

ANNUAL REPORT 2000  
NEW WAVE for THE 21st CENTURY

Korea  
Water Resources  
Corporation



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Comprehensive Annual Report for the Fiscal Year Ended December 31,2000

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# Korea Water Resources Corporation At a Glance

## Our Vision

To be the world's leading water service company.

## Our Mission

To serve the Korean Public with sufficient and high quality of water at affordable price.

## Our Customer Focus

We have developed a comprehensive Customer Charter and our customers also have input through a regular consultation process. In pursuit of our customer service objectives we are implementing a range of strategies including a commitment to continuous improvement, and benchmarking our performance against the world's best practices.

## Strategic Outlook

Our strategy is to focus our efforts and resources toward transforming ourselves into an integrated water management and service provider in the international water industry as well as domestic markets. Our strategic initiatives are to:

- Partner with municipal and international water utilities.
- Pursue growth opportunities through long term lease or operations and maintenance contracts with municipally owned water and wastewater systems and overseas water supply systems.
- Continue to develop water resources for clean and reliable water needs.

## Credit Ratings

We are rated by a number of rating agencies. At the date of this Annual Report, following ratings were applicable to the company.

<u>R &amp; I(Japan)</u>	<u>BBB+</u>
<u>Korea Investors Service</u>	<u>AAA</u>
<u>NICE</u>	<u>AAA</u>
<u>KMCC</u>	<u>AAA</u>

## Financial Highlights

	(Korean Won in billion)	USD in million	
<b>For the years ended December 31,</b>	<b>2000</b>	1999	2000(\$)
Revenues	1,178	1,063	935
Operating Income	186	135	148
Income before taxes	99	66	79
Net income	62	43	49
Total Assets	9,038	7,937	7,175
Liabilities	2,212	2,326	1,756
Shareholder's Equity	6,826	5,611	5,419

<b>Financial Ratio</b>			
Operating Income to Revenue	15.8%	12.7%	
Debt Ratio	32.4%	41.4%	

*Note : U.S.Dollar amounts have been converted from Won, for convenience only, at the rate of W1,260 =1USD, the exchange rate prevailing on Dec. 31,2000.*

### Revenues(Korean Won in million)



### Operating Income(Korean Won in million)



### Debt Ratio





Korea Water Resources Corporation is many things to many people. We are proud of our 35-year history of serving the needs of customers, shareholders, and employees. We have been enjoying a reputation in Korean water industry as a leading water manager. As we begin the new millennium, our Corporation is well positioned to take advantage of growth opportunities that will continue to provide future economic benefits.

*“ We are proud of our achievements. But, we are looking to the future. As the water industry continues to change, continuing our mission will take even greater effort than it does today. We are ready to meet this challenge head-on for the benefit of our shareholders, customers, and employees ”*

### ***Performance Review***

Our performance over the last year in operational and financial areas was strong, and the fundamentals of our business remain solid. Revenues were 11% above those of previous year. Of greater significance is the fact that net income rose 44% and cash generated from our operations was a record of 393 billion Won-up 61% from 1999. These solid results achieved despite the economic downturn and water use decrease.

### ***Strategic Initiatives***

We have begun an exiting transition. Our history is of primary involvement in water resource development and management, that is, water production and delivery in the government-dominated water industry. The focus is entirely too narrow today in view of market opportunities. We are intent on being water resource manager throughout the country responsible for all sorts of water-related water businesses. We remain absolutely convinced that there is a key role for us in the foreign water industry as well.

We do that by investing capital in essential water and wastewater facilities home and abroad alike, providing technical and professional expertise, and by recognizing and responding to consumer expectations. A hallmark of our organization has been the ability to develop technical and professional resources cost effectively.

That is because we have been able to consolidate administrative functions. We can easily access to international capital markets as well as domestic capital markets. As an issuer of foreign bonds and a borrower of international term loans, we have been internationally acknowledged to be one of the best companies in Korea in terms of financial stability and management performances.

***In Conclusion***

We are proud of our achievements. But, we are looking to the future. As the water industry continue to change, continuing our mission will take even greater effort than it does today. We are ready to meet this challenge head-on for the benefit of our shareholders, customers, and employees.

Throughout this report, we discuss in detail results for the year 2000 and highlight the attributes that make this a valuable enterprise. We work hard to capture in the essence of the business of water resource management. We encourage your careful review of this annual report and certainly welcome your comments and inquiries. Thank you for your continued support and encouragement.

A handwritten signature in dark ink, appearing to read 'Seok-Ku Ko' with a stylized flourish at the end.

**Seok-Ku Ko**, *Ph.D. in Civil Engineering*  
President and Chief Executive Officer  
Chairman of Board of Directors



## Who We Are

Korea Water Resources Corporation(KOWACO) is a state-owned water utility responsible for constructing and operating dams, reservoirs, regional bulk water and waterway projects, and hydropower plants, supplying both raw and treated water to municipality-owned water purveyors and individual firms throughout South Korea. We also promote and build industrial estates and new town projects. In addition to those activities, we provide water resources investigation services, water engineering, hydrological information services and environmental services to local water purveyors, firms, and the public.

### ***History***

Korea Water Resources Corporation was founded on November 16, 1967 in the name of Korea Water Resources Development Corporation(“KWRDC”) in accordance with the Act of Korea Water Resources Development Corporation according to the national development plan of the Government intended to develop heavy and chemical industries and facilitate modernization of the national industrial structure. Pursuant to the Act for Promotion of Industrial Site Development, KWRDC was reorganized as Industrial Sites & Water Resources Development Corporation (“ISWACO”) in 1974. Pursuant to the Act of Korea Water Resources Corporation (“KOWACO Act”), enacted on December 4, 1987 with a view to having the Corporation bear the role of a water resource supply specialist institution, the Corporation succeeded all properties, rights and obligations of ISWACO effective as of July 1, 1988.

### ***Structure***

We are administered by a thirteen-member Board of Directors. The Chairman is appointed by President of Republic of Korea. The five standing members of directors are appointed by Minister of Construction and Transportation and designated as *ex officio*. The seven non-standing members of directors are appointed by Minister of Planning and Budget. An Inspector General appointed by the President of Republic of Korea periodically checks company’s adherence to internal control policies and procedures.

We employ more than 3,000 people across five business units and a vice president supports each unit. Our head office is at San 6-2, Yonchuk-dong in Daejeon, Korea .We have 46 regional offices throughout the Country.

## What We Do



As a national water manager and water purveyor, our core businesses are:

i) to supply raw water from reservoir for municipal, industrial and agricultural uses and to supply hydroelectric power by developing and managing multipurpose impoundments such as dams and reservoirs.

(ii) to supply waterworks wholesale water to municipalities and firms by constructing and operating regional bulk water supply systems; and  
(iii) to develop industrial estates and new towns.

We also provide water-related training and

### Water Development and Management

#### *Raw Water and Hydroelectric Power Services*



We provide raw water and hydroelectric power to municipalities and an electric utility firm, respectively by constructing and operating large multi-purpose dams. Multipurpose dams are those that have more than one function, such as water supply, flood control and hydropower generation, etc. There are currently 10 multipurpose dams in Korea, all of which were constructed and have been operated and managed by us.

#### *Revenues and Funding Sources*

The agency business costs payable by the State to us in relation to the construction of multipurpose dams, which is mostly funded by the State, are recognized as revenue from construction business of dams. Such revenue, however, does not contribute to our operating income because the cost of revenue effectively matches the amount of such revenue. Thus we generate its operating income from its sale of reservoir water and sale of hydroelectric power in relation to its reservoir operations. We supply raw water augmented by reservoir to local governments and municipalities

that operate their own water supply systems and large firms.

#### *Utility Rates*

Revenue from our utility business depends on the volume of water supplied and the amount of electricity sold and dam water tariffs, waterworks water tariffs and electricity rates. Such tariffs and rates are deemed as “public utilities charges” and are therefore subject to the Act on Stabilization of Commodities Prices. The basis of calculation of tariffs and rates and the price determination procedure are provided for in the relevant individual laws and regulations. Such tariffs and rates tend to be on increase and thus strengthen our revenue base.

In the case of dam water supply business, the price of dam water is at present calculated in accordance with the Total Costing Method under which such price is fixed to be the fair value as calculated by the Corporation on the basis of “Basis of Calculation of Utility Rates” established by the Minister of Finance and Economy and “Guidance for Calculating Dam Water Rates” established by the Minister of Construction and Transportation plus certain margin. The dam water price so determined must be approved by the Minister of Construction and Transportation after consultation with the Minister of Finance and Economy.

In the case of power generation business, the tariff of electricity provided by us is calculated pursuant to the supply and demand contract executed between Korea Electric Power Corporation, being the sole electricity transmitter and distributor in Korea, and us.

#### *Investment Needs*

In the long term, there has been a drastic increase in demand for water. At the end of 1994, the water supply was 32.4 billion m<sup>3</sup> per year, much higher than the demand of 30.1 billion m<sup>3</sup>, with about 2.3 billion m<sup>3</sup> left over (reserve rate about 7.7%). But a rise in the standard of living, urbanization and industrialization has increased the demand for water by 1.2% a year, and in accordance with The Long-term Water Resources Plan, which was prepared by the Ministry of Construction and Transportation in 1996, nation-wide water demand will rise from 30.1 billion m<sup>3</sup> in 1994 to 36.7 billion m<sup>3</sup> in 2011. Against such possible increase in demand, total water supply, even after taking into consideration

the additional water supply expected to be brought about by the dams currently under construction, will amount only to 34.7 billion m<sup>3</sup>. This makes it necessary to develop new water resources to secure approximately 2 billion m<sup>3</sup> water additionally. In general, it takes at least 10 years to develop a multipurpose dam from the planning stage to completion. Therefore, careful attention should be paid to ensure the accurate prediction of long-term water and energy demands.

## Water Supply Service

We supply waterworks water to municipality-owned water purveyors and individual industries



through our Regional Bulk Water Supply Systems, while respective municipalities supply water to their residents, after purifying water caught by themselves at water sources or water supplied by us or, in the case of water purified and supplied by us, as it is. We also supply water directly to firms within industrial complexes through its Industrial Water Supply System.

Regional bulk water supply system is a series of water works that supply treated water to more than one local municipality. We supply water to a total of 77 municipality-owned water purveyors throughout Korea including the Seoul metropolitan area.. The respective municipal water purveyors, on the other hand, supply water to their residents through their respective local water supply systems after purifying water caught by themselves at water sources or water supplied by us or by receiving purified water from us. Thus, in the waterworks water supply business, we play a role as wholesaler, while the local water purveyor act as retailers. Total installed capacity of water supply facilities in Korea was 23,964 thousand cubic meters in 1997 and 28,550 cubic meters in 1998 and 29,441 cubic meters in 1999, thus increasing year by year. The total capacity of Regional Water Supply Systems managed by the Corporation was 13,904 thousand cubic meters per day in 1999, accounting for 47.2% of the total.

## Water Rates

The price of waterworks water provided by us is at present fixed according to the use and grade of such water and each price is uniform nationwide. The waterworks water is thus divided, in terms of its use, into water for municipal and industrial needs, while, in terms of its grade, it is divided into raw water, purified water and precipitated water. The price of waterworks water, irrespective of its categories, is calculated in accordance with the Total Costing Method under which the price is determined to be the fair value as calculated by the Corporation by reference to the “Basis of Calculation of Utility Rates” established by the Minister of Finance and Economy and “Guidance for Calculating Waterworks Water Rates” established by the Minister of Construction and Transportation plus certain margin. The waterworks water price so determined must be approved by Minister of Construction and Transportation after consulting with the Minister of Finance and Economy and the company’s appointed representatives of customers and NGOs.

## Investments needs

Starting with the first stage -Regional Water Supply System in Seoul, Systems have been built, providing quality water to numerous cities on a stable basis. By the end of 2000, 47.2% of the population who received water supplies were served through the Regional Water Supply Systems. Out of 172 cities in Korea, 77 received the benefit of the Regional Water Supply Systems.

In order to cope with the skyrocketing household water demand and to raise the quantity and quality of water, over 20 additional multi-regional water supply systems, including 6 industrial water supply systems, will be built by 2011, supplying 4.9 million m<sup>3</sup> per day. As well the supply ratio of multi-regional water supply systems will rise from 47% in 2000 to 65% in 2011, and the nation-wide piped water coverage ratio will be raised from 85.2% in 1998 to 95% in 2011.

Especially, to equalize water supply situations across the country, small and medium sized regional water supply systems will be continuously built in rural areas which have not benefited from water pipe systems. This will improve cultural standards, resolve imbalanced economic development between regions, and lead to a more balanced development of the country.



## Land Development

Since 1973, we have played a leading role in the development of industrial complexes in Yochon, Changwon, Onsan and Kumi to help lay the



foundation for the growth of heavy and chemical industries, which have been the driving force behind economic development in Korea. Korea has seen many side effects from the successful completion of economic development plans including an influx of population into urban areas, housing shortages, shortages of road and water supply facilities, increasing environmental pollution, dwindling recreational space and an aggravated traffic situation.

To solve these problems and create a better living environment, we have been propelling new town development projects by taking into consideration population distribution, securing green environmental spaces, and the reorganization of diversified town functions as well as required infrastructure.

Premises in industrial sites and new towns developed by us are divided, according to its use, into industrial premises, residential premises, commercial premises and other premises and different manner and price for sale applies to each of such premises. The sale price is calculated in accordance with Law on Development of Industrial Sites, Special Law on Acquisition of Public Premises and Compensation for Loss and the internal site management regulations. While the sale price of the industrial premises is determined so as to realize the land reclamation cost plus certain fair margin, the sale price of residential and commercial premises are determined based upon the appraisal by the independent expert. Generally, the sale price of industrial premises tends to be lower than that of other premises.

We continue to develop the projects of industrial sites and new towns undertaken by ISWACO, a predecessor of the Corporation. This business, however, is limited by the KOWACO Act and the Articles of Incorporation of the Corporation to the development of industrial sites and towns which

was completed or was underway at December 4, 1987 and the development of areas related thereto. Such restriction reflects the change of the Government policy. The new policy of the Government is to put to an end a monopoly of industrial site and new town development business currently enjoyed by us and Korea Land Corporation, encouraging the entrance of the private entities into the market and thereby to help reduce the sale price of premises through competition. Notwithstanding such restriction, additional investments in 2001 and thereafter are expected to reach 3 trillion Korean Won.

## Environmental Service

We are specialists in relation to water resources and conduct environmental surveys with its highly trained expert groups. We have four accredited environmental analytical laboratories, serving private clients throughout the country. With our experienced staff of scientists the labs offer comprehensive analytical services on drinking water, groundwater, wastewater, surface water, sludges, particulates, recharge and soils.

We also spearhead water quality preservation and environmental protection by making sure that rivers do not run dry during the winter and spring to protect eco system and help the rivers maintain their self-purification mechanism.

The surface of water source is cleaned periodically and a water quality watch guard, a floating matter cleaning boat, a patrol boat and a sphagnum collecting boat are employed to prevent environmental pollution and to prepare for accidents.

## Training and Technical Consulting Services

Since 1990, we have commenced various education programs and consulting service related to water supply facilities with the personnel of local water purveyors and related business firms. To help local governments and small waterworks facilities, on-site education and consultation has been provided for the proper operations, maintenance and reinforcement of facilities. Such on-site education and consultation have contributed to improving the managerial and technical skills of waterworks employees. The curriculums offered in the courses are instructed by the economists and engineers with their accumulated knowledge in theory and experience, and are offered together with case studies.

## **Overseas Projects**

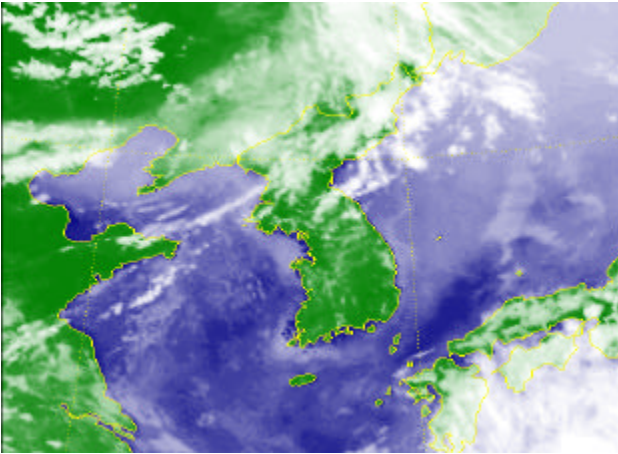
We have been involved in overseas projects. During the period from 1994 to 1996, we successfully completed a water resources investigation project in the basin of the Fenhe River in Shanxi Province, China. We also support water resources surveys and the development of water supply system projects in East Asian countries, including Vanuatu in the South Pacific. In 2000, the Mekong Delta Development Project is being implemented by us in Vietnam. We also provide technical support for water resources sectors in developing countries including Ethiopia and Nepal and is developing new overseas water resources projects such as a flood regulation project in the UNDP, known as the Tumen Water Resources Development Project. Although the contribution of involvements in overseas projects to its revenue is marginal at this stage, we are prepared to continue to expand its role in the overseas market and explore new potential in other areas and to enhance the technological competitiveness in the international arena.

We maintain close cooperation for technological exchange with Japan's Water Resources Development Public Corporation and China's Ministry of Water Resources. Notably, technological exchange with the China's Xiansia Dam Development Corporation will create a wide window of opportunity not only to advance the technological competence of the Corporation but also to help Korean construction companies to establish their presence in the overseas market

## **Our Strategic Initiatives**

We currently look for new business opportunities as a strategic initiative. Our strategy is to focus our efforts and resources toward transforming ourselves into an integrated water manager and service provider in the international water industry as well as domestic markets. Among such strategic businesses, those which are of strategic importance to us are i) to take active part in local water and wastewater business by lease or operations and maintenance contracts with municipality-owned water and wastewater systems, and ii) to make entry into the international water industry using our 35 year-long experience and expertise. This can be done by strategic alliance with international water business entities.

## Water Industry Overview



### **Water Resources**

The amount of precipitation of Korea reaches on the average about 1,274mm per year, which is slightly higher than the average precipitation of the world total of 973mm per year. On the other hand, Korea has a net inflow of 127 billion cubic meters of water per year. Of that water, 57 billion cubic meters are used by evapotranspiration in the environment and 70 billion cubic meters account for the outflow of water from rivers, streams, and groundwater. A considerable portion of water resources flows down directly into the ocean at the time of precipitation. The annual amount utilizable as water resources is restricted by the capacity which can be stored by reservoirs such as dams.

About two thirds of Korea's rainfall of about 1,274mm is concentrated in only four months, June to September, and about 55% of total rainfall of 127 billion cubic meters is lost in the form of evaporation and infiltration. To deal with this

problem, large and numerous dams have been constructed since 1960 to provide storage reservoirs and to regulate year-round flows in the major rivers. Without these dams, Korea would suffer severe shortfalls of raw water supplies for agricultural, industrial and municipal needs. Most large reservoirs in Korea are multipurpose impoundments designed to provide water supply storage, electric power, flood control, recreation, water quality. Multipurpose designs maximize the beneficial uses of large reservoir sites and provide regional water supply benefits.

### **Water Uses**

Korea uses more water per capita than other countries except for a few countries. Despite Korea's relatively abundant water supply, this wastefulness is already causing regional problems. In some areas, freshwater sources are not adequate to meet expanding local demand. Augmenting current sources will mean constructing a water pipeline or an expensive groundwater recharge scheme and expanding the region's sewage treatment plants.

Korea's water use for domestic purpose is about 6.1 billion cubic meters per annum. Domestic water use is disaggregated into residential, commercial, public bath, and institutional use for billing purposes. The largest domestic water-using group is residential water users, which constitute about 65% of the total domestic water use. The following table shows the water supply statistics over years.

	Water Statistics 1991 ~ 1999								
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total Population (million)	43.27	44.57	45.08	45.51	45.97	46.43	46.88	47.17	47.54
Water Use (MCM/day)	16.27	17.16	17.76	18.57	18.30	18.99	19.17	18.63	18.44
lpcd(liter per capita/day)	376	385	394	408	398	409	409	395	388

Source: < Water Supply Statistics-2000 >, Ministry of Environment, Korea

As presented in the above table, each day Korean use almost 400 liters of water per person for domestic purpose, which is one of the highest consumption in the world.

In many areas, facilities to treat, distribute, collect and discharge water are not adequate to meet expanding demand. Industrial and municipal consumers do not use water efficiently, partly due to the low price that are charged for water. Many municipal water systems lose water, for example, through leakage from pipes and fire hydrants. Meeting expanding demand without repairing leaks, or encouraging users to be more efficient is costing municipal governments larger and larger proportions of their revenue.

### ***Institutional Framework of Water Industry***

Water supply service has been domain of local governments with no private participation. Local governments have the primary responsibility for providing water service. Municipalities and communities either develop their own water resources and operate water systems or buy the raw/treated water provided by water wholesaler, Korea Water Resources Corporation who produces and delivers approximately 50% of raw and treated water for municipal and industrial water needs.

For decades the official doctrine has been that water is a basic right and should be provided by the government cheaply. This led to exploitation and misuse of water. Korean water and sewerage utilities have mostly been government-owned and – operated until recently, and most still are. Even so, there is a general consensus that even government-run utilities should be operated in accordance with commercial goals and make a profit, without requiring subsidies. Therefore, privatization is now a credible option for the newly corporatized, but still publicly run, water and sewerage systems. The Ministry of Environment has been carrying out privatization plan that introduces elements of competition that can generate incentives for efficient water-supply system management. The privatization of water industry is likely to take the form of operations and maintenance contracts of water and sewerage systems.

### ***Water Sector Financing***

Water utilities are under significant financial pressure as a result of increasing urbanization, deteriorating infrastructure, underpricing of services and increasingly stringent drinking water quality standards. In 1998 local governments are reported to fall 500 billion Won short of the 4 trillion Won cost to comply with Drinking Water Act . In addition, the difficulty of developing new sources of supply indicates that, relative to demand, water is becoming more scarce. The present ability of water utilities to address these problems is partially constrained by rate regulation. The needs for investments in water supply between 1997 and 2006 are projected at 16 trillion won(15 billion USD) or an average of about 1.6 trillion won per year, according to National Water Plan. The investment needs include capital improvements as well as water supply augmentation. Water supply sector investments are usually financed by a combination of loans, tariff revenues, city and developers' contribution as well as central government grants designed to avoid unaffordable tariffs and an excessive debt burden on the cities. Tariff revenues have the potential for

becoming a major source of sector investment financing. In 1998 water utilities self-financed only about 35% of their investment needs. Increase in these tariffs would provide better sector financing, and help curtail excessive water demand and water wastage.

### ***Water Tariffs and Affordability***

Water prices in Korea vary widely. The more than 790 local agencies that provide water service establish their prices based on factors specific to their individual service areas, and those prices are generally reviewed by local assemblies, or, in the case of Korea Water Resources Corporation (KOWACO), a nationwide water wholesaler, by the Ministry of Finance and Economy and KOWACO's appointed representatives of customers and NGOs

Water charges in Korea are reasonable, averaging 349 won(0.3 US dollar) per cubic meter(264 gallon), but reaching up to three times as high in a few cities. However, the current water tariffs do not fully cover the cost of operation and maintenance and depreciation, let alone rate of return. Even though the tariffs are set by each municipality and are not approved by central government any more, an increase of water tariffs has been gradual, reflecting only 70% of production costs due primarily to their impacts on inflation.

Designed to prevent inflation and monopoly pricing and price regulation of water utilities has generated several forms of inefficiency. First, poorly designed rates misallocate water among different consumers and resulted in insufficient revenues to cover costs and excessive water use. Second, the lack of incentives to minimize water-provision costs creates cost inefficiency. The water industry has been historically slow to adopt water pricing and costing changes. Thus, any progress towards introducing initiatives will require regulatory officials to offer water utilities greater incentives to develop more efficient water supply practices.

Present water charges are affordable in Korea. During the last ten years, water charges were only 0.6% of average household expenditures. Even with the sewerage charges, the total charges are only about 1%, which is well below the range of 3 ~5% commonly found affordable in other countries. A further indicator of the affordability of the water is shown by a comparison with household expenditures for other(low-priority) items. For example, expenditures on tobacco and soft drinks were each about 40% higher than total household expenditures.

# Financial Section

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## Financial and Operational Highlights

<i>(USD in thousands)</i>	2000	1999
<b>Financial Information</b>		
Revenues by Classification		
Raw Water	76,581	61,299
Electric Power	119,747	119,682
Waterworks Water	305,567	264,688
Land Sale	281,607	239,377
Water project construction	130,755	145,168
Other revenue	20,914	14,407
Total Revenue	935,371	844,621
Net Income	49,724	34,487
Total Assets	7,174,831	6,300,717
Long-term Debt	1,118,329	1,246,333
Capital Additions	922,436	628,109
Investments	9,708	9,983
<i>(in units as indicated)</i>		
<b>Operation Information</b>		
Water Sold by Classification(mcm)	4,300	4,138
Dam Raw Water	1,692	1,722
Waterworks Raw Water	856	851
Waterworks Treated Water	145	131
Waterworks Industrial water	6,993	6,841
Total	19.1	18.7
Average Daily Waterworks Water Sale(mcmd)	7.39	7.41
Reservoir Operations		
The Number of Dams	24	24
Storage Capacity(mcm)	11,761	11,761
Hydropower Generation(mwh)	2,303	2,383
Waterworks Operations		
Number of Regional Water Supply Systems	27	27
Waterworks Water Production Capacity(mcmd)	14.8	14.6
Kilometers of Main in Service	2,961	2,762
Number of Customers		
Municipality-owned Water Purveyors	77	75
Industries	1,100	960

mcm=million cubic meters mwh=megawatt per hour mcmd=million cubic meters per day

## Independent Auditor's Report

### To the Shareholders and Board of Directors, Korea Water Resources Corporation

We have audited the accompanying balance sheet of Korea Water Resources Corporation ("the Company") as of December 31, 2000, and the related statement of income, appropriations of retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion, as an independent auditor, on these financial statements based on our audit. The financial statements of the Company as of December 31, 1999, were audited by Young Wha Corporation whose report dated April 15, 2000, expressed an unqualified opinion on those statements. As discussed in Note 23 to the financial statements, the statement of cash flows for the year ended December 31, 1999 has been restated in order to give a fair view of the cash flows of the Company.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Korea Water Resources Corporation as of December 31, 2000, and the results of its operations and the changes in its retained earnings and cash flows for the year then ended in conformity with generally accepted financial accounting standards in the Republic of Korea.

As described in Note 13, the Company is the plaintiff in connection with various legal proceedings with claims in the aggregate amount of \153,769 million at December 31, 2000. Further, several lawsuits have been brought against the Company as a defendant with claims in the

aggregate amount of \82,983 million at December 31, 2000. The outcome of these lawsuits cannot presently be determined.

Without qualifying our opinion, we draw attention to Note 24 to the financial statements. The operations of the Company, and those of similar companies in the Republic of Korea have been significantly affected, and will continue to be affected for the foreseeable future, by the country's unstable economy caused in part by the currency volatility in the Asia-Pacific region. While the Korean economy has recently shown signs of improvement, there are still significant uncertainties that may affect the future operations of the Company. The financial statements do not include any adjustments that might result from those uncertainties.

We have also reviewed the translation of the financial statements referred to above into United States dollar amounts on the basis described in Note 3. Based on our review, such financial statements have been properly translated on such basis. The United States dollar amounts are presented solely for the convenience of the reader.

The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. Accordingly, the accompanying financial statements are not designed for those who are not informed about Korean accounting principles, procedures and practices. The Standards, procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted on other countries and jurisdictions.



March 16, 2001

Samduk Accounting Corporation

## Financial Statements

### KOREA WATER RESOURCES CORPORATION

#### Balance Sheets

December 31, 2000 and 1999

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2000	1999	2000	1999
<b>ASSETS</b>				
Current assets :				
Cash and cash equivalents (Note 4)	W133,542	W177,603	US\$106,011	US\$140,988
Marketable securities	3,191	3,898	2,533	3,094
Accounts receivables-trade, less allowance for doubtful accounts of W402million in 2000 and W337million in 1999 (Note 5)	272,556	256,559	216,366	203,667
Inventories (Note 6)	374,908	418,058	297,617	331,871
Advance payments	11,984	7,741	9,513	6,145
Other current assets, less allowance for doubtful accounts of W358million in 2000 and W284million in 1999	30,241	42,094	24,007	33,416
Total current assets	826,422	905,953	656,047	719,181
Property, plant and equipment (Notes 10, 20)				
Land	14,111	17,089	11,202	13,566
Buildings	133,779	158,326	106,199	125,685
Structures	73,346	69,267	58,225	54,987
Machinery and equipment	316,934	307,039	251,595	243,740
Ships and vehicles	6,709	6,491	5,326	5,153
Tools, furniture and fixtures	32,173	31,511	25,540	25,015
Construction in progress	2,086,091	1,703,834	1,656,022	1,352,571
	2,663,143	2,293,557	2,114,109	1,820,717
Less accumulated depreciation	(120,794)	(99,417)	(95,891)	(78,921)
Net property, plant and equipment	2,542,349	2,194,140	2,018,218	1,741,796
Investments (Note 7)	12,229	12,575	9,708	9,983
Long-term inventories in-progress (Notes 6, 20, 23)	937,027	748,361	743,849	594,079
Property rights, net (Note 10)	4,626,039	3,971,639	3,672,334	3,152,845
Other assets (Note 9)	94,068	104,345	74,675	82,833
Total assets	W9,038,134	W7,937,013	US\$7,174,831	US\$6,300,717



**KOREA WATER RESOURCES CORPORATION**  
**Balance Sheets, Continued**  
**December 31, 2000 and 1999**

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2000	1999	2000	1999
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current liabilities :				
Accounts payable-trade	W102,296	W127,588	US\$81,207	US\$101,284
Advance receipts	207,778	177,830	164,942	141,169
Income taxes payable	5,954	117	4,727	93
Current-portion of long-term debt (Note 11, 12)	403,557	359,065	320,360	285,040
Guarantee deposits received	2,348	1,847	1,864	1,466
Other current liabilities	28,437	23,810	22,574	18,901
Total current liabilities	750,370	690,257	595,674	547,953
Long-term debt, excluding current portion (Note 11, 12)	1,408,759	1,570,006	1,118,329	1,246,333
Deferred income tax liabilities (Note 21)	48,293	22,469	38,337	17,837
Retirement and severance benefits, net of prepayments to the Korean National Pension Corp. of ₩2,969 million in 1999	4,718	43,552	3,745	34,574
Total long-term liabilities	1,461,770	1,636,027	1,160,411	1,298,744
Total liabilities	2,212,140	2,326,284	1,756,085	1,846,697
Commitments and contingencies (Notes 13)				
Shareholders' equity				
Paid-in capital				
Authorised - ₩5,000,000,000 million (Note 1, 14)	4,428,355	3,266,362	3,515,405	2,592,968
Capital surplus	1,465,203	1,465,203	1,163,136	1,163,136
Retained earnings :				
Legal reserve (Note 15)	284,965	272,438	226,217	216,272
Reserve for business expansion (Note 16)	549,069	505,842	435,873	401,558
Reserve for investment in social overhead capital (Note 17)	99,844	102,554	79,260	81,412
Capital adjustment :				
Unamortized stock issuance costs	(1,942)	(1,670)	(1,542)	(1,326)
Customers' donations	500	-	397	-
Total shareholders' equity	6,825,994	5,610,729	5,418,746	4,454,020
Total liabilities and shareholders' equity	<u>W9,038,134</u>	<u>W7,937,013</u>	<u>US\$7,174,831</u>	<u>US\$6,300,717</u>

**KOREA WATER RESOURCES CORPORATION**  
**Statements of Income**  
**for the years ended December 31, 2000 and 1999**

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2000	1999	2000	1999
Revenue (Note 18)	W1,178,287	W1,063,969	US\$935,371	US\$844,621
Cost and expenses				
Cost of revenue (Note 19)	953,731	884,870	757,110	702,445
Selling and administrative expenses	38,366	43,918	30,456	34,864
	<u>992,097</u>	<u>928,788</u>	<u>787,566</u>	<u>737,309</u>
Operating income	186,190	135,181	147,805	107,312
Other income (expense)				
Interest income	16,346	11,382	12,976	9,035
Interest expenses (Note 20)	(78,577)	(73,850)	(62,378)	(58,625)
Foreign currency translation and exchange losses, net	(3,173)	(2,940)	(2,519)	(2,334)
Donations	(24,272)	(4,535)	(19,268)	(3,600)
Losses relating to cancellation of land sales, net	2,709	(2,359)	2,151	(1,873)
Gains on disposal of property, plant and equipment, net	1,325	5,937	1,052	4,713
Other, net	(1,471)	(545)	(1,168)	(432)
	<u>(87,113)</u>	<u>(66,910)</u>	<u>(69,154)</u>	<u>(53,116)</u>
Ordinary income	99,077	68,271	78,651	54,196
Extraordinary gain (loss) :				
Employees' early retirement (Note 2)	-	(1,512)	-	(1,200)
Other, net	-	(769)	-	(610)
	<u>-</u>	<u>(2,281)</u>	<u>-</u>	<u>(1,810)</u>
Income before income taxes	99,077	65,990	78,651	52,386
Provision for income taxes (Note 21)				
Current	10,705	1,474	8,498	1,170
Deferred	25,735	21,073	20,429	16,729
	<u>36,440</u>	<u>22,547</u>	<u>28,927</u>	<u>17,899</u>
Net income	<u>W62,637</u>	<u>W43,443</u>	<u>US\$49,724</u>	<u>US\$34,487</u>

**KOREA WATER RESOURCES CORPORATION**  
**Statement of Appropriations of Retained Earnings**  
**for the years ended December 31, 2000 and 1999**

Date of appropriation : February 28, 2001 and February 29, 2000

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2000	1999	2000	1999
Retained earnings before appropriations :				
Unappropriated retained earnings				
carried-over from prior year	W -	W763	\$ -	US\$605
Cumulative effect of accounting changes (Note 2)	-	(4,053)	-	(3,217)
Net income for the year	62,637	43,443	49,724	34,487
	<u>62,637</u>	<u>40,153</u>	<u>49,724</u>	<u>31,875</u>
Transfer from reserve for investment in social overhead capital	17,799	11,883	14,129	9,433
	<u>80,436</u>	<u>52,036</u>	<u>63,853</u>	<u>41,308</u>
Appropriations of retained earnings				
Legal reserve (Note 15)	12,527	8,031	9,945	6,375
Reserve for business expansion (Note 16)	43,227	35,694	34,315	28,335
Amortization of stock issuance costs	1,804	1,293	1,432	1,027
Cash dividends	7,788	-	6,182	-
Reserve for investment in social overhead capital (Note 17)	15,090	7,018	11,979	5,571
	<u>80,436</u>	<u>52,036</u>	<u>63,853</u>	<u>41,308</u>
Unappropriated retained earnings to be carried forward to next year	<u>W -</u>	<u>W -</u>	<u>\$ -</u>	<u>\$ -</u>

**KOREA WATER RESOURCES CORPORATION**  
**Statement of Cash Flows**  
**for the years ended December 31, 2000 and 1999**

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2000	1999(Note23)	2000	1999(Note23)
Cash flows from operating activities :				
Net income	W62,637	W43,443	US\$49,724	US\$34,487
Adjustments to reconcile net income to net cash provided in operating activities:				
Depreciation and amortization	229,708	194,185	182,351	154,152
Loss on valuation of marketable securities	-	891	-	707
Gain on valuation of investments using the equity method	(395)	(684)	(314)	(543)
Allowance for doubtful accounts	149	214	118	170
Provision for retirement and severance benefits	24,332	33,913	19,316	26,921
Gain on disposal of property, plant and equipment, net	(3,100)	(6,479)	(2,461)	(5,143)
Foreign currency translation losses, net	11,047	4,070	8,770	3,231
Other	30,194	6,092	23,969	4,836
Changes in operating assets and liabilities;				
Accounts receivable	(15,997)	18,544	(12,699)	14,721
Inventories including long-term inventories in-progress	(145,502)	(25,642)	(115,505)	(20,356)
Advance payments	(4,243)	6,290	(3,368)	4,993
Other current assets	11,780	746	9,351	592
Accounts payable	(25,291)	56,829	(20,077)	45,113
Advance receipts	29,948	22,659	23,774	17,988
Income taxes payable	5,836	(9,783)	4,633	(7,766)
Guarantee deposits received	500	(9,665)	397	(7,672)
Other current liabilities	(3,161)	(4,011)	(2,509)	(3,184)
Payments of retirement and severance benefits	(66,135)	(150,359)	(52,501)	(119,361)
Deferred income tax liabilities	25,824	22,469	20,500	17,837
Total adjustments	105,494	160,279	83,745	127,236
Net cash provided by (used in) operating activities	168,131	203,722	133,469	161,723
Cash Flows from Investing Activities :				
Proceeds from disposal of marketable securities	4,297	147	3,411	117
Proceeds from disposal of investments	2,001	-	1,589	-
Proceeds from disposal of property, plant and equipment	9,596	6,910	7,618	5,485
Acquisition of marketable securities	(3,000)	(5,898)	(2,381)	(4,682)
Acquisition of investments	(1,540)	(2,200)	(1,223)	(1,746)
Acquisition of property, plant and equipment	(979,506)	(978,513)	(777,571)	(776,783)
Decrease(Increase) in other assets	(4,386)	28,486	(3,482)	22,613
Net cash provided(used) in investing activities	(972,538)	(951,068)	(772,039)	(754,996)

Cash Flows from Financing Activities :				
Decrease in short-term borrowings, net	W	-	(W40,000)	\$ - (US\$31,754)
Increase in long-term debt		266,930	513,815	211,900 407,887
Repayment of current portion of long-term debt		(403,557)	(303,897)	(320,360) (241,246)
Increase in paid-in capital		896,973	719,436	712,053 571,117
Payment of asset revaluation tax		-	(21,282)	- (16,894)
Net cash provided by financing activities		<u>760,346</u>	<u>868,072</u>	<u>603,593</u> <u>689,110</u>
Increase (decrease) in cash and cash equivalents		(44,061)	120,726	(34,977) 95,837
Cash and cash equivalents at beginning of year		177,603	56,877	140,988 45,151
Cash and cash equivalents at end of year		<u>W133,542</u>	<u>W177,603</u>	<u>US\$106,011</u> <u>US\$140,988</u>

## Significant transactions not involving inflow or outflow of cash:

Transfer of construction on-progress to other current assets	W	-	W16,608	\$ - US\$13,184
Decrease in investments due to application of the equity method of accounting		-	4,915	- 3,902
Transfer of deferred charges to other assets		-	6,720	- 5,335
Decrease in deferred foreign currency translation losses due to the offset against capital surplus		-	55,701	- 44,218
Transfer of long-term debt to current portion		403,557	359,065	320,360 285,040
Increase in retained earnings due to the change in accounting for income taxes		-	1,396	- 1,108
Transfer of deferred foreign currency translation gains to retained earnings further to the accounting change		-	2,258	- 1,792
Transfer of construction in-progress to property rights		498,897	838,976	396,044 666,013
Transfer of property, plant and equipment to other assets		-	4,724	- 3,750
Transfer of construction in-progress to property, plant and equipment		10,504	-	8,338 -
Increase in property rights due to investment in kind		265,021	-	210,384 -

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

#### *Basis of financial Statement Presentation :*

The official accounting records of the Company are maintained in Korean Won in conformity with the KOWACO Act, the Accounting Regulations for Government owned enterprises as approved by the Korean Ministry of Finance and Economy, and accounting principles generally accepted in the Republic of Korea, which may differ from accounting principles generally accepted in countries and jurisdictions other than the Republic of Korea. Accordingly, the accompanying financial statements are not primarily intended to present the Company's financial position, results of operations and cash flows for those who are not informed about Korean GAAP, procedures and practices. Certain amounts in the accompanying financial statements have been regrouped and reclassified for the convenience of the reader. Certain information included in the statutory financial statements, not required for a fair presentation of the Company's financial position or results of operations, is not presented in the accompanying financial statements.

#### Cash Equivalents:

Cash and cash equivalents consist primarily of cash on deposit, certificates of deposit, money market accounts, and investment grade commercial paper that are readily convertible into cash and purchased with original maturities of three months or less.

#### Marketable Securities:

The Company's marketable securities comprise equity and debt securities, all of which are carried at their fair value based on the quoted market prices of the balance sheet date. Net realized and unrealized gains and losses on marketable securities are included in net earnings. For purpose of determining realized gains and losses, the cost of securities sold is determined by the weighted-average method.

#### Allowance for doubtful accounts:

The Company provides an allowance for doubtful accounts and notes receivable equal to the

estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable.

#### *Inventories and long-term inventories in-progress:*

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out cost method except for land held for sale and uncompleted land reclamation which are determined using the specific identification method.

Certain land held for sale and uncompleted land reclamation, expected to be completed and/or sold after one year from the balance sheet date, have been classified as non-current.

#### Investments

##### (1) *Investments market value is available (except investments using equity method)*

Marketable securities among investments are stated at the fair value, and the difference between book value and fair value is charged to valuation gains and loss shown under capital adjustments account.

##### (2) *Investments market value is not available (except investments using equity method)*

Investments market value is not available are stated at cost which is determined by the weighted average method. But if the investee's net book value declines and is not expected to recover, the acquisition cost is adjusted to the investor's share in the net worth of the investee. The difference between original acquisition cost and adjusted amount is charged to current operations shown as investment securities impairment loss account.

#### *Investments using equity method*

Investments in affiliated companies over which the Company exercises significant influence are stated using the equity method. The difference between the carrying value and the amount after adjusting for the investor's

share in the investee's net assets is presented as "valuation gain or loss using equity method", to account for the investor's share in the earnings or losses of the investee. If the difference is derived from changes in the investee's retained earnings, such difference is presented as the increase or decrease in the investor's beginning retained earnings. If the difference is derived from changes in the investee's capital adjustment, it is presented as valuation gain(loss) on investments, shown in capital adjustment account as a component of shareholders' equity.

Unrealized profits and losses on transactions within the affiliated company using equity method are eliminated.

(3) *Investments in debt securities*

Investments in debt securities, that the Company acquired with intention to hold to maturity date is presented at acquisition cost. However, when its acquisition cost is different from face value, the difference is amortized using effective interest method in balance sheet over the remaining period of time.

*Property, Plant and Equipment:*

Property Plant and equipment are recorded at cost except for assets in existence as of January 1, 1998, 1983 and 1977, which were revalued in accordance with the Assets Revaluation Law of the Republic of Korea. Expenditures for major additions and improvements are capitalized, and minor replacements, maintenance, and repairs are charged to expense as incurred.

Effective January 1, 1998, 1983 and 1977, the Company revalued certain of its property, plant and equipment in accordance with the Assets Revaluation Law. As a result of the asset revaluations, an assets revaluation surplus totaling W1,462,843 million (US\$1,161,263 thousand), net of revaluation taxes, was credited to stockholders' equity as capital surplus.

Depreciation is provided over the estimated useful lives of the related assets using the straight-line method. The estimated useful lives for significant property and equipment categories are as follows:

Buildings	15 to 30 years
Structures	15 to 30 years
Machinery and equipment	20 years

Ships and vehicles	5 to 10 years
Tools, furniture and fixtures	5 years

The value of the Company's land, as determined by the Government of the Republic of Korea for tax administration purposes, is approximately W69,601 million (US\$55,252 thousand) as of December 31, 2000. Such valued amount is typically less than fair market value.

*Capitalization of Interest:*

The Company capitalizes interest cost on borrowings incurred in connection with construction of property, plant and equipment and the development projects of industrial sites and cities (Note 20).

*Property rights:*

Property rights consist of the utilization rights to dams and the management rights to waterworks contributed in-kind by the Government of the Republic of Korea and various Korean municipal governments. Property rights are stated at cost except for those in existence as of January 1, 1998, 1983 and 1977 which were revalued in accordance with the Assets Revaluation Law of the Republic of Korea. Property rights are amortized using the straight-line method over the following useful lives:

Utilization rights to dams	50 years
Management rights to waterworks	20 years
Other	5 to 10 years

*Discount on debentures:*

Discount on debentures (including bond issuance costs) is presented as a direct deduction from the nominal value of the debentures and is amortized using the straight-line method over the life of the debentures.

*Retirement and Severance Benefits*

In accordance with the Company's regulations, employees and directors with more than one year service are entitled to receive a lump-sum payment upon termination of their service with the Company, based on their length of service and rate of pay at the time of termination and certain other factors. The accrued severance benefits which would have been payable assuming all eligible employees and directors terminated their employment as of December 31, 2000 and 1999 are W4,718 million

(US\$3,745 thousand) and W46,522 million (US\$36,931 thousand) respectively.

Further to the Korean Labor Standards Law, employees who have been with the Company for more than one year can be given the option to receive retirement and severance benefits payments, calculated based upon the rates of pay at the time of payments, prior to termination of their employment. Those employees who receive early payments before termination of their employment shall be further entitled to retirement and severance benefits based upon the rates of pay at the time of termination, years of service subsequent to the previous payments, and certain other factors. The Company made early payments of retirement and severance benefits amounting to W64,224 million (US\$50,984 thousand) to employees during the year ended December 31, 2000, and W137,233 million (US\$108,941 thousand) during the year ended December 31, 1999.

Under the Korean National Pension Law, the Company has prepaid a portion of its retirement and severance benefits obligation to the Korean National Pension Corporation at the rate of three percent of payroll expense. Such prepayments amounted to W2,969 million (US\$2,357 thousand) at December 31, 1999, and have been offset against the Company's obligation for retirement and severance benefits in the balance sheet. In accordance with a revision in the Korean National Pension Law, these prepayments are no longer required effective from April 1, 1999.

In order to obtain tax benefits, the Company has deposited a portion of its retirement and severance benefits obligation with insurance companies. The deposits are refundable on demand, however, since refunding the deposits for purposes other than the payment of benefits would result in a reversal of the tax benefits, the Company has no intention of seeking a refund except for the purpose of paying benefits. Accordingly, the deposits have been classified as other assets (Note 9).

#### Foreign Currency Translation

The Company's books and records are maintained in Korean won. Transactions conducted in foreign currencies are recorded in Korean won based on the prevailing rates of exchange when the transactions are made.

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the exchange rates prevailing at the balance sheet date. Resulting exchange gains and losses are recognized currently.

In accordance with Korean GAAP applied by the Company through December 31, 1998, certain foreign currency translation gains (losses) were deferred and recorded as a deferred liability (asset) subject to amortization. The unamortized balance of deferred foreign currency translation losses amounting to W55,701 million (US\$44,218 thousand) as of December 31, 1998 was offset against the asset revaluation surplus (included in capital surplus) in accordance with the Assets Revaluation Law on January 1, 1999. Pursuant to the 1999 Korean GAAP revisions described below, the unamortized balance of deferred foreign currency translation gains amounting to W2,258 million (US\$1,792 thousand) as of December 31, 1998 was written off by recording a debit to beginning retained earnings as of January 1, 1999.

#### Basis of revenue recognition:

The Company recognizes revenue from the sales of hydroelectric power, dam managed water and waterworks managed water based on meter readings made on a monthly basis.

The Company recognizes revenue from land reclamation and new city development projects at the earliest of the sales contract final payment date, the date of title transfer or the date of permission for use as granted by municipal governments.

In respect of industrial site development projects and long-term construction contracts with the Government of the Republic of Korea and municipal governments, the Company recognized revenue based upon the percentage-of-completion method, and in applying the percentage-of-completion method, the Company recognized revenue to the extent of costs accrued and recoverable. As such, the Company recognized sales revenue of W63,115 million (US\$50,103 thousand) and W47,928 million (US\$38,047 thousand) in 1999 and 2000, respectively.

#### Income Taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial



statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Prior to January 1, 1999, the Company provided for taxes on income that were currently payable.

Use of estimates:

The preparation of financial statements in accordance with Korean GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the

reporting period. Actual results could differ from those estimates.

Korean GAAP revisions from 1999:

On December 11, 1998, the Financial Supervisory Commission announced certain changes in Korean GAAP with the intention to revise Korean GAAP and disclosure rules to meet international practices. The revised accounting standards are effective for the first fiscal year starting on or after December 12, 1998. The cumulative effect on prior years of the changes in accounting policies is to be charged or credited to opening retained earnings with disclosure made on the effect of the changes (see below). The revisions include changes in the areas of accounting for foreign currency translation, intangibles and deferred charges (including stock issuance costs), investments using the equity method, derivatives, asset impairment, interest capitalization, income taxes, and disclosure concerning segment information and discontinued operations. As a result of the adoption of the revised Korean GAAP, beginning retained earnings at January 1, 1999 and net income for 1999 decreased as follows:

	Korean Won in millions	U.S. Dollars in thousands (Note 3)	Korean Won in millions	U.S. Dollars in thousands (Note 3)
Valuation of investments using the equity method (Note 7)	(4,915)	(3,902)	684	543
Deferred income taxes (Note 21)	(1,396)	(1,108)	(21,073)	(16,729)
Deferred foreign currency translation gains (Note 2)	2,258	1,792	-	-
Amortization of stock issuance costs (Note 14)	-	-	1,293	1,026
	(4,053)	(3,218)	(19,096)	(15,160)

### 3. United States Dollar Amounts

The company operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the reader. For both 2000 and 1999, all Won amounts has been translated into U.S. Dollars at

the rate of W1,259.70, the rate prevailing on December 31, 2000. This translation is not in accordance with either Korean or U.S. generally accepted accounting principles, and should not be construed as a representation that the Won amounts shown could be readily converted, realized or settled in U.S. Dollars at this or at any other rate.

#### 4. Cash and cash equivalents, and financial instruments

Cash and cash equivalents, and financial instruments consist of the following as of December 31, 2000 and 1999.

	Korean Won in millions		U.S. Dollars in thousands	
	2000	1999	2000	1999
Cash and cash equivalents				
Cash on hand	67	91	53	72
Passbook accounts	7,683	67,212	6,099	53,356
Time deposits	125,792	110,300	99,859	87,560
	<u>133,542</u>	<u>177,603</u>	<u>106,011</u>	<u>140,988</u>
Long-term financial instruments				
Restricted bank deposit	-	641	-	509
Deposits for group retirement and severance benefits	1,415	1,703	1,123	1,352
	<u>1,415</u>	<u>2,344</u>	<u>1,123</u>	<u>1,861</u>

#### 5. Accounts receivable

Accounts receivable consist of the following as of December 31, 2000 and 1999.

	Korean Won in millions		U.S. Dollars in thousands	
	2000	1999	2000	1999
Trade receivables on supply of water	68,172	68,552	54,118	54,419
Trade receivables on sale of industrial sites	157,105	149,330	124,716	118,544
Accounts receivable - other	47,681	39,014	37,851	30,971
	<u>272,958</u>	<u>256,896</u>	<u>216,685</u>	<u>203,934</u>

Trade receivables of W100,249 million (US\$79,582 thousand) and W87,619 million (US\$69,555 thousand) at December 31, 2000 and 1999, respectively, were recorded with respect to sales revenue recognition based on the percentage-of-completion method.

## 6. Inventories

Inventories consist of the following as of December 31, 2000 and 1999.

	Korean Won In millions		U.S. Dollars in thousands	
	2000	1999	2000	1999
Land	1,306,584	1,161,359	1,037,218	921,933
Supplies	4,479	4,815	3,556	3,822
Raw materials	776	233	616	185
Other	96	12	76	10
	<u>1,311,935</u>	<u>1,166,419</u>	<u>1,041,466</u>	<u>925,950</u>
Less: portion of land classified as non-current	<u>(937,027)</u>	<u>(748,361)</u>	<u>(743,849)</u>	<u>(594,079)</u>
	<u>374,908</u>	<u>418,058</u>	<u>297,617</u>	<u>331,871</u>

## 7. Investments

Investments consist of the following as of December 31, 2000.

	Equity(%)	Number of shares	Korean Won in millions		U.S. Dollars in thousands (Note 3)
			Net worth	Book value	Book value
Korea Construction Resources Co., Ltd. ("KCRC")	5.3	66,785	633	633	503
Korea Construction Management Corp. ("KCMC")	18.9	178,200	8,088	4,000	3,175
Kyung-in Canal Co., Ltd. ("KICC")	20.0	440,000	3,504	3,504	2,782
Korea Water Resources Engineering Corp. ("KWRE")	100.0	817,552	4,085	4,085	3,242
				<u>12,222</u>	<u>9,702</u>
Bonds	-	-	-	<u>7</u>	<u>6</u>
				<u>12,229</u>	<u>9,708</u>

Investments consist of the following as of December 31 1999.

	Equity(%)	Number of shares	Korean Won in millions		U.S. Dollars in thousands (Note 3)
			Net worth	Book value	Book value
Korea Construction Resources Co., Ltd. ("KCRC")	5.3	66,785	760	668	530
Korea Construction Management Corp. ("KCMC")	18.9	178,200	7,295	4,000	3,175
Kyung-in Canal Co., Ltd.					

("KICC")	20.0	440,000	2,200	2,200	1,746
Korea Water Resources Engineering Corp. ("KWRE")	100.0	817,552	3,699	3,699	2,937
				10,567	8,388
Government bonds	-	-	-	8	7
Debentures issued by Korea Development Bank	-	-	-	2,000	1,588
				12,575	9,983

Korea Water Resources Construction Supervision Service Corp. ("KWRC"), wholly owned by the Company as of December 31, 1998, was merged into Korea Highway Engineering Supervising Corp. ("KHES") during April 1999. Subsequent to such merger, KHES changed its name to KCMC. As a result, the Company's ownership of KCMC changed to 18.9% as of December 31, 1999.

The Company acquired 20% of KICC's common stock in September 1999 when KICC was incorporated. At December 31, 1999, the Company recorded its investment in KICC at cost because KICC has not yet commenced commercial operations.

The Company valued its investments in KWRE and KICC using the equity method, resulting in a net valuation gain of W395 million (US\$314 thousand) as of December 31, 2000, and net loss of W4,231 million (US\$3,359 thousand) as of December 31, 1999. Of the above 1999 amount, W4,915 million (US\$3,902 thousand) was debited to beginning retained earnings as of January 1, 1999 and W684 million (US\$543 thousand) was credited to current operations in 1999.

## 8. Transactions and Balances with Related Companies

The Company's financial statements include the following major balances and transactions with related companies as of and for the years ended December 31, 2000 and 1999

	Due from		Due to		Purchases from		Operating expenses paid to	
	2000	1999	2000	1999	2000	1999	2000	1999
KWRE	-	-	4,460	7,048	5,195	2,100	31,425	32,220
KICC	13,315	13,374	-	-	-	-	-	-
	<u>13,315</u>	<u>13,374</u>	<u>4,460</u>	<u>7,048</u>	<u>5,195</u>	<u>2,100</u>	<u>31,425</u>	<u>32,220</u>

	Due from		Due to		Purchases from		Operating expenses paid to	
	2000	1999	2000	1999	2000	1999	2000	1999
KWRE	-	-	3,540	5,595	4,124	1,667	24,946	25,578
KICC	10,570	10,617	-	-	-	-	-	-
	<u>10,570</u>	<u>10,617</u>	<u>3,540</u>	<u>5,595</u>	<u>4,124</u>	<u>1,667</u>	<u>24,946</u>	<u>25,578</u>

## 9. Other assets

Other assets consist of the following as of December 31, 2000 and 1999.

Korean Won in millions		U.S. Dollars in thousands	
2000	1999	2000	1999

Deposits for group retirement and severance benefits (Note 2)	1,415	1,703	1,123	1,352
Restricted bank deposit	-	641	-	509
Long-term loans to employees	1,127	22,798	895	18,098
Key money and other deposits	52,283	47,729	41,504	37,889
Long-term advance payments	6,594	21,749	5,235	17,265
Other	32,649	9,725	25,918	7,720
	<u>94,068</u>	<u>104,345</u>	<u>74,675</u>	<u>82,833</u>

Key money and other deposits as of December 31, 2000 and 1999, include W27,495 million (US\$21,827 thousand) and W28,272 million (US\$22,443 thousand) respectively, deposited with the courts in connection with lawsuits filed against the Company (Note 13).

## 10. Insurance

Property, plant and equipment and property rights were insured against fire and other casualty losses for up to W370,683 million (US\$294,263 thousand) and W350,092 (U.S.\$277,917 thousand) as of December 31, 2000 and 1999, respectively. In addition, the Company maintains general vehicle and comprehensive general liability insurance policies.

## 11. Liabilities denominated in foreign currencies

Liabilities denominated in foreign currencies consist of the following as of December 31, 2000 and 1999.

	Foreign currencies in thousands		Equivalent Korean Won in millions	
	2000	1999	2000	1999
Long-term debt, including current portion	US\$75,128	US\$ 74,141	93,586	86,690
	-	SFR 4,611	-	3,308
	¥12,000,000	¥13,058,130	132,182	146,491
			<u>225,768</u>	<u>236,489</u>

## 12. Long-term debt

Long-term debt consists of the following as of December 31, 2000 and 1999.

	Annual Interest Rate	Korean Won in millions		U.S. Dollars in thousands	
		2000	1999	2000	1999
Foreign currency loans;					
Borrowings through the Korean government	6.58 - 7.73	20,921	159,224	16,608	126,398
National Australia Bank Ltd. and others	Libor+ 0.9	69,283	62,997	55,000	50,010
Korea Exchange Bank		-	3,269	-	2,595
Korea Development Bank	8.5	3,382	10,999	2,685	8,731
Foreign currency debentures(¥)	2.10 - 2.80	131,380	-	104,295	-
		<u>224,966</u>	<u>236,489</u>	<u>178,588</u>	<u>187,734</u>
Local currency loans;					
Ministry of Construction and transportation	5.0	20,700	20,700	16,432	16,432

Korea Development Bank	5.5 8.6	–	267,149	272,965	212,074	216,690
Korea Petroleum Development Corporation	5.0		13,250	21,250	10,518	16,869
Local currency debentures	2.9 21.20	–	1,271,563	1,363,317	1,009,417	1,082,255
Other	5.5 –7.0		14,688	14,350	11,660	11,393
			<u>1,587,350</u>	<u>1,692,582</u>	<u>1,260,101</u>	<u>1,343,639</u>
			<u>1,812,316</u>	<u>1,929,071</u>	<u>1,438,689</u>	<u>1,531,373</u>
Less: current portion			<u>(403,557)</u>	<u>(359,065)</u>	<u>(320,360)</u>	<u>(285,040)</u>
			<u>1,408,759</u>	<u>1,570,006</u>	<u>1,118,329</u>	<u>1,246,333</u>

Borrowings through the Korean government were obtained from the International Bank for Reconstruction and Development, Asian Development Bank and Overseas Economic Cooperation Fund. These borrowings were originally provided to the Korean government and subsequently re-lent to the Company.

On November 13, 1998 (amended on October 8, 1999), the Company entered into a Facility Agreement (“the Agreement”) with National Australia Bank Ltd. and two other foreign financial institutions (collectively “the Banks”) for the purpose of borrowing US\$55,000 thousand with an annual interest rate of LIBOR plus 2% (LIBOR plus 1.4% effective from November 11, 1999, and LIBOR plus 0.9% effective from November 7, 2000). Pursuant to the terms of the Agreement, the Company borrowed the US\$55,000 thousand on December 11, 1998 for three years through December 11, 2001. Under the Agreement, the Banks will have a put option at each anniversary from the date of borrowing by the Company. Further, the Company has a right to prepay, in whole or in part, the borrowing and any such prepayment should be made in increments of US\$5,000 thousand.

On December 14, 2000, the Company issued Foreign currency(¥) denominated debentures with Daiwa Securities SB Capital Markets Co., Ltd as a lead manager. The debentures outstanding as of December 31, 2000 consisted of the following ;

Series	1 and 2
Issuance range	¥7,000 million and ¥5,000 million
Annual interest rate	2.1% and 2.80%
Final maturity	Dec. 2005 and Dec. 2007
Total amount	¥12,000 million (₩132,182 million)
Less: discount on debentures (bond issuance costs)	<u>(₩802 million)</u>
	<u>₩131,380 million</u>

Local currency debentures issued and outstanding as of December 31, 2000 consisted of the following (Korean Won in millions);

Series	16 to 81
Issuance range	₩5,000 ~ ₩100,000
Annual interest rate	2.9% ~ 21.2%
Final maturity	Dec. 2007
Total amount	₩1,272,100
Less: discount on debentures (bond issuance costs)	<u>(537)</u>
	<u>₩1,271,563</u>

The annual maturities of long-term debt outstanding as of December 31, 2000 are as follows

Local currency loans	Korean Won	Total
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		equivalent of foreign currency loans	
2001	327,397	76,160	403,557
2002	211,984	3,525	215,509
2003	190,908	3,559	194,467
2004	350,819	3,596	354,415
2005 and thereafter	506,242	138,126	644,368
	1,587,350	224,966	1,812,316

### 13. Commitments and Contingencies

Prior to 1996, a capital gains tax totaling W77,084 million (US\$61,192 thousand) related to 1990 through 1993 was assessed by the Korean tax authorities against the Company. Through 1996, the Company paid the W77,084 million capital gains tax assessment and filed a lawsuit with the Appellate Court in Taejon to claim a refund of the capital gains tax paid. The Appellate Court ruled in July 1998 that the payment should be refunded to the Company. Currently, the case is under appeal by the Korean tax authorities with the Korean Supreme Court. In addition, the Company was assessed, and paid, a capital gains tax assessment in the amount of W51,021 million (US\$40,503 thousand) related to 1994 through 1998, and the Company filed a lawsuit with the District Court in Daejeon to claim a refund of the capital gains tax paid. In 1999, the Company was also assessed, and paid, a capital gains tax assessment of W2,121 million (US\$1,684 thousand) related to 1999, and the Company filed an appeal with the Office of National Tax Administration to claim a refund of the capital gains tax paid. The Company cannot presently predict the outcome of these appeals.

Further, the Company is a plaintiff in various legal proceedings in respect of environmental matters in the aggregate amount of W23,543 million (US\$18,689 thousand) at December 31, 2000. The Company cannot presently predict the outcome of these legal proceedings.

Several lawsuits have been brought against the Company in respect of claims for defrayal of losses, incurred by residents in Shiwha as a result of the construction of a seawall (see below), in the aggregate amount of W44,677 million (US\$35,466 thousand). In addition, the Company is a defendant in various lawsuits in the aggregate amount of W38,306 million (US\$30,409 thousand) at December 31, 2000. The Company cannot presently predict the outcome of these lawsuits.

The Company has constructed a seawall in connection with a land reclamation project in Shiwha, Korea. The reclamation project consists of two phases and the seawall is connected to both phases. Further to an approval granted by the Government of the Republic of Korea, the Company has developed the first phase of the project. The zoning of the second phase of the project has not yet been established by the Government of the Republic of Korea. In connection with the construction of the seawall, the Company has incurred costs totaling W528,735 million (US\$419,731 thousand) through December 31, 2000. Of the amount, W264,368 million (US\$209,866 thousand), 50% of the costs, has been allocated to the cost of the first phase of the project. However, the remaining W264,367 million is included in long-term inventories in-progress at December 31, 2000 which will be charged to the cost for the second phase of the project in the future. According to the Korean Ministry of Construction and Transportation, the second phase of the project will commence in 2001 or thereafter and the Company will be appointed as the developer. While such appointment has not been formally made to date, management of the Company is of the opinion that the Company will act as the developer of the second phase of the project. Further, if the Company is not appointed as the developer of the second phase of the project, the Company understands (unofficially) that it will be able to claim a refund of the W264,368 million either from the Government of the Republic of Korea or another developer.

The Company is committed to supply hydroelectric power to Korea Electric Power Corporation ("KEPCO"). Revenues from sale of hydroelectric power to KEPCO for the year ended December 31, 2000 amounted to W150,845 million (US\$119,747 thousand).

The Company has outstanding construction contracts (backlog) amounting to W7,393 million (US\$5,869 thousand) at December 31, 2000.

The Company has entered into operating loan arrangements with five Korean financial institutions. The lines of credit under such arrangements amounted to W760,000 million (US\$603,318 thousand) as of December 31, 2000

#### **14. Paid-in capital**

In accordance with the KOWACO Act, the Government of the Republic of Korea's ownership should be maintained at a ratio of 50% or more (Note 1).

In accordance with a revision to Korean GAAP, the unamortized balance of stock issuance costs amounting to W1,288 million (US\$1,022 thousand) at January 1, 1999 and such costs incurred in 1999 were debited to a capital adjustment within stockholders' equity. The balance of the capital adjustment shall be amortized over three years using the straight-line method through appropriations of retained earnings. Prior to 1999, stock issuance costs were capitalized and amortized over three years using the straight-line method with amortization charged to current operations.

#### **15. Legal reserve**

In accordance with the KOWACO Act, an amount equal to at least 20% of net earnings in each fiscal year is required to be appropriated as a legal reserve until the reserve equals 50% of paid-in capital. The legal reserve may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital.

#### **16. Reserve for business expansion**

Under the KOWACO Act, an amount equal to at least 20% of net earnings in each fiscal year is required to be appropriated as a reserve for business expansion until such reserve equals paid-in capital. The reserve for business expansion may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital.

#### **17. Reserve for investment in social overhead capital**

Under the Korean Tax Incentives and Limitation Law, the Company is allowed to deduct amounts provided as a reserve for investment in social overhead capital from taxable income through appropriations of retained earnings. The unused portion of the reserve is added back to taxable income over three years after a three-year grace period



## 18. Revenue

Revenue for 2000 and 1999 consist of the following.

	Korean Won in millions		U.S. Dollars in thousands	
	2000	1999	2000	1999
Development of new cities and industrial sites:				
Ansan	164,130	171,247	130,292	135,942
Shiwha	105,554	62,656	83,793	49,739
Industrial sites	85,057	67,527	67,522	53,606
Other	-	113	-	90
	<u>354,741</u>	<u>301,543</u>	<u>281,607</u>	<u>239,377</u>
Construction business				
Dams	164,713	145,687	130,755	115,652
Water supply systems	-	37,181	-	29,516
	<u>164,713</u>	<u>182,868</u>	<u>130,755</u>	<u>145,168</u>
Utilities business				
Sales of hydroelectric power	150,845	150,764	119,747	119,682
Sales of dam managed water	96,470	77,218	76,581	61,299
Sales of waterworks managed water	385,175	333,428	305,767	264,688
Other	3,177	2,483	2,522	1,971
	<u>635,667</u>	<u>563,893</u>	<u>504,617</u>	<u>447,640</u>
Other	<u>23,166</u>	<u>15,665</u>	<u>18,392</u>	<u>12,436</u>
	<u><u>1,178,287</u></u>	<u><u>1,063,969</u></u>	<u><u>935,371</u></u>	<u><u>844,621</u></u>

## 19. Cost of revenue

Cost of revenue for 2000 and 1999 consist of the following.

	Korean Won in millions		U.S. Dollars in thousands	
	2000	1999	2000	1999
Development of new cities and industrial sites:				
	305,434	271,211	242,465	215,298
Construction business				
Dams	164,713	145,854	130,756	115,785
Water supply systems	-	37,181	-	29,516
	<u>164,713</u>	<u>183,035</u>	<u>130,756</u>	<u>145,301</u>
Utilities business	462,571	415,956	367,207	330,202
Other	21,013	14,668	16,682	11,644
	<u>953,731</u>	<u>884,870</u>	<u>757,110</u>	<u>702,445</u>

## 20. Interest capitalization

Details of interest capitalized for 2000 and 1999 consist of the following.

	Korean Won in millions	U.S. Dollars in thousands
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	2000	1999	2000	1999
Total interest incurred	144,529	160,539	114,733	127,442
Charged to expense	(78,577)	(73,850)	(62,378)	(58,625)
Interest capitalized	<u>65,952</u>	<u>86,689</u>	<u>52,355</u>	<u>68,817</u>
Allocations to:				
Construction in-progress	30,171	31,658	23,951	25,131
Inventories and cost of revenue	<u>35,781</u>	<u>55,031</u>	<u>28,404</u>	<u>43,686</u>
	<u><u>65,952</u></u>	<u><u>86,689</u></u>	<u><u>52,355</u></u>	<u><u>68,817</u></u>

## 21. Income Taxes

The Company is subject to corporate income tax, including resident surtax, at the aggregate rates of 17.6% on taxable income up to W100 million and 30.8% on taxable income exceeding W100 million.

The Company is subject to additional taxes on capital gains at the aggregate rates of 16.5% on capital gains. A reconciliation between income before income taxes per the accompanying financial statements and tax loss per the corporate income tax return is as follows:

	Korean Won in millions		U.S. Dollars in thousands	
	2000	1999	2000	1999
Income before income taxes as per the financial statements	<u>99,077</u>	<u>65,990</u>	<u>78,651</u>	<u>52,385</u>
Permanent differences:	<u>1,113</u>	<u>2,390</u>	<u>884</u>	<u>1,897</u>
Temporary differences:				
Severance and retirement benefits	(39,140)	(83,390)	(31,071)	(66,198)
Depreciation	1,516	(250)	1,203	(198)
Reserve for investment in social overhead capital	21,877	23,731	17,367	18,839
Capitalized interest	(5,647)	(26,333)	(4,483)	(20,904)
Deferred foreign currency translation loss, net	(41,577)	(12,458)	(33,005)	(9,890)
Interest income	9,065	5,959	7,196	4,730
Gain on valuation of investments using the equity method of accounting	130	(684)	103	(543)
Other, net	(9,152)	4,416	(7,265)	3,506
Net tax loss carry forward	<u>(20,628)</u>	<u>-</u>	<u>(16,375)</u>	<u>-</u>
	<u>(83,556)</u>	<u>(89,009)</u>	<u>(66,330)</u>	<u>(70,658)</u>
Tax income(loss)	<u><u>16,634</u></u>	<u><u>(20,629)</u></u>	<u><u>13,205</u></u>	<u><u>(16,376)</u></u>

Deferred income taxes reflect the net tax effects of the net operating tax income and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. Significant changes in cumulative temporary differences and the net operating tax loss for the year ended December 31, 2000 are as follows:

	Beginning balances	Increase (Decrease)	Ending balances
Temporary differences:			
Retirement and severance benefits	40,557	(39,141)	1,416
Depreciation	5,703	1,516	7,219
Reserve for investment in social overhead capital	(87,115)	21,877	(65,238)
Capitalized interest	(92,193)	(5,647)	(97,840)
Deferred foreign currency translation loss, net	43,900	(41,577)	2,323
Interest income	(19,056)	9,065	(9,991)
Gain on valuation of investments using the equity method of accounting	4,231	130	4,361
Other, net	10,105	(9,151)	954
	<u>(93,869)</u>	<u>(62,929)</u>	<u>(156,797)</u>
Net operating tax loss	20,629	(20,629)	-
			<u>(48,293)</u>

Provision for income taxes for the year ended December 31, 2000 consisted of the following:

	Korean won in millions	U. S. dollars in thousands (Note 3)
Current tax provision (relating to capital gains tax)	10,705	8,498
Tax effect of temporary differences	<u>25,735</u>	<u>20,429</u>
	<u>36,440</u>	<u>28,927</u>

The effective income tax rate for the year ended December 31, 2000 is as follows:

	Korean won in millions	U.S. dollars in thousands (Note 3)
Provision for income taxes	<u>36,440</u>	<u>28,927</u>
Income before income taxes	<u>99,077</u>	<u>78,651</u>
Effective income tax rate	<u>36.78%</u>	<u>36.78%</u>

## 22. Segment information

Financial information by business segment of the Company for the year ended December 31, 2000 is as follows (Korean won in millions):

	Development of cities and industrial sites	Construction	Utilities	Other	Total
Revenue	345,741	164,713	635,667	23,166	1,178,287
Cost of revenue	<u>305,433</u>	<u>164,713</u>	<u>462,571</u>	<u>21,013</u>	<u>953,731</u>
Gross profit (loss)	49,308	-	173,095	2,153	224,556
Selling and administrative expenses	<u>6,736</u>	<u>4,283</u>	<u>27,347</u>	<u>-</u>	<u>38,366</u>
Operating income (loss)	<u>42,571</u>	<u>(4,283)</u>	<u>145,748</u>	<u>2,153</u>	<u>186,190</u>

### **23. Modification of Statement of Cash flows for prior year**

The Statement of Cash flows for the year ended December 31, 1999 was audited by Young Wha Corporation. They expressed an unqualified opinion on the statement in their report dated April 15, 2000. In the statement, activities for long-term inventories in-progress were classified to investment activities, not to operating activities. Accordingly, the statement of cash flows for the year ended December 31, 1999 did not present fairly the cash flows of the Company for the year then ended. Therefore, the statement of cash flows for the year ended December 31, 1999 was restated by reclassification of activities, which classified changes in long-term inventories into operating activities. As a result of reclassification of activities, cash flows from operating activities for the year ended December 31, 1999 was increased by W257,666 million (US\$204,545 thousand).

## Corporate Information

### Board of Directors

#### **Seok-Ku Ko**

*Chairman*

*President and Chief Executive Officer*

#### **Mun Kyu Lee**

*Senior Vice President/Business planning  
and development*

#### **Jong Seo Park**

*Vice President and Chief Financial Officer  
/Administrative Service Units*

#### **Kyu Hwan Lee**

*Vice President /Water Resources Unit*

#### **Myung Kyo Jung**

*Vice President/Water Supply and Wastewater  
Service Unit*

#### **Seong Hwangbo**

*Vice President/Land Development and  
Technical Service Unit*

#### **Mu Seong Shin**

*Rector of Fair Trade Research Institute*

#### **Young Seen Kim**

*Professor of Chungnam National University*

#### **Tae-Hun Yun**

*Professor of Hanyang University*

#### **Un kwang Yeo**

*Professor of Myongji University*

#### **Jeong Gil Jang**

*Professor of Seoul National University*

#### **Jeong Haeng, Jang**

*Journalist*

#### **Yun Won Lee**

*Vice President of Changhung Telecommunications  
Inc.*

#### **Byung Sir Min**

*Inspector General*

### Organization and Staff

*We have five business units and 42 regional Offices  
throughout the country. We employ more than 3,000  
people across five business units.*

### World Wide Web Site

*For current information on Korea Water Resources  
Corporation, visit our web site at :[www.kowaco.or.kr](http://www.kowaco.or.kr)*

### Forward-Looking Statements

*Statements contained in this report that are not based  
on fact are forward-looking statements. Actual events  
or results may differ materially from those expressed  
or implied by such forward-looking statements as a  
result of known and unknown risk and uncertainties  
facing the company.*

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