

2002 ANNUAL REPORT



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KOREA WATER RESOURCES CORPORATION



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Exchange Rate

Korean won can be converted into US dollars at the rate of 1,200.4: \$ 1, for convenience only.

profile

Steward of National Water Resources

The Korea Water Resources Corporation(KOWACO) is a state owned water utility responsible for constructing and operating dams, reservoirs, regional water supply systems, and hydropower plants, supplying both water and electricity to municipality-owned water purveyors and individual firms throughout South Korea.

KOWACO also reclaims land resources for industrial and residential uses. In addition to these activities, KOWACO provides water-related professional services: specialized training and technical consulting services for local purveyors, hydrological information and environment service for the general public.

KOWACO was first established in 1967 as a national water resources manager. Our mission has been to provide low-cost, reliable water and related services to its customers and to be responsive to the interests and concerns of public water users, the communities we affect. We are very confident that KOWACO, as a national water manager and land developer, has played a key role in developing the national economy and improving the quality of life for all those who utilize our resources.





Financial Highlights

US Dollars in thousands	2002	2001	Percent Change
OPERATING RESULTS			
Revenues	1,286,175	1,066,475	21%
Operating income	317,908	165,570	92%
Net income	242,881	85,939	183%
‡ EBITDA	596,097	380,481	57%
FINANCIAL POSITION			
Total assets	8,094,742	7,924,538	2%
Long-term debt	1,379,170	1,693,633	-19%
Stockholder 's equity	6,715,572	6,230,905	8%
Cash flows from operations	523,486	426,070	10%

* Earnings Before Interest, Tax, Depreciation and Amortization

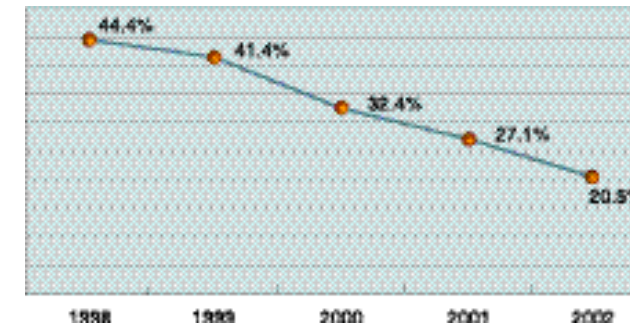
Long-term Debt Credit Ratings

NICE	KIS	R&I(Japan)
AAA	AAA	BBB+

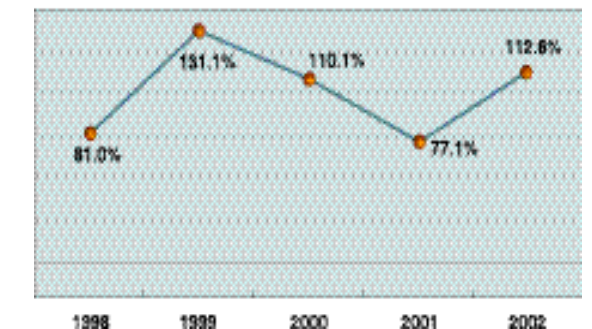
NICE: National Information & Credit Evaluation

KIS : Korea Investors Service

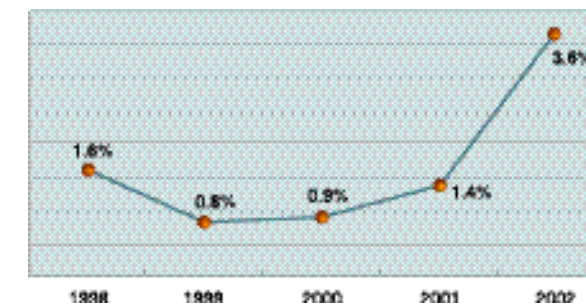
Debt Ratio



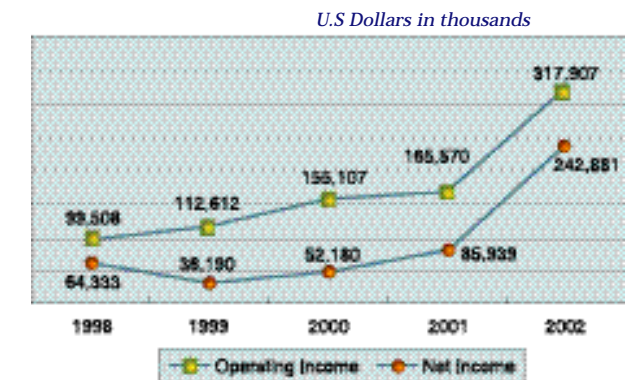
Current Ratio



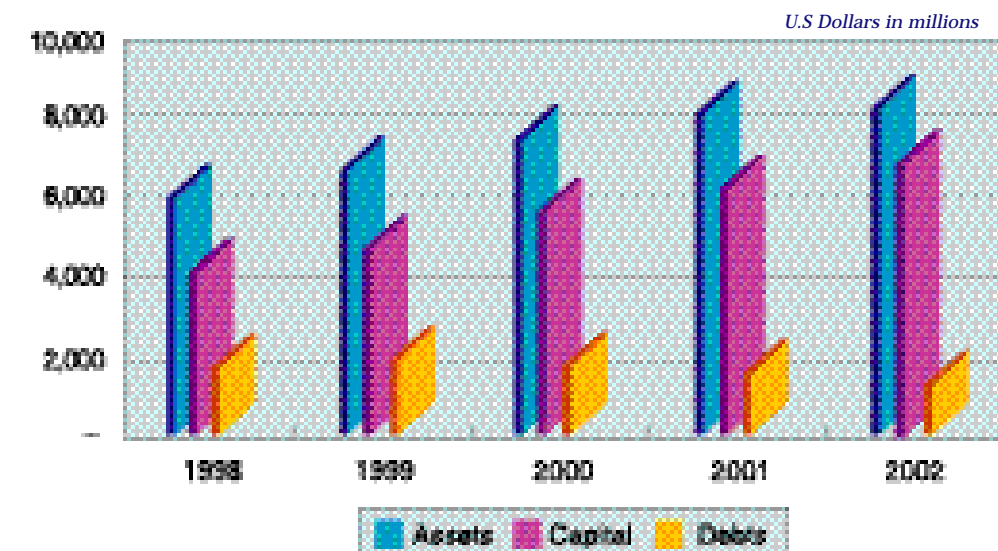
ROE (Return On Equity)



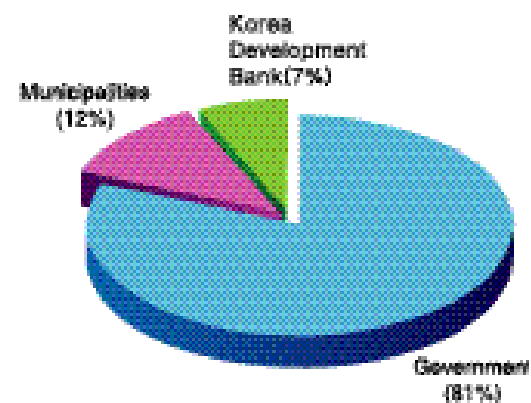
Operating Income & Net Income



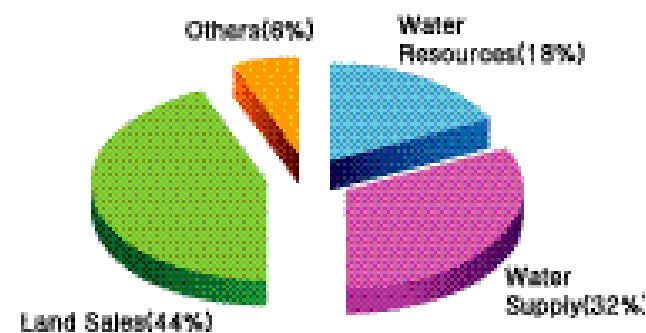
Assets, Capital & Debts



Stockholders



Revenue by Business line 2002



Chairman's Statement

Excellent Financial Performance



Mr. Seok-Ku Ko, Ph.D. Civil Engineering
Chairman
President and Chief Executive Officer

2002 was a year of unprecedented success for KOWACO. New standards were established in virtually all areas of financial performance. Revenues increased to more than 1.6 trillion Won and Net Income increased by 83% to a record 292 billion Won. Cash Flows generated by company operations have climbed continuously for five consecutive years. KOWACO has also seen long term debt fall dramatically from 1.6 trillion Won in 1996 to 1.0 trillion Won today.

A number of important events and achievements contributed to both KOWACO's tremendous 2002 and prospects for continued success in 2003.

-A renewed emphasis on sales by our Business Development Team resulted in numerous new contracts in the areas of municipality-owned waste treatment work, as well as several water supply rehabilitation projects.

- KOWACO also focused on establishing partnerships with global leaders in the international water resources field. We are proud to have established relationships with Veolia Environment (France), the UNDP, Montgomery Watson Harza (U.S.A.), I.H.E.

(Netherlands), Colorado State University (U.S.A), and Yenben Province (China).

A Future of Endless Opportunity

KOWACO has made much progress and we are very optimistic that our success will continue. The core of our business, water, is a necessity of life. As the demand for clean, affordable water continues to grow it provides a wide variety of business opportunities nationally, indeed, globally.

The Korea Water Resources Corporation has over 30 years of experience in water resources management. During this period our industry has undergone remarkable technological change. KOWACO has embraced this change and adapted it to best improve our overall operations.

However, the times continue to bring revolutionary change; this time to the business and marketing of water supply and wastewater treatment. The era of regulated utility industries has ended and there is a new emphasis on entering into the era of contract operations instead.

Fortunately, KOWACO is able to draw upon our vast experience to help ourselves prepare

for the future. We are firmly committed to embracing these changes and to developing them further so they will best benefit our company.

2002 was indeed an excellent year; a year KOWACO can feel proud of. It is my firm belief that, with our experience, skill and dedication, we can use it as a springboard to a greater, more prosperous future. Our goal is to achieve recognition that KOWACO is indeed a global player in the water resources field. With this in mind, all KOWACO employees, from top to bottom, are deeply committed to working together to attain such distinction. We are confident that we can make KOWACO more successful in 2003 as we continue striving to become better everyday.

Sincerely yours,

Seok-Ku Ko

It is with great pleasure that I report that last year was one which the Korea Water Resources Corporation can be particularly proud of.

KOWACO's success can be quantified in numerous manners, not the least of which is by our strong financial performance, underpinned by increased land sales and water rates, prudent financial management and the aggressive pursuit of opportunities, both at home and abroad, to further expand KOWACO's business.

Spotlights 2002





1. Environmental Management

On March 18, 2002, KOWACO announced a corporate commitment to a program focusing on Environmental Management. This is the first such pledge by a public organization and it was welcomed by many, especially by non-governmental organizations in Korea. Furthermore, on October 26, 2002, the corporation obtained ISO 14001 certification. This standard provides organizations throughout the world with key elements for effective environmental management systems. KOWACO is operating a management system that integrates ISO 14001 with ISO 9001, which was previously awarded. As a result, environmentally friendly management has been completely integrated into all aspects of KOWACO's business systems. KOWACO now gives efficient Environmental Management first priority throughout the decision making process.

2. First prize for Human Resources Development

KOWACO was awarded first prize by the Korea Management Association, for best human resources development, among public organizations, in October 2002. This was awarded mainly due to important contributions to furthering human resources development. This development was achieved through programs which cultivated expert employees and by fostering international cooperation agreements with global leaders in the world water industry. As a corporation specialized in water resources, with Korea's premiere management and construction experts, KOWACO has actively sought and successfully implemented important water related projects, both with the Korean government and also overseas water resources projects.

3. Construction of Shi-Hwa Tidal Power Plant

KOWACO is constructing a tidal power plant at Lake Shi-Hwa, located along the west coast of Korea, in order to take advantage of the tidal flow, which is the largest in the world. This would be the first such project in Korea and all basic planning has been completed. This project envisions KOWACO building 12 generators with a total electrical generating capacity of 253 thousand kilowatts. This project is expected to create many benefits including: the conservation of environment, generation of electric power etc. Many international water resources companies have expressed great interest towards participating in this project with KOWACO.

4. World-Class Integrated Water Testing Center

KOWACO established a world-class integrated testing center for water quality in March 2002. This center reaffirms the status of the corporation as the premier water resources organization in Korea. The center, formally accredited by the Korean government, has earned an excellent reputation through performance of water quality analysis for other water companies, including local governments. KOWACO operates four accredited environmental analytical laboratories through this center, and they are expected to greatly contribute to the improvement of water quality reliability in Korea.



5. Integrated Water Management System

Since January 2002, the Water Resource Management Center, located at corporate headquarters, has managed 15 multi-purposed dams throughout South Korea. The implementation of an integrated water management system has made remote scientific operations and management of water possible. KOWACO is able to successfully manage both quantity and quality of water, hydro-power generation, and to maintain a high competency in water management through overall improvements of quality in both products and services as well as in corporate credibility.

6. Host of 2004 ICOLD Annual Meeting

KOWACO was honored to be selected as host for International Commission on Large Dams (ICOLD)'s annual meeting and international symposium in Seoul, in May 2004. More than 500 engineers, academics, and scientists, from over 80 countries, are expected to participate in this event. KOWACO has an important opportunity to demonstrate its expertise to an audience of international water specialists. In addition, the corporation will play an important role in promoting the exchange of the latest technology and know-how by facilitating the sharing of information with water specialists from all over the world.

7. International Education

The 3rd International Training Seminar in Water Resources Management was held by KOWACO, in collaboration with the Korea International Cooperation Agency (KOICA), at KOWACO'S Human Resources Development Center, from October 7-24, 2002.

18 countries from Asia, Africa and South America were represented by 20 participants. The program provided valuable opportunities to share lessons from past experiences and to identify new innovative approaches in water management practices. To foster future, improved, information exchanges, participants discussed methods to further develop cooperation among the attendees and their respective countries.

8. Annual Investor Conference

KOWACO hosted its Second Annual Investors Conference at the 63 Building, in Seoul, on April 18, 2002. A large group of investors, analysts, consultants and staff listened to presentations by Vice-President and Chief Financial Officer Jong Seo Park and Finance Director Hyun Joon Kim.

9. Business Partnerships and Alliances

Over last two years, KOWACO has forged strategic alliances, partnerships and joint ventures with international water organizations with an eye towards further developing business opportunities in the water sector. Our partners include the Cambodian Ministry of Water Resources and Meteorology, Veolia Environment, the UNDP, Yanben Province in China, Montgomery Watson-Harza, and various education institutions including the IHE and Colorado State University. These partner organizations will work closely with KOWACO in both research and development to help facilitate the development of water business both in Korea and internationally. These alliances also includes technical and training exchange programs among these organizations.

Board of Directors



Corporate Governance

KOWACO's corporate governance structure was set up with a view toward protecting investor interests and earning their trust in management transparency and corporate efficiency. For higher transparency in corporate management, more than half of the Board of Directors comprises non-standing members, with distinguished business or academic background.

KOWACO is administered by a thirteen member Board of Directors.

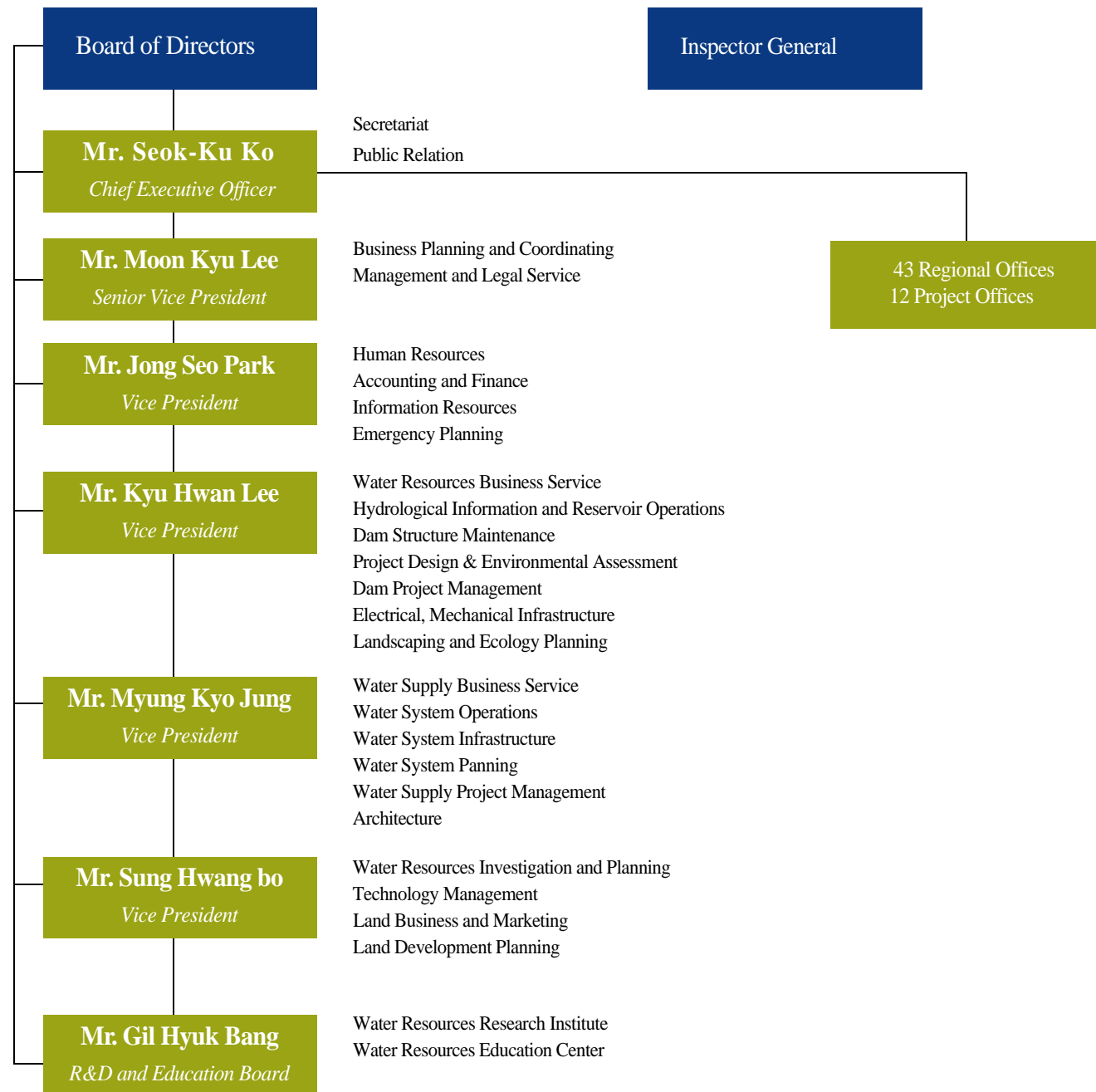
The chairman is appointed by the President of the Republic of Korea. The five standing members of directors are appointed by Ministry of Construction and Transportation and designated as ex officio. The seven non-standing members of directors are appointed by Ministry of Planning and Budget.

Internal Controls

KOWACO is subject to the internal control directives and memorandums that originate from the Ministry of Planning and Budget and the Bureau of Audit and Inspection. These directives establish internal controls and accountability which safeguard assets. The corporation is also subject to the Inspector General appointed by the President of Republic of Korea for a three-year term. An inspector General is an officer who does not have any ties with the company that may affect the free exercise of his judgement. The Inspector General has dozens of inspectors who are under his direct leadership. Inspectors periodically check company's adherence to internal control policies and procedures.

Corporate Structure

As of December 31, 2002, KOWACO employs 3,337 people across six business units and an executive vice President supports each unit. We have 43 regional offices throughout the country.



2002 in Review



An aerial photograph showing a large concrete dam structure across a river valley. The reservoir behind the dam is filled with clear blue water. The surrounding landscape is lush green with dense forests and some small buildings or structures near the dam. The sky is clear and blue.

Managing National Water Resources

KOWACO's primary business as a national water manager has been to develop and manage precious water resources. Since its inception, we have delivered raw water supplies to municipality-owned water distributors and industries, by constructing and operating large multipurpose dams and reservoirs.

Multipurpose Dams are those that have more than one function, such as water supply, flood control and hydropower generation, etc.

There are currently 15 multipurpose dams in South Korea, all of which were constructed and have been operated and managed by the corporation.

We have plans to secure new water resources by constructing 12 dams additionally by the year 2011, when Korea will face a shortage of freshwater by as much as 1.8 billion cubic meters.

In 2002, multipurpose Dams, such as PyongRim and Gampo etc. has been under the construction to provide water storage and regulate year-round water flows

The water rate for the reservoir raw water was increased in 2002 by 15.7% resulting in an increase for 18.2% in operating revenues.



Generating Green Hydro Power

The largest hydropower producer

The corporation is engaged in the supply of hydro electric power generated by utilizing the dams it manages. It has an installed power generation capacity of 1,010MW, accounting for 65% of the total hydro capacity in South Korea in 2002.

The efficient operation of the hydro electric power facilities resulted in the increase of power sales by 79%.

Electric Industry Deregulation

The Korea power market has had a vertically and horizontally integrated structure, in which the Korea Electric Power Corporation(KEPCO), a state-owned general utility, has monopolized generation, transmission, distribution and end-user sales. The Corporation and other private energy firms are required to enter into a contract of electricity supply and demand with the KEPCO.

With the purpose of increasing the efficiency in the power industry and giving the consumers the option to select the power suppliers they want, the Korean government has been restructuring the Korean power industry.

Although our market presence as a power generator will remain unchanged even after the privatization of the industry, we will be likely to face some challenges. One challenge is the pressure to lower utility rates and improve performance coming from competitors and customers.

To address these challenges, the Corporation has been restructuring its power business. All our power plants will be automated and run from the Corporate head office, which will reduce costs and enhance efficiency. Some power plants has been already controlled by the integrated water resources management center in its headquarters since 2002.



Providing affordable, reliable water

The largest water purveyor

KOWACO supplies water to municipality-owned water purveyors and individual industries through our Regional Bulk Water Supply Systems.

We also supply water directly to firms within industrial complexes through our Industrial Water Supply Systems.

The regional bulk water supply systems is a series of water works that supply treated water to more than two local municipalities. We supply water to a total of 167 municipality-owned water purveyors throughout South Korea including the Seoul metropolitan area.

The 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 purveyors act as retailer.

The total capacity of the Regional Water Supply Systems managed by the Corporation was 15,110 thousand cubic meters per day in 2002, accounting for 54% of the total water supplied in South Korea. There are currently 26 regional water supply systems serving approximately 15 million people and 6 more projects are under construction. In 2002 two water systems with a capacity of 286 thousand cubic meters per day was completed.

Water rates for waterworks water are averaged 319 won per cubic meter.

The water rates, which have been regulated by the central government to prevent inflation, resulted in insufficient revenues to cover costs and excessive water use. Recognizing these problems, Government and legislature have agreed to launch a Water Rate Increase Program(WAIP) expressly stated in the provisions of the Water Supply Act. According to WAIP, water rates for waterworks water were increased by 19.2% in 2002.

A photograph of a water treatment plant. In the foreground, there are large, blue-painted pipes with yellow sections. In the background, there is a large, spherical, light-colored tank and a complex network of pipes and scaffolding. The sky is clear and blue.

Seeking Growth Opportunities

Korea's water industry has been continuously undergoing structural changes. KOWACO began to play a role in the water and wastewater operations industry, capitalizing on rapidly emerging service outsourcing, while maintaining a solid foundation in the core water business.

Working with cities, private companies and developers, the Corporation is committed to providing a broad range of operations and maintenance services for water and wastewater systems.

The corporation won two wastewater projects contract from municipalities last year. Another landmark was that the Corporation partnered with Veolia Environment, a renowned international water service company, was awarded contracts for Water Distribution System Rehabilitation Projects by the municipalities of Masan and Gumi.

The projects are to rehabilitate components of the water supply systems which are prone to failure and/or which are causing extremely high unaccounted-for-water or health risks due to their state of disrepair.

It includes the examination of alternative measures to substantially reduce leakage, waste, and misuse of water and replacement of distribution mains and existing obsolete pumping and electrical equipment.

The corporation anticipates that it will continuously build on the success of its water treatment partnership with local water purveyors and secure similar projects with international entities.

Land Development Services



Since 1973, the Corporation has played a leading role in land development for industrial and residential use to help lay the foundation for the growth of heavy and chemical industries, which have been the driving force behind economic development in Korea, and to provide a better living environment. Large industrial complexes such as Yochon, Gumi, Changwon, Ohnsan, Shihwa and a new town project have all been created by the Corporation.

Despite the difficulties in the real estate market over the past financial year, the Corporation had remarkable financial results in the land sales with achieving a net profit of 193.2 billion won for the year ended December 31, 2002, resulting from an overall revenue increase by 28 percent over the previous year.

International Services



The most pervasive influence on the world water and energy sector is the continued globalization of its key business segments. This is being accelerated by technology advanced and progressive deregulation of the sector by governments and other authorities.

We have recognized this globalization and participated in the international tender in an ad hoc effort.

Also the contribution of involvement in overseas projects to its revenue is marginal at this stage, the Corporation is prepared to continue to expand our role in the overseas market and to explore new potential in other areas and to enhance the technological competitiveness in the international arena.

We have a strategic plan to focus on efforts and resources toward transforming ourselves into an integrated water manager and service provider in the international water industry as well as in the deregulating Korean water markets, using our 36 year-long experience and expertise.

Forging Strategic Alliance

Alliances, joint ventures and other partnerships are an efficient and practical way to gain new technology, extend our product set and reach new customers for existing businesses.

We have formed strategic alliances and partnerships with renowned international water organizations as a strategic initiative to seek growth opportunities in the international arena.

We have worked with Veolia Environment, a French water purveyors to participate in the newly emerging water distribution rehabilitation markets in Korea. As part of the alliance, the companies will cooperate in research and development to facilitate the development of the water business both in Korea and in international arena.

We have also sought technical partnerships with Yenben Province in China, Montgomery Watson-Harza in USA, International Institute for Infrastructural, Hydrolic and Environmental Engineering(IHE) in the Netherlands, Colorado State University in USA. The partnerships also include collaborative and training exchange programs.

Technical Consulting Service

KOWACO is frequently short-listed by the Korea International Cooperation Agency(KOICA). We have associated ourselves in various consortia and have been instrumental in winning world wide tenders on water resources planning and technical consulting. The Corporation has executed major consultancy projects for water development and hydropower programmes in dozen

South East Asian and African Countries for KOICA. Country clients include Laos, Ethiopia, Slovakia, Nepal, China, Pakistan, Cambodia, Vietnam, Vanuatu, and North Korea.

Overseas Projects

The Corporation has been involved in a number of overseas projects. During the period from 1994 to 1996, the Corporation successfully completed a water resources investigation project in the basin of the Fenhe River in Shanxi, China. The Corporation has also supported water resources surveys and the development of water supply system projects in East Asian countries, including Vanuatu in the South Pacific.

In 1999, the Corporation was awarded a Flood Control Planning Project contract for Mekong Delta Development by the Mekong River Commission(MRC). In this contract, the Corporation carried out a flood control plan for the downstream areas of the Mekong river.

In 2000, the Corporation was awarded a planning and designing contract for the Chamelia Hydropower Project in Nepal completed in October 2001.

Funded by the Korea International Cooperation Agency(KOICA), the key element of the project has been the feasibility review and design of dam structures and hydropower plants. This award reflects KOWACO's continued success in pursuing growth opportunity, and coincides with our strategy to apply our proven technologies in international markets.

In 2001, the Water Resources Research Institute of the Corporation was awarded a \$0.2 million contract by the Ministry of Science and Technology to provide water resources Planning for the Tumen River basin bordering on North Korea, China and Russia.

This project is a part of the UNDP's Tumen River Area Development Program (TRADP) This contract which will be shared with the Korean Institute for Science and Technology (KIST), UNESCO, and the National Environmental Institute has a maximum value of about \$1 million.

In 2002, the corporation was awarded a Rehabilitation Project at the Tamouk Reservoir in Cambodia. Funded by the Korea International Cooperation Agency (KOICA), this project will be completed in 2004. The key elements of the project are: a feasibility study, design, supervision of construction, and rehabilitation of the main regulator and several intakes. The project aims to increase and stabilize agricultural production through the rehabilitation of an existing reservoir and to enhance development potential for cash crop production, flood reduction, and water supply.

Providing Professional Services



Technical Training and Consulting Service

Since 1990, the Corporation has provided various education programs related to water supply facilities for the personnel of local governments and related business firms. To help local governments and small waterworks facilities, on-site education and consultation has been provided for the proper operation, maintenance and reinforcement of facilities. Such on-site education and consultation has contributed to improving the managerial and technical skills of waterworks employees.

The curriculums offered in the courses are provided by the Corporation's engineers with their accumulated knowledge in theory and experience, and are given together with case studies.

Water Quality Service

KOWACO provides specialized environmental services using its highly trained experts. The Corporation has 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, sludge, particulates, recharge and soils.

In 2002, KOWACO opened a world-class integrated testing center for water quality which was designed to provide customers with more reliable water quality service.

Research and Development

The Corporation develops water resources-related technologies to improve the standard of living for the public. State of the art measurement devices have been mobilized to keep a close watch on the trends of various data and to maintain water quality in accordance with international standards. For the development of technologies concerning water resources management, the Corporation established a water resources research institute in Daedeok Science Park. There are various buildings for research and laboratories on an 83,000 square meter lot in the center of this town. Approximately 60 water resources experts work on elementary and applied research projects for efficient water resources development and management. Currently over 30 research projects including three G-7(Government-designated) projects are in progress. Research lessons are fed back into real operation and some of them have resulted in commercial achievement such as the electro-magnetic velocity meter for water surface. The research center is also leading technological development for alternative water resources such as seawater desalination, reclaimed water and water harvesting.

Responsive to the interests of Communities



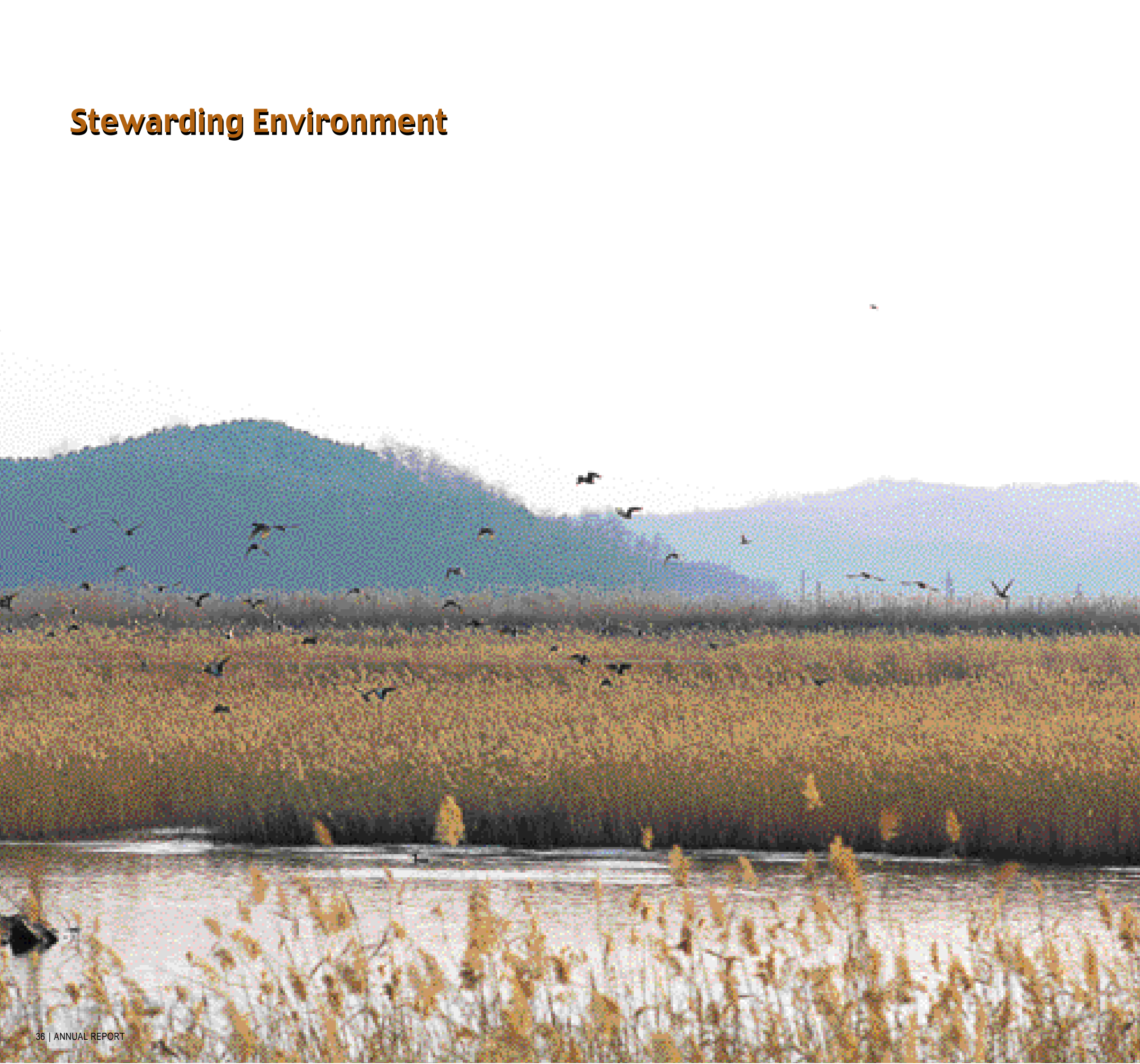
Involvement with our communities is an important component of KOWACO's business. As a national water institution we must stay in touch with the core values of many communities economically and environmentally affected by facilities we manage.

Since 1990, we have developed a Community Support Program. With this program, we have annually contributed a sum accrued from sales of water and hydropower to the communities in KOWACO's service area.

We have developed a healthy business climate and promoted a high quality of life for the communities we affect. We support and create projects that enhance the day to day well being and future of our communities. These projects improve communities's quality of life, strengthen our existing businesses, and solicit their support in developing new ones. Working with elected officials, community leaders, and city decision makers, we play an active role in community's infrastructure development, public safety, cultural and recreational activities.

We support these and other community endeavors with a variety of services, including road surfacing, scholarship programs for young students, and other cultural services. In 2002, we contributed more than 30 billion won for community development respectively.

Stewarding Environment



As we think our own visions, strategies and values at KOWACO, we have become increasingly aware of our responsibility to the society; the responsibility for maintaining health by supplying first rate drinking water on one hand, and the responsibility for the environment by minimizing the negative impacts caused by our projects on the other.

As a regional development agency and the nation's largest public water provider, KOWACO is committed to protecting the environment resources of the service area. We continually improve the environmental performance of our operations. We balance sustainable development of natural resources with supplying low cost, reliable water and power. We sustain the resources for future generations through leadership in clean water innovation and environmental management.

The quality of the water in the river system affects not only the people who live in the area but also business, industry, and the entire ecosystem's plant and animal life. In managing the watershed, KOWACO uses an integrated method that balances water quality with the other demands on the system.

KOWACO spearheads water quality preservation and environmental protection by making sure that rivers do not run dry during the winter and spring to protect ecosystem and to help the rivers maintain their self-purification mechanism. The surface of water source is cleaned periodically and a water quality watch guard, a floating debris removal boat, a patrol boat and a sphagnum collecting boat are employed to prevent environmental pollution and to prepare for accidents.

Environmental Commitments

KOWACO celebrated the public introduction of an Environmental Management program on March 18, 2002. This was the first such program by a public organization and it was welcomed by many interested parties, especially non-government organizations. Furthermore, on 26 October 2002, the corporation obtained ISO 14001 Certification. This provides organizations throughout the world with elements for effective environmental management systems. The Corporation is operating management system that integrates ISO 14001 with ISO 9001, which was previously awarded. As a result, environment friendly management was completely integrated into all of KOWACO's business systems. We now give our Environmental Management System first priority in all aspects of the decision making process.

Capital Plan and Financing Program

Water Resources

The ministry of construction and transportation prepared the Comprehensive Water Resources Plan 2001-2020(CWRP) and Dam & Reservoir Development Program last year. The CWRP provides for the development of water resources, including dams and water facilities. Twelve dams and reservoirs are planned to be built by 2011, aiming at taming floods and droughts and increasing water supply. Projected capital expenditures for the water resources development and rehabilitation of existing dams and reservoirs is 6.2 trillion won.

Water Supply

54% of the population who received water supplies were served through the Regional Water Supply Systems. Out of 172 cities in Korea, 77 have received the benefit of the Systems.

In other to cope with the steadily increasing household water demand and to raise the quantity and quality of water, over 20 additional regional water supply systems, including 6 industrial water supply systems, are planned to build by 2001, supplying 4.9 million cubic meters per day.

As well, the supply ratio of the regional water supply systems will rise from 54% in

2001, and the nation-wide public water supply ratio will be raised from 89% in 2000 to 95% in 2011

Significantly, to equalize the water supply situations across the country, small and medium sized regional water supply systems will be continuously built in rural areas which have not previously 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

The Corporation continues to develop industrial site projects 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 were completed or were underway at December 4, 1987 and the development of areas related thereto.

Such restriction reflects the change in Government policy. The new policy of the Government is to end the monopoly industrial site and new town development business currently enjoyed by the Corporation and the Korea Land

Corporation, encouraging the entrance of private entities into the market and thereby help reduce the sale prices through competition.

Notwithstanding such restrictions, additional investments in 2002 and thereafter are expected to reach 3.0 trillion won even if the project cost involved in the 2nd stage development of Shihwa are excluded.



Current Capital Plan(2003-2006)

Won in billions	2003	2004	2005	2006
Water Resources	507	517	657	706
Water Supply Infrastructure	692	615	642	595
Land Development	472	483	451	725
Others	57	86	122	145
Total	1,728	1,701	1,872	2,171

Funding Sources

A substantial part of the funds required for construction of water infrastructure, such as dams and waterworks is contributed by the Government of Korea or local governments. In 2002, the Corporation self-financed about 57% of its investment needs, and the remainder was financed by the Government(20%), loans(12%) and municipalities(11%).

In the fiscal year 2002, the Corporation issued 170 billion won of corporate debenture directly to the public.

These bond proceeds financed water infrastructure construction and improvements.

Highlights of the financing program in 2002 include continued low interest costs on the Corporate borrowing and cash flow improvement by trading derivatives.

Operating Results

A comparative analysis of revenue for the years ended December 31, 2001 and 2002 is shown by major business category in the following schedule.

Water rates were increased in fiscal year 2002 by 19.2% resulting in an increase of

17.2% in operating revenues. Major contributions to income are an increase in land and hydropower sales

won in millions	2002	2001	percent change
<i>Water Resources</i>	339,562	293,194	15.8
<i>Reservoir supplied raw water</i>	130,306	110,181	18.3
<i>Hydropower</i>	141,928	79,321	78.9
<i>Reservoir management</i>	9,221	10,301	-10.5
<i>Water development</i>	58,107	93,391	-37.8
<i>Water Supply</i>	500,390	426,826	17.2
<i>Land Sales</i>	676,766	526,497	28.5
<i>Others</i>	27,206	33,679	-19.2
<i>Total revenues</i>	1,543,924	1,280,196	20.6
<i>Operating Income</i>	381,616	198,750	92.0
<i>Income before tax</i>	392,090	166,148	136.0
<i>Net Income</i>	291,554	103,161	182.6

Debt Administration

At December 31, 2002 the total outstanding debt of the Corporation was 1.04 trillion won, of which 231 billion won is foreign bond and loan. The remaining 0.81 trillion won consists of variable and fixed rate bonds and loans maturing in varying installments through 2012. Debt

Service coverage for 2002 was 21 percent. The total outstanding long term debt at December 31, 2002 is as follows:

Issue Date	Amounts (won in millions)
2002	172,803
2001	293,525
2000	180,165
1999	66,385
1998 and prior	329,012
Total outstanding debt	1,041,890

Acknowledgements

The preparation of this annual report has been accomplished by the staff of the Korea Water Resources Corporation. I wish to acknowledge the dedicated effort of the staff of the Corporation, especially Hyun Joon Kim, Finance and Accounting Director, and Chan Gu Jeon, accounting manager, in bringing together information from numerous sources to produce this document. Their work ensures that this

report presents fairly and accurately the financial position and the results of operations of the Korea Water Resources Corporation.



Bu Kuk Seo
Inspector General



Water Industry Information



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Overview

Korea has several characteristics that require special attention in setting policies for the water supply sector. It has one of the highest population densities in the world since two thirds of the country is mountainous and unsuitable for urban or agricultural development. Korea is also one of the most urbanized countries in the world ; the population in cities with more than 50,000 persons increased from 30% of the total population(60 % of whom live in the ten largest cities) to about 80% during the period 1960~ 2001.

With the population and economic growth a dominating theme of water management at the nationwide level has been water supply augmentation. This supply-driven policies have been very successful in improving water supply both in urban and rural areas and a few cities have now water shortages.

The early 1960 through 1990s was a period of significant expansion of the country's infrastructure, in response to population boom and rapid economic growth. At the national level, many of major water projects such as large dams and bulk water supply facilities were

constructed. Government got involved in and funded for the water resources development, including direct financial assistance to local agencies for the construction of water supply infrastructure.

Despite the continual water infrastructure build-up, South Korea is still expected to face a shortage of 102 million cubic meters of water in 2006 and 1.83 billion cubic meters in 2011, according to the Comprehensive Water Resources Plan 2001-2020. This shortage is largely derived from low runoff and topographical characteristics. The country's average rainfall stands at 1,283 mm per annum, well above the world's average of 973 mm, but per-capita rainfall is one-tenth of the global average rainfall during the three-month monsoon season accounts for two-thirds of Korea's annual precipitation, but the country's topography flushes most of the water down mountain sides, through flood-prone valleys and out into the sea.

To deal with these challenges, the government has continuously sought water development projects, especially dam and reservoir construction, most feasible way of water development projects in a

situation like Korea.

Recent Trends in Water Management Activities

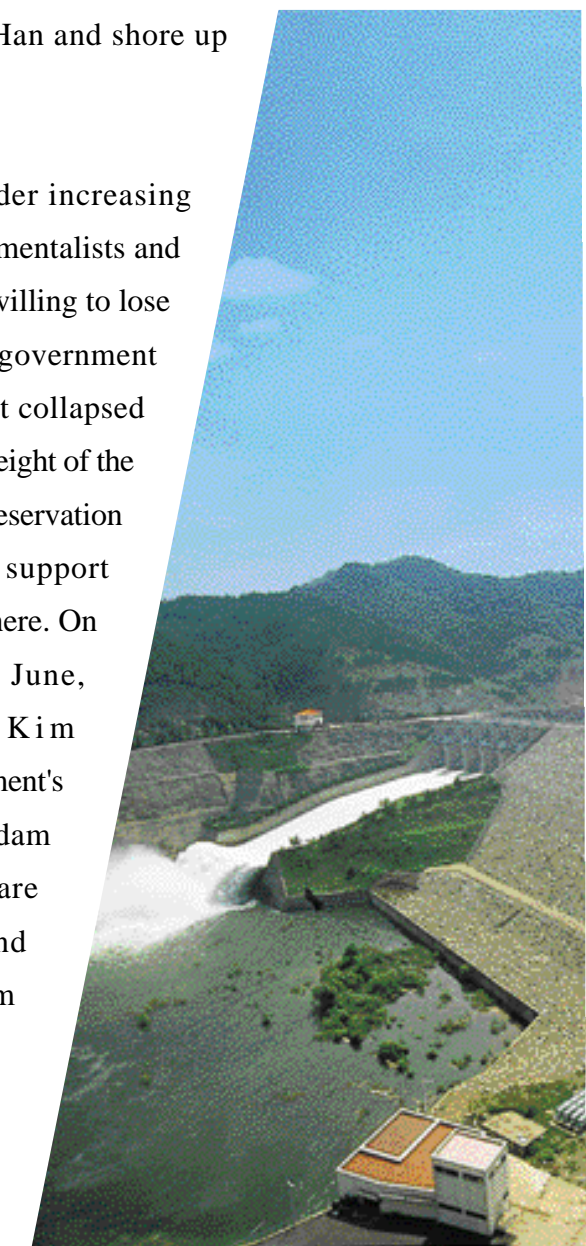
The emergence of the environmental movement in the early part of 1990s began to effect a change in society's value, increasing the desire to preserve natural areas in a relatively undeveloped condition.

The government's dam projects make sense in terms of solving water problems, but they also place the government on a collision course with another force sweeping the country, the ever-growing environmental movement. Many environmental groups oppose the government's ideas for expanding water supplies. They believe dam construction is the costliest way to end chronic water shortages. The environmental activists advocate battling shortages through the repair or replacing of old, leaking pipelines and nationwide campaigns to conserve and recycle water.

Environmental groups have a proven track record when it comes to fighting dam

construction. A case in point is the Dong River, whose waters meander through the towns of Jeongsun, Pyongchang and Yongwol in Kangwon Province on their way to the Han River and metropolitan Seoul. In 1997, the government began work to dam the 51-km river as a way to lessen floods on the Han and shore up water supplies.

The project came under increasing pressure from environmentalists and upstream residents unwilling to lose their homes. Finally, government support for the project collapsed under the formidable weight of the popular Dong River Preservation Movement that drew support from Koreans everywhere. On Environment Day in June, 2000, President Kim announced the government's decision to scrap the dam project to protect rare animals and plants and preserve the ecosystem along the Dongriver.



Water at Risk

Korea's water resources are among its most valuable assets. Although significant strides have been made in augmenting water supply and in reducing the impacts of discrete pollutant sources, these water resources remain at risk in terms of quantity and quality. With further urbanization and industrialization, the demand for water is on the rise. Unfortunately, while water demand has been steadily increasing, water supply has leveled off, with many conventional water

sources already tapped. As a result, Korea is now categorized as one of the water-scare countries by the UN. To make it worse, pollution from industry and population further degraded water quality.

This ever-growing disparity between water supply and demand and degrading water quality has already made water cycles increasingly volatile for some regions, leading to more frequent, more prolonged and more severe water shortages.

Institutional Framework of Water Industry

Government Organization

Several ministries and agencies in Korea are involved in water issues. However, the main sector agencies concerned with water quantity and quality fall into two groups; first, those concerned with municipal water supply and sewerage, regulatory, monitoring and enforcement aspects of water quality control, and second, those concerned with physical and development planning, water resources development and management, and project implementation.

The Ministry of Environment play the lead role in the first area by administering Water Supply Act and Environmental Policy Act. The Ministry of Construction and Transportation and government-owned Korea Water Resources Corporation play the lead role in the second area. Briefly, the functions of each of the main sector institutions are as follows:

The Water Quality Improvement Planning Commission is an organization under the Prime Minister with

responsibilities of integrating individual ministry or agency plans with overall national water supply and water quality control objectives and coordinating water quantity and quality management policies and programs, including those for wastewater, industrial effluents, nightsoil and sewerage.

The Ministry of Environment (ME) is responsible for setting the policies and plans for the water supply and sanitation sector, setting standards and quality control of drinking water supplies, establishing related policy guidelines, and assisting in the financing of water supply and sanitation projects for the municipalities.

The Ministry of Construction and Transportation (MOCT) is responsible for administering the National Land Use Management Act, the River Act and the Groundwater Act. It therefore oversees national physical planning urban planning, water resources management and the technical review and approval of all large construction projects in the country. The Water Resources Bureau is responsible for management of all water resources including flood control and drainage.

It issues permits for the abstraction of surface and ground waters, is responsible for planning and constructing dams and collects data on, and monitors and controls the use of, these resources

The Ministry of Agriculture and Forestry (MAF) is responsible for the use of water resources for irrigation and, through the Korea Agricultural and Rural Infrastructure Corporation, plans and constructs reservoirs for irrigation water and utilizes the groundwater potential available for agricultural uses.

Other ministries and agencies are also involved in the sector policy, regulation and implementation. Among them, The Ministry of Commerce, Industry and Energy (MOCIE), through Korea Electric Power Corporation, builds and operates hydro power projects

Water Service Organization

In Korea, water supply services for urban and industrial uses have been domain of local governments. Local governments and municipalities either develop their own



water resources or buy wholesale raw or treated water from the Korea Water Resources Corporation, a nationwide water purveyor

The Municipalities are responsible for all urban development activities and operate and maintain water and sewerage services. Each municipality has a Water Bureau (or Water Division in the smaller cities), while the large cities have autonomous water and sewerage utilities

Korea Water Resources Corporation (KOWACO), a state-owned autonomous water utility under MOCT, constructs and operates dams, reservoirs, and water conveyance facilities (regional bulk water projects), supplying both raw and treated water to municipalities and individual consumers. It also promotes and builds industrial sites and industrial water supply. Currently, KOWACO's water supply accounts for about 45% of nationwide water supplies.

Korea Agricultural and Rural Infrastructure Corporation (KARICO), a former Rural Development Corporation, newly formed in merger with hundreds of farmers irrigation cooperatives, is responsible for developing and servicing

agricultural water.

Deregulation

Until recently 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. 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 publicly run water and sewerage systems.

Experts say the key to better water allocation lies within a market-based solution. Advocates of the market-based plan argue that current regulations on the water market should be relaxed, making it easier to buy, sell and transfer the rights to access water. Because municipal water supply systems face little capital-market competition and generally cannot go bankrupt, they lack incentives to operate efficiently

To relieve Government of Korea of the full burden of financing the sector, private investment in new infrastructure and

private operation of water services has been encouraged since 2000. However the Government of Korea shall continue to own and/or control the natural resources and existing infrastructure assets.

Privatization is but a part of strategies of Government to secure economic benefits for Korea and not an end in itself. Private

Water Information

Water Availability

The amount of precipitation reaches on the average about 1,283 mm per year, which is slightly higher than the world average precipitation. On the other hand, Korea has a net inflow of 127 billion cubic meters of water per year. Of that water, 54 billion cubic meters are used by evapotranspiration in the environment and 73 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 is

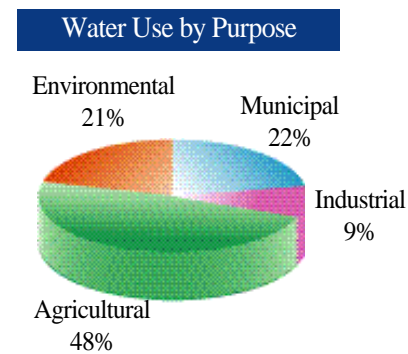
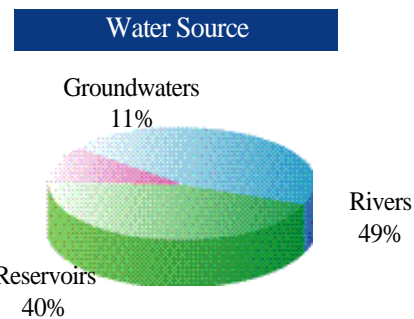
participation in the Water and Sewerage Sector is expected to bring improvements in the availability, quality and cost-effectiveness of services being delivered. Deregulation will contribute to significant changes in the structure of the water industry. As a result, the water industry of 2010 or 2020 is likely to look very

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's estimated water use with existing facilities and programs is about 32 billion cubic meters, of which about 30 billion

cubic meters(94%) is supplied by surface water. Among the surface water supply, 6.5 billion cubic meters(22%) is dedicated to environmental water use.



Municipal water use is categorized into residential, commercial(industrial), public bath, and public use. The amount of piped water supply for urban use in 2001 is 20 million cubic meters per day and the coverage ratio 87.8% serving 42 million people.

For the nation as a whole water consumption has increased over time, although the growth rate has slowed recently. The per capita consumption has decreased since 1998 due primarily to water conservation efforts

Annual Public Water Supply Statistics 1993~2001

	'93	'94	'95	'96	'97	'98	'99	2000	2001
Total Population(10,000)	4,508	4,551	4,509	4,643	4,688	4,717	4,754	4,793	4,829
Population Served(10,000)	3,657	3,735	3,811	3,882	3,961	4,019	4,095	4,177	4,240
Public Water Supply Coverage(%)	81.1	82.1	82.9	83.6	84.5	85.2	86.1	87.1	87.8
Water Use Per Day(mcm)	14.3	15.2	15.1	15.8	16.2	15.8	15.8	15.7	15.8
lpcd(Liter per capita per day)	394	408	398	409	409	395	395	376	374

* mcm : million cubic meter

Water Quality

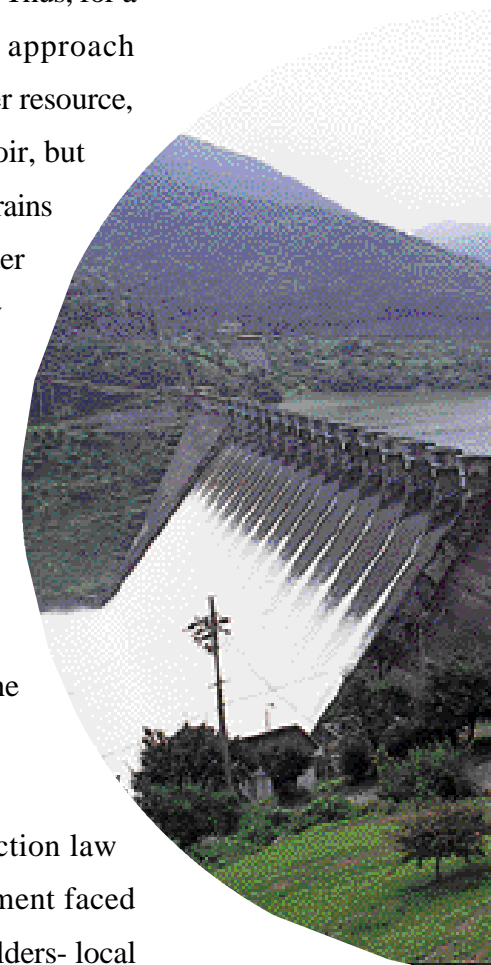
Up until the 1960's, there were a largely justifiable perception that water pollution of Korean rivers was not a problem. When industrial development, impoundments, population increase and intensive farming practices commenced in the mid-60's, this position was changed. The developments represented a significantly increased threat to Korea's inland waterways, reservoirs and lakes because they all have the capacity to produce waste.

Although significant strides have been made in reducing the impacts of discrete pollutants sources, Korea's water resources remain at risk. Today's challenges include resolving significant and complex pollution problems that come from nonpoint sources, maintaining safe drinking water supplies, and protecting and restoring the health and integrity of aquatic ecosystems. Since 1990, the Ministry of Environment (ME) has taken source water protection measures and, recently watershed protection approach as a the framework for meeting these challenges

Watershed Protection Approach

The watershed protection approach is an integrated, holistic strategy for more effectively restoring and protecting aquatic resources. This approach focuses on hydrologically defined drainage basins-watersheds-rather than on areas arbitrarily defined by political boundaries. Thus, for a given watershed, the approach encompasses not only the water resource, such as a stream, river, reservoir, but all the land from which water drains to the resource. To protect water resources, it is increasingly important to address the condition of land areas within the watershed because as water drains off the land or leaches to the ground water it carries with it the effects of human activities throughout the watershed.

Drafting the watershed protection law starting in 1998, the government faced strong resistance from stakeholders- local citizens, local farmers and local governments who are to be restricted to exercise their land property rights by the regulation. Despite the stakeholders' opposition to the bill Korean government



and legislature signed Watershed Protection and Local Assistance Act for Korea's major rivers, Han, Nakdong, Kum, and Yongsan river.

Major programs

The Watershed Protection Act includes the following programs:

- Stream bank management
- Total load management
- Environmental infrastructure build-up and stricter industrial wastewater discharge standards
- Cropland management-purchase and retire from crop production an area having high organic soils and excessive phosphorus losses.
- Water service charge - downstream water users are required to pay special water charge levied upon a water tariff . This fund is used to assist local residents and to construct environmental infrastructures within the watershed.
- Local assistance- establish a grant program to provide funding for local governments, municipalities and local residents to facilitate water resources protection and pollution prevention efforts
- Building institutional framework-

organize the watershed protection institution for integrating individual municipality or agency plans with overall watershed protection objectives..

- On-site surveillance and monitors
- Action-oriented public education and participatory programs for students

Water Finance

Water Charges

Water prices in Korea vary widely. The more than 172 local agencies that provide water service establish their prices based on factors specific to their individual service areas, and those prices are generally approved 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 2001 are averaged 488won(0.41 US\$) 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 75% of production costs due primarily to their impacts on inflation.

To curtail excess water use and help local agencies maintain financial viability, the Government of Korea have launched Water Rate Increase Program which is schedule to cover all costs and adequate rate of returns by 2003.

Retail Water Tariff(Six Largest Cities-Average) - 2001

(won/cubic meter)

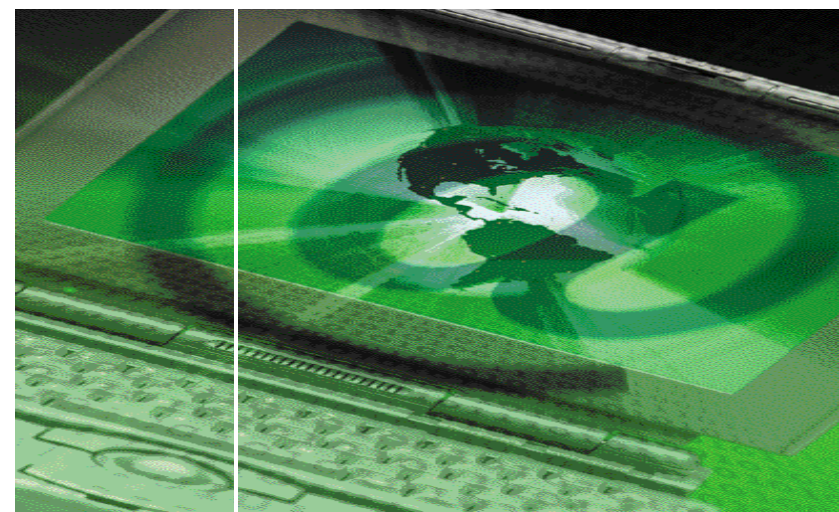
Seoul	Busan	Daegu	Incheon	Kwangju	Daejeon	Nationwide
489.6	566.4	438.6	514.5	468.4	428.6	489.1

Water 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 2001 local governments are reported to fall

373 million US\$ short of the 4 billion US\$ cost to comply with the water needs . In addition, the difficulty of developing new sources of supply indicate 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 2001 and 2011 are projected at 15 billion US\$ or an average of about 1.5 billion US\$ per year, according to National Water Plan. The investment needs include capital improvements as well as water supply augmentation.



Financial Information



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Independent Auditors' 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, 2002 and 2001, and the related statement of income, appropriations of retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion, as an independent auditor, on these financial statements based on our audit.

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, 2002 and 2001, and the results of its operations and the changes in its retained earnings and cash flows for the years 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 ₩35,574 million at December 31, 2002. Further, several lawsuits have been brought against the Company as a defendant

with claims in the aggregate amount of ₩113,446 million at December 31, 2002. The outcome of these lawsuits cannot presently be determined.

Without qualifying our opinion, we draw attention to Note 23 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.

SAMDUK ACCOUNTING CORPORATION



February 5, 2003

12/F SEOHUNG BUILDING, 68 KEONJI-DONG, JONGRO-KU, SEOUL, KOREA

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Certified Public Accountants. A Member of NEXIA INTERNATIONAL

Financial Statements

Balance Sheets December 31, 2002 and 2001

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2002	2001	2002	2001
ASSETS				
Current assets :				
Cash and cash equivalents (Note 4)	151,376	76,305	US\$126,105	US\$63,566
Accounts receivables-trade, less allowance for doubtful accounts of 52million in 2002 and 390million in 2001 (Note 5)	295,039	293,010	245,784	244,094
Inventories (Note 6)	256,787	280,084	213,918	233,326
Advance payments	16,623	18,399	13,848	15,327
Other current assets, less allowance for doubtful accounts of 9,509million in 2002 and 1,968million in 2001	4,539	16,993	3,780	14,156
Total current assets	724,364	684,791	603,435	570,469
Property, plant and equipment (Notes 10, 20)				
Land	20,255	17,676	16,874	14,725
Buildings	148,036	147,562	123,322	122,927
Structures	74,433	73,261	62,007	61,030
Machinery and equipment	381,512	376,542	317,821	313,680
Ships and vehicles	8,536	7,546	7,111	6,286
Tools, furniture and fixtures	41,379	37,398	34,471	31,155
Construction in progress	1,752,815	1,793,776	1,460,192	1,494,315
	2,426,966	2,453,761	2,021,798	2,044,118
Less accumulated depreciation	(178,773)	(148,910)	(148,928)	(124,049)
Net property, plant and equipment	2,248,193	2,304,851	1,872,870	1,920,069
Investments	15,888	7,705	13,236	6,419
Long-term inventories in-progress (Notes 6, 20)	1,005,724	934,223	837,824	778,259
Property rights, net (Note 10)	5,634,599	5,495,908	4,693,935	4,578,397
Other assets (Note 9)	88,160	85,138	73,442	70,925
Total assets	₩ 9,716,928	₩ 9,512,616	US\$8,094,742	US\$7,924,538

The accompanying notes are as integral part of the financial statements

Balance Sheets, Continued

December 31, 2002 and 2001

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2002	2001	2002	2001
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities :				
Accounts payable-trade	53,381	55,899	US\$44,469	US\$46,567
Advance receipts	354,254	323,020	295,113	269,093
Income taxes payable	83,486	53,468	69,548	44,542
Current-portion of long-term debt (Note 11, 12)	118,470	415,472	98,692	346,111
Guarantee deposits received	3,489	3,139	2,907	2,615
Other current liabilities	30,321	37,633	25,259	31,351
Total current liabilities	643,401	888,631	535,988	740,279
Long-term debt, excluding current portion(Note 11,12)	928,366	1,067,340	773,381	889,154
Deferred income tax liabilities (Note 21)	52,871	55,509	44,044	46,242
Retirement and severance benefits	27,102	14,785	22,577	12,317
Derivative instruments		-	5,106	-
Total long-term liabilities	1,012,156	1,144,406	843,182	953,354
Total liabilities	1,655,557	2,033,037	1,379,170	1,693,633
Commitments and contingencies (Notes 13)				
Shareholders' equity				
Paid-in capital				
Authorised - 10,000,000 million(Note 1, 14)	5,294,789	4,992,106	4,410,854	4,158,702
Capital surplus	1,465,203	1,465,203	1,220,596	1,220,596
Retained earnings :				
Legal reserve (Note 15)	369,758	305,598	308,029	254,580
Reserve for business expansion (Note 16)	807,026	591,851	672,298	493,045
Reserve for investment in social overhead capital (Note 17)	128,999	128,513	107,463	107,058
Capital adjustment :				
Unamortized stock issuance costs	(1,046)	(1,650)	(871)	(1,375)
Gain(Loss) on valuation of derivative instruments	(3,358)	(2,042)	(2,797)	(1,701)
Total shareholders' equity	8,061,371	7,479,579	6,715,572	6,230,905
Total liabilities and shareholders' equity	9,716,928	9,512,616	US\$8,094,742	US\$7,924,538

The accompanying notes are as integral part of the financial statements

Statements of Income

December 31, 2002 and 2001

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2002	2001	2002	2001
Revenue (Note 18)	1,543,924	1,280,196	US\$1,286,175	US\$1,066,475
Cost and expenses				
Cost of revenue (Note 19)	1,113,382	1,041,509		
Selling and administrative expenses	48,926	39,937	927,509	867,635
	<u>1,162,308</u>	<u>1,081,446</u>	<u>40,758</u>	<u>33,270</u>
Operating income	381,616	198,750	968,267	900,905
			317,908	165,570
Other income (expense)				
Interest income	9,442	10,009		
Interest expenses (Note 20)	(41,345)	(52,704)	7,866	8,338
Foreign currency translation and exchange gains(losses)	6,503	9,779	(34,443)	(43,905)
Donations	(5,642)	(3,731)	5,417	8,146
Gains(Losses) relating to cancellation of land sales, net	11,543	620	(4,700)	(3,108)
Refund of prior year's income taxes	60,139	-	9,616	516
Impairment loss of property, plant and equipment	(12,151)	(2,172)	50,099	-
Impairment loss of investments	(6,369)	-	(10,122)	(1,809)
Bad debt expense - other	(7,858)	(1,612)	(5,306)	-
Other, net	(3,788)	8,449	(6,546)	(1,343)
	<u>10,474</u>	<u>(32,602)</u>	<u>(3,156)</u>	<u>7,038</u>
Ordinary income	392,090	166,148	8,725	(27,159)
			326,633	138,411
Extraordinary gain (loss) :	-	-	-	-
Income before income taxes	392,090	166,148		
			326,633	138,411
Provision for income taxes (Note 21)				
Current	103,065	55,935		
Deferred	(2,529)	7,052	85,859	46,597
	<u>100,536</u>	<u>62,987</u>	<u>(2,107)</u>	<u>5,875</u>
			83,752	52,472
Net income	<u>291,554</u>	<u>103,161</u>	<u>US\$242,881</u>	<u>US\$85,939</u>

The accompanying notes are as integral part of the financial statements

Statement of Appropriations of Retained Earnings

December 31, 2002 and 2001

Date of appropriation : February 28, 2003 and February 28, 2002

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2002	2001	2002	2001
Retained earnings before appropriations :				
Unappropriated retained earnings carried-over from prior year	-	-	US\$ -	US\$ -
carried-over from prior year	291,554	103,161	242,881	85,939
Net income for the year	291,554	103,161	242,881	85,939
Transfer from reserve for investment in social overhead capital	29,247	33,679	24,364	28,056
	<u>320,801</u>	<u>136,840</u>	<u>267,245</u>	<u>113,995</u>
Appropriations of retained earnings				
Legal reserve (Note 15)	64,160	20,632	53,449	17,188
Reserve for business expansion (Note 16)	215,175	42,277	179,253	35,219
Reserve for business rationalization	-	506	-	421
Amortization of stock issuance costs	1,455	1,730	1,212	1,441
Cash dividends	10,279	9,347	8,563	7,787
Reserve for investment in social overhead capital (Note 17)	29,732	62,348	24,768	51,939
	<u>320,801</u>	<u>136,840</u>	<u>267,245</u>	<u>113,995</u>
Unappropriated retained earnings to be carried forward to next year	-	-	US\$ -	US\$ -

The accompanying notes are as integral part of the financial statements

Statment of Cash Flows

December 31, 2002 and 2001

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2002	2001	2002	2001
Cash flows from operating activities :				
Net income	291,554	103,161	US\$ 242,881	US\$ 85,939
Adjustments to reconcile net income to net cash provided in operating activities:				
Depreciation and amortization	282,120	257,979	235,022	214,911
Loss on valuation of investments using the equity method	450	423	375	352
Allowance for doubtful accounts	7,858	1,611	6,546	1,342
Provision for retirement and severance benefits	12,516	10,625	10,427	8,851
Loss on disposal of property, plant and equipment, net	11,700	411	9,747	342
Impairment loss of investments	6,369	-	5,306	-
Losses(Gain) on foreign currency translation, net	(6,523)	(11,104)	(5,434)	(9,250)
Other	7,727	6,137	6,439	5,112
Changes in operating assets and liabilities:				
Accounts receivable	(1,691)	(20,455)	(1,409)	(17,040)
Inventories including long-term inventories in-progress	(48,204)	97,628	(40,157)	81,330
Advance payments	1,772	(6,415)	1,476	(5,344)
Other current assets	4,918	10,027	4,097	8,353
Accounts payable	(2,518)	(46,397)	(2,098)	(38,651)
Advance receipts	31,235	115,242	26,020	96,003
Income taxes payable	30,019	47,514	25,007	39,582
Guarantee deposits received	351	791	292	659
Other current liabilities	1,744	(2,364)	1,453	(1,969)
Payments of retirement and severance benefits	(367)	(557)	(306)	(464)
Deferred income tax liabilities	(2,638)	7,217	(2,198)	6,012
Total adjustments	336,838	468,313	280,605	390,131
Net cash provided by (used in) operating activities	628,392	571,474	523,486	476,070
Cash flows from investing activities :				
Proceeds from disposal of marketable securities	-	3,239	-	2,698
Proceeds from disposal of investments	467	8,466	389	7,053
Proceeds from disposal of property, plant and equipment	5,215	10,722	4,344	8,932
Acquition of investments	(9,102)	-	(7,582)	-
Acquition of property, plant and equipment	(389,709)	(844,355)	(324,649)	(703,395)
Decrease(Increase) in other assets	(6,560)	(907)	(5,465)	(756)
Net cash provided(used) in investing activities	(399,689)	(822,835)	(332,963)	(685,468)

The accompanying notes are as integral part of the financial statements

Statment of Cash Flows, Contnued

December 31, 2002 and 2001

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2002	2001	2002	2001
Cash flows from financing activities :				
Increase(Decrease) in short-term borrowings	10,000	10,000	(US\$ 8,331)	US\$ 8,330
Increase(Decrease) in long-term debt	(20,656)	84,113	(17,208)	70,071
Repayment of current portion of long-term debt	(415,472)	(403,720)	(346,111)	(336,321)
Increase in paid-in capital	301,833	511,512	251,444	426,118
Payments of dividend	(9,337)	(7,781)	(7,778)	(6,482)
Net cash provided by financing activities	(153,632)	194,124	(127,984)	161,716
Increase (decrease) in cash and cash equivalents	75,071	(57,237)	62,539	(47,682)
Cash and cash equivalents at beginning of year	76,305	133,542	63,566	111,248
Cash and cash equivalents at end of year	151,376	76,305	126,105	63,566
Significant transactions not involving inflow or outflow of cash:				
Transfer of long-term debt to current portion	117,480	414,331	97,867	345,161
Transfer of construction in-progress to property rights	397,588	1,043,009	331,213	868,885
Increase in property rights due to investment in kind	-	52,239	-	43,518

The accompanying notes are as integral part of the financial statements

Notes to Financial Statements

1. The Company

Korea Water Resources Corporation ("the Company") was incorporated in 1967 in accordance with the Act of Korea Water Resources Development Corporation ("KWRDC").

Pursuant to the Act for Promotion of Industrial Site Development, enacted in December 1973, KWRDC was dissolved into Industrial Sites & Water Resources Development Corporation ("ISWACO") in 1974.

Pursuant to the provision of the Act of Korea Water Resources Corporation ("KOWACO Act"), enacted on December 4, 1987, the Company succeeded to all properties, rights and obligations of ISWACO effective as of July 1, 1988.

The Company is engaged in the business of promoting efficient use of water resources through the integration of development, operation and management of industrial and multi-regional water supply systems. In addition, the development projects of industrial sites and cities, in-progress under the authority of ISWACO at December 4, 1987, will continue to be within the scope of the Company's business until they are completed. The Company also supplies hydroelectric power to Korea Electric Power Corporation.

As of December 31, 2002, the ownership of the Company is as follows:

Government of the Republic of Korea	81.2%
Korea Development Bank (a wholly Korean government-owned financial institution)	6.9%
Municipal governments of The Republic of Korea	11.9%
	<u>100.0%</u>

2. Summary of significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of its financial statements are summarized below.

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 Investees 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.

2. Summary of significant Accounting Policies, Continued

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. However, the Company has no marketable securities among investments as of December 31, 2002 and 2001.

(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.

(3) 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 earning. 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.

(4) 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.

2. Summary of significant Accounting Policies, Continued

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. The Assets Revaluation Law was abrogated since January 1, 2001. 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 previous Assets Revaluation Law. As a result of the asset revaluations, an assets revaluation surplus totaling W1,462,843 million (US\$1,218,630 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	30 years
Structures	30 years
Machinery and equipment	20 years
Vehicles and Ships	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 W37,105 million (US\$30,911 thousand) as of December 31, 2002. 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 previous Assets Revaluation Law of the Republic of Korea. Property rights are amortized using the straight-line method over the following useful lives;

2. Summary of significant Accounting Policies, Continued

Property rights, continued

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

Discount on debentures :

Discount on debentures (consists of 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, 2002 and 2001 are W27,102 million (US\$22,577 thousand) and W14,785 million (US\$12,317 thousand) respectively.

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.

Derivative Instruments and Hedging Activities

All derivative instruments is recorded on the balance sheet at fair value. On the date derivative contracts are entered into, the Company designates the derivative as either (i) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge) or (ii) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge).

2. Summary of significant Accounting Policies, Continued

Derivative Instruments and Hedging Activities, Continued

Changes in the fair value of derivatives are recorded each period in current. For fair value hedge transactions, changes in fair value of the derivative instrument are generally offset in the income statement by changes in the fair value of the item being hedged. For cash-flow hedge transactions, effective portion of changes in the fair value of the derivative instrument are reported in capital adjustment.

Derivative Instruments and Hedging Activities, Continued

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, new city development projects and industrial site development projects(except for the projects promoted by customer's advance payments) 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 promoted by customer's advance payments 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.

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.

2. Summary of significant Accounting Policies, Continued

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.

3. United States Dollar Amounts

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.

4. Cash and cash equivalents, and financial instruments

Cash and cash equivalents, and financial instruments consist of the following as of December 31, 2002 and 2001.

	Korean Won in millions		U.S. Dollars in thousands	
	2002	2001	2002	2001
Cash and cash equivalents				
Cash on hand	18	12	15	10
Passbook accounts	308	604	257	503
Time deposits	97,300	65,799	81,056	54,814
Temporary deposits	53,750	9,890	44,777	8,239
	<u>151,376</u>	<u>76,305</u>	<u>126,105</u>	<u>63,566</u>
Long-term financial instruments				
Restricted bank deposit	1,242	912	1,035	760
	<u>1,242</u>	<u>912</u>	<u>1,035</u>	<u>760</u>

5. Accounts receivable

Accounts receivable consist of the following as of December 31, 2002 and 2001.

	Korean Won in millions		U.S. Dollars (Note3) in thousands	
	2002	2001	2002	2001
Trade receivables on supply of water	92,355	75,706	76,937	63,067
Trade receivables on sale of industrial sites	179,586	207,983	149,605	73,261
Accounts receivable - other	23,151	9,712	19,286	8,091
	<u>295,092</u>	<u>293,401</u>	<u>245,828</u>	<u>244,419</u>

Trade receivables of W118,307 million (US\$98,556 thousand) at December 31, 2001, 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, 2002 and 2001.

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2002	2001	2002	2001
Land	1,255,525	1,207,856	1,045,922	1,006,211
Supplies	6,026	5,488	5,020	4,572
Raw materials	931	963	776	802
Other	29	-	24	-
	<u>1,262,511</u>	<u>1,214,307</u>	<u>1,051,742</u>	<u>1,011,585</u>
Less: portion of land classified as non-current	(1,005,724)	(934,223)	(837,824)	(778,259)
	<u>256,787</u>	<u>280,084</u>	<u>213,918</u>	<u>233,326</u>

7. Investments

Investments consist of the following as of December 31, 2002.

	Equity(%)	Number of shares	Korean Won in millions		U.S. Dollars(Note3) in thousands
			Net worth	Book value	Book value
Korea Construction Resources Co., Ltd. ("KCRC")	5.3	66,785	156	156	130
Korea Construction Management Corp. ("KCMC")	18.9	178,200	8,004	4,000	3,332
Kyung-in Canal Co., Ltd. ("KICC")	20.0	2,372,320	10,819	10,819	9,013
Chil-gok Enviro Co., Ltd ("CEC")	49.0	196,000	913	913	761
				<u>15,888</u>	<u>13,236</u>
Bonds	-	-	-	-	-
				<u>15,888</u>	<u>13,236</u>

7. Investments, Continued

Investments consist of the following as of December 31, 2001.

	Equity(%)	Number of shares	Korean Won in millions		U.S. Dollars(Note3) in thousands
			Net worth	Book value	Book value
Korea Construction Resources Co., Ltd. ("KCRC")	5.3	66,785	623	623	503
Korea Construction Management Corp. ("KCMC")	18.9	178,200	8,667	4,000	3,175
Kyung-in Canal Co., Ltd. ("KICC")	20.0	748,000	3,081	<u>3,081</u>	<u>2,782</u>
				<u>7,704</u>	<u>9,702</u>
Bonds	-	-	-	<u>1</u>	<u>6</u>
				<u>7,705</u>	<u>9,708</u>

The Company valued its investments in KICC and CEC using the equity method, resulting in a net valuation loss of W450 million (US\$375 thousand) and W423 million (US\$352 thousand) as of December 31, 2002 and 2001, respectively.

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, 2002 and 2001

	Korean Won in millions							
	Due from		Due to		Sales to		Operating expenses paid to	
	2002	2001	2002	2001	2002	2001	2002	2001
KICC	9,341	13,315	-	-	-	-	-	-
CEC	2	-	-	-	167	-	-	-
	<u>9,343</u>	<u>13,315</u>	<u>-</u>	<u>-</u>	<u>167</u>	<u>-</u>	<u>-</u>	<u>-</u>

8. Transactions and Balances with Related Companies, continued

	U.S. Dollars in thousands							
	Due from		Due to		Sales to		Operating expenses paid to	
	2002	2001	2002	2001	2002	2001	2002	2001
KICC	7,782	11,092	-	-	-	-	-	-
CEC	17	-	-	-	139	-	-	-
	<u>7,799</u>	<u>11,092</u>	<u>-</u>	<u>-</u>	<u>139</u>	<u>-</u>	<u>-</u>	<u>-</u>

9. Other assets

Other assets consist of the following as of December 31, 2002 and 2001.

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2002	2001	2002	2001
Restricted bank deposit	1,242	912	1,035	760
Long-term loans to employees	3,874	2,445	3,227	2,037
Key money and other deposits	62,521	58,101	52,084	48,401
Derivative instruments	6,587	4,729	5,487	3,940
Other	13,936	18,951	11,609	15,787
	<u>88,160</u>	<u>85,138</u>	<u>73,442</u>	<u>70,925</u>

Key money and other deposits as of December 31, 2002 and 2001, include W22,178 million (US\$18,476 thousand) and W25,105 million (US\$20,914 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 W461,540 million (US\$384,489 thousand) and W407,873 (U.S.\$339,781 thousand) as of December 31, 2002 and 2001, 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, 2002 and 2001.

	Foreign currencies in thousands		Equivalent Korean Won in millions	
	2002	2001	2002	2001
Long-term debt, including current portion	US\$ 66,408	US\$ 69,437	79,224	89,736
	¥ 15,000,000	¥ 15,000,000	151,931	151,410
			<u>231,155</u>	<u>241,146</u>

12. Long-term debt

Long-term debt consists of the following as of December 31, 2002 and 2001.

	Annual Interest Rate	Foreign currency in thousands		Equivalent Korean Won in millions	
		2002	2001	2002	2001
Foreign currency loans;					
Borrowings through the	6.58 -				
Korean government	7.73	13,202	16,801	10,998	13,996
National Australia Bank	Libor+				
Ltd.	0.57	66,022	72,935	55,000	60,759
Foreign currency	0.9 -	151,931	151,410	126,567	126,133
debentures(₩)	2.80				
Add: swap valuation loss		6,128	-	5,105	-
		<u>237,283</u>	<u>241,146</u>	<u>197,670</u>	<u>200,888</u>
Local currency loans;					
Ministry of Construction and	5.0	20,700	20,700	17,244	17,244
transportation					
Korea Development Bank		253,306	258,507	211,018	215,351
Korea Petroleum	5.0	750	5,250	625	4,374
Development corporation		5,300	5,300	4,415	4,415
Ministry of Environment					
Koram Bank	5.5-7	3,069	3,738	2,557	3,114
Ulsan City	-	11,827	12,341	9,853	10,281
Korea Energy Management	5	1,683	-	1,402	-
Corporation					
Local currency debentures	2.9-7.67	514,100	937,220	428,274	780,756
		<u>810,735</u>	<u>1,243,056</u>	<u>675,388</u>	<u>1,035,535</u>
		<u>1,048,018</u>	<u>1,484,202</u>	<u>873,058</u>	<u>1,236,423</u>
Less: discount on debentures		(1,182)	(1,390)	(985)	(1,158)
Less: current portion		(118,470)	(415,472)	(98,692)	(346,111)
		<u>928,366</u>	<u>1,067,340</u>	<u>773,381</u>	<u>889,154</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.

12. Long-term debt, Continued

Borrowings from National Australia Bank drawdowned at December 12, 2001. The loan amount is denominated in US\$55,000 thousand, with the rate of Libor+0.57% and due in three years. According to the covenants, the Company has the option to prepay to the lender on each anniversary date of drawdown date the outstanding amount of the loan in whole but not in part.

The annual maturities of long-term debt outstanding as of December 31, 2002 are as follows

	Korean Won in millions		
	Local currency loans	currency loans	Total
2003	115,026	3,444	118,470
2004	135,877	99,998	85,378
2005	80,496	72,864	22,459
2006	180,606	451	21,057
2007 and thereafter	298,731	54,508	232,595
Add: Swap valuation loss	-	6,128	6,128
	<u>810,736</u>	<u>237,282</u>	<u>1,048,018</u>

13. Commitments and Contingencies

The Company is a plaintiff in various legal proceedings in respect of environmental matters in the aggregate amount of W35,574 million (US\$29,365 thousand) at December 31, 2002. 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 W113,446 million (US\$94,507 thousand). The Company cannot presently predict the outcome of these lawsuits.

13. Commitments and Contingencies, Continued

The Company has constructed a seawall in connection with a land reclamation project in Shihwa, Korea. The reclamation project consists of several phases and the seawall is connected to all of the 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 W560,372 million (US\$466,821 thousand) through December 31, 2002.

Of the amount, W280,451 million (US\$233,631 thousand), about 50% of the costs, has been allocated to the cost of the first phase of the project. However, the remaining W279,921 million is included in long-term inventories in-progress at December 31, 2002 which will be charged to the cost for the second phase of the project in the future by W206,861 million (US\$172,327 thousand), while W57,903 million (US\$48,236 thousand) and W15,157 million (US\$12,627 thousand) will be charged to Shihwa multi-techno valley project and Ansan City project, respectively. The 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 W206,861 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, 2002 amounted to W141,928 million (US\$118,234 thousand).

The Company has outstanding construction contracts (backlog) amounting to W256,315 million (US\$213,525 thousand) at December 31, 2002.

The Company has entered into operating loan arrangements with seven Korean financial institutions. The lines of credit under such arrangements amounted to W635,000 million (US\$528,990 thousand) as of December 31, 2002.

The Company has entered into currency and interest rate swap agreements to reduce the effect of changes in foreign currency and interest rates on its long-term debt. As of December 31, 2002, the Company had outstanding 1 currency swap and 11 interest rate swap agreements with domestic and foreign banks. The Company classified these transactions either cash flow hedge transactions or fair value hedge transactions.

13. Commitments and Contingencies, Continued

As of December 31, 2002, effective portion of changes in the fair value of the derivative instrument which are reported in capital adjustment as follows.

	Korean Won in millions		U.S. Dollars in thousands	
	Gain on valuation of derivative instrument	Loss on valuation of derivative instrument	Gain on valuation of derivative instrument	Loss on valuation of derivative instrument
Currency swap	-	(1,354)	-	(1,128)
Interest rate swap	3,789	(5,793)	3,156	(4,825)
	<u>3,789</u>	<u>(7,147)</u>	<u>3,156</u>	<u>(5,953)</u>

Valuation gain and loss occurred from fair value hedge transactions and reported in other income or expense are as follows as of December 31, 2002.

	Korean Won in millions		U.S. Dollars in thousands	
	Gain on valuation of derivative instrument	Loss on valuation of long-term debt	Gain on valuation of derivative instrument	Loss on valuation of long-term debt
Currency swap	401	(401)	334	(334)
Interest rate swap	5,728	(5,728)	4,772	(4,772)
	<u>6,129</u>	<u>(6,129)</u>	<u>5,106</u>	<u>(5,106)</u>

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).

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 2002 and 2001 consist of the following.

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2002	2001	2002	2001
Development of new cities and industrial sites:	676,766	526,497	563,784	438,601
Construction business				
Dams	58,108	90,912	48,407	75,735
Water supply systems	-	2,478	-	2,065
	58,108	93,390	48,407	77,800
Utilities business				
Sales of dam managed water and hydroelectric power, etc.	281,455	199,803	234,468	166,447
Sales of waterworks managed water	500,390	426,826	416,853	355,570
	781,845	626,629	621,321	522,017
Other	27,205	33,680	22,663	28,057
	1,543,924	1,280,196	1,286,175	1,066,475

19. Cost of revenue

Cost of revenue for 2002 and 2001 consist of the following.

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2002	2001	2002	2001
Development of new cities and industrial sites:	469,961	413,466	391,504	344,440
Construction business				
Dams	58,922	90,912	49,085	75,735
Water supply systems	-	2,478	-	2,064
	58,922	93,390	49,085	77,799
Utilities business	559,245	503,151	465,882	419,153
Other	25,254	31,502	21,038	26,243
	1,113,382	1,041,509	927,509	867,635

20. Interest capitalization

Details of interest capitalized for 2002 and 2001 consist of the following.

	Korean Won in millions		U.S. Dollars (Note3) in thousands	
	2002	2001	2002	2001
Total interest incurred	70,123	100,513	58,416	83,733
Charged to expense	(41,345)	(52,704)	(34,443)	(43,905)
Interest capitalized	28,778	47,809	23,973	39,828
Allocations to:				
Construction in-progress	5,520	26,128	4,598	21,766
Inventories and cost of revenue	23,258	21,681	19,375	18,061
	28,778	47,809	23,973	39,827

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 29.7% on taxable income exceeding W100 million.

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(Note3) in thousands	
	2002	2001	2002	2001
Income before income taxes as per the financial statements	392,090	166,148	326,633	138,411
Permanent differences:	(50,813)	1,973	(42,330)	1,644
Temporary differences:				
Severance and retirement benefits	7,390	7,455	6,156	6,210
Depreciation	(337)	(228)	(281)	(190)
Reserve for investment in social overhead capital	(12,333)	(29,487)	(10,274)	(24,564)
Capitalized interest	1,547	(847)	1,289	(728)
Deferred foreign currency translation loss, net	(125)	(978)	(104)	(815)
Interest income	(313)	6,942	(261)	5,783
Bad debt expense	6,508	-	5,422	-
Customers' donations	(2,094)	-	(1,744)	417
Gain(Loss) on valuation of investments	450	(4,361)	375	(3,633)
Other, net	1,516	(1,898)	1,263	(1,998)
	2,209	(23,429)	1,841	(19,518)
Tax income(loss)	343,487	144,692	286,144	120,537

21. Income taxes, Continued

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, 2002 are as follows :

	Korean Won in millions		
	Beginning balances	Increase (Decrease)	Ending balances
Temporary differences:			
Retirement and severance benefits	8,871	7,390	16,261
Depreciation	6,991	(337)	6,654
Reserve for investment in social overhead capital	(94,725)	(12,333)	(107,058)
Capitalized interest	(98,714)	1,547	(97,167)
Deferred foreign currency translation loss, net	1,345	(125)	1,220
Interest income	(3,050)	(313)	(3,363)
Bad debt expense	-	6,508	6,508
Customers' donations	500	(2,094)	(1,594)
Gain(Loss) on valuation of investments	703	450	1,153
Other, net	(2,147)	1,516	(631)
	<u>(180,226)</u>	<u>2,209</u>	<u>(178,017)</u>
Deferred income tax liabilities	(550,509)		(52,871)

Provision for income taxes for the year ended December 31, 2002 consisted of the following :

	Korean Won in millions	U.S. Dollars in thousands(Note 3)
Current tax provision	103,065	85,859
Tax effect of temporary differences	(2,529)	(2,107)
	<u>100,536</u>	<u>83,752</u>

21. Income taxes, Continued

The effective income tax rate for the year ended December 31, 2002 is as follows :

	Korean Won in millions	U.S. Dollars in thousands(Note 3)
Provision for income taxes	100,536	83,752
Income before income taxes	392,090	326,633
Effective income tax rate	<u>25.64%</u>	<u>25.64%</u>

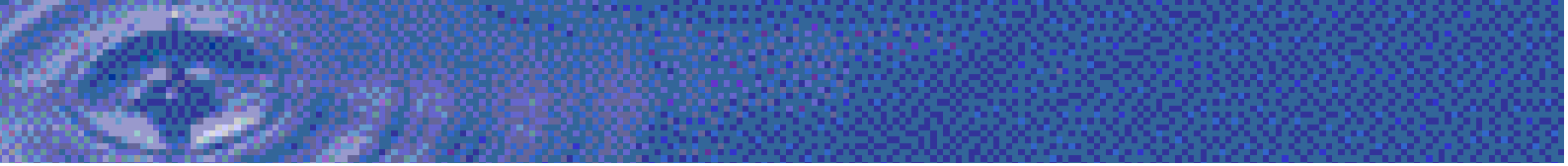
22. Segment information

Financial information by business segment of the Company for the year ended December 31, 2002 is as follows (Korean won in millions):

	Development of cities and industrial sites	Construction	Utilities	Other	Total
Revenue	676,176	58,108	781,845	27,205	1,543,924
Cost of revenue	469,961	58,922	559,245	25,254	1,113,382
Gross profit (loss)	206,805	(814)	222,600	1,951	430,542
Selling and administrative expenses	6,128	1,785	41,013	-	48,926
Operating income (loss)	<u>200,677</u>	<u>(2,599)</u>	<u>181,587</u>	<u>1,951</u>	<u>381,616</u>

Financial information by business segment of the Company for the year ended December 31, 2001 is as follows (Korean won in millions) :

	Development of cities and industrial sites	Construction	Utilities	Other	Total
Revenue	526,497	93,391	626,629	33,680	1,280,196
Cost of revenue	413,466	93,391	503,151	31,501	1,041,509
Gross profit (loss)	113,031	-	123,478	2,179	238,687
Selling and administrative expenses	6,162	2,887	30,889	-	39,937
Operating income (loss)	<u>106,869</u>	<u>(2,887)</u>	<u>92,589</u>	<u>2,179</u>	<u>198,750</u>



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23. The Korean economy

The Asia-Pacific region, including the Republic of Korea, is experiencing severe economic difficulties relating to currency devaluations, labor unrest and slowdown in growth. The operations of the Company reflects the policies of the Government of the Republic of Korea. These policies are undertaken by the government to ensure economic recovery and are independent of the Company. The effect on the Company's financial position of future developments with respect to the Korean economy cannot presently be determined

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KOREA WATER RESOURCES CORPORATION

Investor Relations

The KOWACO's website(<http://www.kowaco.or.kr>) provides information on the company, including press releases, key figures and details of key developments. Annual and interim reports can be viewed and downloaded, as can presentations to financial analysts. Webcasts of the annual investor conference can also be viewed through the site.

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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