was primarily due to the general increase in demand for electricity in this sector in Korea largely as a result of continued export-led growth of the Korean economy, which involved an increased industrial output and greater capacity utilization in industrial plants. For a discussion of the increase in our electricity tariff rates, see Item 4B. Business Overview Sales and Customers Electricity Rates.

Our consolidated cost of sales, which is principally derived from the costs related to the purchase of fuels for generation of electricity and to a lesser extent, from the purchase of power from independent power producers, depreciation and salaries, increased by 4.4% to Won 50,596 billion in 2013 from Won 48,459 billion in 2012, primarily due to a 1.6% increase in fuel costs, a 15.6% increase in purchased power and a 5.6% increase in depreciation, which were partially offset by a 3.0% decrease in salaries and a 1.4% decrease in other cost of sales.

Fuel costs, which accounted for 47.8% and 49.2% of our consolidated cost of sales in 2013 and 2012, respectively, increased to Won 24,200 billion in 2013 from Won 23,823 billion in 2012 largely due to an increased use of more expensive fuel sources such as LNG due to the extended suspension of three of our nuclear units related to quality assurance issues, which was partially offset by a 2.6% decrease in unit fuel cost mainly resulting from the general decline in international market prices for our main fuel types. Purchased power, which accounted for 22.4% and 20.2% of our cost of sales in 2013 and 2012, respectively, increased by 15.6% to Won 11,329 billion in 2013 from Won 9,801 billion in 2012, primarily due to a 12.1% increase in the volume of power purchased from independent power producers (who generate electricity primarily through LNG-fired power plants), from 60,392 gigawatt hours in 2012 to 67,676 gigawatt hours in 2013, primarily to compensate for the shortfall in the supply of electricity due to the higher than anticipated rise in demand for electricity in 2013 as well as extended suspension of three of our nuclear units related to quality assurance issues. Depreciation expense increased by 5.6% to Won 7,228 billion in 2013 from Won 6,846 billion in 2012 primarily due to an increase of additional property, plant and equipment related to the construction of new generation facilities pursuant to our capital investment program.

Salaries decreased by 3.0% to Won 2,583 billion in 2013 from Won 2,662 billion in 2012 primarily due to a decrease in performance pay. Other remaining items of our cost of sales decreased to Won 5,255 billion in 2013 from Won 5,327 billion in 2012 primarily due to a decrease in provision for decommissioning costs of our nuclear facilities.

As a cumulative result of the foregoing factors, our consolidated gross profit increased significantly to Won 3,117 billion in 2013 from Won 661 billion in 2012, and our consolidated gross profit margin increased significantly to 5.8% in 2013 from 1.3% in 2012. The increases in our consolidated gross profit and consolidated gross profit margin were largely attributable to the 9.3% increase in our consolidated sales (which were due to the 7.3% overall increase in the average electricity tariff rates and, to a lesser extent, the 1.8% increase in the volume of electricity sold), which was partially offset by the 4.4% increase in our consolidated cost of sales (which was mainly due to the 15.6% increase in purchased power and, to a lesser extent, the 1.6% increase in fuel costs and the 5.6% increase in depreciation expense).

Our consolidated selling and administrative expenses increased by 8.0% to Won 1,923 billion in 2013 from Won 1,780 billion in 2012, primarily as a result of increases in depreciation and commissions, which increased by Won 22 billion and Won 67 billion, respectively.

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Our consolidated other income, net of expenses, increased by 4.2% to Won 626 billion in 2013 from Won 600 billion in 2012, mainly as a result of an increase in insurance compensations and an increase in contributions from the Electric Power Industry Basis Fund, which was partially offset by an increase in donations for educational and other purposes.

We had consolidated other gains, net, of Won 129 billion in 2013 compared to consolidated other losses, net, of Won 1,782 billion in 2012, primarily as a result of a write-off in 2012 of our accumulated but unbilled fuel cost-based adjustment amounts. (See Item 5B. Operating and Financial Review and Prospects Critical Accounting Policy Correction of Accounting for Fuel Cost Pass-through Adjustment). Other profit is mainly composed of gain or loss from disposal of assets and inventories, among others.

As a cumulative result of the foregoing factors, we had consolidated operating income of Won 1,948 billion in 2013 compared to consolidated operating loss of Won 2,300 billion in 2012, and our consolidated operating income margin was 3.6% in 2013 compared to an operating loss margin of 4.7% in 2012. These turnarounds were mainly due to the 9.3% increase in our consolidated sales, which was partially offset by the 4.4% increase in our consolidated cost of sales.

Our consolidated finance expenses, net of income, increased by 18.7% to Won 2,302 billion in 2013 from Won 1,940 billion in 2012, primarily as a result of a decrease in net gains on foreign currency translation, and an increase in net interest expense, which was partially offset by a decrease in net losses on valuation of derivatives.

We had consolidated loss of affiliates or joint ventures using equity method of Won 42 billion in 2013, compared to consolidated profit of affiliates or joint ventures using equity method of Won 177 billion in 2012, primarily as a result of decreased profits from Korea Gas Corporation mainly due to an impairment loss on intangible assets.

As a cumulative result of the foregoing factors, our consolidated loss before income taxes significantly decreased to Won 396 billion in 2013 from Won 4,063 billion in 2012.

Our income tax benefit decreased by 42.1% to Won 571 billion in 2013 from Won 985 billion in 2012, largely as a result of a decrease in our loss before income taxes, which was partially offset by an increase in adjustments related to unrealized deferred tax assets. See Note 41 to our financial statements included in this annual report. Our effective tax benefit rate, which represents tax benefit as a percentage of loss before income taxes, increased from 24.3% in 2012 to 144.0% in 2013 primarily due to the effect of recognition of deferred tax assets in relation to amounts received from customers regarding installation and use of facilities required for electricity supply.

As a cumulative result of the above factors, we had consolidated profit of Won 174 billion in 2013, compared to consolidated loss of Won 3,078 billion in 2012. Our consolidated net profit margin was 0.3% in 2013 compared to consolidated net loss margin of 6.3% in 2012. Our profit attributable to the owners of the company was Won 60 billion in 2013, compared to loss of Won 3,167 billion attributable to the owners of the company in 2012.

We had consolidated other comprehensive income of Won 186 billion in 2013 compared to consolidated other comprehensive loss of Won 322 billion in 2012, largely as a result of positive changes in actuarial gains or losses on retirement benefit obligations, net of tax (related to changes in future salary increases), gains on valuation of derivatives using cash flow hedge accounting, share in other comprehensive income of associates and joint ventures, net of tax. Furthermore, there were valuation gains on available-for-sale securities of LG Uplus Corp. and Korea District Heating Corp. in 2013.

As a cumulative result of the above factors, we had consolidated total comprehensive income of Won 360 billion in 2013, compared to consolidated total comprehensive loss of Won 3,400 billion in 2012.

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2012 Compared to 2011

In 2012, our consolidated sales, which is principally derived from the sale of electric power, increased by 13.8% to Won 49,121 billion from Won 43,175 billion in 2011, reflecting primarily a 2.5% increase in the volume of electricity sold from 455,070 gigawatt hours in 2011 to 466,593 gigawatt hours in 2012 and a 4.9% increase in our overall average electricity tariff rates effective August 6, 2012. The overall increase in the volume of electricity sold was primarily attributable to a 2.6% increase in the volume of electricity sold to the industrial sector, which represents the largest segment of electricity consumption in Korea, from 251,491 gigawatt hours in 2011 to 258,102 gigawatt hours in 2012, and, to a lesser extent, a 2.1% increase in the volume of electricity sold to the commercial sector from 99,504 gigawatt hours in 2011 to 101,593 gigawatt hours in 2012 and a 1.2% increase in the volume of electricity sold to the residential sector, including overnight power usage, from 82,130 gigawatt hours in 2011 to 83,104 gigawatt hours in 2012. The increase in the volume of electricity sold to the industrial sector was primarily due to the general increase in demand for electricity in this sector in Korea largely as a result of continued export-led growth of the Korean economy, which involved an increased industrial output and greater capacity utilization in industrial plants. The increase in the volume of electricity sold to the commercial sector was primarily due to increased commercial activities in Korea, which was partially offset by weakened consumer sentiment in light of the ongoing uncertainties in the global economy. The increase in the volume of electricity sold to the residential sector was primarily due to increased usage of heating and air conditioning in 2012. For a discussion of the increase in our electricity tariff rates, see Item 4B. Business Overview Sales and Customers Electricity Rates.

Our consolidated cost of sales, which is principally derived from the costs related to the purchase of fuels for generation of electricity and to a lesser extent, from the purchase of power from independent power producers, depreciation and salaries, increased by 13.4% to Won 48,459 billion in 2012 from Won 42,725 billion in 2011, primarily due to a 11.0% increase in fuel costs, a 32.4% increase in purchased power, a 6.0% increase in salaries, a 1.7% increase in depreciation and a 7.0% increase in other cost of sales. Fuel costs, which accounted for 49.2% and 50.2% of our consolidated cost of sales in 2012 and 2011, respectively, increased by 11.0% to Won 23,823 billion in 2012 from Won 21,456 billion in 2011. Such increase in fuel costs was primarily due to an increase in energy consumption as a result of the general economic recovery and extreme weather conditions in 2012 and a 9.8% increase in unit cost of fuel mainly due to a 14.8% increase in unit cost of LNG. Purchased power, which accounted for 20.2% and 17.3% of our cost of sales in 2012 and 2011, respectively, increased by 32.4% to Won 9,801 billion in 2012 from Won 7,404 billion in 2011, primarily due to a 13.9% increase in the volume of power purchased from independent power producers (who generate electricity primarily through LNG-fired power plants), from 53,024 gigawatt hours in 2011 to 60,392 gigawatt hours in 2012, primarily to compensate for the shortfall in the supply of electricity due to the higher than anticipated rise in demand for electricity in 2012. Salaries increased by 6.0% to Won 2,662 billion in 2012 from Won 2,510 billion in 2011 primarily due to an increase in the number of our and our generation subsidiaries employees. Depreciation expense increased by 1.7% to Won 6,846 billion in 2012 from Won 6,733 billion in 2011 primarily due to an increase of additional property, plant and equipment related to the construction of new generation facilities pursuant to our capital investment program. Other remaining items of our cost of sales increased to Won 5,327 billion in 2012 from Won 4,622 in 2011 primarily due to an increase in costs related to our nuclear complex construction projects in the United Arab Emirates, an increase in provision for decommissioning costs of our nuclear facilities and provision for potential fines and penalties under the Renewable Portfolio Standard.

As a cumulative result of the foregoing factors, our consolidated gross profit increased by 46.8% to Won 661 billion in 2012 from Won 450 billion in 2011, while our consolidated gross profit margin increased to 1.3% in 2012 from 1.0% in 2011. The increases in our consolidated gross profit and consolidated gross profit margin were largely attributable to the 13.8% increase in our consolidated sales (which were due to the 4.9% increase in the overall average electricity tariff rates and the 2.5% increase in the volume of electricity sold), which was partially offset by the 13.4% increase in our consolidated cost of sales (which was mainly due to the 11.0% increase in fuel costs and the 32.4% increase in purchased power).

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Our consolidated selling and administrative expenses increased by 1.6% to Won 1,780 billion in 2012 from Won 1,752 billion in 2011, primarily as a result of increases in salaries, research and development expenses and rent expenses.

Our consolidated net other operating income increased by 33.2% to Won 600 billion in 2012 from Won 451 billion in 2011, mainly as a result of an increase in compensation for damages received from a lawsuit in which we were the plaintiff, which more than offset the return to normal levels of donations related to renewable energy initiatives.

We had consolidated other losses, net, of Won 1,782 billion in 2012 compared to consolidated other gains, net, of Won 166 billion in 2011, primarily as a result of a write-off of our accumulated but unbilled fuel cost-based adjustment amounts as further described in Item 5A. Operating and Financial Review and Prospects Critical Accounting Policy Correction of Accounting for Fuel Cost Pass-through Adjustment.

As a cumulative result of the foregoing factors, our consolidated operating loss increased significantly to Won 2,300 billion in 2012 from Won 685 billion in 2011. Our operating loss margin increased to 4.7% in 2012 from 1.6% in 2011, largely due to a 11.0% increase in fuel costs and a 32.4% increase in purchased power which more than offset the 13.8% increase in our revenue from the sale of electricity.

Our consolidated net financial expense increased by 1.5% to Won 1,940 billion in 2012 from Won 1,911 billion in 2011, primarily as a result of increases in net interest expense and net losses on valuation of derivatives, which were substantially offset by an increase in net gains on foreign currency translation.

Our consolidated profits of affiliates or joint ventures using equity method increased by 43.7% to Won 177 billion in 2012 from Won 123 billion in 2011, primarily as a result of an increase in profits from Korea Gas Corporation and our overseas affiliates primarily as a result of the expansion of our overseas business.

As a cumulative result of the foregoing factors, we had consolidated loss before income taxes of Won 4,063 billion in 2012 compared to consolidated income before income taxes of Won 2,473 billion in 2011. We had consolidated income tax income of Won 985 billion in 2012 compared to consolidated income tax expense of Won 820 billion in 2011, primarily due to the absence of a one-time write-off in 2011 of deferred tax assets in relation to net loss from the previous year due to the low probability of recovery.

As a cumulative result of the above factors, our consolidated loss for the year decreased to Won 3,078 billion in 2012 from Won 3,293 billion in 2011, and our consolidated net loss margin decreased to 6.3% in 2012 from 7.6% in 2011. We also had net loss attributable to our shareholders of Won 3,167 billion in 2012, compared to net loss of Won 3,370 billion attributable to our shareholders in 2011.

Our consolidated other comprehensive loss increased by 22.9% to Won 322 billion in 2012 from Won 262 billion in 2011 largely as a result of negative changes in foreign currency translation of foreign operations, net of tax, and share in other comprehensive income (loss) of associates and joint ventures, net of tax, which were partially offset by a positive net change in fair value of available-for-sale financial assets, net of tax, and a decrease in defined benefit actuarial losses, net of tax.

As a cumulative result of the above factors, our consolidated total comprehensive loss for the period decreased by 4.4% to Won 3,400 billion in 2012 from Won 3,555 billion in 2011.

Inflation

The effects of inflation in Korea on our financial condition and results of operations are reflected primarily in construction costs as well as in labor expenses. Inflation in Korea has not had a significant impact on our results of operations in recent years. It is possible that inflation in the future may have an adverse effect on our financial condition or results of operations.

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Segment Results

We operate the following business segments: transmission and distribution, nuclear power generation and thermal power generation and all others. The transmission and distribution segment, which is operated by KEPCO, the parent company, consists of operations related to the transmission, distribution and sale to end-users of electricity purchased from our generation subsidiaries as well as from independent power producers. The power generation segment, which is operated by KEPCO s one nuclear generation subsidiary and five thermal generation subsidiaries, consists of operations related to the generation of electricity sold to KEPCO through the Korea Power Exchange. The transmission and distribution segment and the power generation segment together represent our electricity business. The remainder of our operation is categorized as all others. The all other segment consists primarily of operations related to the plant maintenance and engineering service, information services, and sales of nuclear fuel, communication line leasing, overseas businesses and others. In 2011, 2012 and 2013, the unaffiliated revenues of the power generation segment (representing the six generation subsidiaries) and all our other revenues in the aggregate amounted to only 2.4%, 2.5% and 2.6% of our consolidated revenues, respectively, and the results of operations for our business segments substantially mirror our consolidated results of operations. For further information, see Note 4 of the notes to our consolidated financial statements included in this annual report.

Item 5B. Liquidity and Capital Resources

We expect that our capital requirements, capital resources and liquidity position may change in the course of implementing the Restructuring Plan. See Item 4B. Business Overview Restructuring of the Electric Power Industry in Korea and Item 3D. Risk Factors Risks Relating to KEPCO The Government may adopt policy measures to substantially restructure the Korean electric power industry or our operational structure, which may have a material adverse effect on our business, operations and profitability.

Capital Requirements

We anticipate that the following represent the major sources of our capital requirements in the short-term to intermediate future:

- capital expenditures pursuant to our capital investment program;
- working capital requirements, the largest component of which is fuel purchases;
- payment of principal and interest on our existing debt;
- headquarters relocation expenses pursuant to Government policy; and
- overseas investments.

In addition, if there were to occur unanticipated material changes to the Restructuring Plan, the Basic Plan or other major policy initiatives of the Government relating to the electric power industry, or natural disasters, such developments may require a significant amount of additional capital requirements.

Capital Expenditures

We anticipate that capital expenditures will be the most significant use of our funds for the next several years. Our capital expenditures relate primarily to the construction of new generation units, maintenance of existing generation units and expansion of our transmission and distribution systems. Our capital expenditures generally follow budgets established under the Basic Plan Relating to the Long-Term Supply and Demand of Electricity, which contains projections relating to the supply and demand of electricity of Korea based on which we plan the construction of additional generation units and transmission systems. See Item 4B. Business Overview Capital Investment Program for a further description of our capital investment program.

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Our total capital expenditures for the construction of generation, transmission and distribution facilities were Won 11,984 billion, Won 12,751 billion and Won 15,831 billion in 2011, 2012 and 2013, respectively, and under our current budgets, are estimated to be approximately Won 19,898 billion, Won 18,479 and Won 16,339 billion in 2014, 2015 and 2016, respectively. We plan to finance our capital expenditures primarily through issuance of securities in the capital markets, borrowings from financial institutions and construction grants.

In order to deal with shortage of fuel and other resources and also to comply with various environmental standards, in 2012 the Government has adopted the Renewable Portfolio Standard (RPS) program, which replaces the Renewable Portfolio Agreement which was in effect from 2006 to 2011. Under the RPS program, each generation subsidiary is required to generate a specified percentage of total electricity to be generated by such generation subsidiary in a given year in the form of renewable energy, with the target percentage being 2.0% in 2012, 2.5% in 2013 and incrementally increasing to 10.0% by 2022. The current budgeted amount of capital expenditure for implementation of the RPS as currently planned for the period from 2013 to 2022 is approximately Won 13.7 trillion. We expect that such additional capital expenditure will be covered by a corresponding increase in electricity tariff. However, there is no assurance that the Government will in fact raise the electricity tariff to a level sufficient to fully cover such additional capital expenditures or at all. See Item 4B. Business Overview Renewable Energy for a further description of the Renewable Portfolio Standard and our related past capital expenditures.

Fuel Purchases

We require significant funds to finance our operations, principally in relation to the purchase of fuels by our generation subsidiaries for generation of electricity. In 2011, 2012 and 2013, fuel costs accounted for 49.7%, 48.5% and 45.1% of our sales and 50.2%, 49.2% and 47.8% of our cost of sales, respectively. We plan to fund our fuel purchases primarily with net operating cash, although in cases of rapid increases in fuel prices as is the case from time to time, we may also rely on borrowings from financial institutions and issuance of debt securities in the capital markets.

Repayment of Existing Debt

Payments of principal and interest on indebtedness will require considerable resources. The table below sets forth the scheduled maturities of the outstanding interest-paying debt (excluding issue discounts and premium) before accounting for swap transactions of us and our six wholly-owned generation subsidiaries as of December 31, 2013 for each year from 2014 to 2018 and thereafter. As of December 31, 2013, such debt represented 97.7% of our outstanding debt on a consolidated basis.

Year ended December 31	Local Currency Borrowings	Foreign Currency Borrowings	Domestic Debentures	Foreign Debentures	Total
			(in millions of Won)		
2014	910,408	477,154	4,250,000	2,375,008	8,012,570
2015	424,425		4,400,000	1,213,946	6,038,371
2016	757,133		5,920,000	686,020	7,363,153
2017	836,232		4,630,000	1,371,890	6,838,122
2018	849,201		5,051,060	2,522,592	8,422,853
Thereafter	391,284	9,270	19,560,000	3,011,631	22,972,185
Total	4,168,683	486,424	43,811,060	11,181,087	59,647,254

We and our six wholly-owned generation subsidiaries have incurred interest charges (including capitalized interest) in relation to our interest-paying debt of Won 2,721 billion, Won 2,927 billion and Won 3,084 billion in 2011, 2012 and 2013, respectively. We anticipate that interest charges will increase in future years because of, among other factors, anticipated increases in our long-term debt. See Capital Resources below. The weighted average rates of interest on our and our six wholly-owned generation subsidiaries debt were 4.91%, 4.65% and 4.11% in 2011, 2012 and 2013, respectively.

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Relocation Expenses

In June 2005, the Government announced its policy to relocate the headquarters of government-invested enterprises, including us and certain of our subsidiaries, including six generation subsidiaries, from the Seoul metropolitan area to other provinces in Korea. Pursuant to this policy, our headquarters are scheduled to be relocated to Naju in Jeolla Province, which is approximately 300 kilometers south of Seoul. Although the relocation was initially scheduled to occur by the end of 2012, due to construction delays, we currently expect that the relocation will occur by the end of 2014. In addition, the headquarters of certain of our subsidiaries are scheduled to be relocated to various other cities in Korea. Under the current relocation plan as approved by the Government in 2007 and in accordance with the relevant statute and related guidelines, the total relocation cost for us and our generation subsidiaries is estimated to be Won 1,522 billion, which will be paid out over the construction period. Under a special act enacted for this purpose, we are required to sell the property in our current headquarters within one year after the relocation.

We plan to finance our relocation costs primarily through net cash flows from our operation, proceeds from the sale of the existing headquarters and investing activities, as well as borrowings from financial institutions and issuance of securities in the capital markets, among others.

Overseas Investments

As part of our revenue diversification and fuel procurement strategy, we plan to continue to make overseas investments on a selective basis, which will be funded primarily through foreign currency-denominated borrowings and debt securities issuances as well as net operating cash from such projects.

Capital Resources

We have traditionally met our working capital and other capital requirements primarily from net cash provided by operating activities, issuance of debt securities and borrowings from financial institutions. Net cash provided by operating activities is primarily a function of electricity sales and fuel purchases and is also affected by increases and decreases in trade receivables, trade payables and inventory related to electricity sales and fuel purchases. Net cash provided by operating activities was Won 4,145 billion, Won 3,917 billion and Won 6,884 billion in 2011, 2012 and 2013, respectively.

As of December 31, 2011, 2012 and 2013, our long-term debt (excluding the current portion but including issue discounts and premium), before accounting for swap transactions, amounted to Won 39,198 billion, Won 45,525 billion and Won 52,801 billion, respectively, representing 72.9%, 89.1% and 102.6% of shareholders equity, respectively, as of such dates. As of December 31, 2011, 2012 and 2013, the current portions of our long-term debt were Won 5,832 billion, Won 7,005 billion and Won 7,508 billion, respectively. As of December 31, 2011, 2012 and 2013, our short-term borrowings amounted to Won 1,174 billion, Won 689 billion and Won 579 billion, respectively. See Note 23 of the notes to our consolidated financial statements included in this annual report. Total long-term debt (including the current portion but excluding issue discounts and premium), before accounting for swap transactions, as of December 31, 2013 was Won 60,441 billion, of which Won 47,793 billion was denominated in Won and an equivalent of Won 12,648 billion was denominated in foreign currencies, primarily U.S. dollars. In addition, we, KHNP and KOWEPO also maintain U.S. dollar-denominated global medium-term note programs in the aggregate amount of US$10 billion, of which approximately US$4 billion remains currently available for future drawdown.

Subject to the implementation of our capital expenditure plan and the sale of our interests in our generation subsidiaries and other subsidiaries, our long-term debt may increase or decrease in future years. Until recently, a substantial portion of our long-term debt was raised through foreign currency-denominated borrowings. However, we have been adjusting the proportion of foreign currency-denominated debt in order to reduce the

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impact of foreign exchange rate fluctuations on our results of operations. Our foreign currency-denominated long-term debt (including the current portion but excluding issue discounts and premium), before accounting for swap transactions, increased from Won 11,291 billion as of December 31, 2012 to Won 12,648 billion as of December 31, 2013.

Our ability to incur long-term debt in the future is subject to a variety of factors, many of which are beyond our control, including, the implementation of the Restructuring Plan and the amount of capital that other Korean entities may seek to raise in capital markets. Economic, political and other conditions in Korea may also affect investor demand for our securities and those of other Korean entities. In addition, our ability to incur debt will also be affected by the Government s policies relating to foreign currency borrowings, the liquidity of the Korean capital markets and our operating results and financial condition. In case of adverse developments in Korea, the price at which such financing may be available may not be acceptable to us.

We incur our short-term borrowings primarily through commercial papers sold to domestic financial institutions. We have not had, and we do not expect to have, any material difficulties in obtaining short-term borrowings. In addition, in order to prepare for potential liquidity shortage, we maintain several credit facilities with domestic financial institutions amounting to Won 2,550 billion and US$4,549 million, the full amount of which was available as of December 31, 2013.

We may raise capital from time to time through the issuance of equity securities. However, there are certain restrictions on our ability to issue equity, including limitations on shareholdings by foreigners. In addition, without changes in the existing KEPCO Act which requires that the Government, directly or pursuant to the Korea Finance Corporation Act, through Korea Finance Corporation, own at least 51% of our capital stock, it may be difficult or impossible for us to undertake any equity financing other than sales of treasury stock without the participation of the Government. Even if we are able to conduct equity financing with the participation of the Government, prevailing market conditions may be such that we may not be able conduct equity financing on terms that are commercially acceptable to us. See Item 3D. Risk Factors Risks Relating to Korea and the Global Economy.

Our total shareholders equity slightly increased from Won 51,064 billion as of December 31, 2012 to Won 51,451 billion as of December 31, 2013.

Liquidity

Our liquidity is substantially affected by our construction expenditures and fuel purchases. Construction in progress increased by 29.0% from Won 21,184 billion as of December 31, 2012 to Won 27,334 billion as of December 31, 2013. Fuel costs increased by 1.6% to Won 24,200 billion in 2013 from Won 23,823 billion in 2012.

Our cash flows are also impacted by several other factors. Our net cash provided by operating activities amounted to Won 3,917 billion in 2012 and Won 6,884 billion in 2013. The increase in net cash provided by operating activities in 2013 compared to 2012 was mainly due to an increase in cash collected from our customers in tandem with increases in the sales volume and electricity tariff rates in 2013 compared to 2012 and the decrease in the unit cost of coal, LNG and oil in 2013 compared to 2012, which in turn led to a decrease in cash paid for fuel cost. Our cash flows from investing activities are affected by acquisitions of property, plant and equipment. Our cash flows from financing activities are mainly affected by borrowings and issuance of debt securities and repayment thereof, as well as dividends paid.

Due to the capital-intensive nature of our business as well as significant volatility in fuel prices, from time to time we operate with working capital deficits, and we may have substantial working capital deficits in the

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future. As of December 31, 2011, 2012 and 2013, we had a working capital deficit of Won 3,974 billion, Won 4,884 billion and Won 4,945 billion, respectively. We have traditionally met our working capital and other capital requirements primarily with net cash provided by operating activities, issuance of debt securities, borrowings from financial institutions and construction grants. We also incur short-term borrowings primarily through commercial papers sold to domestic financial institutions. We have not had, and we do not expect to have, any material difficulties in obtaining short-term borrowings. See Capital Resources.

We may face liquidity concerns in the case of significant depreciation of the Won against major foreign currencies over a short period of time. While substantially all of our revenues are denominated in Won, we pay for substantially all of our fuel purchases in foreign currencies and a substantial portion of our long-term debt is denominated in foreign currencies, and payment of principal and interest thereon is made in foreign currencies. In the past, we have incurred foreign currency debt principally due to the limited availability and the high cost of Won-denominated financing in Korea. However, in light of the increasing sophistication of the Korean capital markets and the recent increase in liquidity in the Korean financial markets, we plan to reduce the portion of our debt which is denominated in foreign currencies although we intend to continue to raise certain amounts of capital through long-term foreign currency debt for purposes of maintaining diversity in our funding sources as well as paying for overseas investments in foreign currencies. As of December 31, 2013, approximately 20.9% of our long-term debt (including the current portion but excluding issue discounts and premium) before accounting for swap transactions was denominated in currencies other than Won.

We enter into currency swaps and other hedging arrangements with respect to our debt denominated in foreign currencies only to a limited extent due primarily to the limited size of the Korean market for such derivative arrangements. Such instruments include combined currency and interest rate swap agreements, interest rate swaps and foreign exchange agreements. We do not enter into derivative financial instruments in order to hedge market risk resulting from fluctuations in fuel costs. Our policy is to hold or issue derivative financial instruments for hedging purposes only. Our derivative financial instruments are entered into with major financial institutions, thereby minimizing the risk of credit loss. See Note 11 of the notes to our consolidated financial statements.

We did not pay any dividends in 2012 and 2013 in respect of fiscal years 2011 and 2012, due to our incurring net losses for such fiscal years; however, we paid dividends of Won 90 per share on April 25, 2014 as we had net income in fiscal year 2013.

Other

Our operations are materially affected by the policies and actions of the Government. See Item 4B. Business Overview Regulation.

Item 5C. Research and Development, Patents and Licenses, etc.

Research and Development

Our research and development program is focused on developing advanced electric power, renewable energy, smart grid and customer-friendly electricity service technologies that will enable us to become a global leader in the energy industry. In order to achieve our corporate vision of becoming a Global Top Green & Smart Energy Pioneer, in 2013 we adopted the KEPCO Technology Strategy which emphasizes enhanced technological convergence and customer service. As part of such strategy, we seek to develop (i) clean and smart energy technology, including in relation to low carbon emission in power generation, (ii) an efficient and intelligent power transmission and distribution grid system, (iii) technology that will enhance efficiency and responsiveness to consumer s electricity consumption patterns, and (iv) improvements in information, communication and technology (ICT) for enhanced customer service.

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In 2014, consistent with the Government guidelines, we plan to invest approximately 0.5% of our annual revenue in the research and development of green and smart technologies, particularly with a focus on the following 12 areas: integrated gasification combined cycle for synthetic natural gas production, carbon capture and storage, offshore wind power, offshore energy development, high voltage direct currents, super conductor, smart grid, micro grid, demand responsive and energy efficiency applications, power ICT solutions, intelligent plant management system and energy storage systems.

Our high-priority green and smart energy projects currently include the following:

- acquiring integrated gasified process technology;
- establishing high-tech smart grid and micro grid test beds in Jeju Island;
- developing highly efficient absorbents for carbon capture;
- commercializing offshore wind power plants;
- obtaining high-voltage direct currents technology suitable for domestic operation; and
- experimental testing of large-scale electricity storage systems with capacities ranging from four to eight megawatts.

Our research and development activities also focus on the following:

- in the thermal power generation sector, enhancing efficiency and reducing cost in power plant construction and operation as well as in our plant maintenance, including through improvements in damage analysis and environment-friendly inspections;
- in the renewable energy sector, enhancing efficiency, lowering costs of power generation, identifying new energy sources and exploring new business opportunities;
- in the electric power system sector, enhancing the stability and reliability in the operation of our electric power grid as well as enhancing efficiency in electricity distribution, including through introducing preventive maintenance measures for substations and developing technologies related to system automation, power utilization and power line communication;
- in the customer service sector, developing technologies enabling a greater range of business opportunities and heightened customer service in anticipation of the upcoming rollout of the smart grid system; and
- in the technological convergence sector, identifying new business opportunities through convergence among technologies and businesses and maximizing synergy from such convergence in tandem with the promotion of creative economy in Korea as well as globally.

In addition, we cooperate closely with several other electric utility companies and research institutes, both foreign and domestic, on various projects to diversify the scope and scale of our research and development activities.

We invested approximately Won 640 billion in 2013, and currently plan to invest Won 924 billion in 2014, on research and development. We had 888 employees engaged in research and development activities as of December 31, 2013. As a result of our research, 6,222 patent applications were submitted in Korea and abroad, and 2,794 applications were approved, in each case, in 2013. In addition, we plan to establish a management infrastructure that will facilitate the development of high value-added intellectual properties. We also seek opportunities to market our technologies overseas.

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Item 5D. Trend Information

Trends, uncertainties and events which could have a material impact on our sales, liquidity and capital resources are discussed above in Item 5A. Operating Results and Item 5B. Liquidity and Capital Resources.

Item 5E. Off-Balance Sheet Arrangements

We had no significant off-balance sheet arrangements as of December 31, 2013.

Item 5F. Tabular Disclosure of Contractual Obligations

The following summarizes certain of the contractual obligations of us and our six wholly-owned generation subsidiaries as of December 31, 2013 and the effect such obligations are expected to have on liquidity and cash flow in future periods.

		Payments Due by Period			
Contractual Obligations[1]	**Total**	**Less than 1 year**	**1 3 years**	**3 5 years**	**After 5 years**
			(in billions of Won)		
Long-term debt[2]	54,366	2,731	13,402	15,261	22,972
Short-term borrowings	5,281	5,281			
Interest payments [3]	12,774	1,801	3,605	2,264	5,104
Total	72,421	9,813	17,007	17,525	28,076

Notes:

(1) We have several other contractual obligations, including finance lease agreements. We believe the remaining annual payments under capital and operating lease agreements as of December 31, 2013 were immaterial. Contractual obligations related to payment of debt of us and our six wholly-owned generation subsidiaries represented 97.7% of our outstanding debt as of December 31, 2013 on a consolidated basis.
(2) Includes the current portion.
(3) A portion of our debt carried a variable rate of interest. We used the interest rate in effect as of December 31, 2013 for the variable rate of interest in calculating the interest payments on debt for the periods indicated.

For a description of our commercial commitments and contingent liabilities, see Note 49 of the notes to our consolidated financial statements included in this annual report.

We entered into a power purchase agreement with GS EPS Co., Ltd. and three other independent power producers, under which we are required to purchase all electricity generated by these companies to the extent such electricity is traded through the KPX. The purchase prices for such electricity are predetermined under the power purchase agreements, subject to annual adjustments. We purchased power from these companies in the amounts of Won 2,529 billion, Won 3,249 billion and Won 3,161 billion in 2011, 2012 and 2013, respectively.

We have entered into contracts with domestic and foreign suppliers to purchase bituminous coal and anthracite coal. Although we meet our coal requirements primarily through purchases in spot markets, substantial amounts of such requirements are also met through purchases under long-term supply contracts. Under our long-term supply contracts, purchase prices are adjusted periodically based on prevailing market conditions. We currently purchase all our LNG requirements from Korea Gas Corporation, a related party. We have also entered into long-term transportation contracts with Hanjin Shipping Co., Ltd. and others.

We import all uranium ore concentrates from sources outside Korea (including the United Kingdom, Kazakhstan, France, Germany, Niger, Canada, Japan and Australia) through medium- to long-term contracts and pay for such concentrates with currencies other than Won, primarily U.S. dollars. Contract prices for processing of uranium are generally based on market prices. See Note 48 of the notes to our consolidated financial statements for further details of these contracts.

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Under the Long-term Transmission and Substation Plan approved by the Ministry of Trade, Industry and Energy, we are liable for the construction of all of our power transmission facilities and the maintenance and repair expenses for such facilities.

Payment guarantee and short-term credit facilities from financial institutions as of December 31, 2013 were as follows:

Payment guarantee

Description	Financial Institutions	Credit Lines (In millions of Won or thousands of USD, GBP, EUR, AED, JPY, NPR and INR)	
Payment of import letter of credits	Korea Exchange Bank and others	USD	2,053,328
	Korea Exchange Bank	GBP	61,169
	Korea Exchange Bank	EUR	3,100
	Nonghyup Bank and others	JPY	18,914,670
Inclusive credits	Korea Exchange Bank and others	KRW	1,176,600
	HSBC and others	USD	545,512
Performance guarantees on guarantees	Seoul Guarantee Insurance and others	KRW	159,426
	Korea Exchange Bank	AED	54,880
	Standard Chartered Bank and others	USD	843,811
	Kookmin Bank	EUR	37,082
	HSBC and others	INR	236,443
Guarantees for bid	SMBC and others	USD	11,470
Warranty bond and others	Shinhan Bank	EUR	54,880
	HSBC	USD	252,140
	Katumandu Bank and others	NPR	85,289
Other guarantees	Korea Exchange Bank and others	KRW	9,503
	BNP Paribas and others	USD	1,409,500
	HSBC	INR	157,830

Overdraft and Others

Description	Financial Institutions	Credit Lines (In millions of Won or thousands of US$)	
Overdraft	Nonghyup Bank and others	KRW	2,125,000
Commercial paper	Korea Exchange Bank and others	KRW	1,129,000
Limit amount available for card	Hana Bank and others	KRW	71,500
Loan limit	Hana Bank and others	KRW	195,996
	BNP Paribas and others	USD	2,646,059
Repayment guarantees for foreign currency debentures	Korea Development Bank	USD	420,009

We have provided a repayment guarantee of US$58 million to Sumitomo Mitsui Banking Corporation and other financial institutions and a guarantee on interest swap agreement of US$1.5 million to Sumitomo Mitsui Banking Corporation in relation to the UAE Shuweihat S3 project.

We provided a performance guarantee to Kookmin Bank related to a construction contract. Such guarantee is not recognized as a provision for financial guarantee because such performance guarantee does not meet the definition of a financial guarantee contract under IFRS.

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Existing guarantees provided by us to our associates and joint ventures as of December 31, 2013 are as follows:

Primary Guarantor (Providing Company)	Secondary Guarantor (Provided Company)	Type of Guarantees	Foreign Currency	Credit Limit	Guarantee (Final Provided Company)
KEPCO	KEPCO SPC Power Corporation	Debt guarantees	USD	189,565	SMBC and others
KEPCO	Shuweihat Asia Power Investment B.V.	Performance guarantees	USD	17,900	ADWEA
KEPCO	Shuweihat Asia O&M Co, Ltd.	Performance guarantees	USD	11,000	ADWEA
KEPCO	KNOC Nigerian East Oil Co., Ltd. and KNOC Nigerian West Oil Co., Ltd.	Performance guarantees	USD	34,650	Korea National Oil Corporation (Nigerian government)
KEPCO	Amman Asia Electric Power Company	Performance guarantees	USD	19,800	Standard Chartered Bank
KOWEPO	Cheongna Energy Co., Ltd.	Collateralized money invested	KRW	42,646	Hana Bank, Korea Exchange Bank
		Guarantees for supplemental funding			
KOWEPO	Xe-Pian Xe-Namnoy Power Co., Ltd.	Performance guarantees	USD	2,310	Krung Thai Bank
		Collateralized money invested	USD	16,934	
KOWEPO	Rabigh O&M Co., Ltd.	Performance guarantees	SAR	4,800	Saudi Arabia British Bank
KOWEPO	Deagu Photovoltaic Co., Ltd.	Collateralized money invested	KRW	1,229	Shinhan Capital Co., Ltd.
KOWEPO	Dongducheon Dream Power Co., Ltd.	Collateralized money invested	KRW	144,200	Kookmin Bank and others
KOWEPO	PT Mutiara Jawa	Collateralized money invested	USD	2,610	Shinhan Bank Singapore
EWP	Busan shinho Solar power Co., Ltd.	Collateralized money invested	KRW	2,100	KT Capital Co., Ltd.
EWP	STX Electric Power Co., Ltd.	Collateralized money invested	KRW	176,400	Korea Development Bank
EWP	Honam Wind Power Co., Ltd.	Collateralized money invested	KRW	3,600	Shinhan Bank and others
KOSPO	KNH Solar Co., Ltd.	Collateralized money invested	KRW	1,296	Shinhan Bank, Kyobo Life Insurance Co., Ltd.
		Performance guarantees and guarantees for supplemental funding[(1)]			

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Primary Guarantor (Providing Company)	Secondary Guarantor (Provided Company)	Type of Guarantees	Foreign Currency	Credit Limit	Guarantee (Final Provided Company)
KOSPO	Daeryun Power Co., Ltd.	Collateralized money invested	KRW	25,477	Korea Development Bank, Dongbu Insurance Co., Ltd. and others
		Guarantees for supplemental funding[(1)]			
KOSPO	Changjuk Wind Power Co., Ltd.	Collateralized money invested	KRW	3,801	Shinhan Bank, Woori Bank
		Guarantees for supplemental funding[(1)]			
KOSPO	Busan Solar Co., Ltd.	Collateralized money invested	KRW	793	NH Bank
KOSPO	Taebaek Wind Power Co., Ltd.	Guarantees for supplemental funding[(1)]			Shinhan Bank, Bank of Cheju
KOSPO	Daegu Green Power Co., Ltd.	Collateralized money invested	KRW	76,193	Korea Exchange Bank and others
		Performance guarantees and guarantees for supplemental funding[(1)]			
KOSPO	KS Solar Corp. Ltd.	Collateralized money invested	KRW	637	Shinhan Capital Co., Ltd.
KOSPO	Jeonnam Solar Co., Ltd.	Collateralized money invested	KRW	700	Shinhan Capital Co., Ltd.
KOSPO	Kelar S.A.	Performance guarantees	USD	13,000	Korea Exchange Bank
KEPCO E&C	DS Power Co., Ltd.	Collateralized money invested	KRW	2,900	Korea Exchange Bank
KOSPO			KRW	15,000	and Daewoo Securities Co., Ltd.
KEPCO E&C		Performance guarantees and guarantees for supplemental funding[(1)]			
KOSPO					
KOMIPO	Hyundai Green Power Co., Ltd.	Collateralized money invested	KRW	87,003	Korea Development Bank and others
		Guarantees for supplemental funding[(1)]			
KOMIPO	Gangwon Wind Power Co., Ltd.	Collateralized money invested	KRW	7,410	Industrial Bank of Korea

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Primary Guarantor (Providing Company)	Secondary Guarantor (Provided Company)	Type of Guarantees	Foreign Currency	Credit Limit	Guarantee (Final Provided Company)
KOMIPO	Cheonan Photovoltaic Power Co., Ltd.	Collateralized money invested	KRW	122	KT Capital Corporation
KOMIPO	Gumi-ochang Photovoltaic Power Co., Ltd.	Collateralized money invested	KRW	288	Shinhan Capital Co., Ltd.
KOMIPO	Chungbuk Photovoltaic Power Co., Ltd.	Collateralized money invested	KRW	166	KT Capital Corporation
KOMIPO	Golden Route J Solar Power Co., Ltd.	Collateralized money invested	KRW	82	Shinhan Capital Co., Ltd.
KOMIPO	PT. Cirebon Electric Power	Debt guarantees	USD	8,091	Hana Bank
KOMIPO	D Solarenergy Co., Ltd.	Collateralized money invested	KRW	400	Shinhan Capital Co., Ltd.
KOMIPO	Hyundai Asan Solar Power Co., Ltd.	Collateralized money invested	KRW	471	Shinhan Capital Co., Ltd.
KOSEP	Hyundai Energy Co., Ltd.	Collateralized money invested	KRW	71,070	Korea Development Bank and others
		Performance guarantees and guarantees for supplemental funding[(1)]			
KOSEP	RES Technology AD	Collateralized money invested	KRW	15,595	Korea Development Bank and others
		Debt guarantees	EUR	4,271	
KOSEP	ASM-BG investicii AD	Collateralized money invested	KRW	16,101	Korea Development Bank and others
		Debt guarantees	EUR	4,175	
KOSEP	Express solar-light Power Generation Co., Ltd.	Collateralized money invested	KRW	3,132	Woori Bank and others
		Guarantees for supplemental funding[(1)]			
KOSEP	S-Power Co., Ltd.	Collateralized money invested	KRW	108,000	Korea Development Bank and others
		Performance guarantees and guarantees for supplemental funding[(1)]			

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Primary Guarantor (Providing Company)	Secondary Guarantor (Provided Company)	Type of Guarantees	Foreign Currency	Credit Limit	Guarantee (Final Provided Company)
KOSEP	YEONGAM Wind Power Co., Ltd.	Collateralized money invested	KRW	11,584	Kookmin Bank and others
		Guarantees for supplemental funding[(1)]			
KOSEP	Coscon Photovoltaic Co., Ltd.	Collateralized money invested	KRW	245	Shinhan Capital Co., Ltd.
KOSEP	Yeonan Solar Co., Ltd.	Collateralized money invested	KRW	157	Shinhan Capital Co., Ltd.
KOSEP	Q1 Solar Energy Co., Ltd.	Collateralized money invested	KRW	1,005	Shinhan Bank and others
KOSEP	Best Solar Energy Co., Ltd.	Collateralized money invested	KRW	1,242	Shinhan Bank and others
KOSEP USA, INC.	KODE NOVUS II LLC	Guarantees for supplemental funding[(1)]			Korea Development Bank and others
KOSEP USA, INC.	KODE NOVUS I LLC	Guarantees for supplemental funding[(1)]			Daewoo Shipbuilding & Marine Engineering Co., Ltd.
KOSEP	Yeong Wol Energy Station Co., Ltd.	Collateralized money invested	KRW	462	Daewoo Securities Co., Ltd. and others
KHNP			KRW	1,400	
KEPCO KPS	Incheon New Power Co., Ltd.	Collateralized money invested	KRW	461	Shinhan Bank
		Guarantees for supplemental funding[(1)]			

Note:

(1) We guarantee to provide supplemental funding for businesses in cases of excessive business expenses or insufficient repayment of borrowings.

Other than as described in this annual report and also in Notes 46 and 49 of the notes to our consolidated financial statements included in this annual report, we did not have any other material credit lines and guarantee commitments provided to any third parties as of December 31, 2013.

We are subject to legal proceedings. For a description of our legal proceedings, see Item 8A. Consolidated Statements and Other Financial Information Legal Proceedings.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Item 6A. Directors and Senior Management

Board of Directors

Under the KEPCO Act, the Public Agencies Management Act and our Articles of Incorporation, our board of directors, which is required to consist of not more than 15 directors, including the president, is vested with the authority over our management.

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Pursuant to our Articles of Incorporation and the Public Agencies Management Act, we have two types of directors: standing directors (sangim-isa in Korean) and non-standing directors (bisangim-isa in Korean). The standing directors refer to our directors who serve their positions in full-time capacity. Many of our standing directors concurrently hold executive positions with us or our subsidiaries. The non-standing directors refer to our directors who do not serve their positions in full-time capacity. The non-standing directors currently do not hold any executive positions with us or our subsidiaries.

Under our Articles of Incorporation, there may not be more than seven standing directors, including our president, and more than eight non-standing directors. The number of standing directors, including our president, may not exceed the number of non-standing directors. A senior non-standing director appointed by the Ministry of Strategy and Finance becomes our chairman of the board following the review and resolution of the Public Agencies Operating Committee.

Our president is appointed by the President of the Republic upon the motion of the Ministry of Trade, Industry and Energy following the nomination by our director nomination committee, the review and resolution of the Public Agencies Operating Committee pursuant to the Public Agencies Management Act and an approval at the general meeting of our shareholders. Our controller & auditor general is appointed by the President of the Republic upon the motion of the Ministry of Strategy and Finance following the nomination by our director nomination committee, the review and resolution of the Public Agencies Operating Committee pursuant to the Public Agencies Management Act and an approval at the general meeting of our shareholders. Standing directors (other than our president and controller & auditor general) are appointed by our president with the approval at the general meeting of our shareholders.

On January 24, 2011, the Ministry of Trade, Industry and Energy changed the designation of our generation subsidiaries from other public institutions to market-oriented public enterprises. As other public institutions under the provisions of the Public Agencies Management Act, our generation subsidiaries were not subject to the same regulations applicable to us with regards to corporate governance matters such as the appointment and dismissal of directors and the composition of the boards of directors. However, as market-oriented public enterprises, our generation subsidiaries are currently subject to the same corporate governance rules applicable to us. All of our generation subsidiaries accordingly amended their respective articles of incorporation in 2011 and are currently generally subject to the same system of regulations applicable to us.

The non-standing directors must be appointed by the Ministry of Strategy and Finance following the review and resolution of the Public Agencies Operating Committee from a pool of candidates recommended by the director nomination committee and must have ample knowledge and experience in business management. Government officials that are not part of the teaching staff in national and public schools are ineligible to become our non-standing directors. Our president serves as our chief executive officer and represents us and administers our day-to-day business in all matters and bears the responsibility for the management s performance. The term of our president is three years, while that of our directors is two years. According to the Public Agencies Management Act, our president s term cannot be terminated unless done so by the President of the Republic pursuant to the Public Agencies Management Act or upon an event as specified in our Articles of Incorporation.

Attendance by a majority of the board members constitutes a voting quorum for our board meetings, and resolutions can be passed by a majority of the board members. In the event the president acts in violation of law or the Articles of Incorporation, is negligent in his duties, or otherwise is deemed to be significantly impeded in performing his official duties as chief executive officer, the board of directors may by resolution request the minister of the Ministry of Trade, Industry and Energy to dismiss or recommend the dismissal of the president.

Non-standing directors may request any information necessary to fulfill their duties from the chief executive officer, and except in special circumstances, the chief executive officer must comply with such request.

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The names, titles and outside occupations, if any, of the directors as of April 17, 2014 and the respective years in which they took office are set forth below.

Name	Age	Title	Outside Occupation	Position Held Since
Cho, Hwan-Eik	(64)	President, Chief Executive Officer and Standing Director	None	December 17, 2012
Ahn, Hong-Ryoul	(55)	Standing Director and Member of the Audit Committee	Auditor at Korea Hemophilia Foundation	December 27, 2013
Park, Kyu-Ho	(56)	Standing Director and Executive Vice President of Domestic Operations	None	June 18, 2013
Park, Jung-Keun	(57)	Standing Director and Executive Vice President of Overseas Operations	None	October 29, 2013
Baek, Seung-Jung	(58)	Standing Director and Executive Vice President & Chief Financial Officer	None	June 18, 2013
Kim, Byung-Sook	(56)	Standing Director and Executive Vice President & Chief Technology Officer	None	June 18, 2013
Koo, Bon-Woo	(58)	Standing Director and Executive Vice President & Chief Power Grid Officer	None	February 20, 2012
Chung, Hae-Joo	(71)	Non-Standing Director	Chairman of the Board, Korea Testing & Research Institute	June 30, 2011
Kim, Jung-Hyun	(58)	Non-Standing Director	Professor, Yonsei University	June 13, 2012
Yim, Chu-Hwan	(65)	Non-Standing Director	Visiting Professor, Korea University	October 19, 2012
Shin, Il-Soon	(66)	Non-Standing Director	Policy advisor of New Frontier Party	April 11, 2011
Nam, Dong-Kyoon	(61)	Non-Standing Director	Standing Auditor, BC Card	October 24, 2011
Lee, Kang-Hee	(72)	Non-Standing Director	Member of the Incheon City Advisory Committee	March 14, 2014
Cho, Jeon-Hyeok	(54)	Non-Standing Director and member of the Audit Committee	Professor of economics, Myungji University	March 14, 2014
Choi, Gyo-Il	(52)	Non-Standing Director and member of the Audit Committee	Attorney, Choi, Gyo-Il Law Firm	March 14, 2014

Cho, Hwan-Eik has been our President, Chief Executive Officer and Standing Director since December 17, 2012. Prior to his current position, he served as Chair-professor at Hanyang University, President of the Korea Trade-Investment Promotion Agency, CEO of Korea Export Insurance Corporation and Vice Minister of the Ministry of Commerce. Mr. Cho received a Ph.D. in business administration from Hanyang University.

Ahn, Hong-Ryoul has been our Standing Director and member of the Audit Committee since December 27, 2013. Mr. Ahn currently serves as auditor of Korea Hemophilia Foundation. Prior to his current position, he served as attorney at Ahn, Hong-Ryoul Law Firm and public prosecutor at Busan District Public Prosecutor s Office. Mr. Ahn received a B.A. in law from Seoul National University.

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Park, Kyu-Ho has been our Standing Director since June 18, 2013. Mr. Park also currently serves as our Executive Vice President of Domestic Operations and previously served as our Chief Financial Officer, Vice President of Busan District Division and Head of our Beijing office. Mr. Park received an M.B.A. from Korea University.

Park, Jung-Keun has been our Standing Director since October 29, 2013. Mr. Park also currently serves as our Executive Vice President of Overseas Operations and previously served as our Vice President of Personnel & General Affairs Department, Vice President of International Strategy Office and Vice President of Procurement & Contract Department. Mr. Park received a B.A. in economics from Chung-Ang University.

Baek, Seung-Jung has been our Standing Director since June 18, 2013. Mr. Baek also currently serves as our Executive Vice President and Chief Financial Officer and previously served as Chief Human Resources Officer, Vice President of Audit & Inspection Office and Vice President of Daegu-Gyeongbuk District Division. Mr. Baek received an M.A. in economics from Kyungpook National University.

Kim, Byung-Sook has been our Standing Director since June 18, 2013. Mr. Kim also currently serves as our Executive Vice President and Chief Technology Officer and previously served as the Vice President of KEPCO Research Institute, Vice President of Technology Policy & Planning Department and Vice President of Distribution Construction Department. Mr. Kim received a Ph.D in electrical engineering from Chonbuk National University.

Koo, Bon-Woo has been our Standing Director since February 20, 2012. Mr. Koo also currently serves as our Executive Vice President and Chief Power Grid Officer and previously served as our Executive Vice President and Chief Operating Officer and Vice President of Transmission Operation Department. Mr. Koo received a B.S. in electrical engineering from Chung-Ang University.

Chung, Hae-Joo has been our Non-Standing Director since June 30, 2011. Mr. Chung is currently the chairman of the board of Korea Testing & Research Institute. Mr. Chung received a B.A. in law from Seoul National University and completed a public policy course at Seoul National University Graduate School of Public Administration.

Kim, Jung-Hyun has been our Non-Standing Director since June 13, 2012. Mr. Kim previously served as a professor of chemical and biomolecular engineering at Yonsei University. Mr. Kim received an M.A. in chemical and biomolecular engineering from Yonsei University and a Ph.D in polymer engineering from Lehigh University.

Yim, Chu-Hwan has been our Non-Standing Director since October 19, 2012. Mr. Yim previously served as a visiting professor of electronics and information engineering at Korea University. Mr. Yim received an M.A. in industrial education from Seoul National University and a Ph.D in telecommunication system from Braunschweig University.

Shin, Il-Soon has been our Non-Standing Director since April 11, 2011. Mr. Shin is currently a policy advisor to the New Frontier Party. Mr. Shin received a B.S. in electrical engineering from U.S. Military Academy (West Point), an M.A. in military art and science from the United States Army Command and General Staff College and an M.A. in business administration from Kyungnam University.

Nam, Dong-Kyoon has been our Non-Standing Director since October 24, 2011. Mr. Nam is currently a standing auditor of BC Card. Mr. Nam previously served as the Vice Mayor for Political Affairs, Daegu Metropolitan City. Mr. Nam received an M.A. in economics from Vanderbilt University.

Lee, Kang-Hee has been our Non-Standing Director since February 14, 2014. Mr. Lee is currently a member of the Incheon City Advisory Committee. Mr. Lee previously served as a member of the National Assembly for two terms and a member of the Advisory Board on Democratic Peaceful Unification.

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Cho, Jeon-Hyeok has been our Non-Standing Director since February 14, 2014. Mr. Choi is currently Professor of economics at College of Liberal Arts, Myungji University. Mr. Choi previously served as a Professor of the Department of Economics at National University of Incheon and Chief Executive Officer of Naeil Venture Capital. Mr. Cho received a Ph.D in economic theory and financial economics from University of Wisconsin at Madison.

Choi, Gyo-Il has been our Non-Standing Director since February 14, 2014. Mr. Choi is currently an attorney-at-law at Choi, Gyo-Il law Firm. Mr. Choi previously served as Chief Public Prosecutor at the Seoul Prosecutor s Office and Deputy Minister at the Ministry of Justice. Mr. Lee received an LL.B in law from Korea University.

The business address of our directors is 512 Yeongdongdaero, Gangnam-Gu, Seoul, Korea.

Audit Committee

Under the Public Agencies Management Act, which took effect as of April 1, 2007, we are designated as a market-oriented public enterprises and, as such, are required to establish an audit committee in lieu of the pre-existing board of auditors upon expiration of the term of the last remaining member of the board of auditors. In September 2007, we amended our Articles of Incorporation to establish, in lieu of the pre-existing board of auditors, an audit committee meeting the requirements under the Sarbanes-Oxley Act. Under the Public Agencies Management Act, the Korean Commercial Code and the amended Articles of Incorporation, we are required to maintain an audit committee consisting of three members, of which not less than two members are required to be the non-standing directors. The roles and responsibilities of our audit committee members are to perform the functions of an audit committee meeting the requirements under the Sarbanes-Oxley Act. Our audit committee was established on December 8, 2008.

Our audit committee currently consists of Ahn, Hong-Ryoul, a standing director, and Cho, Jeon-Hyeok and Choi, Gyo-Il, both non-standing directors. All such members of the audit committee are independent within the meaning of the Korea Stock Exchange listing standards, the regulations promulgated under the Korean Commercial Code and the New York Stock Exchange listing standards.

Item 6B. Compensation

In 2013, the aggregate amount of remuneration paid and accrued to our directors and executive officers in the aggregate was Won 5,951 million. The aggregate amount accrued in 2013 to provide retirement and severance benefits for our directors and executive officers was Won 396 million.

Item 6C. Board Practices

Under the Public Agencies Management Act and our Articles of Incorporation, the term of office for our directors and executive officers appointed after April 1, 2007 is three years for the president and two years for other executive officers. The officers and the directors may be reappointed for an additional term of one year. In order to be reappointed, the president must be evaluated on the basis of his management performance; a standing director, on the basis of the performance of the duties for which he was elected to perform, or if the standing director has executed an incentive bonus contract, on the basis of his performance under the contract; and a non-standing director, on the basis of his performance of the duties for which he was elected to perform.

Our board currently does not maintain a compensation committee. See Item 16G. Corporate Governance. However, we currently maintain an audit committee meeting the requirements of the Sarbanes-Oxley Act to perform the roles and responsibilities of the compensation committee. Prior to the establishment of the audit committee on December 8, 2008 pursuant to the Public Agencies Management Act, we maintained a board of auditors, which performed the roles and responsibilities required of an audit committee under the Sarbanes-Oxley Act, including the supervision of the financial and accounting audit by the independent registered public accountants.

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The president s management contract includes benefits upon termination of his employment. The amount for termination benefits payable equals the average value of compensation for one month times the number of years the president is employed by us, provided that the president is only eligible for termination benefits after more than one year of continuous service.

The termination benefits for standing directors are determined in accordance with our internal regulations for executive compensation. Standing directors are only eligible for benefits upon termination of employment or death following one year of continuous service.

See also Item 16G. Corporate Governance for a further description of our board practices.

Item 6D. Employees

As of December 31, 2013, we and our generation subsidiaries had a total of 39,566 regular employees and 1,997 non-regular employees, almost all of whom are employed within Korea. Approximately 10.4% of our regular employees (including employees of our generation subsidiaries) are located at our head office in Seoul.

The following table sets forth the number of and other information relating to our regular employees, not including directors or senior management, as of December 31, 2013.

	KEPCO	KHNP	KOSEP	KOMIPO	KOWEPO	KOSPO	EWP	Total
Regular Employees								
Administrative	4,577	862	270	254	267	252	254	6,736
Engineers	9,435	7,727	1,582	1,772	1,611	1,573	1,856	25,556
Others	5,632	960	166	174	126	126	90	7,274
Total	19,644	9,549	2,018	2,200	2,004	1,951	2,200	39,566
Head Office Employees	1,567	1,109	351	234	293	272	293	4,119
% of total	8%	11.6%	17.4%	10.6%	14.6%	13.9%	13.3%	10.4%
Members of Labor Union	14,672	6,013	1,395	1,433	1,305	1,277	1,501	27,596
% of total	75%	63.0%	69.1%	65.1%	65.1%	65.5%	68.2%	69.7%

We and each of our generation subsidiaries have separate labor unions. Approximately 69.7% of our and our generation subsidiaries employees in the aggregate are members of these labor unions, each of which negotiates a collective bargaining agreement for its members each year. Under applicable Korean law, an employee-employer cooperation committee, which is composed of eight representatives of management and eight representatives of labor, is required to be, and has been, established at the holding company and at each of our generation subsidiaries. The committee meets periodically to discuss various labor issues.

Since our formation in 1981, our businesses had not been interrupted by any work stoppages or strikes except in early 2002, when employees belonging to our five thermal generation subsidiaries went on strike for six weeks to protest the Government s decision to privatize such thermal generation subsidiaries according to the Restructuring Plan, which privatization plan has since been suspended indefinitely. See Item 3D. Risk Factors Risks Relating to KEPCO The Government may adopt policy measures to substantially restructure the Korean electric power industry or our operational structure, which may have a material adverse effect on our business, operations and profitability.

We believe our relations with our employees are generally good.

Item 6E. Share Ownership

None of our directors and members of our administrative, supervisory or management bodies own more than 0.1% of our common stock.

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ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Item 7A. Major Shareholders

The following table sets forth certain information relating to certain owners of our capital stock as of February 17, 2014, the date we last closed our shareholders registry:

Title of Class	Identity of Person or Group	Shares Owned	Percentage of Class[1] (%)
Common stock	Government	135,917,118	21.2
	Korea Finance Corporation[2]	192,159,940	29.9
	Subtotal	328,077,058	51.1
	National Pension Corporation	41,775,649	6.5
	KEPCO (held in the form of treasury stock)	18,929,995	2.9
	Employee Stock Ownership Association		
	Directors and executive officers as a group		
	Public (non-Koreans)	150,612,232	23.5
	Common shares	118,634,815	18.5
	American depositary shares	31,977,417	5.0
	Public (Koreans)	102,569,143	16.0
	Total	641,964,077	100.00

Notes:

(1) Percentages are based on issued shares of common stock (including treasury stock).
(2) Korea Finance Corporation is a Government-controlled entity.

All of our shareholders have equal voting rights. See Item 10B. Memorandum and Articles of Incorporation Description of Capital Stock Voting Rights.

Item 7B. Related Party Transactions

We are engaged in a variety of transactions with our affiliates. We have related party transactions with Government-controlled entities such as Korea Gas Corporation, our consolidated subsidiaries and our equity investees. In addition, we engage in related party transactions with Korea Finance Corporation, one of our major shareholders. See Note 46 of the Notes to our consolidated financial statements included in this annual report for a description of transaction and balances with our related parties.

In the past three years, our related party transactions principally consisted of purchases of LNG from Korea Gas Corporation, sales of electricity to Korea District Heating Co., Ltd., and long-term borrowings from Korea Finance Corporation. In 2011, 2012 and 2013, we and our generation subsidiaries purchased LNG from Korea Gas Corporation in the aggregate amount of Won 9,377 billion, Won 11,645 billion and Won 12,937 billion, respectively. As of December 31, 2013, we had long-term borrowings from Korea Finance Corporation in the aggregate amount of Won 2,300 billion.

We also engage in extensive transactions with our consolidated generation subsidiaries, including the purchase of electricity from them through Korea Power Exchange, sales of electricity to them, payment and receipt of commissions for services and receivables and payables transactions. These are eliminated in the consolidation process. We also provide guarantees for certain of our affiliates. See Item 5F. Tabular Disclosure of Contractual Obligations Overdraft and Others. We also have certain relationships with the Korea Power Exchange. See Item 4B. Business Overview Purchase of Electricity Cost-based Pool System.

For a further description of our transactions with our affiliates, see Note 46 of the Notes to our consolidated financial statements included in this annual report.

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Item 7C. Interests of Experts and Counsel

Not Applicable

ITEM 8. FINANCIAL INFORMATION

Item 8A. Consolidated Statements and Other Financial Information

We prepare our consolidated financial statements in compliance with requirements under Item 18. Financial Statements.

Legal Proceedings

As of December 31, 2013, we, including our generation subsidiaries, were engaged in 597 lawsuits as the defendant and 119 lawsuits as the plaintiff. As of the same date, the total amount of damages claimed against us was Won 402 billion, for which we have made a provision of Won 24 billion as of December 31, 2013, and the total amount claimed by us was Won 109 billion as of December 31, 2013. While the outcome of any of these lawsuits cannot presently be determined with certainty, our management currently believes that the final results from these lawsuits will not have a material adverse effect on our liquidity, financial position or results of operation.

The following are potentially significant claims pertaining to us and our subsidiaries.

In 2009, we entered into a contract with LS Cable & System Ltd. (LS Cable) under which LS Cable agreed to install submarine cables in an area between Jindo and Jeju Island. LS Cable & System Ltd. notified us of the completion of construction and requested the issuance of a certificate of completion. We however disagreed that LS Cable had completed construction in accordance with the conditions of the contract, rejected the goods delivered and refused to pay LS Cable the contracted amount. In April 2013, LS Cable filed for arbitration with the Korean Commercial Arbitration Board seeking Won 194 billion in total from us in relation to unpaid invoices under the contract and extra payments relating to claims of rejecting the test on completion and the goods delivered. Our management currently believes that we are not presently obligated to make any payments in relation to this matter and we accordingly had not made any provision in relation thereto as of December 31, 2013 based on the view that LS Cable did not fully perform its obligations according to the contract terms and further that it is not possible to reasonably estimate the amount of potential loss since the Korean Commercial Arbitration Board is in the early stages of examining the facts of the case, including by hiring third-party experts.

In January 2013, Korea Nuclear Technology Co., Ltd. (KNT) initiated litigation against KHNP based on the claim that KNT had a right to supply KHNP with passive autocatalytic recombiners (PARs), which had been developed under a cooperative research and development agreement between KNT and KHNP through a contract to be negotiated between the two parties without being required to undergo an open bidding process for a period of three years, but that KHNP selected a third party to supply the PARs following an open bidding process. The claimed amount of damages and compensation was Won 6.9 billion. In October 2013, the lower court ruled against KNT based on the principles of freedom of contract and the preference for competitive bidding. In December 2013, KNT filed for an appeal. Our management currently believes that we are not presently obligated to make any payments in relation to this matter and we accordingly had not made any provision in relation thereto as of December 31, 2013, based on the view that KHNP was not legally obligated to enter into a contract with KNT for the supply of PARs, which view has been supported by the lower court ruling.

In December 2013, the Supreme Court of Korea ruled that regular bonuses fall under the category of ordinary wages on the condition that those bonuses are paid regularly and uniformly, and that any agreement which excludes such regular bonuses from ordinary wage is invalid. The Supreme Court further ruled that in

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spite of invalidity of such agreements, employees shall not retroactively claim additional wages incurred due to such court decision, in case that such claims bring to employees unexpected benefits which substantially exceeds the wage level agreed by employers and employees and cause an unpredicted increase in expenditures for their company, which would lead the company to material managerial difficulty or would threat to the existence of the company. In that case, the claim is not acceptable since it is unjust and is in breach of the principle of good faith. Prior to such Supreme Court ruling, we determined wages in accordance with budget instructions from the Ministry of Strategy and Finance, which excluded bonuses from ordinary wages and which was determined with the consent of the relevant labor unions. Following the Supreme Court decision, the Korea Power Plant Industry Union and others filed lawsuits in an aggregate amount of Won 44.6 billion against our six generation subsidiaries, based on claims that ordinary wage was paid without including certain items that should have been included as ordinary wage. Our management currently believes that we are not presently obligated to make any payments in relation to this matter and we accordingly had not made any provision in relation thereto as of December 31, 2013 since it is unclear how the Supreme Court ruling should be applied and it is not possible to reasonably estimate the amount of potential loss since such amount will depend on the nature of the future agreement between management and relevant labor unions and/or the outcome of the foregoing or related lawsuits.

In addition, our generation subsidiaries, currently and from time to time, are involved in lawsuits incidental to the conduct of their business. A significant number of such lawsuits are based on the claim that the construction and operation of the electricity generation units owned by our generation subsidiaries have impaired neighboring fish farms. Our generation subsidiaries normally pay compensation to the members of fishery associations near our power plant complex for expected losses and damages arising from the construction and operation of their power plants in advance. Despite such compensation paid by us, a claim may still be filed against our generation subsidiaries challenging the compensation paid by us. We do not believe such claims or proceedings, individually or in the aggregate, have had or will have a material adverse effect on us and our generation subsidiaries. However, we cannot assure you that this will be the case in the future, given the possibility that we may become subject to more litigation and lawsuits arising from changes in the environmental laws and regulations applicable to us and our generation subsidiaries and people s growing demand for more compensation.

Dividend Policy

For our dividend policy, see Item 10B. Memorandum and Articles of Incorporation Description of Capital Stock Dividend Rights. For a description of the tax consequences of dividends paid to our shareholders, see Item 10E. Taxation Korean Taxes Shares or ADSs Dividends on the Shares of Common Stock or ADSs and Item 10E. Taxation U.S. Federal Income and Estate Tax Consideration for U.S. Persons Tax Consequences with Respect to Common Stock and ADSs Distributions on Common Stock or ADSs.

Item 8B. Significant Changes

Not Applicable

ITEM 9. THE OFFER AND LISTING
Item 9A. Offer and Listing Details

Notes

We have issued the following registered notes and debentures, which are traded principally in the over-the-counter market:

7.40% Amortizing Debentures, due April 1, 2016 (the 7.40% Debentures);

7.95% Zero-To-Full Debentures, due April 1, 2096 (the 7.95% Debentures);

6% Debentures due December 1, 2026, (the 6% Debentures);

7% Debentures due February 1, 2027 (the 7% Debentures); and

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6-3/4% Debentures due August 1, 2027 (the 6-3/4% Debentures, and together with the 7.40% Debentures, the 7.95% Debentures, the 6% Debentures and the 7% Debentures, the Registered Debt Securities).

Sales prices for the Registered Debt Securities are not regularly reported on any United States securities exchange or other United States securities quotation service.

Share Capital

The principal trading market for our common stock is the Korea Exchange. Our common stock is also listed on the New York Stock Exchange in the form of ADSs. The ADSs have been issued by JPMorgan Chase Bank as depositary and are listed on the New York Stock Exchange under the symbol KEP. One ADS represents one-half of one share of our common stock. As of February 17, 2014, the date we last closed our shareholders registry, 63,954,834 ADSs representing 5.0% shares of our common stock were outstanding.

Common Stock

Shares of our common stock are listed on the KRX KOSPI Market of the Korea Exchange. The table below shows the high and low closing prices on the KRX KOSPI Market of the Korea Exchange for our common stock since 2009.

Period	Price	
	High	Low
	(In Won)	
2009		
First Quarter	32,500	23,000
Second Quarter	30,600	25,700
Third Quarter	35,800	28,000
Fourth Quarter	35,700	31,550
2010		
First Quarter	41,600	33,800
Second Quarter	36,600	30,700
Third Quarter	33,600	28,800
Fourth Quarter	32,700	27,700
2011		
First Quarter	30,050	25,800
Second Quarter	30,000	25,600
Third Quarter	28,400	20,450
Fourth Quarter	27,150	20,650
2012		
First Quarter	27,900	22,250
Second Quarter	25,850	21,450
Third Quarter	27,900	23,750
Fourth Quarter	30,450	26,200
2013		
First Quarter	34,850	29,000
Second Quarter	32,600	24,850
Third Quarter	30,700	26,350
Fourth Quarter	34,750	27,250
2014		
First Quarter (through April 11)		
January	36,400	33,400
February	37,600	34,900
March	37,800	36,250
April (through April 11)	39,700	37,100

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ADSs

The table below shows the high and low trading prices on the New York Stock Exchange for the outstanding ADSs since 2009. Each ADS represents one-half of one share of our common stock.

Period	Price	
	High	Low
	(In US$)	
2009		
First Quarter	12.38	6.90
Second Quarter	12.37	9.34
Third Quarter	15.24	10.99
Fourth Quarter	15.25	13.52
2010		
First Quarter	17.89	14.86
Second Quarter	16.55	12.70
Third Quarter	14.19	12.28
Fourth Quarter	14.54	11.91
2011		
First Quarter	13.48	11.39
Second Quarter	13.74	11.86
Third Quarter	13.35	8.50
Fourth Quarter	11.55	8.25
2012		
First Quarter	12.45	9.73
Second Quarter	11.18	9.36
Third Quarter	12.42	10.37
Fourth Quarter	13.97	11.65
2013		
First Quarter	16.35	13.04
Second Quarter	14.70	10.70
Third Quarter	14.59	11.45
Fourth Quarter	16.61	12.77
2014		
First Quarter (through April 11)		
January	17.30	15.51
February	17.63	16.08
March	17.75	16.81
April (through April 11)	19.07	17.66

Item 9B. Plan of Distribution

Not Applicable

Item 9C. Markets

The Korea Exchange

The Korea Exchange began its operations in 1956, originally under the name of the Korea Stock Exchange. On January 27, 2005, pursuant to the Korea Securities and Futures Exchange Act, the Korea Exchange was officially created through the consolidation of the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or KOSDAQ, and the KOSDAQ Committee within the Korea Securities Dealers Association, which was in charge of the management of the KOSDAQ. The KRX KOSPI Market of the Korea Exchange, formerly the Korea Stock Exchange, has a single trading floor located in Seoul. The Korea Exchange

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is a limited liability company, the shares of which are held by (i) securities companies and futures companies that were the members of the Korea Stock Exchange or the Korea Futures Exchange and (ii) the shareholders of the KOSDAQ.

As of March 31, 2014 the aggregate market value of equity securities listed on the KOSPI of the Korea Exchange was approximately Won 1,182,488 billion. The average daily trading volume of equity securities for the first quarter of 2014 was approximately 238 million shares with an average transaction value of Won 3,752 billion.

The Korea Exchange has the power in some circumstances to suspend trading of shares of a given company or to de-list a security. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semi-annually and quarterly and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community which can have the intention or effect of depressing or boosting the market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to publicly offer their securities.

The Korea Exchange publishes the Korea Composite Stock Price Index, or KOSPI, every thirty seconds, which is an index of all equity securities listed on the KRX KOSPI Market of the Korea Exchange. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI in the past five years are set out in the following table:

	Opening	High	Low	Closing
2009	1,157.4	1,718.9	1,018.8	1,682.8
2010	1,696.1	2,043.5	1,552.8	2,043.5
2011	2,070.1	2,228.9	1,706.2	1,825.7
2012	1,826.4	2,049.3	1,769.3	1,982.3
2013	2,031.1	2,059.6	1,780.6	2,011.3
2014 (through April 11)	1,967.2	2,008.6	1,886.9	1,997.4

Source: The Korea Exchange

Shares are quoted ex-dividend on the first trading day of the relevant company s accounting period; since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Exchange to 15% of the previous day s closing price of the shares, rounded down as set out below:

Previous Day s Closing Price (Won)	Rounded Down to (Won)
less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

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As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the securities companies. In addition, a securities transaction tax will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. A special agricultural and fishery tax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See Item 10E. Taxation Korean Taxes.

The number of companies listed on the KRX KOSPI Market of the Korea Exchange since 2009, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

Year	Number of Listed Companies	Total Market Capitalization on the Last Day for Each Period (Millions of Won)	(Thousands of U.S. dollars)[1]	Average Daily Trading Volume, Value (Thousands of Shares)	(Millions of Won)	Thousands of U.S. dollars)[1]
2009	770	887,935,183	760,478,917	485,657	5,795,552	4,963,645
2010	777	1,141,885,458	1,002,621,352	380,859	5,619,768	4,934,382
2011	791	1,041,999,162	903,493,594	353,759	6,883,146	5,968,218
2012	784	1,154,294,166	1,077,671,708	486,480	4,823,643	4,503,448
2013	777	1,185,973,724	1,123,826,138	328,325	3,993,422	3,784,158
2014 (through March 31)	775	1,182,487,723	1,106,369,501	238,476	3,752,227	3,510,691

Source: The Korea Exchange

Note:

(1) Converted at the Concentration Base Rate of the Bank of Korea or the market average exchange rate as announced by Seoul Money Brokerage Services, Ltd. in Seoul, as the case may be, at the end of the periods indicated.

The Korean securities markets are principally regulated by the Financial Services Commission and the Financial Investment Services and Capital Markets Act. The law imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests.

Protection of Customer s Interest in Case of Insolvency of Financial Investment Companies with a Brokerage License

Under Korean law, the relationship between a customer and a financial investment company with a brokerage license in connection with a securities sell or buy order is deemed to be consignment, and the securities acquired by a consignment agent (i.e., the financial investment company with a brokerage license) through such sell or buy order are regarded as belonging to the customer insofar as the customer and the consignment agent s creditors are concerned. Therefore, in the event of bankruptcy or reorganization procedures involving a financial investment company with a brokerage license, the customer of such financial investment company is entitled to the proceeds of the securities sold by such financial investment company.

When a customer places a sell order with a financial investment company with a brokerage license which is not a member of the Korea Exchange and this financial investment company places a sell order with another

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financial investment company with a brokerage license which is a member of the Korea Exchange, the customer is still entitled to the proceeds of the securities sold received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Likewise, when a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company, because the purchased securities are regarded as belonging to the customer insofar as the customer and the non-member company s creditors are concerned.

Under the Financial Investment Services and Capital Markets Act, the Korea Exchange is obliged to indemnify any loss or damage incurred by counterparty as a result of a breach by its members. If a financial investment company with a brokerage license which is a member of the Korea Exchange breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member.

As the cash deposited with a financial investment company with a brokerage license is regarded as belonging to such financial investment company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the financial investment company with a brokerage license if a bankruptcy or reorganization procedure is instituted against such financial investment company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that Korean Deposit Insurance Corporation will, upon the request of the investors, pay investors up to Won 50 million per depositor per financial institution in case of the such financial investment company s bankruptcy, liquidation, cancellation of securities business license or other insolvency events (collectively, the Insolvency Events). Pursuant to the Financial Investment Services and Capital Markets Act, subject to certain exceptions, financial investment companies with a brokerage license are required to deposit the cash received from their customers with the Korea Securities Finance Corporation, a special entity established pursuant to the Financial Investment Services and Capital Markets Act. Set-off or attachment of cash deposits by financial investment companies with a brokerage license is prohibited. The premiums related to this insurance under the Depositor Protection Act are paid by financial investment companies with a brokerage license.

Item 9D. Selling Shareholders

Not Applicable

Item 9E. Dilution

Not Applicable

Item 9F. Expenses of the Issue

Not Applicable

ITEM 10. ADDITIONAL INFORMATION

Item 10A. Share Capital

Not Applicable

Item 10B. Memorandum and Articles of Incorporation

Set forth below is information relating to our capital stock, including brief summaries of material provisions of our Articles of Incorporation, the KEPCO Act, the Financial Investment Services and Capital Markets Act, the

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Korean Commercial Code and certain related laws of Korea, all currently in effect. The following summaries are qualified in their entirety by reference to our Articles of Incorporation and the applicable provisions of the KEPCO Act, Financial Investment Services and Capital Markets Act, the Korean Commercial Code, the Public Agencies Management Act and certain related laws of Korea. In November 2013 we most recently amended our Articles of Incorporation to reflect the amendments to a regulation promulgated under the Public Agencies Management Act.

Objects and Purposes

We are a statutory juridical corporation established under the KEPCO Act for the purpose of ensuring stabilization of the supply and demand of electric power, and further contributing toward the sound development of the national economy through expediting development of electric power resources and carrying out proper and effective operation of the electricity business. The KEPCO Act and our Articles of Incorporation contemplate that we engage in the following activities:

1. development of electric power resources;

2. generation, transmission, transformation and distribution of electricity and other related business activities;

3. research and development of technology related to the businesses mentioned in items 1 and 2;

4. overseas businesses related to the businesses mentioned in items 1 through 3;

5. investments or contributions related to the businesses mentioned in items 1 through 4;

6. businesses incidental to items 1 through 5;

7. Development and operation of certain real estate held by us to the extent that:

    a. it is necessary to develop certain real estate held by us due to external factors, such as relocation, consolidation, conversion to indoor or underground facilities or deterioration of our substation or office; or

    b. it is necessary to develop certain real estate held by us to accommodate development of relevant real estate due to such real estate being incorporated into or being adjacent to an area under planned urban development; and

8. other activities entrusted by the Government.

Our registered name is Hankook Chollryuk Kongsa in Korean and Korea Electric Power Corporation in English. Our registration number in the commercial registry office is 114671-0001456.

Directors

Under the KEPCO Act and our Articles of Incorporation, our board of directors consists of our president, standing directors and non-standing directors. A majority of the board members constitutes a voting quorum, and resolutions will be passed by a majority of the board members. Directors who have an interest in certain agenda proposed to the board may not vote on such issues.

The standards of remuneration for our officers, including directors, shall be determined by a resolution of the board of directors, provided that the maximum amount of remuneration to be paid to our officers shall be determined by shareholder resolution and provided that the remuneration standards for the president and standing directors shall be determined by board resolution in accordance with the guideline thereon established by the minister of the Ministry of Strategy and Finance through review and resolution of our management committee. Directors who have an interest may not participate in the meeting of the board of directors for determining the remuneration for officers.

Neither the KEPCO Act nor our Articles of Incorporation have provisions relating to (i) borrowing powers exercisable by the directors and how such borrowing powers can be varied, (ii) retirement or non-retirement of directors under an age limit requirement, or (iii) the number of shares required for a director s qualification.

Share Capital

Currently, our authorized share capital is 1,200,000,000 shares, which consists of shares of common stock and shares of non-voting preferred stock, par value Won 5,000 per share. Under our Articles of Incorporation, we are authorized to issue up to 150,000,000 non-voting preferred shares. As of February 17, 2014, the last day on

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which the shareholder registry was closed for purposes of identifying shareholders of record, 641,964,077 common shares were issued and no non-voting preferred shares have been issued. As of December 31, 2013, we held 18,929,995 shares of our common stock as treasury stock. All of the issued and outstanding common shares are fully-paid and non-assessable and are in registered form. Share certificates are issued in denominations of 1, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

Description of Capital Stock

Dividend Rights

Under the KEPCO Act, we are authorized to pay preferential dividends on our shares held by public shareholders as opposed to those held by the Government. Dividends to public shareholders are distributed in proportion to the number of shares of the relevant class of capital stock owned by each public shareholder following approval by the shareholders at a general meeting of shareholders. Korea Finance Corporation may receive dividends in proportion to the numbers of our shares held by them. Under the Korean Commercial Code and our Articles of Incorporation, we will pay full annual dividends on newly issued shares.

Under our Articles of Incorporation, holders of non-voting preferred shares (of which there are currently none) are entitled to receive an amount not less than 8% of their par value as determined by a resolution of the board of directors at the time of their issuance. However, if the dividends on our common shares exceed the dividends on our non-voting preferred shares, the holders of non-voting preferred shares will be entitled to participate in the distribution of such excess amount with the holders of the common shares at an equal rate.

We declare our dividend annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. The annual dividend is paid to the shareholders on record as of the end of the fiscal year preceding the annual shareholders meeting. Annual dividends may be distributed either in cash or in our shares. However, a dividend of shares must be distributed at par value, and dividends in shares may not exceed one-half of the annual dividend.

Under the Korean Commercial Code and our Articles of Incorporation, we do not have an obligation to pay any annual dividend unclaimed for five years from the payment date.

The KEPCO Act provides that we shall not pay an annual dividend unless we have made up any accumulated deficit and set aside as a legal reserve an amount equal to 20.0% or more of our net profit until our accumulated reserve reaches one-half of our stated capital.

Distribution of Free Shares

In addition to dividends in the form of shares to be paid out of retained or current earnings, the Korean Commercial Code permits us to distribute to our shareholders an amount transferred from our capital surplus or legal reserve to stated capital in the form of free shares.

Voting Rights

Holders of our common shares are entitled to one vote for each common share, except that voting rights with respect to any common shares held by us or by a corporate shareholder, more than one-tenth of whose outstanding capital stock is directly or indirectly owned by us, may not be exercised. Any person (with certain exceptions) who holds more than 3% of our issued and outstanding shares cannot exercise voting rights with respect to the shares in excess of this 3% limit. See Limitation on Shareholdings. Pursuant to the Korean Commercial Code, cumulative voting is permissible in relation to the appointment of directors. Under the Korean Commercial Code, a cumulative vote can be requested by the shareholders of a corporation representing at least 1% of the total voting shares of such corporation if the relevant shareholders meeting is intended to elect more than two seats of the board of directors and the request for cumulative voting is made to the management of the

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corporation in writing at least six weeks in advance of the shareholders meeting. Under this new voting method, each shareholder will have multiple voting rights corresponding to the number of directors to be appointed in such voting and may exercise all such voting rights to elect one director. Shareholders are entitled to vote cumulatively unless the Articles of Incorporation expressly prohibit cumulative voting. Our current Articles of Incorporation do not prohibit cumulative voting. Except as otherwise provided by law or our Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by affirmative majority vote of the voting shares of the shareholders present or represented at a meeting, which must also represent at least one-fourth of the voting shares then issued and outstanding. The holders of our non-voting preferred shares (other than enfranchised preferred shares (as described below)) are not entitled to vote on any resolution or to receive notice of any general meeting of shareholders unless the agenda of the meeting includes consideration of a resolution on which such holders are entitled to vote. If we are unable to pay any dividend to holders of non-voting preferred shares as provided in our Articles of Incorporation, the holders of non-voting preferred shares will become enfranchised and will be entitled to exercise voting rights until such dividends are paid. The holders of these enfranchised preferred shares have the same rights as holders of our common shares to request, receive notice of, attend and vote at a general meeting of shareholders. Pursuant to the KEPCO Act and our Articles of Incorporation, the appointment of standing directors, the president and standing statutory auditor are subject to shareholder approval.

Under the Korean Commercial Code, for the purpose of electing our statutory auditor, a shareholder (together with certain related persons) holding more than 3% of the total shares having voting rights may not exercise voting rights with respect to shares in excess of such 3% limit.

The Korean Commercial Code provides that the approval by holders of at least two-thirds of those shares having voting rights present or represented at a meeting, where such shares also represent at least one-third of the total issued and outstanding shares having voting rights, is required in order to, among other things:

- amend our Articles of Incorporation;
- remove a director or statutory auditor;
- effect any dissolution, merger, consolidation or spin-off of us;
- transfer the whole or any significant part of our business;
- effect the acquisition by us of all of the business of any other company;
- effect the acquisition by us of the business of another company that may have a material effect on our business;
- reduce capital; or
- issue any new shares at a price lower than their par value.

Under our Articles of Incorporation, an approval by the Ministry of Trade, Industry and Energy is required in order to amend the Articles of Incorporation. Any change to our authorized share capital requires an amendment to our Articles of Incorporation.

In addition, in the case of amendments to our Articles of Incorporation or any merger or consolidation of us or in certain other cases which affect the rights or interests of the non-voting preferred shares a resolution must be adopted by a meeting of the holders of non-voting preferred shares approving such event. This resolution may be adopted if approval is obtained from holders of at least two-thirds of those non-voting preferred shares present or represented at such meeting and such non-voting preferred shares also represent at least one-third of our total issued and outstanding non-voting preferred shares.

A shareholder may exercise his voting rights by proxy. The proxy shall present the power of attorney prior to the start of the general meeting of shareholders. Under the Financial Investment Services and Capital Markets Act and our Articles of Incorporation, no one other than us may solicit a proxy from shareholders.

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Subject to the provisions of the deposit agreement, holders of our American Depositary Shares (ADSs) are entitled to instruct the depositary, whose agent is the record holder of the underlying common shares, how to exercise voting rights relating to those underlying common shares.

Preemptive Rights and Issuance of Additional Shares

Authorized but unissued shares may be issued at such times and, unless otherwise provided in the Korean Commercial Code, upon such terms as our board of directors may determine. The new shares must be offered on uniform terms to all our shareholders who have preemptive rights and who are listed on the shareholders register as of the record date. Subject to the limitations described under Limitation on Shareholdings below and with certain other exceptions, all our shareholders are entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. Under the Korean Commercial Code, we may vary, without shareholder approval, the terms of such preemptive rights for different classes of shares. Public notice of the preemptive rights to new shares and their transferability must be given not less than two weeks (excluding the period during which the shareholders register is closed) prior to the record date. Our board of directors may determine how to distribute shares for which preemptive rights have not been exercised or where fractions of shares occur.

Our Articles of Incorporation provide that new shares that are (1) publicly offered pursuant to the Financial Investment Services and Capital Markets Act, (2) issued to members of our employee stock ownership association, (3) represented by depositary receipts, (4) issued through offering to public investors, or (5) issued to investors in kind under the State Property Act may be issued pursuant to a resolution of the board of directors to persons other than existing shareholders, who in such circumstances will not have preemptive rights.

Under our Articles of Incorporation, we may issue convertible bonds or bonds with warrants each up to an aggregate principal amount of Won 2,000 billion and Won 1,000 billion, respectively, to persons other than existing shareholders. However, the aggregate principal amount of convertible bonds and bonds with warrants so issued to persons other than existing shareholders may not exceed Won 2,000 billion.

Under the Financial Investment Services and Capital Markets Act and our Articles of Incorporation, members of our employee stock ownership association, whether or not they are our shareholders, have a preemptive right, subject to certain exceptions, to subscribe for up to 20.0% of any shares publicly offered pursuant to the Financial Investment Services and Capital Markets Act. This right is exercisable only to the extent that the total number of shares so acquired and held by members of our employee stock ownership association does not exceed 20.0% of the total number of shares then outstanding.

Liquidation Rights

In the event of our liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among shareholders in proportion to the number of shares held. Holders of our non-voting preferred shares have no preference in liquidation.

Rights of Dissenting Shareholders

In certain limited circumstances (including, without limitation, the transfer of the whole or any significant part of our business or the merger, or consolidation upon a split-off of us with another company), dissenting holders of shares have the right to require us to purchase their shares. To exercise such right, shareholders must submit a written notice of their intention to dissent to us prior to the general meeting of shareholders or the class meeting of holders of non-voting preferred shares, as the case may be. Within 20 days after the date on which the relevant resolution is passed at such meeting, such dissenting shareholders must request us in writing to purchase their shares. We are obligated to purchase the shares of dissenting shareholders within one month after the expiration of such 20-day period. The purchase price for such shares must be determined through negotiation

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between the dissenting shareholders and us. Under the Financial Investment Services and Capital Markets Act, if we cannot agree on a price through negotiation, the purchase price will be the average of (1) the weighted average of the daily share price on the Korea Exchange for a two-month period before the date of adoption of the relevant board resolution, (2) the weighted average of the daily share price on the Korea Exchange for the one month period before such date and (3) the weighted average of the daily share price on the Korea Exchange for the one week period before such date. However, if we or dissenting shareholders who requested us to purchase their shares oppose such purchase price, the determination of a purchase price may be filed with a court. Holders of ADSs will not be able to exercise dissenter s rights unless they have withdrawn the underlying Common Stock and become our direct shareholders.

Transfer of Shares

Under the Korean Commercial Code, the transfer of shares is effected by delivery of share certificates, but in order to assert shareholders rights against us, the transferee must have his name and address registered on our register of shareholders. For this purpose, shareholders are required to file one s name, address and seal with our transfer agent. Under our Articles of Incorporation, non-resident shareholders must appoint an agent authorized to receive notices on their behalf in Korea and file a mailing address in Korea. These requirements do not apply to the holders of ADSs. Under current Korean regulations, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized foreign custodians are authorized to act as agents and provide related services for foreign shareholders. Our transfer agent is Kookmin Bank, located at 9-1, Namdaemun-ro, 2-ga, Chung-ku, Seoul, Korea. Certain foreign exchange controls and securities regulations apply to the transfer of our shares by non-residents of Korea or non-Koreans. See Item 9. The Offer and Listing.

Acquisition of Our Own Shares

We generally may not acquire our own shares except in certain limited circumstances, including, without limitation, a reduction in capital. Under the Korean Commercial Code, except in case of a reduction in capital, any of our shares acquired by us must be sold or otherwise transferred to a third party within a reasonable time. In general, our 50.0% or more owned-subsidiaries are not permitted to acquire our shares.

In addition, we may acquire our shares through purchase on the Korea Exchange or through a tender-offer. We may also acquire interests in our own shares through trust agreements with financial investment companies with a trust license. The aggregate purchase price for our shares may not exceed the total amount available for dividends at the end of the preceding fiscal year, less the amount of dividends and mandatory reserves required to be set aside for that fiscal year, subject to certain procedural requirements.

General Meeting of Shareholders

The ordinary general meeting of our shareholders is held within three months after the end of each fiscal year, and subject to board resolution or court approval, an extraordinary general meeting of our shareholders may be held as necessary or at the request of shareholders holding an aggregate of 1.5% or more of our outstanding common shares for at least six consecutive months. Under the Korean Commercial Code, an extraordinary general meeting of shareholders may be convened at the request of our audit committee, subject to a board resolution or court approval. Holders of non-voting preferred shares may only request a general meeting of shareholders once the non-voting preferred shares have become enfranchised as described under Description of Capital Stock Voting Rights above. Written notices setting forth the date, place and agenda of the meeting must be given to shareholders at least two weeks prior to the date of the general meeting of shareholders. However, pursuant to the Korean Commercial Code and our Articles of Incorporation, with respect to holders of less than 1% of the total number of our issued and outstanding shares which are entitled to vote, notice may be given by placing at least two public notices at least two weeks in advance of the meeting in at least two daily

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newspapers published in Seoul or by placing a public notice in the electrical disclosure system of the Financial Supervisory Service or the Korea Exchange, at least two weeks in advance of the meeting. Currently, for giving such notice, we use two daily newspapers published in Seoul as well as an electronic disclosure system available for access at a website maintained by the FSS (known as the Data Analysis, Retrieval and Transfer System, or DART). Shareholders not on the shareholders register as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at such meeting. Holders of the enfranchised preferred shares on the shareholders register as of the record date are entitled to receive notice of, and to attend and vote at, the general meetings. Otherwise, holders of non-voting preferred shares are not entitled to receive notice of general meetings of shareholders or vote at such meetings but may attend such meetings.

The general meeting of shareholders is held in Seoul.

Register of Shareholders and Record Dates

Our transfer agent, Kookmin Bank, maintains the register of our shareholders at its office in Seoul, Korea. It registers transfers of our shares on the register of shareholders upon presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the holders of shares entitled to annual dividends, the register of shareholders may be closed from January 1 to January 31 of each year. Further, the Korean Commercial Code and our Articles of Incorporation permit us at least two weeks public notice to set a record date and/or close the register of shareholders for not more than three months for the purpose of determining the shareholders entitled to certain rights pertaining to our shares. The trading of our shares and the delivery of certificates in respect of them may continue while the register of shareholders is closed.

Annual Report

At least one week prior to the annual general meeting of shareholders, our annual report and audited consolidated financial statements must be made available for inspection at our principal office and at all branch offices. Copies of annual reports, the audited non-consolidated financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

Under the Financial Investment Services and Capital Markets Act, we must file with the Financial Services Commission and the Korea Exchange an annual report within 90 days after the end of our fiscal year, a half-year report within 45 days after the end of the first six months of our fiscal year and quarterly reports within 45 days after the end of the first three months and nine months of our fiscal year. Following our adoption of IFRS starting in January 1, 2011 pursuant to regulatory requirements for listed companies in Korea, we are required to file half-year and quarterly reports containing interim financial statements and notes thereto on a consolidated basis as well as on a separate basis.

Limitation on Shareholdings

No person other than the Government, our employee stock ownership association and persons who obtain an approval from the Financial Services Commission may hold for its account more than 3% of our total issued and outstanding shares. In calculating shareholdings for this purpose, shares held by your spouse and your certain relatives or by your certain affiliates (such spouses, relatives and affiliates are together referred to as Affiliated Holders) are deemed to be held by you. If you hold our shares in violation of this 3% limit, you are not entitled to exercise the voting rights or preemptive rights of our shares in excess of such 3% limit and the Financial Services Commission may order you to take necessary corrective action. In addition, the KEPCO Act currently requires that the Government, directly or through Korea Finance Corporation, own not less than 51% of our capital. For other restrictions on shareholdings, see Item 9. The Offer and Listing.

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Change of Control

The KEPCO Act requires that the Government, directly or pursuant to the Korea Finance Corporation Act, through Korea Finance Corporation, own not less than 51% of our capital.

Disclosure of Share Ownership

Under the Financial Investment Services and Capital Markets Act, any person whose direct or beneficial ownership of a listed company s shares with voting rights, equity-related debt securities including convertible bonds, bonds with warrants, exchangeable bonds, certificates representing the rights to subscribe for common shares, derivatives-linked securities and depository receipts of the aforementioned securities (collectively referred to as Equity Securities), together with the Equity Securities directly or beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of our total outstanding Equity Securities is required to report the status and purpose (in terms of whether the purpose of shareholding is to participate in the management of the issuer) of the holdings and the material contents of the agreements relating to the Equity Securities and other matters prescribed by the Presidential Decree under the Financial Investment Services and Capital Markets Act to the Financial Services Commission of Korea and the Korea Exchange within five business days after reaching the 5% ownership interest threshold.

In addition, any change (i) in the purpose of the shareholding or in the ownership, (ii) the major terms and conditions of agreements relating to Equity Securities owned (such as trust agreements and collateral agreements) to the extent the number of relevant Equity Securities is 1% or more of the total outstanding Equity Securities, or (iii) the type of ownership (direct ownership or holding) to the extent the number of relevant Equity Securities is 1% or more of the total outstanding Equity Securities, must be reported to the Financial Services Commission of Korea and the Korea Exchange within five business days from the date of such change (or by the tenth day of the month following the month in which the change occurs, in the case of a person with no intent to seek management control). Notwithstanding the foregoing, certain professional investors designated by the Financial Services Commission may report such matters to the Financial Services Commission and the Korea Exchange by the tenth day of the month immediately following the end of the quarter in which such 5.0% ownership interest is reached or the change occurs.

When filing a report to the Financial Services Commission and the Korea Exchange in accordance with the reporting requirements described above, a copy of such report must be sent to the relevant listed company. Violation of these reporting requirements may subject a person to sanctions such as prohibition on the exercise of voting rights with respect to the Equity Securities for which the reporting requirement was violated or fines or imprisonment. Furthermore, the Financial Services Commission may order the disposal of the Equity Securities for which the reporting requirement was violated or may impose administrative fine.

A person reporting to the Financial Services Commission and the Korea Exchange that his purpose of holding the Equity Securities is to participate in the management of the listed company is prohibited from acquiring additional Equity Securities of the listed company and exercising voting rights during the period commencing from the date on which the event triggering the reporting requirements occurs to the fifth day from the date on which the report is made.

Item 10C. Material Contracts

Not applicable.

Item 10D. Exchange Controls

General

The Foreign Exchange Transaction Act and the Presidential Decree and regulations under that Act and Decree, or collectively the Foreign Exchange Transaction Laws, regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Non-residents may invest in Korean

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securities pursuant to the Foreign Exchange Transaction Laws. The Financial Services Commission has also adopted, pursuant to its authority under the Financial Investment Services and Capital Markets Act, regulations that regulate investment by foreigners in Korean securities and issuance of securities outside Korea by Korean companies.

Subject to certain limitations, the Ministry of Strategy and Finance has the authority to take the following actions under the Foreign Exchange Transaction Laws: (i) if the Government deems it necessary on account of war, armed conflict, natural disaster or grave, sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the Ministry of Strategy and Finance may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit, safe-keep or sell any instruments of payment to the Bank of Korea or certain other governmental agencies or financial institutions, and (ii) if the Government concludes that the international balance of payments and international financial markets are experiencing or are likely to experience significant disruption or that the movement of capital between Korea and other countries are likely to adversely affect the Korean Won, exchange rates or other macroeconomic policies, the Ministry of Strategy and Finance may take action to require any person who intends to effect or effects a capital transaction to deposit all or a portion of the instruments of payment acquired in such transactions with the Bank of Korea or certain other governmental agencies or financial institutions.

Government Review of Issuances of Debt Securities and ADSs and Report for Payments

In order for us to issue debt securities of any series outside of the Republic, we are required to file a report with our designated foreign exchange bank or the Ministry of Strategy and Finance on the issuance of such debt securities, depending on the issuance amount. The Ministry of Strategy and Finance may at its discretion direct us to take measures as necessary to avoid undue exchange rate fluctuations before it accepts such report. Furthermore, in order for us to make payments of principal of or interest on the debt securities of any series and other amounts as provided in an indenture and such debt securities, we are required to present relevant documents to the designated foreign exchange bank at the time of each actual payment. The purpose of such presentation is to ensure that the actual remittance is consistent with the terms of the transaction reported to our designated foreign exchange bank or the Ministry of Strategy and Finance.

In order for us to offer for purchase shares of our common stock held in treasury in the form of ADSs or issue shares of our common stock represented by the ADSs, we are required to file a prior report of such offer or issuance with our designated foreign exchange bank or the Ministry of Strategy and Finance, depending on the offering amount. The Ministry of Strategy and Finance may at its discretion direct us to take measures as necessary to avoid undue exchange rate fluctuations before it accepts such report. No further Governmental approval is necessary for the initial offering and issuance of the ADSs.

In order for a depositary to acquire any existing shares of our common stock from holders of these shares of common stock (other