



Sharing Our Energies

Sustainability Report 2007

About the report

This report contains information on KEPCO's efforts and achievements in 4 major areas of sustainability management – economy, environment, society and human resources. Through this report, our stakeholders can learn about how KEPCO continues to grow with light, earth, neighbors and people.

Reporting principles This report was prepared in accordance with the GRI Guidelines 2006 (G3). The recommended indicators to be used under the GRI Guidelines 2006 (G3) can be found in "GRI Index" section of this report in pages 58-62. Since 2005, KEPCO has issued a sustainability report annually, disclosed it through Korea Exchange, and submitted it to the UN GRI and the Global Compact. Also, KEPCO has made report available to the National Assembly, the government, academia, civil society, suppliers and other various stakeholders at home and abroad.

Reporting scope The information presented in this report pertains to the period starting from January 1, 2006 through December 31, 2006. Some of the non-quantitative descriptions, however, include data on performance leading up to June 2007. This report covers the sustainability management performance of KEPCO. However, a part of the Environment section of this report includes the performances of six power generation subsidiaries, or GENCOs (Korea Hydro and Nuclear Power, Korea Southeast Power, Korea Midland Power, Korea Western Power, Korea Southern Power and Korea East-West Power), wholly owned by KEPCO. The six GENCOs are already issuing or in preparation for issuing sustainability reports individually. KEPCO plans to include in its future reports the six GENCOs' key performances in sustainability management.

Major changes This report contains some major changes from previous reports. In this report, KEPCO disclosed and fully reflected all indicators of the GRI Guidelines 2006 (G3), and dedicated a page (p.57) to the issues that our stakeholders and the press take interest in. With surveys and interviews, we made best efforts to identify and advance key interests of our internal and external stakeholders. Also, we ensured that the entire process of report preparation is reviewed and validated by our advisors. In addition, we keep close track of key performance indicators to maintain strong sustainability performance.

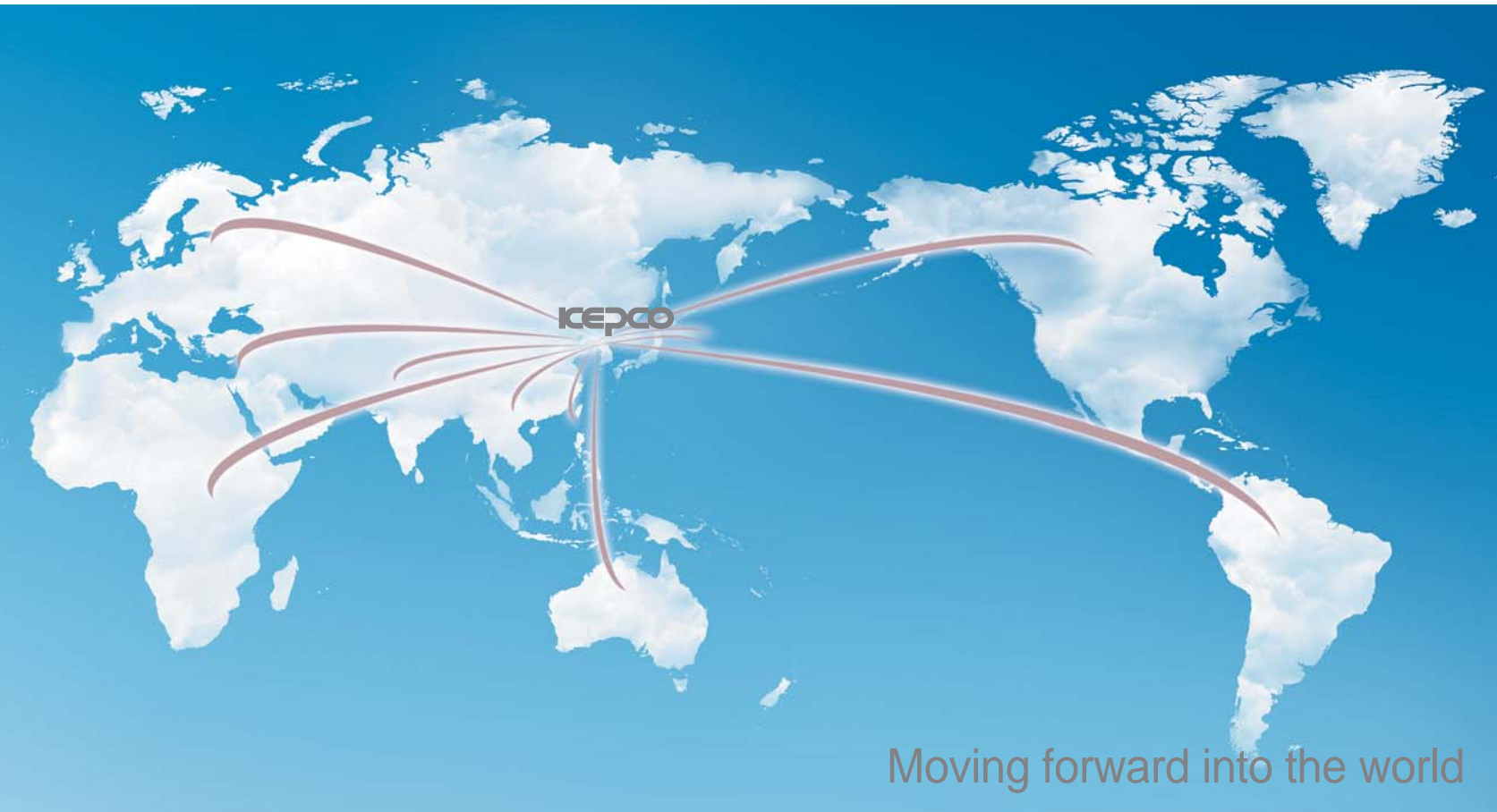
Commitment to reporting credibility KEPCO invited outside experts to review and validate our sustainability reports to ensure their credibility. The sustainability advisory panel, composed of 5 outside experts in the economy, the environment, society, human resources and overseas operation, reviewed the structure and contents of the report over 3 stages in the process, starting from planning to the interim draft and the final version. The details of the review opinions by these experts are found in the section entitled "Third Party Review" in pages 52-57.

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■ Sustainability Report 2005 ■ Sustainability Report 2006



Moving forward into the world



CEO's Message

CEO & President
Won Gul Lee

All of us at KEPCO is dedicated to achieving our vision of becoming a “world-renowned utility growing company growing together with customers” and making the world a better place for tomorrow. Also, we will continue to take the opinions of our diverse stakeholders seriously and balance economic, environmental, social and human resources objectives in our business management

KEPCO has been supplying high-quality electric power at low prices through efficient construction and operation of electric power facilities. We are confident that this has led to higher international competitiveness of Korea's industries. At the same time, KEPCO has continued to grow to become a global company by achieving globally competitive business results, securing core technologies and creating added economic values.

Accordingly, KEPCO is making another step toward becoming a global company. We adopted sustainability management in 2005; became the first Korean signatory to the UN Global Compact; issued our first sustainability report in October 2005, the first such attempt among public enterprises in Korea; and reported it to the UN, the National Assembly, the press, academia, investors and other stakeholders at home and abroad. Going beyond sustainability reporting, KEPCO is taking real actions as follows to implement sustainability management practices, which enable us to enhance our global competitiveness and corporate values through initiatives for improving management systems and processes in a way that meets the global standards.

First of all, in the economic area, we are focusing our resources on gaining a competitive edge by means of reliable supply of low-priced electric power, bringing up globally competitive talents, and investing in R&D to develop core proprietary technologies. Also, we are highly active in seeking package deals abroad, which link resource development with infrastructure construction, in order to build future growth engines for our business.

Dear Global Partners

The earth's environment is the foundation of our living. It not only belongs to our generation, but is the dream and hope of our future generations. Being aware of this, KEPCO is making efforts to protect their dream and hope. We are reducing emission gases with the use of renewable energy, and putting more focus on large-scale projects such as fuel cell, marine wind power and coal gasification generation. KEPCO is determined to be a leader in environment-friendly business practices for the protection of the environment.

To fulfill our corporate social responsibility and build trust with our stakeholders, we are striving to realize a “Clean KEPCO.” We also seek to develop a successful business model for supporting SMEs to help them grow as we grow. We are dedicated to fulfilling our role and responsibility as a corporate citizen by carrying out diverse social contribution activities, including securing energy supply to the socially disadvantaged.

Lastly, to practice human-oriented business management, we will pursue gender equality and meritocracy. We will build forward-looking labor relationship and step up the effort for ensuring workplace safety. We will make sure to achieve work-life balance (WLB) by developing and operating a welfare program designed to improve the quality of life for our employees.

Understanding that sustainability management has become an essential strategy for any company today to survive and stay ahead of competition in this era of limitless competition, KEPCO will try its best to help sustainability management systems be adopted all across the Korean electric power industry by inducing active participation by our group companies first. KEPCO is committed to pursuing sustainability management as our growth engine with which to strengthen the international competitiveness of the electric power industry of Korea. KEPCO is determined to join the global 100 companies by taking the lead in the areas of corporate social responsibility and environment-friendly management under the slogan of “with Light, with Earth, with Neighbors, with People.”

September 2007.

이원건



KEPCO Sustainability Management Principles

KEPCO Sustainability Management Principles

All of us at KEPCO are committed to implementing corporate social responsibility as a representative enterprise in the electric power industry in Korea, thereby contributing to sustainable development of the country, society as well as human resources. We hereby pledge to make the company into a world-class total energy provider by practicing sustainability management in economic, environmental, social and human resources areas that highly values all stakeholders.

■ Economy : Sustainable Growth

KEPCO will secure competitive advantages in the global market and build future growth engines based on challenging, creative and forward-looking thinking, and raise corporate value by maintaining a sound financial structure.

KEPCO will continue to enhance management efficiency to match the global level through self-motivated management innovation on a continual basis.

KEPCO will stay ahead of others in developing core technologies in the electric power industry through continuous technological innovations, and lead in the global development of electric power technologies.

■ Environment : Eco-Value Creation

KEPCO will maximize environmental efficiency by systematically coordinating environment-friendly management practices, and continue to increase energy use efficiency through proactive demand side management.

KEPCO will make efforts for the greening of the entire power supply chain, ranging from generation to transportation and supply.

KEPCO will closely cooperate with other group companies to address climate change issues, thereby contributing to global environmental conservation and creating environmental values for future generations.

■ Society : Building Trust

KEPCO will handle all matters fairly according to moral and ethical values, and release business performances faithfully to enhance management transparency.

KEPCO will pursue co-growth by ensuring mutual benefits for all stakeholders including customers, partners, group companies, the government, society, shareholders and employees.

KEPCO will become a trustful company that fulfills its social responsibility by engaging all employees in the practice of sharing management.

■ Human Resources : Human-Oriented Management

KEPCO will continue to raise the quality of life for its employees by pursuing future-oriented labor relations, strengthening activities to ensure health and safety at work, and promoting employee welfare.

KEPCO will strengthen its ability to prepare for the future by establishing the forward-looking and idealistic model for its employees and bringing up globally competitive talents.

KEPCO will protect human rights by respecting diversity through efforts such as ensuring gender equality among its employee, supporting the socially disadvantaged, eliminating discrimination, and complying with the principles of prevention of forced labor and child labor.

August 2005.

01 KEPCO and Sustainability



KEPCO and the Electric Power Business

Governance and Organization

Characteristics of the electric power business

The electric power sector is one of the national backbone industries and requires large capital investment to do business. Demand for electric power is difficult to control, and electric power has few substitutes. Therefore, electric power creates a naturally monopolistic, network-based industry. Due to the fact that electric power is consumed immediately after generation, there needs to be some reserve facilities against possible contingencies.

Especially for Korea, which relies on imports for 97% of its primary energy demand, energy security is a critical issue because the country's electric power network is isolated due to its geopolitical conditions.

Business structure

Six power generation companies (Korea Hydro and Nuclear Power, Korea Southeast Power, Korea Midland Power, Korea Western Power, Korea Southern Power, and Korea East-West Power, hereafter referred to as "GENCO"s), independent power producers (IPP) and community energy suppliers (CES) generate electric power and sell it to KEPCO on the Korea Power Exchange (KPE). KEPCO, in turn, sells electric power to general customers over its transmission/distribution network.

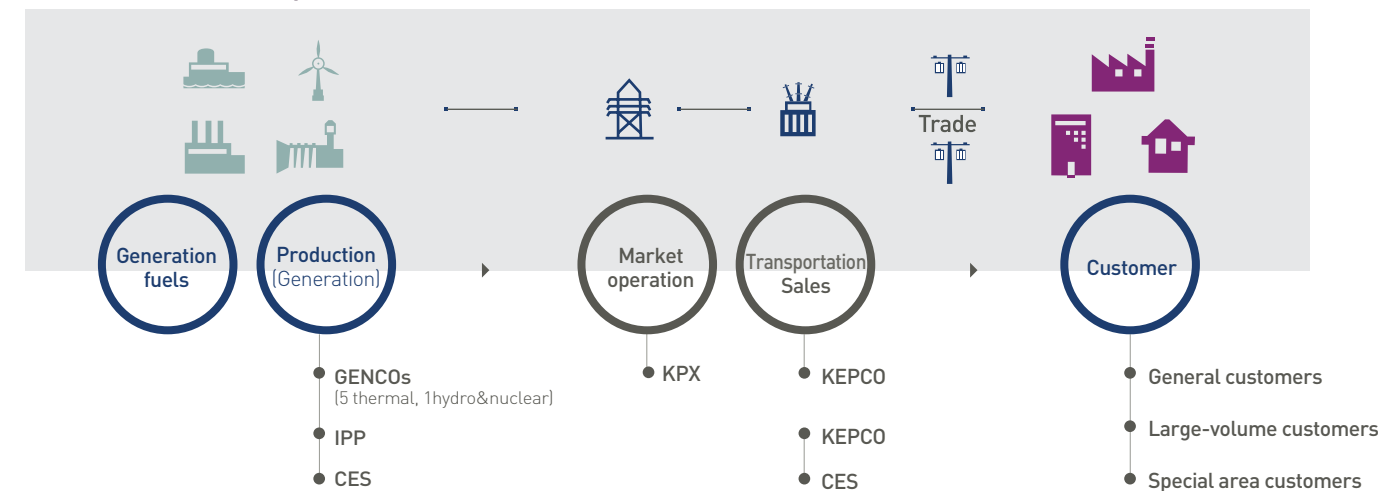
Competition is allowed in the sales segment of the electric power market where large-volume customers (50,000kW or more) can make purchase directly and community energy suppliers are allowed to sell to special area customers

KEPCO's role

KEPCO is a special corporation incorporated under the "Korea Electric Power Corporation Act." As the largest public enterprise in Korea, KEPCO bears great responsibility and leads the effort to enhance international competitiveness of Korea's electric power industry.

KEPCO clearly understands that electric power is the bloodline of national economic development. We will contribute to national economic development by securing high-quality electric power supplies and enhancing international competitiveness. By adopting environment-friendly management practices, we will strive to protect the environment of the earth and advance environmental values for our future generations. As a company serving the general public, we will try hard to win trust and support from our stakeholders and contribute to the betterment of society. KEPCO will pursue continued growth and development in order to become a globally respected company.

Structure of the electric power business



KEPCO at a glance (change from 2005)

Official name	Korea Electric Power Corporation
Headquarters	167 Samsung-dong, Kangnam-gu, Seoul, Korea
Founded	July 1, 1961
Total assets	63.5 trillion KRW (up 1.9 trillion KRW)
Revenues	27.0 trillion KRW (up 1.9 trillion KRW)
Employees	20,396 (up 34)
Electricity sold	348.7 billion kWh (up 16.3 billion kWh)
Customers	17,573K households (up 244K)
Shareholders	Korea Development Bank 30% (up 0.05%) The Korean government 21% (down 3.07%) Foreigners 29% (down 0.59%) Others 20% (up 3.61%)
Investment	10 subsidiaries (6 GENCOs, 4 group companies) 14 overseas corporations (in China, the Philippines, Lebanon, etc) 4 equity participations
IPO markets	Korea Exchange (KRX) New York Stock Exchange (NYSE)

Board of Directors

The Board of Directors, the highest decision-making body at KEPCO, consists of 15 members, including 8 non-standing directors and 1 female director. In a measure to strengthen autonomous and accountable management of the company and to advance specialization of the BOD, directors are chosen among the nominees referred by the Nomination Committee and appointed with the approval of the Steering Committee on Public Enterprises and shareholders' meetings.

To ensure BOD's independence, anyone who has special interest in the company is banned from non-standing directorship. The bios of directors and BOD minutes are made public on KEPCO homepage (www.kepco.co.kr) under the management information section, which is an attempt to serve the right to know of our stakeholders and enhance independence of BOD operation.

The BOD chair is assumed by the senior non-standing director. In 2006, BOD met 11 times to address a total of 47 agenda items, up by 3 items from 2005. Attendance by BOD members was 91.4%.

CEO

The CEO of KEPCO is appointed by the President of the Republic of Korea for a 3-year tenure with the approval of KEPCO's "CEO Nomination Committee" comprised of non-standing directors and members from the private sector. Since 2004, we have enhanced transparency of the CEO appointment process by developing fair evaluation standards based on the advice from outside consultancies. And, KEPCO discloses all steps of the CEO appointment process and the minutes from CEO Nomination Committee under management information section of KEPCO homepage (www.kepco.co.kr), for the first time as a public enterprise in Korea.

The CEO signs a business management pact with the senior non-standing director with regard to the management goals to be achieved for the year, and submit it to the government. CEO's implementation of the pact is reviewed by the Management Evaluation Board for Public Enterprises consisting of specialists from various fields, and by the Minister of Planning and Budget.

Audit Council

Pursuant to "the Articles of Incorporation and the Provision on Qualification of Auditors in Government-Invested Institutions," KEPCO appoints auditors for independent audit of its business and accounting practices. We have 1 standing auditor and 2 non-standing auditors. The non-standing auditors include one accounting specialist qualified under the Sarbanes-Oxley Act of the U.S.

Starting from July 2005, we have been running the Audit Council with all our auditors participating as members. The council is in charge of managing outside auditor's financial audit reporting. There were 6 council meetings held in 2006, in which 12 agenda items were deliberated including the one on pre-approval of commissioned audit of consolidated companies.

Organizational structure

KEPCO has 24 departments under 5 divisions at the head office. Nationwide and globally, there are a total of 256 sites of business: 189 distribution and sales branch offices; 53 transmission district offices; 6 overseas offices and 6 supporting offices; and KEPRI (Korea Electric Power Research Institute) and ETEP (Electric Power Industry Technology Evaluation & Planning).

In 2006, we implemented the "sub business unit" system for our branch offices with 1 million or more customer households as part of an effort to stimulate internal competition and increase management efficiency following the recommendation by the Tripartite Commission of Korea. To ensure that the newly introduced system is firmly established, we put in place an independent accounting system and a performance evaluation system. Also, we adopted team-based organizations by revamping business processes of our distribution and sales branch offices in a customer-oriented way.

Efforts made to strengthen the role of BOD in 2006

Autonomy

Report of major management information to BOD increased

No. of items reported to BOD : 8 items (2005) → 12 items (2006)

Encourage non-standing directors to actively participate in running the company

Remarks by non-standing directors : 47.7% (2005) → 48.2% (2006)

Specialization

Increasing variety in the specialties of the 8 non-standing directors

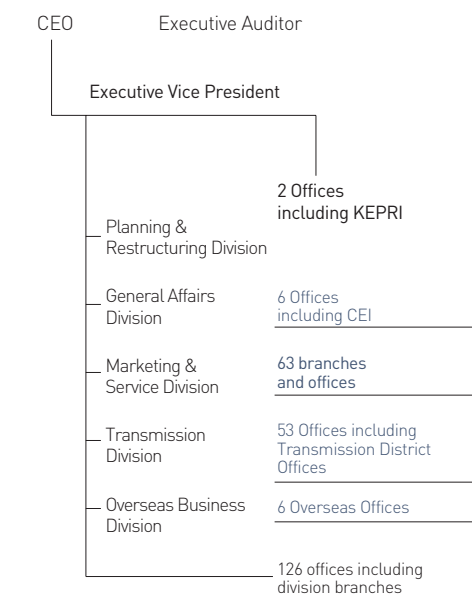
One specialist for administration, media, accounting, economy, law, society and security, respectively

Enhance BOD's understanding of the electric power business through field visits and roundtables

Operate a separate BOD homepage for timely provision of management information

Provide advice and insights on key decisions (7 items)

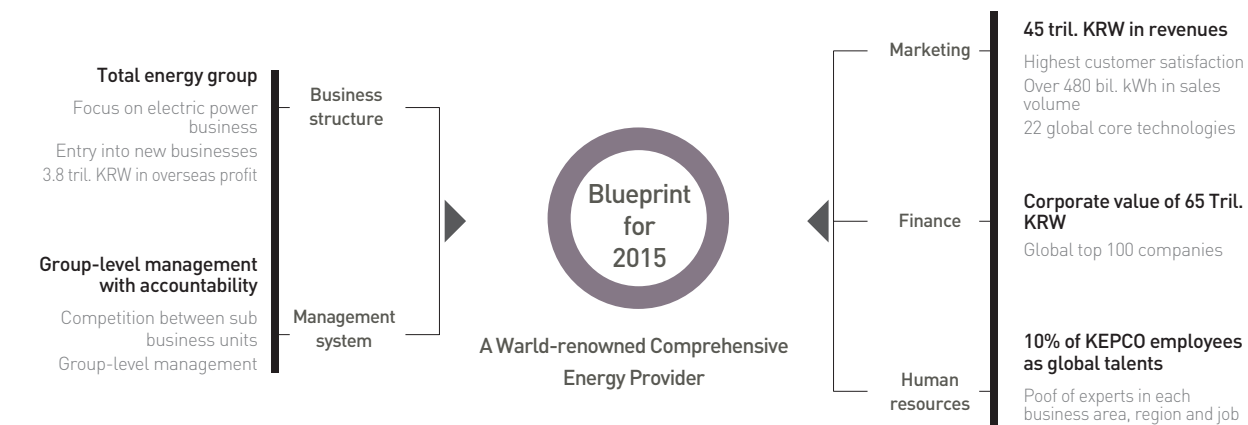
Organizational chart



Sustainability Management and Mid-to-Long Term Strategic Business Plan

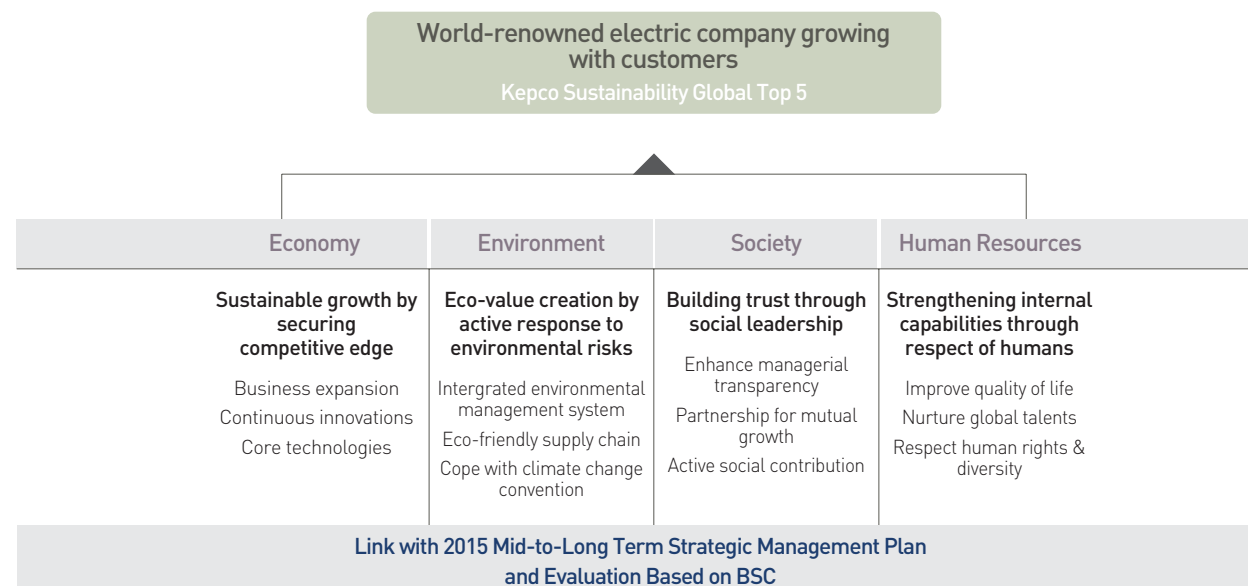
2015 Mid-to-Long Term Strategic Business Plan

As an implementation strategy and plan for realizing our vision and core values, KEPCO sets up and follows a periodic mid-to-long term plan for growth and development by taking into account changes in business environment and the management philosophy of the CEO. The mid-to-long term strategic business plan is the basic guidance for the company's business operation. In 2006, the plan was revised and complemented. At present, KEPCO is in the process of developing "2020 Mid-to-Long Term Strategic Business Plan."



Sustainability Management Framework

KEPCO has set a sustainability management target called "KS-GT5 (KEPCO Sustainability Global Top 5) to achieve the goal of joining the world's top 5 in the energy industry by 2015, and identified and implemented 12 action items and 45 key performance indicators (KPI) in the four areas of economy, the environment, society and human resources. The 12 action items will be mapped to "2015 Mid-to-Long Term Strategic Business Plan," adding momentum to the achievement of our vision.



Organization for Implementing Sustainability Management by Stage

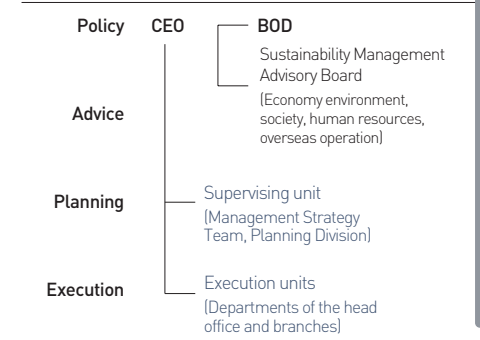
Organization for sustainability management

KEPCO put in place a corporate structure within the company in 2005 for a systematic and integrated implementation of sustainability management, and has since been operating the organization dedicated to Corporate Sustainability Management or CSM.

We formed Sustainability Management Advisory Board in March 2006, consisting of 5 outside specialists in the areas of economy, the environment, society, human resources and overseas operation who provide advice on our implementation of sustainability management, and their input is being incorporated into our policies. More details about the 5 outside specialists can be found in Third Party Review of this report (pages 52-57).

To ensure our sustainability management efforts are in line with our 2015 Mid-to-Long Term Strategic Business Plan for systematic implementation, Management Strategy Team of Planning Division in charge of setting up corporate strategies is also tasked with supervising all aspects of sustainability management at KEPCO. Its main functions include setting up of sustainability management strategies, release of sustainability reports and external cooperation. Our sustainability management execution units are 24 departments of the head office and 256 branches across the nation.

Organization chart



Development Stages of Sustainability Management

Under the goal of joining the global top 5 in the energy sector by 2015, KEPCO has set forth the development stages for the four areas of economy, the environment, society and human resources and also for the corporate image, and is actively implementing sustainability management to accomplish the goal.

Goal	KS-GT 15	KS-GT 10	KS-GT 5
Development stage	Creating foundations (2005)	Maturing (2006-2010)	Sustainable management (2011-2015)
Economy	Corporate value : 24 tril. KRW Revenues : 25 tril. KRW Net profit : 2.4 tril. KRW	Corporate value : 45 tril. KRW Revenues : 34 tril. KRW Net profit : 3 tril. KRW	Corporate value : 65 tril. KRW Revenues : 45 tril. KRW Net profit : 4.6 tril. KRW
Environment	Environmental management by each business unit	Intergrated environmental management	Maximize environmental values
Society	Build trust	Most respected company in Korea	Most respected company in the world
HR	Global talents : 2%	Global talents : 5%	Global talents : 10%
Corporate image	Global 300 Join the Global Compact Register report with GRI	Global 200 Top 10 in sustainability	Global 100 Top 5 in sustainability

Sustainability Management KPIs and Performances

Sustainability Management Awards and Recognition

KEPCO has set 45 KPIs in 4 major areas of economy, the environment, society and human resources to keep track of our sustainability management performances by linking them with the Balanced Score Card (BSC) system.

	Area	KPI	Unit	Results			Target	
				2005	2006	Over2006	2007	2010
Economy (15)	Business Expansion	Transmission Line (cumulative)	C-km	28,642	29,270	UP	29,659	33,465
		Substation capacity (cumulative)	MVA	208,504	216,277	UP	225,907	256,975
		Distribution line (cumulative)	1,000C-km	385	393	UP	397	409
		Power sales	100 mil.kWh	3,324	3,487	UP	3,677	4,194
		Overseas business(as % of sales rev.)	%	1.0	1.3	UP	1.0	2.0
		CDM project	Each	1	3	UP	3	7
		PLC service	No. of customers	1,500	1,500	Flat	6,500	756,500
	Continuous management innovation	Labor productivity	MWh/person	16,330	17,160	UP	17,659	18,791
		Debt-to-equity ratio	%	46.0	47.9	UP	Below 56.7	Below 50.0
		EVA	100 mil..KRW	-2,659	-4,801	DOWN	-8,447	0.0
		Credit rating (Moody's)	-	A2	A1	UP	A1 or higher	A1 or higher
		Net profit to total assets	%	4.0	3.3	DOWN	1.8	4.8
	Develop and commercialize core technologies	R&D investment (as % of net sales)	%	3.5	2.7	DOWN	5.2	5.5
		Industrial property rights	Each	927	990	UP	1,100	2,400
		Proprietary technology	Each	594	662	UP	710	1,094
Strengthen the integrated environmental management system	EMS certification	%	N/A	N/A	In Progress	5.0	50.0	
	Energy use (office building, etc)	TOE	74,482	75,163	UP	76,015	79,075	
	Water use (office building, etc)	1,000 tons	1,040	1,059	UP	1,060	1,160	
	Waste recycling rate	%	N/A	N/A	N/A	90.0	95.0	
	Purchase of environment-friendly products(as % of total purchase value)	%	37.5	42.0	UP	36.0	36.6	
Environment-firendly power supply chain	Transmission line undergrounding ratio (urban area)	%	91.2	97.3	UP	97.4	98.0	
	Distribution line undergrounding ratio (Seoul area)	%	50.2	50.8	UP	51.2	52.7	
	T/D loss rate	%	4.51	4.00	DOWN	4.70	4.40	
	Load factor	%	76.2	73.9	DOWN	74.4	75.4	
	Peak reduction by DSM	MW	3,901	3,878	DOWN	4,273	4,950	
Respond to the climate change convention	Renewable energy generation (KEPCO group)	%	1.0	1.0	Flat	1.0+	1.0+	
	Greenhouse gas emission(direct emission)	CO ₂ -ton	652	652	Flat	1,200	1,500	
	Integrity as a public enterprise(rated by KICAC)	Point	8.78	9.10	UP	9.0	9.0	
Enhance managerial transparency	procurement rate by e-commerce	%	73.9	90.7	UP	75.5	80.0	
	Information disclosure rate	%	92.3	92.6	UP	92.7	93.0	
	BOD attendance rate	%	95.1	91.4	DOWN	95.0+	95.0+	
	Mutual growth through strong partnership	Customer satisfaction as public enterprise (rated by the Ministry of Planning and Budget)	Point	83.0	86.0	UP	87.0	87.0
Society (10)	SME support (as % of sales)	SME support (as % of sales)	%	0.08	0.10	UP	0.10	0.10
		Purchase from SMEs	%	70.9	77.5	UP	75.0	77.0
		Supplier satisfaction	Point	87.3	87.3	N/A	88.0	90.0
		Creation of new jobs	Person	437	404	DOWN	918	1,000
	Social contribution activities	Social contribution(as % of sales)	%	0.52	0.56	UP	0.6	0.6
Human (7)	Improve the quality of life	Volunteering(per person)	Hour/Person	11.8	8.5	DOWN	10.0	12.0
		On-the-job injury rate	%	0.024	0.019	DOWN	0.000	0.000
		Welfare satisfaction	Point	69.0	70.2	UP	70.4	77.0
	Develop global talents	Job-quit rate(new employees)	%	1.3	1.6	UP	1.3	1.0
		Education/training expense (as % of sales)	%	0.16	0.20	UP	0.2+	0.2+
Respect human rights and diversity	Education/training hours (per person)	Hour/Person	81.5	86.7	UP	90.0	100.0	
	Female employee ratio	%	20.1	22.0	UP	20.0+	20.0+	
Handicapped employee ratio	%	2.8	2.6	DOWN	2.0+	2.0+		

Area	Awards and Recognition	Awarder	Award Month
Overall Performance	High rankings in the management performance review of government-invested institutions (1st place in 2004; 2nd place in 2005)	Ministry of Planning and Budget(MPB)	Jun. 2006
	2006 Edison Award (received for the second time; first award won in 1997)	Edison Electric Institute	Jun. 2006
	Highest grade (Grade 6) in 2006 Review of Innovation for 221 public enterprises (consecutive 2 years)	MPB	Jun. 2007
	1st Sustainability Management Award (in the category of public enterprises and not-for-profit organizations)	aSSIST	Jun. 2006
Economy	Granted "A1 Stable" by an international credit rating agency (higher than the Korean government)	Moody's	May 2006
	Named Top Electric Utility in Asia/Pacific by Platts (global 47th)	Platts (U.S.)	Sep. 2006
	188st place, 2006 Global 2000 (rated by asset, sales, net profit, and market value)	Forbes (U.S.)	Mar. 2007
Environment	228th place, 2007 Global 500 (rated by sales)	Fortune (U.S.)	Jul. 2007
	Citation for signing "Renewable Portfolio Agreement"	MOCIE	Jul. 2007
Society	2005 PLMA Demand Response Annual Award (as the first foreign electric power company)	PLMA	Mar. 2006
	Presidential Citation in the 3rd Ombudsman Awards	The Ombudsman of Korea	Dec. 2006
	1st place in 2006 NCSI among public enterprises for 8 consecutive years (1999-2006)	MPB	Apr. 2007
Human	1st place in the category of "preference and awareness" in the public survey on the corporate image of public enterprises	Korea Press Foundation	Mar. 2006
	2nd place in 2006 integrity survey on public enterprises (recognized as leading organization in eliminating corporate corruption)	Korea Independent Commission Against Corruption	Dec. 2006
	"Leading Organization in Sexual Harassment Prevention" named by MOGEF	MOGEF	Nov. 2006
Human	Presidential Award for Best Disaster Management in 2007	NEMA	May 2007
	Grand Prize in 2006 Industrial Safety Management Award	Korea Economic Daily	Mar. 2006

Participation in Key Issues

Agreement	Signed Month
Transparent Society Pact between KICAC and the CEOs of 18 public enterprises	Jun. 2005
Renewable Portfolio Agreement with the Ministry of Commerce, Industry and Energy	Jul. 2005
Agreement to comply with the 10 Principles of UN Global Compact	Aug. 2005
Transparent Society Pact in the Electric Power Sector among 11 KEPCO group companies and the representative of major electric power companies	Sep. 2005
Integrity Pact between KEPCO and business partners (1,266 companies / 14,484 persons participated)	Jan. 2006
Agreement with private-sector organizations on business cooperation in the area of the environment (UNEP National Committee for Korea, Korea Green Foundation, Korea Women's Environmental Network)	Jun. 2007

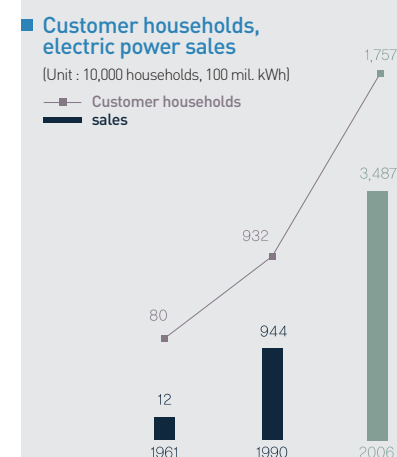
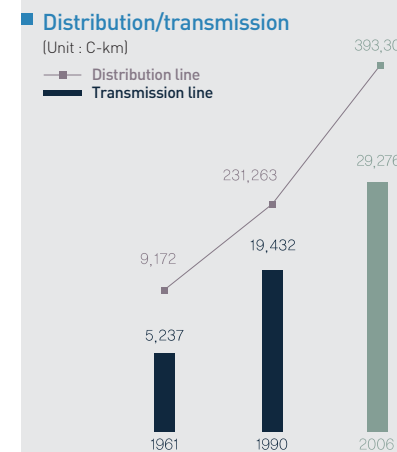
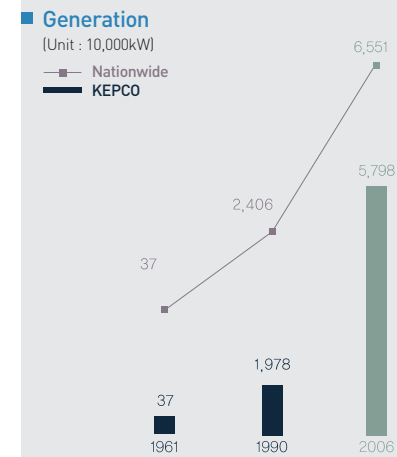


02 With Light :
Economy

Key Economic Performance

Business Expansion

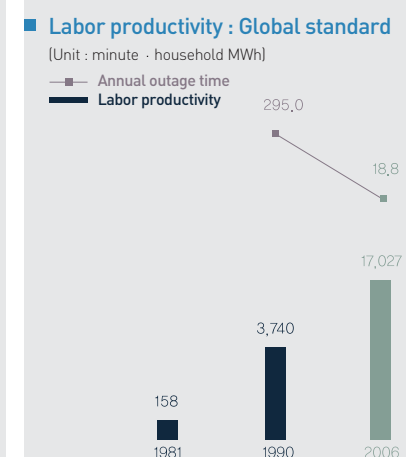
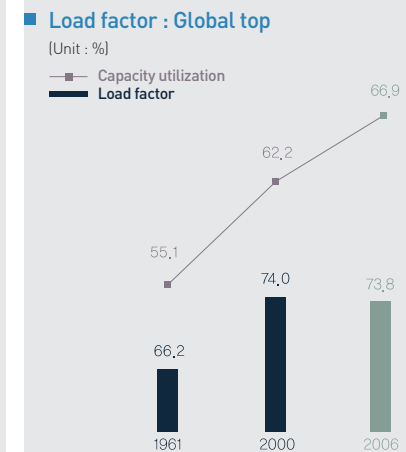
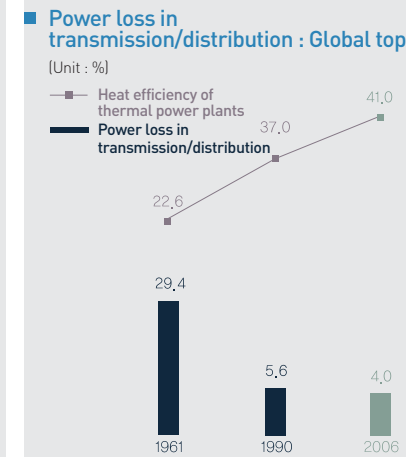
Business Growth



Key financial performance



Key management efficiency



Domestic business

■ Timely addition of electric power facilities

KEPCO added facilities for transmission and distribution in a timely manner to ensure reliable supply of electric power. In 2006, the peak demand for electric power in Korea was 58,990,000 kW, up 8% from 2005. Accordingly, the construction of 765kV Shingori-Bukgeongnam transmission route was successfully completed. As a result, transmission lines were extended by 737C-km to 29,276C-km while substation capacities increased by 8,940MVA to 216,277MVA over the previous year. Also, domestic generation capacity increased to 65,514MW, and power generation to 380,964GWh.

As the industrial structure and consumer demand are becoming increasingly sophisticated, we are making efforts to improve the quality of electricity consistently. We have built an electricity quality monitoring system by applying cutting-edge IT technology. And, facilities that are vulnerable to natural disasters have been reinforced. We have introduced new technologies, including an advanced DAMS and live-line maintenance. As a result, we maintain low price and high quality for electricity we produce. In 2006, the annual outage time and the voltage regulation compliance ratio, both of which are measures of electricity quality, were recorded at 18.8 minutes per year per household and 99.9%, respectively, corresponding to the world's highest levels. The frequency regulation compliance ratio was 99.7%.



		2005	2006	2015
Generation	Generation capacity (MW)	62,258	65,404	86,338 (1.4 times)
	Transmission	Transmission line (C-km)	28,642	29,276
Transmission	Voltage mix (%)	765kV : 2 345/154kV : 98	765kV : 3 345/154kV : 97	765kV : 3 345/154kV : 97
	Substation	Substation capacity (MVA)	208,505	216,277
Substation	Automation (%)	69.4	71.6	95.0
	Distribution	Distribution line (1,000 km)	385	393
Distribution	Automation (%)	49.3	52.8	100
	Communication network	OPGW (km)	13,135	14,560

■ Comparison of electricity tariff (Unit : KRW/kWh)

Korea	Japan	U.S.A.	U.K.	Source
76.43 (100)	123.78 (162)	82.27 (108)	87.36 (114)	Japan : Hand Book of Electric Power Industry (The Federation of Electric Power Companies of Japan, 2006) U.S.A. : Energy Information Administration (EIA, 2007) U.K. : Overseas Electric Power Industry Statistics (Japan - Electric Power Information Center, 2006)

■ **Strengthening sales capabilities**

In 2006, KEPCO posted 348.7 billion kWh in electric power sales, up 4.9 % from 2005. This rate of growth in sales is significantly lower than what was seen in the past (an annual growth rate of 10.7% in 1980~2006). As the industrial structure becomes more sophisticated and Korea joins the ranks of the developed countries, the growth in sales is expected to further slow down. At the same time, the business environment is rapidly changing; for example, as more competition is introduced to the electric power market, new players such as CESs and small-scale combined cycle power generator operators are entering the electric power business.

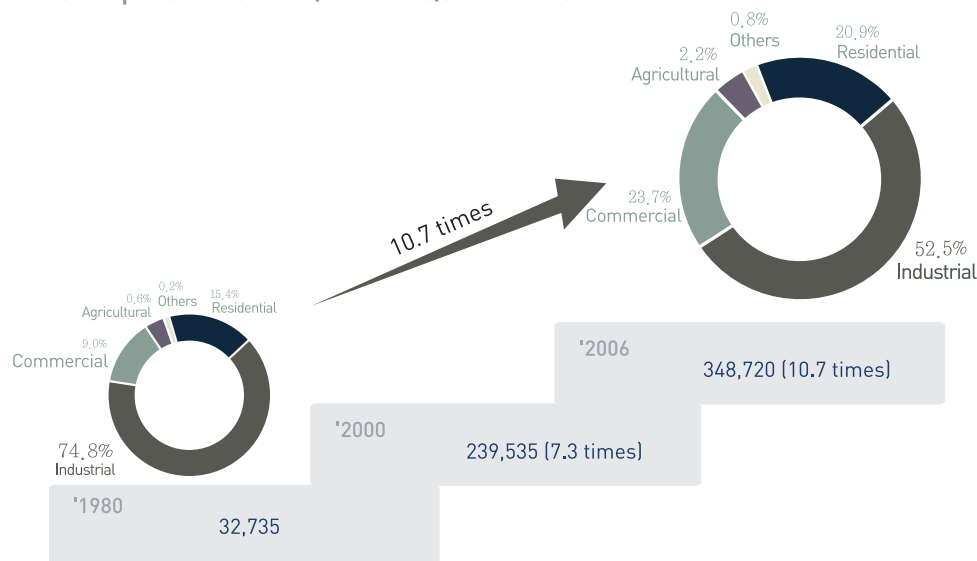
Against this backdrop, KEPCO will step up the effort to improve productivity and make full use of its know-how and competitiveness to provide differentiated electric power services and thereby minimize customer churn out. At the same time, we plan to seek to create new demand for electric power by maximizing its benefits such as convenience and safety of use.

To do so, we have further strengthened our service competitiveness by expanding our customer center network to cover all parts of the country. We have also introduced a scheme to supply reserve power to high-rise apartments in order to provide a service specialized for apartment residents. Another example of our differentiated services is infrared imaging diagnosis of customer-owned facilities, and allowing customers to choose the supply voltage for their use. In order to bring innovation to our marketing organization and make it more customer-oriented, our branch office in the Northern Chungcheong province has been designated as a pilot site for innovative operation. To effectively respond to the CESs which were given business licenses in 20 communities as of the end of 2006, we have commissioned out a research project for developing a comprehensive strategy to compete against them.

In addition, to create a fair competition environment and promote the development of the entire electric power industry, we have developed the electric power trading standards for CESs. Standard business procedures were prepared for direct trading with KEPCO of 200kW or lower electric power generated with renewable energy sources. This will help promote the use of renewable energy and provide cost saving benefits to other power generation companies.

Going forward, we plan to maintain and advance our competitive edge in sales and marketing by transforming our sales organization into a more customer-oriented one based on our CRM (Customer Relationship Management) system which provides customized service to individual customers, and by improving the electricity supply processes of our new or added facilities and tariff schedules in a way that increases customer convenience. At the same time, we will play a leading role in creating a level playing field in the increasingly competitive power market.

■ **Electric power sales trend (1980~2006)** (Unit : million kWh)



■ **Marketing strategy to cope with mid-to-long term changes in the electric power market**

Differentiated marketing against competition

Introduce customized tariff schedules (Discount plan for long-term contracts, mitigation of progressive rates, etc.)
Improve billing and collection services for apartment customers

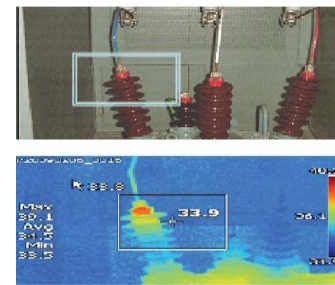
Seek for customer-oriented schemes and services

IT-based billing upon meter reading
Phased expansion of customers' choice of payment dates
Phased improvement of meter reading methods
Reduce burden on customers by improving construction cost structure

Develop value-added services

Develop services for electricity saving, energy management and electric power consulting (ex: web-based real-time provision of information)
Value-added service by utilizing PLC-based integrated meter reading network

■ **Customer facility check**



Overseas business

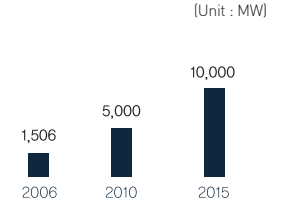
Growth of electric power business in the domestic market is slowing down while competition is intensifying fueled by the entrance of new players like CESs and small-scale combined cycle power generators. This necessitates KEPCO to seek new growth engines abroad. KEPCO is highly active in overseas business. Today, we are taking full advantage of our long experience in the power sector as well as our excellent proprietary technologies to make inroads into overseas markets and gain geographical diversity in our operation.

As for our generation business, we have been operating facilities with a total capacity of 1,344MW at various locations in the Philippines since 1995, including thermal power plants in Malaya and Illijan. In 2006, we completed construction of a series of power plants in China: a CFBC cogeneration power plant(86MW) in Wuzhi, a windmill power plant(56MW) in Inner Mongolia, and another windmill power plant(20MW) in Gansu Province. As a result, KEPCO has gained a leading edge in the private power generation market in China, which is the world's largest. We have built a new foothold in the Middle East by winning the bid for operation and maintenance of a power plant in Lebanon. In Nigeria, we have won exploration rights for oil blocks with an estimated oil deposit of one billion barrels in order to facilitate our gas-based power plant construction project. It was a remarkable achievement for KEPCO in that we discovered a new resource development model for Korea which connects resource development with plant export.

In transmission and distribution, we continue to expand our consulting business, which includes a consulting project in Libya for the enhancement of the country's distribution facilities. To survive in the international competition for securing resources, strengthen Korea's energy independence and ensure reliable supply of generation fuel, KEPCO is actively participating in resource development projects in overseas locations, such as the one in Australia.

Meanwhile, KEPCO has been a partner in the construction of the Gaesung Industrial Complex, one of the inter-Korean cooperation projects. We have ensured reliable supply of electric power to the pilot site in the complex by laying a 22.9kV distribution route. In order to supply electric power to the one million pyeong-large area in the main site to be completed in Phase 1, we embarked on the construction work for setting up 154kV transmission/substation facilities in April 2006. During construction, we learned that a steel tower to be erected near the Imjin river would infringe on the winter habitat of eagles, a natural monument in Korea. So, following the recommendations by the Cultural Heritage Administration and the Korea Association for Bird Protection, we moved the location of the steel tower. In addition, the southern corridor of the transmission route passes through the Demilitarized Zone where landmines are planted. With the assistance of the Ministry of Defense, we searched for planted landmines, and discovered and destroyed 15 landmines.

■ **Overseas capacity expansion target** (Unit : MW)



■ **Overseas business**

Details	Capacity owned
Generation	
Rehabilitation/operation of a thermal plant, Malaya, the Philippines (1995~2010)	650MW
Construction/operation of a gas combined cycle power plant, Illijan, the Philippines (1999~2222)	612MW
Equity participation, Naga Power Plant, the Philippines (2006~2012)	82MW
Construction/operation of a CFBC cogeneration power plant, Wuzhi, China (2004~2027)	86MW
Construction/operation of a windmill power plant, Inner Mongolia, China (2006~2026)	56MW
Construction/operation of a windmill power plant, Gansu Province, China (2005~2026)	20MW
Operation/maintenance of a power plant in Lebanon (2006~2011)	-
Transmission/distribution	
Consulting on the enhancement of the distribution facilities, Libya (2005~2008)	
Consulting on facility enhancement for a distribution network operator, Darkhan, Mongolia (2006~2008)	
Performance reinforcement for the power network, Myanmar (2006~2009)	
Deployment of a power networkoperation / protection system, Myanmar (2006~2008)	
Feasibility study on distribution network enhancement, Indonesia (2006~2007)	
Pilot installation of IT applications in electric power customer sites, the Philippines (2006~2008)	



■ **CFBC cogeneration power plant completed in Wuzhi, China**

KEPCO completed construction of a CFBC cogeneration power plant in Wuzhi, China in November 2006. Ground was broken in 2004, and after about 2 years of construction work, the Wuzhi plant is now in operation. The plant represents KEPCO's first China business, and will be run as a joint venture between KEPCO and the local government of Wuzhi for 23 years to come. The Wuzhi plant has high price competitiveness because it uses sub-bituminous coal as its main fuel which has little commercial merit. Also, it is an environment-friendly power plant with no pollutants created thanks to its features as a fluidized bed plant. Going forward, KEPCO will draw on its experience in the construction and operation of the Wuzhi plant and build a stronger position in the Chinese power generation market.



■ **Electric power supply to the Gaesung Industrial Complex in North Korea**

As part of an inter-Korean economic cooperation initiative of the Korean government, KEPCO started working on supplying electric power to the Gaesung Industrial Complex in 2005, and supplied electricity for the first time to Shinwon Ebenezer, a tenant in the complex, in March the same year. As of 2006, KEPCO had 58 contracted customers, 28,402kW of contracted electric power and 2.8 billion KRW of sales proceeds. In December 2006, KEPCO reconnected the transmission routes between the two Koreas for the first time since North Korea unilaterally cut electricity on May 14, 1948, thereby laying the cornerstones for our electric power supply business toward North Korea.

Continuous Managerial Innovations

New Business Opportunities in Electric Power

KEPCO is seeking new business opportunities by applying rapidly advancing IT to the electric power business. Currently, we are developing a power line communication (PLC) business. PLC is a service that provides a variety of communications services over the existing power lines. Globally, studies are under way for the commercialization of the technology.

In 2006, we successfully completed the pilot project on PLC-based low-voltage remote meter reading for 1,500 households in the Daejun area, and plan to expand the service coverage to 6,500 households in 2007. In the future, we will provide integrated utility remote meter reading over the PLC network with the target of 17 million households for tap water and 11 million households for gas. Also, we will launch a range of highly profitable businesses, including credit card payment (card VAN) and communications network for crime and disaster prevention, from which we expect to generate over 200 billion KRW in annual revenues.

Also, we have developed and are seeking export opportunities for next-generation PLC technologies utilizing the digital TRS network and the central management system of metering devices with RFID technology.

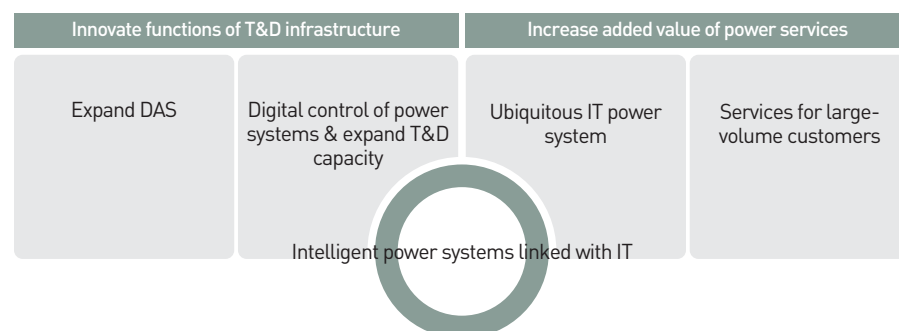
Furthermore, to create new growth engines based on convergence of electric power and communications, and also to realize a digital society, KEPCO is actively participating in the government-led national strategic projects combining electric power with IT. We plan to invest 25 billion KRW in 16 projects, including the development of intelligent power distribution system and the development of ubiquitous PLC technology.

Due to dwindling fossil fuels and rising environmental challenges, the development of renewable energy is increasingly important. KEPCO is making efforts on its part to develop and commercialize renewable energy technology.

To this end, KEPCO has signed an agreement for the supply of renewable energy with the government, and is focusing on the development of 3 major types of renewable energy, i.e. hydrogen fuel cell, photovoltaic energy and wind power.

	2006	2015
Electric power IT	Utilized for power business (Mainly PLC services for meter reading, automation, and control)	Utilized for power business (Intelligent power distribution system, modern intelligent information system, etc.) Utilized for communication business (Integrated remote meter reading, card VAN, crime and disaster prevention, home network, electronic tag, digital TRS, etc.)
Renewable energy	Technology development and commercialization (fuel cell, etc.)	Diversification of technology development and expansion of commercialization (hydrogen energy, etc.)

Objectives of the electric power-IT national strategic project



Mid-to-long term R&D projects for renewable energy

Fuel cell
Commercialization of 250kW MCFC generation system (2010)
Development of 100kW distributed SOFC system (2014)

Photovoltaic energy
Development of MW-class centrally receiving photovoltaic power generation system (2009)

Hydrogen energy
Development of hydrogen production technology based on nuclear power (2014)

Coal gasification power generation
Establishment of verification system for 300MW-class demo plant (2012)

Verification study on superconducting cable



Solid oxide fuel cell (SOFC)



Advancing innovation performance

Until 2005, KEPCO had focused on building the foundation for managerial innovation. In 2006, we began to make efforts to produce innovation results. We strengthened the alignment of our management innovations with our management strategy in order to establish an automatic mechanism for autonomous and continuous management innovation. Also, we have introduced a systematic organization for education and training, and continued to advance the sophistication of our project management system.

Our efforts for innovation have been widely recognized. KEPCO earned the highest rating (innovation grade 6) in the review of innovation in public enterprises conducted by the government in 2005 and 2006 for two consecutive years. Going forward, KEPCO will not be complacent with what we have already achieved, but continue to transform ourselves and take on challenges to be a global company. The project to build an ERP (Enterprise Resource Planning) system in KEPCO, named "PowerPia," began in July 2005, and the system was rolled out in October 2006. It facilitates prompt decision making by allowing real time integration and sharing of information dispersed throughout the company, helps to increase business efficiency by enabling enterprise-wide business innovation, and contributes to earning the company world-class corporate credibility by making the company's business more transparent. On top of these qualitative benefits, the ERP system is also expected to enable KEPCO to cut cost by 31.4 billion KRW annually for the next 5 years.

Innovating the financial system

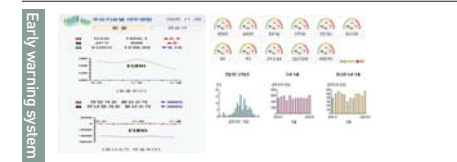
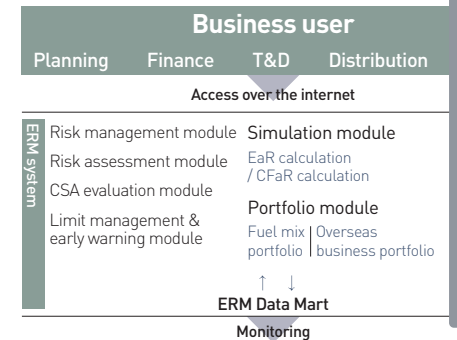
KEPCO is committed to continual innovation and establishing a financial foundation that supports sustainable growth of the company in order to maximize its corporate value. Accordingly, we have set up and are operating advanced financial systems, including EVA, ABC and ERM.

We have built an ERM (Enterprise Risk Management) system to be ready for changes in the business environment and systematically manage risks on the enterprise level, and the system has been in operation since 2006. Also, we have taken various risk management measures to take the most advantage of the ERP system, including instituting the enterprise risk management guidelines, developing a risk management framework, and setting up a contingency plan against oil price rises. The ERP system was linked to an early warning system for risks of various kinds. By doing so, we are determined to hedge all risks that may arise from our profit-oriented management activities and thereby raise the value of the company.

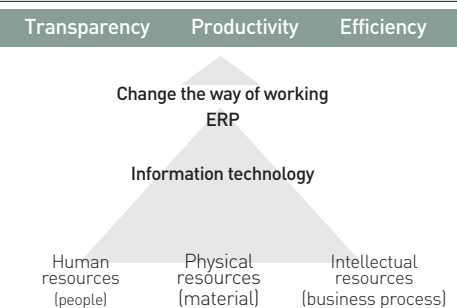
Also, we are preparing to introduce ABC (Activity Based Costing) which allows lower-level units of an organization to cut cost on their own with improved processes. In 2005, we completed pilot implementation of the ABC system for the areas of sales, distribution and transmission/substation, and redesigned activity-specific processes to be aligned with the ERP system. Once the system is rolled out company-wide, it will help instill the cost-saving mindset across all lower-level units. And, putting more focus on the team-level performance evaluation will further contribute to cost reduction driven by improved processes.

Along with ERM and ABC, we also have EVA (Economic Value Added) system which is in full-fledged operation now. Based on the combination of these three systems, we will develop an integrated value management model for continuous improvement of our corporate value going forward.

Concept of the ERM system



"PowerPia" framework



KEPCO managerial innovation roadmap

Disseminate (~2005)	Stabilize (2006)	Mature (2007)	Advance (2008~)
Innovation grade : 6		Innovation grade : post 6	
Develop innovation master plan Set up organization for driving innovation Establish innovation management system Encourage participation in innovation activities	Link with management strategy Coordinate in organization for driving innovation Advance project management system Systemize learning organization	Integrate KEPCO innovation methodology Strengthen lower-level innovation units Advance innovation capabilities Problem-solving learning organization	Fix KEPCO innovation methodology Advance performance-based compensation system Self-supporting learning organization Sustain customer value creation

Development and Commercialization of Core Technologies

Introducing the Sub Business Unit System

In an effort to stimulate internal competition among distribution offices and drive managerial innovation, KEPCO launched a corporate structure called Sub Business Unit on September 25, 2006 following outside expert consultation from January 2005 through June 2006.

As it is expected to bring significant changes to the electric power industry landscape, the Sub Business Unit system will be implemented in phase based on cautious validation.

For starters, we have selected nine branches that we believe can compete on their own with more than one million customer households individually, and transformed them into Sub Business Units. Meanwhile, smaller branches will maintain their current status. After two years of this initial stage, we will consider whether to expand the system to include other branches based on performance analysis in a way that furthers management efficiency.

The introduction of the Sub Business Unit system will promote competition between units and add to management efficiency and the value of the company. This will enable us to win more trust from our customers as well as investors at home and abroad.

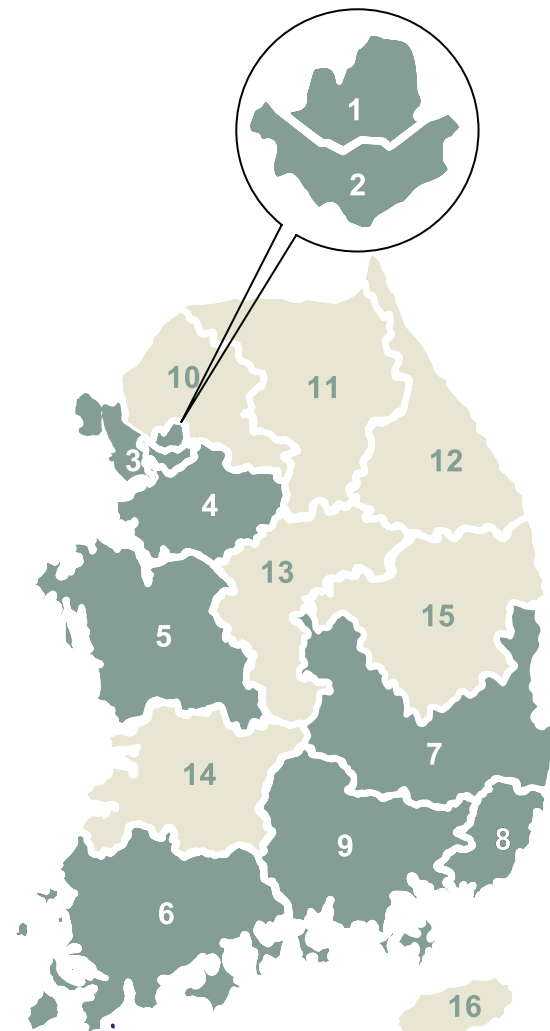
9 Sub Business Units & 7 Branches

9 Sub Business Units & Branches

- 1 Seoul
- 2 Namseoul
- 3 Incheon
- 4 Gyeonggi
- 5 Chungnam
- 6 Jeonnam
- 7 Daegu
- 8 Busan
- 9 Gyeongnam

7 Branches

- 10 Gyeonggibuk
- 11 Gangwon
- 12 Gangreung
- 13 Chungbuk
- 14 Jeonbuk
- 15 Gyeongbuk
- 16 Jeju



Basic Idea for the Sub Business Unit system

Establishment of Accountable Management System

Raise the status of sub business unit heads to ensure accountable management

- Direct report to CEO; management pact with CEO; legal representative

Delegate more power to facilitate autonomous management of sub business units

Establishment of Independent Accounting System

Independent financial reporting through account separation and replacement costing

- Fair evaluation of performance based on independent financial statements

Impartial accounting standards applied to sub business units by introducing independent accounting

Establishment of Performance Evaluation System

Multi-aspect performance indicators, including finance, customers, and long-term growth

Incentive plan determined by each sub business unit individually

Performance evaluation led by outside specialists to ensure impartiality

Benefits of the Sub Business Unit system



Autonomous management

Head of sub business unit sets up business plan autonomously

Head of sub business unit is given discretion over budgeting and management

Transparent management

Independent financial reporting through account separation

Enhanced managerial transparency through comparison of financial performances

Accountable management

Develop balanced performance indicators to evaluate multiple aspects

Award compensation and responsibility according to performance results

Stimulation of competition

Enhance managerial efficiency by stimulating enterprise-wide competition

Develop the electric power industry by creating a competitive environment

Enhanced customer satisfaction

Realize customer satisfaction with services tailored to customers needs

Raise quality through region-specific facility operation

Reliable supply of electric power

Supply electric power with no tariff discrimination across all regions

Carry out responsibilities as a universal supplier

In order to create future growth engines, KEPCO is focusing its resources on strategic projects such as renewable energy, development of environment-friendly technology and operation of the electric power network. Also, we are scaling up our investment in R&D. We will increase our R&D investment, which accounted for 4% of our net sales in 2006, to 6% by 2015.

As part of our effort to enhance R&D efficiency, we set up a basic plan for electric power technology development on the KEPCO group level. We also formed KEPCO Group Technology Cooperation Committee to strengthen cooperation between group companies.

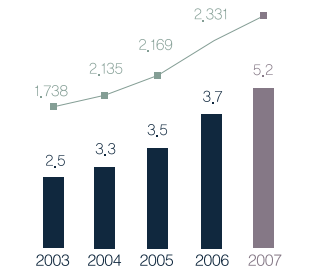
Furthermore, we have become the first public enterprise in Korea to build a strategic performance management system for R&D, and increased investment in strategic projects with the goal of creating national growth engines. By doing so, we laid the foundation to emerge as a global company by means of advanced technologies.

Based on the R&D capabilities mentioned above, KEPCO has successfully developed and is operating world-class technologies, including CO₂ capture by dry sorbents, the world's first control rod worth measurement technology for nuclear power plants, and 100kW molten carbonate fuel cell (MCFC) (including verification), and we have also localized the production of high-efficiency sea water electrolysis facility.

In addition, seven researchers at KEPCO were listed on the top three global biographical dictionaries and twenty researchers on Marquis Who's Who. One researcher at KEPCO was named as one of "2007 Korea's 10 Creative Minds." As such, KEPCO's outstanding research manpower has contributed to raising our brand value.

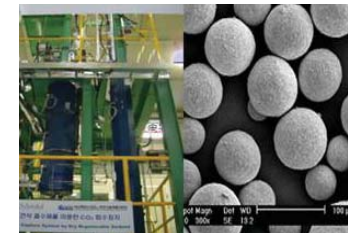
R&D investment

Investment cost (Unit: 100 million KRW)
Investment ratio (Unit: %)



Investment ratio : R&D investment to net sales (electricity sold - electricity purchased)

100m³/hr-class equipment for dry CO₂ recovery & dry sorbents



	2006	2015
Researchers	2.2% of total manpower (410 researchers with master's degree or Ph.D.)	3.2% of total manpower (acquire highly qualified researchers in time according to the estimated technological needs)
R&D investment	4% of net sales	6% of net sales
Strategy for technology development	Independent development of electric power technologies - network connection, generation turbine, etc. *KEPCO's energy storage and superconductivity technologies are already world-class.	Develop and commercialize core technologies - in 5 fields, including renewable energy and next-generation facility operation



03 With Earth :
Environment

Strengthening the Integrated Environmental Management System

Environmental Policy

KEPCO, as a company that produces and supplies electric power, the engine of national competitiveness, sets and observes the environmental policy as below in order to fulfill our social responsibilities through environment-friendly management, increase KEPCO's environmental management capabilities to the level of "global top 5 in the energy utility sector by 2020," and achieve our goal of becoming a "world-renowned comprehensive energy provider."

Enhance eco-efficiency by implementing environment-friendly management

1. Accomplish environmental management objectives by complying with environment-related laws and regulations and implementing, operating and continuing to enhance the environmental management system that meets the global standards.
2. Conduct education and training necessary for our employees to take the initiative in implementing environmental management activities and strengthen stakeholder communication.
3. Promote the reuse of materials and the use of environment-friendly products to reduce environmental burden at source and contribute to bringing about an eco-efficient society in which resources are recycled.

Make best efforts for the greening of the entire power supply chain ranging from production, transportation, sale and consumption of electric power

1. Strengthen environment-friendly management of the power supply chain and cooperation under the goal of advancing sustainability of our society through environment-friendly production and supply of electric power.
2. Construct and operate environment-friendly facilities and minimize power loss through efficient operation and management.
3. Conduct various activities for energy saving, such as load control and efficient use of electric power, to enhance the efficiency of energy use of the nation.

Understand the seriousness of climate change, the global environmental challenge, and actively cope with it

1. Provide leadership for the group-level joint response to climate change issues, the global environmental challenge.
2. Continue to reduce greenhouse gas emissions by developing and promoting environment-friendly energy, conserving energy use and improving facilities.
3. Actively support the activities to reduce indirect greenhouse gas emissions from power use through systematic demand-side management and by boosting efficiency of transmission and distribution.

August 2007.

Integrated Environmental Management System

KEPCO has set up a basic plan for integrated environmental management in an attempt to coordinate environmental management activities.

Objective

Our mid-to-long term objective is to join the global top 5 in the utility sector in terms of the level of environmental management. To achieve this objective, we have developed strategies and action items in four areas.

Organization

KEPCO has been running "Environment-Friendly Advisory Committee" under its "Open Management Innovation Committee" since 2004 in order to coordinate our environmental management activities. The advisory committee assists CEO in making decisions over environmental issues. In March 2006, our environmental organization was expanded and strengthened with the exiting "Energy Policy Team" under the Executive Vice President transformed into "Energy and Environment Policy Team." Such organizational change was intended for a more integrated and systematic implementation of environmental activities that used to be carried out separately by each department.

Meanwhile, each branch office at various locations nationwide carries out environmental management activities that suit its specific needs in accordance with the environmental policy and guidelines given by the head office. "Green Environment Advisory Committee" is placed in every transmission/substation facilities nationwide, in which local residents and representatives of environmental groups participate to have their voice heard. Also in operation on the branch office level is "Siting Advisory Committee" with the participation of representatives of local residents and municipalities to ensure objectivity and transparency in site selection process for transmission/substation facilities.

Join "ECO Global Top 5" by Environmental Value Maximization

Strengthen the integrated EMS	Greening of the electric power supply chain	Respond to the climate change convention	Strengthen eco-partnership
<ul style="list-style-type: none"> - Establish an environmental management system - ISO14001 certification - Eco-accounting, eco-labeling - Disclosure of environmental information - Strengthen responses to environmental accidents 	<ul style="list-style-type: none"> - Minimize pollutants emission - Eco-friendly facilities - Efficiency in energy use - Reduce power loss in T&D - Transparency in construction site selection 	<ul style="list-style-type: none"> - Minimize greenhouse gas emissions - Promote renewable energy - CDM, emission trading - Nurture climate change specialists 	<ul style="list-style-type: none"> - Conservation of the ecosystem - Cooperation with local communities for environmental protection - Strengthen PR on eco-friendliness - Partnership with environmental groups

Roadmap

KEPCO's environmental management will evolve in four stages – foundation forming, intensification, incorporation into core strategies, and full-fledged sustainable management.

Phase 1 : Base building	Phase 2 : Intensification	Phase 3 : Core strategies	ECO-GT 5-Sustainable management
<ul style="list-style-type: none"> Mid-to-long term master plan ISO 14001 certification Group-level eco-management network Greenhouse gas control 	<ul style="list-style-type: none"> Pilot ISO14001 Environment accounting Green procurement Release of environmental data Greenhouse gas statistics 	<ul style="list-style-type: none"> Rollout of ISO14001 Environmental performance system Introduce LCA Eco-efficiency techniques 	<ul style="list-style-type: none"> World-renowned comprehensive energy provider
<ul style="list-style-type: none"> Build infrastructure for environmental management (2006) 	<ul style="list-style-type: none"> Corporate-wide environmental management (2007) 	<ul style="list-style-type: none"> Environmental management as core value (2008-) 	<ul style="list-style-type: none"> Sustainability management on track (-2015)

Head office

CEO
Environment-Friendly Advisory Committee
Executive Vice President
Energy and Environment Policy Team

Branch office

Branch head
Green Environment Advisory Committee
Siting Advisory Committee

Environment-friendliness in Power Supply Chain

Improving Environmental Efficiency

Reducing use of energy and water

We are taking active measures to conserve and rationalize the use of energy and to promote the mindset for energy conservation. For example, we instituted "Energy Conservation Guidelines" in 2006, which serve as the foundation for the rationalization of systematic and efficient energy use. Also, we made more efficient use of energy by promoting the use of high-efficiency energy equipment and power-saving office appliances, and carried out energy conservation campaigns for all our employees.

In 2006, KEPCO used 75,163 TOE of energy and 1,059 tons of water. Thanks to the use of high-efficiency equipment and improved efficiency of facility use, energy use intensity expressed in energy used to electric power sold was 0.202TOE/GWh, down 0.022TOE/GWh from 2005. Water use intensity was 3.03 tons/GWh, down 0.1 ton/GWh from the previous year, and there was no recycling of water. In addition, we plan to boost the recycling rate for resources of all kinds to upward of 95% over the long term by strengthening enterprise waste recycling.

And KEPCO developed environmental accounting guideline in June 2007, and then calculated 2006 environmental costs. Environmental costs in 2006 is about 2,229 billion KRW that accounts for 0.9% of revenues and environmental profits is 80 billion KRW by sales of used power line and others.

Green purchasing

KEPCO is increasing the purchase of environment-friendly products. In 2006, the total value of environment-friendly products purchased amounted to 2.74 billion KRW, accounting for 37.5% of the total goods purchased. It marked a 11.8% increase from 2004. We plan to continue to increase the proportion of environment-friendly products to over 90% by 2015.

Management of PCBs

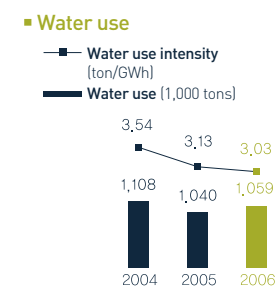
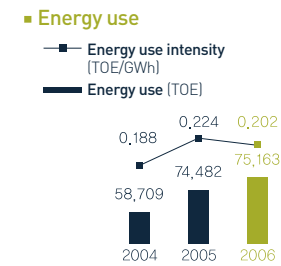
The Ministry of Environment set the goal of completely phasing out polychlorinated byphenyls, or PCBs, by 2015. Under this goal, KEPCO is closely working together with the Ministry to provide grants to PCB-related research and develop processing technologies. In particular, with the objective of analyzing KEPCO's transformer strategy, we are conducting component analysis for transformers used in transformation and distribution, and we will put in place processing procedures based on the analysis results and properly process PCBs accordingly. We will continue to step up our activities aimed at removing PCBs from all KEPCO operations.

Environmental impact of company vehicles

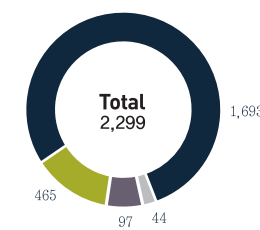
KEPCO is striving to reduce pollution generated by company vehicles. Approximately 76% of the new vehicles purchased in 2006 were compact cars (118 out of 156 vehicles). In 2006, the fleet owned by KEPCO for business purposes increased to 3,161 units, up 41 from 2005, of which 1,396 vehicles, or 44.2%, are compact cars. In 2005, we added special purpose vehicles to our company vehicle checklist for tracking fuel consumption and average fuel efficiency. As a result, fuel consumption was down 586,000 l from 2005 and average fuel efficiency was up to 0.72 km/l

Energy and water conservation efforts in 2006

Strengthen the energy saving system	Improve energy use efficiency	Raise awareness of energy conservation
<ul style="list-style-type: none"> Active involvement of the Energy Conservation Committee (chaired by the Executive Vice President) Institution of "Energy Conservation Guidelines" to serve as the foundation for rationalizing energy use Intensive control of air conditioning temperatures by designated employees 	<ul style="list-style-type: none"> Achieve the energy use reduction target (1% per annum) by adopting energy consumption caps Install high-efficiency equipments: 143.1 MW, including 80 MW from inverters Install water/electricity-saving office equipments : 6,763 units Distributed photovoltaic equipment : 100kWp (970 million) 	<ul style="list-style-type: none"> Conduct energy saving campaigns Disseminate best practices and conduct training in energy conservation : all branch offices

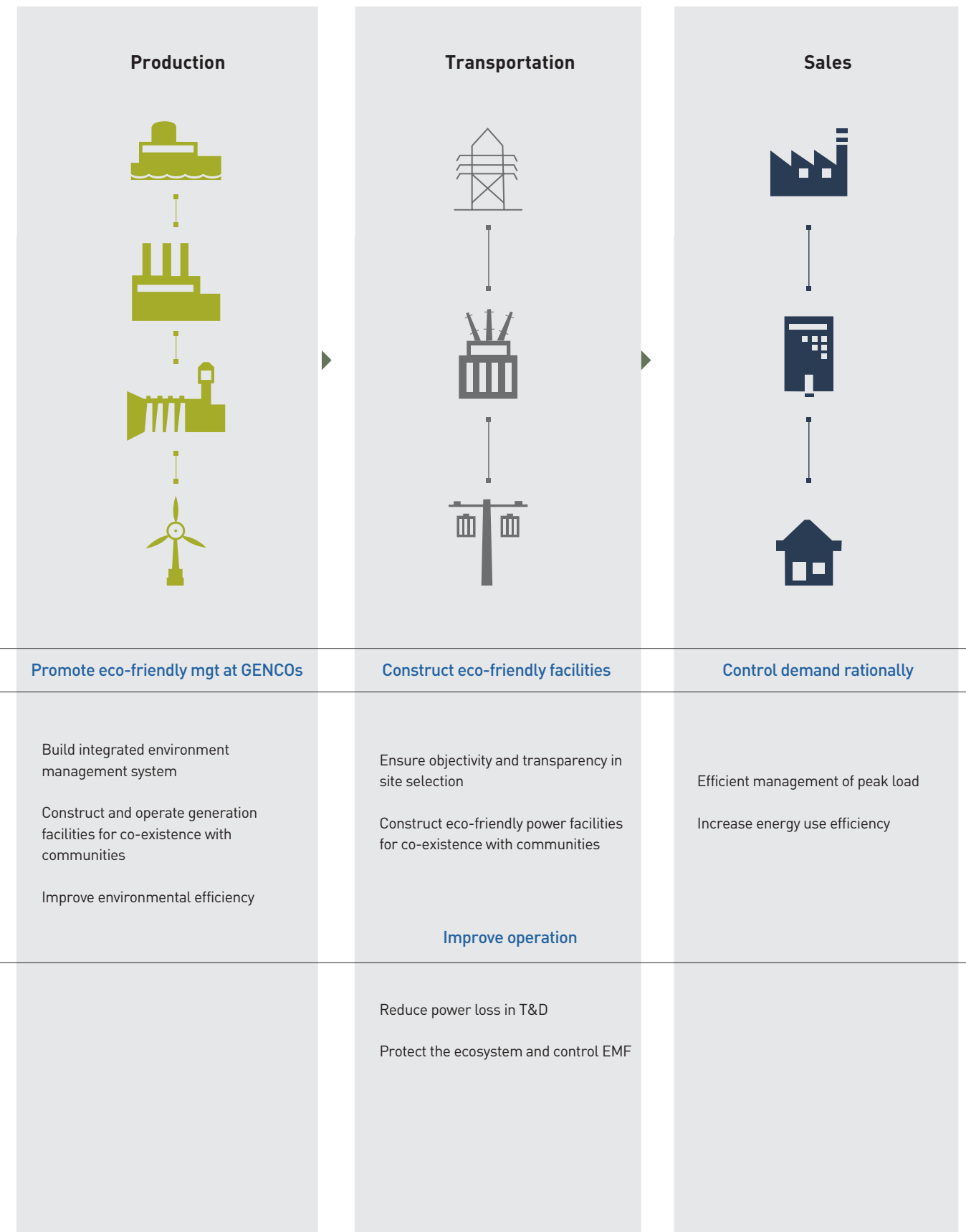
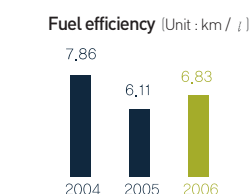
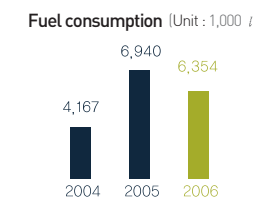


2006 Environmental Coat



- Management Activities (waste storage, disposal etc.)
- Early Prevention (cope with climate change etc.)
- Stakeholders (management of environmental friendly-facilities etc.)
- Response to regulations (all sorts of environmental expenses)

Fuel use and average fuel efficiency of company vehicles



Production stage

Production stage

KEPCO and six GENCOs closely cooperate to coordinate between generation and transmission/distribution through consultative bodies in order to make the electric power supply chain environment-friendly.

Also, the presidents of the six GENCOs signed an agreement with the CEO of KEPCO for promoting environment-friendly management within their own operations concurrently with the signing of business management contracts with KEPCO, and the progress made by each GENCO is evaluated every year.

■ Integrated environmental management system

In 2006, 94% of the 6six GENCOs were certified with their EMS, up by 18% from 2005. In other words, 35 out of a total of the 37 branch offices gained ISO 14001 certification. In addition, the 6 GENCOs spent approximately 378.4 billion KRW in the areas related to the environment.

■ Co-existing with local communities

When constructing or expanding generation facilities, the six GENCOs conduct environmental impact assessment to identify possible impact on the natural environment and traffic conditions in the nearby areas. Also, they conduct follow-up environmental impact assessment and report the results to the government every year for the first five years following the completion of construction.

■ Increasing eco-efficiency

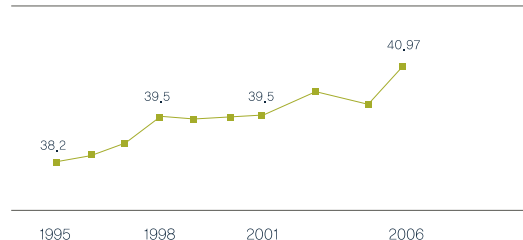
Six GENCOs have installed and are operating de-sulfurization systems, de-nitrification systems and dust collectors, and are increasingly using clean energy sources to reduce the emission of SOx, NOx and dust during power generation.

Also, all wastewater is collected at the central wastewater treatment facility for physical and chemical treatment, and discharged or reused after treatment. Coal fly ashes generated at coal-fired power plants, are 100% reused as a raw material for manufacturing cement. As such, we are making contribution to realizing a resource recycling society.

■ Environment-related spending by 6 GENCOs in 2006

Genco	Spending (mil. KRW)
Korea Hydro and Nuclear Power	12,080
Korea Southeast Power	37,307
Korea Midland Power	32,420
Korea Western Power	52,711
Korea Southern Power	100,596
Korea East-West Power	143,342

■ Thermal efficiency at P/P[%]



Transportation stage

The transportation stage of the power business involves timely construction and efficient operation of power transportation facilities. It involves securing objectivity and transparency in the site selection process; expanding the construction of environment-friendly facilities that can harmonize with local communities; striving to reduce power loss during T&D; and, protecting ecosystems and controlling EMF radiation. Through these efforts, we are making the electric power supply chain more environment-friendly.

■ Securing objectivity and transparency in siting process

In order to make the site selection process for T&D facilities more objective and transparent, we are increasingly using cutting-edge scientific tools, and keep communication channels open to reflect the opinions of local residents, environmental groups and other various stakeholders in the process.

■ Coexisting with local communities

We are increasingly constructing environment-friendly electric power facilities. We use environment-friendly equipment that harmonize with the neighborhood and the nature, apply environment-friendly building methods, and construct environment-friendly substations.

Also, we have incorporated environmental impact assessment into the site selection stage of the construction of transmission/substation facilities. We make sure to release the progress of the construction schedule and the information on environmental impact of our construction activities and future impact after the facility begins operation. In addition, we are taking steps to minimize environmental impact. For example, we conduct extra EIA with regard to the possible impact on the natural environment in case transmission/substation facilities are constructed in proximity to natural parks, wetland preserves, and the areas designated for ecosystem and landscape protection. In 2006, we conducted environmental and social impact assessment for large-scale construction projects, including the construction of 765kV Shingori-Bukgeongnam transmission route.

We formed and have been operating "Underground Installation Committee" since 2003 to expand underground installation of T&D lines. Our objective is to underground 100% of transmission lines in major urban areas by 2015. Furthermore, we are working to create conditions conducive to undergrounding of distribution facilities as well, such as introducing legislation that requires undergrounding of distribution facilities when large pieces of land and planned cities are developed.

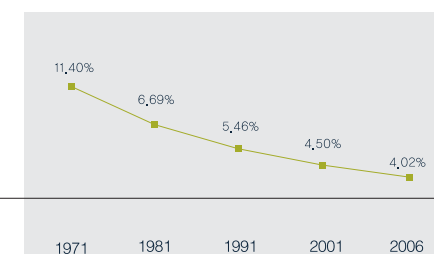
■ Reducing power loss during T&D

We are making various efforts – upgrading T&D voltages, expanding the capacity of T&D lines, using high-efficiency devices, installing power factor compensation equipments, and utilizing highly reliable equipment - to reduce power loss in the T&D stage. As a result, we are effectively minimizing the need for constructing additional generation facilities and indirectly contributing to reducing greenhouse gas emission. As of 2006, we are maintaining the power loss rate at 4.02%, one of the world's lowest levels.

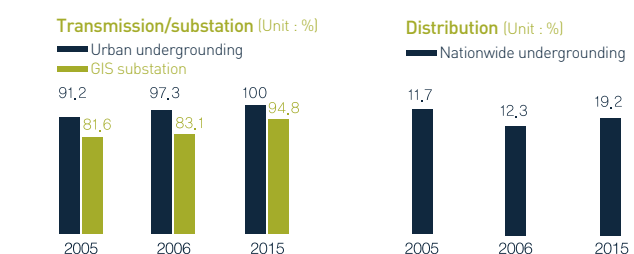
■ Ecosystem protection and control of EMF

EMF is a kind of electromagnetic energy generated by a flow of electricity or magnetic fields. Electromagnetic waves radiated from electric power facilities are weaker than those generated by home appliances. Also, foreign authorities including the WHO and the National Cancer Institute (NCI) of the U.S. report that electromagnetic radiation has minimal impact on humans and animals.

■ Power loss during T&D



■ Undergrounding of electric power facilities



■ Securing objectivity and Transparency in siting process

Increasing the use of scientific tools

Minimize damage on forests by applying LiDAR (light detection and ranging) for selecting transmission corridors

Select ideal sites by using the electricity effect evaluation system (GIS + 3D CAD)

Engaging stakeholders

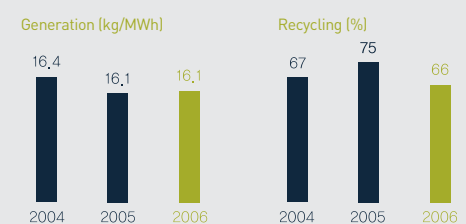
Reflect the advice of Green Environment Advisory Committee: advice reflected in 41 out of 46 projects; the remaining 5 are long-term projects, so advice is to be reflected at a later stage.

Operate Siting Advisory Committee

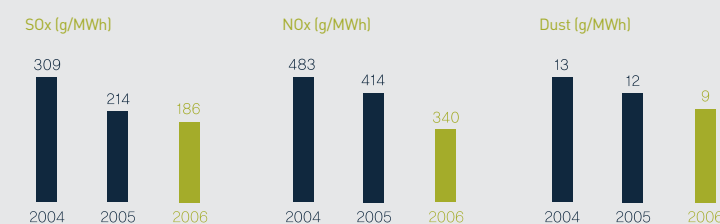
Run the Ombudsman program with the participation of environmental groups and local residents: checking construction sites once a quarter



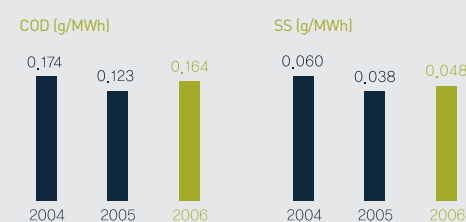
■ Coal ash generation & recycling rate



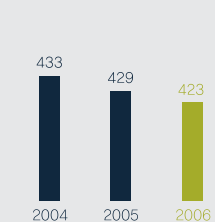
■ Emission of air pollutants



■ Discharge of water contaminants



■ CO2 emission (kg/MWh)



Coping with Climate Change Issues

Marketing stage

KEPCO seeks to balance supply and demand of electric power through active and systematic demand-side management (DSM). Also, we help conserve energy on the national level by improving the efficiency of our electric power facilities, and contribute to reducing greenhouse gas emission by avoiding construction of excessive power plants.

Due to effective peak demand control and expanded use of high-efficiency devices, KEPCO was able to cut 3,877MW of electric power demand, equivalent to building four 1,000MW-class nuclear power plants. This accounts for 73% of the national DSM target. Also, the load factor, a measure that indicates the degree of utilization of electric power facilities, stood at 73.9% at KEPCO, recording one of the world's top levels.

Efficient management of peak load

KEPCO is managing peak load efficiently by executing various load control programs, expanding use of ice storage systems, and developing and disseminating technology-intensive demand control techniques. As a result, KEPCO successfully cut down 2,798MW of summer peak load in 2006.

Efficient use of electricity

We have been striving to increase efficiency of energy use on the national level by carrying out extensive marketing efforts for high-efficiency devices and promoting use of such devices.

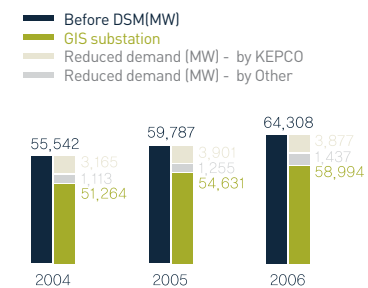
In 2006, we diversified the high-efficiency devices for distribution, including high-efficiency transformers and motors. We executed a strong marketing campaign by signing distribution agreements with the head offices of large corporations, including Samsung Electronics and Wall-Mart. As a result, we distributed high-efficiency devices equivalent to 1,738MW in 2006, up 31% from 2005. Distribution of high-efficiency devices enabled us to save 513,217 MWh of energy, equivalent to one year's electricity consumption by a city as large as Yongin, Gyeonggi province.

We also carried out a program designed to enhance energy welfare for low-income households. We installed high-efficiency lighting devices free of charge in 51,970 households with welfare benefit entitlement.

Major DSM programs

Category	Program	Incentive
Load control programs	Change of vacation/repair periods	650 KRW/kW adjusted
	Voluntary saving	140 KRW/kW adjusted
	Emergency saving	270 KRW/kW saved
	Ice storage cooling system	350,000~480,000 KRW/kW reduced
	Direct load control	Base subsidy + control subsidy
	Remote-controlled A/C	140,000 KRW/kW consumed
	Demand controller	3 million KRW/unit
Efficiency improvement	High-efficiency lighting device	1,400~6,300 KRW/unit installed
	High-efficiency inverter	190,000 KRW/kW saved
	High-efficiency motor	240,000 KRW/kW saved
	High-efficiency transformer	250,000~2.19 million KRW depending on capacity

DSM performance



Efforts for controlling summer peak in 2006

Promotion of load control programs

Eased eligibility for incentive under change of vacation/repair periods

- over 300kW in contract demand → over 100kW in peak load

Incentives for long-term contracts (3 years): provide additional incentives

Ice storage systems & new technologies

Disseminate ice storage systems
573MW(2005) → 650MW(2006)

Developed new technologies, including thermal storage cooling showcases

Efforts for efficient use of electricity in 2006

Strengthen marketing

Signed joint distribution agreements with Samsung Electronics and Wall-Mart

- Samsung Electronics (464 high-efficiency motors)
- Wall-Mart Korea (311 high-efficiency inverters)

Additional distribution of high-efficiency transformers and motors

Free-of-charge installation of high-efficiency lighting devices in low-income households

Promote high-efficiency devices

High-efficiency lighting device

- 1,034MW(2005) → 1,135MW(2006)

High-efficiency inverter

- 291MW(2005) → 516MW(2006)

High-efficiency vending machine

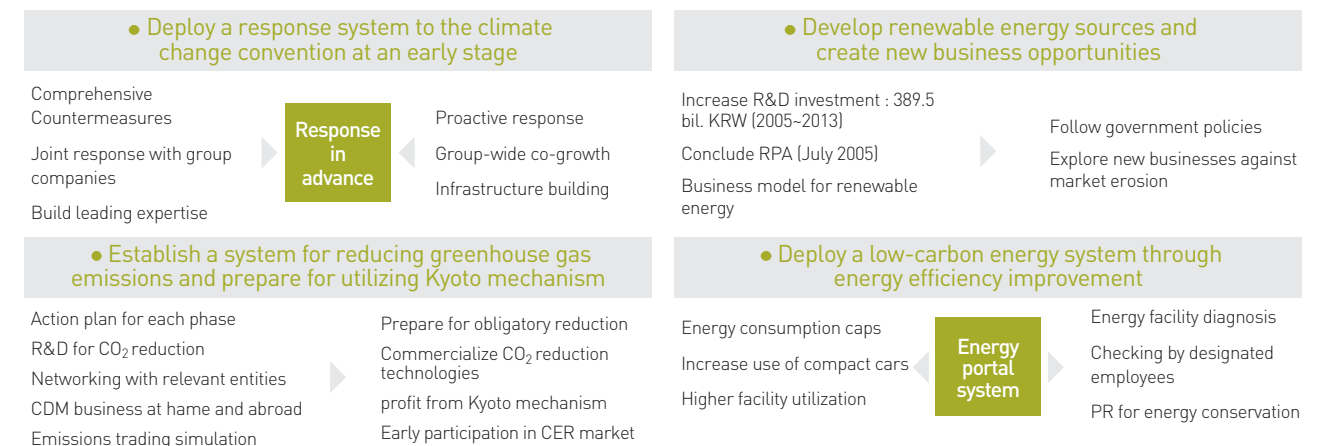
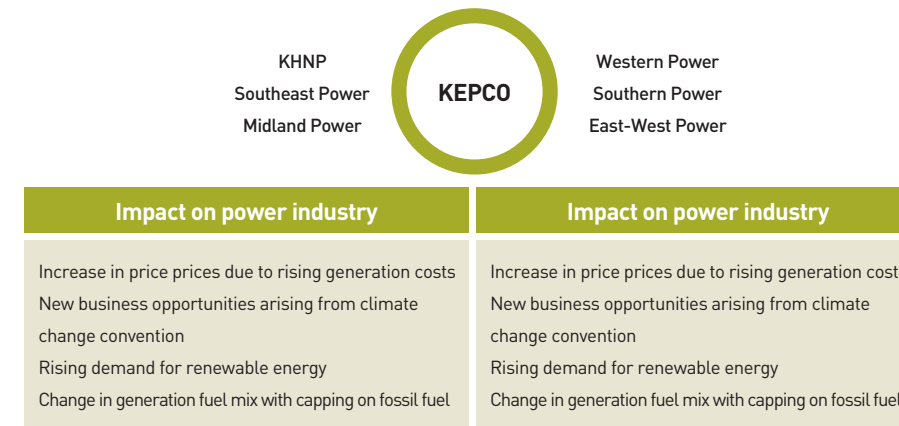
- 7MW(2005) → 10MW(2006)

Strengthening Group-level Response

Korea is not required to cut greenhouse gas emissions under the "Kyoto Protocol," which came into force in February 2005. Still, it is highly likely that Korea will have to join the 2nd round of reduction scheme from 2013. If an obligation for reducing greenhouse gas emissions is imposed on Korea some time later, it will have a huge impact on KEPCO's business because the electric power sector accounts for about 25% of CO₂ emission in Korea. Under the circumstances, KEPCO and 6 GENCOs see both challenges and opportunities for their business under the climate change convention, and are making efforts to efficiently respond to them.

KEPCO and the six GENCOs have already set up "Climate Change Response Committee" in an effort to proactively participate in the preservation of the earth's environment and establish a sustainable energy system ready for the shift in energy paradigm. The committee was enlarged in June 2006 and changed into "Electric Power Group Technical Cooperation Committee," through which KEPCO group companies are exerting efforts to jointly respond to the climate change convention. Also, four key strategies associated with the climate change convention are under development at KEPCO, and we conducted a round of emissions trading simulation to be prepared for the launch of greenhouse gas emissions trading.

In July 2005, KEPCO signed an agreement with the government on the supply of renewable energy. Under the agreement, we invested 106.8 billion KRW in 2006 (KEPCO: 21.1 billion KRW, 6 GENCOs: 85.7 billion KRW) in the development and promotion of renewable energy. For the 3-year period of the agreement extending from 2006 to 2008, we plan to invest a total of 1,128.4 billion KRW (KEPCO: 106.8 billion KRW, 6 GENCOs: 1,021.6 billion KRW) in this area.



Climate Change Response Committee

Technical Committee

Chair : Executive VP (KEPCO)
Member : Executive (6 GENCOs)

Working Group on Climate Change

Member : Team leaders from KEPCO and 6 GENCOs
Role : Exchange information on climate change

Working Group on Renewable Energy

Member : Team leaders from KEPCO and 6 GENCOs
Role : Coordinate renewable energy efforts

Reducing Greenhouse Gas Emissions

The generation of greenhouse gas emissions by KEPCO and the 6 GENCOs can be classified in two forms: direct emissions, such as CO₂ emission caused by fossil fuel burnt at power plants and SF₆ emission from switches in power systems, and indirect emissions resulting from power loss in T&D. The total greenhouse gas emissions from the electric power sector, including the generation segment, increased 6,039 tons from 2005 to reach 160,316,000 tons in 2006. Of the total, 6,834,000 tons came from KEPCO. More specifically, indirect emissions resulting from inevitable power loss in T&D accounted for the majority, or 92.1%, of the emission by KEPCO while direct emissions, including the SF₆ emissions and those from internal energy consumption, accounted for 7.9%.

To improve accuracy of greenhouse gas statistics, KEPCO developed a greenhouse gas emission management system in 2006 that meets the international and national standards. In 2007, we plan to build a comprehensive system for collecting and managing emission statistics that encompasses operations of all KEPCO group companies.

As a result of our active response to the climate change convention, KEPCO successfully carried out a CDM project for our wind farm in Saihanba, Inner Mongolia, China in 2006, which represents the first such attempt ever made by a Korean entity, and we earned 330,000 tons of CERs. We expect the project will generate an additional annual profit of 900,000 dollars on average. Domestically, we are developing a CDM project around collection and recycling of SF₆ gas used in electric power facilities. For this project, we have completed the development of the device used for SF₆ gas recovery as an output of a KEPCO-SME joint R&D project, and will start to deploy the device after a feasibility study to be conducted in 2007.

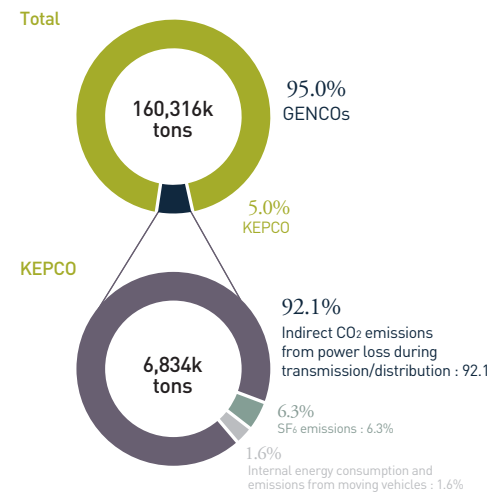
Developing Environment-friendly Technologies

KEPCO is focusing on developing environment-friendly technologies, including CO₂ reduction technology, clean coal technology and renewable energy technology, and owns a world-class CO₂ absorption technology which helps save 50% or more in CO₂ collection cost. Also, various CO₂ emission reduction technologies are under research and development at KEPCO, such as pulverized coal combustion technology, ultra supercritical power generation technology, circulating fluidized-bed combustion technology, pollution control technologies like de-sulfurization and denitrification, and commercialization technology for 300MW-class IGCC.

In the area of renewable energy development, in particular, we invested 94.5 billion KRW in 20 research projects in 2006 for technology development in 3 focus areas – photovoltaic energy, wind power and fuel cell. As a result, we have made some tangible results, as shown in the completion of 1kW-class SOFC stack design.



Greenhouse gas emission by sector (2006)



R&D in renewable energy resources in 2006

Fuel cell

Detailed design for operating 250kW-class MCFC generation system

- Basic idea for 250kW-class MCFC stack & system design
- Improvement of 100kW-class MCFC generation system

Design, manufacture and operation evaluation of 1kW-class SOFC system

- 1kW-class stack development and performance evaluation
- Selection, development and design of 1kW-class system components

Photovoltaic energy

Development of MW-class centrally receiving photovoltaic generation system and network connection technology

Network-connected operation and evaluation of 120kW-class photovoltaic generation system

Wind power

Electricity quality measuring system for Haengwon Windmill Farm

IGCC

Developed proprietary technology for designing verification plant for 300MW-class Korean-model IGCC & launched construction project

- Period : Dec. 2006 – Nov. 2014
- Investment : 599.2 billion KRW



04 With Neighbors : Society



Enhancing Managerial Transparency

Advancing Ethical Management

KEPCO continues to cultivate an advanced model of ethical management system in order to expand the sustainable ethical management of the electric power industry by promoting ethical corporate culture beneficial to both the company and the stakeholders.

In September 2006, we developed an ethics evaluation tool to objectively gauge the work ethics of each branch and individual, to suit the company's position as a market leader.

In addition, "Code of Conduct for KEPCO Employees" and "Reward System for Whistleblowing" were revised in July and October 2006, respectively, to strengthen the ethical standards, and Ethical Management Guidebook was published in November 2006 to improve employees' understanding.

The Transparent Society Pact so far has 1,266 companies joined and 14,484 people have signed on the pact. All of the KEPCO employees completed the basic course of online ethical management training program in June 2006, and so did 2,858 employees of our partner companies.

In May 2006, we introduced a voluntary reporting system of personal assets to enhance the integrity of high-level managers, of which 71% participated voluntarily. In December 2006, we also introduced integrity pact for our executives to articulate the consequences of failing the duty to comply with integrity standards. As a result, KEPCO was certified as an "Ethical Institution" in the 2006 integrity evaluation of KICAC (Korea Independent Commission Against Corruption), for the first time since the evaluation began.

Open Management

In order to actively publish our management information and build consensus of stakeholders on major issues, and thus to enhance managerial transparency and efficiency, KEPCO operates various committees involving outside specialists from the government (municipalities), the press, companies, universities and NGOs.

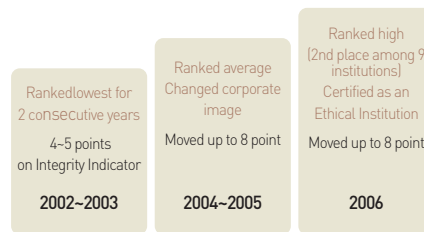
To practice open management through diverse communication channels, we are operating Open Management Innovation Committee, Green Environment Advisory Committee, Siting Advisory Committee and Customer Satisfaction Advisory Committee.

Open Management Innovation Committee, consisting of 25 opinion leaders of diverse social backgrounds and all the members of the management, has reflected 87 out of a total of 109 consultation cases in corporate policies in 2006. Customer Satisfaction Advisory Committee consisting of 530 employees from 56 branches throughout the country and Green Environment Advisory Committee of 128 employees from 14 transmission offices are striving to build stakeholder confidence through interactive communication, including active opinion gathering and managerial issue briefings.

Furthermore, Integrated Complaints Handling System was established in April 2006 to address frequent complaints and requests. Through the system, some 14,000 complaints were analyzed and reflected into the policies to amend unfair systems and practices.

KEPCO will continue to receive feedbacks from our stakeholders and disclose information, consistently endeavoring to improve our corporate image as a global company.

Enhancing Integrity



2006 Committee Activities

Committee	Frequency of meetings	2006 achievements
Open Management Innovation Committee	Quarterly	87 opinions reflected in company policies
Customer Satisfaction Advisory Committee (at 56 offices)	Quarterly (224 times)	Policy feedback and consultation
Green Environment Advisory Committee (at 14 offices)	23 times	41 opinions reflected in company policies

Refinement of Ethical Management System



Complying with Global Accounting Standards

As a company listed on New York Stock Exchange, KEPCO has implemented a global-standard accounting system for internal control, which exceeds the requirement of the Sarbanes-Oxley Act. We have established 1,051 control procedures for all possible accounting risks to prevent any errors or frauds, and the findings from the internal control system are reported quarterly to the BOD and the Audit Council. In order to maintain the global level of accounting transparency as a global company, KEPCO has established a financing system in May 2006 and thereby reduced financial costs by having lenders compete. In June, we finished our preparation for having consolidated financial statements as our primary financial statements, and established the early settlement system in December, innovating the accounting procedures.

Enhancing Transparency in Handling Contracts and Service Requests

To enhance transparency in contract-related work, KEPCO built an "Integrated e-Commerce Platform" (srmp.kepco.net) in 2004, and has since been applying its own EDI rules for all contract-related business. Also, integrated bidding schedules for construction, service and purchasing contracts are regularly announced over the e-commerce platform.

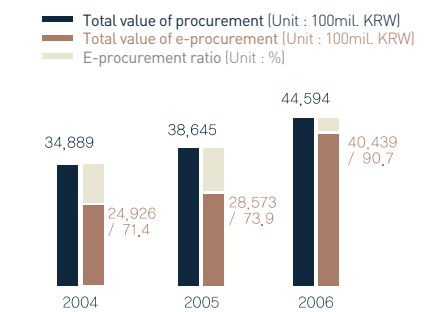
Furthermore, we signed the "Transparent Society Pact" in the electric power industry with our partners to fulfill our social responsibilities such as prevention of corruption, support for the socially disadvantaged and environmental protection. Starting from 2006, we have been running a portal system to promote integrity among our suppliers (kepco.co.kr/clean). With the portal system, we receive reports on illegal sub-contracting and provide various forms needed for construction projects. By doing so, we are enhancing transparency in our contract-related business, and, at the same time, minimizing inconveniences experienced by our business partners.

Meanwhile, all contracts for construction, service and purchasing that are worth 3 million KRW or more are subject to electronic bidding, which took up 90.7% of the total procurement in 2006, up 16.8% from 2005. Through the integrated complaints handling system designed to create policies to resolve complaints and meet customer needs, we have come up with 56 measures to address complaints and requests (24 for sales, 24 for distribution, 8 for transmission), making systematic improvement. We will continue to take actions to improve customer satisfaction, including the introduction of a complaints ombudsman system in 2007.

Information Disclosure

We seek to serve the right-to-know of our stakeholders and improve transparency of business management. To do so, we disclose management information, such as the company's management goals, budgets and operation plans and financial performances, through various means including disclosure of management information, integrated disclosure, corporate disclosure and information disclosure. In 2006, the right-to-know of stakeholders was strengthened further by integrated disclosure, and the rate of disclosure upon customer requests was up to 92.6% in 2006.

Electronic procurement amount



Information Disclosure

Managerial information

Closing of account, financial statements, budget and operation plans, BOD minutes, assessments by outside organizations, etc. (disclosed on KEPCO homepage)

Integrated disclosure

Disclosure according to the integrated disclosure standard (disclosed on ALIO system of the Ministry of Planning and Budget)

Corporate activities

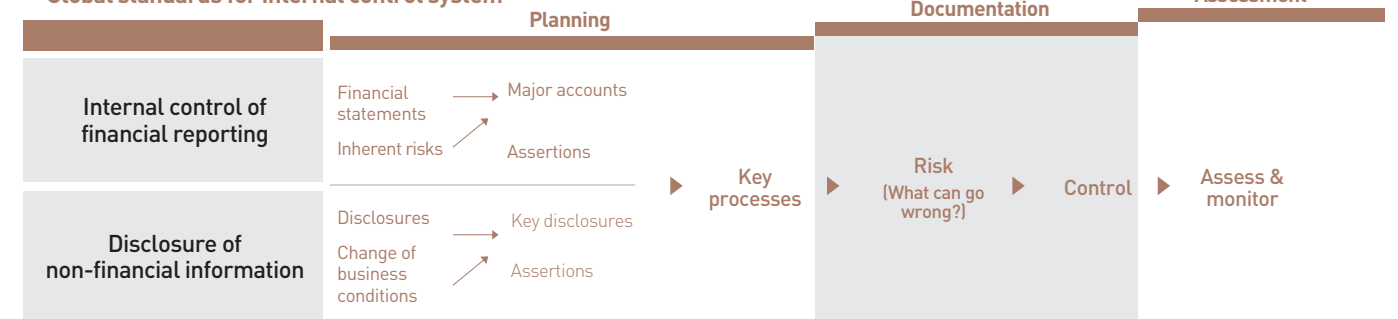
Upon occurrence: post daily major management activities as they occur (daily disclosure)

Fairness: disclose information affecting investors

Requested information

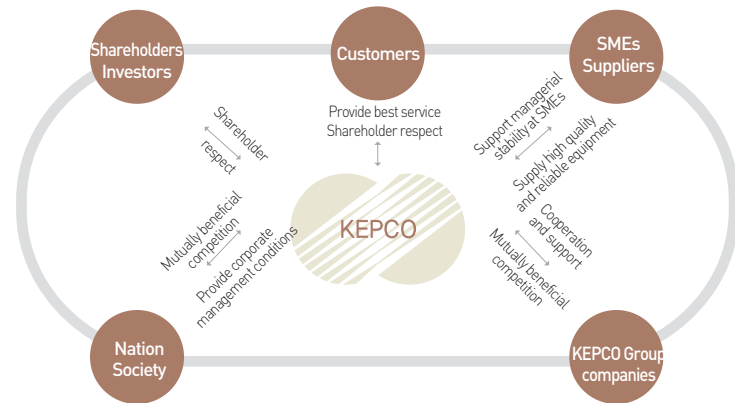
Disclose information within 10 days after requests in accordance with Freedom of Information Act

Global standards for internal control system



Growing Together Through Strong Partnership

Responsibilities toward stakeholders



Offering Top-Quality Customer Service

KEPCO prioritizes "Respect for Customers" as one of its core values. Every member of the company - from senior managers to employees at customer contact points - is strongly committed to customer satisfaction.

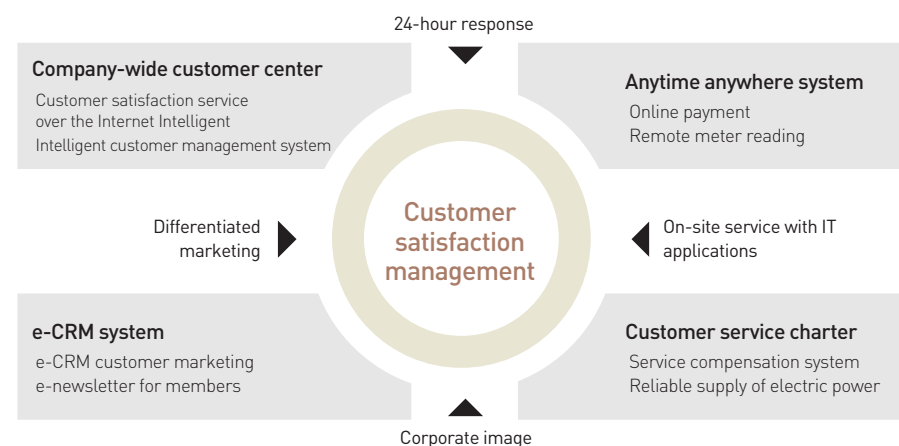
In response to the changing business environment with customer needs growing sophisticated and diversified, we have improved various sales policies to become more customer-oriented. Increased automation of power facilities operation and use of scientific tools for facility diagnosis are also factors contributing to the world's highest level of electricity quality of KEPCO, allowing us to maintain the annual average power outage time per customer at 18 minutes in 2006.

Meanwhile, we reorganized our cyber branch in October 2006. We launched a service exclusive for corporate customers and began providing multimedia service, making the system exceeding customers' expectation. We are also collecting customers' opinions through various channels. We increased the number of college student marketers, organized a "panel of housewives," and collected the public ideas on service improvement.

Furthermore, we regularly conduct customer satisfaction surveys to receive feedback on our service. And, we have strengthened our efforts for ensuring safety in customers' use of electricity and protecting customer privacy, and comply with related regulations.

Thanks to these efforts, KEPCO earned 86 points on the national customer satisfaction index (NCSI) for public enterprises, adding 3 more points on top of its 2005 performance. Since the government launched the NCSI survey in 1999, KEPCO has remained in the 1st place for 8 consecutive years.

Offering Top-Quality Customer Service



Customer satisfaction management

Customers living in apartments given choice for contract type, subsidy for facility replacement cost
Reduced progressive rate for large families and extended the coverage of the welfare rate system
Round-the-clock response through customer center

Highest electricity quality

Introduction of reliability management index for customers with power outage experience
Quality improvement induced by quality grading system of key distribution equipments
Deployment of natural disaster recovery system

IT-based services

Corporation-exclusive service launched: unified channel for handling requests nationwide (October 2006)
Revamp of the cyber branch, launching of multimedia service (October 2006)
Intelligent Customer Center: automatic feeding of metering guidelines

Management of customer satisfaction

Increased college student marketers (30 people), organized a panel of housewives (581 people)
VOC (Voice of Customer) system at customer center
Collection of the public's ideas to improve electricity service: 1,016 ideas submitted

Highest electricity quality

Regular survey of satisfaction and feedback
Customer monitoring, Happy Call, Customer Service Charter

Safety of electricity use

Customer facility check
Old transformer replacement for apartment complexes

Customer privacy

Security server in place for the cyber branch: tighter security for data transmission
Encrypted storage of customers' resident registration numbers and bank account numbers for automatic transfer

Co-growth with Group Companies

For co-development with group companies, we pursue mutually beneficial, "win-win" competition conducive to operational efficiency and performance enhancement based on autonomous and accountable management practices. On the other hand, for the areas requiring industry-wide development and synergy effects, such as overseas business and government-led projects, we are taking advantage of close cooperation mechanisms, such as operation of consultative bodies for specific concerns.

For example, we are running various cooperative bodies, such as the council for overseas projects, to facilitate reliable power supply and enhance group-wide capabilities. We are closely cooperating with group companies to jointly respond to various issues like efficient fuel procurement, cooperation in R&D, joint participation in overseas projects and other matters of common interest.

In addition, to encourage mutually beneficial competition, we facilitate autonomous and accountable management of group companies and conduct management performance evaluation afterwards. We are also raising the corporate value through ethical management and continuous managerial innovation.

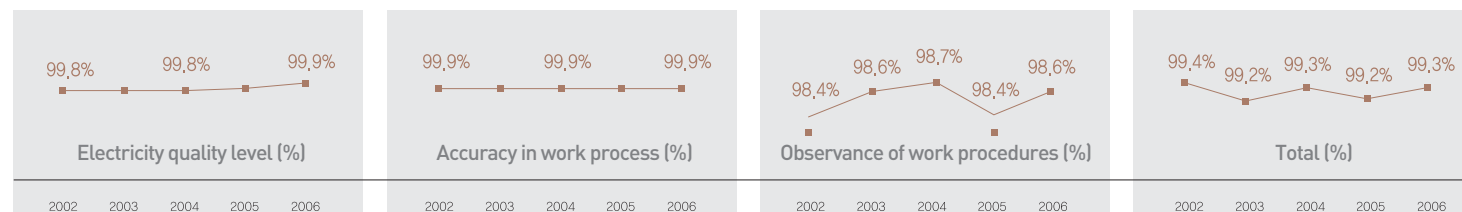
Increased synergy among group companies



Group-wide joint efforts in 2006 (highlights)

- Cooperation and support**
 - Successful and timely construction, including decision on radioactive waste disposal method (June 2006)
 - Created synergy through joint execution of overseas projects
 - Cooperation through "Overseas Project Operation Council": met 4 times in 2006
 - Savings made in fuel procurement by strengthening cooperation system for fuel purchase
 - Strengthened R&D cooperation, including signing of technology cooperation agreement with group companies (June 2006)
 - Increased practical support for SMEs through benefit sharing
- Win-win competition**
 - Cost reduction by fostering competition among GENCOs for better business results
 - Increased profit through early completion of plant construction and optimization : 73.2 billion KRW
 - 6 GENCOs became "innovation leaders" with grade 5 on the innovation scale of public enterprises
 - Cost reduction through new technologies, including fuel technology : 47.8 billion KRW

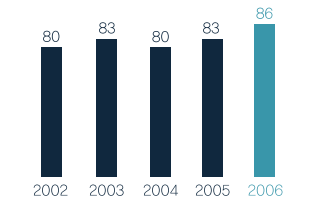
Observance of Customer Service Charter



Information sharing systems

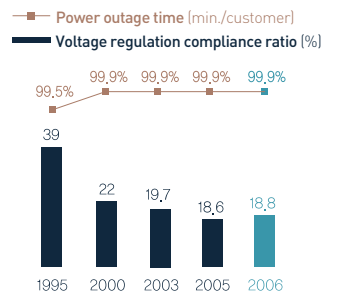


Service satisfaction



*NCSI: The government takes survey of customer satisfaction for public enterprises and announces the appraisal results every year.

Electricity quality trend



Active Support for SMEs

KEPCO supports SMEs who provide over 70% of our electric power equipments, in order to improve reliability of electric power facilities. Since 1993, KEPCO has been providing an estimated 300 billion KRW worth of assistance to SMEs in the areas of joint R&D, IT development, quality certification expenses, expansion into overseas markets, and discovering and nurturing promising venture companies in the electric power sector.

Particularly, as a result of our drive for purchasing from SMEs, over 70% of KEPCO's equipment comes from SMEs every year. In 2006, the ratio edged up to 77%.

Also, we are operating a consultative body called "KEPCO Group Council for SME Assistance" with KEPCO and the 6 GENCOs participating to discuss means for providing more assistance to SMEs.

We also have expanded the joint procurement program that used to be confined to KEPCO, and set up a task force to have the 6 GENCOs and 4 group companies join the program.

To facilitate supporting of SMEs, KEPCO is running SME Technology Consulting Center. Also, each company participating in the joint procurement program sets its own procurement target and announces the result. In December 2006, we held a competition of SME assistance results, in an effort to maximize the effect of SME assistance by enabling participating companies to benchmark each other. In November 2005, we introduced profit sharing scheme for the first time among public enterprises to share performances with SMEs in proportion to contributions. The scheme is being applied to 5 product items, and the coverage is scheduled to be expanded in the future.

Meanwhile, we are utilizing the brand power of KEPCO to assist overseas marketing of SMEs. In 2006, we have supported 27 SMEs in 3 marketing events including IEEE PES, and helped SMEs to enter foreign markets and participate in international exhibitions, which led to the signing of export contracts worth 43 million dollars in total.

With such efforts, KEPCO ranked first in all areas of the 2006 government evaluation of 24 public enterprises on win-win cooperation efforts with SMEs.

Details of KEPCO's support for SMEs (2006)

Area	Funding (100 million KRW)	Details
Joint R&D	100	Funding for R&D in product development Purchase of developed products
Development of IT-based management	52	Development of information system IT software support
Strengthening quality competitiveness	7	Support for quality certification of electronic power equipment, etc.
Overseas marketing	19	Support for export and marketing channels
Electronic machinery technology development	107	Support for technology development
Total	285	20.9 billion KRW in 2005

Contributing to the Nation and the Society

KEPCO makes contribution to the nation and the society by creating jobs and paying taxes.

We are actively supporting government policies by creating new jobs for youngsters, hiring more women and disabled people, and expanding employment of those holding degrees in science and engineering. In 2006, KEPCO hired 404 new employees and paid 0.75 trillion KRW in tax. We neither receive donations from political parties or political groups, nor government subsidies.

Putting Shareholders' Interest First

KEPCO is committed to maximizing shareholder returns by paying out dividends at appropriate levels and carrying out IR activities systematically.

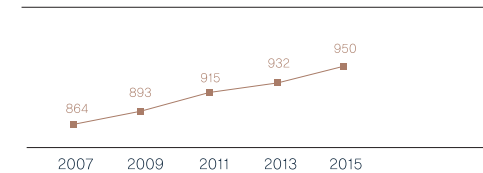
Despite adverse business conditions, such as rising fuel prices, KEPCO posted 2,070.5 billion KRW in net profit in 2006, thus further raising its corporate value. Also, we maximized shareholder value by paying out high dividend of 621.1 billion KRW (30% of the face value of common stocks), by taking into account dividend stability, short/long-term profitability and future investment volume. The CEO and other members of our top management participated in IR events held at home and abroad more frequently to fulfill the right-to-know of investors and work toward raising the corporate value. Thanks to these efforts, KEPCO was selected as 2006 best electric utility in the Asia-Pacific region by Platt's.

These efforts have driven KEPCO's share price upward. As of the end of December 2006, the share price rose by 12% to 42,400 KRW, up from 37,800 KRW at the 2005 year-end.

Human resources at the end of 2006 (persons)

Category	Position	Position
Directors & executives	CEO	1
	Auditor	1
	Standing Director	6
Employees	Admin. staff	4,676
	Engineers	9,400
	R&D, experts	465
	Technicians	3,792
Total		18,341

Job creation forecast (persons)



Assistance policy

- Joint R&D for developing new technologies and products domestically
- Incubate knowledge-intensive venture companies and accelerate commercialization of the R&D results
- Support for IT system implementation by SMEs and information sharing
- Assist R&D and quality control skills
- Promote SME technology development and marketing

CEO's commitment Integrated support from group companies

KEPCO Growing Together with SMEs

SMEs

- Strengthen international competitiveness with proprietary technologies
- Develop production technologies
- Accelerate commercialization and marketing of their own R&D results

KEPCO

- Timely procurement of high quality equipments at low cost
- Improve the quality of electric equipments
- Fulfill social responsibilities as a public enterprise

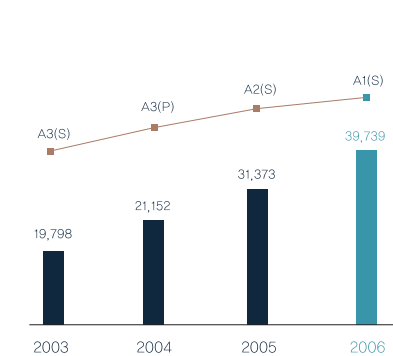
Customized win-win cooperation system



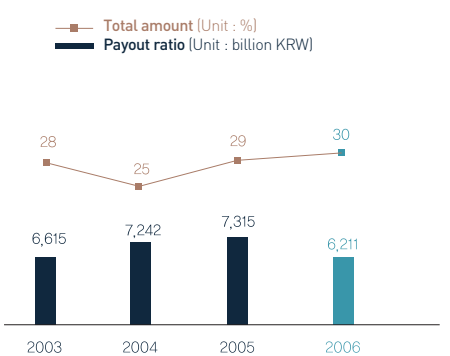
Customized win-win cooperation system

Business startup	Technology development	Production	Management	Sales channel development
Business startup consulting Transfer of KEPCO's proprietary technologies	Joint R&D Provide access to KEPCO's testing facilities	Network loan Provide SME loans	Management consulting Projects to boost competitiveness	Direct purchase Overseas marketing
One-stop win-win cooperation system from business startup to sales channel development				
Win-win cooperation system customized to specific needs of SMEs				

Credit rating and share price trend



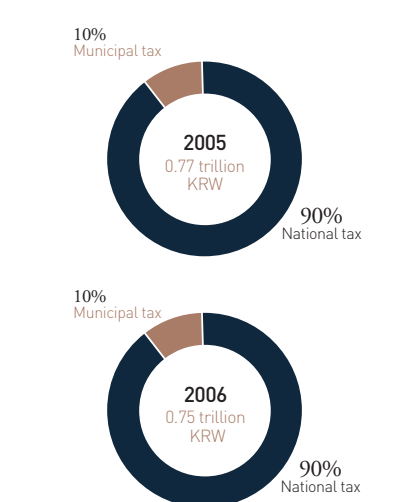
Dividend payout ratio



IR activities at home and abroad

Activity	Details	Frequency
Company briefing by CEO	Discussion with investors and analysts	2 times
Company briefing by financial institutions	One-on-one meeting with foreign and domestic institutional investors	10 times
Conference Call	Presentation of quarterly results for investors and analysts	4 times
Regular meeting with credit rating agencies	Discussion with Moody's and S&P on financial & operational performances	annually

Tax payment



Social Contribution Activities

Expanding Social Contribution Activities at Home

KEPCO recognizes that social contribution activities are an integral part of business management. As a leading public enterprise, KEPCO is striving to fulfill its corporate social responsibility and thereby to establish itself as a trustworthy company. Social contribution activities are aligned with our business strategies to motivate employees to voluntarily participate in volunteer activities, and are taking root as an inherent part of the corporate culture at KEPCO.

■ KEPCO Social Service Team

Founded in May 2004, the KEPCO Social Service Team has the membership of 45,379 employees and carried out social contribution activities 6,525 times in 2006. The team has raised money for its social contribution activities in "Love Fund." The 1.2 billion KRW thus far donated to the fund voluntarily is spent in various social contribution programs, such as "caring for neighbors" and "cultivating culture," helping us realize our corporate motto of "Light to the World, Love to the Neighbors."

■ Support for the socially disadvantaged

To protect the basic right to electricity, KEPCO provides electricity to socially disadvantaged people in order to guarantee at least the minimum level of living standards for them.

We postpone forced electricity disconnection during extremely hot or cold seasons (July – September, December – February) for residential customers, putting off electricity disconnection for 1.95 million households in 2006. For those residential customers subject to forced disconnection due to delinquency, we provide minimum service by installing "current limiters for residential customers" at their premises. In addition, we provide discounted tariff schedules for the disabled, veterans and low-income households.

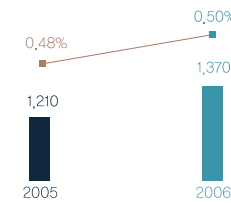
■ Various programs for social contribution

KEPCO engages itself in various activities to support art and culture. For example, we sponsor "Seoul Concours for New Musicians" every year to provide a debut venue for talented young musicians, and "Hope, Love, Sharing" concert with Korean Symphony Orchestra. Also, we operate KEPCO Art Center to contribute to the popularization of art and culture. KEPCO launched a campaign to prevent children from being lost or missing and find missing children in 1999. The campaign helped to find 106 lost children by the end of 2006. Also, we organize an annual charity bazaar jointly with "Beautiful Store." Furthermore, we launched a campaign entitled "One Branch, One Farming Community Sisterhood" and "One Company, One High School Sisterhood" which aims to support outstanding vocational high schools. Also, we appointed the nurses working at all our branches as "Health Care Volunteers" and had them provide health care counseling to the elderly living alone and the disabled.

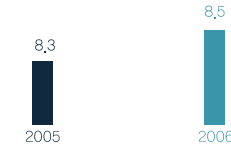
■ Human resources at the end of 2006 (persons)

Category	Caring for neighbors		Results Cultivating culture		Total
	2005	2006	2005	2006	
No. of events	5,496	5,220	957	1,305	6,453
Participants	38,159	38,541	6,682	6,838	44,841
					45,379

■ Social contribution as % of sales (Unit : 1 million KRW)



■ Volunteering by employees (Unit : hour / person)



■ Discount for low-income households and the disabled

Target Group	Eligibility	Discount rate (%)	Discounted value (100 million KRW)	
			2005	2006
Disabled	Grade 1-3	20	370	505
Veterans	Grade 1-3	20	8	13
Low-income household	Welfare benefit recipients	15-35	216	297

Expanding Social Contribution Activities Abroad

KEPCO is fulfilling its social responsibility overseas as well as at home. We are executing a range of social contribution programs to support local communities in which our overseas operations are based, including the Philippines.

We are actively carrying out social contribution activities in various overseas locations including the Philippines where KEPCO provides 12% of the nation's electricity. We are striving to protect the environment near our local facilities through the efforts like environmental monitoring, joint local projects and strengthening of relationship with local organizations. Our overseas social contribution activities also include medical assistance, electrification of rural communities, support for local universities and support for art and culture. Also, we are increasing the proportion of local employees, and there is no discrimination against local people in payment and promotion. KEPCO is helping local communities resolve electricity shortages and creating jobs in local communities. By doing so, KEPCO will continue to fulfill its social responsibility as a global company.

■ Wage and proportion of local managers at overseas operation

Category	Location	2004	2005	2006
Minimum/average wage of local employees (10,000KRW)	the Philippines	158/1,157	167/1,214	175/1,276
	Wuzhi, China	-	47/162	50/179
Local manager proportion (%)	the Philippines	14	15	21
	Wuzhi, China	-	11	14

■ Social contribution activities in the Philippines



■ Overseas social contribution highlights (the Philippines)

Program	Activities
Environmental conservation	Emission control and air monitoring Sampling and testing of local water and water discharged by power plants Noise level monitoring in power plant boundaries and nearby residential districts Monitoring of coral reef habitats near power plants
Joint local projects	Supply municipal water to nearby areas Renovate/repair public facilities; provide construction materials for improving community amenities Provide science tools and computers to local schools
Scholarship	Provide scholarship to 90 students and equipment to 16 schools
Medical support	Provide free-of-charge medical service to local communities (7 rounds, 7,175 people served) Organize "Dental Day"
Rural electrification	150 villages in 5 regions
Support for local universities	Cooperation with the University of the Philippines Support the establishment of Korean schools in the Philippines (500,000 dollars)
Others	Power plant tours and technical training for local university students Provide Taekwondo training for free and build gyms

Program	Key Activities	Program	Key Activities
Support for the disabled	Installed remote-controlled electricity switches for inactive disabled people Offer hiring preference to the disabled and increase disability employment (449 people) vide 20% discount to severely disabled people	Support for culture / art / sports	Sponsor "Seoul Concours for New Musicians" Operate KEPCO Art Center, KEPCO Plaza and Electricity Museum Operate and sponsor KEPCO volleyball team
Support for the socially disadvantaged / low-income households	"Ray of Light for Everyone" campaign (support 660 million KRW for electricity bill payment) Delay forced disconnection for residential customers during severely hot/cold seasons Provide lighting devices to those living on welfare benefits Discounted tariff schedules (15-35%) Safety checking of cable installations at households of elderly citizens, children living alone and in remote areas	Promoting science and engineering	Provide scholarships to electric engineering departments at 45 universities nationwide
		Support for rural communities	Provide scholarships to electric engineering departments at 45 universities nationwide "One Branch, One Farming Community Sisterhood" campaign (sisterhood with 189 villages) Campaign to provide electricity service to rural communities and remote islands Provide autonomous generation systems in island areas
Finding lost children	Give away nametags (370,000 tags) and soft pack tissues with lost children's pictures on 5,500 issues) Put up posters for lost children and distributed "Guidelines on Preventing Lost Children" → As of end of 2006, 106 lost children have been found and returned to their parents.	Others	New hires and promoted employees engage in volunteering Free-of-charge electricity equipment checking for apartment residents Disaster reconstruction works (heavy snowfall in Jeolla province, torrential rain in Gangwon, 1,265 people)

05 With People :
Human Resources



Work life Balance (WLB)

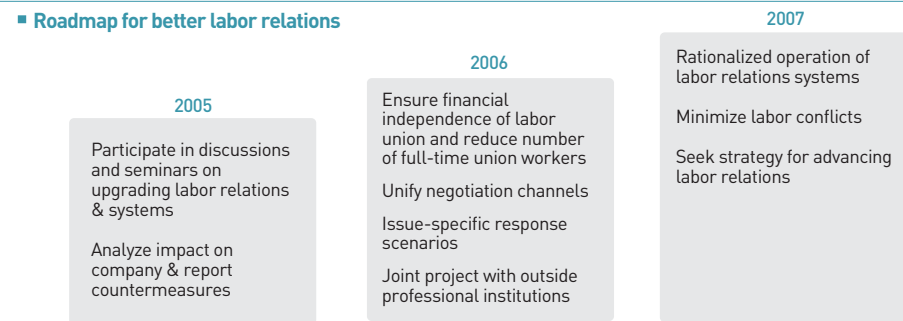
Building forward-looking, mutually beneficial labor-management relationship

KEPCO complies with ILO conventions concerning freedom of association, the right to organize and collective bargaining (ILO convention no. 87, 98). Labor and management at KEPCO pursue a forward-looking, mutually beneficial labor relationship through dialogue and cooperation under the recognition that the two parties work as partners in running the company based on mutual trust.

Practicing health and safety management respectful of human life

In respecting human life, KEPCO promotes health of its employees and strives to minimize the accident rate and labor loss by preventing industrial accidents with safe and stable operation of electric power facilities. We have developed a policy concerning health and safety, and established SSM (systematic safety management) system based on the OHSAS 18001 standard for safety management planning, early elimination of potential risk factors, and real-time safety diagnosis and assessment under the PDCA (plan-do-check-act) scheme. Also, near-miss cases are shared across the company. Furthermore, the BSC system, which is our strategic assessment system, includes criteria concerning "accident prevention efforts" by KEPCO employees and partners. All branch offices are subject to assessment against such criteria on a regular basis, and the assessment results are reported to the top management. In 2006, 6 employees were injured in work-related accidents, and there was no occupational disease reported.

Roadmap for better labor relations



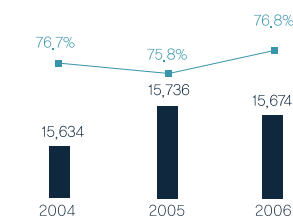
Efforts for improving labor relations in 2006

- Upgrade union relations**: Expand training & education for experts : Expand commissioned labor relations education & beneficiaries Increase the number of participants in expert training & education : 463 (2005) → (2006) Expenses for expert training & education : up 70% from 2005
- Expand participation and cooperation**: Improve the operation of labor management council (met 4 times, 27 cases, handled in 2006) Shift the focus from plenary meeting to working level preliminary meeting Hold events to solidify cohesion between labor & management Labor-management harmony marathon, visit to memorial towers for employees who died in the line of duty, mountain tracking to enhance the unity of labor & management (bi-annually)
- Build mutual trust**: Communicate changes in company policies to the labor union (73 times) Regularly disclose company information on homepage Provide open access to the decision making process : release of management meeting minutes Knowledge management system : share work-related knowledge Operate various channels for receiving employee complaints Provide opportunities to talk with CEO and designate a person in charge of resolving employee complaints at each branch office

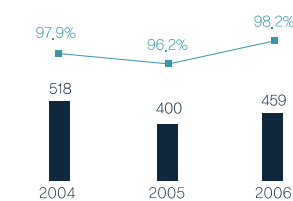
Efforts to ensure employees' health and safety

Health	Safety
<ul style="list-style-type: none"> Good working environment : regularly monitor and improve working conditions (ex: noise level monitoring) Health promotion : general (annual) & special (bi-annual) check-ups Support for the ill : grant sick leaves for medical care Operation of a medical foundation : 40% discount on medical bill, electric burn treatment, etc. Insurance support : statutory health insurance, industrial accident insurance, group insurance ※ Expand group insurance coverage : death (50—100 million KRW), disability (30—50 million KRW) 	<ul style="list-style-type: none"> 5 safety monitoring campaigns : enhance safety in T&D Develop & provide new safety gears : 3 dimensional safety shield, insulated clothing and insulated seats Real-time on-line management of planning, operation, assessment and improvement of safety management Pay out reasonable compensation : outside and inside compensation for industrial accidents, compensation from Electric Power Contribution Fund Awards & recognition from outside institutions Grand Prize for Industry Safety Management (hosted by the Korea Economic Daily, March 2006), Best Presidential Award for Disaster Management (hosted by National Emergency Management Agency, May 2007)

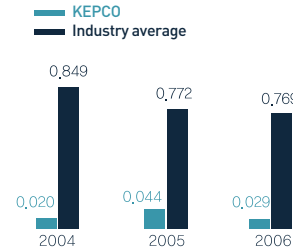
Union membership (unit: person)



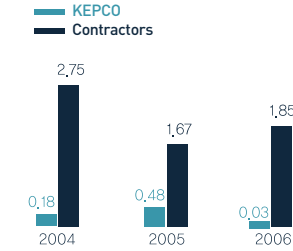
Employee complaint resolution (unit: case)



Accident rate (Unit: %)



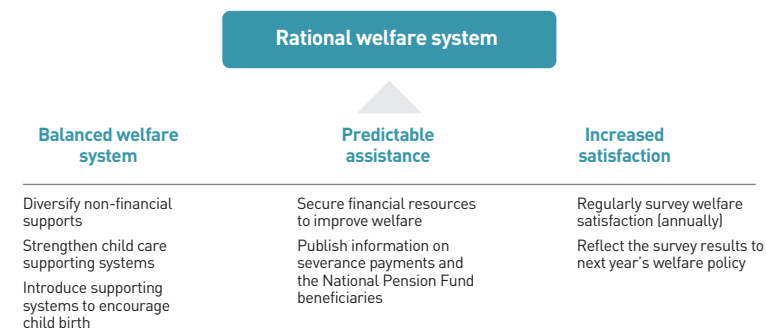
Accident rate (Unit: day*1000/hour)



Promoting Employee Welfare

KEPCO provides various welfare programs for employees, ranging from children's education to work support, self development, leisure and culture, healthcare and housing. Welfare benefits are increasingly expanded to employees' family members, helping our employees to achieve work-life balance (WLB) by improving the quality of life.

In 2006, KEPCO spent 230 billion KRW on employee welfare, which translates into 10.59 million KRW per employee. In the 2006 survey on employees' satisfaction with the company welfare system, the satisfaction level stood at 70.2 points out of a full 100, up by 1.2 points from 2005.



Outplacement after retirement

By providing tailored re-employment education and training, KEPCO is aggressively assisting its employees to be prepared for the coming era of aging society and to open a new chapter in their career after retirement. Due to KEPCO's continuous supports provided to its employees not just before but after retirement, the number of retirees participating in outplacement system jumped 57.7% from 111 in 2005 to 175 in 2006.

Backed by these efforts, the outplacement rate of KEPCO retirees recorded a continuous increase from 18% in 2004 to 33% in 2005 and 35% in 2006. In addition, KEPCO joined a retirement insurance plan with the consent of both labor and management, guaranteeing the payout of retirement benefits to outgoing employees. Labor and management are currently working together to convert the current retirement benefit payment scheme, in which the benefit is paid out in lump sum, to a retirement pension scheme.

Lifelong learning system

Since declaring itself to be a lifelong learning company, KEPCO has actively participated in external events, including "New Paradigm Achievement Presentation" in April and September 2006, to promote a lifelong learning system.

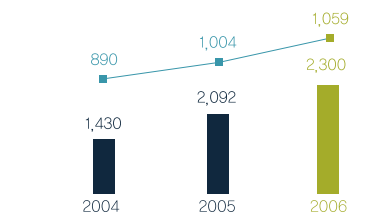
KEPCO organized 71 study groups and "e-KEPCO", an on-line learning portal that provides courses about 80 subjects, including culture and language, for our employees and their families. In addition, we opened another learning portal on transmission and substation operations to provide work knowledge, such as information on new technologies, to rotating employees at branch offices nationwide. These efforts paid off when KEPCO became Best-HRD (Human Resource Developer) in November 2006, co-certified as such by four government agencies including the Ministry of Education & Human Resource Development.



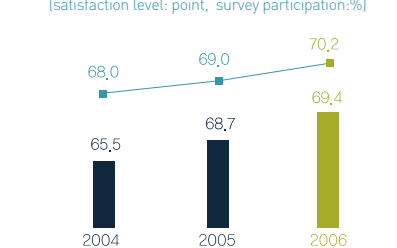
Wage and proportion of local managers

Caring for families	Introduce child birth incentive system : 0.5 - 1.5million KRW Increase congratulatory & condolence money (including 70th birthday of parents) Increase supports for children education expenses: 0.6 -1million KRW per annum
Caring for employees	Renovate training centers: Sokcho, Suambo Increase the unit price for long term employment incentive by 100,000 KRW Special medical check-ups: bi-annually (2006, even-numbered years)

Welfare spending (unit: 100 million KRW)



Welfare satisfaction level



Outplacement after retirement

Retiree outplacement	Specified & specialized training for prospective retirees Create a database on retirees Provide outplacement service
Income after retirement	Retirement insurance plan National Pension Fund Retirement pension

Bringing Up Globally Competitive Personnel

Respecting Human Rights and Diversity

HR Decisions Driven by Merit and Performance

As prolonged low employment and low growth trends make the seniority-based wage system obsolete, KEPCO has realized the need to improve its compensation system to be low-cost and highly efficient. During negotiation for the wage agreement in 2006, there was a consensus between labor and management about expanding the yearly wage system, and consequently reviewed the introduction of a wage peak system with the current retirement ages extended. By expanding the yearly wage system, KEPCO laid the foundation for strengthening the merit and performance-based wage system and is now continuously expanding it. Grade 1 employees were paid differently based on 3-tiered basic wage system in 2006, and it will be expanded to grade 2 and 3 employees in 2007. We plan to execute MBO (management by objective) program starting from 2009 to reflect an employee's performance in determining their compensation and promotion. Also, we selected young and talented employees and gave them promotions to middle management level based on their merit and performance for the first time among public enterprises in Korea. In addition, KEPCO allowed employees to rotate between administration and technical posts in an attempt to realize "One KEPCO".

Career Development

KEPCO has laid out a roadmap for nurturing talents for the future, according to which we categorize our employees into global talent and ordinary talent based on the company's strategic choice and an employee's personal preference. It is aimed at training 10% of the total employees to become globally competitive talents. In 2006, 67,023 employees received training, up 15% from 2005.

Reflection of capability and performance in HR management in 2006

Category	Objectives	Details
Promotion	Strengthen accountable management	Strengthen job evaluation & multi-rater evaluation Reward or give bonus points in promotion to high performers in internal evaluation
Compensation	Performance-based compensation & promotion	Switch to the yearly salary system Wage tiering to motivate employees
Evaluation	Stimulate internal competition	Adopt BSC and MBO Establish an integrated performance management system

Retiree outplacement

- Specified & specialized training for prospective retirees
- Create a database on retirees
- Provide outplacement service

Retiree outplacement

- Specified & specialized training for prospective retirees
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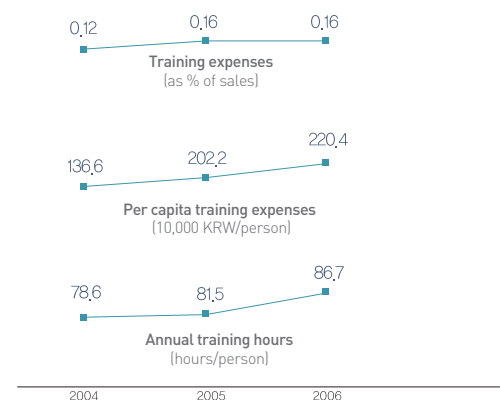
Average payment by grade in 2006

Grade	Position	Average yearly salary (1,000 KRW)
Senior management	CEO	253,000
	Standing director	181,743
Middle manager (grade 1-3)		87,739
Working level (grade 4-6)		49,119

Education and training in 2006

Category	Training program	Participation (person)		
		2005	2006	Change (%)
Global talent	Master's & doctoral programs, MBA	229	274	20
	Regional expert training			
	Executive training offered by universities			
Ordinary manpower	Work skill development	58,074	67,023	15
	Management skill development			
	On-the-job (OJT) training			
	Self development programs			

Statistics on education & training



Gender Equality

KEPCO promotes gender equality by taking concrete actions to support female employees, such as eliminating discrimination against women in hiring and promotion, providing counseling, and strengthening motherhood protection measures.

In 2006, female employees accounted for 22% (89 persons) of the total number of newly hired employees, overachieving our self-imposed female employment quota of 20% among the newly hired for 5 consecutive years since 2002. Also, the number of female employees who were promoted to middle management levels continuously increased from 1 in 2004 to 9 in 2005 and 13 in 2006. And, we are strictly complying with ILO convention no. 100 concerning equal remuneration for men and women workers for work of equal value by paying equal remunerations to male and female employees.

Employing the Disabled

As of 2006, KEPCO has 469 disabled employees, a 51% increase from 418 in 2005. The proportion of the disabled to the total workforce at KEPCO is 2.3%, which surpasses the 2% mandatory quota required by the Disabled Persons Employment Promotion and Vocational Training Act.

Motherhood Protection

To address increasing concerns over low birth rate and aging workers, KEPCO provides various programs to encourage mothers to give birth to children. Female employees are granted maternity leaves around the time of their delivery, which are tallied into the period of their continued employment and career so that women are not discriminated against in the evaluation for promotion. To promote maternity leaves, KEPCO aggressively supports the use of replacement workforce and have prepared a separate space for childcare and motherhood protection at the head office.

Eradication of Discrimination

Chapter 5 of our Code of Ethics titled "employee ethics" stipulates that no person will be discriminated against on the grounds of sex, academic background, religion, age and disability. This represents our compliance with ILO convention no. 111 concerning discrimination in respect of employment and occupation. Also, we are strictly complying with the human rights standards of the 10 Principles of the Global Compact. KEPCO has set a quota for regional recruitment and strives to attract talents from all over the nation.

Prevention of Forced Labor and Child Labor

KEPCO is strictly complying with the Labor Standard Act of Korea, ILO convention no. 105 concerning the abolition of forced labor, and the labor standards of the 10 Principles of the Global Compact.

10 Principles of Global Compact

- Human Rights**
 - Businesses should respect the protection of internationally proclaimed human rights within their sphere of influence.
 - Businesses should ensure that their own operations are not complicit in human rights abuses.
- Labor Standards**
 - Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
 - Businesses should uphold the elimination of all forms of forced and compulsory labor.
 - Businesses should uphold the effective abolition of child labor.
 - Businesses should eliminate discrimination in respect of employment and occupation.
- Environment**
 - Businesses should support a precautionary approach to environmental challenges.
 - Businesses should undertake initiatives to promote greater environmental responsibility.
 - Businesses should encourage the development and diffusion of environmentally friendly technologies.
- Anti-Corruption**
 - Businesses should work against corruption in all types including extortion and bribery.

Average salary by grade in 2006

- Counseling for female workers & training on the prevention of sexual harassment**
 - Provide a portal service for female employees
 - Provide counseling for female employees experiencing difficulties at work
 - Selectively monitor branches implementing sexual harassment prevention
 - Provide group education to all sexual harassment counselors
 - Received Grand Prize on sexual harassment prevention among public enterprises by the Ministry of Gender Equality and Family

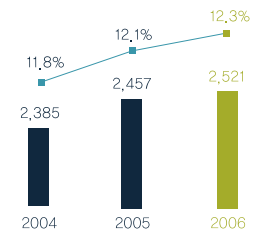
Strengthening female workers' leadership

- Provide women's leadership course at the central training center
- Provide commissioned women's leadership education courses
- Hold workshops to strengthen leadership of women managers

Eliminating discrimination in hiring and promotion

- Overachieved female employment quota (20%) for 5 consecutive years
 - 23%(2004) → 20%(2005) → 22%(2006)
- Continuous increase in the number of female employees promoted to management positions
 - 1 (2004) → 9 (2005) → 13 (2006)

Proportion of female employees



Talent pool

- Senior manager candidates (MBA specialized training program)
- Subject-matter specialists (Finance, accounting, strategy, law, etc.)
- Regional specialists (on-sight training, foreign language training)
- Line managers
- Employees in charge of specific tasks (training by task)

Strategic training system

- Select and Concentrate / Stringent evaluation / Align with reward
 - Company : select candidates
 - Reflect business needs
- Employees : take training course
 - Strengthen evaluation and reward
- High performers + Training completers
 - Promotion + Career development

06 Third Party Review



Ghe Hyung Lee

Social Studies Education, Seoul National University
Master's Degree, Public Administration, University of Wisconsin

Head, Trade and Investment Office at the Ministry of Commerce, Industry and Energy

Member, Presidential Committee on Balanced National Development (current)

CEO, Korean Standards Association

Preliminary Review Opinion

The foundation for sustainable management is to fulfill social and environmental responsibilities while pursuing economic growth as a top priority.

Spread sustainable management across KEPCO's subsidiaries and partners

Recommend report validation by independent validation institution instead of collecting review opinions from outside experts

In 2005, KEPCO became the first public enterprise in Korea to adopt sustainability management, and has since issued reports on its sustainability performance. As one of KEPCO's stakeholders, I am extremely pleased to see the issue of KEPCO's 3rd sustainability report this year.

KEPCO has played a crucial role in enhancing the competitiveness of Korean industries by supplying low-priced electric power in a reliable manner. KEPCO has also worked very hard together with GENCOs to be a leader in implementing environment-friendly management, and is focusing on developing renewable energy in an effort to contribute to greenhouse gas reductions.

In addition, KEPCO has been very active in social contribution, securing the basic right to energy for the socially disadvantaged. With its focus on human resources, KEPCO pursues work-life balance and thus has become a workplace of choice.

In this report, KEPCO has added human resources to the triple bottom line of economy, the environment and society, which made it clear where KEPCO's sustainability management is headed. And the fact that the four areas have been represented by light (economy), earth (the environment), neighbors (society) and people (human resources) is quite impressive, and goes well with KEPCO's slogan of "Light to the World, Love to the Neighbors."

Given the purpose of sustainability reporting, it is highly applaudable that KEPCO took in opinions of its various stakeholders and used them to make the report a better one. I hope that KEPCO will keep track of stakeholders' concerns and further improve the objectivity of its reports through third party reviews.

August 2007.

Preliminary Review Opinion

KEPCO should play a leading role in environment-related issues, such as green house gas emission reduction.

Inclusion of all 121 indicators of GRI Guideline (G3) and interests of stakeholders in the report was a positive step.

KEPCO's pursuing sustainable management by aligning it with mid & long-term management designed by setting up mid & long-term targets was effective

Congratulations on KEPCO's sustainability management achievements

I would like to pay my deepest respect to KEPCO for its efforts to build trust with its stakeholders by becoming the first public enterprise in Korea to adopt the concept of sustainable development as a management principle and issuing sustainability reports every year since 2005. KEPCO's 2007 sustainability report well describes its economic, environmental, social and human resources performance, based on which the company has set its ambitious 2010 targets. The report has received positive reviews from external organizations, and as a result, KEPCO has been recognized as a best practice by many organizations in Korea and the press in the U.S. I would like to applaud KEPCO for presenting its sustainability management performance in an objective light by following the GRI Guidelines, an international standard for sustainability reporting, in preparing the report and summarizing its performance under a set of key performance indicators.

Management strategy rooted deeper in the concept of sustainable development is needed

KEPCO's 2006 and 2007 efforts toward sustainability management have made progress, as shown by the improvements on the GRI Index in the report. But, I would not say that KEPCO is practicing sustainability management in a way that touches the hearts and minds of its employees and stakeholders. It is because KEPCO still needs to get to the core of sustainability management if it wants to achieve the level of sustainability management that people can actually feel as real. Following indicators is not enough. Therefore, KEPCO should put priority on making its management strategy deeply rooted in the essence of sustainable development

Equitable use of resources between generations would be the is key

The essence of sustainable development is ensuring equitable use of resources between present and future generations. Unfortunately, it is electric power companies that are most contradictory to this concept because power generation involves turning underground resources like coal, oil and uranium into more sophisticated forms of energy and in this process consumes large masses of natural resources and generates by-products. To our relief, electric power companies in advanced countries have been overcoming this contradiction by focusing on renewable energy development. For KEPCO, one of the most important criteria in sustainability management is the extent to which the company adopts an advanced way of power generation relying on renewable energy sources like solar heat, wind power and hydrogen.

Need to lead an enhancement of renewable energy nationwide

At the 2004 national agenda meeting of the Presidential Commission on Sustainable Development, the participatory government of Korea made it clear that its goal was to raise the percentage of renewable energy to 5% by 2011. Later, in earlier 2007, the National Energy Commission decided to set a national target for greenhouse gas reductions. It is evident that KEPCO is the most important player in achieving the national targets produced as a result of a long and painful process of consultation between the civil society, government and businesses. I am confident that the KEPCO's leading role in promoting renewable energy is the most effective way to achieve national energy targets and make substantial progress in implementing sustainability development, and will help create a refreshed, corporative image in public.

August 2007.

고철환



Chul Hwan Koh

B.Sc & M.Sc in Botanical Science,
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Ph. D, Marine Biology, University of Kiel, Germany

Chair, Presidential Commission on Sustainable
Development (2005)

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Byung Doo Lee

Ph. D, Political Economy, Northwestern University

Director, National Research Council for Humanities
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Government Innovation & Decentralization

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(Consulting)

Head, Sustainability Consulting Center, Deloitte Anjin LLC

Vice Chairman, Horwath Choongjung Consulting

Preliminary Review Opinion

Pursue sustainable management as an investment strategy. It should not be regarded as cost.

Full consideration should be given to basic principles of GRI Guideline (G3) when developing the report

Systematically pursue sustainability management by aligning it with company's mid & long-term strategies and enable systematic performance management

Striving to build sustainability management systems

Sustainability management can add value to the company only when it is pursued systematically rather than as a one-off event. Being clearly aware of this, KEPCO not just issues sustainability reports but has actually set up a department tasked with coordinating sustainability management activities and put in place a corporate structure aimed at pushing for sustainability management. KEPCO has selected key tasks from across all four areas of economy, the environment, society and human resources, set KPIs for these tasks and linked them to the company's strategic evaluation system. These efforts prove that KEPCO has been striving to put systems in place for the implementation of sustainability management.

Making key issues and information public

A sustainability report should provide honest information on the publishing organization's performance on the issues key to sustainability management. I believe this report does so, because it is clear that KEPCO tried to include as many GRI indicators as possible and presented its performance on the KPIs set for sustainability management. It is noteworthy that this report provides information on the issues that are producing negative outcomes as well, which assures the credibility of the report. In the report, KEPCO identified key concerns of its stakeholders and provided a separate list of indicators for stakeholder engagement, which demonstrates that KEPCO has a clear understanding of sustainability reporting as an important means for stakeholder communication.

In this report, KEPCO allocated two sections, namely "society" and "human resources", for its social performance in an effort to achieve a balance with what it reports on its environmental performance, and demonstrated that it thinks of its employees as important as its external stakeholders. KEPCO boosted up the proportion of purchase from SMEs by 7% as part of its SME support aimed at promoting win-win cooperation, and declared itself as a lifelong learning organization to enable its employees to harmonize their work with self development and set up study groups and cyber centers for training education in which families of employees as well as employees themselves are allowed to participate. These efforts, in particular, can be regarded as best practices.

Need to further improve the credibility of the report

Up until now, KEPCO has put a lot of effort into setting up the framework for sustainability management and reporting and collecting as much data as possible. Starting from now, it should pay more attention to how it can improve the credibility of the report. To do so, KEPCO needs to have its sustainability management systems take a firm root as soon as possible so that its sustainability performances can be made predictable. Also, in order to ensure the accuracy of data to be contained in the report, KEPCO should make the activities ranging from collecting data from various departments to reporting and aggregating them by the department in charge of sustainability management into a routine process. As for contents, it is important to include and objectively present key issues, but there should be additional explanation offered for some issues that deserve such. Particularly, when reporting on negatively performing indicators, KEPCO is well advised to present their causes and future plans for improvement.

August 2007.

Byung Doo Lee

Preliminary Review Opinion

Embrace various opinions from employees of all levels through the labor-management council and reflect the achievements of system improvement

Increase the budget for education & training for KEPCO to become a global company.

Take a multi-faceted approach toward the area of human resources to accomplish the WLB strategy

Leading role in sustainability management

KEPCO's 2007 sustainability report provides an organized set of data, including quantitative indicators, useful for evaluating the internal value of the company according to the GRI guidelines.

It is my assessment that by supplying this report to the UN GRI and the Global Compact as well as its stakeholders at home and abroad, KEPCO, a flagship company of Korea, is playing a leading role in making sustainability reporting a norm in the Korean society.

Lifelong learning and efforts for win-win cooperation with partner companies commendable

It is noteworthy that KEPCO strengthened lifelong learning in 2006 as a way to put KEPCO Sustainability Management Principles into practice, of which the key idea is to focus on people. Annual learning hours per employee increased by 5.2 hours over 2005, and training and education spending was set to 0.16% of total revenues. Also, KEPCO made various efforts, such as introducing new programs or expanding the existing ones to support work-life balance.

KEPCO's efforts for win-win cooperation with partner companies are also remarkable. Profit sharing with suppliers and leading the establishment of fair trade practices in subcontracting are evidence of KEPCO's fulfilling its social responsibility as a leading public enterprise in Korea. As such, I think that KEPCO's supply chain management is conducive to narrowing the gap between large companies and SMEs and enriching the corporate ecosystem, and ultimately contributes to industrial development of Korea over the longer term.

Need to support partner companies to practice sustainability management

Currently, however, most of the WLB programs are cash-based, such as incentive payments and subsidies for training and education, and therefore need to be diversified. There are other ways than monetary compensation to promote work-life balance, for example by improving workplace culture and introducing flexible working conditions and hours.

Also, I hope that KEPCO will come up with a way to provide mentoring to its key suppliers to ensure they subscribe to the same sustainability management values as KEPCO, like the ten principles of the Global Compact, and to monitor their performance.

August 2007.



Young Ki Choi

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Member, Presidential Commission on Policy Planning
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Holds a Master in Science of Environment
SAM is a leading asset management company specializing in sustainability investments

Over the last years, SAM has experienced an increasing interest for CSR in Asia. This has not only translated in an escalating demand of Asian investors for sustainability funds, but also in heightened requests for corporate sustainability performance assessments, measuring a company's CSR management capabilities compared to its peers. These are indicators that the implementation of sustainability in corporate strategies is fully developing in Asian regions. With a fast pace, Korea Electric Power (KEPCO) is integrating sustainability in its corporate management culture, laying the foundation for continuous successful shareholder return by reducing risks and embracing opportunities in an increasingly challenging environment in KEPCO's core markets.

KEPCO's Sustainability Report 2007 is prepared according to the internationally recognised reporting standard GRI and covers all the company's operations. It gives a good picture of its sustainability strategy, its objectives and results. The report shows that KEPCO has well reflected on its challenges and opportunities. Strategies are outlined towards KEPCO-specific challenges that are not different to other utilities around the globe. Topics discussed are security of energy, market liberalisation, Kyoto and post-Kyoto period, ethical integrity, and talent attraction. KEPCO's responses are sound, accompanied by meaningful examples giving comfort that appropriate measures are taken.

Such thorough analysis has led to an effective integration of sustainability into corporate strategy. This is supported by the implementation of a Sustainability Management, the use of Sustainability key performance indicators in the corporate Balanced Score Card and importantly by Won Gul Lee, the CEO's strong commitment.

The inclusion of the 6 GENCOs in the current and future Sustainability Reports is only consequent, despite the fact that they are managed independently. A more accurate picture of their performance and strategies is welcomed as they pose the biggest environmental impact of KEPCO's assets. A deeper understanding of the GENCO's stakeholder engagement would further complete KEPCO's ethical management.

In a next step, an external verification based on recognized international standards might be helpful to provide reporting assurance, but also to receive its opinion and recommendations. Furthermore, a discussion on weaknesses and "what we haven't achieved" might be useful as well. A brief and clear statement of KEPCO's main environmental and social challenges and impacts – their discussion in the report notwithstanding – would complete the consistency of the report.

Overall, KEPCO's Sustainability Report 2007 is an exemplary piece of work, describing its strategy in the context of the company's economic, environmental and social challenges, with only few missing elements. Targets are set and progress discussed. Embedded in national and international frameworks, Kepco leaves hardly any doubt that it will successfully follow its sustainability strategy.

August 2007.



07 GRI Index

GRI Index

Profile

	Content	Indicator	Page
Strategy and Analysis	Statement from the most senior decision maker of the organization about the relevance of sustainability to the organization and its strategy	1.1	3
	Description of key impacts, risks, and opportunities	1.2	8
Organizational Profile	Name of the organization	2.1	8
	Primary brands, products, and/or services	2.2	8
	Main divisions, operating companies, subsidiaries, and joint ventures	2.3	8
	Location of organization's headquarters	2.4	8
	Countries where the organization operates	2.5	8
	Nature of ownership and legal form	2.6	9
	Markets served	2.7	8-9
	Scale of the reporting organization	2.8	9
	Significant changes regarding size, structure, or ownership	2.9	9
	Award received	2.10	13
Report Profile	Contact point for questions regarding the report or its contents	3.1	76-77
	Reporting period	3.2	1
	Date of most recent previous report	3.3	1
	Reporting cycle	3.4	1
Report Scope and Boundary	Process for defining report content	3.5	12
	Boundary of the report	3.6	1
	Reporting scope	3.7	1
	Basis for reporting on joint ventures and subsidiaries that can significantly affect comparability from period to period	3.8	1
	Data measurement techniques and the basis of calculations	3.9	76
	The effect of any re-statements of information provided in earlier report and the reasons for such re-statement	3.10	1
	Significant changes from previous reporting periods	3.11	1
GRI Content Index Assurance	Table identifying the location of 121 indicators	3.12	59-62
	External assurance for the report	3.13	1, 52-57

Management System

	Content	Indicator	Page
Governance	Governance structure of the organization	4.1	9
	Indicate whether the BOD Chair is also an executive officer	4.2	9
	Number of members of the BOD	4.3	9
	Mechanism for shareholders and employees to provide recommendations or directions to the BOD	4.4	9
	Linkage between compensation of executives and the organization's performance	4.5	50
	Processes in place for the BOD to ensure conflicts of interest are avoided	4.6	9
	Process for determining the qualifications and expertise of the members of the BOD	4.7	9
	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance	4.8	26
	Procedures of the BOD for overseeing and managing economic, environmental, and social performance	4.9	9
	Processes for evaluating the BOD's own performance with respect to economic, environmental, and social performances	4.10	9
Commitments to External Initiatives	Precautionary approach or principles	4.11	20
	Externally developed economic, environmental, and social initiatives to which the organization subscribes or endorses	4.12	5
	Memberships in associations and/or advocacy organizations	4.13	13
Stakeholder Engagement	List of stakeholder groups	4.14	40
	Basis for identification and selection of stakeholders	4.15	40
	Approaches to stakeholder engagement	4.16	40
	Key topics and concerns that have been raised through stakeholder engagement	4.17	53-57, 74-75

Economic performances

	Content	Indicator	Page
Reporting Scope and Boundary	Direct economic value generated and distributed	EC1	18, 43
	Financial implications and other risks and opportunities for the organization's activities due to climate change	EC2	26
	Coverage of the organization's defined benefit plan obligations	EC3	49
	Significant financial assistance received from government	EC4	43
Market Presence	Ratios of standard entry level wage compared to local minimum wage at significant locations of operation	EC5	45
	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	EC6	42
	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	EC7	51
	Development and impact of infrastructure investments and services provided primarily for public benefit	EC8	40-41
Indirect Economic Impacts	Significant indirect economic impacts	EC9	8

Environmental performances

	Content	Indicator	Page
Fuel	Fuel used by weight or volume	EN1	28, 70-71
	Percentage of recycled fuel	EN2	28
Energy	Direct energy consumption by primary source	EN3	28
	Indirect energy consumption by primary source	EN4	70-71
	Energy saved due to efficiency improvements	EN5	32
	Initiatives to improve energy efficiency and reductions in consumption achieved	EN6	31-32
Water	Initiatives to reduce indirect energy consumption and reductions achieved	EN7	32
	Total water withdrawal by source	EN8	28
	Water sources significantly affected by withdrawal of water	EN9	30
Biodiversity	Percentage and total volume of water recycled and reused	EN10	28
	Size of land owned, leased, managed in, or adjacent to, protected areas and areas of high diversity value	EN11	31-32
	Significant impacts of activities, products, and services on biodiversity in protected areas and areas of high diversity value	EN12	31
	Habitats protected or restored	EN13	19, 31
	Strategies, current actions, and future plans for managing impacts on biodiversity	EN14	31
Emissions, Effluents, and Waste	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations	EN15	31
	Total direct and indirect greenhouse gas emissions by weight	EN16	30
	Other relevant indirect greenhouse gas emissions by weight	EN17	30
	Initiatives to reduce greenhouse gas emissions and reductions achieved	EN18	30, 33
	Emissions of ozone-depleting substances by weight	EN19	30
	Air emissions by type and weight	EN20	30
	Total water discharge by quality and destination	EN21	30
	Total weight of waste by type	EN22	30
	Total number and volume of significant spills	EN23	30
	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention	EN24	30
Products and Services	Discharges of water and runoff	EN25	30
	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	EN26	29
Compliances	Percentage of products sold and their packaging materials that are reclaimed by category	EN27	28
	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	EN28	26
Transportation	Significant environmental impacts of transporting products and other goods and materials, and transporting members of the workforce	EN29	31
Overall	Total environmental protection expenditures and investments by type	EN30	28, 30

Social

	Content	Indicator	Page
Employment	Total workforce by employment type, employment contract, and region	LA1	43
	Total number and rate of employee turnover	LA2	12
	Benefits provided to full-time employees	LA3	49
Labor/Management Relations	Percentage of employees covered by collective bargaining agreements	LA4	48
	Minimum notice period(s) regarding operational changes	LA5	48
Occupational Health and Safety	Percentage of total workforce represented in formal joint management-worker health and safety committees	LA6	48
	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	LA7	48
	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	LA8	48
	Health and safety topics covered in formal agreements with trade unions	LA9	48
	Average hours of training per year per employee by employee category	LA10	50
Training and Education	Programs for lifelong learning that support the continued employability of employees and assist them in managing career endings	LA11	49
	Percentage of employees receiving regular performance and career development reviews	LA12	48
	Composition of governance bodies and breakdown of employees	LA13	48
Diversity and Equal Opportunity	Ratio of basic salary of men to women by employee category	LA14	51
	Percentage and total number of significant agreements that include human rights clauses or that have undergone human rights screening	HR1	48
Investment and Procurement Practices	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	HR2	13, 41, 48
	Total hours of employee training on policies and procedures concerning aspects of human rights	HR3	48, 51
Non-Discrimination	Total number of incidents of discrimination and actions taken	HR4	48, 51
Freedom of Association and Collective Bargaining	Right to exercise freedom of association and collective bargaining	HR5	48
Child Labor	Measures taken to contribute to the elimination of child labor	HR6	51
Forced and Compulsory Labor	Measures to contribute to the elimination of forced or compulsory labor	HR7	51
Security Practices	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights	HR8	48, 51
Indigenous Rights	Total number of incidents of violations involving rights of indigenous people and actions taken	HR9	45
Community	Programs that assess and manage the impacts of operations on communities	S01	38
	Policies and systems related to bribery and corruption	S02	38
Corruption	Percentage of employees trained in organization's anti-corruption policies and procedures	S03	51, 66
	Actions taken in response to incidents of corruption	S04	38, 66
Public Policy	Public policy positions and participation in public policy development and lobbying	S05	13
	Total value of financial and in-kind contributions to political parties, politicians, and related institutions	S06	43
Anti-Competitive Behavior	Total number of legal actions for anti-competitive behavior, anti-trust and monopoly practices and their outcomes	S07	38
Compliance	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	S08	38, 40
Customer Health and Safety	Policies to ensure customer health and safety	PR1	32
	Total number of incidents of non-compliance with regulations concerning health and safety impacts of products and services	PR2	48
Product and Service Labeling	Type of product and service information required by procedures	PR3	40
	Type of product and service information required by procedures	PR4	40
	Policies and procedures related to customer satisfaction	PR5	40
Marketing Communications	Policies and programs related to marketing communications, including advertising and sponsorship	PR6	38, 40
	Total number of incidents of non-compliance concerning marketing communications, including advertising and sponsorship	PR7	38, 40
Customer Privacy Compliance	Total number of substantiated complaints regarding breaches of customer privacy	PR8	40
	Monetary value or significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	PR9	40

Indicators for Stakeholder Engagement

	Indicator	Page
Economy	Business growth	16
	Financial performance	16
	Management efficiency	16
	International comparison of tariff schedules	17
	Managerial innovation objectives & implementation systems	21
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	ERP system	21
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	Commercializing proprietary technologies	32
	Environment	EMF control
Developing greenhouse gas reduction technologies		33
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Society	Collaboration and support between group companies	33, 41
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08 Appendix

Code of Ethics

KEPCO is proud that it has contributed to the development of national economy and society by providing the best service and the quality electric power to all customers.

Based on the pride and self-confidence, we will make KEPCO a global power company that grows and develops with all stakeholders of the company by pursuing the core values, the "Management based on Customer Respect" which gives priority to customers, the "Changes Oriented Management" which pursues innovations, and the "Profit Centered Management" which represents the wholesome profits.

In order to realize our goals, we recognize that the establishment of fair and transparent culture of ethics is essential, and we establish the Code of Ethics based on the standards of upright actions and evaluation that all employees of the company shall abide by and pledge to practice the codes.

1. We will share the core values and visions of the company, accomplish our mission with challenging and progressive minds, abide by concerned regulations while maintaining high ethical values, and carry out given jobs fairly and sincerely.
1. We will provide the best quality electricity and service, practice customer respect, and pursue mutual prosperity with customers.
1. We will realize wholesome profit making through innovative management activities and take the lead for sustainable growth and development.
1. We will respect the personalities of employees, give the equal opportunities, create safe and pleasant work environment, and make efforts so that employees can feel the pride of their company.
1. We will abide by related laws and regulations and international conventions concerned, protect the environment, and participate in activities for public interests in full scale to make contributions to the development of the nation and the society.

■ Chapter 1 General rules

This Code of Ethics gives the standard for evaluation and wholesome activities that employees of KEPCO shall abide by in order to create fair and transparent culture of ethics. All employees of KEPCO shall fully understand and observe the Code of Ethics.

■ Chapter 2 Basic ethics for KEPCO people

1. Share the core values and visions of the company, fulfill given jobs, pursue the development of the individuals and the company through continuous self-development.
2. Process given jobs fairly and sincerely by observing related laws and regulations based on high ethical values, do not take excessive profits, and try to maintain individual dignity and the company's honor.
3. Realize the fact that both labor and management are the owners of the company and take the lead for the coexistence and shared prosperity of labor and management based on trust and cooperation.

■ Chapter 3 Ethics for customers and suppliers

1. With the spirit of customer respect, take all customer's values as the primary standards of all activities to provide the highest quality electric power and service to customer's satisfaction to secure trust from the customer.
2. Respect the order of market economy referring to the principle of free competition and stately pursue well-intended competition with competitors based on mutual respect.
3. Give equal opportunities to the suppliers, process the job fairly in the equal position, and pursue common development with suppliers through various supports.

■ Chapter 4 Ethics for shareholders and investors

1. Gain wholesome profits through efficient management activities and transparent work process to protect the investment profit of the shareholders and investors.
2. Uplift corporate value based on continuous changes and innovations to pursue wholesome growth and development of the company in a long term.

3. Disclose and provide corporate information transparently, expand the opportunities for shareholders and investors to participate in management decision making process including the corporate policies to support them in executing their rights as shareholders and investors.

■ Chapter 5 Ethics for employees

1. Treat each and every employee as dignified personalities, provide the equal opportunities according to the individual's competence and disposition, and do not discriminate or give preferential treatment due to gender / level of education / religion / age / physical handicaps.
2. Support the development of each individual in full scale to cultivate them into the competitive talent that company needs and create the environment to promote creative autonomous thoughts and actions
3. Create pleasant and safe work environment and make continuous efforts so that employees can develop the pride for the company based on mutual trust and understanding

■ Chapter 6 Ethics for nation and society

1. Contribute to the national and social development based on continuous growth and development through rational and responsible management, and fulfill social responsibilities as a member of local community.
2. Establish safety culture that gives priority to the safety of customers and employees based on the concept of respecting human life and dignity, observe domestic and international related laws and regulations by recognizing the importance of environmental issue, and make efforts to protect the environment and prevent contamination.
3. Observe domestic and international laws and regulations as well as international conventions in management activities, respect the culture of the country where the overseas business was operated, and contribute to the economic development of the corresponding countries.

January 2005.

■ Balance Sheet

The 46th period As of Dec. 31, 2006

The 45th period As of Dec. 31, 2005

(unit : KRW)

Description	Current (46 th period)	Previous (45 th period)
i. Current assets	3,668,714	2,925,671
ii. Non-current assets	59,867,486	58,701,169
Total assets	63,536,201	61,626,841
i. Current liabilities	6,857,137	5,683,188
ii. Non-current liabilities	13,717,039	13,737,990
Total liabilities	20,574,177	19,421,178
i. Capital stock	3,207,838	3,207,838
ii. Capital surplus	14,518,842	14,422,726
iii. Retained earnings	25,993,430	24,653,742
iv. Capital adjustments	▲ 758,087	▲ 78,645
Total shareholders' equity	42,962,024	42,204,662
Total shareholders' equity and liabilities	63,536,201	61,626,841

■ Income Statement

The 46th period Jan. 1 ~ Dec. 31, 2006

The 45th period Jan. 1 ~ Dec. 31, 2005

(unit : KRW)

Description	Current (46 th period)	Previous (45 th period)
i. Revenues	26,979,032	25,112,331
ii. Cost of sales	24,545,666	22,631,220
iii. Gross profit	2,433,366	2,481,110
iv. SG&A	1,201,774	1,155,193
v. Operating income	1,231,591	1,325,916
vi. Non-operating income	2,178,757	2,630,615
vii. Non-operating expenses	786,410	775,491
viii. Ordinary income	2,623,938	3,181,040
ix. Extraordinary income	-	-
x. NExtraordinary loss	-	-
x i. Income before income taxes	2,623,938	3,181,040
x ii. Income tax expenses	553,394	732,429
x iii. Current net income	2,070,543	2,448,610



■ Cash Flow Statement

The 46th period Jan. 1 ~ Dec. 31, 2006

The 45th period Jan. 1 ~ Dec. 31, 2005

(unit : KRW)

Description	Current (46 th period)	Previous (45 th period)
i. Cash flow from operating activities	2,277,679	2,367,229
1. Net income	2,070,543	2,448,610
2. Addition of expenses not involving cash outflows	2,383,313	2,356,431
3. Deduction of revenues not involving cash inflows	▲1,858,966	▲2,307,309
4. Changes in operating assets and liabilities	▲317,210	▲130,504
ii. Cash flow from investing activities	▲2,158,970	▲2,289,499
1. Cash inflow from investing activities	1,670,149	1,484,606
2. Cash outflow from investing activities	▲3,829,119	▲3,774,105
iii. Cash flow from financial activities	▲197,996	▲315,080
1. Cash inflow from financial activities	3,960,132	2,934,995
2. Cash outflow from financial activities	▲4,158,129	▲3,250,076
iv. Net increase (decrease) in cash (i + ii + iii)	▲79,288	▲237,350
v. Cash at beginning of the year	208,512	445,862
vi. Cash at end of the year	129,224	208,512

■ Statement of Appropriation of Retained Earnings

The 46th period Jan. 1 ~ Dec. 31, 2006 (Date of appropriation : Mar. 26, 2006)

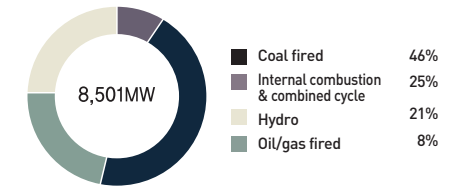
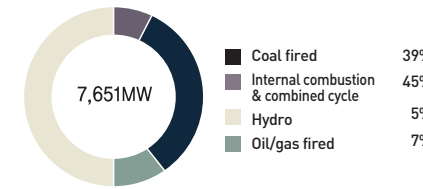
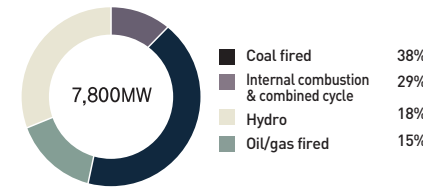
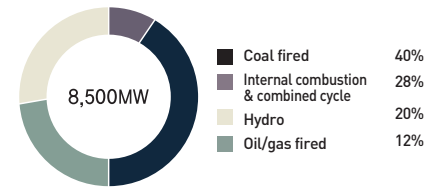
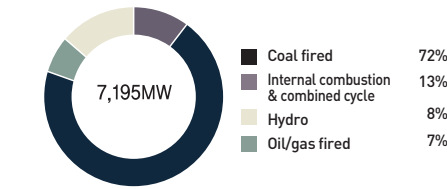
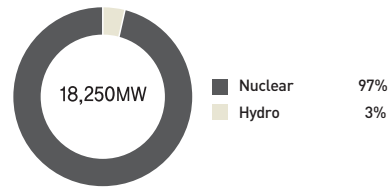
The 45th period Jan. 1 ~ Dec. 31, 2005 (Date of appropriation : Mar. 17, 2005)

(unit : KRW)

Description	Current (46 th period)	Previous (45 th period)
i. Unappropriated retained earnings	26,979,032	25,112,331
1. Change in retained earnings of affiliated companies due to cumulative effect of accounting changes	680	16,581
2. Change in retained earnings due to cumulative effect of accounting changes	-	12,422
3. Net income	2,070,543	2,448,610
ii. Appropriation of retained earnings	2,071,223	2,444,451
1. Legal reserve	-	2,047
2. Dividends	621,081	731,535
3. Other legal reserve	120,000	125,000
4. Voluntary reserve	1,330,141	1,585,686
iii. Unappropriated retained earnings to be carried over to subsequent year	-	-



Environmental Data of 6 GENCOs



■ Korea Hydro and Nuclear Power

Capacity: 18,250MW/Production: 149,902GWh/Sales: 5,560.7 bil. KRW/Employees: 7,497

Performance	2004	2005	2006	
Water use(1,000t)	4,624	5,897	3,090	
Greenhouse gas emission (CO2 1,000t)	-	-	-	
Air pollutants	SOx(t)	-	-	-
	NOx(t)	-	-	-
	Dust(t)	-	-	-
Discharged water	COD(kg)	33,145	24,944	39,400
	SOx(t)	10,515	4,807	9,400
Coal ash	Generated(1,000t)	-	-	-
	Recycled(%)	-	-	-

■ Korea Southeast Power

Capacity: 7,195MW/Production: 43,610GWh/Sales: 2,069.8 bil. KRW/Employees: 2,046

Performance	2004	2005	2006	
Water use(1,000t)	4,583	6,228	5,534	
Greenhouse gas emission (CO2 1,000t)	28,123	35,694	35,731	
Air pollutants	SOx(t)	32,976	15,116	17,301
	NOx(t)	29,333	29,047	27,347
	Dust(t)	796	950	821
Discharged water	COD(kg)	2,790	2,108	2,234
	SOx(t)	1,854	1,167	1,029
Coal ash	Generated(1,000t)	984	1,517	1,440
	Recycled(%)	75	58	74

■ Korea Midland Power

Capacity: 8,500MW/Production: 39,245GWh/Sales: 2,508.5 bil. KRW/Employees: 2,229

Performance	2004	2005	2006	
Water use(1,000t)	3,325	3,532	4,793	
Greenhouse gas emission (CO2 1,000t)	27,895	28,248	26,638	
Air pollutants	SOx(t)	20,238	18,173	17,194
	NOx(t)	33,980	29,858	24,497
	Dust(t)	696	642	638
Discharged water	COD(kg)	471	600	872
	SOx(t)	377	403	453
Coal ash	Generated(1,000t)	1,224	1,143	1,117
	Recycled(%)	59	44	56

■ Korea Western Power

Capacity: 7,880MW/Production: 38,447GWh/Sales: 2,424.1 bil. KRW/Employees: 1,866

Performance	2004	2005	2006	
Water use(1,000t)	4,994	5,189	5,364	
Greenhouse gas emission (CO2 1,000t)	27,373	27,430	28,303	
Air pollutants	SOx(t)	15,543	11,734	10,877
	NOx(t)	35,729	35,540	25,673
	Dust(t)	1,185	1,056	1,052
Discharged water	COD(kg)	1,110	1,574	341
	SOx(t)	822	959	225
Coal ash	Generated(1,000t)	823	880	904
	Recycled(%)	76	73	68

■ Korea Southern Power

Capacity: 7,651MW/Production: 48,578GWh/Sales: 3,308.3 bil. KRW/Employees: 1,972

Performance	2004	2005	2006	
Water use(1,000t)	4,625	4,826	4,862	
Greenhouse gas emission (CO2 1,000t)	30,943	30,125	30,645	
Air pollutants	SOx(t)	12,559	11,693	5,866
	NOx(t)	24,106	19,297	16,551
	Dust(t)	1,020	957	30,645
Discharged water	COD(kg)	1,877	1,299	2,166
	SOx(t)	701	552	940
Coal ash	Generated(1,000t)	984	1,033	892
	Recycled(%)	61	52	64

■ Korea East-West Power

Capacity: 8,501MW/Production: 42,520GWh/Sales: 2,575.4 bil. KRW/Employees: 2,157

Performance	2004	2005	2006	
Water use(1,000t)	8,494	6,347	8,217	
Greenhouse gas emission (CO2 1,000t)	27,455	28,578	31,779	
Air pollutants	SOx(t)	19,631	18,009	15,976
	NOx(t)	35,003	30,888	27,585
	Dust(t)	590	589	667
Discharged water	COD(kg)	19,146	12,641	14,222
	SOx(t)	6,512	4,979	5,432
Coal ash	Generated(1,000t)	1,365	1,325	1,486
	Recycled(%)	67	55	68

Glossary

▪ Global Compact

UN Secretary-General Kofi Annan presented the ten universal principles in the areas of human rights, labor, the environment and anti-corruption, calling for business leaders to join an initiative called the Global Compact aimed at promoting business transparency and corporate social responsibility. The operational phase of the initiative was launched at UN Headquarters in July 2000.

▪ GRI (Global Reporting Initiative)

A UNEP (United National Environmental Programme) body in charge of developing globally applicable guidelines for sustainability reporting.

▪ Kyoto Protocol

This is the substantial implementation plan of the Convention on Climate Change, the international convention established to prevent and regulate global warming, and it specified the target of greenhouse gas reduction in advanced nations. This protocol was adopted at the 3rd General Meeting of concerned countries held in Kyoto, Japan, in December 1997. Currently, Korea is excluded from the countries required to reduce greenhouse gas emissions.

▪ CES (Community Energy System Supplier)

A type of power business that generates electricity based on the demand below 35,000kW in special supply area and supplies electricity to users within the designated district directly without going through the power exchange market.

▪ Supercritical boiler

Operates at pressures higher than critical pressures. Highly heat-efficient and economical due to the use of dry vapor instead of wet vapor.

▪ COD (Chemical Oxygen Demand)

An indicator showing the quality of contaminated water. Expressed in the amount of oxygen consumed by a contaminant in oxidizing organic matters in mg/L or ppm.

▪ SS (Suspended Solid)

Particles floating in water whose diameter is 0.1 μ m or larger, causes turbidity.

▪ TOE (Ton of Equivalent)

Ton of equivalent for oil. Converted on the basis of the caloric value of 1 ton of oil.

▪ C-km (Circuit Kilometer)

Length of one cable made up of three lines. One of the most generally used units for the length of transmission line.

▪ Capacity reserve

Reserves are generating capacity dispatched to ensure reliable supply of electric power. Capacity reserve refers to the total energy generating capacity of power facilities, and operating reserve refers to the capacity available for operation at a given time.

▪ ETs : Emissions Trading

The system that sets the total quantity of greenhouse gas emissions of all advanced nations and imposes certain amount of emission quotas. Countries exceeding the quota can purchase emission rights and those under the quota can sell emissions.

▪ GRI (Global Reporting Initiative)

Refers to the ratio of average power as compared with the peak power during a given period. Used as the indicator representing the efficiency of power facilities. Load factor improvements lead to significant cost savings.

▪ Electricity reserve rate

Electric power in reserve against contingencies or to meet sudden surges in electricity demand.

▪ Ice storage cooling facility

An advanced cooling system that stores ice or cold water by using off-peak electricity during the night and uses it for cooling during the day. Distributes the increasing cooling load to the night time zone and helps improve load imbalance between day and night.

▪ Greenhouse gases

Elements of air generated either naturally or artificially, which may contribute to global warming when there is an excessive increase of their proportion in the atmosphere. Refers to gases like carbon dioxide (CO₂), methane (CH₄), chlorofluorocarbon (CFC), nitrous oxide (N₂O), and sulfur hexafluoride (SF₆).

▪ GIS (Gas Insulated Switch Gear)

Refers to a SF₆-gas insulated metal box containing substation equipments, such as a main bus and circuit breakers. Increasingly being used because it requires less space for installation and is highly reliable.

▪ Electricity effect evaluation system

A technique to select ideal sites for constructing transmission and substation facilities. Quantifies the effect of electricity on the natural, social and technology environment by using GIS and CAD and analyzes the weighted importance of the effect. Results are rendered in 3D images.

▪ Direct purchase system

If a consumer uses more than 50,000kW of electricity, the consumer is allowed to directly purchase electricity at the real-time price determined in the power exchange market.

▪ CDM (Clean Development Mechanism)

A system where an advanced nation with an obligation to reduce greenhouse gas emission in compliance with the Convention on Climate Change fulfills her duties by implementing greenhouse gas reduction projects in underdeveloped countries through investing capital and technology. One of the emission trading methods that received the largest support at the Kyoto Protocol meeting in 1997.

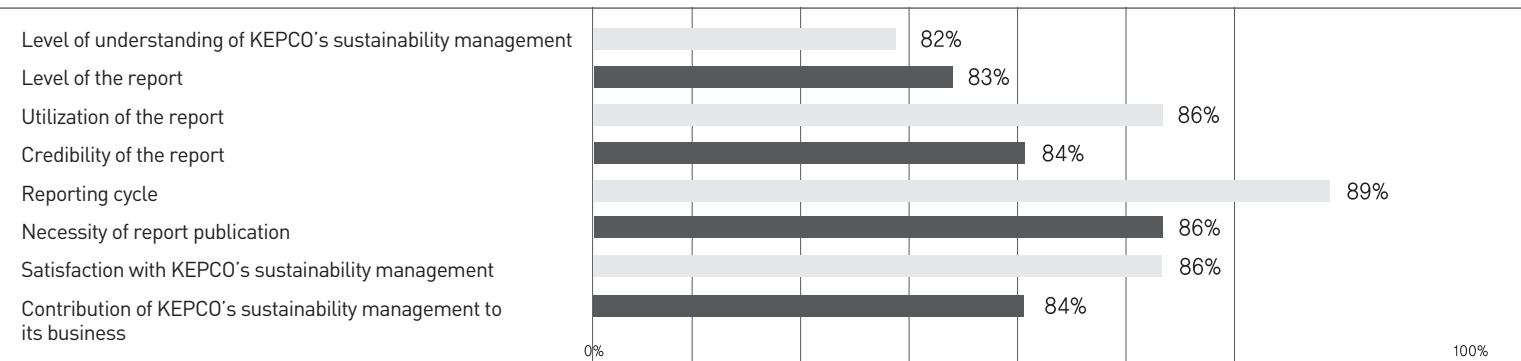
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Listening to Our Stakeholders

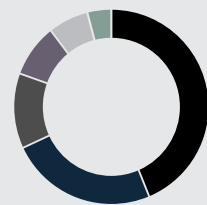
KEPCO's 2007 sustainability report was prepared in compliance with the GRI 2006 Guidelines (G3). From planning to final publication, we tried our best to collect and reflect opinions of our internal and external stakeholders and build a consensus over its contents to ensure objectivity and credibility of the report.

Survey for internal stakeholders



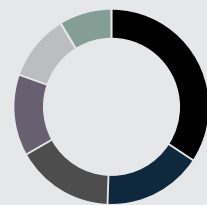
Which issue is the most important in the economic area?

- Create new growth engines (42%)
- Overseas business & resource development (27%)
- Reliable supply of electric power & quality improvement (13%)
- Business diversification, e.g. IT business (9%)
- Accelerate managerial innovation (6%)
- Successful implementation of sub business unit system (4%)



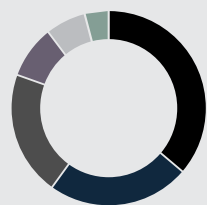
Which issue is the most important in the environmental area?

- Environment-friendliness in facility construction (33%)
- Promote renewable energy (19%)
- Response to the climate change convention (17%)
- Group-level integrated environmental systems (15%)
- Strengthen environment preservation activities (12%)
- Strengthen DSM (5%)



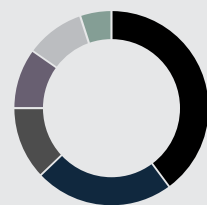
Which issue is the most important in the social area?

- Improve welfare benefits (37%)
- Increase global talents (29%)
- Expand life logn learning (11%)
- Advance labor-management relations (9%)
- Performance-based compensation (9%)
- Promote "Fun Magament" (6%)



Which issue is the most important in the human resources area?

- Expand social contribution (31%)
- Customer satisfaction management (27%)
- Lead ethical management (20%)
- Win-win cooperation with group companies (10%)
- Respect of human rights and diversity (9%)
- Improve hovernance (5%)



Interviews with Outside Stakeholders

Government

Jong Chul Kim
(Secretary Official for CSR, MOCT)



It's a challenge for a business to take voluntary actions to practice ethical management and corporate social responsibilities. But, being open about one's own deficiencies and listening to critiques and advice from the outside is the only way to stay sustainable. As a public enterprise who plays a critical role in economy and security of Korea, KEPCO must always remember that it bears responsibilities and duties to be a role model in practicing sustainability management.

R&D

Dae Wook Kim
(Doctor, Korea Institute for Industrial Economics & Trade)



I believe sustainability management is indispensable for KEPCO in taking another step toward becoming a global company. Under the circumstances in which the Kyoto Protocol is taking effect and subsequently there's an increasing need for creating new growth engines, sustainability reporting effort by KEPCO, the largest public enterprise in Korea, is highly encouraging. For KEPCO to keep its drive for this strategic management effort, its internal efforts should be supported by government policies.

Academia

Jong Dae Kim
(Professor, Chungbuk University)



Congratulations on the publication of KEPCO's 2007 sustainability report, and I wish KEPCO to become an industry best practice and a world leader in sustainability management. Going forward, KEPCO will need to include environmental and CSR specialists within its governance structure and implement full-fledged environmental accounting systems for reasonable measurement of its sustainability practices. Also, I think KEPCO needs to set up a Stakeholder Relations (SR) department for integrated management of stakeholder value.

NGO

Young Ok Chang
(The Center for Corporate Social Responsibility)



KEPCO's sustainability report bears a significance in that it provides the publishing organization with the opportunity to manage risks and enhance its competitiveness, fulfills the right to know of stakeholders, and serves as a constructive communication strategy. Making a report efficient for KEPCO and its stakeholders alike takes clear understanding of the GRI Guidelines and appropriate selection and publication of data required under each indicator.

Consultancy

In Kyung Song
(Division Head, Eco-Frontier)



With continued commitment and efforts, KEPCO has become a sustainability management role model for public enterprises in Korea. But, KEPCO is an international player. It needs to step up its efforts to become a global leader in sustainability management. To do so, KEPCO needs to strive to be named as one of the Global 100 Most Sustainable Corporations announced by the World Economic Forum, receive the top evaluation rating by Innovest, and be included in the Dow Jones Sustainability Index. For KEPCO, sustainability management is not the end, but only a beginning.

GENCO

Woong Ki Kang
(Team Leader for Planning and Budget, Korea East-West Power)



This report, prepared by the mother company of Korea East-West Power, has provided me with an opportunity to enhance my understanding of the objectives of sustainability management that should be pursued by KEPCO and GENCOs together. I sincerely hope that KEPCO will become a "world-renowned comprehensive energy provider growing together with customers" through its continued effort for practicing sustainability management and by winning sustained and rational trust from all stakeholders, and that by doing so, it will give a strong motivation to its subsidiaries to follow suit.

Report Preparation Process & Access to Additional Information

Voice of Readers

We set our 2007 sustainability management objectives in January 2007, and drew up the basic plan for issuing the report in May. We collected sustainability performance data from sustainability management execution units at the headquarters, and formed a task force team made up of members from Management Strategy Team, Corporate Planning Department, which is in charge of supervising sustainability management practices at KEPCO, and working-level members from headquarters' offices and the 6 GENCOs. The task force team analyzed the data and wrote the report, and the report was subjected to review by all members of top management. Starting from next year, we will do our best to issue the report during the first half of the year.

Access to Additional Information

In addition to sustainability reports, you can find more about KEPCO's key management information at the sites below.

Info on KEPCO	Website name	Website address
Business Report	Financial Supervisory Service's DART (data analysis, retrieval and transfer system)/company overview	Dart.fss.or.kr
Form-20-F	Us Securities and Exchange Commission	www.sec.gov
Annual Report	KEPCO homepage / company profile / KEPCO profile	www.kepcoco.kr
KEPCO Statistics	KEPCO homepage / customer service/electric power data	www.kepcoco.kr
Management information of public institutions	Public Institution Information Management System, The Ministry of Planning and Budget	www.alio.go.kr/clean

Contact information

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KEPCO looks forward to your valuable feedback on this report.

We are ready to accept your opinions and suggestions and will use them to prepare a better report next time.

To submit your opinion, please visit the sustainability section of our company website.

Homepage <http://sustainability.kepcoco.kr>

e-mail sustainability@kepcoco.kr

1. What is your occupation?

- ① Investor/shareholder ④ Local resident ⑦ Academia ⑩ Other ()
- ② Business partner ⑤ NGOs ⑧ Government
- ③ KEPCO employee ⑥ Industry ⑨ Press

2. How did you get to know about KEPCO's sustainability report?

- ① KEPCO website ③ Newspaper/magazine ⑤ KEPCO employee
- ② Seminar/lecture/exhibition ④ Other website ⑥ Other ()

3. Which is the most interesting part of this report?

- ① KEPCO and Sustainability ③ Environment ⑤ Human Resources
- ② Economy ④ Society

4. Which part of this report do you think needs to be supplemented?

- ① KEPCO and Sustainability ③ Environment ⑤ Human Resources
- ② Economy ④ Society

5. Please give us your free opinions about KEPCO's sustainability report.