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Exchange Rate

All figures in this report are in Korean won except when otherwise indicated.

Korean won can be converted into US dollars at the rate of 1,326:1, for convenience only.

profile

Steward of National Water Resources

The Korea Water Resources Corporation (KOWACO) is a state-owned water utility responsible for constructing and operating dams, reservoirs, regional water supply systems, and hydropower plants, supplying both water and electricity to municipality-owned water purveyors and individual firms throughout South Korea. KOWACO also reclaims land resources for industrial and residential uses. In addition to these activities, KOWACO provides water-related professional services : specialized training and technical consulting services for local purveyors, hydrological information and environmental services for the general public.

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



Financial Highlights

Korean won in millions	2001	2000	Percent Change
OPERATING RESULTS			
Revenues	1,280,196	1,178,287	9%
Operating income	198,750	186,191	7%
Net income	103,161	62,637	65%
* EBITDA	456,729	415,535	10%
FINANCIAL POSITION			
Total assets	9,513,116	9,038,134	5%
Long-term debt	1,144,406	1,461,770	-22%
Stockholder's equity	7,480,080	6,825,994	10%
Cash flows from operations	571,473	168,131	240%
Capital expenditures	870,358	993,971	-12%

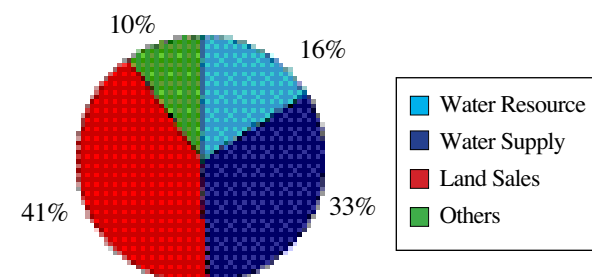
*Earnings Before Interest, Tax, Depreciation and Amortization

Long-term Debt Credit Ratings

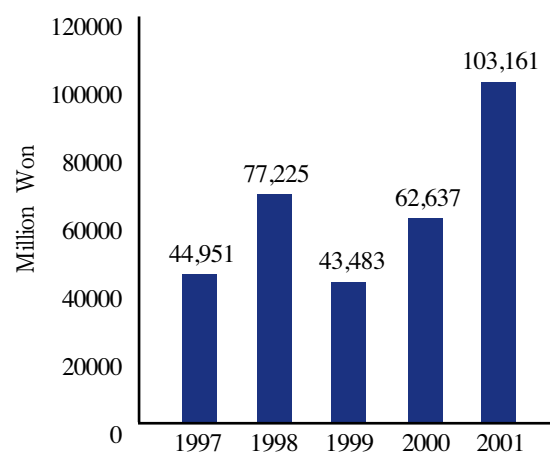
NICE	KIS	R&I(Japan)
AAA	AAA	BBB+

NICE: National Information & Credit Evaluation
KIS : Korea Investors Service

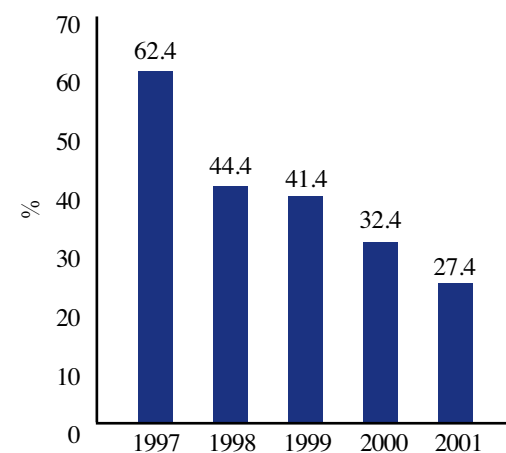
Revenue by Business Line 2001



Net Income



Debt Ratio



Corporate Statistics As of December 31, 2001

Water Resources

Dams and reservoirs	15
Storage capacity(mcm)	12,272
Watershed area(km ²)	22,849
Hydropower plants	13
Hydropower capacity(MW)	1,010
Reservoir-supplied raw water rate(won/cubic meter)	30.3

Water Supply Systems

Design capacity per day(mcm)	15.1
Average daily water consumption(mcm)	7.2
Kilometers of water mains in service	3,061
Number of water treatment works	33
Market share(intake-based)	54%
Water Rates(won/cubic meter)	
Treated	275.1
Partially Treated	241.5
Untreated	143.4
Number of Customers	
Local municipal purveyors	97
Individual firms	905

Administratives

Number of Employees	3,337
Shareholders	
The Government of Korea	80.2%
Municipalities(58)	12.5%
Korea Development Bank	7.5%

*mcm : million cubic meter

Chairman's Statement

I am very pleased to report that the past year has been a particularly successful one for the Korea Water Resources Corporation.

This success can be quantified in a number of ways, not the least of which has been a strong financial performance underpinned by increased land sales and water rates, prudent financial management and the pursuit of opportunities to further grow the organization's business.

This has been achieved within the framework of a clearly articulated and cohesive Strategic Corporate Plan. An important facet of this strategic plan is to equip KOWACO with the long-term capability to sustain reliability and quality of the products and services it delivers.

Strong Financial Performance

In 2001, our company achieved a year of unprecedented success, reaching "high-water marks" in virtually all areas of financial performance: Revenues rose to more than 1.3 trillion won. Net income was a record

of 103 billion won up 61% from 2000. Cash flows generated from operations have steadily increased over the past four years. This increase in cash flow has enabled KOWACO to reduce its long-term debt from 1.6 trillion won in 1998 to 1.1 trillion today.

A number of important events and

"The essence of our business, water, is basic to life itself. The demand for clean, affordable water continues to provide exciting business opportunities nationwide, indeed, worldwide"



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

achievements contributed to our overall success in 2001 and our prospects for continued progress in 2002. Among them:

- Sales efforts in our business development team netted several new contracts for municipality-owned wastewater treatment works, and water supply rehabilitation projects in several municipalities.
- We also worked hard to establish partnerships with international water organizations. Vivendi Water of France, UNDP, Montgomery Watson-Harza of U.S., IHE of the Netherlands, Yenben Province of China, Colorado State University of U.S., have all become our business partners.

A Future Rich in Opportunity

We have made much progress, and we remain optimistic about our prospects for continued success. The essence of our business, water, is basic to life itself. The demand for clean,

affordable water continues to provide exciting business opportunities nationwide, indeed, worldwide.

The history of the Korea Water Resources Corporation spans more than 30 years. During that time, our industry has undergone tremendous technological changes. We have embraced those changes and have used them to continually improve our operations.

Now, however, we are seeing industry changes of a different nature-significant changes in the business side of water supply and wastewater treatment. The world of the regulated water industry is changing, with many water utilities and other private companies now looking to enter into the contract operations field. We know that our 35 years of experience in water business positions us well for the future. We remain committed to discovering and profiting from

the exciting opportunities resulting from those changes, thereby enhancing our corporate value.

The year 2001 was, indeed, very successful. I believe that we have the experience, the skill and the dedication to achieve continued success. That's a goal that the entire KOWACO family, from directors to executives to employees, is working toward. We are confident that we can make 2002 even better. We are building a worldwide water industry leader.

Sincerely Yours,

Seok-Ku Ko



Spotlights 2001



Mark of Honor

Chairman & CEO Mr. Seok-Ku Ko was honored to receive a medal from the president of the Republic of Korea for the successful completion of the Yongdam dam construction project.

Annual Investor Conference

KOWACO hosted its 1st annual investor conference on July 20, 2001 at the Cosmos room in the 63 Building in Seoul. A crowd of about 100 investors, analysts, consultants and staff heard presentations from Vice President and Chief Financial Officer Jong Seo Park and Finance Director Hyun Jun Kim.

International Workshop

An international workshop on water resources management was convened and coordinated by KOWACO in collaboration with the Korea International Cooperation Agency(KOICA), at KOWACO's Education and Training Center, Daejeon, from 9 to 21 October 2001.

The 19 participants represented 11 countries in the East Asia and Africa. The meeting provided important opportunities to share lessons from past experiences and to identify new innovative water management practices.

International Symposium on Dam Technology

KOWACO organized an international symposium on Dam Technology, in Seoul, on 31 October 2001, and experts were brought together from USA, Spain, and Japan. The intention of the International Symposium was to address current water development problems and to identify best practices to develop and manage water resources in those countries.

Strategic Alliance Rush

In 2001, KOWACO forged strategic alliance, partnership and joint ventures with international water organizations to pursue business opportunities in the water sector. The partners include: Cambodian Ministry of Water Resources and Meteorology, Vivendi Water, UNDP, Yenben Province in China, Montgomery Watson-Harza, and education institutions such as IHE and Colorado State University. The partner



organizations will cooperate in research and development to facilitate the development of the water business both in Korea and in the international arena. The alliance also includes technical and training exchange programs between the organizations.

Seeking Growth Opportunities

KOWACO was awarded a US\$30 million contract to construct two wastewater collection and treatment systems in the southern municipalities of Jangheung and Jinan. The contract includes the construction and operations of the wastewater systems.

KOWACO partnered with French Vivendi Water Company was awarded a US\$50 million contract for a Water Supply Rehabilitation Project which will support the local government's efforts to improve the services of water supply in the municipalities of Masan and Gimchon.

The project will rehabilitate components of the water supply systems which are prone to failure and/or which are causing extremely high unaccounted-for-water or

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

Water Infrastructure Build-up

In 2001, three water resources development projects were completed to provide water storage and regulate year-round water flows in the upper Kum river and tributaries of Nakdong river and Han river. Two regional water supply facilities with a capacity of 311 thousand cubic meters per day were also completed to provide water supply to the population of Pohang and Milyang.

Board of Directors

Mr. Moon Kyu Lee Mr. Jong Seo Park Mr. Kyu Hwan Lee Mr. Myung Kyo Jung Mr. Sung Hwangbo Mr. Moo Sung Shin



Mr. Yoon Weon Lee Ms. Young Seen Kim Mr. Tae Hoon Yoon Mr. Woon Kwang Yeo Mr. Jeong Haeng Jang Mr. Kyung Jae Lee



Corporate Governance

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

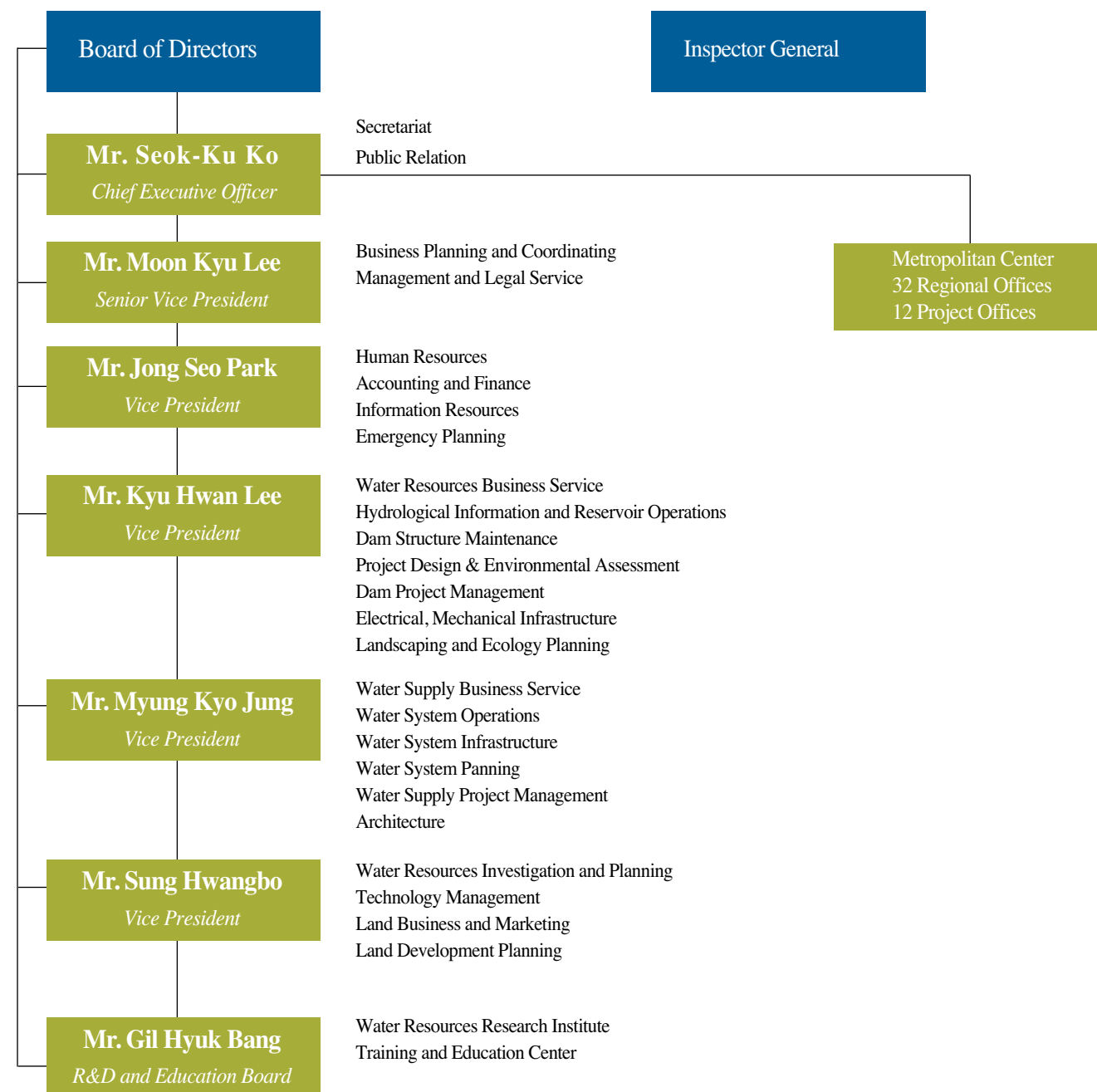
KOWACO is administered by a thirteen-member Board of Directors. The Chairman is appointed by the President of Republic of Korea. The five standing members of directors are appointed by Minister of Construction and Transportation and designated as *ex officio*. The seven non-standing members of directors are appointed by Minister of Planning and Budget.

Internal Controls

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

Corporate Structure

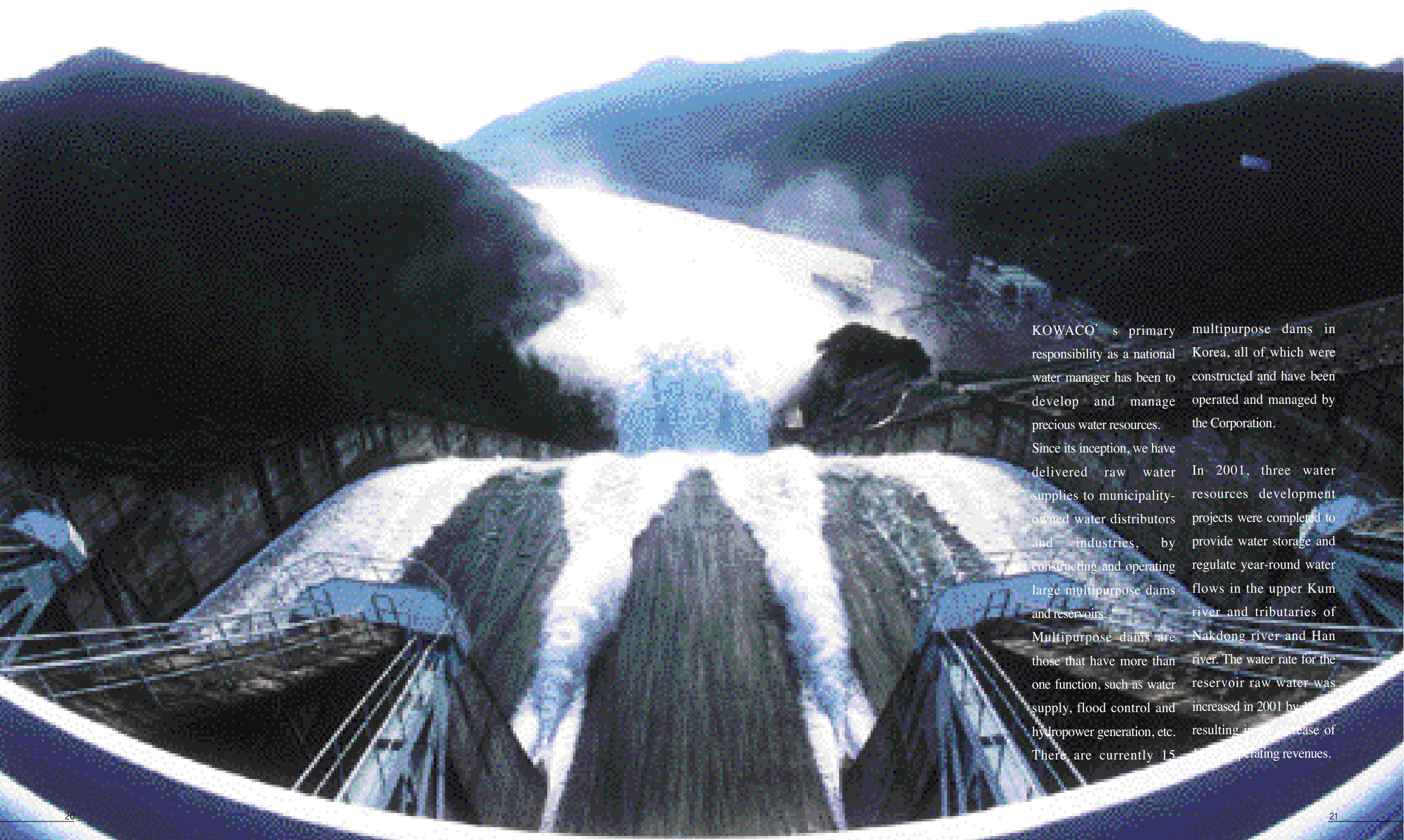
As of December 31, 2001, KOWACO employs 3,337 people across five business units and an executive vice president supports each unit. We have 44 regional offices throughout the country.



2001 in Review



Managing National Water Resources



KOWACO's primary responsibility as a national water manager has been to develop and manage precious water resources.

Since its inception, we have delivered raw water supplies to municipality-owned water distributors and industries, by constructing and operating large multipurpose dams and reservoirs.

Multipurpose dams are those that have more than one function, such as water supply, flood control and hydropower generation, etc. There are currently 15

multipurpose dams in Korea, all of which were constructed and have been operated and managed by the Corporation.

In 2001, three water resources development projects were completed to provide water storage and regulate year-round water flows in the upper Kum river and tributaries of Nakdong river and Han river. The water rate for the reservoir raw water was increased in 2001 by 10%, resulting in an increase of operating revenues.

Creating Green Power

The largest hydropower producer

The Corporation is engaged in the supply of hydroelectric power generated by utilizing the dams it manages. It has an installed power generation capacity of 1,010MW, accounting for 65% of the total hydro capacity in South Korea. In 2001, Korea experienced serious droughts resulting in the decrease of power sales by 47%.

Electric Industry Deregulation

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

With the purpose of increasing the efficiency in the power industry and giving the consumers

the option to select the power suppliers they want, the Korean government has been restructuring the Korean power industry. KEPCO's generation business was already split into 6 companies in 2001 and they are scheduled to systematically privatized. The Korea Power Exchange was established and electric power has begun to be traded through bidding at the Exchange since April, 2001. The sales sector is also expected to be spun off into 7 private companies by January, 2003.

Although our market presence as a power generator will remain unchanged even after the privatization of the industry, we will be likely to face some challenges. One challenge is the pressure to lower utility rates and improve performance coming from competitors and customers. To address these challenges, the Corporation is restructuring its power business. All our power plants will be automated and run from the Corporate head office, which will reduce costs and enhance efficiency.

Providing Affordable, Reliable Water

The Largest Water Purveyor

KOWACO supplies water to municipality-owned water purveyors and individual industries through our Regional Bulk Water Supply Systems. We also supply water directly to firms within industrial complexes through our Industrial Water Supply Systems.

The regional bulk water supply system is a series of water works that supply treated water to more than one local municipality. We supply water to a total of 97 municipality-owned water purveyors throughout South Korea including the Seoul metropolitan area.

The municipal water purveyors, on the other hand, supply water to their residents through their respective local water supply systems after purifying water caught by themselves at water sources or water supplied by us or by receiving purified water from us. Thus, in the waterworks water supply business, we play a role as wholesaler, while the local water purveyors act as retailers.

The total capacity of the Regional Water Supply Systems managed by the Corporation was 15,110 thousand cubic meters per day in 2001, accounting for 54% of the total water supplied. There are currently 26 regional water supply systems serving approximately 15million people and 6 more projects are under construction. In 2001 two water systems with a capacity of 286

thousand cubic meters per day was completed.

Water rates for waterworks water are averaged 193 won per cubic meter. The water rates, which have been regulated by the central government to prevent inflation, resulted in insufficient revenues to cover costs and excessive water use. Recognizing these problems, Government and legislature have agreed to launch a Water Rate Increase Program(WAIP) expressly stated in the provisions of the Water Supply Act. According to the WAIP, water rates for waterworks water were increased by 12.5% in 2001.

Water Industry Deregulation

Traditionally organized on the basis of national and local public monopolies, water utilities have been facing the challenges of international liberalization, privatization and restructuring. Korea has been no exception to these challenges.

The issues of water industry deregulation have picked up steam since 2000.

Since then private firms have been allowed to operate and maintain municipality-owned water and wastewater facilities in the form of lease or contract operations. Currently a substantial number of wastewater facilities are managed by private operators and are responsible for 47% of the total wastewater service.

The challenges of deregulation have mainly arisen from the need to meet soaring demand for utility services and the incapacity of the public sector to provide adequate services due to the multiplicity of areas demanding State attention in situations of prolonged economic crisis and hardship. In addition, new technologies, environmental and consumer concerns have increased pressure on the utilities to deliver services which are efficient, clean and, above all, affordable.

Seeking Growth Opportunities

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

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

In 2001, the Corporation won two wastewater projects contract from municipalities. Another landmark in 2001 was that the Corporation partnered with Vivendi Water, a renowned international water service company, was awarded contracts for Water Distribution

System Rehabilitation Projects by the municipalities of Masan and Gumi.

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

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

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

Land Development Service

Since 1973, the Corporation has played a leading role in land development for industrial and residential use to help lay the foundation for the growth of heavy and chemical industries, which have been the driving force behind economic development in Korea, and to provide a better living environment.

Large industrial complexes such as Yochon, Gumi, Changwon, Ohnsan, Shihwa, and a new town project have all been created by the Corporation.

Despite the difficulties in the real estate market over the past financial year, the Corporation had remarkable financial results in the land sales with achieving a net profit of 53.7 billion won for the year ended December 31, 2001, resulting from an overall revenue increase by 48 per cent over the previous year.

International Service

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

We have recognized this globalization and participated in the international tender in an ad hoc effort. Although the contribution of involvement in overseas projects to its revenue is marginal at this stage, the Corporation is prepared to continue to expand our role in the overseas market and to explore new potential in other areas and to enhance the technological competitiveness in the international arena.

We have a strategic plan to focus our efforts and resources toward transforming ourselves into an integrated water manager and service provider in the international water industry as well as in the deregulating Korean water markets, using our 35 year-long experience and expertise.

Forging Strategic Alliances

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

In 2001, we have formed strategic alliances and partnerships with renowned international water organizations as a strategic initiative to seek growth opportunities in the international arena.

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

We have also sought technical partnerships with Yenben Province in China, Montgomery

Watson-Harza in USA, International Institute for Infrastructural, Hydraulic and Environmental Engineering(IHE) in the Netherlands, Colorado State University in USA. The partnerships also include collaborative and training exchange programs.

Technical Consulting Service

KOWACO is frequently shortlisted by the Korea International Cooperation Agency(KOICA). We have associated ourselves in various consortia and have been instrumental in winning worldwide tenders on water resources planning and technical consulting. The Corporation has executed major consultancy projects for water development and hydropower programmes in a dozen South East Asian and African Countries for KOICA.

Country clients include Laos, Ethiopia, Slovakia, Nepal, China, Pakistan, Cambodia, Vietnam, Vanuatu, and North Korea.

Overseas Projects

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

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

In 2000, The Corporation was awarded a planning and designing contract for the Chameliya Hydropower Project in Nepal completed in October 2001. Funded by the Korea International Cooperation Agency(KOICA), the

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

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

This project is part of the UNDP's Tumen River Area Development Programme(TRADP).

This contract, which will be shared with the Korean Institute for Science and Technology(KIST), UNESCO, and the National Environmental Institute has a maximum value of about \$1 million.



Providing Professional Services

Technical Training and Consulting Service

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

Water Quality Service

KOWACO provides specialized environmental services using its highly trained experts. The Corporation has four accredited environmental analytical laboratories, serving private clients throughout the country. With our experienced staff of scientists, the labs offer

comprehensive analytical services on drinking water, groundwater, wastewater, surface water, sludges, particulates, recharge and soils.

In 2001, KOWACO launched a landmark Water Quality Service Improvement Program which is designed to provide customers with more reliable water quality service. The Program includes the building of a world-class water quality laboratory and strengthening the water quality testing standards.

Research and Development

The Corporation develops water resources-related technologies to improve the standard of living for the public. State of the art measurement devices have been mobilized to keep a close watch on the trends of various data and to maintain water quality in accordance with international standards.

For the development of technologies concerning water resources management, the Corporation established a water resources research institute in Daedeok Science Park. There are various buildings for research and laboratories on an 83,000 square meter lot in the center of this town. Approximately 60 water resources experts work on elementary and applied research projects for efficient water resources development and management. Currently over 30 research projects including three G-7 (Government-designated) projects are in progress. Research lessons are fed back into real operation and some of them have resulted in commercial achievement such as the electro-magnetic velocity meter for water surface. The research center is also leading technological development for alternative water resources such as seawater desalination, reclaimed water and water harvesting.



Strengthening Relationship with Customers

Our customer focus


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

Setting new standard in water quality

Concern for our customers holds us to the highest set of standards in water quality. All water provided to our customers is in full compliance with all current water quality requirements set by the government. In 2001, we launched a Water Quality Service Initiative. Under the Initiative, a world-class Integrated Water Quality Analysis Center will be established in 2002 and drinking water standards for all our water supply service will be strengthened : a total of 113 individual drinking water constituents will be added in the standards.

We meet our obligations to our customers every hour of every day of the year. Customer satisfaction is always in our minds.

Responsive to the Interests of Communities



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

Since 1990 we have developed a Community Support Program. With this program, we have annually contributed a sum accrued from sales of water and hydropower to the communities in KOWACO's service area. We have developed a healthy business climate and promoted a high quality of life for the communities we affect. We support and create projects that enhance the day-to-day well

being and future of our communities. These projects improve communities's quality of life, strengthen our existing businesses, and solicit their support in developing new ones. Working with elected officials, community leaders, and city decision makers, we play an active role in community's infrastructure development, public safety, cultural and recreational activities.

We support these and other community endeavors with a variety of services, including road surfacing, scholarship programs for young students, and other cultural services. In 2001, we contributed more than 30 billion won for community development.

Stewarding Environment

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

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

The quality of the water in the river system affects not only the people who live in the area but also business, industry, and the entire ecosystem's plant and animal

life. In managing the watershed, KOWACO uses an integrated method that balances water quality with the other demands on the system.

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

are employed to prevent environmental pollution and to prepare for accidents.

Environmental Commitments

In 2001, KOWACO promoted new approaches in environmental management. Our environmental management commitments are to :

- Integrate responsible environmental practices into business operations by establishing goals, measuring progress, and reporting performance through a comprehensive environmental management system.
- Factor environmental considerations into business decisions.
- Train KOWACO employees on their environmental responsibilities, and expect them to use effective environmental processes, holding them accountable for their performance.

Capital Plan and Financing Program

Water Resources

The Ministry of Construction and Transportation prepared the Comprehensive Water Resources Plan 2001-2020(CWRP) and Dam & Reservoir Development Program last year. The CWRP provides for the development of water resources, including dams and water facilities. Twelve dams and reservoirs are planned to be built by 2011, aiming at taming floods and droughts and increasing water supply.

Projected capital expenditures for the water resources development and rehabilitation of existing dams and reservoirs is 6.2 trillion won.

Water Supply

By the end of 2001, 54% of the population who received water supplies were served through the Regional Water Supply Systems. Out of 172 cities in Korea, 77 have received the benefit of the Systems.

In order to cope with the steadily increasing household water demand and to raise the quantity and quality of water, over 20 additional regional water supply systems, including 6 industrial water supply systems, are planned to be built by 2011, supplying

4.9 million cubic meters per day.

As well, the supply ratio of the regional water supply systems will rise from 54% in 2001 to 65% in 2011, and the nation-wide public water supply ratio will be raised from 89% in 2000 to 95% in 2011.

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

Land Development

The Corporation continues to develop industrial site projects and new towns undertaken by ISWACO, a predecessor of the Corporation.

This business, however, is limited by the KOWACO Act and the Articles of Incorporation of the Corporation to the development of industrial sites and towns which were completed or were underway at December 4, 1987 and the development of areas related thereto.

Such restriction reflects the change in Government policy. The new policy of the Government is to end the monopoly of industrial site and new town development business currently enjoyed by the Corporation and the Korea Land Corporation, encouraging the entrance of private entities into the market and thereby help reduce the sale prices through competition.

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



Current Capital Plan(2002-2006)

<i>Won in billions</i>	2002	2003	2004	2004	2005	2006
<i>Water Resources</i>	241	507	517	517	657	706
<i>Water Supply Infrastructure</i>	399	692	615	615	642	595
<i>Land Development</i>	301	472	483	483	451	725
<i>Others</i>	81	57	86	86	122	145
<i>Total</i>	1,022	1,728	1,701	1,701	1,872	2,171

Funding Sources

A substantial part of the funds required for construction of water infrastructure, such as dams and waterworks is contributed by the Government of Korea or local governments. In 2001 the Corporation self-financed about 53% of its investment needs, and the remainder was financed by the Government(27%), municipalities(8%), and through loans(12%).

In the fiscal year 2001, the Corporation issued 300 billion won of corporate debenture directly to the public and 3 billion yen in EuroYen bond. The corporation also received a USD loan of \$55 million from the National Australian Bank. These bond proceeds financed water infrastructure

construction and improvements.

Highlights of the financing program in 2001 include continued low interest costs on the

Corporate borrowing, the Corporation's first issuance of EuroYen bonds, and cash flow improvement by trading derivatives.

Operating Results

A comparative analysis of revenue for the years ended December 31, 2001 and 2000 is shown by major business category in the following schedule.

Water rates were increased in fiscal year 2001 by 12.5% resulting in an increase of

11% in operating revenues. Water consumption from 2000 to 2001 decreased by 5% due primarily to economic downturn and water use efficiency. Major contributions to income are an increase in land sales and a decline in interest rates.

	2001	2000	Percent Change
<i>Won in millions</i>			
<i>Water Resources</i>	293,194	415,204	-29%
<i>Reservoir-supplied raw water</i>	110,181	96,470	14.2%
<i>Hydropower</i>	79,321	150,845	-47.4%
<i>Reservoir management</i>	10,301	3,176	324.3%
<i>Water development</i>	93,391	164,713	-43.3%
<i>Water Supply</i>	426,826	385,174	10.8%
<i>Land Sales</i>	526,497	354,741	48.4%
<i>Others</i>	33,679	23,168	45.4%
<i>Total revenues</i>	1,280,196	1,178,287	9%
<i>Operating Income</i>	198,750	186,191	6.7%
<i>Income before tax</i>	166,148	99,097	67.6%
<i>Net Income</i>	103,161	62,637	64.7%

Debt Administration

At December 31, 2001 the total outstanding debt of the Corporation was 1.5 trillion won, of which 241 billion won is foreign bond and loan. The remaining 1.3trillion won consists of variable and fixed rate bonds and loans

maturing in varying installments through 2012. Debt Service coverage for 2001 was 27 percent. The total outstanding long term debt at December 31, 2001 is as follows:

Issue Date	Amounts(won in millions)
2001	310,424
2000	183,051
1999	475,615
1998	255,151
1997 and Prior	269,961
Total outstanding debt	1,494,202

Acknowledgements

The preparation of this annual report has been accomplished by the staff of the Korea Water Resources Corporation.

I wish to acknowledge the dedicated effort of the staff of the Corporation, especially Kim Hyun Joon, Finance and Accounting Director, and Lee Boug Young, Financial Planning Manager, in bringing together information from numerous sources to produce this document. Their work ensures that this report presents fairly and accurately

the financial position and the results of operations of the Korea Water Resources Corporation.

Min. B S

Byung Sir Min
Inspector General



Water Industry Information



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 - Water Quality
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Overview

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

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

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

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

Despite the continual water infrastructure build-up, South Korea is still expected to face a shortage of 102 million cubic meters of water in 2006 and 1.83 billion cubic meters in 2011, according to the Comprehensive Water Resources Plan 2001-2020. This shortage is largely derived from low runoff and topographical characteristics. The country's average rainfall stands at 1,283 mm per annum, well above the world's average of 973 mm, but per-capita rainfall is one-tenth of the global average rainfall.

Rainfall during the three-month monsoon season accounts for two-thirds of Korea's annual precipitation, but the country's topography flushes most of the water down mountain sides, through flood-prone valleys and out into the sea.

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

Recent Trends in Water Management Activities

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

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

Environmental groups have a proven track record when it comes to fighting dam construction. A case in point is the Dong River, whose waters meander through the towns of Jeongsun, Pyongchang and Yongwol in Kangwon Province on their way to the Han River and metropolitan Seoul. In

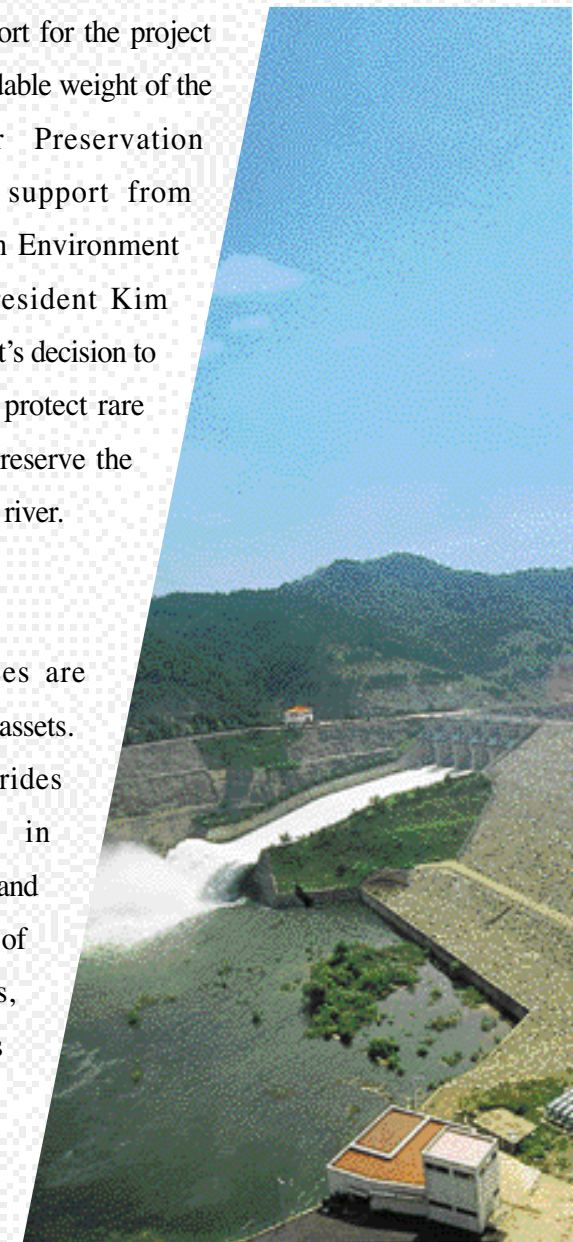
1997, the government began work to dam the 51-km river as a way to lessen floods on the Han and shore up water supplies.

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

Water at Risk

Korea's water resources are among its most valuable assets. Although significant strides have been made in augmenting water supply and in reducing the impacts of discrete pollutant sources, these water resources remain at risk in terms of quantity and quality.

With further



urbanization and industrialization, the demand for water is on the rise. Unfortunately, while water demand has been steadily increasing, water supply has leveled off, with many conventional water sources already tapped. As a result, Korea is now categorized as one of the water-deficit countries by the UN. To make it worse, pollution from industry and population

further degraded water quality.

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

Institutional Framework of Water Industry

Government Organizations

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

The Ministry of Environment play the lead role in the first area by administering Water Supply Act and Environmental Policy Act. The Ministry of Construction and

Transportation and government-owned Korea Water Resources Corporation play the lead role in the second area. Briefly, the functions of each of the main sector institutions are as follows:

The Water Quality Improvement Planning Commission

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

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

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

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

The Ministry of Agriculture and Forestry (MAF) is responsible for the use of water resources for irrigation and, through

the Korea Agricultural and Rural Infrastructure Corporation, plans and constructs reservoirs for irrigation water and utilizes the groundwater potential available for agricultural uses.

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

Water Service Organizations

In Korea, water supply services for urban and industrial uses have been domain of local governments. Local governments and municipalities either develop their own water resources or buy wholesale raw or treated water from the Korea Water Resources Corporation, a nationwide water purveyor.

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



the large cities have autonomous water and sewerage utilities.

Korea Water Resources Corporation (KOWACO), a state-owned autonomous water utility under MOCT, constructs and operates dams, reservoirs, and water conveyance facilities (regional bulk water projects), supplying both raw and treated water to municipalities and individual consumers. It also promotes and builds industrial sites and industrial water supply. Currently, KOWACO's water supply accounts for about 54% of nationwide water supplies.

Korea Agricultural and Rural Infrastructure Corporation (KARICO), a former Rural Development Corporation, newly formed through merger with hundreds of farmers's irrigation cooperatives, is responsible for developing and servicing agricultural water.

Deregulation

Until recently the official doctrine has been that water is a basic right and should be provided by the government cheaply. This led to the exploitation and misuse of water. Korean water and sewerage utilities have

mostly been government-owned and-operated until recently. Even so, there is a general consensus that even government-run utilities should be operated in accordance with commercial goals and make a profit, without requiring subsidies. Therefore privatization, is now a credible option for the publicly run water and sewerage systems.

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

To relieve the Government of Korea from the full burden of financing the sector, private investment in new infrastructure and private operation of water services has been encouraged since 2000.

However, the Government of Korea shall continue to own and/or control the natural resources and existing infrastructure assets.

Privatization is but a part of strategies of the Government to secure economic benefits for

Korea and not an end in itself. Private participation in the Water and Sewerage Sector is expected to bring improvements in the availability, quality and cost-effectiveness of services being delivered. Deregulation will contribute to significant

changes in the structure of the water industry. As a result, the water industry of 2010 or 2020 is likely to look very different from the water industry of today.

Water Information

Water Availability

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

A considerable portion of water resources flows directly into the ocean at the time of precipitation. The annual amount utilizable as water resources is restricted by the capacity which can be stored by reservoirs such as dams.

About two thirds of Korea's rainfall is concentrated in only four months, June to September, and about 55% of the total rainfall of 127 billion cubic meters is lost in the form of

evaporation and infiltration. To deal with this problem, large and numerous dams have been constructed since 1960 to provide storage reservoirs and to regulate year-round flows in the major rivers.

Without these dams, Korea would suffer severe shortfalls of raw water supplies for agricultural, industrial and municipal needs. Most large reservoirs in Korea are multipurpose impoundments designed to provide water supply storage, electric power, flood control, recreation, water quality.

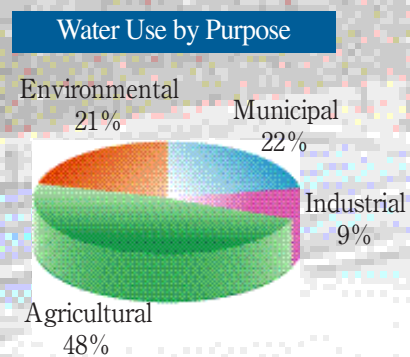
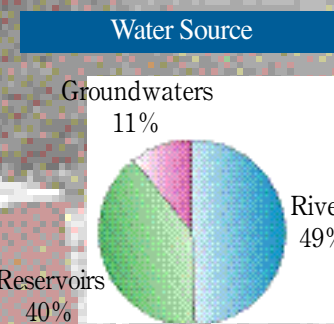
Multipurpose designs maximize the beneficial uses of large reservoir sites and provide regional water supply benefits.

Water Uses

Korea's estimated water use with existing

facilities and programs is about 33 billion cubic meters, of which about 30 billion cubic meters(94%) is supplied by surface water.

Among the surface water supply, 7.1 billion cubic meters(22%) is dedicated to environmental water use.



Municipal water use is categorized into residential, commercial(industrial), public bath, and public use. The amount of piped water supplies for urban use in 2000 was 20 million cubic meters per day and the coverage ratio was 87% serving 42 million

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

Annual Public Water Supply Statistics 1993~2000

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

* mcm : million cubic meter

Water Quality

Up until the 1960's, there were a largely justifiable perception that water pollution of Korean rivers was not a problem. When industrial development, impoundments, population increase and intensive farming practices commenced in the mid-60's, this position changed. The development

represented a significantly increased threat to Korea's inland waterways, reservoirs and lakes because they all have the capacity to produce waste.

Although significant strides have been made in reducing the impacts of discrete pollutants sources, Korea's water resources remain at risk.

Today's challenges include resolving significant and complex pollution problems that come from nonpoint sources, maintaining safe drinking water supplies, and protecting and restoring the health and integrity of aquatic ecosystems. Since 1990, the Ministry of Environment (ME) has taken source water protection measures and, recently watershed protection approach as the framework for meeting these challenges.

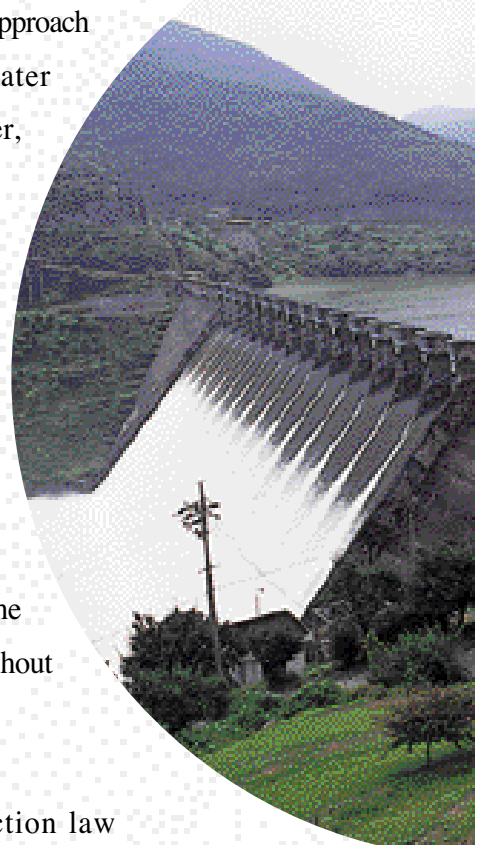
Watershed Protection Approach

The watershed protection approach is an integrated, holistic strategy for more effectively restoring and protecting aquatic resources.

This approach focuses on hydrologically defined drainage basins-watersheds rather than on areas arbitrarily defined by political boundaries.

Thus, for a given watershed, the approach encompasses not only the water resource, such as a stream, river, reservoir, but all the land from which water drains to the resource. To protect water resources, it is increasingly important to address the condition of land areas within the watershed because as water drains off the land or leaches to the ground water it carries with it the effects of human activities throughout the watershed.

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



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

Major programs

The Watershed Protection Act includes the following programs:

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

integrating individual municipality or agency plans with overall watershed protection objectives..

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

Water Finance

Water Charges

Water prices in Korea vary widely. The more than 172 local agencies that provide water service establish their prices based on factors specific to their individual service areas, and those prices are generally approved by local assemblies, or, in the case of Korea Water Resources Corporation(KOWACO), a nationwide water wholesaler, by the Ministry of Finance and Economy and KOWACO's appointed representatives of customers and NGOs.

Water charges in 2000 averaged 445 won(0.3 US\$) per cubic meter, but reaching up to three times as high in a few cities. However, the current water tariffs do not fully cover the cost of operation and maintenance and depreciation, let alone rate of return.

Even though the tariffs are set by each municipality and are not approved by central government any more, an increase of water tariffs has been gradual, reflecting only 75% of production costs due primarily to their impact on inflation.

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

Retail Water Tariff(Six Largest Cities-Average) - 2000

<i>(won/cubic meter)</i>						
Seoul	Busan	Daegu	Incheon	Kwangju	Daejeon	Nationwide
453.1	537.8	384.7	482.0	461.2	421.4	445.4

Water Financing

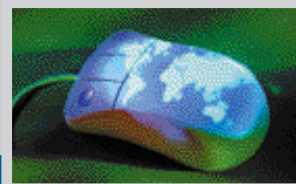
Water utilities are under significant financial pressure as a result of increasing urbanization, deteriorating infrastructure, underpricing of services and increasingly stringent drinking water quality standards. In 2000 local governments were reported to fall 373 million US\$ short of the 4 billion US\$

cost to comply with water needs. In addition, the difficulty of developing new sources of supply indicate that, relative to demand, water is becoming more scarce. The present ability of water utilities to address these problems is partially constrained by rate regulations.

The needs for investments in water supply between 2001 and 2011 is the projected at 15 billion US\$ or an average of about 1.5 billion US\$ per year, according to National Water Plan. The investment needs include capital improvements as well as water supply augmentation.



Financial Information



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SAMDUK ACCOUNTING CORPORATION

Auditors & Consultants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying sheet of Korea Water Resources Corporation ("the Company") as of December 31, 2001 and 2000, and the related statement of income, appropriations of retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion, as an independent auditor, on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Korea Water Resources Corporation as of December 31, 2001 and 2000, and the results of its operations and the changes in its retained earnings and cash flows for the years then ended in conformity with generally accepted financial accounting standards in the Republic of Korea.

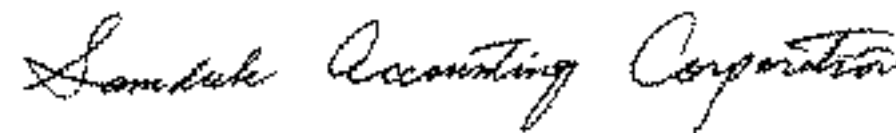
As described in Note 13, the Company is the plaintiff in connection with various legal proceedings with claims in the aggregate amount of ₩61,333 million at December 31, 2001. Further, several lawsuits have been brought against the Company as a

defendant with claims in the aggregate amount of ₩143,807 million at December 31, 2001. The outcome of these lawsuits cannot presently be determined.

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

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

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



February 2, 2002

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Certified Public Accountants. A Member of NEXIA INTERNATIONAL

FINANCIAL STATEMENTS

KOREA WATER RESOURCES CORPORATION

Balance Sheets, Continued December 31, 2001 and 2000

KOREA WATER RESOURCES CORPORATION Balance Sheets December 31, 2001 and 2000

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2001	2000	2001	2000
ASSETS				
Current assets :				
Cash and cash equivalents (Note 4)	₩76,305	₩133,542	US\$57,541	US\$100,703
Marketable securities	-	3,191	-	2,406
Accounts receivables-trade, less allowance for doubtful accounts of ₩390million in 2001 and ₩402million in 2000 (Note 5)	293,010	272,556	220,957	205,532
Inventories (Note 6)	280,084	374,908	211,209	282,715
Advance payments	18,399	11,984	13,874	9,037
Other current assets, less allowance for doubtful accounts of ₩1,968million in 2001 and ₩358million in 2000	16,993	30,241	12,814	22,804
Total current assets	684,791	826,422	516,395	623,197
Property, plant and equipment (Notes 10, 20)				
Land	17,677	14,111	13,330	10,641
Buildings	147,562	133,779	111,275	100,882
Structures	73,261	73,346	55,245	55,310
Machinery and equipment	376,542	316,934	283,947	238,997
Ships and vehicles	7,546	6,709	5,690	5,059
Tools, furniture and fixtures	37,398	32,173	28,202	24,261
Construction in progress	1,793,776	2,086,091	1,352,670	1,573,102
	2,453,761	2,663,143	1,850,359	2,008,252
Less accumulated depreciation	(148,910)	(120,794)	(112,292)	(91,090)
Net property, plant and equipment	2,304,851	2,542,349	1,738,068	1,917,162
Investments	7,705	12,229	5,810	9,222
Long-term inventories in-progress (Notes 6, 20, 23)	934,223	937,027	704,489	706,604
Property rights, net (Note 10)	5,496,408	4,626,039	4,144,791	3,488,454
Other assets (Note 9)	85,138	94,068	64,202	70,936
Total assets	₩9,513,116	₩9,038,134	US\$7,173,755	US\$6,815,575

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2001	2000	2001	2000
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities :				
Accounts payable-trade	₩55,899	₩102,296	US\$42,153	US\$77,140
Advance receipts	323,020	207,778	243,586	156,684
Income taxes payable	53,468	5,954	40,320	4,490
Current-portion of long-term debt (Note 11, 12)	415,472	403,557	313,303	304,319
Guarantee deposits received	3,139	2,348	2,367	1,771
Other current liabilities	37,634	28,437	28,379	21,444
Total current liabilities	888,630	750,370	670,108	565,847
Long-term debt, excluding current portion(Note11,12)	1,067,340	1,408,759	804,872	1,062,332
Deferred income tax liabilities (Note 21)	55,509	48,293	41,859	36,417
Retirement and severance benefits	14,785	4,718	11,150	3,558
Derivative instruments	-	-	5,106	-
Total long-term liabilities	1,144,406	1,461,770	862,987	1,102,307
Total liabilities	2,033,037	2,212,140	1,533,095	1,668,155
Commitments and contingencies (Notes 13)				
Shareholders' equity				
Paid-in capital				
Authorised - ₩10,000,000,000 million(Note 1, 14)	4,992,106	4,428,355	3,764,502	3,339,382
Capital surplus	1,465,203	1,465,203	1,104,896	1,104,896
Retained earnings :				
Legal reserve (Note 15)	305,598	284,965	230,449	214,890
Reserve for business expansion (Note 16)	591,851	549,069	446,310	414,048
Reserve for investment in social overhead capital (Note 17)	128,514	99,844	96,911	75,291
Capital adjustment :				
Unamortized stock issuance costs	(1,650)	(1,942)	(1,245)	(1,464)
Customers' donations	500	500	377	377
Gain(Loss) on valuation of derivative instruments	(2,042)	-	(1,540)	-
Total shareholders' equity	7,480,080	6,825,994	5,640,660	5,147,420
Total liabilities and shareholders' equity	₩ 9,513,116	₩ 9,038,134	US\$7,173,755	US\$6,815,575

KOREA WATER RESOURCES CORPORATION
Statements of Income
for the years ended December 31, 2001 and 2000

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2001	2000	2001	2000
Revenue (Note 18)	₩ 1,280,196	₩ 1,178,287	US\$ 965,384	US\$ 888,536
Cost and expenses				
Cost of revenue (Note 19)	1,041,509	953,731	785,392	710,200
Selling and administrative expenses	39,937	38,366	30,116	28,931
	<u>1,081,446</u>	<u>992,097</u>	<u>815,509</u>	<u>748,131</u>
Operating income	198,750	186,190	149,875	140,404
Other income (expense)				
Interest income	10,009	16,346	7,548	12,326
Interest expenses (Note 20)	(52,704)	(78,577)	(39,743)	(59,254)
Foreign currency translation and exchange losses, net	9,779	(3,173)	7,374	(2,393)
Donations	(3,731)	(24,272)	(2,813)	(18,303)
Losses relating to cancellation of land sales, net	(620)	2,709	(468)	2,043
Gains on disposal of property, plant and equipment, net	1,761	1,325	1,328	999
Other, net	2,904	(1,471)	2,190	(1,109)
	<u>(32,601)</u>	<u>(87,113)</u>	<u>(24,584)</u>	<u>(65,691)</u>
Ordinary income	166,148	99,077	125,291	74,713
Extraordinary gain (loss) :	-	-	-	-
Income before income taxes	166,148	99,077	125,291	94,713
Provision for income taxes (Note 21)				
Current	55,935	10,705	42,180	8,073
Deferred	7,052	25,735	5,318	19,407
	<u>62,987</u>	<u>36,440</u>	<u>47,498</u>	<u>27,479</u>
Net income	<u>₩ 103,161</u>	<u>₩ 62,637</u>	<u>US\$ 77,793</u>	<u>US\$ 47,234</u>

KOREA WATER RESOURCES CORPORATION
Statement of Appropriations of Retained Earnings
for the years ended December 31, 2001 and 2000

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2001	2000	2001	2000
Retained earnings before appropriations :				
Unappropriated retained earnings carried-over from prior year	₩ -	₩ -	US\$ -	US\$ -
Cumulative effect of accounting changes (Note 2)	103,161	62,637	77,793	47,234
Net income for the year	<u>103,161</u>	<u>62,637</u>	<u>77,793</u>	<u>47,234</u>
Transfer from reserve for investment in social overhead capital	<u>33,679</u>	<u>17,799</u>	<u>25,397</u>	<u>13,422</u>
	136,840	80,436	103,190	60,656
Appropriations of retained earnings	20,632	12,527	15,559	9,446
Legal reserve (Note 15)	42,276	43,227	31,880	32,597
Reserve for business expansion (Note 16)	506		382	
Reserve for business rationalization	1,730	1,804	1,304	1,360
Amortization of stock issuance costs	9,347	7,788	7,049	5,873
Cash dividends				
Reserve for investment in social overhead capital (Note 17)	<u>62,348</u>	<u>15,090</u>	<u>47,016</u>	<u>11,379</u>
	<u>136,840</u>	<u>80,436</u>	<u>103,190</u>	<u>60,656</u>
Unappropriated retained earnings to be carried forward to next year	<u>₩ -</u>	<u>₩ -</u>	<u>US\$ -</u>	<u>US\$ -</u>

KOREA WATER RESOURCES CORPORATION
Statement of Cash Flows
for the years ended December 31, 2001 and 2000

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2001	2000	2001	2000
Cash flows from operating activities :				
Net income	₩ 103,161	₩ 62,637	US\$ 62,637	US\$ 47,234
Adjustments to reconcile net income to net cash provided in operating activities:				
Depreciation and amortization	257,979	229,708	194,540	173,221
Gain on valuation of investments using the equity method	423	(385)	319	(298)
Allowance for doubtful accounts	1,612	149	1,215	112
Provision for retirement and severance benefits	10,625	24,332	8,012	18,349
Gain on disposal of property, plant and equipment, net	411	(3,100)	310	(2,338)
Foreign currency translation losses, net	(11,104)	11,047	(8,374)	8,330
Other	6,137	30,194	4,628	22,769
Changes in operating assets and liabilities;				
Accounts receivable	(20,455)	(15,997)	(15,425)	(12,063)
Inventories including long-term inventories in-progress	97,628	(145,502)	73,620	(109,722)
Advance payments	(6,415)	(4,243)	(4,837)	(3,200)
Other current assets	10,027	11,780	7,561	8,883
Accounts payable	(46,397)	(25,291)	(34,988)	(19,072)
Advance receipts	115,242	29,948	86,903	22,584
Income taxes payable	47,514	5,836	35,830	4,401
Guarantee deposits received	791	500	597	377
Other current liabilities	(2,364)	(3,161)	(1,783)	(2,384)
Payments of retirement and severance benefits	(557)	(66,135)	(420)	(49,872)
Deferred income tax liabilities	7,217	25,824	5,442	19,474
Total adjustments	468,313	105,494	353,150	79,552
Net cash provided by (used in) operating activities	571,474	168,131	430,943	126,786
Cash flows from investing activities :				
Proceeds from disposal of marketable securities	3,239	4,297	2,442	3,240
Proceeds from disposal of investments	8,466	2,001	6,384	1,509
Proceeds from disposal of property, plant and equipment	10,722	9,596	8,086	7,236
Acquisition of marketable securities	-	(3,000)	-	(2,262)
Acquisition of investments	-	(1,540)	-	(1,161)
Acquisition of property, plant and equipment	(844,355)	(979,506)	(636,721)	(738,637)
Decrease(Increase) in other assets	(907)	(4,386)	(684)	(3,307)
Net cash provided(used) in investing activities	(822,835)	(972,538)	(620,493)	(733,382)

KOREA WATER RESOURCES CORPORATION
Statement of Cash Flows, Continued
for the years ended December 31, 2001 and 2000

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2001	2000	2001	2000
Cash flows from financing activities :				
Increase in short-term borrowings, net	₩ 10,000	₩ -	US\$ 7,541	US\$ -
Increase in long-term debt	84,113	266,930	63,429	201,289
Repayment of current portion of long-term debt	(403,720)	(403,557)	(304,442)	(304,319)
Increase in paid-in capital	511,512	896,973	385,727	676,399
Payments of dividend	(7,781)	-	(5,868)	-
Net cash provided by financing activities	194,124	760,346	152,255	573,370
Increase (decrease) in cash and cash equivalents	(57,237)	(44,061)	(43,161)	(33,226)
Cash and cash equivalents at beginning of year	133,542	177,603	100,703	133,929
Cash and cash equivalents at end of year	₩ 76,305	₩ 133,542	US\$ 57,541	US\$ 100,703
Significant transactions not involving inflow or outflow of cash:				
Transfer of long-term debt to current portion	₩ 414,331	₩ 403,557	US\$ 12,433	US\$ 304,319
Transfer of construction in-progress to property rights	1,043,009	498,897	786,524	376,214
Increase in property rights due to investment in kind	52,239	265,021	39,393	199,850

NOTES TO FINANCIAL STATEMENTS

1. The Company

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

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

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

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

As of December 31, 2001, the ownership of the Company is as follows:

Government of the Republic of Korea	80.1%
Korea Development Bank (a wholly Korean government-owned financial institution)	7.3
Municipal governments of The Republic of Korea	12.6
	<u>100.%</u>

2. Summary of significant Accounting Policies

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

Basis of financial Statement Presentation :

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

Cash Equivalents:

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

Marketable Securities:

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

Allowance for doubtful accounts;

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

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

Inventories and long-term inventories in-progress:

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

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

Investments

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

Marketable securities among investments are stated at the fair value, and the difference between book value and fair value is charged to valuation gains and loss shown under capital adjustments account. However, the Company has no marketable securities among investments as of December 31, 2001 and 2000.

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

Investments market value is not available are stated at cost which is determined by the weighted average method. But if the investee's net book value declines and is not expected to recover, the acquisition cost is adjusted to the investor's share in the net worth of the investee.

The difference between original acquisition cost and adjusted amount is charged to current operations shown as investment securities impairment loss account.

(3) Investments using equity method

Investments in affiliated companies over which the Company exercises significant influence are stated using the equity method. The difference between the carrying value and the amount after adjusting for the investor's share in the investee's net assets is presented as "valuation gain or loss using equity method", to account for the investor's share in the earnings or losses of the investee. If the difference is derived from changes in the investee's retained earnings, such difference is presented as the increase or decrease in the investor's beginning retained earning. If the difference is derived from changes in the investee's capital adjustment, it is presented as valuation gain(loss) on investments, shown in capital adjustment account as a component of shareholders' equity.

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

(4) Investments in debt securities

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

Property, Plant and Equipment :

Property Plant and equipment are recorded at cost except for assets in existence as of January 1, 1998, 1983 and 1977, which were revalued in accordance with the Assets Revaluation Law of the Republic of Korea. The Assets Revaluation Law was abrogated since January 1, 2001. Expenditures for major additions and improvements are capitalized, and minor replacements, maintenance, and repairs are charged to expense as incurred.

Effective January 1, 1998, 1983 and 1977, the Company revalued certain of its property, plant and equipment in accordance with the previous Assets Revaluation Law. As a result of the asset revaluations, an assets revaluation surplus totaling W1,462,843 million (US\$1,103,117 thousand), net of revaluation taxes, was credited to stockholders' equity as capital surplus.

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

Buildings	30 years
Structures	30 years
Machinery and equipment	20 years
Ships and vehicles	5 to 10 years
Tools, furniture and fixtures	5 years

The value of the Company's land, as determined by the Government of the Republic of Korea for tax administration purposes, is approximately W34,270 million (US\$25,843 thousand) as of December 31, 2001. Such valued amount is typically less than fair market value.

Capitalization of Interest:

The Company capitalizes interest cost on borrowings incurred in connection with construction of property, plant and

equipment and the development projects of industrial sites and cities (Note 20).

Property rights:

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

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

Discount on debentures:

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

Retirement and Severance Benefits

In accordance with the Company's regulations, employees and directors with more than one year service are entitled to receive a lump-sum payment upon termination of their service with the Company, based on their length of service and rate of pay at the time of termination and certain other factors. The accrued severance benefits which would have been payable assuming all eligible employees and directors terminated their employment as of December 31, 2001 and 2000 are ₩14,785 million (US\$11,149 thousand) and ₩4,718 million (US\$3,558 thousand) respectively.

Further to the Korean Labor Standards Law, employees who have been with the Company for more than one year can be given the option to receive retirement and severance benefits payments, calculated based upon the rates of pay at the time of payments, prior to termination of their employment. Those employees who receive early payments before termination of their employment shall be further entitled to retirement and severance benefits based upon the rates of pay at the time of termination, years of service subsequent to the previous payments, and certain other factors. The Company made early payments of retirement and severance benefits amounting to ₩64,224 million (US\$50,984 thousand) to

employees during the year ended December 31, 2001, and ₩64,224 million (US\$48,431 thousand) during the year ended December 31, 2000.

Foreign Currency Translation

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

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

Derivative Instruments and Hedging Activities

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

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

Basis of revenue recognition:

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

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

In respect of industrial site development projects and long-term construction contracts with the Government of the

Republic of Korea and municipal governments, the Company recognized revenue based upon the percentage-of-completion method, and in applying the percentage-of-completion method, the Company recognized revenue to the extent of costs accrued and recoverable. As such, the Company recognized sales revenue of W86,707 million (US\$50,103 thousand) and W63,115 million (US\$47,594 thousand) in 2001 and 2000, respectively.(Note 5)

Income Taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Use of estimates:

The preparation of financial statements in accordance with Korean GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. United States Dollar Amounts

The company operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the reader. For both 2001 and 2000, all Won amounts has been translated into U.S. Dollars at the rate of W1,326.10, the rate prevailing on December 31, 2001.

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

4. Cash and cash equivalents, and financial instruments

Cash and cash equivalents, and financial instruments consist of the following as of December 31, 2001 and 2000.

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2001	2000	2001	2000
Cash and cash equivalents				
Cash on hand	12	67	53	72
Passbook accounts	604	7,683	6,099	53,356
Time deposits	75,689	125,792	99,859	87,560
	<u>76,305</u>	<u>133,542</u>	<u>106,011</u>	<u>140,988</u>
Long-term financial instruments				
Restricted bank deposit	912	-	-	509
Deposits for group retirement and severance benefits	-	1,415	1,123	1,352
	<u>912</u>	<u>1,415</u>	<u>1,123</u>	<u>1,861</u>

5. Accounts receivable

Accounts receivable consist of the following as of December 31, 2001 and 2000.

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2001	2000	2001	2000
Trade receivables on supply of water	75,722	68,172	54,118	54,419
Trade receivables on sale of industrial sites	200,129	157,105	124,716	118,544
Accounts receivable - other	9,712	47,681	37,851	30,971
	<u>285,563</u>	<u>272,958</u>	<u>216,685</u>	<u>203,934</u>

Trade receivables of W100,249 million (US\$79,582 thousand) and W109,249 million (US\$82,384 thousand) at December 31, 2001 and 2000, respectively, were recorded with respect to sales revenue recognition based on the percentage-of-completion method.

6. Inventories

Inventories consist of the following as of December 31, 2001 and 2000.

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2001	2000	2001	2000
Land	1,207,856	1,306,584	1,037,218	921,933
Supplies	5,488	4,479	3,556	3,822
Raw materials	963	776	616	185
Other	-	96	76	10
	<u>1,214,307</u>	<u>1,311,935</u>	<u>1,041,466</u>	<u>925,950</u>
Less: portion of land classified as non-current	(934,223)	(937,027)	(743,849)	(594,079)
	<u>280,084</u>	<u>374,908</u>	<u>297,617</u>	<u>331,871</u>

7. Investments

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

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

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

	Equity(%)	Number of shares	Korean Won in millions		U.S. Dollars(Note3) in thousands
			Net worth	Book value	Book value
Korea Construction Resources Co., Ltd. ("KCRC")	5.3	66,785	633	633	503
Korea Construction Management Corp. ("KCMC")	18.9	178,200	8,088	4,000	3,175
Kyung-in Canal Co., Ltd. ("KICC")	20.0	748,000	3,504	3,504	2,782
Korea Water Resources Engineering Corp. ("KWRE")	100.0	817,552	23,339	4,085	3,242
				12,222	9,702
Bonds	-	-	-	7	6
				<u>12,229</u>	<u>9,708</u>

The Company valued its investments in KICC and KWRE using the equity method, resulting in a net valuation loss of ₩659 million (US\$497 thousand) as of December 31, 2001, and net gain of ₩395 million (US\$298 thousand) as of December 31, 2000.

8. Transactions and Balances with Related Companies

The Company's financial statements include the following major balances and transactions with related companies as of and for the years ended December 31, 2001 and 2000

	Korean Won in millions							
	Due from		Due to		Purchases from		Operating expenses paid to	
	2001	2000	2001	2000	2001	2000	2001	2000
KWRE	-	-	-	4,460	-	5,195	-	31,425
KWREKICC	13,315	13,315	-	-	-	-	-	-
	<u>13,315</u>	<u>13,315</u>	<u>-</u>	<u>4,460</u>	<u>-</u>	<u>5,195</u>	<u>-</u>	<u>31,425</u>

	Korean Won in millions							
	Due from		Due to		Purchases from		Operating expenses paid to	
	2001	2000	2001	2000	2001	2000	2001	2000
KWRE	-	-	3,540	5,595	4,124	1,667	24,946	25,578
KICC	10,570	10,617	-	-	-	-	-	-
	10,570	10,617	3,540	5,595	4,124	1,667	24,946	25,578

KWRE resolved dissolution as of March 21 2001, and is under liquidating process as of December 31, 2001.

9. Other assets

Other assets consist of the following as of December 31, 2001 and 2000.

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2001	2000	2001	2000
Deposits for group retirement and severance benefits				
Restricted bank deposit	-	1,415	1,123	1,352
Long-term loans to employees	912	-	-	509
Key money and other deposits	2,445	1,187	895	18,098
Other	58,101	52,283	41,504	37,889
	23,680	39,183	25,918	7,720
	85,138	94,068	74,675	82,833

Key money and other deposits as of December 31, 2001 and 2000, include ₩27,495 million (US\$21,827 thousand) and ₩27,495 million (US\$20,734 thousand) respectively, deposited with the courts in connection with lawsuits filed against the Company (Note 13).

10. Insurance

Property, plant and equipment and property rights were insured against fire and other casualty losses for up to ₩407,873 million (US\$307,573 thousand) and ₩370,683 (U.S.\$279,529 thousand) as of December 31, 2001 and 2000, respectively. In addition, the Company maintains general vehicle and comprehensive general liability insurance policies.

11. Liabilities denominated in foreign currencies

Liabilities denominated in foreign currencies consist of the following as of December 31, 2001 and 2000.

	Foreign currency in thousands		Equivalent Korean Won in millions	
	2001	2000	2001	2000
Long-term debt, including current portion	US\$ 69,437	US\$ 75,128	89,736	93,586
	¥15,000,000	¥12,000,000	151,410	132,182
			241,146	225,768

12. Long-term debt

Long-term debt consists of the following as of December 31, 2001 and 2000.

	Annual Interest Rate	Foreign currency in thousands		Equivalent Korean Won in millions	
		2001	2000	2001	2000
Foreign currency loans;					
Borrowings through the	6.58				
Korean government	7.73	16,801	20,921	16,608	126,398
National Australia Bank Ltd.	Libor+				
and others	0.57	72,936	69,283	55,000	50,010
Korea Development Bank	-	-	3,382	2,685	8,731
Foreign currency debentures(₩)	0.9	151,295	131,380	104,295	-
	2.80				
		241,032	224,966	104,295	187,734
Local currency loans;					
Ministry of Construction and	5.0	20,700	20,700	16,432	16,432
transportation	5.5				
Korea Development Bank	8.6	258,507	267,1490	212,074	216,690
Korea Petroleum	5.0	5,250	13,250	10,518	16,869
Development corporation					
Ministry of Environment		5,300	-		
Koram Bank		3,738	1,832		
Ulsan City		12,341	12,855		

Local currency debentures	2.9 -	935,944	1,271,564	1,009,417	1,082,255
	20.0	1,241,780	1,587,350	1,260,101	1,343,639
		1,482,812	1,812,316	1,438,698	1,531,373
Less: current portion		(415,472)	(403,557)	(320,360)	(285,040)
		1,067,340	1,408,759	1,118,329	1,246,333

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

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

On August 31, 2001, the Company issued Foreign currency(¥) denominated debentures with Daiwa Securities SB Capital Markets Co., Ltd as a lead manager. The debentures outstanding as of December 31, 2001 consisted of the following ;

Annual interest rate	0.9%
Final maturity	August 31, 2004
Total amount	¥3,000 million (W30,282 million)
Less: discount on debentures(bond issuance costs)	(W115 million)
	<u>W 30,167 million</u>

Local currency debentures issued and outstanding as of December 31, 2001 consisted of the following (Korean Won in millions);

Series	16 to 87
Issuance range	W5,000 ~ W100,000
Annual interest rate	2.9% ~ 20.0%
Final maturity	Aug. 2007
Total amount	W937,220 million
Less: discount on debentures(bond issuance costs)	<u>(537) million</u>
	W 1,271,563 million

13. Commitments and Contingencies

Prior to 1996, a capital gains tax totaling W80,110 million (US\$60,410 thousand) related to 1990 through 1993 was assessed by the Korean tax authorities against the Company. The Company paid the W80,110 million capital gains tax assessment including additional penalty tax of W32,838 million (US\$24,763 thousand), and filed a lawsuit with the Appellate Court in Daejeon to claim a refund of the additional penalty tax paid. The Appellate Court ruled that among the payment, the additional penalty tax should be refunded to the Company. Currently, the case is under appeal by the Korean tax authorities with the Korean Supreme Court. The Company cannot presently predict the outcome of these appeals.

Further, the Company is a plaintiff in various legal proceedings in respect of environmental matters in the aggregate amount of W28,495 million (US\$21,488 thousand) at December 31, 2001. The Company cannot presently predict the outcome of these legal proceedings.

Several lawsuits have been brought against the Company in respect of claims for defrayal of losses, incurred by residents in Shiwha as a result of the construction of a seawall (see below), in the aggregate amount of W143,807 million (US\$108,444 thousand). The Company cannot presently predict the outcome of these lawsuits.

The Company has constructed a seawall in connection with a land reclamation project in Shiwha, Korea. The reclamation project consists of two phases and the seawall is connected to both phases. Further to an approval granted by the Government of the Republic of Korea, the Company has developed the first phase of the project. The zoning of the second phase of the project has not yet been established by the Government of the Republic of Korea. In connection with

the construction of the seawall, the Company has incurred costs totaling W545,255 million (US\$411,172 thousand) through December 31, 2001. Of the amount, W272,627 million (US\$205,586 thousand), 50% of the costs, has been allocated to the cost of the first phase of the project. However, the remaining W272,628 million is included in long-term inventories in-progress at December 31, 2001 which will be charged to the cost for the second phase of the project in the future. According to the Korean Ministry of Construction and Transportation, the second phase of the project will commence in 2002 or thereafter and the Company will be appointed as the developer. While such appointment has not been formally made to date, management of the Company is of the opinion that the Company will act as the developer of the second phase of the project. Further, if the Company is not appointed as the developer of the second phase of the project, the Company understands (unofficially) that it will be able to claim a refund of the W272,628 million either from the Government of the Republic of Korea or another developer.

The Company is committed to supply hydroelectric power to Korea Electric Power Corporation (KEPCO). Revenues from sale of hydroelectric power to KEPCO for the year ended December 31, 2001 amounted to W79,321 million (US\$59,815 thousand).

The Company has outstanding construction contracts (backlog) amounting to W84,715 million (US\$63,883 thousand) at December 31, 2001.

The Company has entered into operating loan arrangements with seven Korean financial institutions. The lines of credit under such arrangements amounted to W680,000 million (US\$512,782 thousand) as of December 31, 2001

The Company has entered into currency and interest rate swap agreements to reduce the effect of changes in foreign currency and interest rates on its long-term debt. As of December 31, 2001, the Company had outstanding 2 currency swap and 5 interest rate swap agreements with Seoul branches of foreign banks. The Company classified these transactions as cash flow hedge transactions and the longest swap agreements mature at September 2006.

As of December 31, 2001, effective portion of changes in the fair value of the derivative instrument which are reported in capital adjustment as follows.

	Korean Won in millions		U.S. Dollars in thousands	
	Gain on valuation of derivative instrument	Loss on valuation of derivative instrument	Gain on valuation of derivative instrument	Loss on valuation of derivative instrument
Foreign currency swap	-	5,460	89,736	93,586
Interest rate swap	4,729	1,311	-	-
	<u>4,729</u>	<u>6,771</u>	<u>241,146</u>	<u>225,768</u>

14. Paid-in capital

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

15. Legal reserve

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

16. Reserve for business expansion

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

17. Reserve for investment in social overhead capital

Under the Korean Tax Incentives and Limitation Law, the Company is allowed to deduct amounts provided as a reserve

for investment in social overhead capital from taxable income through appropriations of retained earnings. The unused portion of the reserve is added back to taxable income over three years after a three-year grace period.

18. Revenue

Revenue for 2001 and 2000 consist of the following.

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2001	2000	2001	2000
Development of new cities and industrial sites:			4444	444
Construction business	526,497	354,741		
Dams	90,912	164,713	130,755	115,652
Water supply systems	2,478	-	-	29,516
	93,390	164,713	130,755	145,168
Utilities business				
Sales of dam managed water and hydroelectric power, etc.	199,803	250,492	76,581	61,299
Sales of waterworks managed water	426,826	385,175	305,767	264,688
	626,629	635,667	504,617	447,640
Other	33,680	23,166	18,392	12,436
	1,280,196	1,178,287	935,371	844,621

19. Cost of revenue

Cost of revenue for 2001 and 2000 consist of the following.

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2001	2000	2001	2000
Development of new cities and industrial sites:	413,466	305,434	242,465	215,298

Construction business				
Dams	90,913	164,713	130,756	115,785
Water supply systems	2,478	-	-	29,516
	93,391	164,713	130,756	145,301
Utilities business	503,151	462,571	367,207	330,202
Other	31,501	21,013	16,682	11,644
	1,041,509	953,731	757,110	720,445

20. Interest capitalization

Details of interest capitalized for 2001 and 2000 consist of the following.

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2001	2000	2001	2000
Total interest incurred	100,514	144,529	114,733	127,442
Charged to expense	(52,704)	(78,577)	(62,378)	(58,625)
Interest capitalized	47,810	65,952	52,355	68,817
Allocations to:				
Construction in-progress	26,129	30,171	23,951	25,131
Inventories and cost of revenue	21,681	35,781	28,404	43,686
	47,810	65,952	52,355	68,817

21. Income taxes

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

The Company is subject to additional taxes on capital gains at the aggregate rates of 16.5% on capital gains.

A reconciliation between income before income taxes per the accompanying financial statements and tax loss per the corporate income tax return is as follows:

	Korean Won in millions		U.S. Dollars(Note3) in thousands	
	2001	2000	2001	2000
Income before income taxes as per the financial statements	166,148	99,077	78,651	52,385
Permanent differences:	1,973	1,113	884	1,897
Temporary differences:				
Severance and retirement benefits	7,455	(39,140)	(31,071)	(66,198)
Depreciation	(228)	1,516	1,203	(198)
Reserve for investment in social overhead capital	(29,487)	21,877	17,367	18,839
Capitalized interest	(874)	(5,647)	(4,483)	(20,904)
Deferred foreign currency translation loss, net	(978)	(41,577)	(33,005)	(9,890)
Interest income	6,942	9,065	7,196	4,730
Gain on valuation of investments using the equity method of accounting	(4,361)	130	103	(543)
Other, net	(1,898)	(9,152)	(7,265)	3,506
Net tax loss carryforward	-	(20,628)	(16,375)	-
	(23,429)	(83,556)	(66,330)	(70,658)
Tax income(loss)	144,692	16,634	13,205	(16,376)

Deferred income taxes reflect the net tax effects of the net operating tax income and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. Significant changes in cumulative temporary differences and the net operating tax loss for the year ended December 31, 2001 are as follows:

	Korean Won in millions		
	Beginning balances	Increase (Decrease)	Ending balances
Temporary differences:			
Retirement and severance benefits	1,416	7,455	8,871
Depreciation	7,219	(228)	6,991
Reserve for investment in social overhead capital	(65,238)	(29,487)	(94,725)
Capitalized interest	(97,840)	(874)	(98,714)
Deferred foreign currency translation loss, net	2,323	(978)	1,345
Interest income	(9,990)	6,942	(3,048)
Gain on valuation of investments using the equity method of accounting	4,361	(4,361)	-
Other, net	953	(1,898)	(945)
	(156,796)	(23,429)	180,225
Deferred income tax liabilities			
	(48,293)		(55,509)

Provision for income taxes for the year ended December 31, 2001 consisted of the following:

	Korean Won in millions	U.S. Dollars in thousands(Note 3)
Current tax provision (including to capital gains tax)	55,935	
Tax effect of temporary differences	7,052	
	62,987	

The effective income tax rate for the year ended December 31, 2001 is as follows:

	Korean Won in millions	U.S. Dollars in thousands(Note 3)
Provision for income taxes	62,987	
Income before income taxes	166,148	
Effective income tax rate	37.9%	36.78%

22. Segment information

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

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

23. The Korean economy

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

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Investor Relations

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

Forward-Looking Statements

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

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