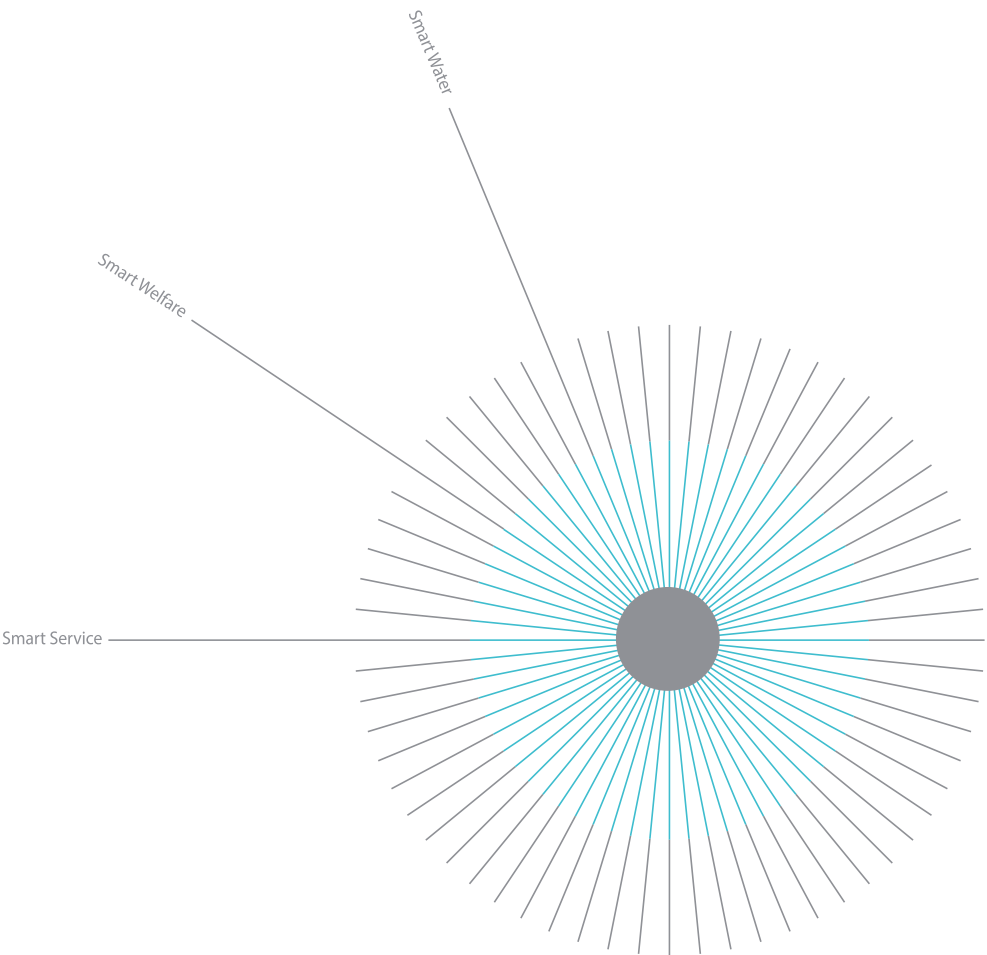


# 2013 Annual Report

Korea Water Resources Corporation

[www.kwater.or.kr](http://www.kwater.or.kr)



# SMART K-water

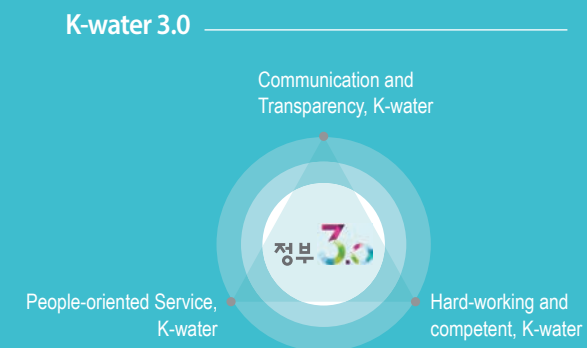
# START 2014

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“Healthy Water  
Smart Water management  
Water for the happier world”

K-water continues to strive to create a happier world where water, nature, and people co-exist in harmony and to become the world's best total water management service provider.



## CEO Message

Dear Customers of K-water,

Thanks to your interest and support, K-water was able to achieve meaningful business results in 2013 despite a number of challenges in and outside of the corporation.

We minimized damages caused by floods and droughts, achieved a water sales of over 10 million tons per day, and witnessed the overseas business and renewable energy business becoming new growth engines of K-water.

Furthermore, K-water became the first Korean public corporation to receive the Global MAKE Award, in recognition of our knowledge management as one of the best in the world. However, we continue to face tough challenges this year, including delays our major business, controversy over the outcome of national projects, and strong government measures to normalize public institutions.

Against this backdrop, K-water aims to overcome the hardships in and outside of the organization and make a fresh new start based on "SMART New Management" and "Smart K-water, Start 2014" which we have declared as our slogan to march towards a brighter future.

*First, we will develop a future-oriented water management system by transforming the current structure of our water management service.*

By creating a Smart Water Grid utilizing ICT throughout the whole process "from raw water to the tap", we will scientifically manage the quantity and quality of water across the entire water supply system and establish an advanced future-oriented water management system that provides results our customers can directly observe and enjoy in their homes.

*In addition, we will provide a stable water system that ensures water-related welfare for the people.*

We will also provide clean and reliable water in marginalized regions, such as islands and rural communities which lack water both quality and quantity wise and improve regional equality in water services, and realize a secure and stable water system that is shared by all.

*Finally, we will fulfill our roles as a transparent public corporation that practices customer-oriented management.*

We will provide services tailored to customers, create shared values, and actively communicate with our stakeholders and the people to solidify our position as a public corporation that is trusted and respected by all.

We assure you that all of us at K-water will work together with an open mind to accomplish our goals and enhance our ability to execute "Smart New Management," a hopeful blueprint for the next 100 years of our history.

I wish you and your family long-lasting happiness and good health.

Thank you.

K-water will endeavor to become  
a global leader in water management  
services for the next 100 years.



CEO of K-water

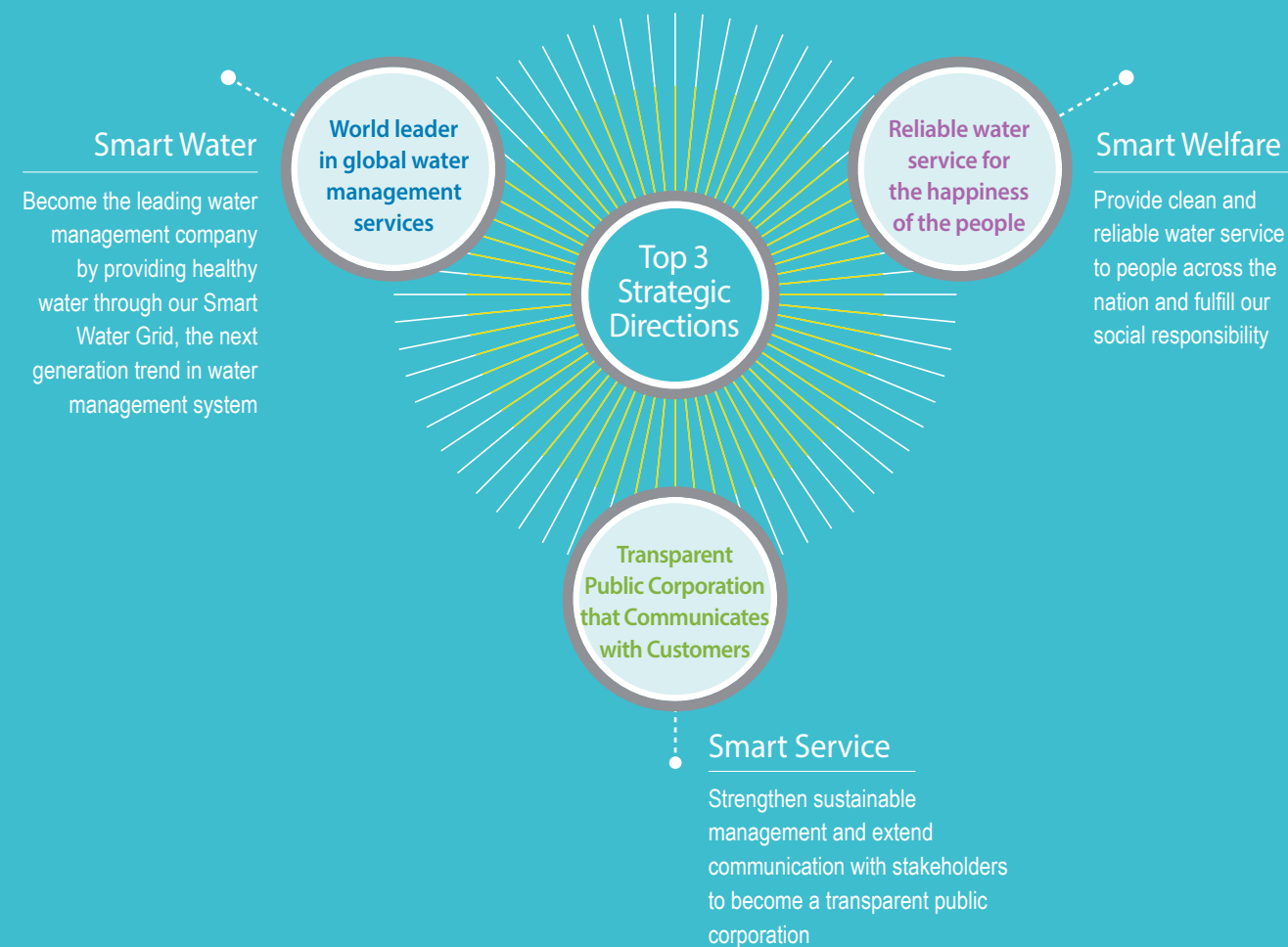
*Choi Gyu-won*

# MISSION, VISION, STRATEGY

## MISSION

### Water for the Happier World

## MANAGEMENT PRINCIPLES



# VISION

We will create a happier world through clean and reliable water and make the leap to become the world's best provider of total water management services.

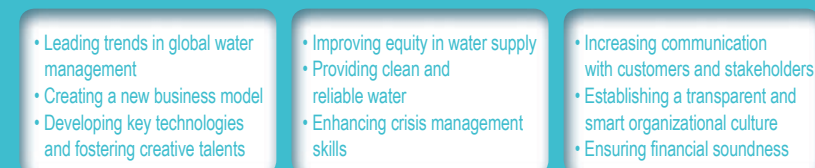
## NEW MANAGEMENT STRATEGY FRAMEWORK



### Strategic Directions



### Strategy Challenges



### Strategic Actions

Aligning the balanced scorecard (BSC) with performance management

# K-water History

"Ever since its foundation in 1967, K-water has worked tirelessly to expand its business through continuous change and innovation with the goal of becoming the world's best total water management service corporation"

## 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
- Jan. 20, 1968 Opened office of Soyanggang Multi-purpose Dam
- Mar. 05, 1968 Opened Geum River Basin Environmental Office
- Nov. 25, 1972 Commenced construction of Soyanggang Multi-purpose Dam
- 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

## 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 Multi-purpose Dam



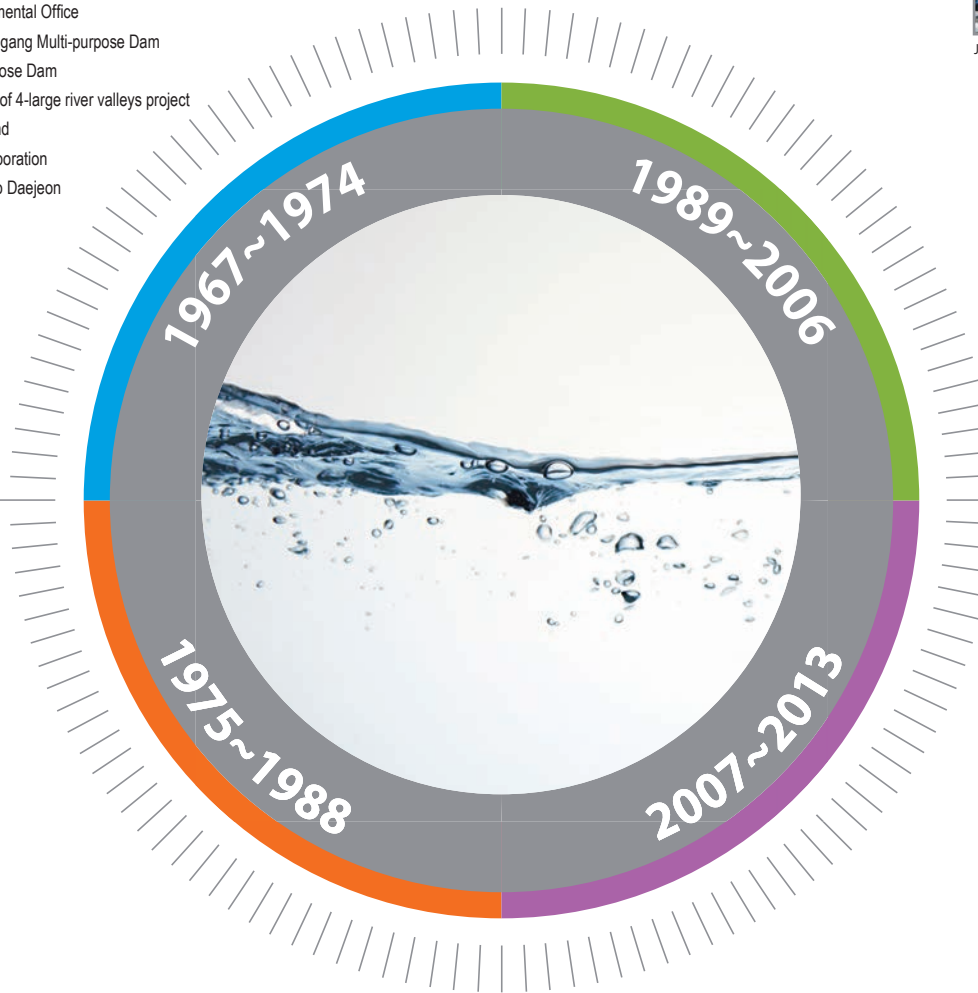
Dec. 02, 1980 Completed the construction of Daecheong Multi-purpose Dam



Apr. 29, 1987 Groundbreaking ceremony of Sihwa district development



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



## 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. 04, 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

## Growth as a total water service company

With the implementation of a new CI, K-water is opening a new chapter in the future of its business in hopes of becoming the "world's best total water management service corporation". Though our sustainable management, we will continue to innovate and build a global business management system in order to "water for the happier world" by achieving our vision of becoming the "world's best total water management service corporation".

- Feb. 14, 2007 Completed an integrated operation center for water supply in the metropolitan area
- Sep. 26, 2008 Completed water supply facilities for inland areas of South and North Gyeongang 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. 3, 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)
- Nov. 20, 2013 Completed the construction of Buhang Multi-purpose Dam in Gimcheon



Apr. 30, 2009 Patrind shareholders' agreement



Sep. 20, 2012 Opened The ARC (Architecture and Artistry of River Culture)



Nov. 20, 2013 Completed the construction of Buhang Multi-purpose Dam in Gimcheon

# 2013 K-water Results

We strive to create — a better future

The interest and support of our customers combined with the passionate efforts of our employees have culminated in meaningful results.

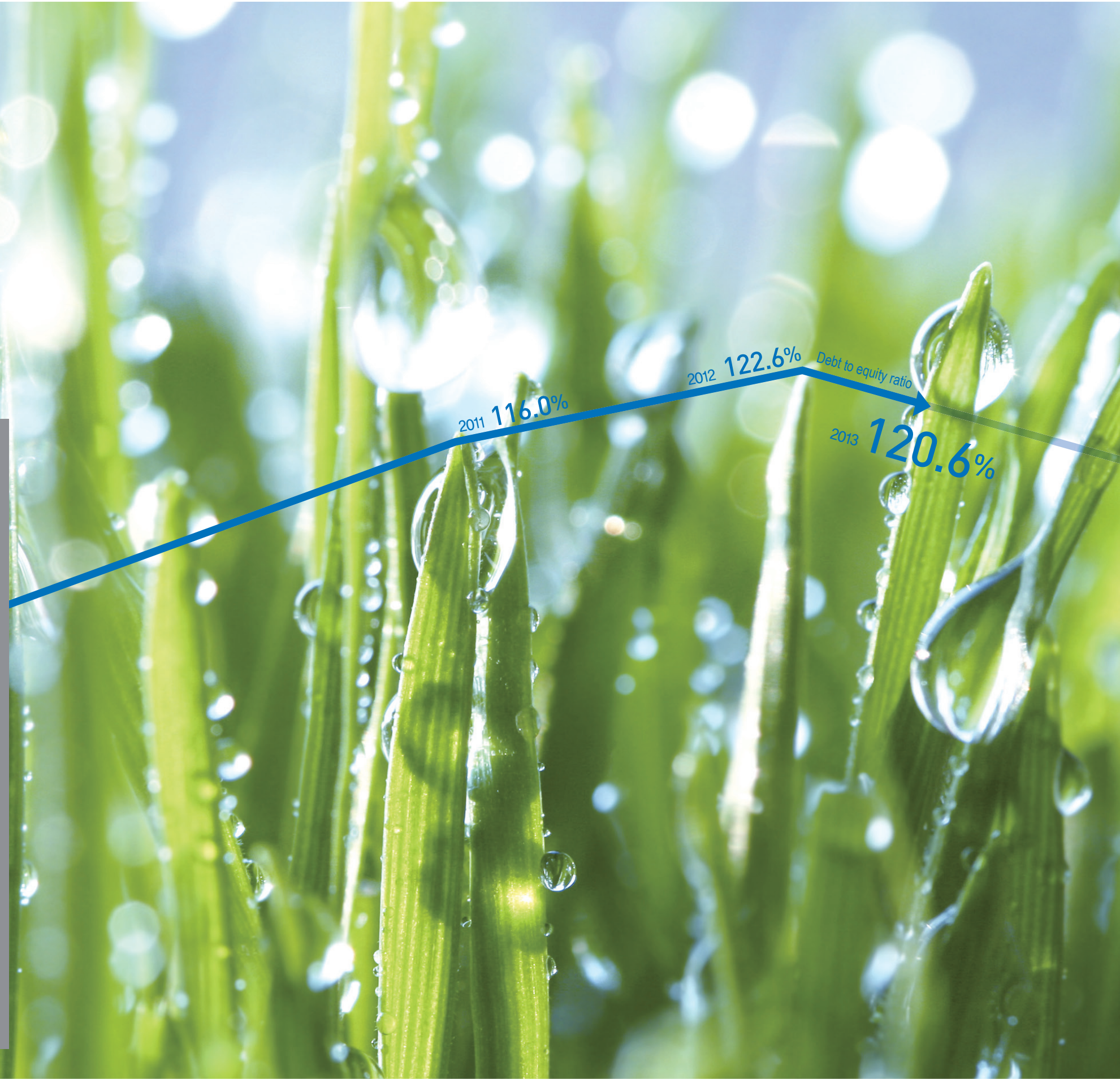
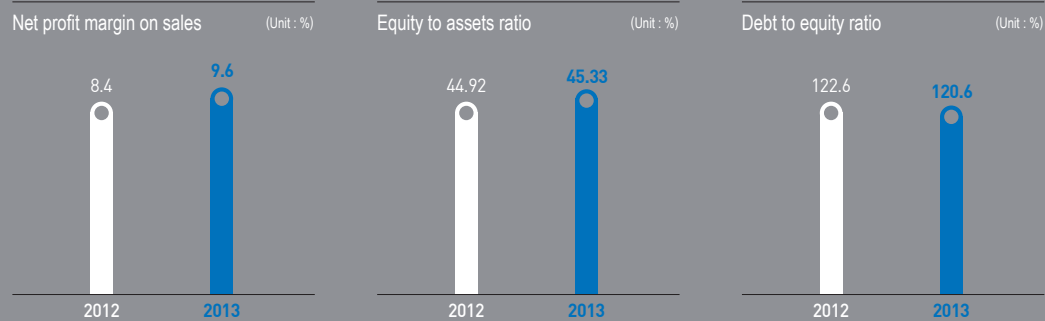
International credit rating

Moody's **A1**, S&P **A+**  
**Credit Rating**

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

Despite adverse conditions including the low cost recovery rate for water and national projects that weighed on our financials, K-water was able to maintain an A1 and A+ rating from Moody's and S&P, respectively, on the back of diverse efforts to improve our financial structure and policy support. Our net profit margin on sales increased 1.2% p year-on-year to 9.6%. As a result of our efforts to improve our financial structure by expanding in-sourcing and minimizing new borrowings, our debt-to-equity ratio shrank 2.0%p year-on-year to 120.6%, the first decline since we started executing national projects. In addition, with the appointment of a new CEO in 2013, we announced "SMART New Management" and "Smart K-water, Start 2014" as strategies to guide K-water over the next 100 years and laid the foundation for sustainable growth by establishing a future-oriented water management framework and strengthening our financial soundness.

K-water anticipates that the international credit ratings will be maintained in a stable manner going forward based on government policies geared to tackle water shortage, the company's competitive advantage in the "blue gold" market, and improvements to the financial structure.



Financial Overview

KRW  
**25,603.9** billion  
 Assets

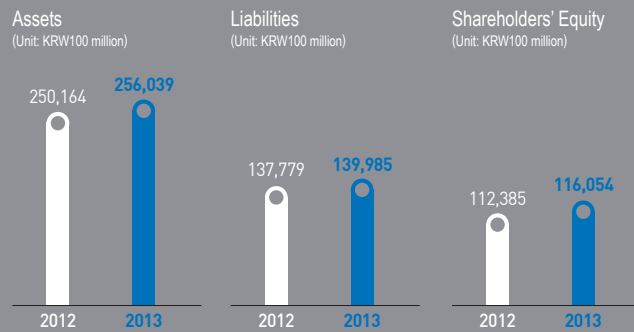


Total Assets **2.3%**  
 Total Shareholders' Equity **3.3%**

We will strengthen our financial soundness by continuously improving our financial structure

K-water's total assets rose 2.3% year-on-year to KRW25,603.9 billion. Non-current assets stand at KRW19,818.4 billion, accounting for 77% of total assets. Total liabilities increased 1.6% year-on-year to KRW13,998.5 billion, while financial liabilities declined 2.2% year-on-year to KRW11,603.4 billion.

Total shareholders' equity stood at KRW11,605.4 billion, rising 3.6% year-on-year as a result of government investments and higher retained earnings from net income. K-water will continue to strengthen its financial position by improving asset efficiency, increasing capital, enhancing profitability, and reducing liabilities.



Composition of Capital (Unit: KRW100 million)

Category	Government	Korea Finance Corporation	Regional Governments	Total
End of 2013	62,903	6,014	70	68,987
Percentage(%)	91.2	8.7	0.1	100.0
End of 2012	62,072	6,014	70	68,156
Percentage(%)	91.2	8.7	0.1	100.0
Fluctuation	831	-	-	-



Profits and Losses

KRW  
**3,645.4** billion  
 Revenues

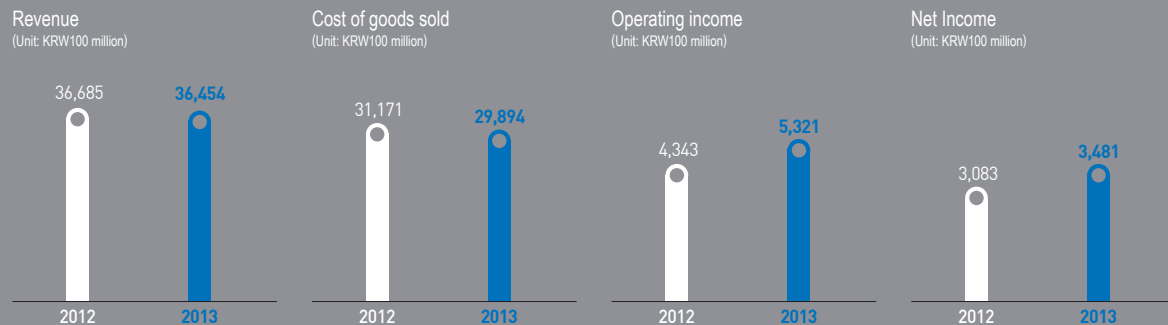


K-water will lay the foundation for a brighter future by strengthening its infrastructure business and promoting new growth drivers

K-water's total revenue stands at KRW3,645.4 billion which is similar to last year, and cost of goods sold has decreased 4.3% year-on-year to KRW2,989.4 billion through various cost-savings efforts.

Despite unfavorable business conditions at home and abroad in 2013, net income reached an all-time high of KRW348.1 billion, thanks to stronger water sales, increased sales of new and renewable energy, high-efficiency power generation, introduction of the budget saving incentive system which resulted in cost savings, and a focus on profit generation.

In 2014, 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-centered business management.



# 2013 Business Results

K-water's achievements in 2013 would not have been possible without the efforts of all of our executives and staff members.

## 1. Announced "Smart K-water, Start 2014" as a new management strategy and shifted to an emergency management mode

With the inauguration of our new CEO in 2013, we established a new business management strategy for our next 100 years of operation and transitioned to an emergency management mode. We will endeavor to realize a globally recognized water management system by providing clean water and ICT-based cutting-edge water management services and achieve financial soundness through dedicated efforts.

## 3. Secured engines to generate results through knowledge management, communication with the people, and revitalization of the organizational culture

K-water was able to improve the public's perception of our organization compared to the previous year by sharing our world-class knowledge and information in the field of water as proven by our achievement as triple winner of global knowledge management awards in 2013 for the first time as a Korean public corporation, and increasing interaction with the people through social networking services and sharing our knowledge through education. Furthermore, we secured engines to drive business results by upgrading our Trust Management Index through company-wide activities aimed at improving the organizational culture.

## 5. Established a customer-centered, regional consensus-based planning framework

K-water improved the decision-making process for water resource policies in accordance with "Government 3.0," the government's new plan for increased sharing of information with the public in order to regain people's trust and ensure capabilities to execute plans. Based on the principle of reaching "regional consensus before confirming plans," we strengthened the process of collecting opinions from local governments and instituted a conflict management process by completely restructuring the procedure for dam projects and implementing a bottom-up approach in which we form and operate a consultative group to create basic plans for repairing multi-regional water supply systems and provide a platform for local governments to make proposals for dam construction.

## 2. Achieved an all-time high net profit for the quarter and reduced liabilities through strong efforts to improve operations

Despite unfavorable business conditions such as the low cost recovery rate for water and national projects that weighed on our financials, K-water was able to achieve an all-time high net income of KRW348.1 billion and reduce the debt-to-equity ratio by 2.0%p year-on-year through aggressive marketing efforts, cost savings, increased use of new and renewable energy, highly efficient electricity generation, and establishment of a foundation for responsible management by improving internal control.

## 4. Played the role as an anchor in the water industry to realize creative economy

Despite the difficult business environment, K-water, as a public corporation, played the role as an anchor of the water industry by promoting shared growth with small and medium size enterprises (SMEs) and spearheading efforts to realize a creative economy in the water industry. We strived to provide reliable water management service, foster the growth of related industries, and achieve shared growth by increasing sales for SMEs. We also increased purchases that foster shared growth, improved systems by holding conferences with guest speakers, enhanced support for new technologies in the water industry, and expanded performance testing and certifications for export products of SMEs.

## 6. Achieved "zero damage" with an integrated platform for national disaster preparedness

By setting up a disaster preparedness control tower and strengthening our crisis management system, K-water was able to provide reliable water service without any interruptions to water supply or safety-related incidents even amid various accidents that occurred. Furthermore, we helped local governments to manage flood disasters based on our accumulated experience and knowledge in disaster management.



## 7. Maintained stable water management despite erratic precipitation and led efforts to resolve algal bloom issues.

Amid growing complexities and uncertainties in water management due to climate change, K-water was able to achieve zero damage from flooding in downstream areas during the rainy season based on our scientific water management system. We also created benefits for the nation by maximizing the advantages of water and power generation, undeterred by the lack of precipitation. Furthermore, we contributed to improving water quality through voluntary regional efforts to manage sources of pollution and joint operation of dams and reservoirs, and led efforts to implement fundamental solutions to algal blooms based on collaboration across agencies.

## 9. Developed a future growth engine by pioneering the overseas water market

With over 40 years of accumulated experience and know-how in integrated water management, K-water actively pioneered the overseas water market together with other private enterprises in Korea. We have been named the preferred bidder in two modules of Thailand's water management project for which negotiations are underway for contract signing. In addition, we have officially begun the process of acquiring the Angat Hydro Power Plant in the Philippines.

## 8. Provided low-cost, high-quality water service through collaboration with local governments

K-water took the lead in ensuring water related welfare for all citizens by achieving cost savings through a reservoir management information sharing system for local governments, continued to provide reliable and high quality water service, and resolved water supply issues in marginalized areas by removing pipe dividers. In addition, we contributed to strengthening the competitive edge of industries by increasing the supply of high-quality water that meet the specific needs of industries.

## 10. Settled old project conflicts through company-wide conflict management

As an organization mandated to carry out large-scale national projects, K-water improved its ability to mitigate conflict by establishing a company-wide framework to manage litigations and conflict. We improved business management and prevented unreasonable precedents by actively responding to major litigations, and presented a trust-building centered new conflict management system based on our accumulated experience and knowledge.

### Achievements at home and abroad through company-wide efforts

#### The future of water management services

- 3.25 Awarded the 2013 WATER KOREA Minister's Award in the water supply and drainage systems category (Ministry of Environment)
- 7.18 Received the 13th Korea Digital Management Innovation Award (Maeil Business Newspaper)
- 10.17 Won the Asian MAKE Award for six consecutive years (TELEOS)
- 10.18 Received the Minister's Award for Outstanding National RPS Management (Ministry of Trade, Industry, and Energy)
- 10.31 Won the Minister's Award for greenhouse gas reduction for two consecutive years (Ministry of Environment)
- 10.25 Awarded a citation for eco-friendly land development and environmental technology development (Korea Environment Institute)
- 11.20 Received the Korea Mobile Technology Award (Ministry of Science, ICT, and Future Planning)
- 11.22 Awarded Grand Prize (Minister's Award) in the 13th Natural Environment Competition (Ministry of Environment)
- 12.3 Became the first public corporation to receive Global MAKE Award (TELEOS)

#### Ensuring water-related welfare for the people

- 2.21 Ranked 1st in the 2013 Most Respected Companies in Korea (KMAC)
- 3.6 Ara Marina accredited as an International Clean Marina (ICOMA)
- 6.4 Selected as the Most Outstanding Authorized Agency in celebration of International Accreditation Day (Ministry of Trade, Industry, and Energy)
- 8.12 Selected as the Most Outstanding Organization participating in the Safe Korea Exercise (National Emergency Management Agency)
- 11.28 Awarded the 13th Korea IT Innovation Grand Prize (Ministry of Science, ICT, and Future Planning)
- Selected as an exemplary public corporation for management (customized integrated flood control management) (Ministry of Strategy and Finance)

#### Customer-centered business management

- 5.6 Selected as a third-party recommended exemplary taxpayer (National Tax Service)
- 5.31 Selected as an exemplary enterprise for outstanding labor relations in 2013 (Ministry of Employment and Labor)
- 8.23 Received the Third Korea SNS Award (Ministry of Science, ICT, and Future Planning)
- 9.12 Reaccredited as the Best HRD (Human Resources Developer) (Ministry of Employment and Labor)
- 10.17 Received the Second Korean MAKE Presidential Award (Ministry of Security and Public Administration)
- 11.29 Received the Sixth Internet Communication Satisfaction Index (ICSI) Award (Ministry of Science, ICT, and Future Planning)
- 12.23 Received the 2013 Security and Public Administration Minister's Award for outstanding record management (National Archives of Korea)



# SMART WATER

Water Resources Business / Water Supply Business / Urban Environment Business /  
New and Renewable Energy Business / Overseas Business

We strive for a better tomorrow

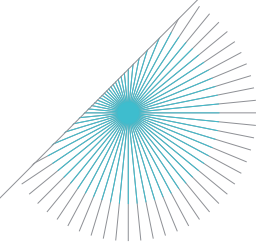
K-water's commitment to a happier and more prosperous future will only grow stronger.

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



## Realizing Smart water management by establishing an integrated water resources management system tailored to Korea to address climate change

K-water has created a Smart water management system for the benefit of both the people and the environment by diversifying and improving the value of water through Korea-specific IWRM(Integrated Water Resources Management), which has been optimized to address climate change and other changes in water management conditions.



Water Management Center

### Improving the efficiency of the water circulation system by optimizing the management of water resources

Since the 1960s, K-water has played a crucial role in managing national water resources. K-water currently operates and manages 50 water resource facilities, including 16 multi-purpose dams, water dams, and multifunction reservoirs that supply water, control floods, and generate power. We are also working to expand, operate, and maintain water management facilities through plans to construct five new dams and build out existing dams. We are responsible for 95% of the nation's flood control capacity, 65% of the water supply capacity, and 63% of the hydropower supply. We are improving the efficiency of the water circulation system by addressing water quality issues, such as algal blooms, and increasing the functions of and cooperation between existing water resource facilities.

### Operating an ICT-based water management system

K-water manages the water supply systematically and scientifically through advanced water management systems that are based on ICT, such as satellite weather forecasting, rainfall forecasting, real-time floodgate information, and integrated management of floodgate information. In 2013, we faced many difficulties in terms of water management due to abnormal weather conditions—localized torrential downpours in the early flood season, followed by a severe drought, and then the approach of Typhoon Danas in October—and the power supply crisis that was caused by malfunctioning nuclear power plants. However, through our integrated water management system, which links dams, reservoirs, and rivers, we were able to prevent flood damage in downstream areas by lowering the water level by 1.2m to 5.8m during torrential downpours. Furthermore, by the end of 2013, we secured 6.73 billion m<sup>3</sup> of water for storage, which is 104% of the volume that is usually stored, even though the precipitation during the flood season was only 78% of average annual levels. For these reasons, we were able to maximize water usage, meet the demand for water supply, improve water quality, and contribute to relieving the nation-wide power supply crisis by generating 3.04 billion kWh of clean, pollution-free energy through hydropower.

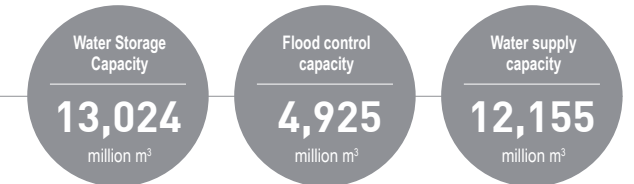
Flood control capacity

**95%** of the nation

Water supply capacity

**65%** of the nation

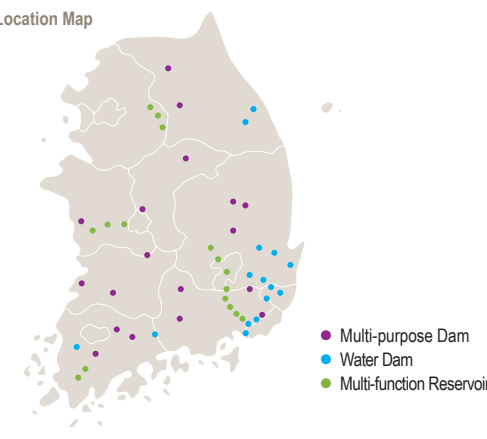
Water Resource Management



#### Overview of Facilities

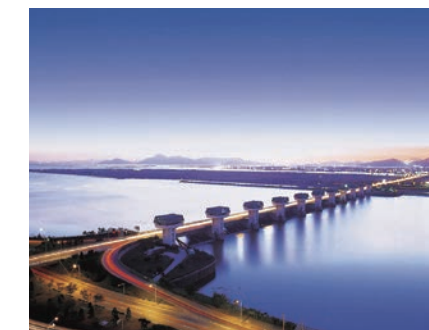
Category	Category	Units
In operation	Multi-purpose Dam, Estuary Barrage	17
	Water Dam	14
	Multi-function Reservoir	16
	Flood Control Dam	2
Under construction	Multi-purpose Dam	4
	Flood Control Dam	1

#### Location Map



### Realizing a “water-happy” nation by providing universal access to water supply

In addition, K-water is taking the lead in promoting the nation's happiness by providing easier access to water and securing global water competitiveness for the future of water management services. We are also building water communities between the upper and lower reaches of rivers by fostering regional aid projects and mutual cooperation, providing groundwater and building underground dams to solve water supply issues in underdeveloped areas, and providing region-specific water solutions, such as flood prevention projects with certain local governments.



Nakdonggang Estuary Barrage

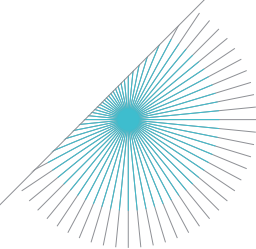


Soyanggang Multi-purpose Dam



## Provide healthy water supply services Based on Smart Water Grid

To provide the safest and highest quality of water to the people, K-water is researching ways to preserve an ideal mineral content in the water through rigorous water quality control and advanced water treatment technologies. K-water is supplying clean and safe tap water through a SWG(Smart Water Grid) system, which has intellectualized water resource management, water production and transport, as well as the treatment and reuse of used water.



The Metropolitan Integrated Waterworks Operation Center

### Establishing a tap water supply system based on SWG

K-water manages the amount and quality of water using ICT throughout the whole process of supplying water. We have instituted a high-efficiency, low-energy tap water supply system. We have the capacity to supply 17.462 million m<sup>3</sup> of water per day (as of 2012), which accounts for 46.5% of the national water supply capacity. Using 47 multi-regional and industrial water facilities, K-water provides a stable flow of 3,709 million m<sup>3</sup> of water per year (as of 2013) to 113 local governments and general customers. Furthermore, in 2013, K-water began constructing five multi-regional waterworks and two industrial waterworks systems, as well as four water supply improvement projects to ensure equity in water supply and more stability in operating the facilities in areas suffering from water shortage, such as districts where the penetration of water supply service stands at only 62.2% (as of 2012).

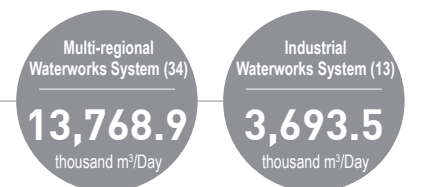
### Efficient management of local water supply and drainage systems

To provide high-quality and stable water service to everyone round the clock based on strong technological capability and experience, K-water has been consigned to operate local water supply and drainage systems by 21 local governments to date, beginning with the water system in Nonsan in 2004. K-water took the lead in the advancement of national drainage management technologies, consolidated operation of basic treatment facilities, and the expansion of service areas to improve the water quality of supply sources and rivers. Currently, K-water operates and manages 22 facilities for ten local governments (276,000m<sup>3</sup> per day) with a focus on stabilizing the water supply system by double-tracking pipes, revamping old pipes, and installing an emergency network system between urban and regional areas.

Share of National Water Supply Facilities

**46.5%**  
(water intake facilities)

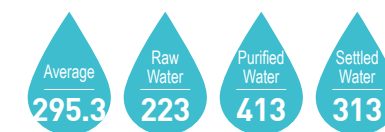
Waterworks Facilities (capacity)



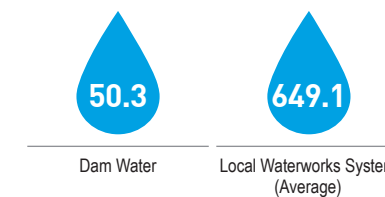
Share of the National Water Supply

**49.5%**

Water Tariffs (Unit: KRW)



Multi-regional Waterworks System



### World's best tap water quality management

Moreover, K-water conducts water quality tests in 250 categories, which is the largest in the world, to maintain its standard of quality for drinking water. We are endeavoring to more effectively maintain our high quality of tap water by developing, at the Tap Water and Analysis Center, a real-time water quality monitoring system to control water purity, and performing the most rigorous water quality test in the world using cutting-edge equipment.



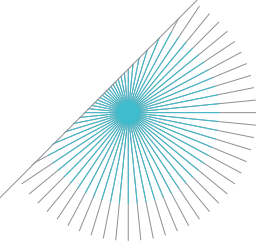
Water Analysis in 250 Categories

Water Analysis and Research Center



## Creating an eco-friendly urban complex and leading the growth of the national economy

K-water is putting effort not only into the scientific water management, but also into the construction of multifunctional cities, where water, nature, and the local ecosystem coexist in perfect harmony. We will create multifunctional administrative cities geared toward tourism and leisure by developing eco-friendly urban complexes, such as Sihwa Multi-Techno Valley, Songsan Green City, and Busan Eco Delta City, and creating various water-friendly spaces through river restoration projects, such as the Ara Waterway and Sihwa Reservoir.

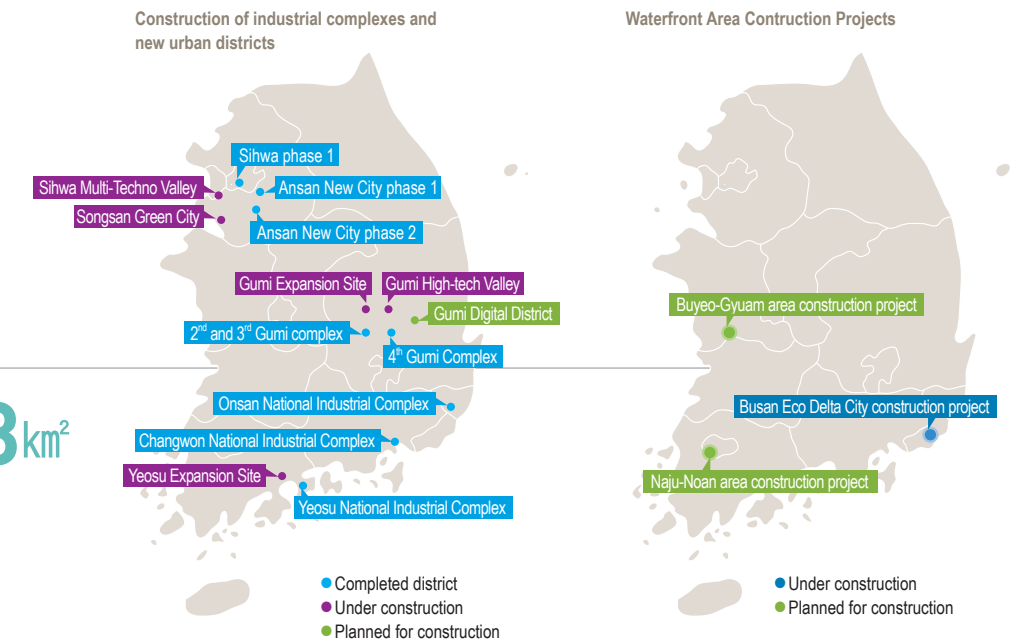


Bird's eye view of Eco Delta City

Completed district

National Industrial Complex **56km<sup>2</sup>**

Banwol Special District **115.83km<sup>2</sup>**



Construction of a waterfront bike trail



Water Culture Center "The ARC"

### Opening industrial complexes through waterways and building eco-cities

In accordance with government policy fostering the growth of the heavy and chemical industries in 1974, K-water began constructing industrial complexes in Changwon, Onsan, Yeosu, and Gumi. In 1977, we started the Ansan New City and Sihwa New City development projects to disperse the population of the capital area. Industrial complexes and new cities, which became the framework for our nation's economic growth, are now being recreated as multifunctional administrative cities and eco-cities by combining ICT with water, nature, tourism, and leisure activities. Located among the tidelands created by the construction of the Sihwa Seawall, the Sihwa Multi-Techno Valley is a highly advanced multifunctional complex that will lead the future of this industry. Construction on the Sihwa Multi-Techno Valley began in August 2007 and is currently ongoing, along with marketing activities. The development plan for Songsan Green City was announced in March 2008, and construction began in November 2011. In addition, K-water is promoting the construction of high-tech valleys in the new industrial area in Gumi, and its expansion site, to improve the living conditions (e.g., residence, commercial and research) in the Gumi national industrial complex.

### Building eco-friendly urban complexes by redeveloping waterfronts

Furthermore, K-water is in the process of designating priority projects in water-friendly regions (three sites) for the systematic and planned construction and use of waterfront areas in Korea. Busan Eco Delta City was designated as a water-friendly area for an eco-friendly multifunctional administrative city on December 14, 2012, and is currently in the stage of providing compensation for land. Two smaller sites (Naju Noan District and Buyeo Gyuam District) were designated as water-friendly zones on January 23, 2014, and we will apply for permission to plan construction and begin the land compensation process in the latter half of 2014.

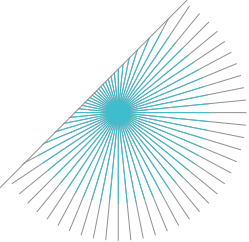
### Luxurious cultural space with tourism and leisure infrastructure

Beautiful waterfronts, including the dams and rivers in Korea, and the Ara Waterway, constructed by K-water, are spaces where diverse animal and plant life and local residents coexist. By building bicycle paths along the waterfronts, offering various programs to promote visits to river culture centers (five centers), and operating public marina facilities and camping areas on the banks of the Ara Waterway, K-water will increase the value of waterfront spaces and continue to create value in the future by converging waterways and culture.



## Leading the national new and renewable energy sector by combining water and energy

K-water is fostering the harmonious growth of the economy and the environment by reducing carbon emissions and energy import costs by producing clean energy from hydropower (generated using Korea-specific technology applied to dams), tidal power (generated from changing tides), on-water solar power generators, small hydropower plants, and windmills.



Floating photovoltaic power plant on Hapcheon dam

### Development and maintenance of new and renewable energy

K-water provides eco-friendly electricity through a hydropower plant generating 1,070MW of electricity, which accounts for 61% of the Korean hydropower capacity (1,754MW), and the Sihwa powerplant (254MW), the world's largest tidal power plant. We are continuously developing green energy, such as through our small hydropower plant on the Seomjingang Dam, and are actively engaged in a greenhouse gas reduction project that is raising the efficiency of dams and waterworks facilities by employing high-efficiency pumps, modernizing out-dated hydropower facilities, and increasing the electricity generation capacity. In 2013, K-water produced 3,040GWh of electricity through hydropower, tidal power, wind power, and solar power plants, which is equivalent to 5.08 million barrels of oil per year and a 1.35 million ton-reduction in CO<sub>2</sub> emissions per year.

### The World's First On-Water Solar Power Plant at a Dam

K-water successfully commercialized SOLATUS, the world's first on-water solar plant built at a dam, at the Hapcheon Dam. This is a truly eco-friendly technology that does not cause any damage to vegetation. Since it generates about 10% more electricity than solar plants on land and has sufficient potential for further development (31 dams, 2,937MW), it will be instrumental in accelerating the transition to a green growth paradigm.

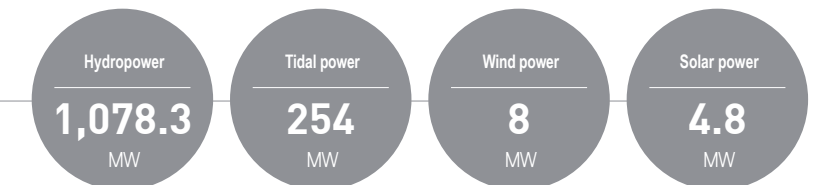
Total facility capacity for new and renewable energy development and operation

**1,345MW**

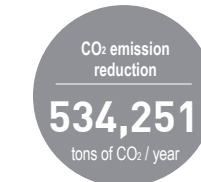
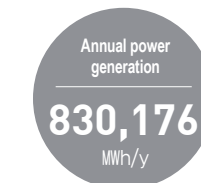
Accumulated sale of CERs

**470,537 CERs**

Status of new and renewable energy development and operations (Dec. 2013)



CDM registration (Dec. 2013)



### CDM (Clean Development Mechanism) Projects and Carbon Emissions Trading

K-water is actively engaging in initiatives against climate change by channeling greenhouse gas reduction efforts into new and renewable energy development through CDM projects. We launched the CDM projects in 2005 as the first government invested organization, and registered a total of 12 cases (534,000 tons of CO<sub>2</sub>), including the Sihwa tidal power project and CDM projects for small hydropower plants on the Four Rivers, with the UNFCCC, the largest number for a Korean corporation. Since September 2008, we have sold 470,537 CERs, creating a total profit of KRW 1.138 billion. K-water plans to lead the new and renewable energy sector in Korea through strategic CDM projects, focusing on diversifying the distribution market in connection with emissions trading schemes in Korea.



Ara Waterway Wind Power Plant

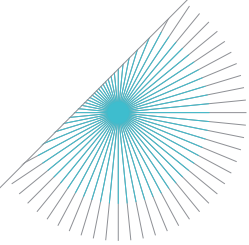


Seungchon Weir Hydropower Plant



## Become a world-class water management company through overseas expansion

The global water industry is emerging as the “blue gold” industry of the 21st century, and is expected to grow from USD480 billion in 2010 to USD1 trillion in 2025. As the sole public corporation in the Korean water industry, K-water conducts overseas water resource projects using its accumulated experience and technological capabilities, and is growing into a world-class corporation specialized in the water industry through active exchanges and communication with other advanced water industry-related organizations around the world.



Operation of regional water supply facilities in Jiangsu, China

### Expansion of overseas businesses and diversification of investment and management

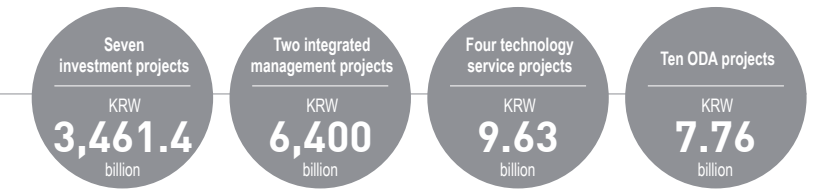
Under such changing market conditions, K-water is striving to expand globally in partnership with the private sector. Starting with the “Bunha River Area Inspection Project” in China in 1994, K-water laid the foundation for overseas expansion through ODA services until 2004. By diversifying its overseas business in 2005 to include technology exports and investment, K-water has completed 38 projects in 20 countries to date and is currently engaged in 23 projects, including seven investment projects, in 18 different countries.

In 2009, K-water initiated its first overseas investment business, the Patrind hydropower project in Pakistan, for which construction started in 2011, laying the groundwork for new overseas projects and the commercialization of future projects. K-water participated in the operation and management of waterworks systems in Sheyang County of Jiangsu Province, China, in 2012, and took over the Angat hydropower project in Philippines, in 2013. We also participated in the bid for Thailand’s water management project worth KRW12.4 trillion and have been selected as the preferred bidder for Monkey cheek and floodway Modules (KRW6.1 trillion). We will do our best to win the bid and pave the way for the expansion of our integrated water management technologies to different parts of the world, including the Mekong Basin.

Overseas Projects in Progress

18 countries, 23 projects

KRW 9,878.8 billion



### Thorough project management and establishment of a global network

K-water is reinforcing its business capacity through risk taskforce teams such as the risk management committee to prepare itself to handle business risks involved in overseas projects. We will quantify the project selection criteria by project and country and establish strong ties with global institutions such as international organizations and multilateral development banks to expand our business scope to cover key areas in the world’s water market.



Equatorial Guinea Water Treatment Plant



Cambodia Krang Ponley Water Resources Development Project



Patrind hydropower project in Pakistan



# SMART WELFARE

Customer management / Environmental management / Social Contribution Activities /  
Ethical and transparent management / Shared growth / Creative and Innovative Management  
Research and Development / Fostering Global Talents

We are taking steps toward happiness

K-water strives to tap into the unlimited potential of water.

Water is the origin of creation and life.

Water embraces everything and touches everything.

K-water unlocks the precious value of water.



## Systematized strategy for customer satisfaction and customer-oriented services

We will provide customer-specific services by continuously innovating our customer service system.

### Establishing a strategic customer-oriented management system

K-water established its vision for customer satisfaction management entitled "K-water for the Happier Lives of our Customers" along with four strategic directions—reinforcing the customer satisfaction management infrastructure, strengthening customer-focused service capabilities, establishing a foundation for differentiated customer service, and vitalizing CS cooperative culture—for which we have systematically implemented a mid to long-term strategy comprising 10 strategic initiatives and 40 execution tasks for customer satisfaction. Furthermore, we adopted "Water-Pro" as a brand representing our service identity, the first of its kind for an SOC public corporation, and will utilize it in various activities for customer satisfaction, including banners and uniforms for employees who interact directly with customers.

#### Major CS Achievements

Category	2011	2012	2013
Level of Customer Satisfaction for Public Corporation	Good	Good	Good
Level of Customer Satisfaction for Regional Water Supply System	79.1 Points	80.3 Points	80.4 Points
Rate of timely VOC processing	99.9%	100%	100%
Service Quality Index (SQI)	90.8 Points	97.4 Points	99.6 Points

### Improving Business Management based on VOC (Voice of Customer)

Through the VOC Integrated Management System, K-water collects and analyzes the VOC of diverse stakeholders, and we share the information at the corporate level to turn it into a resource for business management. We strive to achieve systematized, VOC-based business management by monitoring our performance through customer service feedback and timely handling of VOC. Furthermore, we have created the Ombudsman Committee, an independent committee that focuses on resolving customer complaints, and fully utilize the Service Quality Index (SQI) to prevent customer service issues throughout the entire service process, and rigorously manage and improve the quality of our services.

### Achieved the highest level of customer satisfaction in the public sector

For seven consecutive years, K-water received a high rating in the customer satisfaction survey for public corporations conducted by the Ministry of Strategy and Finance by carrying out systematic and diverse activities aimed at customer satisfaction. Since the survey officially began in 2004, we have received the highest score for providing customer-focused local water supply systems, scored 100% for timely VOC handling, and received 99.6 points on the Service Quality Index (SQI). Our strong achievements on the CS Performance Index demonstrate that we are the leading corporation in customer satisfaction management in the public sector.



Ombudsman Committee

## Creating new global environmental values

We will create new global environmental values through world-class environmental business management.

### Establishing an eco-friendly management system

In 2002, K-water announced its transition to an eco-friendly business management system and instituted an operational system that balances economic feasibility and eco-friendliness. We have developed the Environmental Performance Evaluation (EPE) System and set an EPE index to systematically manage the environmental effects of our business activities as well as our performance results. Since 2005, we have also been providing substantial information that reflects the needs of our stakeholders at home and abroad by publishing world-class sustainable management reports.

### Fostering environmental business management consultants and supporting the environmental business management of SMEs

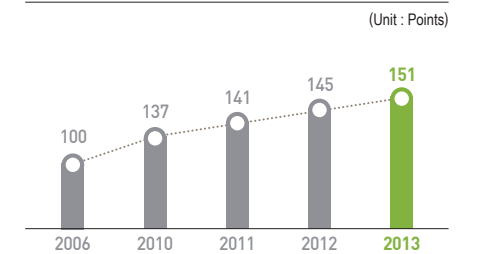
Since 2007, K-water has fostered internationally recognized ISO certification inspectors. By 2013, K-water employed a total of 134 professional ISO inspectors, and we practice high-quality, global-standard environmental business management through internal ISO evaluation every year. Also, we offer a number of environmental business management programs to help SMEs that lack sufficient infrastructure to become eco-friendly enterprises, including training on environmental business management and certification evaluation for ISO14001 as well as financial assistance provided to 17 SMEs as of 2013.



### Leading national environmental management

In 2011, K-water became the first public corporation to receive the green management system certification (KSI7001/7002) from the government and we are in the process of laying the foundation for global green business management through multi-faceted efforts. We have secured the environmental soundness of the national water resource sector through proactive management of reservoir water quality and the creation of eco-friendly spaces in areas surrounding dams. We are also spearheading the nation's low-carbon growth policy by installing the first on-water solar energy plant as a pilot project, running temperature differential air conditioning and heating projects, and making use of tidal power generation. As a result, our efforts toward eco-friendly business management have been recognized as we have received the Ministry of Environment's top awards for environmental impact in ex post facto management in 2012 and 2013, a grand prize for applied eco-technology in 2013, and the top award for MOE's greenhouse gas and energy reduction in 2013.

#### Environmental Performance Evaluation (EPE) Index



Internationally accredited business continuity management



## Sharing Happiness Water Project

We share water and love.

### Establish a strategic social contribution system

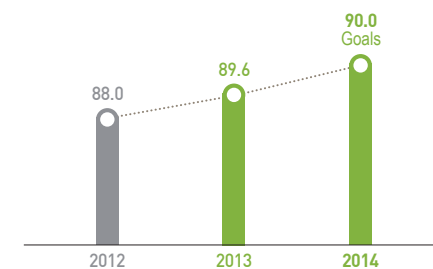
K-water has set four directives, including our unique vision for social contribution and key values, to achieve our goal of "Water for the Happier World," and we are pursuing strategic social contribution activities for sustainable development of K-water and fulfilment of our social responsibilities. In particular, we are contributing to the development of the nation and local communities by creating social contribution programs that make the best use of our resources and business, expanding our activities into environmental areas such as water and rivers, and participating in resolving environmental issues.

### Purer Water, Greener Earth

K-water engages in environmental improvement projects, such as river maintenance, fry discharge, and supplying clean water from rivers, and we sponsor water-culture projects by holding water-related contests and exhibitions. Utilizing water-related technologies, we are focused on offering a stable supply of clean water by providing water facilities for elementary and middle schools that rely on underground water for drinking and seawater desalination facilities for island areas with poor water supply systems. Furthermore, we provide emergency drinking water as part of our disaster relief program and continue to tighten our inspection on water quality.

#### K-water Social Contribution Activities

##### Social Contribution Index



Social Contribution Index: Rate of participation in social contribution activities×0.3+Rate of social contribution activities×0.4+Rate of executive and staff member participation in fundraisings ×0.3

### Living Together in the World

To support balanced development and welfare improvement in the areas around dams, K-water provides a "filial respect" service program for the elderly. In 2013, we offered medical treatment services 16 times covering 4,500 people in the areas surrounding 10 different dams through our "Love Sharing Medical Volunteer Program" which began in 2009. Also, we have supported the construction of eco-friendly agricultural complexes in the upstream areas of dams, provided jobs in public services, and funded multicultural families to promote regional economies. We have worked to fulfill our social responsibilities as a global corporation by dispatching 68 people in four different teams to four towns in Nepal and Laos in order to help local residents install water supply facilities and repair other public facilities.

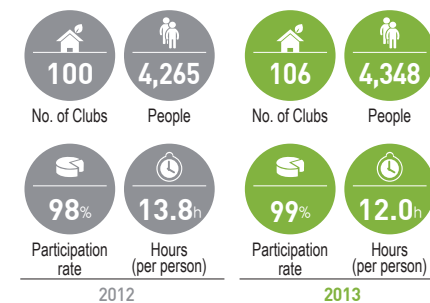


Sharing "Coal Briquettes"

### K-Water Mul-sarang Sharing Club

The Mul-sarang Sharing Club, a volunteer service team of K-water executives and staff members, was founded in July 2004. In 2013, a total of 4,348 members or 99% of all employees, signed up for 106 volunteer clubs, and dedicated a total of 52,045 hours (12 hours per person) of volunteer activities.

#### Mul-sarang Sharing Club Activities



## 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 has been promoting "ethical management" with conviction that it is the most fundamental and powerful competitive edge. In 2009, we added "Purity (realizing public value and pursuing honesty)" to our key values for accomplishing our vision and reflected it in our mid- to long-term management strategy. Furthermore, based on advancements to our ethical system by having an "Ethics Committee" as the chief policy decision making institution to ensure ethical management and reinforcing ethical standards as well as efforts of our executives and employees alike, K-water has been recognized as an outstanding institution in the "evaluation on anti-corruption competitiveness of public corporations" sponsored by the Anti-Corruption and Civil Rights Commission for eight consecutive years and received the highest mark (AAA) in the KoBEX SM, an ethical management index sponsored by the Ministry of Knowledge Economy.

### Corporate ethics centered on stakeholders at home and overseas

K-water engages in a number of activities to promote communication and cooperation with both internal and external stakeholders. We manage our performance results through scheduled monitoring and feedback. In 2013, we completed 28 action plans related to the general society, customers, executives and employees, and the environment. In addition, we initiated a mobile service for the public disclosure of our business results, created our first corporate social contribution fund by sharing 1% of wages, promoted eco-friendly and ecological restoration designs, and recruited large numbers of socially disadvantaged individuals.



### Fulfillment of global-standard corporate social responsibility (CSR)

We maintain sustainable partnership with our vendors by installing consultative bodies on shared growth, jointly carrying out 360 degree monitoring at each stage of contracting with vendors, and supporting the technological development and sales channel expansion of SMEs. In addition, we are focused on fulfilling our corporate social responsibility as a public corporation by expanding low-carbon green growth projects, engaging in project-related, strategic social contribution activities at home and abroad, and joining and complying with the UN Global Compact to improve corporate awareness of human rights, labor, environment, and anti-corruption.



One Company, One Social Corporation Alliance Ceremony



AAA Rating on the 2013 KoBEX SM





## Growing together with SMEs

Shared growth is an integral part of a company's competitiveness in the 21<sup>st</sup> century.

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

As a public corporation, K-water actively promotes policies for shared growth with SMEs to lead the way in fulfilling our social responsibility. In 2013, we promoted the procurement of SME products by the public sector, technological development and expansion of sales channels, and win-win partnership in construction projects as part of our strategic action plans, thereby providing substantial benefits to SMEs. We have created a company-wide consensus for shared growth by forming dedicated teams to systematically handle matters related to shared growth and reflected shared growth in the business goals of the CEO. Furthermore, we have increased communication and interaction with SMEs by holding workshops, setting up a consultative body for shared growth and organizing "WaterPedia" as an online platform for cooperation to promote shared growth.



SME Financial Support Agreement Ceremony

### Fostering SMEs in the water industry by promoting the performance-based benefit sharing system and offering financial assistance

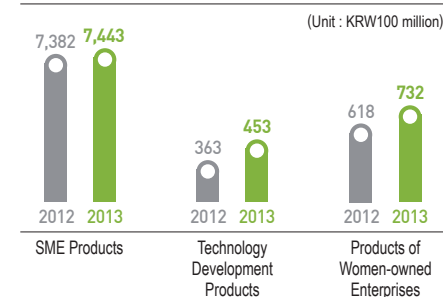
In line with the mid- to long-term strategy of fostering SMEs in the water industry, K-water created a one-stop model for a unique benefit sharing system, which encompasses the entire stage from supporting the development of an industry-first technology (test-bed) to finding sales channels. We also provided a test-bed for field demonstrations of benefit sharing items which had previously been difficult for SMEs to do. In addition, we have expanded our budget to support the R&D activities of SMEs through a technological development fund jointly invested in by the public and private sector, and offer the Water+ Loan to support technological development and operations through MOUs with major financial institutions.

### Increased Public Procurement of SME Products

K-water has focused on expanding public procurement of SMEs products and increasing opportunities for SMEs to participate in the market by introducing institutional mechanisms to enable, for instance, easing the track record requirement and conducting limited open bids for women-owned and social enterprises. Furthermore, we were the first public corporation under the Ministry of Land, Infrastructure, and Transport to require these of standard contracts, and we have taken the lead in protecting disadvantaged companies in the construction sector by creating a system to monitor payments to subcontractors. Our efforts have been recognized by the government, receiving government citations for our support of SMEs for five consecutive years since 2009.

K-water will continue to offer a number of programs to support SMEs to strengthen their self-reliance and market competitiveness, and maintain our commitment to fulfilling our social responsibility as a public corporation and promoting shared growth.

Track Record of Procurement



## Improving work processes to drive creativity and performance

K-water strives to become the world's best total water 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 our competitive edge. Key innovative techniques include JOA+ (Join Open Advance), a workout technique of GE that was adapted to suit K-water, study groups to share job-related knowledge, and Six-Sigma which enables the identification of issues from the customer's point of view and encourages scientific and statistical approaches to problem-solving.

### 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. To date, we have accumulated around 90,000 knowledges which are shared via the Knowledge Management System (KMS). Utilizing this system, K-water supports communication, data sharing, and study groups among employees, and is establishing an open knowledge network participated by municipalities, partners and external experts to promote creativity and innovation.



### K-water's Globally Recognized Knowledge Management

K-water's knowledge management system and culture is recognized both at home and abroad, having received a presidential citation in the 2013 Best Korean Knowledge Award, the Asian MAKE Award in the MAKE\* research administered by UK-based Teleos six times in a row from 2008 to 2013, and the Global MAKE IOU Award for the first time as a Korean public corporation in 2013.

\* Most Admired Knowledge Enterprises  
\*\* Independent Operating Unit



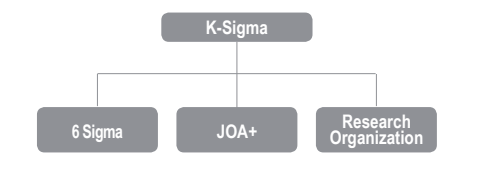
Asian MAKE Award



Asian MAKE Winner

### K-water's Unique Brand (K-Sigma)

- ▶ K-Sigma, which stands for both "K-water Sigma" and "Knowledge Sigma," is a brand unique to K-water which symbolizes the characteristics of K-water's CoP activities.
- ▶ K-Sigma is divided into 6 Sigma (business improvement), JOA+ (immediate improvement), and Research Organization (knowledge creation) based on the objective, methodology, and procedure.





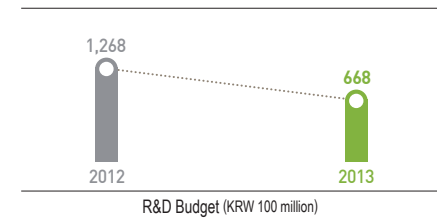
## Getting ahead of competition in the global water market with core technologies

K-water is taking the lead in the development of water-related technologies both at home and abroad by establishing world-class R&D infrastructure and competencies.

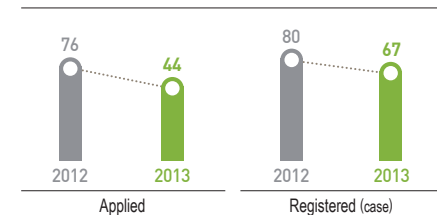
### Strengthening Key Competences

With increased opportunities in the water sector as a result of rapid growth of the water industry around the world and the emergence of new technological paradigms to counter climate change, K-water has identified "Key Technology Related Strategic Initiatives" to upgrade technological skills comparable to advanced countries by 2020 and secure global competitiveness. In particular, we are pursuing over 12 "star brand" initiatives to advance our technology beyond the levels of advanced countries, and furthermore taking the lead in water-related R&D by managing research project teams, increasing the ratio of government mandated projects, and securing integrated technologies through open R&D.

#### R&D investment



#### Intellectual property rights



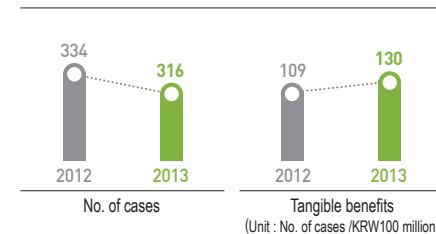
Presentation of Research Results

### Building R&D infrastructure

K-water has secured a budget of KRW66.8 billion or 4.8% of revenue to invest in developing world-class technologies that will drive future growth, facilitate efforts to respond to climate change and renewable energy, and operates the K-water Institute which is the top research agency related to water comprised of 223 research professionals. In addition, K-water has developed on-water photovoltaic systems (ICT-integrated), smart meters, sensor network-based, and intelligent water distribution systems in order to pre-emptively respond to the global megatrend of convergence and integration research.

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 closed 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.

#### Technological Support



## Securing global competitiveness of human resources

K-water cultivates professional talents to lead the global water market.

### Discovering High-calibre Individuals through Open Recruitment

To secure talented individuals, K-water manages human resources in a systematic and strategic manner, identifying qualified individuals who meet our key values through the KACT (K-water Aptitude and Competency Test) regardless of their academic background or age. We also offer various training programs to help employees make their own career development choices and grow into skilled professionals in their respective fields.

### Advanced HR system

K-water actively invests in strengthening employee skills through periodic short-term training courses, specialist courses, and third-party led professional training at home and abroad in accordance with the CRP System, which has received a business model patent. Through the ERP based HR-BANK and systematic personnel training according to the CRP System, K-water gained a reputation as a national agency specializing in water. As proof of this recognition, K-water received a presidential citation for personnel development in the 2010 national quality management competition, was designated a national training institute in the water sector in 2011, and founded the Graduate School for Water Resources in partnership with the government and Sungkyunkwan University in 2012.



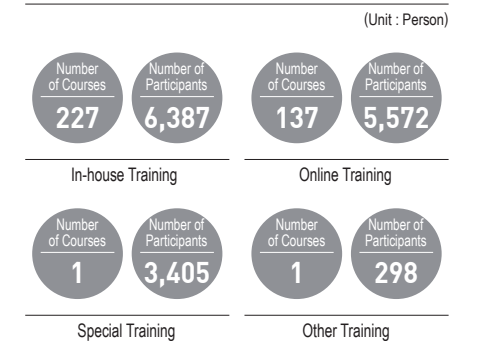
### Advanced human resources management

K-water has implemented advanced human resources management by establishing a range of personnel management systems, such as a position and rank separation system, job posting system, and personnel evaluation system, which take into account the skills and achievements of individual employees. We have also instituted a "Profile Match-up" system, which is a customized experience management system, to strengthen our organizational competitiveness by placing the right people in each position and securing professional talents. Currently, K-water employs 1,310 high-calibre professionals (MA holders, PhDs, engineers) who comprise approx. 30% of all employees, and we will continue to foster and promote professionals who will lead the global water market.

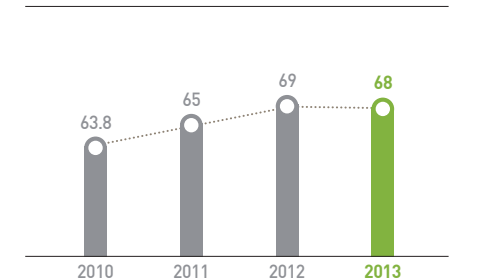


Awards Ceremony for Specialist Course

#### 2013 Training Courses



#### Training Hours Per Staff



# SMART SERVICE

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

We continue — our pursuit of passion

We will deliver even more meaningful results through transparent business management.

Calm waters reflect calm minds

Flowing waters reflect flowing minds

K-water will deliver performance through transparent management.

## Independent Auditor's Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders  
Korea Water Resources Corporation:

We have audited the accompanying consolidated statements of financial position of Korea Water Resources Corporation and its subsidiaries (the "Group") as of December 31, 2013 and 2012 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards and Korean Government-owned and Quasi-government Accounting Regulations and Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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, 2013 and 2012 and its financial performance and its cash flows for the years then ended, in accordance with Korean International Financial Reporting Standards and Korean Government-owned and Quasi-government Accounting Regulations and Standards.

Without qualifying our opinion, we draw attention to the following:

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

*KPMG Samjong Accounting Corp.*

Seoul, Korea  
February 28, 2014

This report is effective as of February 28, 2014, 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.

## Consolidated Statements of Financial Position

As of December 31, 2013 and 2012

	December 31, 2013	December 31, 2012
(In thousands of won)		
<b>Assets</b>		
Cash and cash equivalents	749,302,897	622,203,045
Derivative assets	2,037,410	-
Trade and other receivables, net	429,332,306	454,954,525
Inventories	4,556,161,813	4,031,029,243
Current tax assets	4,733	2,529
Other non-financial assets	48,678,691	104,824,715
<b>Current assets</b>	<b>5,785,517,850</b>	<b>5,213,014,057</b>
Non-current available-for-sale financial assets	8,418,107	7,740,325
Long-term loans and receivables	33,049,642	32,922,223
Non-current derivative assets	20,293,387	49,838,588
Long-term financial instruments	-	4,329,922
Long-term trade and other receivables, net	463,954,962	503,354,439
Property, plant and equipment	1,427,679,134	1,410,965,992
Intangible assets other than goodwill	17,857,417,766	17,780,370,355
Investments in associates	2,069,952	8,333,163
Deferred tax assets	80,629	-
Other non-financial assets	5,425,873	5,513,763
<b>Non-current assets</b>	<b>19,818,389,452</b>	<b>19,803,368,770</b>
<b>Total assets</b>	<b>25,603,907,302</b>	<b>25,016,382,827</b>

## Consolidated Statements of Financial Position, Continued

As of December 31, 2013 and 2012

	(In thousands of won)	
	December 31, 2013	December 31, 2012
<b>Liabilities</b>		
Trade and other payables	258,883,362	304,580,034
Current portion of long-term borrowings	43,498,940	45,040,365
Current portion of debentures, net	1,333,379,470	1,178,069,500
Derivative liabilities	68,663,290	35,736,337
Current tax liabilities	93,106,643	37,292,750
Provisions	77,721,685	76,100,898
Other non-financial liabilities	1,483,294,083	1,045,845,977
<b>Current liabilities</b>	<b>3,358,547,473</b>	<b>2,722,665,861</b>
Trade and other payables	30,147	11,413
Long-term borrowings	351,244,821	326,228,925
Debentures, net	9,869,903,196	10,313,864,992
Derivative liabilities	59,994,108	110,695,543
Other non-financial liabilities	27,800,834	13,371,001
Employee benefits	273,768,335	246,087,207
Deferred tax liabilities	24,275,926	36,041,165
Provisions	32,887,444	8,954,713
<b>Non-current liabilities</b>	<b>10,639,904,811</b>	<b>11,055,254,959</b>
<b>Total liabilities</b>	<b>13,998,452,284</b>	<b>13,777,920,820</b>
<b>Equity</b>		
Issued capital	6,898,169,015	6,815,102,002
Retained earnings	3,283,943,671	2,989,659,990
Other equity components	1,413,794,585	1,422,319,647
<b>Equity attributable to owners of the Company</b>	<b>11,595,907,271</b>	<b>11,227,081,639</b>
<b>Non-controlling interests</b>	<b>9,547,747</b>	<b>11,380,368</b>
<b>Total equity</b>	<b>11,605,455,018</b>	<b>11,238,462,007</b>
<b>Total equity and liabilities</b>	<b>25,603,907,302</b>	<b>25,016,382,827</b>

## Consolidated Statements of Comprehensive Income

For the years ended December 31, 2013 and 2012

	(In thousands of won)	
	2013	2012
Revenue	3,645,387,592	3,668,445,409
Cost of sales	▲2,989,350,428	▲3,117,069,718
<b>Gross profit</b>	<b>656,037,164</b>	<b>551,375,691</b>
Selling, general and administrative expenses	▲123,920,094	▲117,048,087
<b>Operating profit</b>	<b>532,117,070</b>	<b>434,327,604</b>
Other income	315,515,409	296,308,412
Other expenses	▲43,087,004	▲3,856,046
Other gain (loss), net	2,078,366	▲5,296,027
Financial income	97,871,110	195,181,857
Financial costs	▲449,185,725	▲515,371,168
Share of profit of equity accounted investees, net	103,981	394,864
Gain on disposal of investments in associates	1,461,498	-
<b>Profit before income tax</b>	<b>456,874,705</b>	<b>401,689,496</b>
Income tax expense	▲108,756,452	▲93,394,144
<b>Profit for the year</b>	<b>348,118,253</b>	<b>308,295,352</b>
<b>Other comprehensive income (loss), net of income tax</b>		
<b>Total items that will not be reclassified to profit: Defined benefit plan actuarial gains, net of income tax</b>	<b>2,130,925</b>	<b>5,926,274</b>
<b>Items that are or may be reclassified subsequently to profit or loss</b>		
Effective portion of net change in unrealized fair values of cash flow hedges, net of income tax	5,423,992	16,170,580
Unrealized net change in fair value of available-for-sale financial assets, net of income tax	68,506	7,837
Unrealized gain (loss) on valuation of equity method investments, net of income tax	16,787	▲74,355



## Consolidated Statements of Comprehensive Income

For the years ended December 31, 2013 and 2012

	(In thousands of won)	
	2013	2012
Cumulative effect of foreign currency translation, net of income tax	▲17,541,571	▲8,644,545
<b>Total items that are or may be reclassified subsequently to profit or loss</b>	<b>▲12,032,286</b>	<b>7,459,517</b>
<b>Other comprehensive income (loss), net of income tax</b>	<b>▲9,901,361</b>	<b>13,385,791</b>
<b>Total comprehensive income for the year</b>	<b>338,216,892</b>	<b>321,681,143</b>
<b>Profit attributable to</b>		
Owners of the Company	346,443,653	308,247,269
Non-controlling interests	1,674,600	48,083
<b>Profit for the year</b>	<b>348,118,253</b>	<b>308,295,352</b>
<b>Total comprehensive income (loss) attributable to:</b>		
Owners of the Company	340,049,516	323,349,504
Non-controlling interests	▲1,832,624	▲1,668,361
<b>Total comprehensive income for the year</b>	<b>338,216,892</b>	<b>321,681,143</b>

## Consolidated Statements of Changes in Equity

For the years ended December 31, 2013 and 2012

	Equity attributable to owners of the Company				Noncontrolling interests	Total equity
	Issued capital	Retained earnings	Other equity components	Total		
<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>
<b>Total comprehensive income (loss) for the year</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 net change in unrealized fair value of cash flow hedges	-	-	16,170,580	16,170,580	-	16,170,580
Net change in fair value of available-for-sale financial assets	-	-	7,837	7,837	-	7,837
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
<b>Total comprehensive income (loss) 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	120,349,459	-	-	120,349,459	-	120,349,459
Dividends	-	▲51,709,405	-	▲51,709,405	-	▲51,709,405
Changes in ownership interests in subsidiaries	-	-	49	49	3,161,351	3,161,400
Others	311,637	▲311,637	-	-	-	-
<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>
<b>Balance at January 1, 2013</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>
<b>Total comprehensive income (loss) for the year</b>						
Profit for the year	-	346,443,653	-	346,443,653	1,674,600	348,118,253
Defined benefit plan actuarial gains	-	2,130,925	-	2,130,925	-	2,130,925
Effective portion of net change in unrealized fair value of cash flow hedges	-	-	5,423,992	5,423,992	-	5,423,992
Net change in fair value of available-for-sale financial assets	-	-	68,506	68,506	-	68,506
Unrealized loss on valuation of equity method investments	-	-	16,787	16,787	-	16,787
Cumulative effect of foreign currency translation	-	-	▲14,034,347	▲14,034,347	▲3,507,224	▲17,541,571
<b>Total comprehensive income (loss) for the year</b>	<b>-</b>	<b>348,574,578</b>	<b>▲8,525,062</b>	<b>340,049,516</b>	<b>▲1,832,624</b>	<b>338,216,892</b>
<b>Transactions with owners of the Company, recognized directly in equity</b>						
Increase of paid-in capital	82,811,044	-	-	82,811,044	-	82,811,044
Dividends	-	▲54,034,928	-	▲54,034,928	-	▲54,034,928
Changes in ownership interests in subsidiaries	-	-	-	-	3	3
Others	255,969	▲255,969	-	-	-	-
<b>Total transactions with owners of the Company</b>	<b>83,067,013</b>	<b>▲54,290,897</b>	<b>-</b>	<b>28,776,116</b>	<b>3</b>	<b>28,776,119</b>
<b>Balance at December 31, 2013</b>	<b>6,898,169,015</b>	<b>3,283,943,671</b>	<b>1,413,794,585</b>	<b>11,595,907,271</b>	<b>9,547,747</b>	<b>11,605,455,018</b>

## Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012

	(In thousands of won)	
	2013	2012
<b>Cash flows from operating activities</b>		
Profit for the year	348,118,253	308,295,352
Adjustments for:		
Depreciation	81,549,185	75,676,479
Amortization	572,056,817	538,419,761
Expenses for employee benefits	40,112,082	37,330,285
Dividends income	▲60,546	-
Interest income	▲22,498,961	▲20,465,874
Interest expense	373,874,966	342,070,586
Income tax expense	108,756,452	93,394,144
Loss on valuation of derivatives, net	24,070,471	171,250,581
Loss on derivative transactions, net	19,952,290	2,050,001
Gain on foreign currency translation, net	▲24,070,471	▲171,250,581
Gain on foreign currency transactions, net	▲19,952,290	▲2,050,001
Allowance for bad and doubtful debts	76,946	449,027
Provisions recognized	27,853,375	3,322,237
Reversal of provision	-	▲609,714
Gain (loss) on disposal of property, plant and equipment, net	▲2,154,599	3,065,210
Impairment loss of property, plant and equipment	-	8,249
Impairment loss of intangible assets	-	1,788,957
Gain on disposal of investments in associates	▲1,461,498	-
Equity profit in associates, net	▲103,981	▲394,864
Decrease in present value discount upon early collection	-	3,265,281
Others, net	▲73,091	31,513
Changes in:		
Trade accounts receivable	22,138,505	68,012,831
Inventories	▲422,642,515	▲408,839,579
Other operating assets	67,374,591	66,815,123
Long-term trade accounts receivable	48,982,622	▲78,890,311
Trade accounts payable	1,906,238	2,796,308
Other operating liabilities	376,757,251	536,887,662
Employee benefits	▲9,619,707	▲58,487,947
<b>Cash generated from operation activities</b>	<b>1,610,942,385</b>	<b>1,513,940,716</b>
Dividends received	60,546	-
Interest received	19,163,890	16,501,530
Interest paid	▲521,729,938	▲495,533,738
Income taxes paid	▲67,226,773	▲68,014,255
<b>Net cash provided by operating activities</b>	<b>1,041,210,110</b>	<b>966,894,253</b>

## Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2013 and 2012

	(In thousands of won)	
	2013	2012
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	▲90,781,377	▲66,109,234
Proceeds from sale of property, plant and equipment	4,637,438	904,909
Government grant received	10,373,910	7,583,500
Government grant returned	▲61,529	-
Acquisition of long-term financial instruments	-	▲4,329,922
Proceeds from sale of long-term financial instruments	4,329,922	-
Acquisition of intangible assets	▲656,038,947	▲1,293,356,850
Proceeds from sale of intangible assets	40,400	335,129
Acquisition of available-for-sale financial assets	▲587,405	▲2,717,260
Increase in long-term loans	▲1,865,620	▲3,068,255
Collection of long-term loans	1,738,202	2,458,134
Increase in deposits	▲15,624,511	▲67,294,303
Decrease in deposits	1,576,000	51,460,135
Contributions for construction received	14,516,000	13,371,001
Proceeds from sale of investments in associates	7,848,899	-
<b>Net cash used in investing activities</b>	<b>▲719,898,618</b>	<b>▲1,360,763,016</b>
<b>Cash flows from financing activities</b>		
Repayment of current portion of long-term borrowings	▲1,158,117,210	▲360,891,000
Settlement of derivatives	▲27,133,790	▲10,945,000
Proceeds from borrowings	68,191,165	71,096,729
Repayment of borrowings	▲45,040,365	▲46,595,540
Proceeds from debentures	1,100,600,000	1,076,050,000
Repayment of debentures	▲187,125,000	-
Equity investments from government	108,448,485	120,349,459
Dividends paid	▲54,034,928	▲51,709,405
Capital contribution from non-controlling interest	3	3,161,400
<b>Net cash provided by (used in) financing activities</b>	<b>▲194,211,640</b>	<b>800,516,643</b>
<b>Net increase in cash and cash equivalents</b>	<b>127,099,852</b>	<b>406,647,880</b>
Cash and cash equivalents at January 1	622,203,045	215,555,165
<b>Cash and cash equivalents at December 31</b>	<b>749,302,897</b>	<b>622,203,045</b>

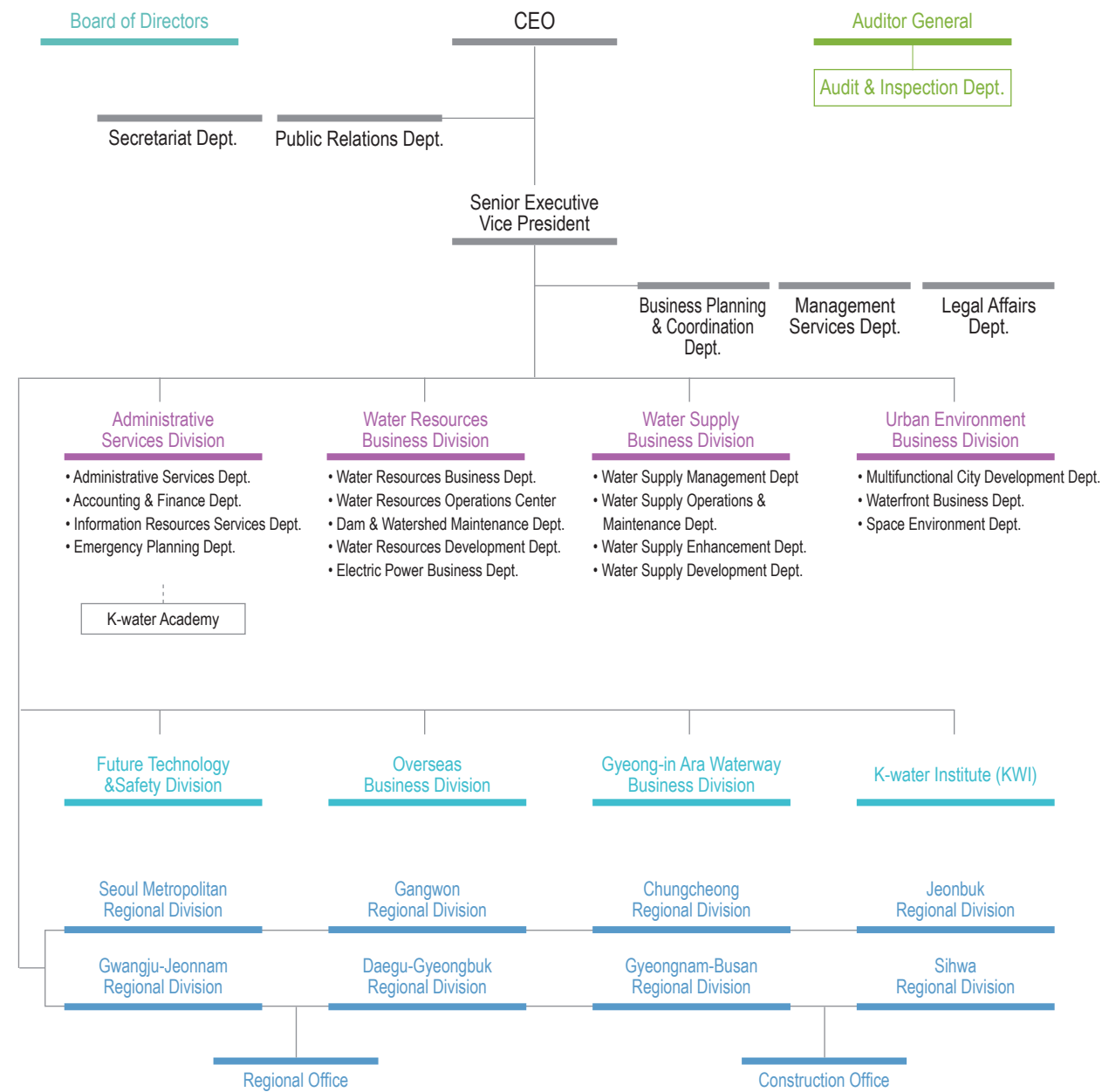
# Organization and Staff

## Organization

**Head Office :** 1 Vice President, 4 divisions, 25 departments (offices, divisions)  
**Regional offices :** 1 Business Divisions, 8 Regional Divisions, 28 offices (centers)

## Headcount

Total	Executives	General staff	Special staff
4,308	7	3,954	347



# 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 chairman, contributing to improvements in corporate governance.

## Standing Directors

CEO **Choi Gye-woon**

Senior Executive Vice President  
**Han Geung-jeon**

Vice President of Administrative Service Division  
**Han Kyoo-bum**

Vice President of Water Resources Business Division  
**Choi Byoung-seub**

Vice President of Water Supply Business Division  
**Kim Jae-bog**

Vice president of Urban Environment Business Division  
**Lee Hak-soo**

Auditor General  
**Gang Dae-ga**

## Non-standing Directors

Chairman **Park Chan-jeong** professor of accounting at Cheongju University

Director **Yoon I-suk** professor of international affairs at Kwangwoon University

Director **Roh Ju-seok** senior reporter at Seoul Newspaper

Director **Gong Myeong-jae** professor of business administration at Keimyung University

Director **Kim Gab-sung** professor of urban planning and engineering at Yonsei University

Director **Kim Won-tae** professor at the Graduate School of Public Policy, Hanyang University

Director **Park Seung-gi** Chairman of HDSNC

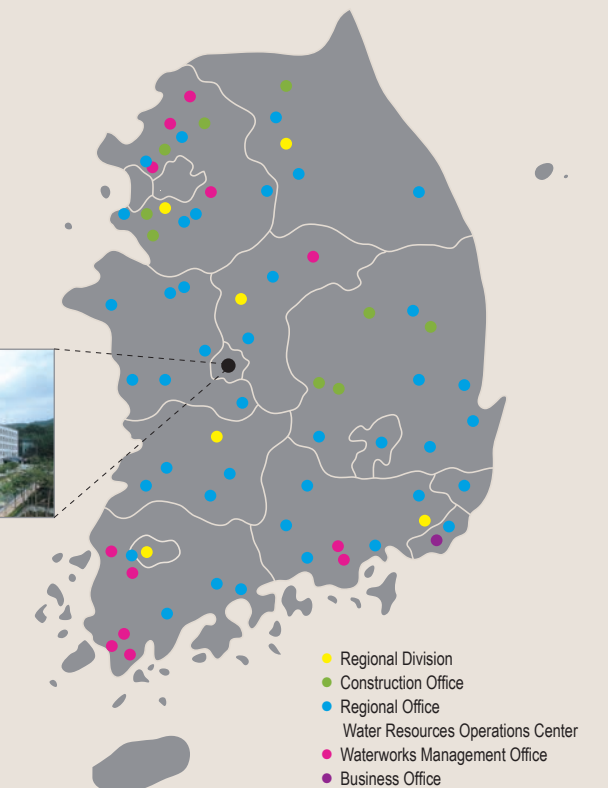
Director **Lee Won-seok** member of operation committee at the Alliance for Happy and Smart Life

K-water is a public corporation that aims to improve the lives and welfare of the people by overseeing the development and management of water resources, thereby ensuring a stable supply of water to residences and improving water quality.

- Construction, operation, and management of facilities for the comprehensive use and development of water resources
- Construction and management of multi-regional waterworks system (including industrial waterworks) facilities
- Development of industrial complexes and special areas
- Consigned operation of local water supply and drainage facilities
- Installation, operation, and management of new and renewable energy facilities



K-water Headquarters





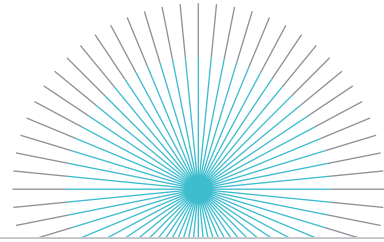
# SMART K-water START 2014

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

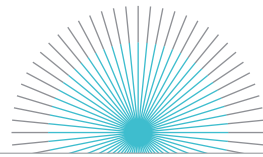
K-water shares happiness with the world through water.

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.



SMART K-water  
START 2014



[www.kwater.or.kr](http://www.kwater.or.kr)