

www.westernpower.co.kr -----
• Annual Report 2005

2005 ANNUAL REPORT

KOREA WESTERN POWER



 KWP KOREA WESTERN POWER CO., LTD.

CONTENTS

Intro	02
Message from the CEO	04
Special Section	06
Power Innovation	08
Power Leadership	10
Power Harmony	12
Vision	14
Y - Project 2007	16
Clean	18
Competitive	20
Companion	22
Appendix	25
Business Operations	26
History & Organization	30
Research & Development	31
Financial Data	32
Epilogue	34



Brighter and More Powerful Energy of Hope that Lights Up Korea

This is the "Happy Energy" that reassures people.
This is environmentally-clean energy.
Contributing to the country and people with high quality
energy that brings together mankind, technology and the
environment, Korea Western Power brings the energy of
hope that lights up Korea.





MESSAGE from CEO

We will build a business that earns respect from the new generation

This year marks the fourth anniversary of the creation of the Korea Western Power Co., Ltd. ("WP") since its independence from the Korea Electric Power Corporation (KEPCO). During this time, WP has grown amidst endless modifications and innovations amongst fierce competition in the power industry.

WP's sales for 2004 logged in at 2 trillion 57.7 billion won and recorded net profits of 161 billion won. Since its establishment four years ago WP has been nominated as an enterprise with an excellent management track record and has been awarded the 'Korea Electricity Culture Grand Prize' in acknowledgement of it as a veritable blue chip corporation by numerous domestic and international institutions.

Unfortunately, the unfavorable business environments surrounding the power industry, such as high oil prices and a sluggish economy, are making the outlook highly unpredictable. In response to the situation, WP is dedicated to inculcating the concept of ethical business, enhancing capabilities for improved competitiveness and implementing business practices that value the notion of 'harmony'.

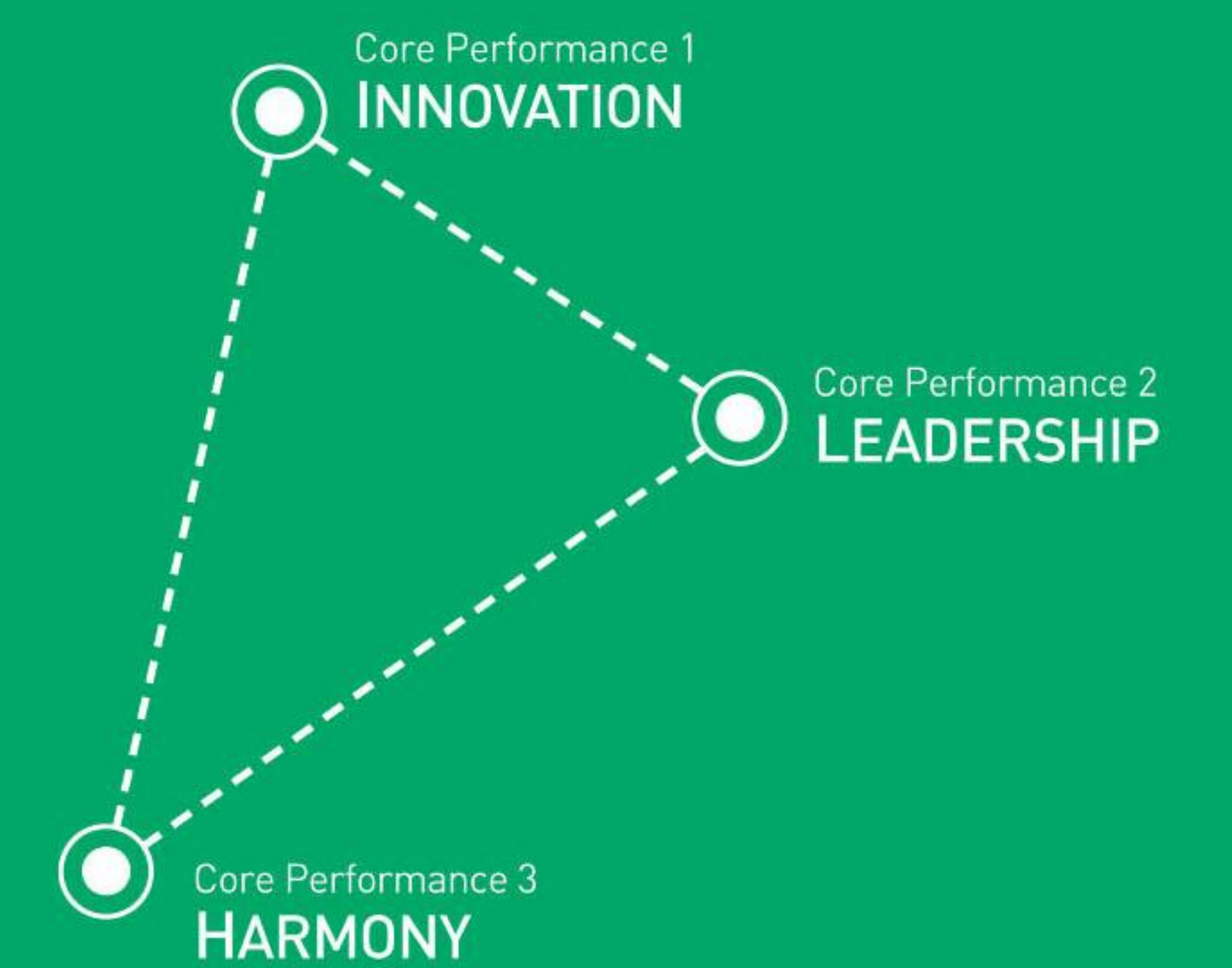
Concurrently, the unbending reserve and passionate dedication of the WP employees have been the foundation for the implementation of the Six Sigma innovations. In order to secure the engine for further growth, we are involved in the construction of the Cheongsong Pumped Storage Power Plant and the Gunsan Combined Cycle Power Plant, as well as new projects such as the world-largest Garorim Bay Tidal Power Plant and overseas BOT businesses. As can be seen in the case of blue chip companies, the success of a business depends on mutually cooperative relations between labor and management. The labor and management of WP are well aware of the mutually-dependent nature of their relationship, and are working together toward realizing a common goal of development of the corporation.

At present, WP is poised for its second leap forward. We intend to remain faithful to our basic duty of providing a stable supply of power and to implementing the medium-term objective of the 'Y-Project 2007'. This will allow us to contribute to the nation and to Korean society by creating quality power that is conscious of mankind and to the environment. Efforts like these are what make WP one of the true leaders in the power generation industry of the 21st century: by earning the respect of a new generation.



Kim, Jong-shin
President
Korea Western Power Co., Ltd.

信



A Leader In the Power Industry of the 21st Century

At a time when the Western Coast of Korea is becoming more prominent in terms of economy, WP is spearheading the way. It is involved in a stable supply of quality electric power and the development of high-profit alternative energy. Maximum utilization of transparent business management, competitive key capabilities and congenial labor-management relations will sustain WP on its path toward becoming the leader in the power generation industry of the 21st century.

POWER INNOVATION

The Long March in Consistent Modifications and Innovations Fuelling the Resolve of WP for the Future



Six Sigma innovations that fortify the comparative advantage of WP

WP introduced the Six Sigma Innovations in October 2004 in order to involve the entire management structure. The first phase in the ongoing project was introduced in December 2004. By assuring that the systematic and scientific Six Sigma methodologies take root across the entire corporation, we adopted business innovations that set us apart and secure a competitive advantage.

Diversifying into new areas to grow into a highly efficient operator of energy

WP is actively involved in the development of new businesses and overseas projects to secure the engine for growth and to raise competitiveness for the future. WP was nominated as the energy provider for the Incheon Cheongra Area in 2004. It has constructed environmentally-friendly power plants at Taean, Cheongsong and Garorim and is forging strategic partnerships in overseas projects.

Open communications channel, Bottom-up suggestion system

WP has introduced a Bottom-Up Suggestion System that allows employees to offer their views and any suggestions linked to on-site projects. Intended to promote communications among employees, it is being accepted as one of the most efficient communication channels for business innovation with a high rate of response from the employees with average 11,000 cases per year.

Self-confidence as leader of the power industry by acquisition A-credit rating

The corporate image of WP was raised with the appointment of an 'A- (stable)' from the international credit rating institution, S&P, in March 2004. This raised status, only given to blue chip companies in Korea, led to an improved credit rating as well as a reduced cost in financing.

POWER LEADERSHIP

Leadership Combining Sharp Insight and Well-defined Vision The Two-tiered Engine of WP



The New Management Team toward a higher vision

With the appointment of Mr. Jong-shin Kim as President of WP in April of 2004, the 3rd management team was set up. Advocating the three Cs, i.e. "Clean, Competitive, Companion" as the guiding principles, President Kim expressed his intention to turn WP into a leader in the power industry equipped with advanced competitiveness based on ethical management, vigorous innovations and stable labor-management relations.

A direct communication channel with the CEO

A new Direct CEO Hotline has been introduced, permitting employees to express their difficulties and diverse opinions to the CEO. It provides a new medium for open management.

F1F2 intensive office hour scheme for maximum work efficiency

The F1F2 Intensive Office Hour Scheme has been put in place to maximize work efficiency. Between Monday and Thursday, work requiring urgent attention is carried out between 10 and 11 AM, while on Friday, the time is shifted from 9 to 11 AM. The new scheme helps employees concentrate better and focus their time and attention on self-improvement and refining individual task-handling skills.

POWER HARMONY

One Common Goal Drawing Employees Together for the Inherent Potential of WP to Bring the Future Closer



Awards only achieved by blue chip enterprises

WP has been awarded numerous prizes beginning with Korea Electricity Culture Grand Prize, Korea Innovative Management Prize, Quality Production Innovation Prize in 2004, proving that it has been accepted as a viable Korean blue chip energy producer.

Fulfilling social responsibility through regional charity work

WP saw the establishment of the WP Social Charity Team at the Taejeon Division in August 2004. Under the motto of "Love of Humanity, Nature and Culture", the WP Social Charity Team is undertaking various charity works for regional communities.

Systematic and effective support system for SMEs

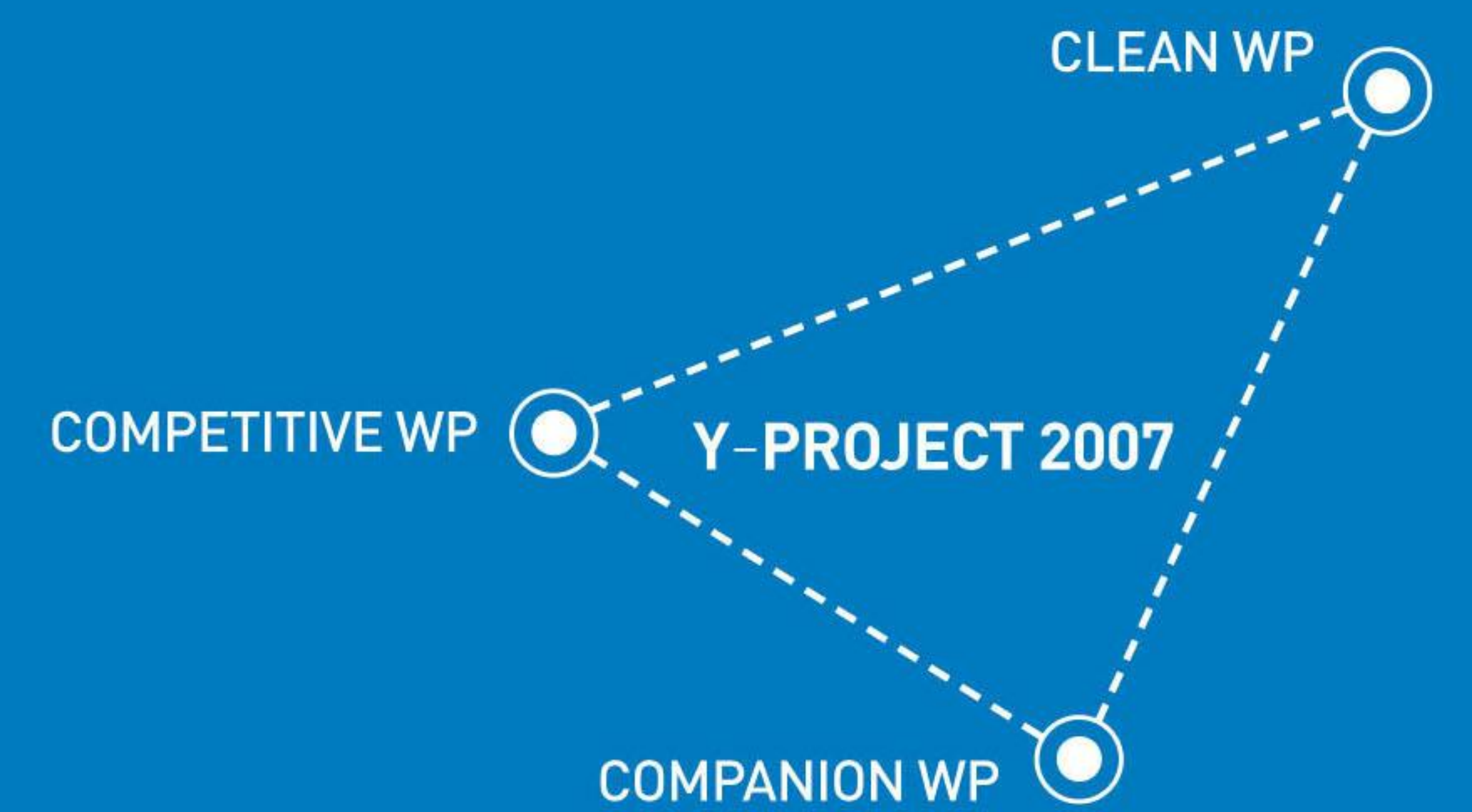
Currently, WP is operating the SME Support Team to provide more systematic and quality support to SMEs. As of 2005, WP has signed agreements with 14 SMEs and is undertaking research amounting to 1.23 billion won. We expect to allocate 2.1 billion won to provide support to SMEs in 2005.

Solidarity and sharing - WP Hanmadang for unity

WP is implementing the "2005 WP Family Hanmadang" to establish a partnership between labor and management. The campaign composed of 'Participation', 'Harmony' and 'Closer Labor and Management Relations' will be conducive to solidifying mutually-beneficial labor-management relations.

New employee orientation ceremony

Since 2004, WP has been holding the New Employee Orientation Ceremony with the participation of new recruits and their families. Not only does this arrangement help generate pride among families; it also encourages them to consider themselves part of the larger WP Family.



A Step Closer to Realizing WP' s Dream

As a leader in the Korean power generation industry, WP is striding forward, one step closer in order to create a new world.

The blue print of the Y-Project 2007 and the 3C business management policy will provide the solid foundation for the realization of WP' s dream.

The aspiration of WP is to become a respected energy-provider of the 21st century. The dream is turning into a reality.

The Dreams Harbored by the New Generation are a Source of Deep Pride for WP

The Future of WP Grows in the Hearts of the Young

To safeguard consistent growth amid a rapidly changing business environment, WP has set up a medium-to-long-term strategy, **"Y-Project 2007"**. The Project is a detailed list of strategies that came from the minds of the employees at WP to build a 'good company'. In the course of implementing such a challenging project, all the employees at WP have been striding forward toward the common goal of building a company favored and respected by the younger generation.

Strategic Goals of Y-Project 2007

- **Strengthened capabilities for competitiveness and innovation** : Safeguard sustained competitiveness by maximizing profits of shareholders and directors through business management borne out of values
- **Create a good workplace** : Maximize self-confidence and self-respect through communication-based open organization and favorable working environments
- **Grow into an environmentally-friendly and socially-responsible enterprise** : To set an example by balancing environment and technology and by placing priority on humankind and the environment

Management System

Mission Statement

Contribute to society
by creating quality
energy that
**balances
Humankind,
Technology
and the
Environment**

Vision

**To be
a Leader**
in the power
industry of the
21st century

Y-Project 2007

**To become
a business
that is
respected
by the New
Generation**

Strategic Goals

Enhance capabilities for
competitiveness and
innovation

Create better working
environments

Consolidate a corporate
image as a customer
and as an environmentally-
friendly enterprise





We Trust You!

Single-mindedness for **Clean Management**

Clean Management, built on transparent and fair procedures, is one of the fundamental elements for the survival of an enterprise.

An enterprise that is acknowledged by customers and society, thanks to ethical management, will provide boundless energy for sustained growth.

As a member of the national base-industry involved in the heavy task of providing a stable supply of power, WP has set up a challenging roadmap, introduced ethical management monitoring systems (the first national corporation to do so), and has been operating a committee committed to the dismantling of unproductive business practices.

As an extension, WP is committed to setting up transparent and fair relations with business partners relying on high ethical standards assumed by the directors as well as implementing strict restrictions on unethical behaviors, carrying out regular monitoring of parties with interests and suggesting measures for improvement.

Furthermore, WP is devoted to playing its part as a public corporation by implementing regional support projects more effectively and undertaking social charity activities on a systematic basis.



Gear Up and Evolve!

Endless Drive for Sustained Growth **Competitiveness**

To strengthen one's capabilities for enhanced competitiveness is one of the key elements to becoming a leader in the power generating industry of the 21st century.

The key to enhancing competitiveness and ushering in a vision of the future is to respond flexibly to the ever-changing business environment and to build up capabilities for sustained development through diversification and innovation.

WP is raising efficiency in business management by introducing Six Sigma across the entire company. Wp is also focusing on the development of new renewable sources of energy to secure economic and stable power-generating fuel and materials as well as the development of alternative energy for profit-generation-purposes. As part of our medium-to-long-term plans, we are currently involved in the construction of the Garorim Bay Tidal Power Plant, the solar photovoltaic project and the construction of the advanced combined cycle power plant at the original site of the Gunsan Thermal Power Plant.

In order to guarantee sustained improvement in energy efficiency via enhancements in the efficiency of the power generating facilities, we are dedicated to the careful management of costs, which will contribute to the achievement of the business management objectives.

In the near future, WP will commit itself to innovations in business management and in the building-up of key capabilities. Moreover, we will concentrate on diversifying into new projects and into overseas businesses aimed at securing the engine for growth. We believe our efforts will be paid back with the sustained and rapid development and growth of WP.

Gather Together & Happy Together!

A Better Workplace Aimed at **Solidarity and Unity**

Organizational solidarity is a condition for the mutual prosperity of labor and the management.

The short road toward consolidating competitiveness and the key capabilities of a corporation is reliant upon future-oriented mutual understanding and cooperation in the midst of a rapidly changing business environment.

WP has introduced various measures to consolidate a culture conducive to trust-building and cooperation through online CEO communication channels, public hearings on management information, regular meetings between management and labor for the purpose of implementing an 'open business management'. We are also supporting measures to encourage more effective and smooth communication between employees with different statuses organization-wise.

Numerous welfare schemes have been developed such as the introduction of the performance-oriented remuneration and a 40hour-a-week scheme to raise the morale and confidence of the employees in addition to providing opportunities for individual capability-build-up such as overseas training and education.

As part of more dedicated efforts for solidarity and unity, WP wishes to provide a stimulating working environment that is conducive to participation and self-dedication based on mutual trust among the employees.

365-Day Energy Provider that Values **WP Values Humankind and the Environment**

Maintaining a clean and pleasant environment is one way to maintain a business which is an integral element of the environment. It is the duty of this enterprise to return what it has received back to the society to which it is indebted. WP is dedicated to society through a harmonious balance between humankind, technology and the environment.
WP is committed to a cleaner and more abundant 'Happy Energy'.

APPENDIX

BUSINESS OPERATIONS

HISTORY & ORGANIZATION

RESEARCH & DEVELOPMENT

FINANCIAL DATA

EPILOGUE

WP Energy as the Light of the Future and the Companion of Nature

WP was set up in April 2001 when it separated from the Korea Electric Power Corporation (KEPCO). The power generated by WP accounts for 13% of the total domestic power generating facilities, possessing power generating capacity of 8.88 million kW.

Taeon Site Division

Number of Unit 6 **Capacity** 3 million kW

Fuel Bituminous coal

This core plant of WP is equipped with state-of-the-art automatic control facilities with a capacity of 3 million kW, accounting for 40% of the power generation facilities of WP. It has acquired international standards on environmentally-friendly management, ISO14001 and ISO9001 and has become first among thermal power plants in Korea. With the completion of Taeon Thermal Units 7 and 8, it is expected to turn into a larger division with a capacity of 4 million kW.



Taeon



Pyeongtaek

Pyeongtaek Site Division

Number of Unit 9 **Capacity** 1.88 million kW

Fuel Heavy oil / LNG

It is equipped with a natural gas-cum-heavy oil-based thermal power facility and a combined cycle power generation facility allowing the use of only natural gas. It boasts advanced technology that has led to no interruptions or break-ups during its operation. It also contains an advanced facility for real-time monitoring of dust particles and pollutants. The completion of the exhausting desulfurization facility in February 2005 has made it more environmentally-friendly.

Seoincheon Combined Cycle Power Plant

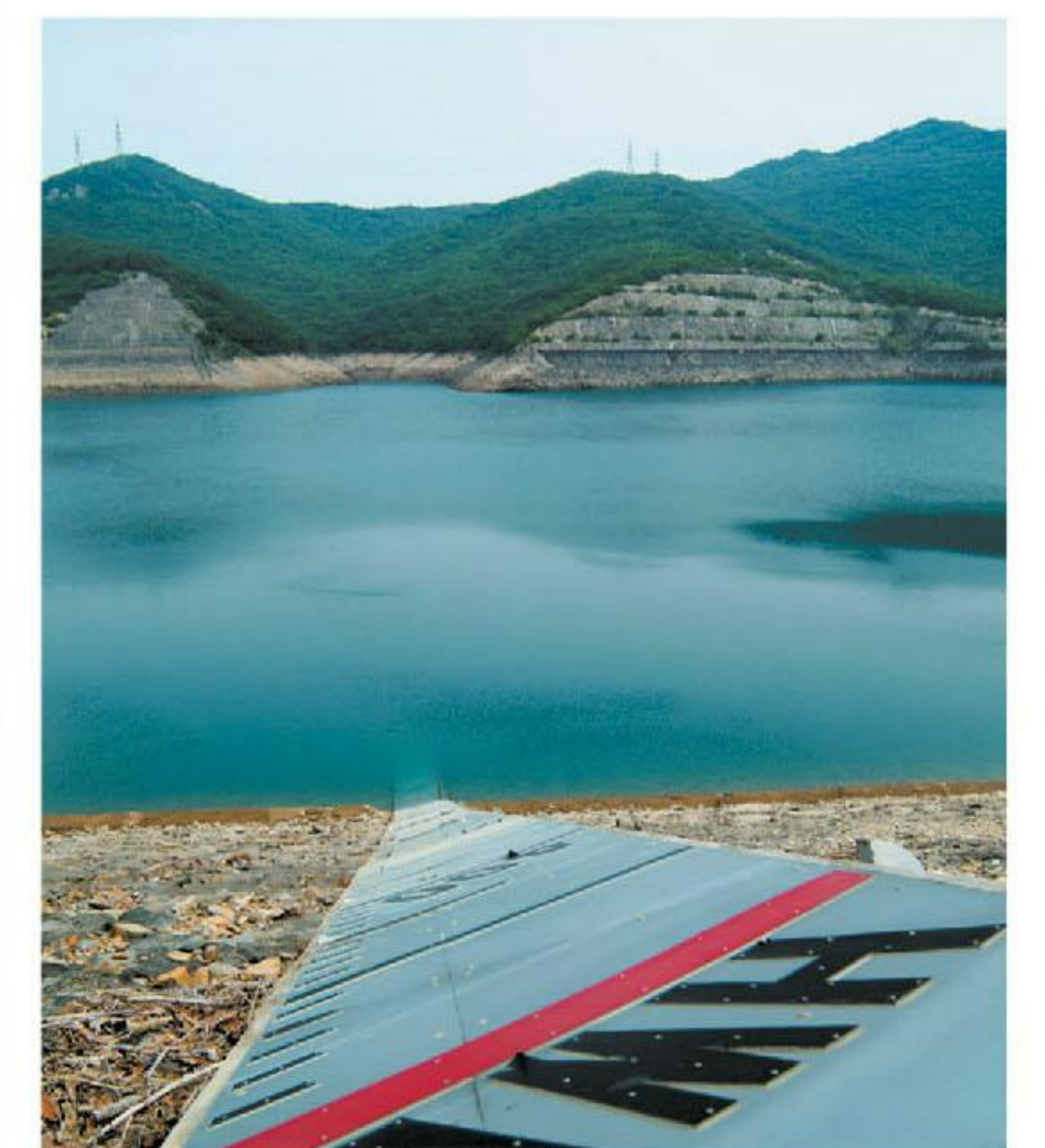
Number of Unit 16 **Capacity** 1.8 million kW

Fuel LNG

An environmentally-friendly plant using a relatively non-polluting energy source : natural gas. The advanced facility allows quick operation and operation-shut-down of the gas turbine generator. It is a model of an environmentally-friendly power generation plant that is able to respond quickly to changes in power demand.



Seoincheon



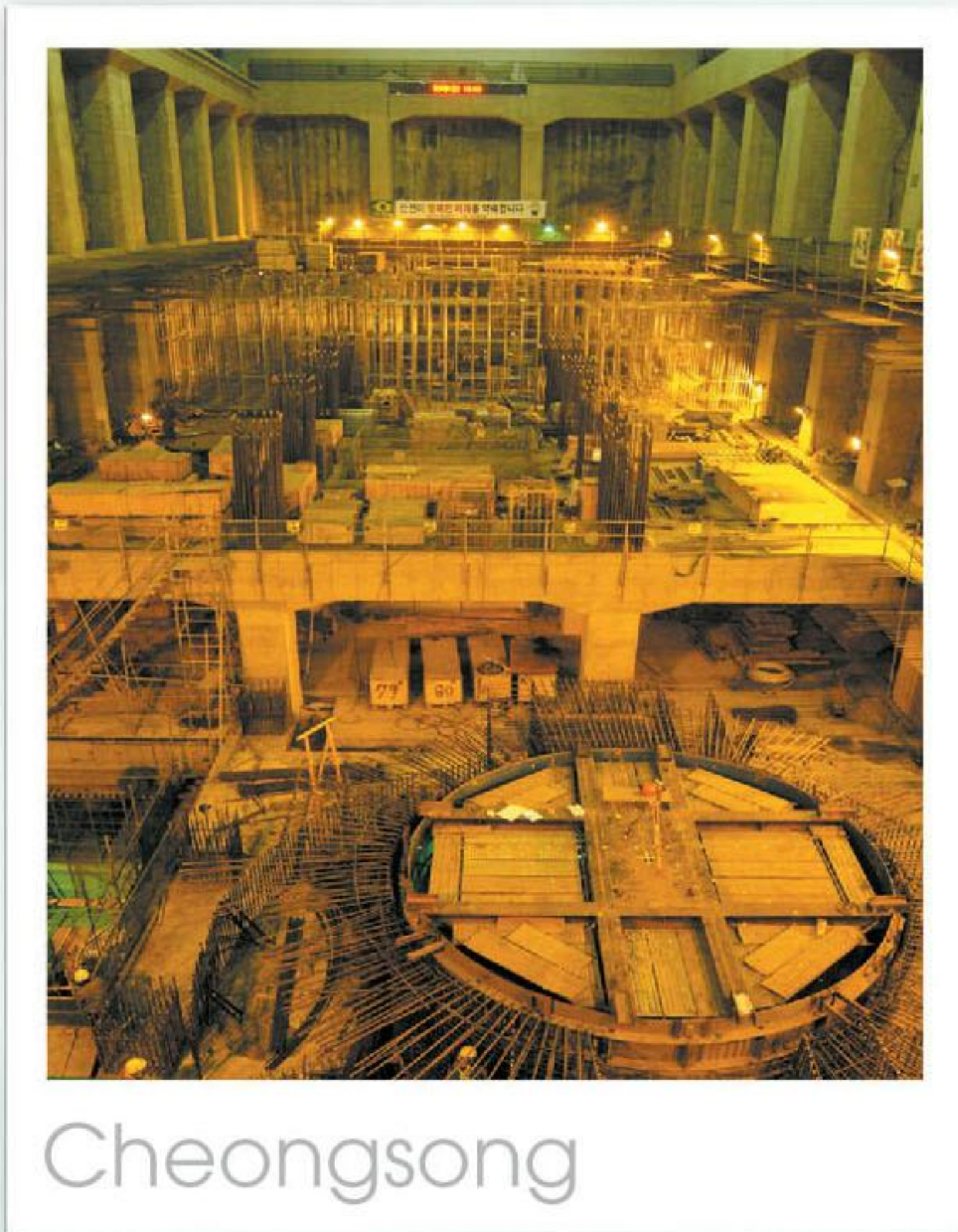
Samrangjin

Samrangjin Pumped Storage Power Plant

Number of Unit 2

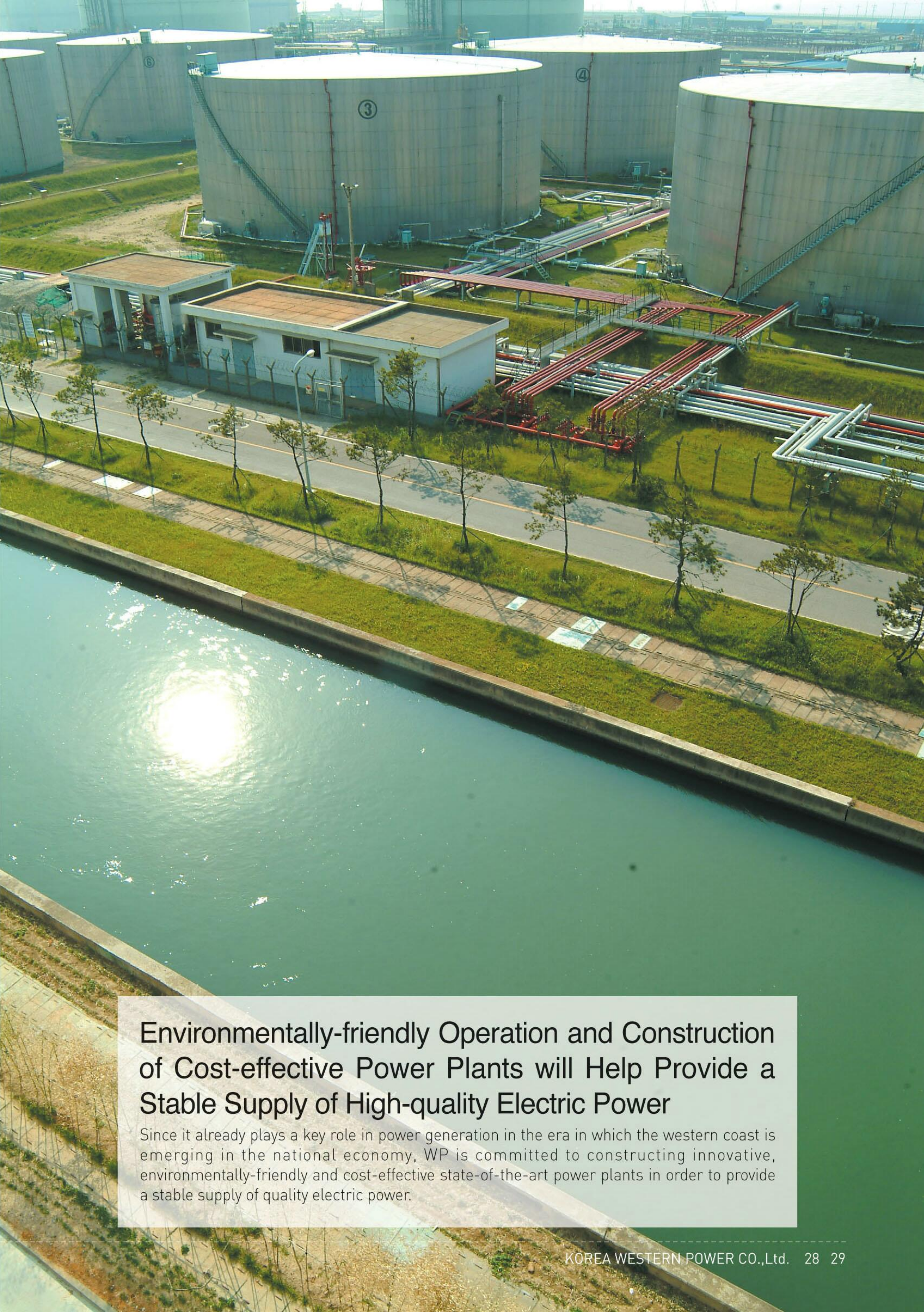
Capacity 600,000 kW **Fuel** Pumped water

This is the second pumped water type plant to be construction in Korea. Easy control of power output contributes to improvement in quality of electricity. Using remnant electricity at night and efficient facility operation has contributed to a stable supply of electrical power.



Cheongsong Pumped Storage Power Construction Office

Cheongsong is expected to be completed by 2006. It will be equipped with optical communications infrastructure and the most-advanced control technology. It will be subject to remote operation from the Samrangjin Plant, the largest capacity in the world.



Facilities at Power Plant

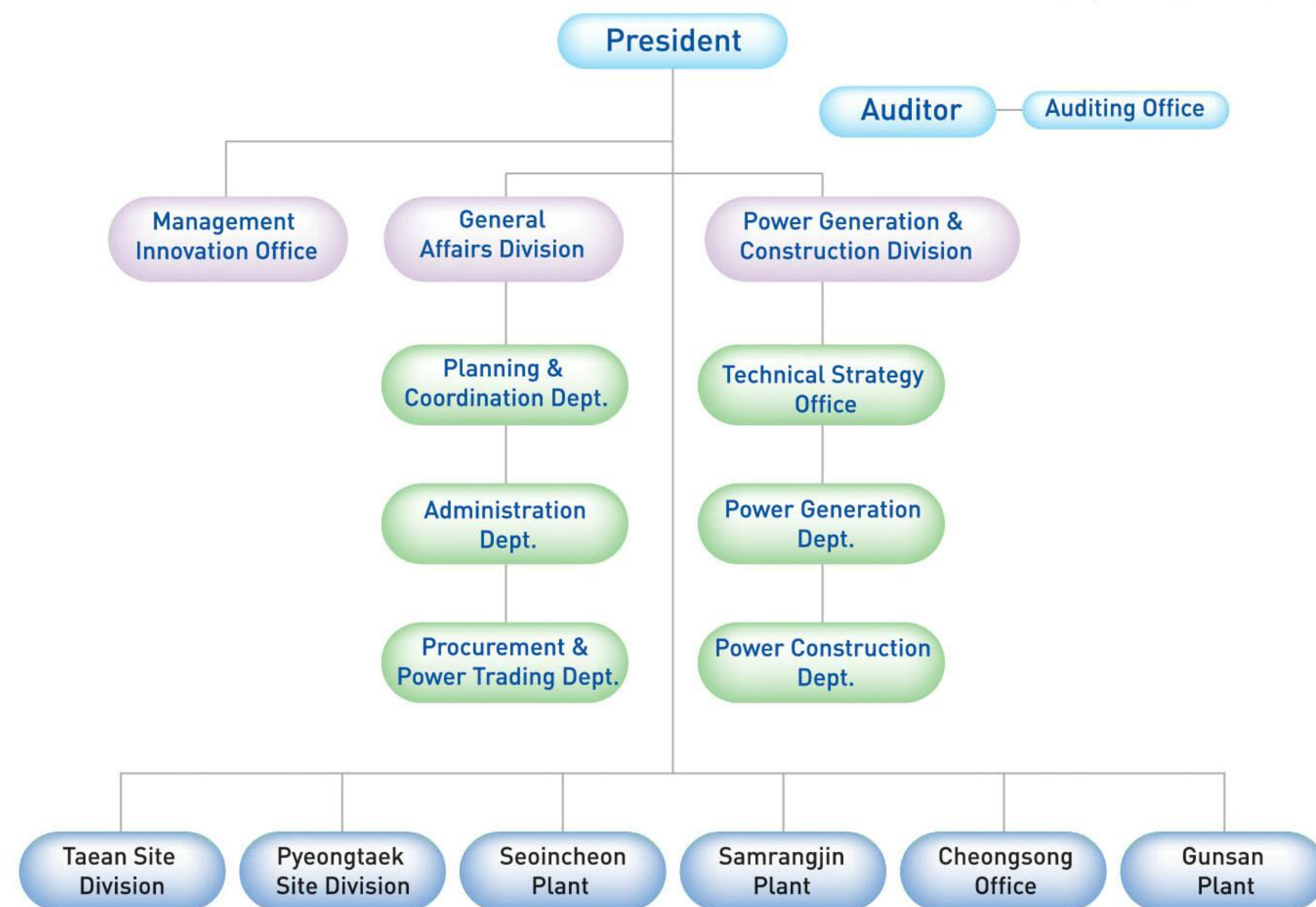
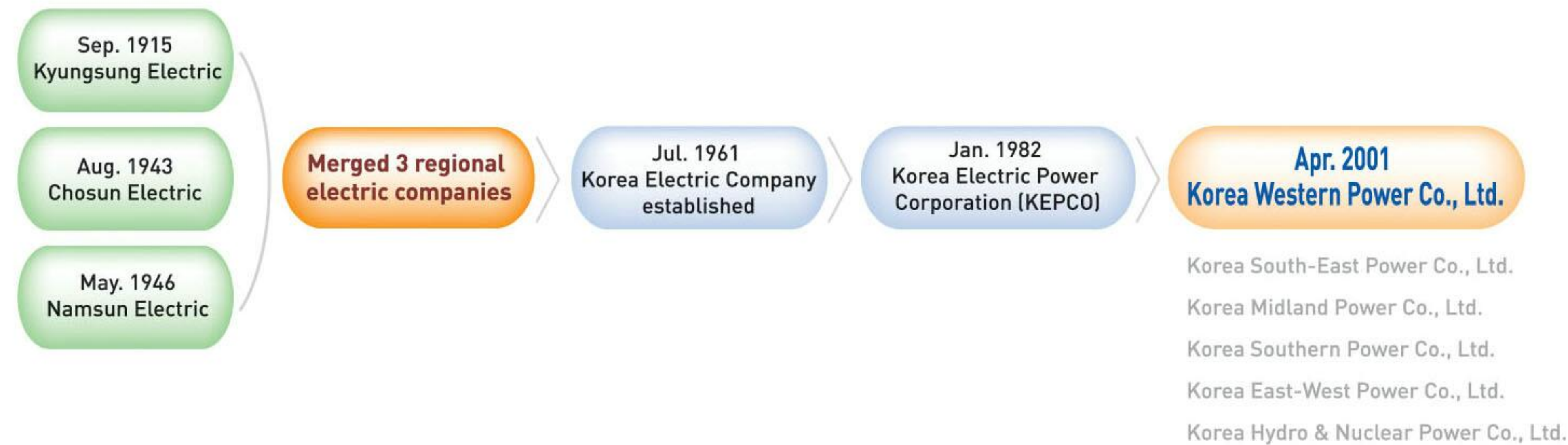
Category	Plant	Unit	Capacity (MW)	Fuel	Year of Completion	Load
Operation	Taeon (Thermal)	4	2,000	Bituminous	'95 ~ '97	Base
		2	1,000	Bituminous	'01 ~ '02	Base
	Pyeongtaek (Thermal)	4	1,400	Heavy oil (LNG)	'80 ~ '83	Middle
	Pyeongtaek (Combined)	5	480	LNG	'92 ~ '94	Peak
	Seoicheon (Combined)	16	1,800	LNG	'92	Peak
	Samrangjin (Pumped)	2	600	Water Pumping	'85	Peak
Sub Total		33	7,280			
Construction	Taeon #7, 8	2	1,000	Bituminous	(#7: '07. 6) (#8: '08. 3)	Base
		2	600	Water Pumping	('06. 12)	Peak
	Cheongsong #1, 2	2	600	Water Pumping	('06. 12)	Peak
Sub Total		4	1,600			
Total		37	8,880	[13% of domestic power facilities]		

* Gusan Thermal Plant was shut down in January 2004 after a 35-year operation that contributed to the development of the regional economy. A new combined power plant with the latest power generation facilities is under construction.

Environmentally-friendly Operation and Construction of Cost-effective Power Plants will Help Provide a Stable Supply of High-quality Electric Power

Since it already plays a key role in power generation in the era in which the western coast is emerging in the national economy, WP is committed to constructing innovative, environmentally-friendly and cost-effective state-of-the-art power plants in order to provide a stable supply of quality electric power.

A Leading Player in the Power Industry Armed with a Sturdy Organization and Exceptional Human Resources



Human Resources



We are Raising the Competitiveness of our Power Businesses through Continued Investment and R&D

Investment in R&D

(Unit : 100 million Won)

Category	2001	2002	2003	2004	2005	Comment
Investment	29.9	45.1	43.1	59.6	81.5	Based on projected sales for 2005
Investment Rate (%)	0.20	0.22	0.20	0.29	0.35	
Sales	14,611	20,126	21,344	20,577	23,186	

R&D Projects under Implementation

(Unit : Number of Cases)

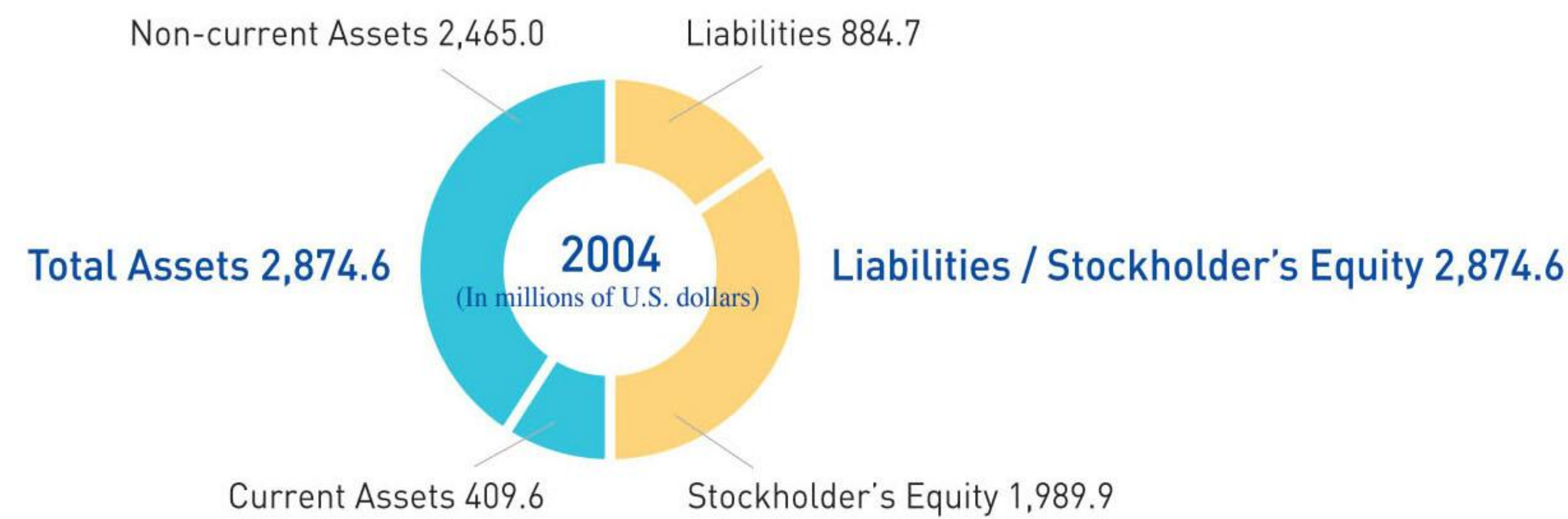
Category	In-house	Government	Total	Comment
2001	22	-	22	Number of confirmed cases as of May 2005
2002	-	12	12	
2003	8	7	15	
2004	9	13	22	
2005	9	4	13	
Total	48	36	84	

Industrial Property Rights

(Unit : Number of Cases)

Category	Patents Registered		Patent		Design		Trademark		Total	
	Filed	Registered	Filed	Registered	Filed	Registered	Filed	Registered	Filed	Registered
Prior to Apr. 2001	77	77	9	9	-	-	-	-	86	86
After Apr. 2001	26	1	37	34	6	6	1	0	70	41
Total	103	78	46	43	6	6	1	0	156	127

We Place Emphasis on Stable Financial Structure Borne out of Growth Rather than Eye-Catching Performance



Balance Sheet

(In millions of Won and U.S. dollars)

Account	The 3rd Term (As of Dec.31, 2003)	The 4th Term (As of Dec.31, 2004)	
	(Won)	(Won)	(U.S. dollars)
1. Current asset	514,731	423,934	409.6
(1) Quick asset	461,754	334,344	323.0
(2) Inventory	52,977	89,590	86.6
2. Non-current asset	2,522,999	2,551,607	2,465.0
(1) Investment	89,998	34,172	32.9
(2) Tangible asset	2,375,825	2,468,057	2,384.4
(3) Intangible asset	57,176	49,378	47.7
Total assets	3,037,730	2,975,541	2,874.6
1. Current liabilities	389,301	371,836	359.2
2. Non-current liabilities	660,344	543,972	525.5
Total liabilities	1,049,645	915,808	884.7
1. Paid-in capital	176,000	176,000	170.0
2. Capital surplus	1,266,638	1,266,638	1,223.7
3. Retained earnings	543,961	618,675	597.7
Net income	252,870	160,954	155.5
4. Capital adjustment	1,486	(1,580)	(1.5)
Total capital stock	1,988,085	2,059,733	1,989.9
Total liabilities and stockholder's equity	3,037,730	2,975,541	2,874.6

Statement of Income


(In millions of Won and U.S. dollars)

Account	The 3rd Term (Jan.1, 2003 to Dec. 31, 2003)	The 4th Term (Jan.1, 2004 to Dec. 31, 2004)	
	(Won)	(Won)	(U.S. dollars)
1. Sales	2,131,184	2,057,694	1,987.9
2. Cost of sales	1,683,818	1,769,622	1,709.6
3. Gross profit	450,551	288,072	278.3
4. Selling & administrative expenses	21,662	27,311	26.4
5. Operating income	428,889	260,761	251.9
6. Non-operating income	15,106	56,256	54.3
7. Non-operating expenses	79,175	87,166	84.2
8. Ordinary income	364,818	229,851	222.0
9. Extraordinary gain	-	-	-
10. Extraordinary loss	-	-	-
11. Income before income tax	364,818	229,851	222.0
12. Income tax expense	111,948	68,897	66.5
13. Net income	252,870	160,954	155.5

Statement of Cash Flow

(In millions of Won and U.S. dollars)

Account	The 3rd Term (Jan.1, 2003 to Dec. 31, 2003)	The 4th Term (Jan.1, 2004 to Dec. 31, 2004)	
	(Won)	(Won)	(U.S. dollars)
I. Cash flows from operating activities	551,048	358,527	346.3
1. Net income	252,870	160,954	155.5
2. Addition of expenses not involving cash outflows	308,685	313,305	302.7
3. Deduction of revenues not involving cash inflows	(1,214)	(34,213)	(33.1)
4. Changes in assets and liabilities resulting from operations	(9,293)	(81,519)	(78.8)
II. Cash flows from investing activities	(325,392)	(144,642)	(139.7)
1. Cash inflows from investing activities	196,033	331,227	320.0
2. Cash outflows for investing activities	(521,425)	(475,869)	(459.7)
III. Cash flows from financing activities	(402,115)	(189,569)	(183.1)
1. Cash inflows from financing activities	644,713	174,153	168.3
2. Cash outflows for financing activities	(1,046,828)	(363,722)	(351.4)
IV. Increase (decrease) in cash (I + II + III)	(176,459)	24,316	23.5
V. Cash at the beginning of the year	309,627	133,168	128.6
VI. Cash at the ending of the year	133,168	157,484	152.1



Don't Stop Just at Innovation
Go for Energy Innovation

Toward a Happier Land of Hope The Innovations of WP are on Going!

The basic structure of WP is subject to diversification and innovation.

New technologies and businesses are raising the business capabilities of WP.

WP is overflowing with energy created through a corporate culture founded on harmony and unity between labor and management.

The energy of hope in Korea aiming for a wider and greater world - WP