



**GREEN to GREAT**  
2012 Korea Water Resources Corporation  
Annual Report

K-water continues to drive itself to become the world's leading water service company and to create a happier world where water, nature and people exist in harmony

# Green to Great

## Contents

02	Prologue
04	CEO Message
06	Vision and Strategy
08	History
12	2012 Financial Results
18	2012 Business Results
20	Business Review
40	Sustainability Review
58	Financial Statements
66	Board of Directors & Organizational Chart
68	Epilogue



K-water is committed to achieving the goal of becoming the world's top water service company

**First of all, we wish you happiness and good health in the year of the snake.**

In 2012, we once again delivered strong results with the support of our customers and tireless efforts of our employees to achieve the best possible outcome. We minimized damages from four typhoons and severe drought that swept the country on an unprecedented scale thanks to the four-river restoration project and efficient water management technologies. Moreover, we significantly reduced water-related accidents with our infrastructure construction projects which included dams and multi-regional water supply facilities, and improved our service quality to better satisfy customer needs. In addition, we launched new businesses including green city, new and renewable energy and industrial water to drive our growth, taking one step closer to becoming a global water company.



**Dear customers,**

The keywords that characterize the new government and society this year are national solidarity, economic democratization, mutual growth and cooperation. We will be mindful of these values in our pursuit of a brighter future.

For sustainable growth, we will aggressively expand our business overseas by fully leveraging our know-how and expertise acquired from the four-river restoration project. In addition, we will actively seek new growth opportunities by developing green businesses and water-friendly cities, and utilizing IT-based smart water management technologies. To improve our financial health, we will develop and implement detailed mid- to long-term financial management plans including cost-savings. We will also focus on enhancing our core competencies by nurturing talented employees and making further advancements in our technology level to ensure sustainable growth under the constantly changing business climate. We will reaffirm our commitment to mutual growth and cooperation with small- to medium-sized companies to develop the water industry, promote economic democratization, and fulfill our responsibility to the communities and customers we serve through social contribution activities.

**Dear customers,**

Over the past 45 years, we continued to drive ourselves, broadening our business by adapting to changes and promoting innovation. This year, we will once again mobilize the energy and passion of our K-water staff to achieve our goal of becoming the world's top water company.

Thank you.

CEO, K-water *KyungHo Cho*

# Water for the Happier World



K-water aims to become a world-class water service company by identifying new growth opportunities and strengthening our core competencies. To this end, the company has devised a mid- to long-term strategic management plan.

### Top Three Strategic Directions



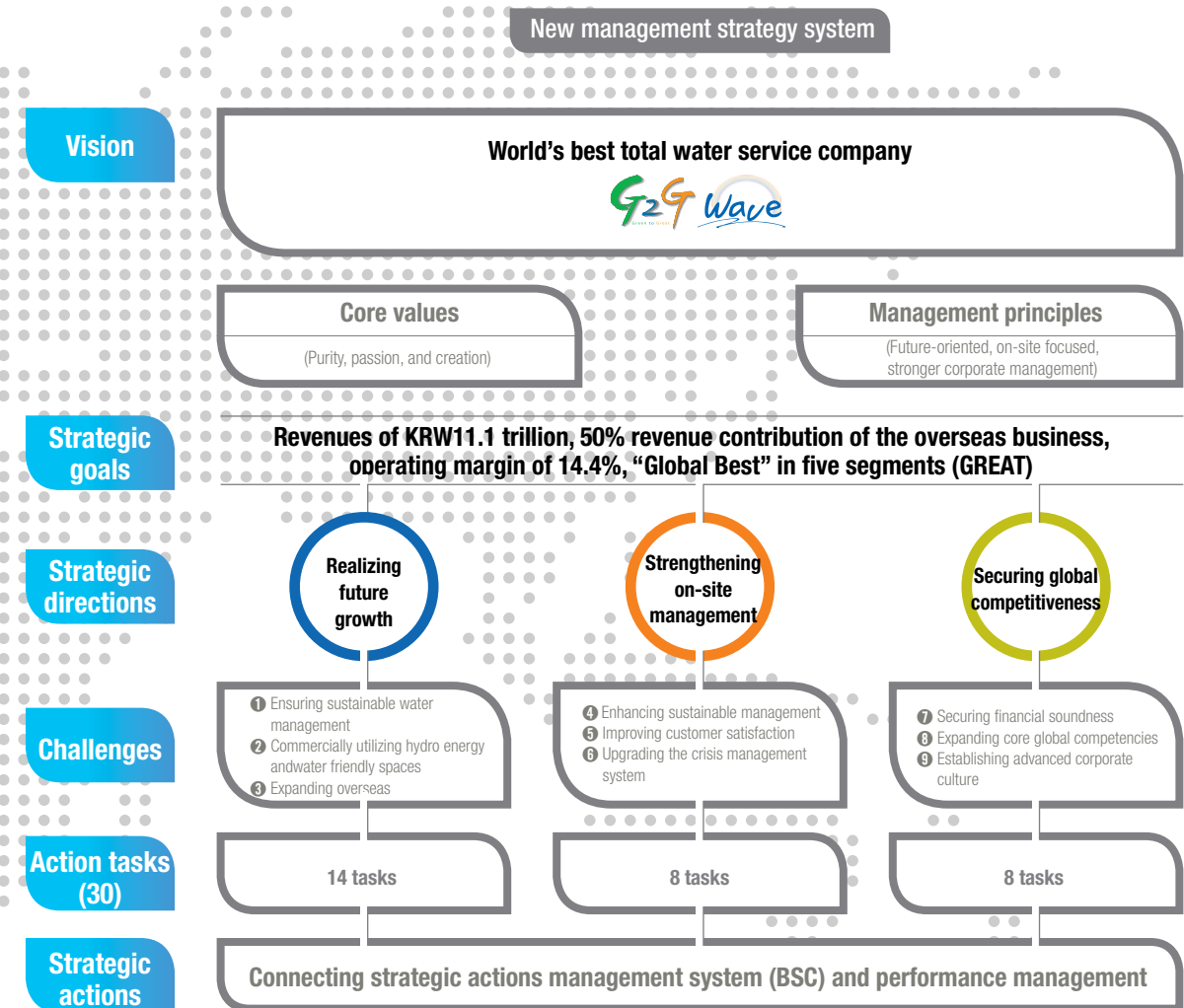
Facing the threat of climate change in the 21st century, water management has become a key public issue for countries around the globe, with water problems becoming increasingly intertwined with national security. Indeed, failure to resolve water problems can threaten the existence of a nation. K-water will strengthen the infrastructure business by proactively responding to issues that can potentially impact water security, and secure drivers that can boost the growth potential of K-water.

K-water will strengthen on-site management, improving and motivating water management units directly in charge of facility management. In addition, facilities will be operated and maintained in a stable manner by reinforcing the risk management system and expanding the enterprise-wide crisis management capacity. K-water will also strive to become a public enterprise that satisfies the diverse needs of customers, communities and the Korean people and cooperates with small-to-medium-sized companies.

K-water aims to ensure financial sustainability by recouping investments in national projects, strategically managing investments, and boosting profitability, strengthen core global competencies by promoting R&D innovation and fostering professionals best-suited for each position, and boost global competitiveness by innovating work processes and nurturing a working environment that promotes work-life balance.

## Mission and Vision

K-water has set "Water for the Happier World" as its mission and established a new vision of becoming the "world's best total water service company." Under its management principles of future-oriented, on-site focused, and stronger corporate management, and core values including purity, passion and creation, K-water has set three strategic directions, i.e., future growth, stronger on-site management, and enhanced global competitiveness. Furthermore, the company has taken nine strategic actions and implemented 30 action plans with the aim of achieving its strategic goals, including annual revenues of KRW11.1 trillion, 50% revenue contribution of the overseas business, operating income margin of 14.4%, and "Global Best" in five segments (guard, renovation, environment, ability and technology, or "GREAT"), which represent K-water's determination to fulfill the purpose of its existence and mission.



# Green Wave and Great Wave, K-water History



## 1967-1974

### Initial Stage

K-water was founded in 1967 following the national development plan to foster the heavy and chemical industries and modernize the national industrial structure. We commenced construction of Soyanggang Multi-purpose Dam and undertook the 4 major river valleys project initiated by the government to lay the foundation for development of water resources. With the subsequent construction of Andong, Daecheong, and Chungju multipurpose dams, we played a key role in preventing flood disasters and droughts that occurred year after year. K-water has contributed to advancing the national economy and improving the quality of life for the Korean people by providing a stable supply of water for household, industrial and farming purposes.



Nov. 16, 1967 Established as Korea Water Resources Development Corporation

- Nov. 16, 1967** Established as Korea Water Resources Development Corporation
- Jan. 20, 1968** Opened office of Soyanggang Multi-purpose Dam
- Mar. 05, 1968** Opened Geum River Basin Environmental Office
- Oct. 15, 1973** Constructed Soyanggang Multi-purpose Dam
- Oct. 15, 1973** Completed a study on the feasibility of 4-large river valleys project
- Feb. 01, 1974** Changed name to Industrial Sites and Water Resources Development Corporation
- Oct. 15, 1974** Relocated Head Office from Seoul to Daejeon



Nov. 25, 1972 Commenced construction of Soyanggang Multi-purpose Dam



Oct. 15, 1973 Constructed Soyanggang Multi-purpose Dam

## 1975-1988

### Take-off Stage

In 1973, with the government's put emphasis on nurturing the heavy and chemical industries, K-water constructed industrial complexes in Yecheon, Changwon, and Onsan. In addition, K-water adopted a computerized system for effective operation and management of multi-purpose dams and widened its business scope by expanding into multi-regional water supply facilities and industrial water facilities.

- Oct. 28, 1976** Completed the construction of Andong Multi-purpose Dam
- Jul. 28, 1977** Groundbreaking ceremony of Gumi Industrial Complex
- Dec. 02, 1980** Completed the construction of Daecheong Multi-purpose Dam
- Dec. 31, 1984** Completed the construction of Geumgang Regional Waterworks
- Oct. 17, 1985** Completed the construction of Chungju Multi-purpose Dam
- Apr. 29, 1987** Groundbreaking ceremony of Sihwa district development
- Nov. 16, 1987** Completed the construction of Nakdong River barrier
- Jul. 01, 1988** Changed name to Korea Water Resources Corporation
- Dec. 20, 1988** Completed the construction of Hapcheon multi-purpose dam



Oct. 28, 1976 Completed the construction of Andong Dam



Dec. 02, 1980 Completed the construction of Daecheong Dam



Apr. 29, 1987 Groundbreaking ceremony of Sihwa district development



Nov. 16, 1987 Completed the construction of Nakdong River barrier

## 1989-2006

### Growth Stage

After transferring its industrial development business, K-water began focusing on water resources management, improving its operation and management techniques, and adopting environmentally-friendly practices to all projects. The construction of the integrated water service operation center led to advances in technology, while overseas business ventures and green energy development projects emerged as new growth drivers.

- May 10, 1991** Completed the construction of Juam Multi-purpose Dam
- Sep. 23, 1996** Acquired ISO-9001 certificate (as Korea's first state-funded agency)
- Jun. 04, 1999** Completed phase-5 construction of multi-regional waterworks in capital area
- Oct. 25, 2000** Completed the construction of Hoengseong Multi-purpose Dam
- Oct. 13, 2001** Completed the construction of Yongdam Multi-purpose Dam
- Nov. 19, 2003** Completed phase 1 construction of multi-regional waterworks in Jeonju area
- Dec. 30, 2003** Signed an agreement on consignment of Nonsan water supply (the first consigned management of local water supply)
- Mar. 18, 2004** Completed international water supply inspection center
- Jun. 21, 2005** Completed the construction of Ulsan multi-regional waterworks
- Mar. 12, 2006** Changed name to K-water



Sep. 23, 1996 Held ISO9001 certification ceremony



Jun. 4, 1999 Completed phase-5 construction of multi-regional waterworks in the metropolitan area



Dec. 30, 2003 Signed agreement on Nonsan water supply



Mar. 18, 2004 Completed international water supply inspection center

## 2007-2012

### Growth as a total water service company

The era of K-water, declared along with its new CI, represents another leap forward for K-water to become the world's best total water service company. Building on the strengths of its sustainable operations, K-water aims to fulfill its G to G Wave vision by continuously innovating itself and building a global management system to make a happier world with water.

- Feb. 14, 2007** Completed an integrated operation center for water supply in the metropolitan area
- Aug. 16, 2007** Held a groundbreaking ceremony for Sihwa multi-techno valley
- Sep. 26, 2008** Completed water supply facilities for inland areas of South and North Gyeongsang Provinces
- Apr. 30, 2009** Signed shareholders' agreement for the Patrind hydropower project in Pakistan (K-water's first overseas investment project)
- Oct. 30, 2009** Completed the construction of multi-regional waterworks in mid-Chungnam area
- Dec. 01, 2010** Completed Gunwi multi-purpose dam
- Aug. 29, 2011** Constructed Sihwa tidal power plant
- Nov. 03, 2011** Ceremony of construction of floating photovoltaic power plant on Hapcheon dam
- May 25, 2012** Opened Gyeongin Ara waterway
- Sep. 20, 2012** Opened The ARC (Architecture and Artistry of River Culture)



Apr. 30, 2009 Patrind shareholders' agreement



Aug. 29, 2011 Sihwa green development ceremony



May 25, 2012 Ara waterway opening ceremony



Sep. 20, 2012 The ARC opening ceremony

# 2012 K-water Results



The support of our customers and passionate efforts of employees have made a difference in our financial performance



**Water tariff increase**

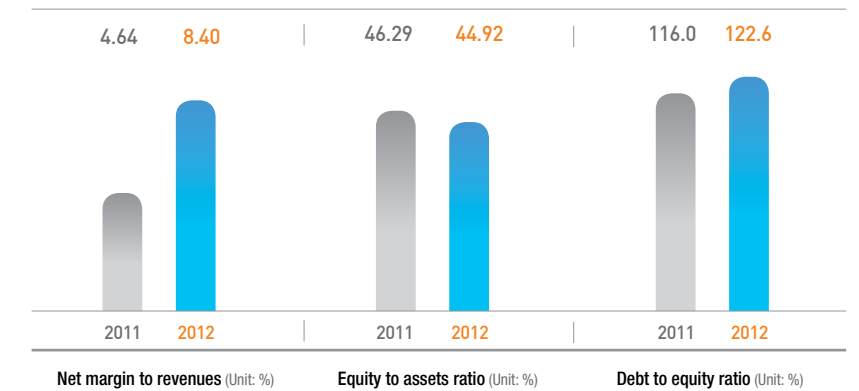
Multi-regional water supply facilities	KRW281.5/m <sup>3</sup> → KRW295.3/m <sup>3</sup> (4.9%)
Dam water	KRW47.93/m <sup>3</sup> → KRW50.3/m <sup>3</sup> (4.9%)

International credit rating

Moody's S&P  
**A1, A<sup>+</sup>** Credit Rating

We remained unshaken amidst external changes and preserved the unique values of K-water

Thanks to self-driven efforts and government support, K-water received an A1 rating from Moody's as last year, and A+ rating from S&P, one notch up from last year. K-water's operating margin to revenues rose 3.76%p year-on-year to 8.4%, and debt-to-equity ratio rose 6.6%p year-on-year to 122.6%, which is below its peer group average among public enterprises. In 2012, K-water was able to raise water tariffs by 4.9% for the first time in eight years, and rationalized the proportion of government contributions in relation to government contracts and national projects, laying the foundation for sustainable growth with its future-oriented, on-site focused, and strong leadership. Going forward, K-water is anticipated to maintain its credit rating on the back of government policies geared to tackle water shortage, the company's competitive advantage in the "blue gold" market, and a healthier financial position.





Assets

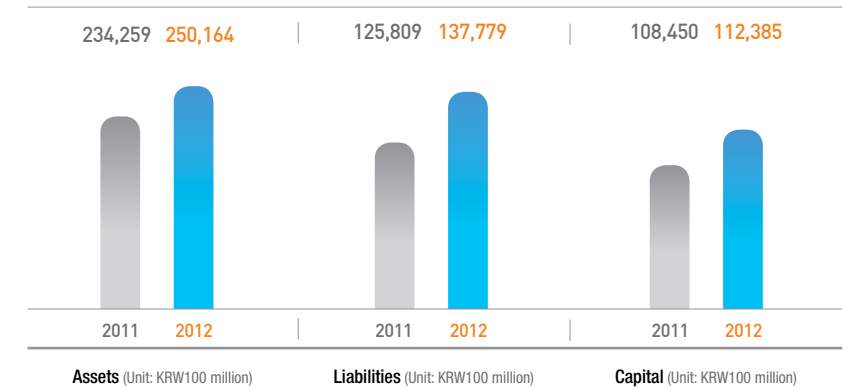
KRW  
**25,016** billion  
 Assets

K-water will further strengthen its financial health by continuously improving the debt structure and expanding capital

K-water grew its assets by 6.8% year-on-year, to KRW25,016 billion, with non-current assets representing 79% of total assets, at KRW19,803 billion. Total liabilities increased 9.5% year-on-year to KRW13,778 billion due to national projects. Total capital stood at KRW11,239 billion, rising 3.6% year-on-year due to higher retained earnings from net income, and steady government investments. K-water will continue to strengthen its financial position by improving its asset efficiency, expanding capital, and increasing profitability.

Composition of capital stock

Classification	Central government	Korea finance corporation	Municipalities	Total
The end of 2012 (Unit: KRW100 million)	62,072	6,014	70	68,156
Ratio(%)	91.1	8.8	0.1	100.0
The end of 2011 (Unit: KRW100 million)	60,866	6,014	70	66,950
Ratio(%)	90.9	9.0	0.1	100.0
Fluctuate (Unit: KRW100 million)	1,206	-	-	1,206







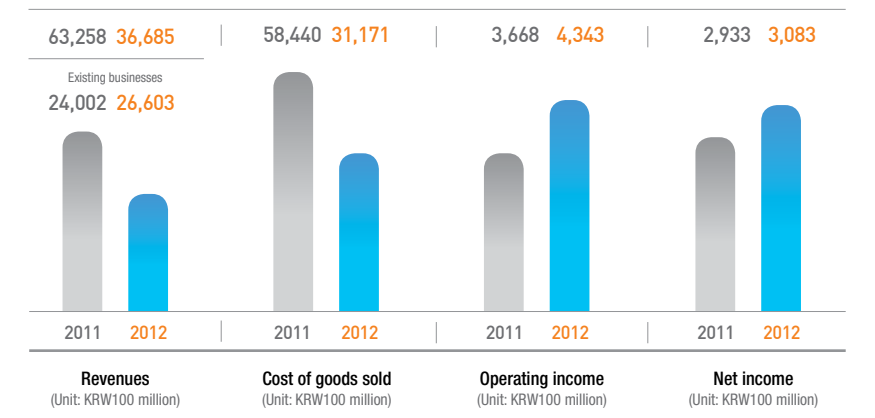
Revenues

KRW  
**3,669** billion  
 Revenues



K-water will lay the foundation for a brighter future by strengthening its infrastructure business and promoting new growth drivers

K-water reported revenues of KRW3,669 billion, down 42% year-on-year. Excluding private sector investment projects, the company's existing businesses such as water supply facilities, water resources and site development delivered revenues of KRW2,660 billion, up 10.8% year-on-year. Despite unfavorable business conditions at home and abroad in 2012, net income hit an all-time high of KRW308.3 billion, thanks to stronger water sales, greater new and renewable energy production, high-efficiency power generation, introduction of the budget saving incentive system that resulted in cost savings, and a focus on profit generation. In 2013, K-water plans to drive future growth by strengthening its capabilities in the infrastructure business and promoting new growth drivers, and improve profitability and sustainability by enhancing its core competencies and focusing on customer value.



# 2012 Business Results

K-water's achievements in 2012 would not have been possible without the efforts of all of our executives and staff members.



## Sustainable growth with future-oriented, on-site focused, and stronger corporate management! 1

K-water earned the highest rating in customer satisfaction for six consecutive years by successfully implementing national projects, enhancing its future competitiveness through efficient strategies and reorganization, and improving on-site communication. In addition, K-water was able to raise water tariffs for the first time in eight years, and rationalized the proportion of government contributions related to government contracts and national projects.



## Strong financial health with record-high net income 2

Despite unfavorable business conditions such as unchanged water tariffs for seven consecutive years and implementation of national projects, K-water reported a record-high net income on the back of aggressive marketing, cost-savings, greater new and renewable energy production, high-efficiency power generation, and stronger water sales.



## Targeting zero damage with an advanced risk management system! 7

K-water has selected advancement of the risk management system as one of its five functional strategies and developed a crisis management system named K-water Risk Management (KRM), becoming the first Korean company with a risk control center. In 2012, the renewal of the risk control system and repetitive training helped the company reduce the number of water supply cut-offs to zero despite 56 water-related accidents.



## Boosting green growth with the world's first floating photovoltaic power plants! 8

K-water's key achievements in green energy include the world's largest tidal power plant in Sihwa, the world's first floating photovoltaic power plants in dams, and small-sized hydroelectric power plants. K-water commercialized floating photovoltaic power plants two years ahead of its rivals in the US and Japan, and was given the highest weighted value of 1.5 for renewable energy certificate.



## A smart working system for sustainable growth 9

K-water's innovation is driving sustainable growth. Family Day, the work diet system, and flexible working hours have improved working conditions and removed inefficiencies. Moreover, a smart working system has been introduced by establishing a smart work center, expanding mobile offices, and advancing water resources infrastructure management, and built a next-generation company portal.



## Opening of Korea's first inland canal, Ara Waterway 10

The Ara Waterway that connects the West Sea and the Han River opened on May 25, 2012 after three years of construction with a KRW2.5 trillion investment. Since its opening, the waterway has helped prevent flood damage, introduced green logistics and attracted tourists.



## Effective damage control despite severe droughts and typhoons! 3

K-water's integrated water management helped minimize damage from severe droughts and typhoons that swept the country on an unprecedented scale. In addition, the company mobilized its water-related resources including multi-regional water supply facilities, emergency connection facilities, water wagons and bottled water to help people in drought-stricken areas.



## Transformation of rivers into a place for cultural experience! 4

Rivers are being reinvented from a source of water supply to ecological, environmental, cultural and leisure-friendly space. K-water opened The ARC, a center for promoting water-friendly culture and tourism, and held various cultural events, attracting 15 million visitors since opening the four major river sites to the public in November 2011.



## Going global with integrated water management services 5

K-water is making thorough preparations to broaden its global presence. K-water was selected as a short-list among 34 bidders for the KRW12.4 trillion water management project in Thailand, proving its world-class competitiveness. Moreover, K-water has already launched hydro power generation projects in the Philippines and Pakistan, and water supply facility management services in Equatorial Guinea.

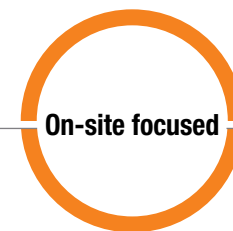
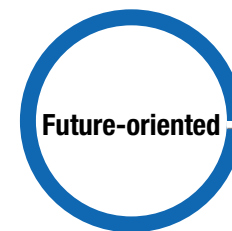


## Globally recognized clean and fresh tap water! 6

K-water tests drinking water quality to the highest standards of the global water industry, using 250 stringent test items. Moreover, company-water increased the number of five-star level purification plants to 20 through facility upgrades and operational streamlining, and won 7th place at the International Water Tasting Awards, three places higher than the previous year.



### Milestones in 2012 under New Management Declaration



- Jan. 09, 2012** Open Employment Leader Award (Ministry of Employment and Labor)
- Jan. 13, 2012** Smart Work Excellence Award (Ministry of Public Administration and Security)
- Feb. 01, 2012** Most Respected Company in Korea, 2012 (KMAC)
- Jun. 21, 2012** Best Industrial Relations Practices, 2012 (Ministry of Employment and Labor)
- Aug. 31, 2012** Highest rating (A+) for 2012 Sustainability Report (KMAPI)
- Oct. 19, 2012** Family Friendly Workplace, 2012 (Ministry of Gender Equality & Family)
- Oct. 23, 2012** MAKE (Most Admired Knowledge Enterprises) Award for five consecutive years (TELEOS)
- Oct. 25, 2012** Top-100 Ideal Workplaces in Korea (GWP Korea)
- Nov. 27, 2012** Grand Prize for Excellence in Sustainability Management, "Innovative Management" (Ministry of Knowledge Economy)
- Dec. 07, 2012** Public Enterprise Management Grand Award (Ministry of Knowledge Economy)

- Mar. 22, 2012** Good Software certification for K-water integrated power generation operating system (TTA)
- Jun. 27, 2012** Grand prize for Excellence in Environmental Effects Management (Ministry of Environment)
- Jul. 18, 2012** National Digital Innovation Award, public sector (Ministry of Knowledge Economy)
- Oct. 29, 2012** Best Practice Competitive Exhibition, public sector (Ministry of Land, Transport and Maritime Affairs)
- Nov. 21, 2012** Excellence in Public Sewage Operation and Management (Ministry of Environment)
- Nov. 30, 2012** Award for Greenhouse Gas Emission Reduction and Energy Saving (Ministry of Environment)

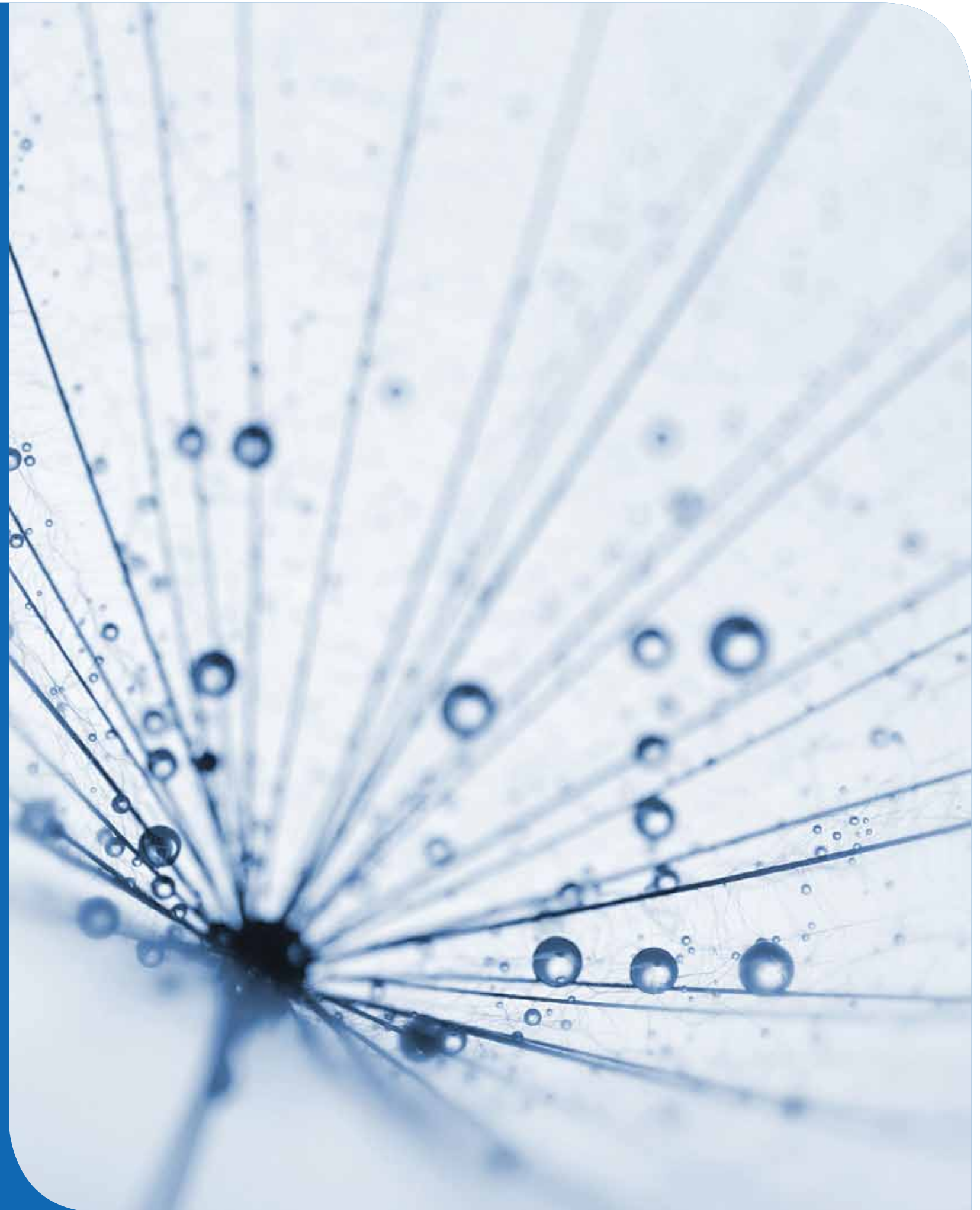
- Feb. 29, 2012** 1st Weather Management certification (Korea Meteorological Administration)
- Mar. 14, 2012** Grand prize for HRD Learning Programs (Korea HRD Industry Association)
- Jun. 12, 2012** Clean Champion Award (Anti-Corruption & Civil Rights Commission)
- Sep. 06, 2012** Best SME Technology Partner (Small and Medium Business Administration)
- Sep. 12, 2012** Presidential Award for Procurement of SME Products (Small and Medium Business Administration)
- Jun. 12, 2012** Excellence in Contribution to Global Public Welfare (Ministry of Health & Welfare)
- Sept. 27, 2012** Excellence in Corporate Social Responsibility for Mutual Growth (National Commission for Corporate Partnership)

# Business Review

K-water's commitment to a happier and more prosperous future will only grow stronger

K-water is dedicated to improving the value of water, controlling flood and drought damage, and creating value-add from water

- Four-river restoration project
- Gyeongin Ara waterway project
- Water resources business
- Multi-regional water supply business
- Local water supply business
- Sewage treatment business/
- Site development business
- Low-carbon, new-growth green business
- Overseas projects





Gangjeong-Goryeong barrage



Opening ceremony of The ARC (Sep. 20)



Groundbreaking ceremony of Damyang flood control reservoir (Nov.28)

## Four-river restoration project

### The four rivers are the origin of Korea's future

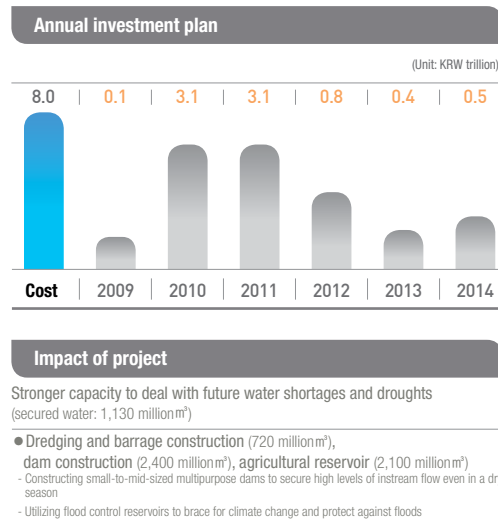
As one of the leading companies carrying out the four-river restoration project, K-water will invest KRW 8 trillion by 2014 to recreate the value of the four rivers, and further enhance Korea's water resources technology to lay the foundation for exports. K-water has signed technology agreements with the U.S. Engineer Corps. and Deltares (Netherlands) to introduce advanced technologies for the successful completion and subsequent maintenance operation of the four rivers project. K-water has established a local governance system and organized/operated a consultative group, encouraging the participation of local residents in the construction project from an early stage. Major constructions processes were completed by the

end of 2012, including 16 multi-purpose barrages and dredging. K-water has been operating and managing these facilities under consigned management agreements (with four municipalities signed in May 2012). In 2011~2012, the flood level of the main rivers fell by 2~4m despite record-high precipitation, preventing flood damage. Indeed, typhoons swept the country three times in a row (four in total) in 2012, but damage sustained by farmland and houses located at the basin of the four rivers decreased significantly compared to the previous year. Moreover, K-water secured 1.17 billion m<sup>3</sup> of water resources (five times the size of Paldang Dam), ensuring a stable water supply around the four rivers despite unprecedented droughts in May and June

2012 (in terms of frequency over 5~200 years by city). In addition to flood prevention and drought damage control, K-water developed land adjacent to rivers, turning farmland and vinyl houses into ecological parks (130km<sup>2</sup>), building cycle paths (1,757km), camping sites, sport facilities (baseball fields, football fields, gateball fields and tennis courts) and river docks. By the end of 2012, roughly 15 million people visited the four-river areas, helping to boost local economies. The success of K-water has been widely recognized by international organizations including the OECD, with many countries including Thailand, Morocco, Paraguay, and Peru benchmarking the four-river restoration project.

Project (Project period: 2009~2014)				
Classification	Han River	Nakdong River	Geum River	Yeongsan River
<b>Total</b> (33 projects)	4 projects	18 projects	4 projects	7 projects
<b>Engineering work</b> (KRW3.9 trillion)	1 project	10 projects	—	2 projects
<b>13 construction projects</b>	Six river sections	River sections no. 17,18,19,20,22 and 23 Yeongju, Bohyonsan dams Connection of Andong-Imha dams River barrier drainage gate		Flood control reservoir (Damyang, Hwasun)
<b>Local government agencies</b> (KRW4.1 trillion)	3 projects	8 projects	4 projects	5 projects
<b>20 construction projects</b>	Sections no. 3,4 and 7	Sections no. 5,16,24,25,30,31,32 and 33	4 river sections (no. 1,5,6 and 7)	5 river sections (no. 2,3,4,5 and 6)

\* Projects completed as of the end of 2012 (26 completed; 7 to be completed by 2014).





**Project status**

<b>Project sponsor</b>	K-water (directly in charge)
<b>Project period</b>	2009 ~ June 2013
<b>Total cost</b>	KRW2,675.9 billion
<b>Facility plan</b>	<ul style="list-style-type: none"> <li>● Main transportation way: 18km (width 80m, water depth 6.3m), tailrace 14.2km included</li> <li>● Incheon terminal: 12 pier berths, logistics complex, lock 2</li> <li>● Gimpo terminal: 10 pier berths, logistics complex, lock 1, 196 marina berths</li> <li>● Bridge: 15 (9 by K-water, 6 by municipalities, etc.)</li> <li>● Eight scenic views of Gyeongin Ara Waterway and Parkway (15.6km)</li> </ul>

**Impact of project**

- **Logistics** Ease freight/passenger traffic at the Incheon Port and alleviate land traffic congestion
- **Flood control** Function as an inland waterway at normal times, and divert flood flow to the Yellow Sea during the flood season to prevent flood damage around the Gulpo River
- **Water-friendly space** Create water-friendly space for culture, leisure and tourism, including the eight scenic views of Gyeongin Ara Waterway and Parkway



Agreement to promote of Ara Waterway tourism and leisure (March 8)



Signing of MOU (Gyeongin-Tangshan port route development) (April 7)



Opening ceremony of Ara Waterway (May 25)

# Leading Korea towards a green future with global high-end waterway

## K-water will build a newer and greener Korea

K-water opened Gyeongin Ara Waterway in May 2012, after 28 months of construction and seven months of facility improvements, supplementation, and test sailing. The canal helped prevent flood damage around the Gulpo River, and laid the foundation for low-carbon green growth by improving logistics and transportation systems, and creating water-friendly leisure and cultural space.

The Ara Waterway has transported 350,000 tons of freight and 260,000 passengers since its opening,

and has promoted green logistics by diversifying cargo and passenger ship routes and securing new freight demand including ultra-heavy cargoes through the establishment of networks with domestic and overseas ports. In particular, the waterway transported 20,000 tons of ultra-heavy freight last year, resulting in KRW2.8 billion in cost savings and 120 days in delivery time reduction compared to land transportation. Moreover, K-water developed port logistics complexes, 53% of which were presold before construction was completed.

The Gyeongin Ara Waterway connects the Han River to the West Sea. The water-friendly space built along the waterway has created new waterside culture and become tourist attractions, including bicycle tracks and marina facilities where tourists can enjoy water sports and various cultural events are held. Going forward, the Gyeongin Ara Waterway is expected to become a global high-end waterway that drives Korea's green future, by providing new routes, attracting freight demand, and offering upgraded amenities and services to visitors.



# Integrated water resources management to brace for climate changes

K-water will provide clean and safe water free of water disasters and environmental issues

Water disasters are increasing due to global water shortage and erratic weather conditions. K-water is tackling water shortage by securing and supplying drinking water, and is managing national water resources through multi-purpose dams that help prevent floods and droughts. In 2012, the Korean Peninsula suffered a series of extreme weather conditions, including droughts, monsoon, heat waves, and typhoons. Indeed, the country witnessed the severest droughts in 200 years from May, then a dry monsoon until the early flood season, and three consecutive typhoons (Bolaven, Tembin and Sanba) from mid-August which caused heavy rainfalls. However, K-water's scientific water management which involves internal precipitation

forecasts and preemptive flood water releases helped prevent large-scale flood damage. Moreover, K-water's rational decision-making that linked dams and barrages helped reduce the amount of flood to a maximum of 7,120 per second based on the Nakdong River water system, and lowered the level of rivers by up to 3.0m, minimizing downstream flooding. In addition, K-water made efforts to ensure a stable and abundant water supply during dry seasons and to improve water quality by securing reservoir water of 9,840 million tons, the highest record ever. Along with water supply, the company improved the quality of water and generated pollution-free clean energy totaling 2,785GWh through hydroelectric power generation,

contributing to fostering the nation's green growth drivers. K-water has invested a total of KRW857.5 billion to expand water resources facilities, including four new dams like the one in Buhang, and three flood control reservoirs, and has focused on expanding the capacity to supply water and control floods in a stable manner. To prepare against floods caused by erratic weather conditions, K-water is implementing projects to increase the capacity of 24 dams including Soyanggang Dam, and manages 16 multi-purpose dams with various functions including water supply, flood control and power generation, and the Nakdong River barrier.



Water Resources Operations Center (inside)



Opening ceremony for Imha Dam spillway (Sep. 12)



Signing of MOU for exchanges and cooperation for Northeast Asia water resources business (Oct. 30)

### Water resources management

12,638 | 4,902 | 11,672



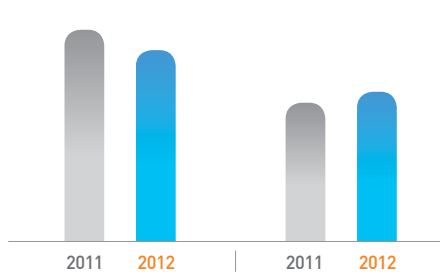
### Water resources construction

8,575 | 19 | 8



### Financial information

11,344 | 9,877 | 3,304 | 3,314





## Integrating multi-regional water supply services to lead the water industry

### K-water will do its best to supply high-quality, safe tap water

K-water strives to ensure a stable supply of high-quality water through efficient water resources management. The company will continue to develop technologies, upgrade facilities and improve water quality to supply fresh water and address imbalance in water supply among regions.

K-water has secured the capacity to supply 17,462,000 m<sup>3</sup> of water per day, which is 47.6% of the capacity of water supply facilities nationwide (as of 2011), and supplied 3,602 million m<sup>3</sup> of water, up 96 million m<sup>3</sup> year-on-year, to 113 municipalities and other customers. The company is particularly focused on stabilizing water facilities by repairing old pipes, converting single

pipes to double pipes, and building emergency connecting facilities in order to ensure stable water supply without disruption during disasters or accidents. To satisfy the quality expectations of the public, the company has introduced highly functional water purification plants in the capital area and Nakdong River regions, as part of the efforts to improve water quality and reliability.

K-water has invested KRW89.5 billion in constructing five multi-regional water supply facilities and two industrial water supply facilities, and improving water systems in four regions, in order to sufficiently supply water in areas suffering from water shortage. As of 2010, the water supply ratio of some rural areas was as

low as 58.8% (as of 2011).

In addition, K-water is dedicated to managing tap water quality in order to provide safe, high-quality water. To accomplish this, K-water has established a system to monitor water quality in real time, and is contributing to water quality improvements by supporting the inspection of water supply for local governments, as well as conducting strict quality inspections utilizing its world-class testing capability through its research center, which is equipped with state-of-the-art facilities and precision analysis equipment.



Framework Convention on Integrated Operation of Industrial Sewage in Daesan-Imhae Industrial Complex (Sep. 4)

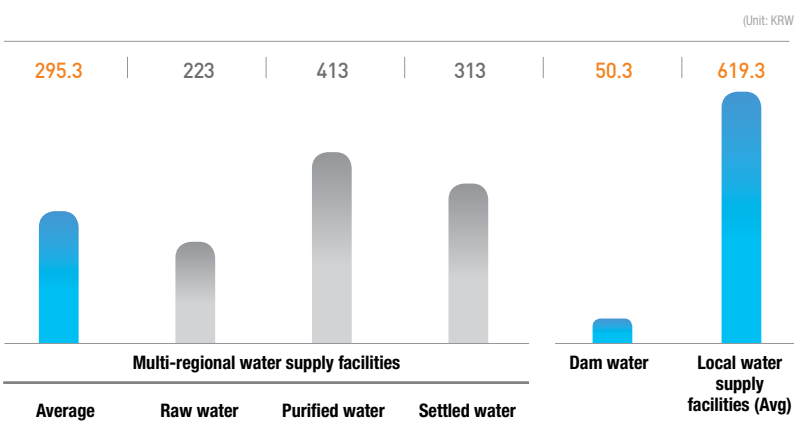


Opening of multi-regional water supply facilities in Geumsan-Muju (Oct.26)



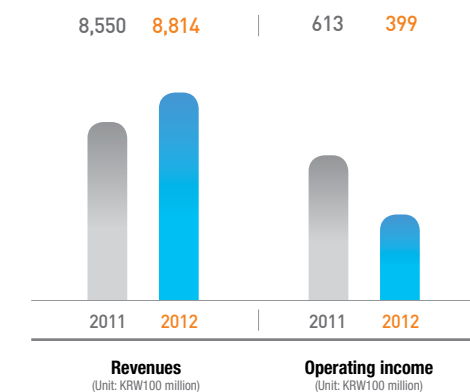
International Water Analysis Center

#### Tariffs



\*Some data is as of Jan. 1, 2013

#### Financial information





Workshop for local water supply consulting services (Oct. 23)



Signing ceremony for consigned management of local water supply in the southwestern region of Jeonnam province (Dec. 12)



Water leakage inspection

## Integrating consigned management of local water supply services

**K-water will resolve structural problems in local water supply with superior expertise, technologies and experience**

In Korea, 162 local suppliers individually supply water to provinces, causing a severe imbalance in local water supply among regions. Moreover, some municipalities lack operational skills and technologies as well as the financials to replace decrepit facilities. Starting with the Nonsan city in 2004, K-water is now managing water supply services for 21 municipalities, including Wando-gun, Jindo-gun and Jangheung-gun. As of the end of 2012, water leakage declined by 73 millionm<sup>3</sup> per year under K-water's management, resulting in cost savings of KRW26.3 billion. Customer satisfaction also increased by 15.3 points (from 65.0 points before consignment to 80.3 points in 2012), suggesting that local

residents are satisfied with K-water's services including water quality, fees and the handling of customer complaints. Water service is a traditional network business with strong economies of scale, which could not be achieved under the localized water supply system in Korea. Since 2009, however, there has been an increasing regionalization and integration trend in the consigned management of local water services in Korea, with the government grouping three to five municipalities for integrated consignment, and offering incentives such as subsidies and special grant taxes. On Dec. 23, 2009, K-water signed the first integrated consigned management agreement with four municipalities in the southern

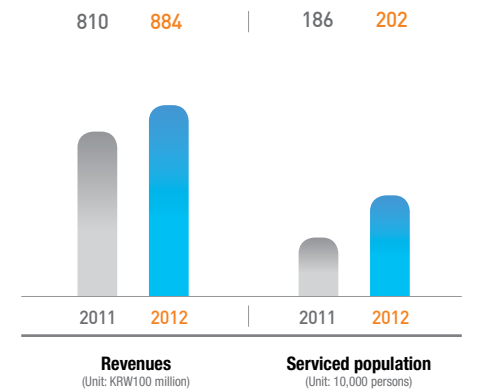
Gyeongsang province (Geoje, Sacheon, Tongyeong and Goseong), and the business has been successful so far, reducing water leakage and providing upgraded services. The success has led to more agreements, involving municipalities in Wando-gun, Jindo-gun and Jangheung-gun in 2012. By actively promoting consigned management of local water supply, K-water aims to reduce water leakage, minimize factors that put upward pressure on water tariffs, help municipalities to strengthen their financials, make timely investments to replace old pipes and enhance water quality, thereby providing improved water services to local residents.

### Municipalities that consigned water service management (21 as of Feb. 2013)

Classification	Under consigned management (18municipalities)
Capital area	Dongducheon, Yangju, Paju, Gwangju
Gangwon	-
Chungcheong	Nonsan, Seonsan, Cheonan (industrial), Geumsan, Danyang
Jeonbuk	Jeongeup
Jeonnam	Naju, Hampyeong, Wando, Jindo and Jangheung
Gyeongbuk	Yecheon, Goryeong
Gyeongnam	Sacheon, Geoje, Goseong, Tongyeong

### Financial information

\* Serviced population is based on the Ministry of Environment statistics as of 2011







Workshop for sewage treatment operation/management (Oct. 24)



Boenn sewage treatment plant



Pohang jangyang treatment plant

## Advancing sewage treatment technologies

### Thorough sewage treatment is the key to clean and fresh water

K-water is contributing to water quality improvements of streams and water resources through efficient treatment of domestic sewage. K-water has built or is in the process of building a total of 24 related facilities since 1998, and operates and manages 20 facilities (269,000 /day). K-water discovered that integrated operation/management system of treatment facilities in Yongdam dam and Jangheung dam (built in 2005 to improve the quality of water resources) could save costs by reducing manpower and improve the quality of treated water. In 2007, K-water upgraded the integrated monitoring and control system to a comprehensive sewage information system (SIMS) that allows information sharing and decision-making. This has enabled the

company to provide real-time information on system operation and management, while improving work efficiency. Meanwhile, the Boeun sewage treatment plant operated by K-water was selected by the Ministry of Environment as an outstanding plant in the assessment of sewage treatment facilities operation for two consecutive years in 2005. Jangsu and Muju sewage treatment plants also received the honor for two years in a row in 2009 and 2011, respectively. In addition, K-water is leading the advancement of sewage treatment technologies using its in-house developed programs including Dr. Wastewater (system diagnosis). In 2013, K-water is focused on upgrading its service quality, business performance and profitability

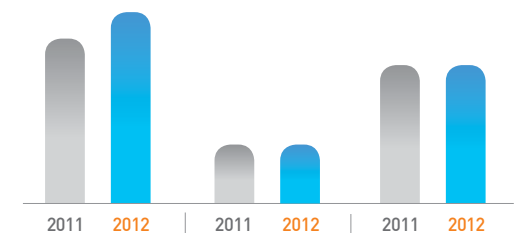
through the integration of water and sewage facilities in Dongducheon and Siheung. Moreover, utilizing its expertise and technologies, K-water is bringing together various up-to-date water treatment technologies and sewage treatment technologies. Based on its differentiated, state-of-the-art sewage treatment techniques, the company has expanded its sewerage-related businesses to include sewage recycling, integrated management of water supply and sewage treatment, and overseas projects. K-water has also built a strong business portfolio and is focused on developing a total water service system for integrated management of water resources, water supply and sewerage.

#### Eight water quality management goals of K-water

<b>Turbidity</b>	Monthly turbidity of 0.1NTU or below- 95% Monthly max. turbidity of 0.3NTU or below	<b>By-products</b>	THMs : 80 $\mu$ g/L or below HAA2 : 60 $\mu$ g/L or below CH : 30 $\mu$ g/L or below
<b>Chlorine</b>	0.8mg/L or below	<b>Manganese</b>	0.02mg/L or below
<b>CT</b>	Inactivation ratio of 1 or above	<b>Aluminum</b>	Annual high of 0.1mg/L or below Annual average of 0.05mg/L or below
<b>Taste · Odour</b>	2-MIB, Geosmin 10ng/L or below	<b>Tap water corrosion</b>	LI $\geq$ -1.5

#### Financial information

386 415 | 20 20 | 363 363



Revenues (Unit: KRW100 million) | No. of facilities | Facility capacity (Unit: 1,000m<sup>3</sup>/day)



Construction of Ansan Lake Park



Sihwa MTV presale presentation (May 16)



Yeosu Industrial Complex

## Creating eco-friendly land and strengthening industrial competitiveness

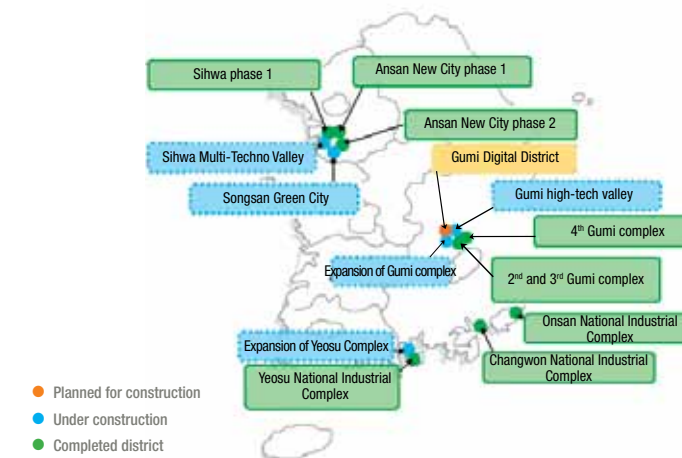
K-water will add value to our land for the people and for the world

In line with the government policy to nurture the heavy chemicals industry, K-water started to develop industrial complexes in 1974, including the national industrial complexes in Changwon, Onsan, Yeosu and Gumi. Since 1977, K-water has implemented projects to develop Ansan and Sihwa districts to disperse population concentrated around the capital area. In 2012, K-water completed the complexes that had been under construction, and posted revenues of KRW222.9 and a net income of KRW15.9 billion thanks to proceeds from land sale and land use during this term. The phase 1 development of the Sihwa district and the fourth Gumi industrial complex were completed in 2010, and the expansion of the Yeosu complex is scheduled for completion in 2013. In the northern part of the tideland

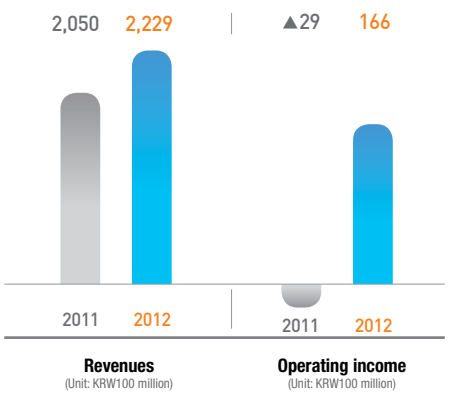
created after the installation of the Sihwa seawall, K-water launched the Sihwa multi-techno valley (MTV) development project in August 2007 with the aim of building a state-of-the-art, multifunctional complex to lead future industries. Currently 56% of the construction is completed, and 31% of the complex is presold. In the southern part, K-water started the construction of Songsan Green City in October 2011, with the goal of building an environment-friendly multifunctional city where nature, tourism, leisure, and living can exist in harmony. There are other new businesses in the pipeline, including the expansion of the Gumi complex to improve the standards of living (residential, commercial and research purposes), and the construction of a high-tech valley to satisfy new industrial complex

demand in Gumi. Moreover, K-water is implementing priority projects in three areas to create water-friendly spaces in a more systematic and organized manner. One of the projects named the Eco Delta City will be built as an environment-friendly, multifunctional, self-sufficient city in Busan (designated by the government as a water-friendly district on Dec. 14, 2012). As for the other two projects (Noan district in Naju and Gyuam district in Buyeo), applications have been submitted for designation as a water-friendly district. By preserving/utilizing the natural environment and supplying high-quality land at low cost, K-water contributes to creating eco-friendly land, strengthening industrial competitiveness and improving the quality of life.

### Site development map



### Financial information





Floating photovoltaic power plant on Hapcheon dam



Baekjae barrage small hydroelectric power plant



Gyeongin wind power plant

## Developing new and renewable energy

### K-water leads the green energy industry as the green hub of Korea

#### Development and use of new and renewable energy

K-water is actively coping with the global crisis caused by climate change based on full commitment to developing renewable energy resources in support of the government's low-carbon green growth initiative. K-water operates hydroelectric power plants with a total capacity of 1,070MW (61% of domestic hydropower generation capacity of 1,746MW) and the world's largest tidal power plant in Sihwa (254MW) as of 2012. K-water continues to develop green energy, including the Angye small hydroelectric power plant. In July 2012, the company commercialized the world's first floating photovol-

taic power plants in dams. In 2012, the company's 60 plants generated 2,785GWh in electricity utilizing hydro, tidal, wind and solar power, generating the effect of replacing 4.72 million barrels of oil and reducing 1.26 million tons of CO<sub>2</sub>. In addition, the company is focused on reducing greenhouse gas emissions by improving the efficiency of dams and water supply facilities.

#### CDM project and carbon permits trading

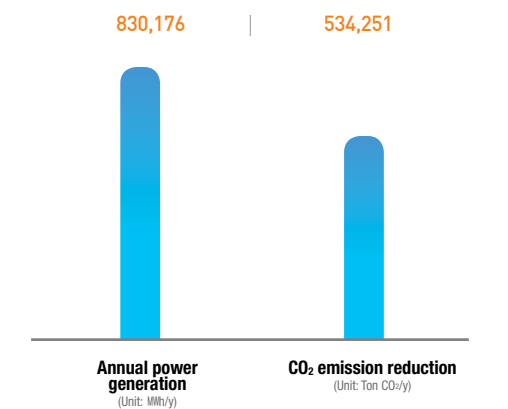
K-water is actively fighting global climate change, embarking on CDM projects in May 2005 as the first state-funded corporation. The company has registered a total of 12 CDM cases (534,000-ton CO<sub>2</sub>), including

the Sihwa tidal plant and small hydroelectric power plants in four rivers, with the UNFCCC by January 2013, the largest number of cases registered by any entity in Korea. In September 2008, K-water sold its CDM credits (6,782CERs, earned from 2007 greenhouse gas reductions at its small hydroelectric power I business) to ABN-AMRO bank of the Netherlands. Since then, the company has posted revenues of KRW662 million by selling 151,471CERs in total. Going forward, K-water will continue to boost green growth by implementing strategic CDM (PoA) projects and diversifying the sales market.

Status of new and renewable energy development and operation (Dec. 2012)

Classification	Status of development and operation	Capacity (MW)
Hydroelectric power	Large hydroelectric power plants	● 9 plants including Soyanggang dam power plants 1,000.6
	Small hydroelectric power plants	● 36 plants including power plants in four rivers; 5 plants currently under construction including Angye small hydroelectric power plant 76
Tidal power	● Sihwa tidal power plant (the world's largest tidal power plant) 254	
Wind power	● Sihwa Bangeori and Gyeongin port wind power plants 6	
Photovoltaic power	● 13 photovoltaic power plants including Hapcheon plant; Asan photovoltaic plant under construction 3.1	
Thermal energy conversion for heating and cooling	● 8 plants including Daecheong dam plant; Lotte World II under construction 11.7	

CDM registration (Jan. 2013)





Operation of regional water supply facilities in Jiangsu, China



Patrind hydropower project in Pakistan



Water purification plant management services in Mongomo, Equatorial Guinea

## Exporting K-water's integrated water management technology

### K-water will become a leader in the global water market

Amid accelerating globalization and opening of the global economy, the world's water markets are emerging as the blue gold industry of the 21st century, with their size expected to grow to approx. USD1 trillion by 2025.

In the face of global climate change, the traditional water industry, which has been largely divided into water supply and sewage treatment, is increasingly integrated to involve all stages of the water circulation system, such as river basin development, water supply and sewage treatment and alternative water resources. As a result, competition is further intensifying in the global water market.

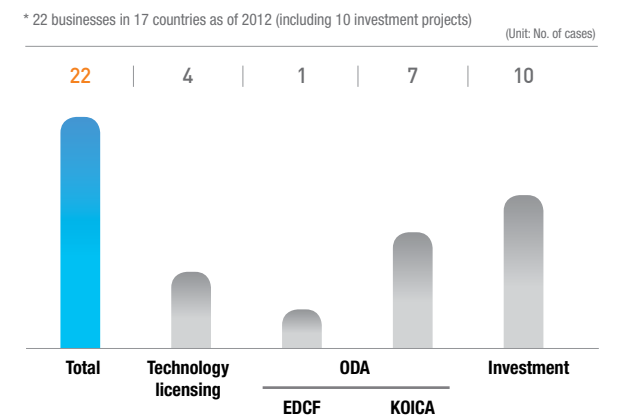
Under such changing market conditions, K-water is striving to expand globally in partnership with the private sector. Starting with the Bunha River area inspection project in China in 1994, K-water laid the foundation for overseas expansion through ODA services until 2004. To date, the company has completed 38 projects in 20 countries by diversifying its overseas business in 2005 to include technology exports and investment. In 2009, the company initiated its first investment business, the Patrind hydropower project in Pakistan, for which construction started in 2011. Currently, 22 projects are underway in 17 nations, including 10 investment projects. In 2012, the company secured platforms to

drive its overseas business, winning the hydro power plant development project in Lower Pala Valley, Pakistan, and acquiring the Angat hydro power plant in the Philippines. Moreover, K-water was selected a short-list for the KRW12.4 trillion water management project in Thailand. The company will do its utmost to win the project, which should serve as a foothold for further growth in its integrated water management technology exports in the Mekong River areas. Based on 40 years of professional experience and know-how in water resources management, K-water will advance into the global water market jointly with the private sector, with a focus on high-demand businesses.

#### Mid- to long-term roadmap

	Focus on hydro power and water supply services <small>Short-term (2012~2015)</small>	Expand into related industries <small>Mid-term (2016~2018)</small>	Include all stages of water circulation system <small>Long-term (2019~2021)</small>
<b>Market expansion</b>	Create a regional belt in seven Southeast Asian countries	Expand to ASEAN and Middle East	Develop businesses in emerging countries (Latin America, etc.)
<b>Business diversification</b>	Focus on hydro power generation and integrated water management	Develop complex construction business	Enter alternative water resource businesses
<b>Increased competitiveness</b>	<ul style="list-style-type: none"> <li>Promote project financing and utilize AWF fund</li> <li>Establish subsidiaries in Southeast Asia</li> </ul>	<ul style="list-style-type: none"> <li>Form strategic partnerships with global water companies and local companies</li> <li>Expand subsidiaries in emerging and advanced markets</li> </ul>	<ul style="list-style-type: none"> <li>Expand AWFs</li> <li>Establish global business management system</li> </ul>

#### Overview of overseas projects



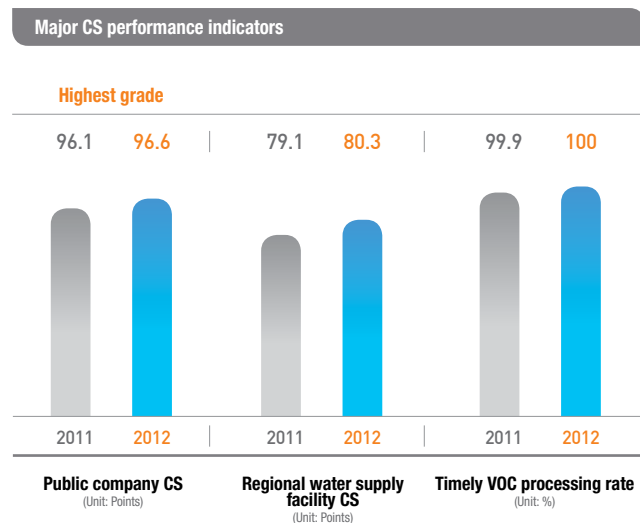
# Sustainability Review

K-water strives to tap into unlimited possibilities of water

Water is the origin of creation and life  
Water embraces everything, and touches everything  
K-water unlocks the precious value of water

- Customer management
- Green management
- Social contribution
- Ethical and transparent management
- Shared growth
- Management innovation
- R&D
- Global human resources





**Customer-oriented management strategy**

- Mission:** Water for the Happier World
- CS Vision:** We aim for customer happiness
- Service:** Water-Pro (professional and timely services)
- Strategic goal:** Realizing customer value through communication and trust
- Tasks:**
  - Public evaluation of state corporations
  - Local water supply services
  - Advancement in VOC operations
  - Expansion of company-wide CS capacity

## Systematic customer satisfaction strategy and service branding

**K-water will improve its customer service to the highest level among public corporations**

### Establishing a strategic customer-oriented management system

K-water has taken nine strategic actions and implemented 42 action tasks including customer-oriented process improvement in accordance with its three strategic goals for customer-oriented management, including advancing the customer satisfaction improvement system, upgrading VOC (voices of customers) operations, and enhancing services and product quality. Through such efforts, K-water aims to prevent customer grievances to foster customer loyalty, significantly improving its internal and external service processes. K-water has established a comprehensive quality control system based on service monitoring and data measurement by utilizing the Water-Pro brand, the company's service identity - in various promotional materials, introducing the service quality index (SQI) and setting up six core indicators, including inspection service satisfaction, VOC complaint rates and timely handling of customer complaints. These efforts were recognized by the highest grade in the public company customer satisfaction survey by the Ministry of Strategy and Finance for six consecutive years. The company received "Outstanding" in customer complaints processing, and "Superior" in information disclosure by the Ministry of Land, Infrastructure and Transport. The company also reported 100% timely VOC processing, and 99.9% performance indicator achievements, proving itself as a public company capable of delivering the highest level of customer satisfaction.

### Improving management and handling customer grievances through VOC operations

K-water systematically collects voices of customers from various stakeholders, and analyzes and shares them using the integrated VOC management system. In addition, K-

water's VOC-based management practices, which involve performance monitoring and feedback regarding customer satisfaction, Happy Call, timely processing of VOC, etc., enhance customer satisfaction and the company's management.

### Fostering public trust in tap water through world-class water quality control

K-water has made efforts to improve the water quality of dams, lakes and tap water, and foster public trust in water by expanding its tap water quality check services, actively addressing negative quality issues, setting up stricter water quality standards than required by law, disclosing more information on water quality, operating purification plants that meets the requirements of American Water Works Association (5-star), supplying potable tap water to apartments, increasing Water-Tour (dams and water supply facilities), and conducting a campaign to encourage tap water drinking.

### Utilizing the Ombudsman Committee

K-water strengthened customer interest protection through active operation of the Ombudsman Committee, an independent unit dedicated to handling customer grievances. The company strengthened the analysis of customer satisfaction for grievance handling, achieving a timely VOC processing rate of 100%. Moreover, the company raised its information disclosure rate to 88.4% (from 84.9%) by increasing the types of information subject to disclosure (from 151 to 215), and actively encouraging information disclosure. Efforts to release more ex-ante and ex-post information contributed to the protection of the people's right to be informed.



Ombudsman Committee (Jan. 4)



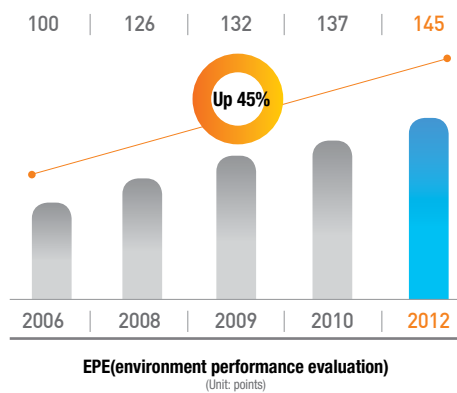
Education Contribution Fair (Mar. 16)



2012 6th K-water University Supporters certification ceremony (Nov. 26)



EPE(environment performance evaluation) system



Vision - Becoming a global, environmentally-friendly, low-carbon green company

	Establishment of global green management system	Enhancement of global, low-carbon competitiveness	Expansion of green management base
<b>Strategy</b>	<ul style="list-style-type: none"> <li>● GMS establishment and certification</li> <li>● EPE index of 140</li> <li>● Publication of sustainable management report and attainment of the highest rating</li> <li>● Support for establishment of environmental management system for SMEs</li> <li>● Designation as a green company</li> <li>● ISO 90001-14001 renewal deliberation</li> </ul>	<ul style="list-style-type: none"> <li>● Creation of low-carbon, green workplace</li> <li>- Management of greenhouse gas reduction performance</li> <li>- Carbon footprint labeling for tap water</li> <li>- Energy efficiency improvement at business sites</li> <li>- Increase in 5 star-rated purification plants</li> <li>● New and renewable energy development</li> <li>● Disclosure of greenhouse gas emission information</li> </ul>	<ul style="list-style-type: none"> <li>● Bolstering green management internalization programs</li> <li>● Strengthening internal deliberation for ISO adequacy verification</li> <li>● Purchase of low-carbon, green products</li> <li>● Development of eco-friendly water resources</li> <li>● Reduction and recycling of waste</li> </ul>
<b>Actions</b>			
<b>Measurement indicators</b>	2010 / 137	2011 / 141	2013 / 150
			2019 / 160

## Newly creating global green value

**K-water will strive to become a world-class eco-friendly water company widely respected by the people**

### Establishment of an eco-friendly management system

Since its declaration of environmental management, K-water has promoted eco-friendly management, adopting management practices that incorporate both economic and environmental concerns. K-water has established an environment performance evaluation (EPE) system to systematically manage the environmental impact of its management activities and the performance of its environmental management. Using a set of EPE indicators to ensure steady performance improvement, the company managed these as strategic action tasks (BSC). The EPE index reached 145 in 2012, a 45% improvement in environmental performance compared to the benchmark year (2006).

### Invigoration of eco-friendly open communication

In order to ensure information transparency, K-water has strengthened open, eco-friendly communication by implementing materiality tests that fully satisfy the Global Reporting Initiative (GRI) guideline, thereby identifying the interest of concerned parties.

### Cultivation of environmental management consultants and support for partners

K-water has been nurturing internally certified ISO judges since 2007. As of 2013, the company has a total of 111 professional accreditation judges, who are evaluated every year to improve the quality of the company's environmental management to meet global

standards. Furthermore, until 2012, K-water provided 12 partners (SMEs) that lack adequate human resources, information and infrastructure with environmental management training for the establishment of ISO14001, accreditation evaluation, and accreditation and follow-up management expenses.

### A national green management leader

In 2011, K-water obtained government certification for green management system by establishing internal regulations, introducing a green performance evaluation system, and nurturing professionals, building a foundation for global green management. In addition, K-water is promoting integrated water management to cope with heightening uncertainty in water supply amid climate change, making efforts to develop a system that integrates the operation of dams and multi-purpose barrages.

Furthermore, K-water is stepping up efforts to control the water quality of reservoirs, manage the surrounding areas, create eco-friendly spaces around dams, and strengthen its environmental responsibilities by securing the environmental soundness of new green deal projects, and leads low-carbon green growth initiatives of the government by developing floating photovoltaic systems and tidal power plants. K-water was commended by the government for making such eco-friendly efforts, receiving awards for excellence in environmental impact management, and green house gas missions and energy saving.



Winter Symposium of Korean Association for Crisis and Emergency Management (Feb. 16)



Anti-pollution MOU with Gwanghae Industrial Complex (Mar. 12)

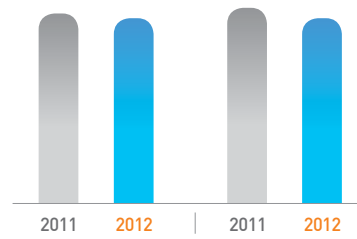


World Water Day event (Mar. 22)



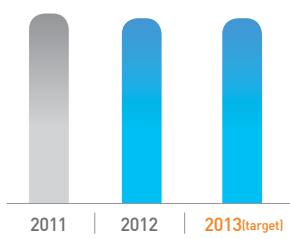
**Performance of K-water Shared Love Association**

102 clubs (4,185 staff) | 99% (13.2h) | 100 clubs (4,265 staff) | 98% (13.8h)



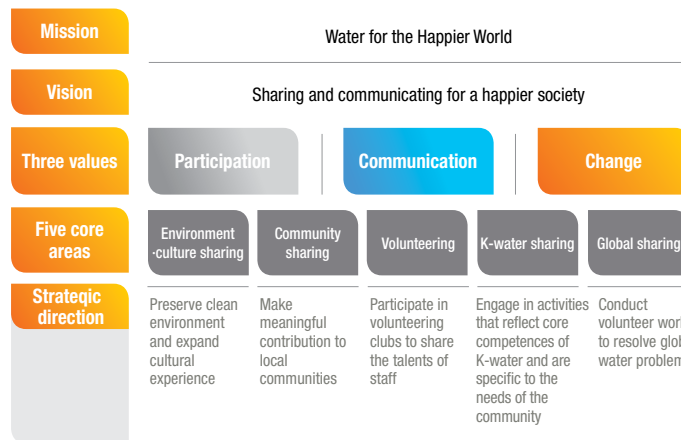
**Social contribution index of K-water**

86.0 | 88.0 | 89.4



\* Serviced population is based on the Ministry of Environment statistics as of 2011

**Social contribution system of K-water**



# Sharing and communicating for a happier society

## Sharing and caring makes a better world

### Cleaner water and greener earth

K-water has engaged in environmental enhancement projects, including improving rivers to help restore flood control functions, releasing young fishes to protect the aquatic ecosystem in dams, supplying environmental flows, and finding and eliminating abandoned groundwater wells to prevent groundwater contamination. In addition, the company has launched projects to create cultural and resting spaces by overhauling neighboring areas to be eco-friendly, and building water culture halls and clean water concerts. The company also supports water related cultural activities such as contests to raise public awareness about the importance of water resources.

### Sharing with the community

K-water has promoted balanced development and improved welfare in the dam areas. The company provides elderly care services and started medical care services in 2009, serving 5,700 people in 14 areas in the vicinity of dams in 2012. K-water also supports the cultivation of environment-friendly farmland in the upper region of dams and creates jobs to boost the local economy. The company also runs scholarship programs and supports multi-cultural families to improve the quality of education.

### Change through creative sharing

Utilizing water technologies accumulated in the course of its business, K-water has made efforts to ensure a stable supply of clean water by providing drinking water facilities for primary and middle schools which relied on groundwater, and aiding the operation of desalination facilities on islands with poor water supply facilities. In disaster-stricken areas hit by flood, drought or the foot-and-mouth-disease, the company provided bottled water and water tanks, and strengthened water quality inspection.

### Global village

In line with its growing global presence grew, K-water has engaged in various activities overseas to fulfill its corporate social responsibility as a global company since 2006. In 2012, K-water dispatched four teams of 52 staff to two villages in Narayani, Nepal and two villages in Khammouane, Laos, to build major water supply facilities and repair public utilities. K-water is joining global efforts to resolve water problems around the world.

### K-water Shared Love Association

K-water founded the K-water Shared Love Association in July 2004. As of 2012, 4,265 staff, or 98% of its employees, joined 100 volunteering clubs and provided 58,721 hours (13.8 hours per person) of voluntary services.



Release of young fish

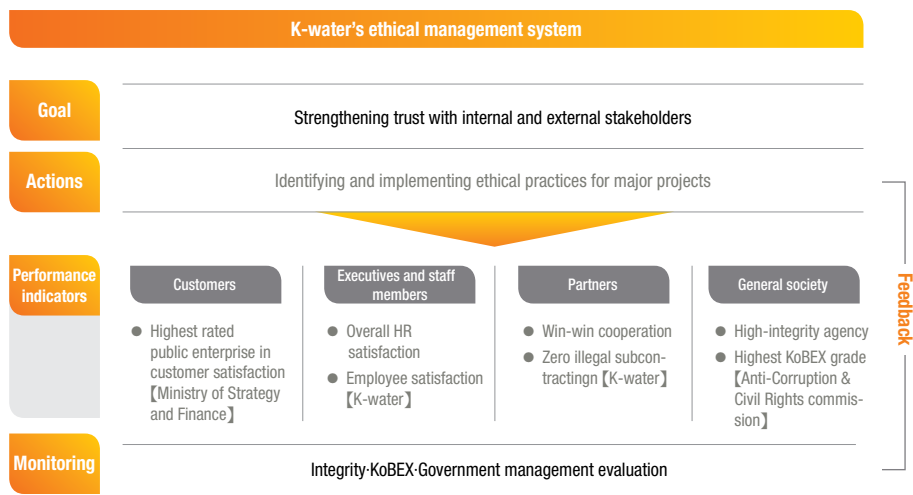


Operation of elderly care center



Coal briquette sharing





## Actively practicing ethical and transparent management

K-water aims for the highest ethical standards on both personal and corporate levels

### Clean water, clean company

K-water is actively practicing ethical management, with the conviction that ethical management is the most basic and powerful source of its competitiveness. K-water re-established its core values in 2009 to achieve its vision, and set ethical management as its mid- to long-term management strategy in 2011, and as one of its New Management approaches in 2012, taking one step closer to becoming a sustainable global company through ethical business practices. The efforts of K-water's executives and employees to strengthen the code of ethics and promote ethical management, such as the operation of the Ethics Committee, the highest-level decision-making body, led to certifications as an outstanding organization in the evaluation of anti-corruption policies by the Anti-Corruption and Civil Rights Commission for seven years in a row, and the highest rating (AAA) in the Korea Business Ethics Index (KoBex) of the Ministry of Knowledge Economy.

### Corporate ethics centered on stakeholders

K-water defines ethical management as management activities undertaken to gain trust of stakeholders. K-water is engaged in various activities by stakeholder, and collects feedback by monitoring performance indicators on a regular basis. For its customers, K-water revised its internal regulations to prevent infringement on customer rights and eliminate inconveniences, and

encourages customer participation in business projects to enhance corporate transparency. For its executives and staff members, K-water has engaged in practical ethics training, equitable HR management, and systematic accident prevention at work sites to reduce workplace accidents.

### Global-standard corporate social responsibility (CSR)

With regard to its partners, K-water maintains sustainable partnerships through the operation of win-win consultation groups to promote shared growth, as well as joint monitoring of contract procedures. In addition, K-water is expanding its world-class low-carbon green growth projects to promote public interest, and is doing its best to fulfill CSR by pursuing strategic activities that serve Korea and the international community.



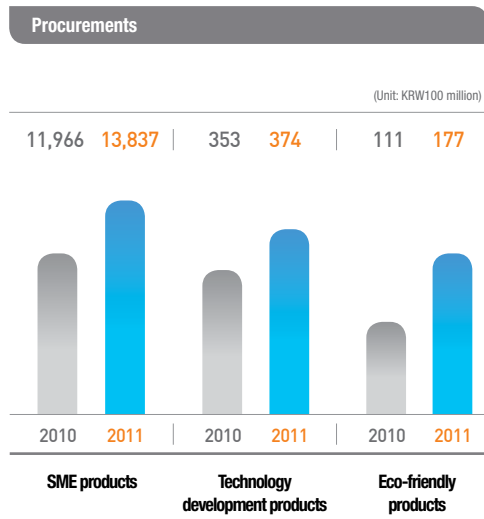
Special lecture on integrity by Mr. Park In-joo, senior secretary for social integration (Apr. 23)



One-to-one social enterprise affiliation (Nov. 27)



Highest KoBEX grade, AAA



**K-water's shared growth goals**

**Vision** Global top 5 company that goes hand in hand with SMEs

**Win-Win**

**Mission** Promote technology development and lead mutual growth in the water industry

**Strategy** Strengthen the viability of SMEs through shared growth centered on cooperative technology development

**Actions**

Strengthening shared growth infrastructure	Promoting technological partnerships	Broadening sales networks for SME products	Building a culture of communication and trust
<ul style="list-style-type: none"> <li>Operate a taskforce</li> <li>Commit to shared growth</li> <li>Build company-wide consensus</li> <li>Increase incentives for shared growth</li> <li>Expand information exchange hub</li> </ul>	<ul style="list-style-type: none"> <li>Step up R&amp;D support</li> <li>Develop technologies jointly with the private sector</li> <li>Provide HR support to SMEs including experts</li> <li>Provide consulting services for technology commercialization</li> </ul>	<ul style="list-style-type: none"> <li>Expand SEMS system</li> <li>Expand benefit sharing program</li> <li>Introduce a system to select items designated for development</li> <li>Procure technology development product</li> </ul>	<ul style="list-style-type: none"> <li>Increase technology exchange via Waterpedia</li> <li>Enhance communication</li> <li>Strengthen viability of SMEs</li> </ul>

## Growing together with SMEs

Shared growth is an essential part of competitiveness in the 21st century

### Building infrastructure and a culture of communication for shared growth

K-water actively pursues shared growth with small- to medium-sized enterprises (SME) in order to secure sustainable global competitiveness and set a good example as a socially responsible public corporation. In 2012, K-water acted on its commitment to shared growth by selecting four strategic tasks aimed at strengthening shared growth infrastructure, building a culture of communication and trust, promoting technological partnerships, and procuring goods from SMEs.

K-water centralized its shared growth tasks into two teams, the joint growth team and the tap water technology team, and built company-wide consensus on the importance of shared growth by introducing awareness training, setting relevant performance indicator as one of its CEO management goals, and reflecting relevant actions in employee evaluation. In addition, the company has strengthened communication with SMEs through workshops, the consultative group, the advisory committee, and regular procurement meetings with SMEs. Furthermore, the company's interactive communication website WaterPedia is making significant contribution to innovation of the water industry and shared growth.

### Increasing public procurement and strengthening technology partnerships

K-water constantly searches for high-quality products and new technologies developed by SMEs. The company is the first public corporation to introduce separate purchase programs for construction materials related to turnkey projects. Moreover, it established systems to protect socially vulnerable groups, holding limited competitive bid for women and social enterprises, and signing private contracts with severely disabled people. These efforts, aimed at broadening the sales networks of SMEs, earned the company presidential awards in the SME support segment for four years since 2009. Furthermore, the company is strengthening partnerships with SMEs with sophisticated technologies, aiding them to boost sales and stabilize their businesses. By providing support for innovative technologies and new product development with the option to purchase, and expanding its benefit sharing program intended to save costs and improve product quality, the company is driving technological innovation in the water industry. In addition, the company operates a prime contractor management system, reviews the appropriateness of subcontract terms, and confirms payments made to subcontractors to prevent disadvantageous subcontract arrangements.

K-water will continue to engage in various businesses to help strengthen SME's business viability and competitiveness, playing a key part in promoting shared growth with SMEs.



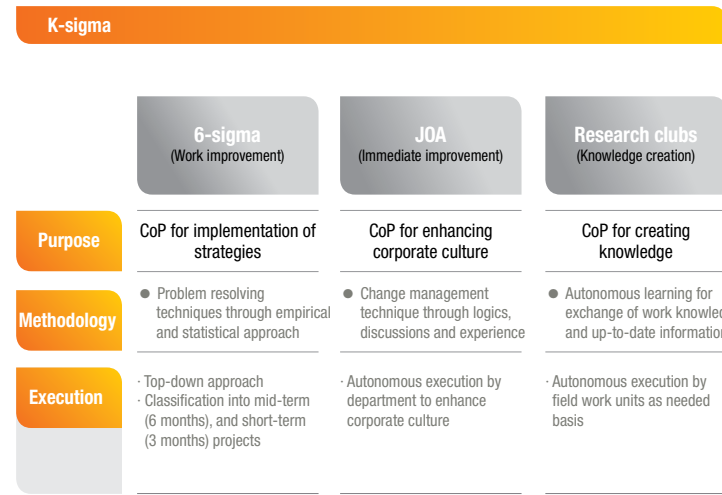
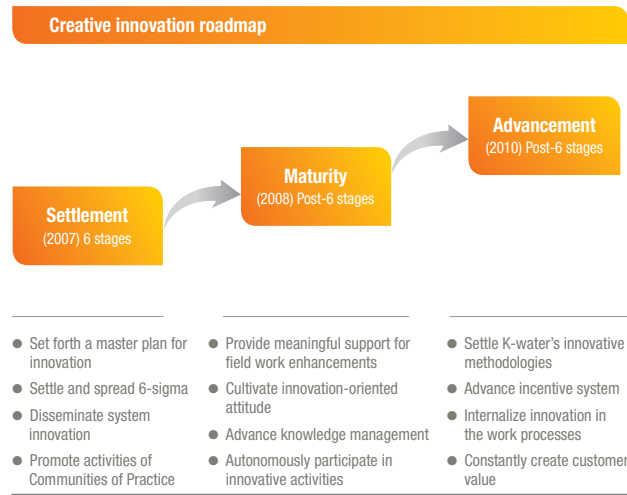
Shared growth workshop with SME partners (Feb. 28)



Presidential award for procurement of SME products (Sep. 12)



Advisory Committee meeting on support for SMEs (Oct. 25)



## Improving work processes to boost creativity and work performance

K-water strives to become the world's best total service company through constant innovation

### K-water's unique innovative system

K-water has adopted various innovative business techniques since 2006 to prepare for the globalizing corporate environment and strengthen its competitiveness. Key innovative techniques include JOA+ (Join Open Advance), a workout technique of GE that was adapted to suit K-water, study groups to share task-related knowledge, and the Six-Sigma technique which allows problem identification from the customer's point of view and encourages scientific and statistical problem-solving. These innovative techniques introduced by a voluntary team of K-water employees, the Communities of Practice, have helped reduce costs and improve customer satisfaction thanks to seamless application to our operations, creating K-water's unique innovative system, called K-sigma.

### Strengthening core competencies through knowledge management

Once the Communities of Practice creates knowledge assets including high-quality knowledge, patents and proposals to execute mid- to long-term strategic tasks and improve business procedures, the newly created knowledge is then classified into 22 knowledge maps, categorized based on major areas of work. Up until now, around 70,000 knowledge cases have been stored, which are shared via the Knowledge Management System (KMS). Utilizing this system, K-water supports

communication, data sharing, and study groups among employees, and built an open knowledge network participated by municipalities, partners and external experts, to promote creativity and innovation. In addition to the KMS, K-water newly introduced Knowledge-In-services to encourage dissemination and recreation of knowledge, and established the Wiki business manual management system to make full use of 110 core business manuals.

### Highest grade in government innovation evaluation

K-water received the highest rating in government innovation evaluation, and earned grand prize for knowledge management. Moreover, K-water is the first company to win the Asian MAKE (Most Admired Knowledge Enterprises) Award of TELEOS for five consecutive years starting in 2008.

The company's innovative activities were benchmarked by several public and private companies (e.g., National Policy Agency, Korean Intellectual Property Office, Korea Expressway Corporation) and 15 member countries of the Asian Productivity Organization, and presented as best practices at KM ASIA.



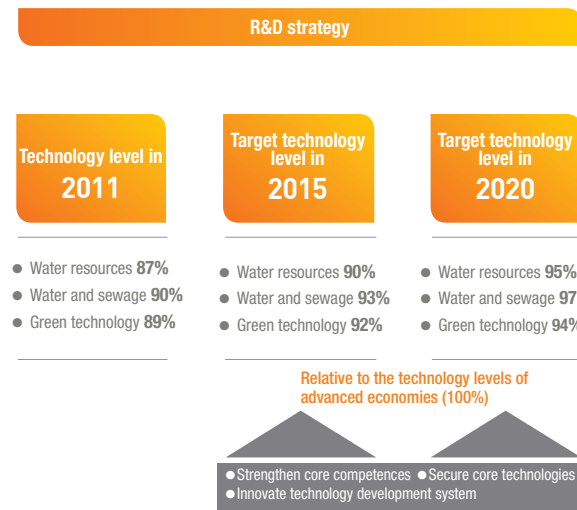
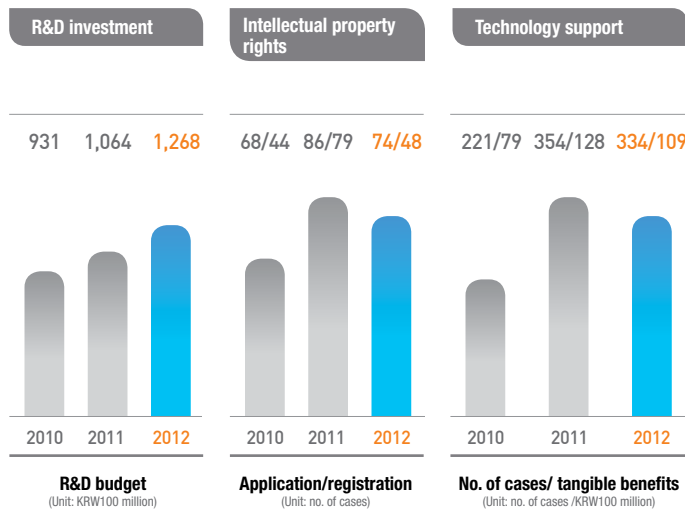
1-year anniversary of G2G WAVE (Aug. 1)



Asian Most Admired Knowledge Enterprises (Oct. 23)



2012 Creat innovation Festival (Nov. 13)



## Getting ahead of competition in the global water market with core technologies

K-water is making efforts to maximize the value of technology through commercialization of R&D results

### Strengthening core competencies

With the emergence of a new technology paradigm due to rapid growth of the global water industry and climate change, K-water is growing its internal and external capacity by selecting K-water Star Brand technologies. The company aims to secure at least 12 brand technologies by 2017. After building an innovative system for its technology development processes in November 2010, K-water established five innovative measures to set and attain its technology goals. The company is making efforts to obtain at least 12 brand technologies to overtake the technology of advanced economies by 2017. The company's R&D efforts include the operation of a K-water research group and K-water further plans to implement more government-mandated jobs, and seek open R&D to secure integrated technologies.

systems, and real-time analysis devices equipped with electronic nose sensors (analysis-integrated). K-water has built research infrastructure, including Korea's largest-caliber (800mm) flowmeter calibration center, an internationally certified water gauge calibration system, a water quality analysis center, which obtained the highest grade in international water quality analysis and tests, and the world's largest geotechnical centrifuge. K-water has also formed technology partnerships with 55 domestic and foreign water-related institutions, municipalities, research centers and colleges, including the World Water Council (WWC), to build a global R&D network.

### Building R&D infrastructure

K-water is investing KRW126.8 billion (equivalent to 5.5% of its revenues) in nurturing future growth drivers, coping with climate change and developing new and renewable energies, and employs 231 research staff to run the K-water Institute. Moreover, in order to catch up with the global megatrend of convergence/integration research, K-water has developed floating photovoltaic systems (ICT-integrated), smart meters, sensor network-based, intelligent water distribution



Waterside Underground Water Research Group (Feb. 29)



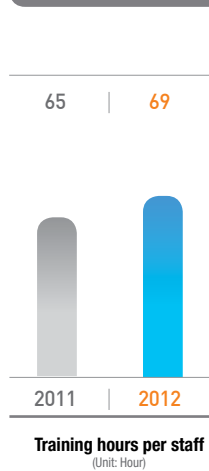
K-water R&D presentation (Aug. 6)



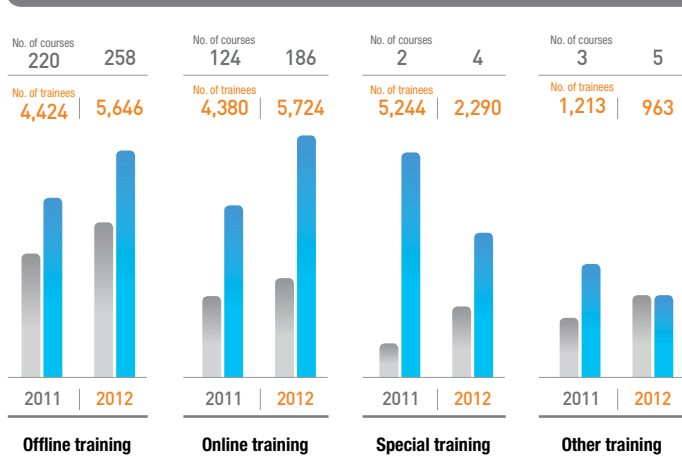
2012 World River Forum (Sep. 19)



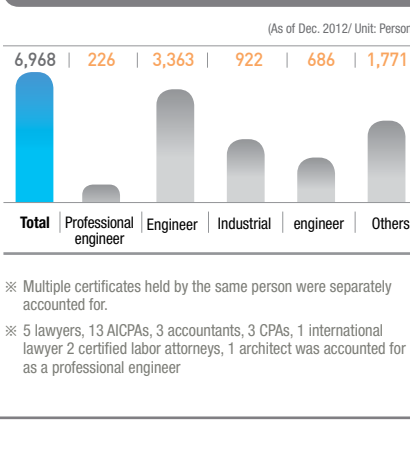
Training hours per staff



In-house training (Unit: Staff)



Certificates held by staff



# Securing global competitiveness of human resources

## K-water nurtures experts to lead the global water market

### Systematic HR development

The first step to human resources management is identifying talented individuals and systematically and continuously cultivating them. K-water has selected individuals with high potential, and operated various educational programs to help each employee choose their career path and improve their expertise.

### Open employment policy

To identify talented individuals, K-water selects employees based only on its 'open employment' principle, without any limitations on age and academic abilities. The company uses KACT (K-water Aptitude & Competency Test) designed to assess individual capacity to find the right person for the company, and takes the initiative in hiring and utilizing female workforces under its 'female employee quota system.'

### Advanced HR system

To systematically foster human resources, K-water has invested in strengthening the capacity of its employees by providing training courses in stages based on the CRP system which has attained the Business Model (BM) patent. These courses include a crash course for strengthening individual capacities, expert courses and domestic and foreign commissioned education. K-water received a presidential award for its efforts to develop human resources with the ERP-based

HR-Bank and CRP system in 2010, the first for a public company. In 2011, the company was designated as the national water education agency in charge of nurturing water experts to better cope with climate change. In 2012, the company opened a water resources graduate school in partnership with the government and the Sungkyunkwan University. As of current, about 28% (1,242 staff) of K-water employees are professionals with either a master's degree, doctoral degree or professional technical qualification. The company will continuously strengthen its foundation for growth through programs to systematically cultivate its human resources.



Selected as an Open Employment Leader (Jan. 9)



2012 new employee orientation (Mar. 5)



Global internship completion ceremony (Jul. 25)

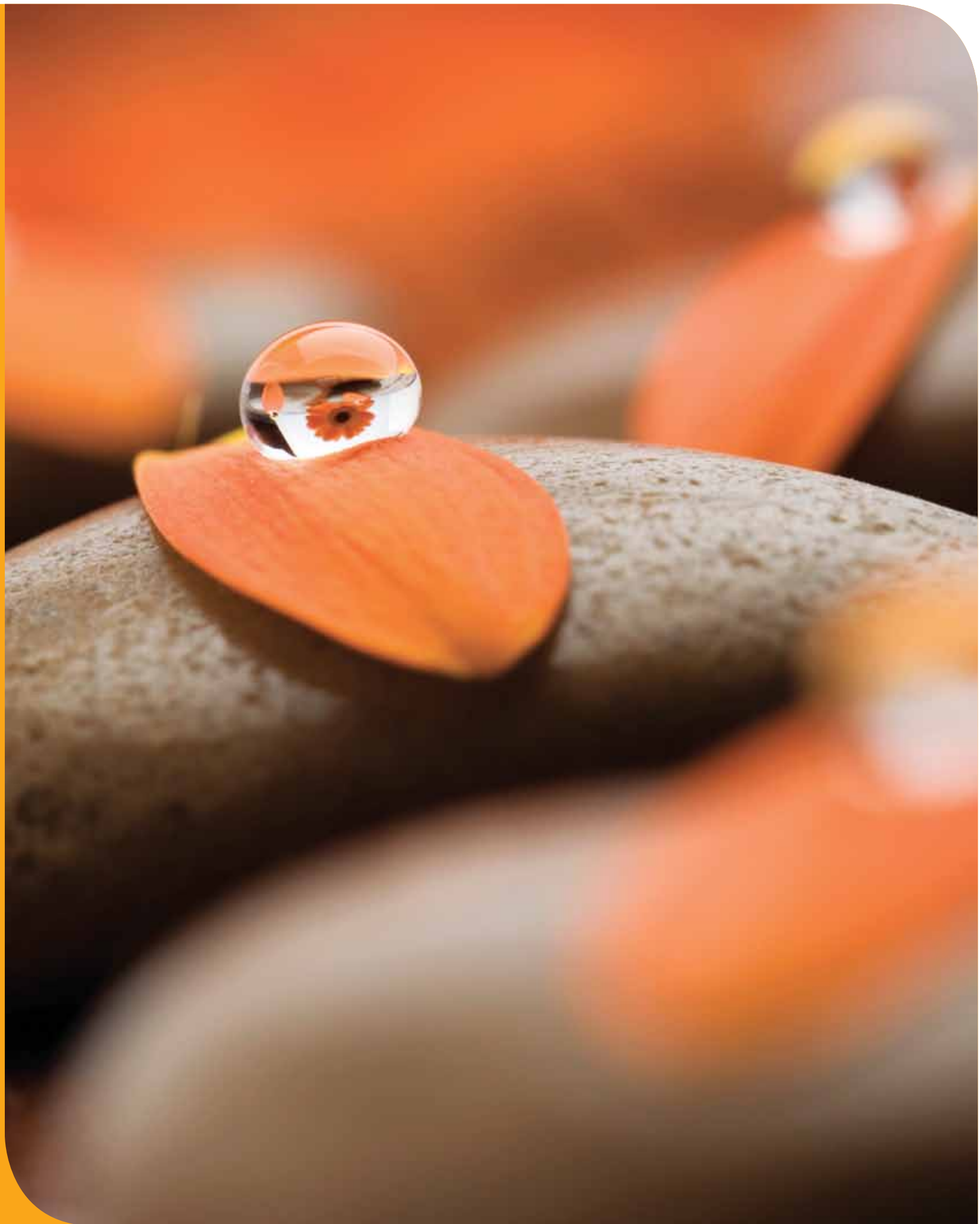
# Financial Statements

Calm waters reflect calm minds

Flowing waters reflect Flowing minds

K-water will improve its performance through transparent management

- Consolidated statements of financial position
- Consolidated statements of comprehensive income
- Consolidated Statements of changes in equity
- Consolidated Statements of cash flows



## Consolidated statement of financial position

As of December 31, 2012 and 2011

(Unit: korean won in thousands)

Subject	December 31, 2012 Audited	December 31, 2011 Audited
<b>Assets</b>		
<b>Current assets</b>	<b>5,213,014,057</b>	<b>4,352,289,094</b>
Cash and cash equivalents	622,203,045	215,555,165
Derivative assets	-	15,740,005
Trade and other receivables, net	454,954,525	468,959,225
Inventories	4,031,029,243	3,503,777,565
Current tax assets	2,529	-
Other non-financial assets	104,824,715	148,257,134
<b>Non-current assets</b>	<b>19,803,368,770</b>	<b>19,073,626,535</b>
Non-current available-for-sale financial assets	7,740,325	5,023,065
Long-term loans and receivables	32,922,223	23,250,328
Non-current derivative assets	49,838,588	119,260,634
Long-term Financial Instruments	4,329,922	-
Long-term trade and other receivables, net	503,354,439	451,878,666
Property, plant and equipment	1,410,965,992	1,416,635,028
Intangible assets other than goodwill	17,780,370,355	17,043,716,054
Investments in associates	8,333,163	8,036,403
Deferred tax assets	-	1,210,775
Other non-financial assets	5,513,763	4,615,582
<b>Total assets</b>	<b>25,016,382,827</b>	<b>23,425,915,629</b>
<b>Liabilities</b>		
<b>Current liabilities</b>	<b>2,722,665,861</b>	<b>1,351,279,630</b>
Trade and other payables	380,680,931	304,567,955
Current portion of long-term borrowings	45,040,365	46,595,540
Current portion of debentures, net	1,178,069,500	362,941,001

(Unit: korean won in thousands)

Derivative liabilities	35,736,337	23,672,639
Current tax liabilities	37,292,750	42,079,368
Other non-financial liabilities	1,045,845,978	571,423,127
<b>Non-current liabilities</b>	<b>11,055,254,959</b>	<b>11,229,656,589</b>
Trade and other payables	11,413	-
Long-term borrowings	326,228,925	300,172,561
Debentures, net	10,313,864,992	10,586,073,351
Derivative liabilities	110,695,543	66,898,928
Other non-financial liabilities	13,371,001	-
Employee benefits	246,087,207	275,063,173
Deferred tax liabilities	36,041,165	-
Provisions	8,954,713	1,448,576
<b>Total liabilities</b>	<b>13,777,920,820</b>	<b>12,580,936,219</b>
<b>Equity</b>		
<b>Equity attributable to owners of the Company</b>	<b>11,227,081,639</b>	<b>10,835,092,032</b>
Issued capital	6,815,102,002	6,694,440,906
Retained earnings	2,989,659,990	2,727,507,489
Other equity components	1,422,319,647	1,413,143,637
<b>Non-controlling interests</b>	<b>11,380,368</b>	<b>9,887,378</b>
<b>Total equity</b>	<b>11,238,462,007</b>	<b>10,844,979,410</b>
<b>Total equity and liabilities</b>	<b>25,016,382,827</b>	<b>23,425,915,629</b>

## Consolidated statements of comprehensive income

For the years ended December 31, 2012 and 2011

(Unit: Korean won in thousands)

Subject	December 31, 2012 Audited	December 31, 2011 Audited
Revenue	3,668,445,409	6,325,785,989
Cost of sales	3,117,069,718	5,843,977,245
<b>Gross profit</b>	<b>551,375,691</b>	<b>481,808,744</b>
Selling, general and administrative expenses	117,048,087	114,956,004
<b>Results from operating income</b>	<b>434,327,604</b>	<b>366,852,740</b>
Other income	296,308,412	241,868,440
Other expenses	▲ 3,856,046	▲ 8,881,378
Other gain(loss), net	▲ 5,296,027	▲ 2,557,316
Financial income	195,181,857	87,393,184
Financial costs	▲ 515,371,168	▲ 317,627,966
Share of profit of equity accounted investees	394,864	220,816
Loss on disposal of investments in associates	-	▲ 1,507
<b>Profit before income tax</b>	<b>401,689,496</b>	<b>367,267,013</b>
Income tax expense	93,394,144	73,999,842
<b>Profit for the year</b>	<b>308,295,352</b>	<b>293,267,171</b>
Effective portion of changes in fair value of cash flow hedges	16,170,580	▲ 7,885,418
Net change in fair value of available-for-sale financial assets	7,837	-
Cumulative of foreign currency translation	▲ 8,644,545	▲ 705,411
Unrealized gain(loss) on valuation of equity method investments	▲ 74,355	74,449
Defined benefit plan actuarial gains	5,926,274	1,265,438
<b>Other comprehensive income, net of income tax</b>	<b>13,385,791</b>	<b>▲ 7,250,942</b>
<b>Total comprehensive income for the year</b>	<b>321,681,143</b>	<b>286,016,229</b>
<b>Profit attributable to</b>		
Owners of the Company	308,247,269	293,333,492
Non-controlling interests	48,083	▲ 66,321
<b>Profit for the year</b>	<b>308,295,352</b>	<b>293,267,171</b>
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	323,349,504	286,595,610
Non-controlling interests	▲ 1,668,361	▲ 579,381
<b>Total comprehensive income for the year</b>	<b>321,681,143</b>	<b>286,016,229</b>

## Consolidated statements of changes in equity

For the years ended December 31, 2012 and 2011

(Unit: Korean won in thousands)

Subject	Equity attributable to owners of the Company				Non-controlling interests	Total equity
	Issued capital	Retained earnings	Other equity components	Total		
<b>Balance at January 1, 2011</b>	<b>6,672,249,777</b>	<b>2,453,776,630</b>	<b>1,422,774,936</b>	<b>10,548,801,343</b>	<b>8,838,779</b>	<b>10,557,640,122</b>
Profit for the year	-	293,333,492	-	293,333,492	▲ 66,321	293,267,171
Defined benefit plan actuarial gains	-	1,265,438	-	1,265,438	-	1,265,438
Effective portion of changes in fair value of cash flow hedges	-	-	▲ 7,885,418	▲ 7,885,418	-	▲ 7,885,418
Unrealized loss on valuation of equity method investments	-	-	74,449	74,449	-	74,449
Cumulative effect of foreign currency translation	-	-	▲ 192,351	▲ 192,351	▲ 513,060	▲ 705,411
<b>Total comprehensive income (loss) for the year</b>	<b>-</b>	<b>294,598,930</b>	<b>▲ 8,003,320</b>	<b>286,595,610</b>	<b>▲ 579,381</b>	<b>286,016,229</b>
<b>Transactions with owners of the Company, recognized directly in equity</b>						
Increase of paid-in capital	22,149,940	-	-	22,149,940	-	22,149,940
Dividends	-	▲ 20,605,722	-	▲ 20,605,722	-	▲ 20,605,722
Amortization of capital disocunt	41,189	▲ 262,349	-	▲ 221,160	-	▲ 221,160
Others	-	-	▲ 1,627,979	▲ 1,627,979	1,627,979	-
<b>Total transactions with owners of the Company</b>	<b>22,191,129</b>	<b>▲ 20,868,071</b>	<b>▲ 1,627,979</b>	<b>▲ 304,921</b>	<b>1,627,979</b>	<b>1,323,058</b>
<b>Balance at December 31, 2011</b>	<b>6,694,440,906</b>	<b>2,727,507,489</b>	<b>1,413,143,637</b>	<b>10,835,092,032</b>	<b>9,887,378</b>	<b>10,844,979,410</b>
<b>Balance at January 1, 2012</b>	<b>6,694,440,906</b>	<b>2,727,507,489</b>	<b>1,413,143,637</b>	<b>10,835,092,032</b>	<b>9,887,378</b>	<b>10,844,979,410</b>
Profit for the year	-	308,247,269	-	308,247,269	48,083	308,295,352
Defined benefit plan actuarial gains	-	5,926,274	-	5,926,274	-	5,926,274
Effective portion of changes in fair value of cash flow hedges	-	-	16,170,580	16,170,580	-	16,170,580
Unrealized loss on valuation of equity method investments	-	-	▲ 74,355	▲ 74,355	-	▲ 74,355
Cumulative Effect of Foreign Currency Translation	-	-	▲ 6,928,101	▲ 6,928,101	▲ 1,716,444	▲ 8,644,545
Net change in fair value of available-for-sale financial assets	-	-	7,837	7,837	-	7,837
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>314,173,543</b>	<b>9,175,961</b>	<b>323,349,504</b>	<b>▲ 1,668,361</b>	<b>321,681,143</b>
<b>Transactions with owners of the Company, recognized directly in equity</b>						
Increase of paid-in capital	120,349,458	-	-	120,349,458	-	120,349,458
Dividends	-	▲ 51,709,404	-	▲ 51,709,404	-	▲ 51,709,404
Changes in ownership interests in subsidiaries	-	-	49	49	3,161,351	3,161,400
Others	311,638	▲ 311,638	-	-	-	-
<b>Total transactions with owners of the Company</b>	<b>120,661,096</b>	<b>▲ 52,021,042</b>	<b>49</b>	<b>68,640,103</b>	<b>3,161,351</b>	<b>71,801,454</b>
<b>Balance at December 31, 2012</b>	<b>6,815,102,002</b>	<b>2,989,659,990</b>	<b>1,422,319,647</b>	<b>11,227,081,639</b>	<b>11,380,368</b>	<b>11,238,462,007</b>



## Consolidated statements of cash flows

For the years ended December 31, 2012 and 2011

(Unit: Korean won in thousands)

Subject	December 31, 2012 Audited	December 31, 2011 Audited
<b>Cash flows from operating activities</b>		
Profit for the year	308,295,352	293,267,171
Adjustments for:	-	-
Depreciation	75,676,479	59,523,238
Amortization	538,419,761	492,925,370
Expenses for employee benefits	37,330,285	38,088,919
Interest expenses	342,070,586	251,810,412
Interest income	▲ 20,465,874	▲ 21,574,355
Share of profit of equity accounted investees, net	▲ 394,864	▲ 220,816
Income tax expense	93,394,144	73,999,842
Loss (gain) of disposal of property, plant and equipment, net	3,065,210	▲ 1,027,191
Impairment loss of property, plant and equipment	8,249	2,994,245
Loss (gain) of disposal of intangible assets	-	313,284
Impairment loss of intangible assets other than goodwill	1,788,957	-
Loss (gain) of disposal of Investments in Associates	-	1,507
Loss (gain) on valuation of derivatives, net	171,250,581	▲ 50,697,732
Loss (gain) on transactions of derivatives, net	2,050,001	11,131,999
Loss (gain) on foreign currency translation, net	▲ 171,250,581	50,697,732
Loss (gain) on foreign currency transactions, net	▲ 2,050,001	▲ 11,131,999
Bad and doubtful debts	449,027	6,372,665
Reversal of bad debts	-	▲ 447,075
Others, net	6,009,317	▲ 737,257
Changes in:	-	-
Trade accounts receivables	68,012,831	▲ 13,904,765
Inventories	▲ 408,839,579	▲ 709,957,281
Other operating assets	66,815,123	▲ 126,844,449
Long-term trade accounts receivables	▲ 78,890,311	-
Trade accounts payable	2,796,308	2,746,646
Other operating liabilities	536,887,662	213,109,717
Payment of employee benefits	▲ 58,487,947	▲ 11,502,398
<b>Cash generated from operation activities</b>	<b>1,513,940,716</b>	<b>548,937,429</b>
Interest received	16,501,530	10,417,328
Interest paid	▲ 495,533,738	▲ 244,871,960
Income taxes paid	▲ 68,014,255	▲ 40,411,671
<b>Net cash provided by operating activities</b>	<b>966,894,253</b>	<b>274,071,126</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	▲ 66,109,234	▲ 258,548,325
Proceeds from sale of property, plant and equipment	904,909	1,786,362

Subject	December 31, 2012 Audited	December 31, 2011 Audited
Government grant received	7,583,500	7,384,000
Increase in long-term financial instruments	▲ 4,329,922	-
Acquisition of intangible assets	▲ 1,293,356,850	▲ 4,230,090,658
Proceeds from sale of intangible assets	335,129	15,096
Acquisition of available-for-sale financial assets	▲ 2,717,260	▲ 1,648,065
Proceeds from sale of available-for-sale financial assets	-	661,991
Increase in long-term loans	▲ 3,068,255	-
Decrease in long-term loans	2,458,134	207,961
Increase in deposit	▲ 67,294,303	▲ 148,000
Decrease in deposit	51,460,135	-
Contributions for construction received	13,371,001	-
Acquisition of investments in equity-accounted investees	-	▲ 1,666,509
<b>Net cash used in investing activities</b>	<b>▲ 1,360,763,016</b>	<b>▲ 4,482,046,147</b>
<b>Cash flows from financing activities</b>		
Repayment of current portion of long-term borrowings	▲ 360,891,000	-
Settlement of derivatives	▲ 10,945,000	59,909,374
Proceeds from borrowings	71,096,729	10,083,876
Repayment of borrowings	▲ 46,595,540	-
Proceeds from debentures	1,076,050,000	4,583,475,348
Repayment of debentures	-	▲ 396,189,319
Equity investments from government	120,349,458	9,815,840
Increase in non-controlling interests	3,161,401	-
Dividends paid	▲ 51,709,405	▲ 20,588,398
<b>Net cash provided by financing activities</b>	<b>800,516,643</b>	<b>4,246,506,721</b>
<b>Net increase in cash and cash equivalents</b>	<b>406,647,880</b>	<b>38,531,700</b>
Cash and cash equivalents at January 1	215,555,165	177,023,465
<b>Cash and cash equivalents at December 31</b>	<b>622,203,045</b>	<b>215,555,165</b>

We have audited the accompanying consolidated statements of financial position of Korea Water Resources Corporation and its subsidiaries (the "Group") as of December 31, 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated statement of financial position of the Group as of December 31, 2011, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, were audited by other auditor, whose report thereon dated February 29, 2012, expressed an unqualified opinion. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and its financial performance and its cash flows for the year then ended, in accordance with Korean International Financial Reporting Standards.

KPMG Samjong Accounting Corp.

This report is effective as of February 27, 2013, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

## Board of directors

The Board of Directors (BOD) of K-water is the company's highest-level decision-making body in charge of deliberating/resolving matters material to the company's management including its management goals in consideration of the public interest, economy, society and environment, exerting checks and balances against the management. The BOD is comprised of 15 members, including seven standing directors and eight non-standing directors. One of the non-standing directors serves as a chairman, contributing to improvements in corporate governance.

### PRESIDENT



**Kim Kuen-ho**  
President

### STANDING DIRECTORS



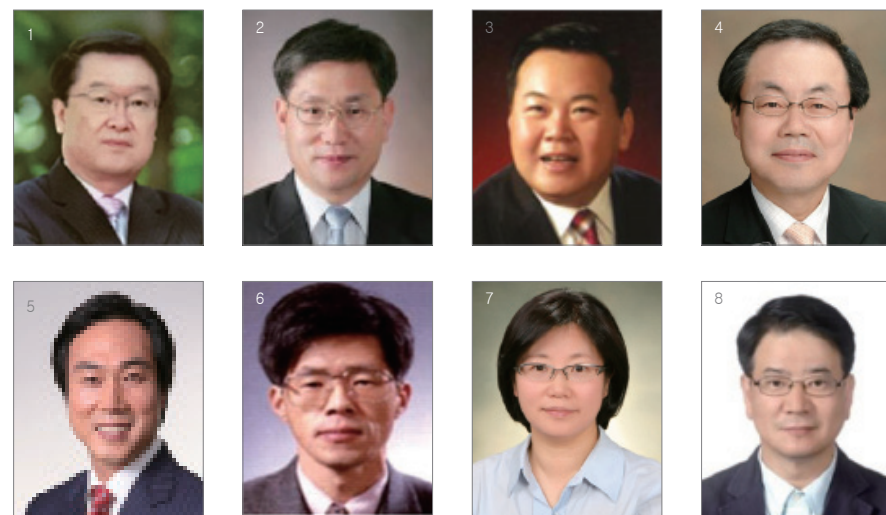
- 1 **Kim Wan-kyu**  
Senior Executive Vice President
- 2 **Jeon Chan-goo**  
Vice President of the Administrative Service Division
- 3 **Kim Jong-hae**  
Vice President of Water Resources Business Division
- 4 **Han Geung-jeon**  
Vice President of Water Supply Business Division
- 5 **Moon Il-bum**  
Vice President of Land & Energy Division

### AUDITOR GENERAL



**Gang Dae-ga**  
Auditor General

### NON-STANDING DIRECTORS



- 1 **Song Jae-woo** chairman, chair-professor of Civil and Environmental Engineering at Incheon University
- 2 **Ryu Byong-ro** director, professor of environmental engineering, Hanbat National University
- 3 **Park Tae-woo** director, research professor of Institute of Sustainable Development, Korea University
- 4 **Kim Young-kwan** director, President of Asia Exchange Association
- 5 **Park Myeong-hwan** director, representative attorney of Vision International Law Firm
- 6 **Park Chan-jeong** director, professor of accounting at Cheongju University
- 7 **Yoon I-suk** director, associate professor of international affairs at Kwangwoon University
- 8 **Roh Ju-seok** director, planning committee member of Seoul Daily

## Organization and personnel

### Organization

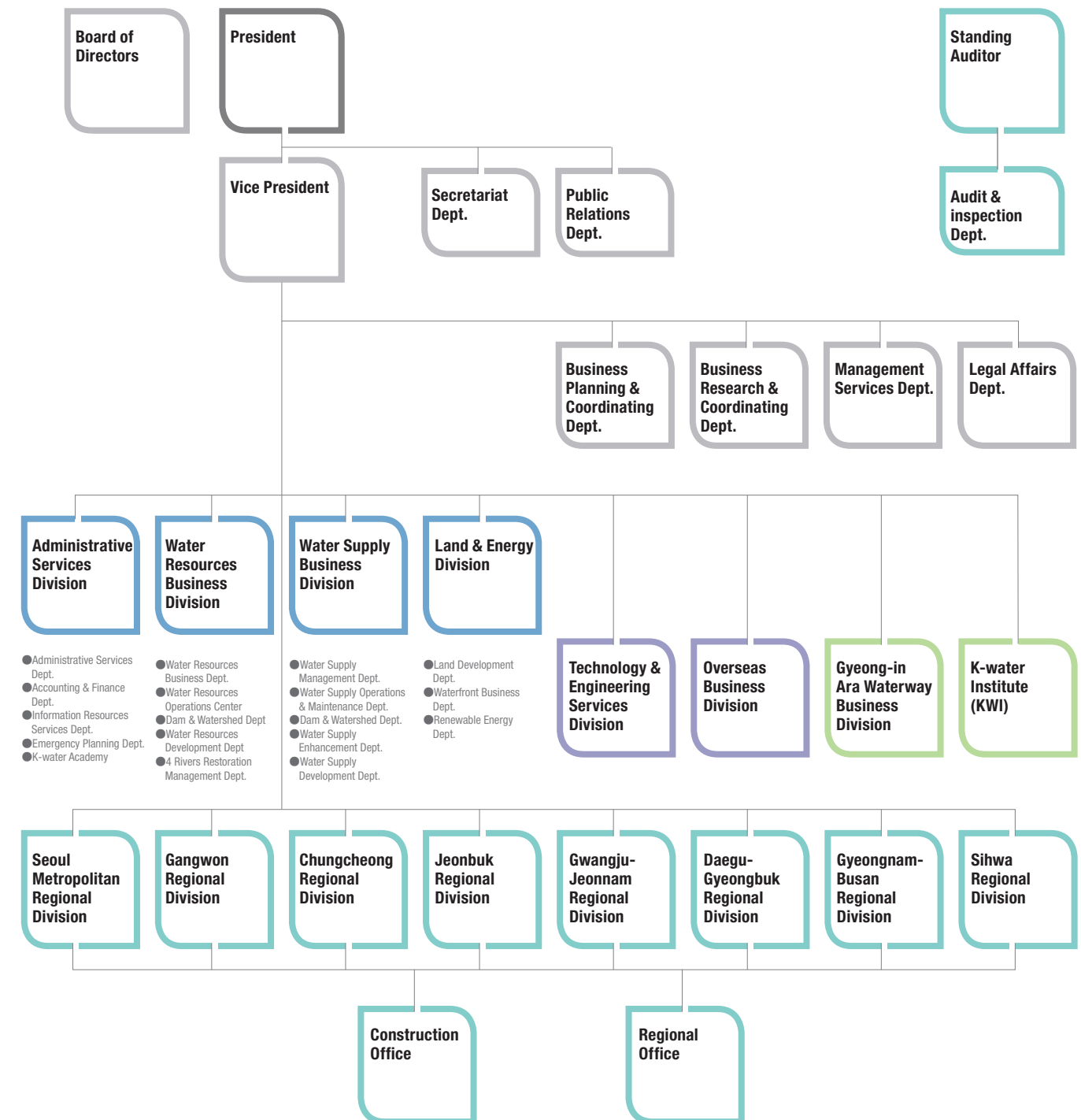
**Head Office:** 1 Vice President, 4 divisions, 25 departments (offices, divisions)

**Regional offices:** 1 Business, 8 Regional Divisions, 26 offices (centers)

### Personnel

(as of Jan. 2013, persons)

Total	Executives	General staff	Special staff
4,272	7	3,905	360





# Green to Great

Waterway connects people with people, touching people's lives every step of the way.

K-water shares happiness with the world through water.

Caring for the nature and humans, K-water creates a future filled with abundance.

Drawing a happy future along the waterway, K-water leads the way to the world.