Korea Water Resources Corporation
Issue of U.S.$100,000,000 Floating Rate Notes due 2022
(the "Notes")

under the
U.S.$2,000,000,000 Medium Term Note Programme

Issue Price: 100 per cent.
Issue Date: 2 August 2019

This information package includes the offering circular dated 23 March 2018 in relation to the U.S.$2,000,000,000 Medium Term Notes Programme of Korea Water Resources Corporation (the "**Issuer**") (the "**Offering Circular**") and the Pricing Supplement dated 19 July 2019 in respect of the Notes (the "**Pricing Supplement**", and together with the Offering Circular, the "**Information Package**").

The Notes will be issued by the Issuer.

Application will be made by the Issuer for the Notes to be listed on the Taipei Exchange ("**TPEx**") in the Republic of China (the "**ROC**"). Application will also be made to list the Notes on the Singapore Exchange Securities Trading Limited ("**SGX-ST**").

The Notes will be listed on TPEx pursuant to the applicable rules of TPEx. The effective date of the listing and trading of the Notes is on or about 2 August 2019. The effective date of listing of the Notes on the SGX-ST is on or about 5 August 2019.

TPEx is not responsible for the content of the Information Package and no representation is made by TPEx as to the accuracy or completeness of the Information Package. TPEx expressly disclaims any and all liability for any losses arising from, or as a result of the reliance on, all or part of the contents of this Information Package. The admission to listing and trading of the Notes on TPEx shall not be taken as an indication of the merits of the Issuer or the Notes.

The Notes have not been, and shall not be, offered, sold or re-sold, directly or indirectly to investors other than "professional investors" as defined under Paragraph 1 of Article 2-1 of the Taipei Exchange Rules Governing Management of Foreign Currency Denominated International Bonds of the ROC. Purchasers of the Notes are not permitted to sell or otherwise dispose of the Notes except by transfer to a professional investor.

Lead Manager
SG Securities (HK) Limited, Taipei Branch

Co-managers
CTBC Bank Co., Ltd.
Mega International Commercial Bank Co., Ltd.
President Securities Corporation
SinoPac Securities Corporation
Taishin International Bank Co., Ltd.

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES

IMPORTANT: YOU MUST READ THE FOLLOWING DISCLAIMER BEFORE CONTINUING. The following disclaimer applies to the Offering Circular attached to this e-mail. You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Offering Circular. In accessing the attached Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: You have accessed the attached document on the basis that you have confirmed to Crédit Agricole Corporate and Investment Bank (the "**Arranger**"), BNP Paribas, Citigroup Global Markets Limited Goldman Sachs International, Nomura International plc and Société Générale (together with the Arranger, the "**Dealers**") that (1) you are not in the United States, you are not a resident in the United States nor a U.S. Person, as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), nor acting on behalf of a U.S. Person and, to the extent you purchase the securities described in the attached offering circular (the "**Offering Circular**"), you will be doing so pursuant to Regulation S under the Securities Act and (2) that you consent to delivery of the attached Offering Circular by electronic transmission.

You have accessed the attached document on the basis that you understand that the materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Dealer or any affiliate of that Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Dealer or such affiliate on behalf of the Company in such jurisdiction. The Offering Circular may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

The attached Offering Circular has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither the Company, the Dealers nor any of their respective affiliates accept any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version.

Restrictions: The attached document is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described therein. You are reminded that the information in the attached document is not complete and may be changed. Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the Company of the securities or the Dealers to subscribe or purchase any of the securities described therein and access has been limited so that it shall not constitute directed selling efforts (as such term is defined in Regulation S under the Securities Act) in the United States or elsewhere. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein. Any securities to be issued will not be registered under the Securities Act and may not be offered or sold in the United States (as such terms are defined in Regulation S under the Securities Act) unless registered under the Securities Act or pursuant to an exemption from such registration.

Important – EEA Retail Investors: If the Pricing Supplement (as defined in the Offering Circular) in respect of any Notes includes a legend entitled "*Prohibition of Sales to EEA Retail Investors*," the Notes are not intended, from the date of application of Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**"), to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

You are reminded that you have accessed the attached Offering Circular on the basis that you are a person into whose possession the attached Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located.

YOU ARE NOT AUTHORISED AND YOU MAY NOT DELIVER THE ATTACHED OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

OFFERING CIRCULAR **STRICTLY CONFIDENTIAL**

KOREA WATER RESOURCES CORPORATION

(a statutory juridical corporation organized under the laws of the Republic of Korea)

US$2,000,000,000 Euro Medium Term Notes Programme

Korea Water Resources Corporation (the "**Company**" or the "**Issuer**") established a US$1,000,000,000 Euro Medium Term Note Programme (the "**Programme**," as amended, supplemented or restated) on 10 September 2008. The Programme was amended on 12 May 2017 in order to, among other things, increase the Programme limit to US$2,000,000,000. This offering circular (the "**Offering Circular**") replaces and supersedes in its entirety the offering circular of the Company dated 12 May 2017, relating to the Programme. Any Notes (as defined below) issued under the Programme on or after the date of this Offering Circular are issued subject to the provisions described herein.

Under the Programme, the Company may from time to time issue notes in bearer and/or registered form (respectively, "**Bearer Notes**" and "**Registered Notes**" and, together, the "**Notes**" which expression shall include Senior Notes (each as defined herein)) denominated in any currency agreed between the Company and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed US$2,000,000,000 (or its equivalent in other currencies calculated as described herein).

The Notes may be issued on a continuing basis to one or more of the dealers specified under "*Summary of the Programme"* and any additional dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a "**Dealer**" and together the "**Dealers**"). References in this Offering Circular to the "**relevant Dealer**" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") in connection with the Programme and application will be made for the listing and quotation of Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted for listing and quotation on SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of any of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Company, the Programme or the Notes. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each tranche of Notes will be set out in a pricing supplement (the "**Pricing Supplement**") which, with respect to Notes to be listed on the SGX-ST, will be submitted to the SGX-ST before the date of listing of the Notes of such tranche.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States (as defined in Regulation S under the Securities Act ("**Regulation S**")) except pursuant to an exemption from the registration requirements of the Securities Act. Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder (the "**Code**")). For a description of these and other restrictions on transfer, see "*Subscription and Sale and Selling Restrictions."*

In addition, if the Pricing Supplement (as defined in the Offering Circular) in respect of any Notes includes a legend entitled "*Prohibition of Sales to EEA Retail Investors*," the Notes are not intended, from the date of application of Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**"), to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

The Pricing Supplement in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person offering, selling or recommending the Notes (a "**distributor**") should take into consideration such target market; however, a distributor subject MiFID II is responsible for undertaking its own target market assessment in respect of the Notes and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

The Company may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

See *"Risk Factors"* beginning on page 8 for a discussion of certain factors to be considered in connection with an investment in the Notes.

Arranger

Credit Agricole CIB

Dealers

BNP PARIBAS	**Citigroup**	**Credit Agricole CIB**
Goldman Sachs International	**Nomura**	**Société Générale Corporate & Investment Banking**

The date of this Offering Circular is 23 March 2018.

The Company confirms that it has taken all reasonable care to ensure that all information contained in this Offering Circular with regard to the Company and the Notes is in every material respect true and accurate and not misleading and to the best of its knowledge and belief there are no other facts the omission of which would make any statement in this Offering Circular misleading in any material respect in the context of the issue and sale of the Notes. The Company accepts responsibility accordingly.

Neither the Arranger nor the Dealers has separately verified the information (financial, legal or otherwise) contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger or the Dealers as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Company in connection with the Programme. Nothing contained in this Offering Circular is or shall be relied upon as a promise or representation by the Arranger or the Dealers or their respective affiliates or advisers.

No person is or has been authorised to give any information or to make any representation which is not contained in, or which is not consistent with, this Offering Circular or any other information supplied by or on behalf of the Company in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Company, the Arranger or the Dealers. This Offering Circular does not constitute an offer to sell or the solicitation of any offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities by any person in any circumstances in which such offer or solicitation is unlawful.

Neither this Offering Circular nor any other information supplied in connection with the Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by the Company that any recipient of this Offering Circular should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Company.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Company is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arranger and the Dealers expressly do not undertake to review the financial condition or affairs of the Company during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and are subject to U.S. tax law requirements. The Notes have not been registered under the Securities Act and are being offered and sold outside the United States in reliance on Regulation S under the Securities Act. For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this Offering Circular, see "*Subscription and Sale*."

The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. Neither the Company, the Arranger nor the Dealers represents that this Offering Circular may be lawfully distributed or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Company, the Arranger or the Dealers which would permit a public offering of the Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe, any such restrictions. There are restrictions on the offer, sale and resale of the Notes, and the circulation of documents relating thereto, in certain jurisdictions including, without limitation, the United States, the European Economic Area, United Kingdom, Hong Kong, Singapore, Japan, Switzerland and Korea, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Notes and distribution of this Offering Circular, see "*Subscription and Sale*."

None of the Dealers or the Company makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

Each person receiving this Offering Circular acknowledges that such person has not relied on the Arranger or the Dealers or any person affiliated with the Arranger or the Dealers in connection with investigation of the accuracy of such information or its investment decision.

ENFORCEMENT OF CIVIL LIABILITIES

The Company is a statutory juridical corporation organized under the laws of Korea. All of the officers and directors named herein reside in Korea and all or a substantial portion of the assets of the Company and of such officers and directors are located in Korea. As a result, it may not be possible for investors to enforce judgments against them obtained in courts outside Korea predicated upon civil liabilities of the Company or such directors and officers under laws other than Korean law, including any judgment predicated upon United States federal securities laws. The Company has been advised by Bae, Kim & Lee LLC, its Korean counsel, that there is doubt as to the enforceability in Korea in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The financial information as of and for the years ended 31 December 2016 and 2017 is presented on a consolidated basis under the Korean Government-owned and Quasi-government Accounting Regulation and Standards (the "**K-GAAP**") and for items that are not specified under the K-GAAP, under the Korean International Financial Reporting Standards ("**K-IFRS**"), as the case may be.

Unless otherwise specified or the context requires, all financial and other information in the Offering Circular regarding the Company's activities, financial condition and results of operations are presented on a consolidated basis.

All references in this document to "**Korea**" or the "**Republic**" refer to the Republic of Korea, those to the "**Government**" refer to the Government of Korea, those to the "**MOLIT**" refer to the Ministry of Land, Infrastructure and Transport of Korea, those to the "**MOSF**" refer to the Ministry of Strategy and Finance of Korea, those to the "**ME**" refer to the Ministry of Environment, those to "**MOTIE**" refer to the Ministry of Trade, Industry and Energy, those to the "**MAFRA**" refer to the Ministry of Agriculture, Food and Rural Affairs and those to the "**MOI**" refer to the Ministry of the Interior.

All references to "**K-water**," the "**Company**" or the "**Company**" herein are references to Korea Water Resource Corporation. All references to "**we**," "**our**" or "**us**" herein are references to the Company or to the Company and its subsidiaries, as the context requires.

Unless otherwise specified or the context requires, references in this Offering Circular to "**Korean Won**," "**Won**" and "**₩**" are to the currency of Korea, and references to "**U.S. dollars**," "**US$**" and "**U.S.$**" are to the currency of the United States of America.

For convenience only, certain Won amounts have been translated into U.S. dollars. Unless otherwise specified, all such conversions were made at the market average exchange rate announced by Seoul Money Brokerage Services, Ltd. in Seoul between Won and the U.S. dollars (the "**Market Average Exchange Rate**"). Where applicable, the translations of Won into U.S. dollars as of 31 December 2017 have been made at the Market Average Exchange Rate in effect as of 31 December 2017, which was ₩1,071.4 = U.S.$1.00. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all. Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding. See "*Exchange Rates.*"

FORWARD LOOKING STATEMENTS

Certain statements in this Offering Circular constitute "**forward-looking statements**," including statements regarding the Company's expectations and projections for future operating performance and business prospects. The words "believe," "expect," "anticipate," "estimate," "project," "will," "aim," "will likely result," "will continue," "intend," "plan," "contemplate," "seek to," "future," "objective," "goal," "should," "will pursue" and similar expressions or variations of these expressions identify forward- looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the Company's financial position and results, business strategy, plans and objectives of management for future operations, including development plans and objectives relating to the Company's products and services, are forward-looking statements. Such forward-looking statements and any other projections contained in this Offering Circular (whether made by the Company or any third party) involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by forward-looking statements. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Additional factors that could cause the Company's actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors.*" Any forward-looking statements contained in this Offering Circular speak only as of the date of this Offering Circular. Each of the Company, the Arranger and the Dealers expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based.

KOREAN SELLING RESTRICTIONS

The Notes have not been and will not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as defined in the Foreign Exchange Transactions Act of Korea and the rules and regulations promulgated thereunder), or to any other person for reoffering, resale or re-delivery, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea, except as otherwise permitted by applicable Korean laws and regulations.

In connection with the issue of the Notes, the Arranger or the Dealers (if any) named as the stabilising manager(s) (or persons acting on behalf of the stabilising manager(s)) (each a "**Stabilising Manager**") may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail for a limited period after the Issue Date. However, there is no obligation on such Stabilising Manager(s) to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

CONTENTS

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Offering Circular:

(a) the publicly available audited consolidated and audited separate annual financial statements and the publicly available unaudited consolidated and unaudited separate interim financial statements of the Company for the most recent financial period; and

(b) all supplements or amendments to this Offering Circular circulated by the Company from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

The Company will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the written request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Written requests for such documents should be directed to the Company at its registered offices set out at the end of this Offering Circular. In addition, such documents will be available for inspection, free of charge at the specified office of The Bank of New York Mellon, London Branch.

The Company will, in connection with the listing of the Notes on the SGX-ST, so long as the rules of the SGX-ST so require, in the event of any material change in the information contained in this Offering Circular, prepare a further supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of the Notes to be listed on the SGX-ST.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as supplemented, materially inaccurate or misleading, a new offering circular will be prepared.

SUMMARY

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular.

The Company

Overview

The Company is a Government-owned corporation existing under the Korea Water Resources Corporation Act (the "**K-water Act**") in Korea to develop and manage the nation's water resources and to improve the quality of water. To achieve these objectives, the Company engages primarily in the construction and management of multi-purpose dams and estuary barrages and construction and management of multi-regional and industrial water supply systems and water supply dams, and also in the development of industrial complexes and certain areas designated by the Government as development sites for industrial, commercial, and residential use (the "**Special Area**"), and in related ancillary businesses, including (i) conducting research in the field of water resources, (ii) providing technological support and education on water resources and water supply, (iii) providing waterworks related services overseas, and (iv) engaging in local waterworks management business and waste water treatment business.

As of the date of this Offering Circular, the Company oversaw the construction and management of 20 multi-purpose dams and one estuary barrage, whose functions include supplying water, controlling floods and generating electricity. These multi-purpose dams and estuary barrage together had an annual raw water supply capacity of 12.4 billion cubic meters, which represented approximately 65% of total annual raw water supply capacity of dams in Korea, and a flood control capacity of 5.3 billion cubic meters, representing approximately 95% of the total flood control capacity of dams in Korea, in each case as of 31 December 2017 according to the Long-term Comprehensive Water Resources Plan published by MOLIT in 2017 and the Company's internal data, and an annual hydroelectric power capacity of 1,080 megawatts, representing approximately 61% of total annual hydroelectric power capacity in Korea as of 31 December 2017 according to the Power Exchange Statistics System compiled by the Korea Power Exchange (the "**KPX**"). The Company is also responsible for constructing and managing multi-regional water supply systems and industrial water supply systems and related facilities in Korea. As of 31 December 2017, the Company managed 39 multi-regional water supply systems and 14 industrial water supply systems in Korea, with a combined daily water supply capacity of 17.6 million cubic meters. This accounted for 46.7% of the daily water supply capacity in Korea, according to the 2017 Waterworks Statistics published by the ME and the Company's internal data. The development of industrial complexes and the Special Area generally entails construction of infrastructures, such as roads, water and sewage pipelines and electricity power lines, and preparation of land for industrial, commercial and residential purposes. The Company is currently constructing one additional multi-purpose dams, one flood control dam, six multi-regional water supply systems and four industrial water supply systems and is involved in two industrial complex expansion projects, two development projects in the Special Area and one development projects in waterfront areas.

As of 31 December 2017, the Company's total assets and liabilities amounted to ₩20,867.3 billion and ₩13,633.3 billion, respectively, compared to total assets of ₩20,299.4 billion and total liabilities of ₩13,638.9 billion as of 31 December 2016. In 2016 and 2017, the Company had total revenue of ₩3,618.1 billion and ₩3,375.6 billion, respectively, operating profit of ₩364.1 billion and ₩427.7 billion, respectively, and net profit (loss) for the period of ₩(117.0) billion and ₩184.9 billion, respectively.

Strategy

The Company's vision is to become a "Global Water Professional" as it seeks to prepare Korea's water eco system for the effects of global climate change through enhanced climate resilient water resources management. The Company has three strategic objectives: (i) enhance water management system in line with climate change, (ii) create value through the effective use of water and (iii) achieve global competitiveness in the water management industry.

Specifically, the Company plans to implement the following initiatives to realize its objectives:

Enhance water management system in line with climate change

- establish a smart water information hub;
- develop a more integrated water resources management system; and
- review and improve water supply system.

Create value through the effective use of water

- improve water quality and restore aquatic environments;
- maintain sustainable development of multi-purpose waterfront areas; and
- encourage active development of renewable energy.

Achieve global competitiveness in the water management industry

- research and develop enhanced technologies and solutions;
- build an open innovation platform for the water industry; and
- enhance overseas business and secure growth opportunities.

In late 2016, the Company reorganised its business units which was previously based on the types of businesses performed to those based on geographical regions. The three business units are comprised of: (i) Han river business, (ii) Nakdong river business and (iii) Geum river, Youngsan river and Seomjin river business. The Company expects to collate relevant information and knowledge relating to the respective regions and implement climate resilient strategies to respond to the effects on Korea's water supply system as a result of global climate change.

Relationship with the Government

The Government, through the MOLIT, oversees the development, construction and management of water resources, waterworks and multi-purpose dams. Under the K-water Act, the MOLIT is granted the power to direct and supervise the Company's activities. The MOLIT supervises the Company's general activities relating to its business plans, execution plans, completion of projects, amendments to its articles of incorporation and budget preparation. In addition, different ministries of the Government and local governments also regulate the Company's activities. The ME supervises activities of the Company that relate to the environment, and the water tariff determination process is regulated by the MOSF.

Pursuant to the K-water Act, the Company's authorized capital is ₩10 trillion and contributions to its capital may only be made by local governments, the Korea Development Bank and the Government, with at least 50.0% of its outstanding capital being directly owned by the Government. As of 31 December 2017, the Government and the local governments held ownership interests of 92.5% and 0.1%, respectively, and the Korea Development Bank held ownership interests of 7.4%. As an entity serving the public policy objectives of the Government, the Company does not seek to maximize its profits.

Under the K-water Act, the Government may guarantee bonds issued by the Company. The Government may also cover the Company's expenses for construction and reconstruction of facilities for development and utilization of water resources, flood control and for construction and management of facilities used for irrigation water, water for household consumption and industrial water. Furthermore, the Government may subsidize the Company's expenses incurred in connection with (i) the construction and management of multi-purpose dams and dams for supply of water (including hydroelectric power generation units but excluding dams supplying water only for agriculture purposes), estuary barrages and multi-purpose canals, facilities for transportation by ship and canals and other facilities for the comprehensive development and use of water resources and (ii) the construction and management of wastewater treatment facilities for the treatment of wastewater in regions that directly affect the water quality of water sources supplied to two or more local governments (limited to wastewater treatment facilities that are either fully funded by the Government or the Company, or are commissioned by the local governments or any other person under relevant law).

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" shall have the same meanings in this summary.

Issuer	Korea Water Resources Corporation
Description	Euro-Medium Term Note Programme
Arranger	Crédit Agricole Corporate and Investment Bank
Dealers	BNP Paribas, Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, Goldman Sachs International, Nomura International plc, Société Générale and any additional Dealer appointed from time to time in accordance with the Programme Agreement.
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Offering Circular.
Fiscal Agent, Paying Agent and Calculation Agent	The Bank of New York Mellon, London Branch
Registrar and Transfer Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch
Programme Size	Up to U.S.$2,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Programme*") outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies	Subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.

Form of Notes . . . . The Notes will be issued in bearer or registered form as described in "*Form of the Notes.*" Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.

Fixed Rate Notes . . . . . . Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the Dealer.

Floating Rate Notes . . . . Floating Rate Notes will bear interest at a rate determined:

(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or

(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service;

(c) or on such other basis as may be agreed between the Issuer and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each series of Floating Rate Notes.

Index Linked Notes . . . . Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree (as indicated in the applicable Pricing Supplement).

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes . . . . Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

Dual Currency Notes . . . Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.

Zero Coupon Notes	Zero Coupon Notes will be offered and sold at a discount to their nominal amount, or offered and sold at their nominal amount and be redeemed at a premium, and will not bear interest.
Redemption	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or pursuant to a winding-up of the Issuer following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement. Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions – Notes having a maturity of less than one year*" above.
Denomination of Notes . .	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions*" above.
Taxation	All payments of principal and interest in respect of the Notes, Receipts and Coupons will be made without deduction for or on account of withholding taxes imposed by the Relevant Jurisdiction (as defined in Condition 9). In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 9, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge	The terms of the Notes will contain a negative pledge provision as further described in Condition 4.
Events of Default	Events of default for the Notes are set out in Condition 11.1.
Cross Default.	The terms of the Notes will contain a cross default provision as further described in Condition 11.1.
Status	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of the negative pledge in Condition 4) unsecured obligations of the Issuer, ranking *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes will rank at least equally with all other unsecured and unsubordinated obligations of the Issuer, present and future, including liabilities in respect of deposits, save for such exceptions as may be provided by applicable legislation and subject to Condition 4.

Listing	Approval in-principle has been received from the SGX-ST in connection with the programme and application will be made for the listing and quotation of any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S$200,000 or its equivalent in foreign currencies. Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).
Governing Law	The Notes will be governed by, and construed in accordance with, English law.
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom), Hong Kong, Singapore, Japan, Switzerland and Korea and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see *"Subscription and Sale."*
United States Selling Restrictions	Regulation S, Category 1 or 2, as specified in the applicable Pricing Supplement. TEFRA C or D/TEFRA not applicable, as specified in the applicable Pricing Supplement.
Clearing Systems	Clearstream, Euroclear and/or any other clearing system as specified in the applicable Pricing Supplement, see *"Form of the Notes."*

RISK FACTORS

Investing in the Notes involves risks and uncertainties. Prospective purchasers of the Notes are advised to review carefully all of the information contained elsewhere in this Offering Circular and should consider, in particular, the following risk factors before purchasing the Notes. The risks described below are not the only ones that may be relevant to the Company or the Notes.

Risks relating to the Company's business

While the Company expects to recover its investments made in connection with large public infrastructure projects, such as the Four River Restoration Project and the Kyung-In Canal Project through revenues derived from related development projects and Government support, there is no assurance that the Company will not be tasked with additional projects requiring large scale investments where revenue is uncertain and investment recovery will largely depend on financial support from Government.

To implement the Four River Restoration Project (as defined below), the Company since 2009 has incurred costs of approximately ₩7,681 billion, which were recognized as "intangible assets under development" and "other intangible assets" on a net book value basis as of 31 December 2015. In 2015 and 2016, the Company recognized impairment losses of ₩6,298 billion and ₩143 billion, respectively, pertaining to the difference between the recoverable amount and net book value, as recovery of the investments relating to the Four River Project was deemed uncertain. There were no additional impairment losses in connection with the Four River Restoration Project recognized since 2016. See "*Business – Project Initiatives – Four River Restoration Project.*" The Company also carried out the Kyung-In Canal Project, which involved the construction of an 18-kilometer waterway connecting the Han River near Seoul to Yellow Sea near Inchon and the related facilities such as terminals and locks. As of 31 December 2017, the total investment by the Company in the Kyung-In Canal Project was ₩2,675.9 billion, including ₩1,504.3 billion recognized as "intangible assets." The Company made no further investment in the Kyung-In Canal Project since 2016. See *"Business – Project Initiatives – Kyung-In Canal Project."* Incurrence of such substantial amount of debt in executing Government projects, in addition to debt financing for the Company's other projects, significantly increased the Company's debt to equity ratio, which was at 188.5% as of 31 December 2017.

The Company's cash flows from operating activities was ₩274.5 billion and ₩220.5 billion for the years ended 2016 and 2017, respectively. Interest payments for the same periods were ₩476.1 billion and ₩241.0 billion, respectively. While the Company expects to generate revenues from ongoing business operations and benefit from ongoing Government financial support, including capital injections to meet interest and amortization expenses as well as 30% of the principal amount of total related indebtedness relating to the Four River Project, it may not have sufficient cash flow to support its debt repayment obligations, including those arising in respect of the Notes.

In addition, the Company may be tasked with additional projects requiring large scale investments where revenue is uncertain and investment recovery will largely depend on financial support from Government. An increase in the level of the Company's substantial indebtedness could, among others, (i) require the Company to dedicate a substantial portion of its cash flow from operations to payments on its indebtedness, thereby reducing the availability of its cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes, (ii) limit its flexibility in planning for, or reacting to, changes in its business and the industry in which it operates, and (iii) limit the Company's ability to borrow additional funds, which could adversely affect the Company's results of operations and financial condition.

The Company is subject to the control of the Government, and as a public entity that serves to implement the Government's public policy, certain actions of the Government may have an adverse effect on the Company's financial condition and results of operations.

Under the relevant laws and the Company's articles of incorporation, the Government oversees and supervises the Company's activities and appoints the Company's president. See *"Management"* and "*Business - Relationship with the Government."* Although the Company's management is responsible for the Company's day-to-day operations, the Government may determine the Company's material policies. The Government has historically influenced, and is likely to continue to influence, directly and indirectly, the Company's strategies and operations. The Government also has the ability to influence and control other Government-related entities, some of which are the Company's customers.

The Company was established under the K-water Act to, among other things, secure water resources in Korea. From time to time, the Company is required to take action in furtherance of public policy considerations and the Government's broader objectives for the water industry, which may not necessarily be in the Company's best commercial interests. As of the date of this Offering Circular, the Government directly and indirectly (including through local governments and The Korea Development Bank) held 100% of the Company's issued share capital. The Company cannot make any assurances that future policy decisions by the Government will not have an adverse effect on the Company's results of operations and financial condition.

Extensive regulations may limit the Company's flexibility to respond to market conditions and competition, and its operations may suffer.

The Company is heavily regulated by a variety of laws and regulatory bodies, including the MOLIT, the MOSF and the ME. See "*The Korean Water Industry."* Currently, tariffs on water supplied by the Company are determined in accordance with certain guidelines established by the MOLIT and the MOSF and all water tariff determinations must be approved by the MOLIT after the consultation between the MOLIT and the MOSF. Any change in the water tariffs may have an impact on the Company's results of operations and financial condition as a significant portion of the Company's total revenues is derived from the sale of water. In 2016 and 2017, the sale of water accounted for 36.7% and 41.7%, respectively, of the Company's total revenues. In 2005, the Government implemented a temporary hold-order on increases in tariffs on water supplied by the Company in order to offset inflation on costs of basic necessities, such as water, which was lifted in January 2013 when the Government approved a 4.9% increase in water tariffs. In September 2016, the tariff on water supplied for dams and multi-regional water supply system was further increased by 4.8% for the purposes of securing a budget to replace aging equipment used in dams and water supply systems. While the Company may engage in discussions with MOLIT and MOSF regarding a further increase in water tariffs, there can be no assurance that the water tariffs will further increase in the near future or at all.

The payment of principal and interest on the Notes issued under the Programme is not guaranteed by the Government and the Government is not obligated or legally required to provide any support in respect of the Notes.

In general, as the Company is a Government-controlled entity with a mandate from the Government to implement its policy of managing and providing water resource related services, the Company has received and expects to continue to receive, directly or indirectly, support from the Government in different forms and means, including capital contributions and funds. While the Company believes that the Government s support will continue, there can be no assurance that the Government s support will not decrease in the future.

The Government is not an obligor under the Notes issued under the Programme. Payments by the Company of principal or interest with respect to its outstanding indebtedness, including the Notes, are not backed by the credit of the Government. In addition, the payment of principal and interest on the Notes is not supported by any guarantee of the Government. Furthermore, the Government's direct financial support to the Company is subject to prior authorization by the National Assembly, which authorization has not been obtained and cannot be assured. There is no statutory or other legal requirement for the Government to provide the Company with direct financial support to meet its outstanding debt obligations, including the Notes. Although under the K-water Act, the Government is allowed to guarantee bonds offered by the Company, it is not providing a guarantee in respect of the Notes. Although the Government resolved its plans to provide certain support in connection with the undertaking of the Four River Restoration Project (as described in *"Business – Project Initiatives – Four River Restoration Project*") by the Company, the Government is under no obligation to maintain the solvency of the Company. Therefore, investors should not rely on the Government to fulfill the Company's obligations under the Notes in the event the Company is unable to do so. See "*Business – Relationship with* the *Government*."

The Company relies substantially on subcontractors to provide construction services, and if they are unavailable at commercially reasonable contract terms or at all, or if the Company and they are in material disagreement, including with respect to their quality of work, the Company may experience delays, increased costs and reduced profits.

The Company depends on subcontractors in conducting its business. There is a risk that the Company may have disputes with its subcontractors arising from, among other things, the quality and timeliness of work performed by the subcontractor or concerns about the subcontractor. In addition, the Company's project from time to time requires its subcontractors to perform extra or change order work even if the parties had not agreed in advance on the scope or price of the extra work to be performed. This process may result in disputes over whether the work performed is beyond the scope of the work included in the original project plans and specifications or, if the parties agree that the work performed qualifies as extra work, the price that the Company is willing to pay and the subcontractor is willing to accept.

To the extent that the Company is obligated to pay additional costs, such amount will reduce the Company's future revenues and profits, and this could have an adverse effect on its reported working capital and results of operations. Any delay caused by the extra work may adversely impact the timely scheduling or other project work and the Company's ability to meet specified contract milestone dates. In addition, there can be no assurance that the services rendered by any subcontractor will be completed in a timely manner or will be of satisfactory quality. Subcontractors' work may involve the use of poor quality or defective raw materials or the employment of under-qualified or less-skilled workers. If the services of subcontractors are not performed in a timely manner or are not of acceptable quality, the Company may incur substantial costs to complete the projects and remedy any defects, and its reputation could be significantly harmed. Furthermore, any subcontractor that experiences financial or other difficulties, including labour disputes with its employees, may be unable to carry out its work, resulting in a delay in the completion of the Company's projects or incurrence of additional costs. In the event that a subcontractor becomes insolvent or is under-insured, the Company would be liable to customers or third parties for claims relating to dam construction defects, personal injury or property damage.

The Company is exposed to the Korean property market through its land holdings in its business of developing industrial complexes and the Special Area.

As of 31 December 2017, the aggregate book value of the lands owned by the Company recognized as finished goods under inventories amounted to ₩6,405.0 billion on a consolidated basis. As of 31 December 2017, the Company was involved in two industrial complex expansion projects, two Special Area development projects and one waterfront area development project.

To the extent the property values decrease in the future, there can be no assurance that the Company will be able to sell and recover its costs of developing the lots. Unlike the Company's business of constructing dams and other water supply facilities for which the Company receives the Government's financial support, the Company is required to secure financing for the above development projects on its own. As these projects are capital intensive, the Company plans to rely largely on internal funding and debt financing to secure the necessary funding for these development projects. If the Company is unable to find sources to finance its capital expenditure for such projects, the Company could be forced to suspend, curtail or reduce certain aspects of those projects, which could adversely affect its business, financial condition and results of operations. Furthermore, in an extended downturn in the property market, it may take a number of years before the Company is able to realize a significant portion of its costs in respect of its land inventories, as the Company plans to hold on to its land lots held for sale during a downturn in the property market until the market recovers. Such strategy, however, will lead the Company to incur additional interest expenses in respect of its debts that were incurred to finance its land development projects. In this regard, declines in prices in the Korean real estate market in the future or a prolonged slowdown of the Korean real estate market could have a material adverse effect on the Company's business, results of operations and financial conditions.

The Company is subject to various completion risks with respect to its development of dams, industrial complexes and the Special Area, any of which, if realized, could give rise to significant delays or additional costs.

The construction of dams, large-scale industrial complexes and Special Areas involve many potential risks, including natural disasters, changes in construction design and oppositions by special interest groups, such as environmental groups, to the development of land and construction of industrial areas, or delays caused by the discovery of historical artifacts during the land development process. Any such risks, if realized, could result in cost overruns, and other adverse consequences such as loss of sales of land lots planned to be developed, which may adversely affect the Company's financial conditions and results of operations.

In addition, protests and other forms of opposition by environmental interest groups, such as lawsuits or demonstrations, may delay the Company's construction projects. No assurance can be given that such activities in the future, including currently pending or future lawsuits, will not cause the Company to experience significant delays and cost overruns.

The Company's operations may be limited by environmental regulations, and the Company could be exposed to risk relating to environmental and health and safety issues.

The Company and its subcontractors are required to comply with numerous national and local laws and regulations relating to the protection of the environment and land use. See "*Business – Environmental Matters*." These laws and regulations are constantly changing. While the Company believes that it has obtained all material environmental approvals currently required to own and operate its facilities, the Company may incur significant additional costs as a result of these requirements. In addition, there can be no assurance that the requirements to obtain such approvals may not be made more stringent in the future and that such approval would be renewed when they expire. Failure to comply with environmental and health and safety laws and regulations by the Company or its subcontractors could have a material adverse effect on the Company, including closure of individual facilities not in compliance, as well as the imposition of civil or criminal liability and the imposition of liens or fines, and expenditures to bring its facilities into compliance.

In addition, the Company's water resources, water supply, and industrial site development operations could expose it to risk of substantial liability relating to environmental and health and safety issues, such as those resulting from discharge of pollutants into the environment, the handling, storage and disposal of solid or hazardous materials or wastes and the investigation and remediation of contaminated sites. The Company may be responsible for the investigation and remediation of environmental conditions at currently and formerly operated construction sites. The Company may also be subject to associated liabilities, including liabilities for natural resource damage, third party property damage or personal injury resulting from lawsuits brought by the Government or private litigants as a result of the Company's or its subcontractors activities. In the course of the Company's operations, hazardous wastes may be generated at third party-owned or operated sites, and hazardous wastes may be disposed of or treated as third party-owned or operated disposal sites. If those sites become contaminated, the Company could also be held responsible for the cost of investigation and remediation of such sites, any associated natural resource damage, and civil or criminal fines or penalties.

The Company's overseas operations expose it to legal, political, and economic risks in different countries that could harm its business and financial results.

The Company's revenues from its overseas business, which are primarily consulting and engineering services, amounted to ₩3.8 billion and ₩8.8 billion in 2016 and 2017, respectively, and related revenues of the Company's overseas subsidiaries in connection with private-funded overseas construction projects amounted to ₩173.1 billion and ₩112.8 billion, respectively. Revenues attributable to such business on a consolidated basis accounted for 4.8% and 3.6%, respectively, of the Company's total revenues in the respective periods.

The Company intends to expand its overseas operations pursuing appropriate opportunities outside Korea in the areas where it can leverage its expertise and experience in Korea. See "*Business – Overseas Business*." There are risks inherent in doing business internationally, including but not limited to: imposition of governmental controls and change in laws, regulations or policies; political and economic instability; civil unrest, acts of terrorism, force majeure, war, or other armed conflict; changes in Korea and other national government trade policies affecting the markets for Company's services; changes in regulatory practices, tariffs and taxes; changes in labour conditions; logistical and communication challenges; and currency exchange rate fluctuations, devaluations and other conversion restrictions. Any of these factors could have an adverse effect on the Company's business, results of operations or financial condition.

The Company is exposed to significant risks relating to its operations, including natural disasters and other disruptive events, and its insurance policies may not provide adequate coverage.

Significant damage or other impediments to the waterworks facilities, including the multi- purpose dams and water supply systems, managed by the Company as a result of:

- natural disasters, such as, but not limited to, earthquakes, Maximum Regional Rainfalls (as defined in "*Business – Water Resources Business – Dam Construction – Upgrading Flood Control Capacity*"), floods, prolonged droughts and typhoons;

- human errors in operating the waterworks facilities, including the multi-purpose dams and water supply systems; and

- protests and other forms of opposition by environmental interest groups, such as lawsuits or demonstrations,

among others, may materially harm the Company's business, financial condition and results of operations.

The Company maintains insurance against some, but not all, of these events but no assurance can be given that such insurance will be adequate to cover any direct or indirect losses or liabilities the Company may suffer.

Risks Relating to Korea

The Company is significantly supported by the Government, and its current business and future growth could be materially and adversely affected if economic or political conditions in or relating to Korea deteriorate.

The Company is owned by the central and local governments of Korea and The Korea Development Bank, a Korean policy bank, and serves as an execution arm for Government policies and businesses relating to water resources and water supply. The Company is also supported by significant capital contributions and other support from the Government. The Company's headquarters and significant parts of its off-take customers and assets are also located in Korea. Accordingly, the Company's performance and successful fulfilment of its operational strategies are necessarily dependent on the overall Korean economy and the resulting impact on the need for mineral resources. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the Korean economy is subject to many factors beyond the Company's control, including developments in the global economy.

Due to recent liquidity and credit concerns and volatility in the global financial markets, the value of the Won relative to the U.S. dollar and other foreign currencies and the stock prices of Korean companies have fluctuated significantly in recent years. In particular, there has been increased volatility in light of concerns regarding, among other things, the financial difficulties affecting many governments worldwide, in particular in southern Europe and Latin America, as well as the recent slowdown of economic growth in China and other major emerging market economies, in addition to political and social instability in various countries in the Middle East and Northern Africa, including Iraq, Syria and Yemen, as well as in the Ukraine and Russia. Accordingly, the overall prospects for the Korean and global economies in 2018 and beyond remain uncertain. Any future deterioration of the Korean or global economy could adversely affect the business, financial condition and results of operations of the Company.

Political instability may further adversely affect the Korean economy. Recent bribery and power abuse scandal involving President Park Geun-hye and pertinent investigations on Korean *chaebols* for involvement in the bribery case have raised significant concerns. There is no assurance that such events will not have a material adverse effect on the Korean economy and on the Company's business, financial condition and results of operations.

Developments that could have an adverse impact on Korea's economy in the future include:

- continued volatility or deterioration in Korea's credit and capital markets;
- difficulties in the financial sectors in Europe, China and elsewhere and increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;
- global market volatility in connection with "Brexit," the United Kingdom's vote to leave the European Union in a referendum held in June 2016;
- declines in consumer confidence and a slowdown in consumer spending and corporate investments;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the Euro or the Yen exchange rates or revaluation of the Chinese Renminbi), interest rates, inflation rates or stock markets;
- increasing levels of household debt;
- increasing delinquencies and credit defaults by retail and SME borrowers;

- continuing adverse conditions in the economies of countries and regions that are important export markets for Korea, such as the United States, Europe, Japan and China, or in emerging market economies in Asia or elsewhere;

- the economic impact of any pending or future free trade agreements; social and labour unrest;

- further decreases in the market prices of Korean real estate;

- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;

- geopolitical uncertainty and risk of further attacks by terrorist groups around the world;

- the occurrence of severe health epidemics in Korea and other parts of the world, including the recent Ebola and Middle East Respiratory Syndrome outbreaks;

- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy (such as the ongoing controversy between Korea and China regarding the decision to allow the United States to deploy the Terminal High Altitude Area Defense system in Korea);

- political uncertainty or increasing strife among or within political parties in Korea, and political gridlock within the government or in the legislature, which prevents or disrupts timely and effective policy making;

- political scandal, including but not limited to, bribery, power abuse and illegal dealings by the government officials;

- presidential impeachment and following investigations, proceedings and protests;

- investigation on *chaebols* and arrest of their senior management, which causes volatility of the Korean stock market and delays decision making of major businesses in Korea;

- hostilities involving oil-producing countries in the Middle East and North Africa and any material disruption in the supply of oil or increase in the price of oil;

- the occurrence of natural or man-made disasters in Korea (such as the sinking of the Sewol ferry in April 2014, which significantly dampened consumer sentiment in Korea for months) and other parts of the world, particularly in trading partners, such as the earthquake and tsunami that occurred in the northeast part of Japan in March 2011 and any resulting releases of radiation from damaged nuclear power plants in the area; and

- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

Escalations in tensions with North Korea could have an adverse effect on us and the market value of the Notes.

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, there continues to be uncertainty regarding the long-term stability of North Korea's political leadership since the succession of Kim Jong-un to power following the death of his father in December 2011, which has raised concerns with respect to the political and economic future of the region.

In addition, there continues to be heightened security tension in the region stemming from North Korea's hostile military and diplomatic actions, including in respect of its nuclear weapons and long-range missile programmes. Some examples from recent years include the following:

- In February 2017, Kim Jung-nam, the eldest son of the late former leader, Kim Jong-il, and stepbrother of Kim Jong-un, was allegedly poisoned to death at Kuala Lumpur airport in Malaysia. The incident is currently being investigated to determine involvement of the North Korean government in Kim s death.

- From time to time, North Korea has conducted ballistic missile tests. In February 2016, North Korea launched a long-range rocket in violation of its agreement with the United States as well as United Nations sanctions barring it from conducting launches that use ballistic missile technology. Despite international condemnation, North Korea released a statement that it intends to continue its rocket launch programme and it conducted additional ballistic missile tests in June 2016 and a submarine-launched ballistic missile test in August 2016. In February 2017, the United Nations Security Council issued a unanimous statement condemning North Korea and agreeing to continue to closely monitor the situation and to take further significant measures.

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 and February 2013, which increased tensions in the region and elicited strong objections worldwide. In January 2016, North Korea conducted a fourth nuclear test, claiming that the test involved its first hydrogen bomb, which claim has not been independently verified. In response to such test (as well as North Korea's long-range rocket launch in February 2016), the United Nations Security Council unanimously passed a resolution in March 2016 condemning North Korea's actions and significantly expanding the scope of the sanctions applicable to North Korea, while the United States and the European Union also imposed additional sanctions on North Korea. In September 2016, North Korea conducted a fifth nuclear test, claiming to have successfully detonated a nuclear warhead that could be mounted on ballistic rockets, which claim has not been independently verified.

- In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarised zone. Claiming the landmines were set by North Koreans, the Korean army reinitiated its propaganda programme toward North Korea utilising loudspeakers near the demilitarised zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas. High-ranking officials from North Korea and Korea subsequently met for discussions and entered into an agreement on 25 August 2015 intending to defuse military tensions.

- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

North Korea's economy also faces severe challenges, including severe inflation and food shortages, which may further aggravate social and political tensions within North Korea. In addition, reunification of Korea and North Korea could occur in the future, which would entail significant economic commitment and expenditure by Korea that may outweigh any resulting economic benefits of reunification.

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future or that the political regime in North Korea may not suddenly collapse. Any further increase in tension or uncertainty relating to the military, political or economic stability in the Korean peninsula, including a breakdown of diplomatic negotiations over the North Korean nuclear programme, occurrence of military hostilities, heightened concerns about the stability of North Korea's political leadership or its actual collapse, a leadership crisis, a breakdown of high-level contacts or accelerated reunification could have a material adverse effect on our business, financial condition and results of operations, as well as well as a downgrade in the credit rating of Korea, us or the Notes.

North Korea's economy also faces severe challenges, which may aggravate social and political pressures within North Korea.

There can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or military hostilities occur, could have a material adverse effect on the Company's business, results of operations and financial condition and the price of the Notes, including a downgrade in the credit rating of Korea, the Company or the Notes.

There are special risks involved with investing in securities of Korean companies, including the possibility of restrictions being imposed by the government in emergency circumstances as well as accounting and corporate disclosure standards that differ from those in other jurisdictions.

As the Company is a Korean company and operates in a business and cultural environment that is different from that of other countries, there are risks associated with investing in its securities that may not be typical for investments in securities of companies in other jurisdictions.

Under the Foreign Exchange Transaction Act of Korea and the Presidential Decree and regulations under that Act and Decree (collectively referred to as the "**Foreign Exchange Transaction Laws**"), if the Government deems that certain emergency circumstances, including sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restriction such as requiring Korean or foreign investors to obtain prior approval from the Minister of Strategy and Finance for the acquisition of Korean securities or for the repatriation of interest, dividends or sales proceeds arising from Korean securities or from disposition of such securities or other transactions involving foreign exchange. Moreover, if the Government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the Minister of Strategy and Finance may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit, safe-keep or sell any means of payment to the Bank of Korea or certain other governmental agencies or financial institutions.

In addition, the financial statements of the Company included in this Offering Circular have been prepared in accordance with the K-GAAP or (for items that are not specified under the K-GAAP) K-IFRS, as the case may be, and the Company expects to prepare its financial statements in accordance with K-GAAP for future periods, which differ in certain respects from accounting principles applicable to companies in certain other countries, including the United States. In addition, the Company is not a listed company and makes public disclosures regarding aspects of its business pursuant to the Act on the Management of Public Agencies and other laws applicable to the Company. These disclosure rules differ in many material respects from those applicable to companies in certain other countries, including the United States. There may also be less publicly available information about Korean companies, such as the Company, than is regularly made available by public or non-public companies in other countries. In making an investment decision, investors must rely upon their own examination of the Company, the terms of the offering and the financial information contained in this Offering Circular.

Risks Relating to the Notes

No trading market for the Notes currently exists and, therefore, the Notes offer limited liquidity.

The Notes constitute a new issue of securities for which there is currently no existing trading market. An application will be made to the SGX-ST for the listing and quotation of the Notes which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Although the Dealers may make a market in the Notes, they are not obligated to do so, and any market-making activity with respect to the Notes, if commenced, may be discontinued at any time without notice.

No assurances can be given that a market for the Notes will develop in the future. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the offering price depending on many factors, including, among others:

- prevailing interest rates;
- our financial condition, performance and prospects;
- the rate of exchange between the Won and the U.S. dollar;
- political and economic developments in Korea and other regions;
- the market conditions for similar securities; and
- the financial condition and stability of the Korean financial and other sectors.

The Notes are unsecured obligations.

As the Notes are unsecured obligations, their repayment may be compromised if:

- the Company enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Company's secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Company's indebtedness.

If any of these events were to occur, the Company's assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Notes.

Notes may not be a suitable investment for all investors.

The Notes are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio. Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

FORM OF THE NOTES

Capitalized terms used in this section and not otherwise defined shall have the meanings given to them in "Terms and Conditions of the Notes."

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached.

Bearer Notes

Each Tranche of Bearer Notes will be in bearer form and will be initially issued in the form of a temporary bearer global note (a "**Temporary Bearer Global Note**") or, if so specified in the Pricing Supplement, a permanent bearer global note (a "**Permanent Bearer Global Note**," together with any "**Temporary Bearer Global Note**," the Bearer Global Notes) which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the Common Depositary) for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**").

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream and (in the case of a Temporary Bearer Global Note delivered to a Common Depositary for Euroclear and Clearstream) Euroclear and/or Clearstream, as applicable, has given a like certification (based on the certifications it has received) to the Fiscal Agent (as defined in "*Terms and Conditions of the Notes*"). On and after the date (the "**Exchange Date**") which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Bearer Global Note of the same Series or (b) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given, **provided that** the purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days' written notice in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, from Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Fiscal Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default (as defined in Condition 11) has occurred and is continuing or (ii) the Company has been notified that both Euroclear and Clearstream have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available. The Company will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) may give notice to the Fiscal Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Fiscal Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold outside the United States, will initially be represented by a global note in registered form (a "**Registered Global Note**," together with any Bearer Global Note, the "**Global Notes**"). Prior to expiry of the distribution compliance period (as defined in Regulation S), if any, applicable to each Tranche of Notes, beneficial interests in a Registered Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream and such Registered Global Note will bear a legend regarding such restrictions on transfer.

Registered Global Notes will be deposited with a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Payments of principal, interest or any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 7.4) as the registered holder of the Registered Global Notes. None of the Company, the Fiscal Agent, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7.4) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, Exchange Event means that (i) an Event of Default has occurred and is continuing or (ii) the Company has been notified that both Euroclear and

Clearstream have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any case, no successor or alternative clearing system is available. The Company will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, in each case to the extent applicable.

General

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Fiscal Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act), if any, applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, each person (other than Euroclear and/or Clearstream) who is for the time being shown in the records of Euroclear or of Clearstream as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear and/or Clearstream as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Company and their agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purposes the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Company and their agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly.

Any reference herein to Euroclear and/or Clearstream shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Company and the Fiscal Agent.

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 6, 7, 8 (except Condition 8.2), 12, 13, 14, 15 (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 19, they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that any of the Global Notes representing such Notes is exchanged for definitive Notes, the Company shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption. In addition, in the event that any of the Global Notes is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

Form of the Pricing Supplement

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[Date]

KOREA WATER RESOURCES CORPORATION
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the US$2,000,000,000
Euro-Medium Term Note Programme

MiFID II product governance/target market – [*appropriate target market legend to be included*]

[The Notes are not intended, from the date of application of Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**"), to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.][*Add footnote to say: To be included if the offer of the Notes is commenced after or straddles the date of the PRIIPS Regulation and the Notes may constitute "packaged" products.*]

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 23 March 2018. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular. Full information regarding the Company and the offer of the Notes is only available on the basis of the combination of the Pricing Supplement and the Offering Circular.

The Notes may not be offered, delivered, or sold directly or indirectly in Korea or to any resident of Korea (as defined in the Foreign Exchange Transaction Act of Korea and the rules and regulations promulgated thereunder) or to others for re-offering or resale directly or indirectly in Korea or to any resident of Korea except as otherwise permitted under applicable Korean laws and regulations.

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated *[original date]*. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated *[current date],* save in respect of the Conditions which are extracted from the Offering Circular dated *[original date]* and are attached hereto. Full information regarding the Company and the offer of the Notes is only available on the basis of the combination of the Pricing Supplement and the Offering Circular.]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination [must/may need to] be £100,000 or its equivalent in any other currency.]

Company:	Korea Water Resources Corporation
(a) Series Number:	[•]
(b) Tranche Number:	[•]
	(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
Specified Currency or Currencies:	[•]
Aggregate Nominal Amount:	
(a) Series:	[•]
(b) Tranche:	[•]
	(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
Issue Price:	
[(a)]	[•]% of the Aggregate Nominal Amount [plus accrued interest from *[insert date] (in the case of fungible issues only, if applicable)]*
[(b) Net Proceeds:	[•] *(required only for listed issues)]*
(c) Use of Proceeds:	[•]
(d) Specified Denominations:	[•] (Note – *where multiple denominations above [€50,000] or equivalent are being used with respect to Bearer Notes, the following sample wording should be followed:* *[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Notes in definitive form will be issued with a denomination above [€99,000]."*)

	(*N.B. If an issue of Notes is (i) NOT admitted to trading on a regulated market in the European Economic Area; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €[1,000]/ [50,000] minimum denomination is not required.*) (*In the case of Registered Notes, this means the minimum integral amount in which transfers can be made.*)
(e) Calculation Amount:	[•] *(If only one Specified Denomination, insert the Specified Denomination.* *If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
(f) Issue Date:	[•]
(g) Interest Commencement Date:	*[specify/Issue Date/Not Applicable] (N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*
Maturity Date:	*[Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month and year]]*
Interest Basis:	[[•]% Fixed Rate] [[LIBOR/EURIBOR] +/- [•]% Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] *[specify other]* (further particulars specified below)
Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] *[specify other]*
Change of Interest Basis or Redemption/ Payment Basis:	*[Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]*
Put/Call Options:	[Investor Put] [Company Call] [(further particulars specified below)]
Listing:	[Singapore/*Specify other*/None]
(a) Status of the Notes:	*[specify]*
(b) Date [Board] approval for issuance of Notes obtained:	[[•]/None required]

Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

Fixed Rate Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
(a) Rate(s) of Interest:	[•]% per annum [payable [annually/semi-annually/quarterly/ other *specify)]* in arrear] *(If payable other than annually, consider amending Condition 6)*
(b) Interest Payment Date(s):	[[•] in each year up to and including the Maturity Date]/ *[specify other] (N.B. This will need to be amended in the case of long or short coupons)*
(c) Fixed Coupon Amount(s): (Applicable to Notes in definitive form)	[•] per Calculation Amount
(d) Broken Amount(s): (Applicable to Notes in definitive form)	[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]
(e) Day Count Fraction:	[30/360 or Actual/Actual (ICMA) or *[specify other]]*
(f) [Determination Date(s):	[•] in each year *(Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))]*
(g) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[The Fiscal Agent will act as the Calculation Agent/None/ Give *details]*
Floating Rate Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
(a) Specified Period(s)/Specified Interest Payment Dates:	[•]
(b) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/*[specify other]]*
(c) Additional Business Centre(s):	[•]
(d) Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/*specify other]*
(e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Fiscal Agent):	[•]

(f) Screen Rate Determination:	
Reference Rate:	[•] *(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)*
Interest Determination Date(s):	[•] *(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR oreuro LIBOR)*
Relevant Screen Page:	[•] *(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
(g) ISDA Determination:	
Floating Rate Option:	[•]
Designated Maturity:	[•]
Reset Date:	[•]
(h) Margin(s):	[+/-] [•]% per annum
(i) Minimum Rate of Interest:	[•]% per annum
(j) Maximum Rate of Interest:	[•]% per annum
(k) Day Count Fraction:	[Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 (ISDA) *Other] (See Condition 6 for alternatives)*
(l) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[•]
Zero Coupon Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
(a) Accrual Yield:	[•]% per annum
(b) Reference Price:	[•]

(c)	Any other formula/basis of determining amount payable:	[•]
(d)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 8.5(c) and 8.10 apply/specify *other]* *(Consider applicable day count fraction if not U.S. dollar denominated)*

Index Linked Interest Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*

(a)	Index/Formula:	*[Give or annex details]*
(b)	Calculation Agent:	*[give name]*
(c)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Fiscal Agent):	[•]
(d)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	*[Need to include a description of market disruption or settlement disruption events and adjustment provisions]*
(e)	Specified Period(s)/Specified Interest Payment Dates:	[•]
(f)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/*specify other]*
(g)	Additional Business Centre(s):	[•]
(h)	Minimum Rate of Interest:	[•]% per annum
(i)	Maximum Rate of Interest:	[•]% per annum
(j)	Day Count Fraction:	[Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 (ISDA) *Other] (See Condition 6 for alternatives)*

Dual Currency Interest Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*

(a)	Rate of Exchange/method of calculating Rate of Exchange:	*[Give or annex details]*

(b)	Party, if any, responsible for calculating the principal and/or interest due (if not the Fiscal Agent):	[•]
(c)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	*[Need to include a description of market disruption or settlement disruption events and adjustment provisions]*
(d)	Person at whose option Specified Currency(ies) is/are payable:	[•]

PROVISIONS RELATING TO REDEMPTION

Company Call:		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
(a)	Optional Redemption Date(s):	[•]
(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[•] per Calculation Amount/*specify other]*
(c)	If redeemable in part:	
(i)	Minimum Redemption Amount:	[•] per Calculation Amount
(ii)	Maximum Redemption Amount:	[•] per Calculation Amount
(d)	Notice period (if other than as set out in the Conditions):	[•] *(N.B. If setting notice periods which are different to those provided in the Conditions, the Company is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Company and the Fiscal Agent)*
Investor Put:		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
(a)	Optional Redemption Date(s):	[•]
(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[•] per Calculation Amount/*specify other]*
(c)	Notice period (if other than as set out in the Conditions):	[•] *(N.B. If setting notice periods which are different to those provided in the Conditions, the Company is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Company and the Fiscal Agent)*

Final Redemption Amount:	[•] per Calculation Amount/*specify other*/see Appendix]
Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 8.5):	[•] per Calculation Amount/*specify other*/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

Form of Notes:	[Bearer Notes: Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]] [Bearer Notes: Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date] [Bearer Notes: Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event/at any time at the request of the Company]] [Registered Notes: Registered Global Note (U.S.$[•] nominal amount)] *(Ensure that this is consistent with the wording in the "Form of the Notes" section in the Offering Circular and the Notes themselves. N.B. The exchange upon notice/at any time options for Bearer Notes should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "[C50,000] and integral multiples of [C1,000]] in excess thereof up to and including [C99,000]]."* Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary/ Permanent Global Note exchangeable for Definitive Notes.)
Additional Financial Centre(s) or other special provisions relating to Payment Days:	[Not Applicable/*give details] (Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraphs 17(c) and 19(g) relate)*
Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details]*

Details relating to Partly Paid Notes amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Company to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details. N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]*
Details relating to Instalment Notes:	
(a) Instalment Amount(s):	[Not Applicable/*give details]*
(b) Instalment Date(s):	[Not Applicable/*give details]*
Redenomination applicable:	Redenomination [not] applicable (If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))
Other terms:	[Not Applicable/*give details]*
Additional U.S. federal income tax considerations:	[Not Applicable/*give details]* [The Notes are [not] subject to U.S. federal withholding tax under Section 871(m).][1] [Additional information regarding the application of Section 871(m) to the Notes will be available at [•]]
Private Bank Rebate/Commission:	[Not Applicable/*give details]* [In addition, we have agreed with the Lead Managers that we will pay a commission to certain private banks in connection with the distribution of the Notes to their clients. This commission will be based on the principal amount of the Notes so distributed, and may be deducted from the purchase price for the Notes payable by such private banks upon settlement.]

DISTRIBUTION

(a) If syndicated, names of Managers:	[Not Applicable/*give names]*
(b) Stabilising Manager(s) (if any):	[Not Applicable/*give name]*
If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name]*
U.S. Selling Restrictions:	[Reg. S Category 1/2]; TEFRA D/TEFRA C/TEFRA not applicable]

[1] The Notes should not be subject to U.S. federal withholding tax under Section 871(m), if they (i) do not reference any U.S. equity or any index that contains any U.S. equity (ii) reference indices considered to be "qualified indices" for purposes of Section 871(m) or (iii) are Non-Delta Notes and are issued prior 1 January 2017 or Non-Delta-One Notes issued on or after 1 January 2018 that reference a U.S. equity or index that contains any U.S. equity are subject to additional testing on a trade-by-trade basis to determine whether they are Section 871(m) Notes.

Additional selling restrictions:	[Not Applicable/*give details]*

Operational Information

Any clearing system(s) other than Euroclear and Clearstream and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)]*
Delivery:	Delivery [against/free of] payment
Additional Paying Agent(s) (if any):	[•]
ISIN:	[•]
Common Code:	[•]
	(insert here any other relevant codes)

[LISTING AND ADMISSION TO TRADING APPLICATION

This Pricing Supplement comprises the pricing supplement required to list the issue of Notes described herein pursuant to the US$2,000,000,000 Euro-Medium Term Note Programme of Korea Water Resources Corporation.

The Singapore Exchange Securities Trading Limited (the "**SGX-ST**") assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Pricing Supplement. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Company, the Programme or the Notes.]

RESPONSIBILITY

The Company accepts responsibility for the information contained in this Pricing Supplement. Signed on behalf of the Company:

By: . . . .

Duly authorised

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Company for general corporate purposes or as may otherwise be disclosed in the applicable Pricing Supplement.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the rules of the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to the form of the pricing supplement included in the "Form of the Notes" for a description of the contents of the applicable Pricing Supplement which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by Korea Water Resources Corporation (the "**Issuer**") pursuant to an amended and restated agency agreement dated 12 May 2017 (such agency agreement as modified and/or supplemented and/or restated from time to time, the "**Agency Agreement**") made between the Issuer and The Bank of New York Mellon, London Branch as fiscal agent and principal paying agent (the "**Fiscal Agent**" which expression shall include any successor as Fiscal Agent) and calculation agent (the "**Calculation Agent**" which expression shall include any successor as Calculation Agent), The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the "**Registrar**" which expression shall include any successor as Registrar) and transfer agents (the "**Transfer Agents**" which expression shall include any additional or successor Transfer Agents) and other agents in each case named in the Agency Agreement (together with the Fiscal Agent, the Registrar, the other Paying Agents and the Transfer Agents, the "**Agents**" which expression shall include any additional or successor agents).

References herein to the "**Notes**" shall be references to the Notes of this Series and shall mean:

(a) in relation to any Notes represented by a global Note (a "**Global Note**"), units of each Specified Denomination in the currency specified herein or, if none is specified, the currency in which the Notes are denominated (the Specified Currency);

(b) any Global Note in bearer form (each a "**Bearer Global Note**");

(c) any Global Note in registered form (each a "**Registered Global Note**");

(d) any definitive Notes in bearer form ("**Definitive Bearer Notes**," together with the Bearer Global Notes, the "**Bearer Notes**") (whether or not issued in exchange for a Bearer Global Note); and

(e) any definitive Notes in registered form ("**Definitive Registered Notes**," together with the Registered Global Notes, the "**Registered Notes**") (whether or not issued in exchange for a Registered Global Note).

Interest bearing Definitive Bearer Notes have interest coupons ("**Coupons**") and, if indicated in the applicable Pricing Supplement, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons. Definitive Bearer Notes repayable in instalments have receipts ("**Receipts**") for the payment of the instalments of principal (other than the final instalment) attached on issue. Definitive Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in the Pricing Supplement attached to or endorsed on this Note which supplements these Terms and Conditions (the "**Conditions**") and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the "**applicable Pricing Supplement**" are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to "**Noteholders**" or "**holders**" in relation to any Notes shall mean (in the case of Definitive Bearer Notes) the holders of the Notes and (in the case of Definitive Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to "**Receiptholders**" shall mean the holders of the Receipts and any reference herein to "**Couponholders**" shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, "**Tranche**" means Notes which are identical in all respects (including as to listing and admission to trading) and "**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices (as set out in the applicable Pricing Supplement).

Copies of the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Fiscal Agent being at One Canada Square, London E14 5AL, United Kingdom and at the specified office of each of the other Paying Agents. Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Paying Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, and are bound by, all the provisions of the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and **provided that**, in the event of inconsistency between the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are issued in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes or interests in Bearer Notes may not be exchanged for Registered Notes or interests in Registered Notes and *vice versa.*

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons and (if applicable) Receipts and Talons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to Bearer Notes, Receipts and Coupons will pass by delivery and title to Registered Notes will pass upon registration of transfers in the register which is kept by the Registrar in accordance with the provisions of the Agency Agreement. The Issuer, the Paying Agents, the Registrar and the Transfer Agents will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the person in whose name any Registered Note is registered as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes, but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream**"), each person (other than Euroclear or Clearstream) who is for the time being shown in the records of Euroclear or Clearstream as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Paying Agents, the Registrar and the Transfer Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, any Paying Agent, the Registrar and any Transfer Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular nominal amount of Notes as aforesaid, the Fiscal Agent may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream.

References to Euroclear and/or Clearstream shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer and the Fiscal Agent.

2. TRANSFERS OF REGISTERED NOTES

2.1 Transfers of interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by Euroclear or Clearstream, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing system acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Definitive Registered Notes or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of Euroclear, Clearstream and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for Euroclear or Clearstream shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of Euroclear or Clearstream or to a successor if Euroclear or Clearstream or such successor's nominee.

2.2 Transfers of Definitive Registered Notes

Subject as provided in Condition 2.5 below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Definitive Registered Note may be transferred in whole or in part (in the Specified Denomination set out in the applicable Pricing Supplement). In order to effect any such transfer (i) the holder or holders must (A) surrender the relevant Definitive Registered Note for registration of the transfer of the Definitive Registered Note (or the relevant part of such Definitive Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (B) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 3 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Definitive Registered Note of a like aggregate nominal amount to the Definitive Registered Note (or the relevant part of the Definitive Registered Note) transferred. In the case of the transfer of part only of a Definitive Registered Note, a new Definitive Registered Note in respect of the balance of the Definitive Registered Note not transferred will be authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 8, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

2.4 Costs of registration

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

2.5 Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered during the period of (i) 15 days ending on (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note and (ii) during the period of seven days ending on (and including) any Record Date (as defined below).

2.6 Exchanges and transfers of Registered Notes generally

Holders of Definitive Registered Notes may exchange such Notes for interests in a Registered Global Note of the same type at any time.

3. STATUS OF THE NOTES

The Notes and any relative Receipts and Coupons constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu*, without any preference among themselves with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors rights.

4. NEGATIVE PLEDGE

4.1 Negative Pledge

So long as any of the Notes and any relative Receipts or Coupons remains outstanding (as defined in the Agency Agreement), the Issuer will not, and will procure that none of its Subsidiaries (as defined below) will create or permit to subsist any mortgage, charge, lien, pledge or other security interest (each a "**Security Interest**") upon or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer or any of its Subsidiaries to secure any Relevant Indebtedness (as defined below) unless the Issuer, in the case of a Security Interest, before or at the same time, and in any other case, promptly, takes any and all action necessary to ensure that:

(a) all amounts payable by it under the Notes are secured by the Security Interest equally and rateably with the Relevant Indebtedness; or

(b) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as is approved by an Extraordinary Resolution (which is defined in the Agency Agreement as a resolution duly passed by a majority of not less than three-fourths of the votes cast) of the Noteholders.

The foregoing shall not operate to restrict or prohibit the creation of any Security Interest over the assets of, and/or shareholder interest in, a capital project securing payment of interest or principal of, payment under any guarantee of, or payment under any indemnity relating to, any International Investment Securities issued by a Subsidiary, where the International Investment Securities are issued to finance such capital project and the financier's rights of recovery are limited to cash flows generated by the specifically identifiable project, and the assets of, and/or shareholder interest in, such capital project.

4.2 Interpretation

For the purposes of these Conditions:

(a) "**capital project**" means a long-term investment project to acquire, develop, improve, and/or maintain water resources or similar infrastructure projects;

(b) "**International Investment Securities**" means notes, bonds, debentures, certificates of deposit or investment securities of any Person which (1) by their terms either are payable, or confer a right to receive payment, in any currency other than Korean Won ("**Won**") or are denominated in Won and more than 50% of the aggregate principal amount of which is initially distributed outside the Republic of Korea ("**Korea**") by or with the authorisation of the Issuer; (2) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market outside Korea; and (3) are not (A) securities issued in accordance with a securitisation plan pursuant to the Asset-Backed Securitisation Act of Korea (or other similar laws of Korea); or (B) securities or instruments serviced primarily by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite period and which are commonly regarded as asset-backed securities;

(c) "**Relevant Indebtedness**" means (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities of the Issuer and any of its Subsidiaries which are (A) for the time being quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market outside of Korea and (B) are by their terms payable or confer a right to receive payments, in any currency other than Korean Won and (ii) any guarantee or indemnity of any such indebtedness;

(d) "**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state, agency of a state or other entity, whether or not having a separate legal personality; and

(e) "**Subsidiary**" means (i) any corporation or other business entity of which the Issuer owns or controls (either directly or through another Subsidiary or other Subsidiaries) 50% or more of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such corporation or other business entity (other than capital stock or other ownership interest of any other class or classes which have voting power only upon the occurrence of any contingency) or (ii) any corporation or other business entity which is owned or controlled to any extent by the Issuer and which at any time has its accounts consolidated with those of the Issuer or which, under Korean law, regulations or generally accepted accounting principles from time to time, should have its accounts consolidated with those of the Issuer.

5. [RESERVED]

6. INTEREST

6.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount (or if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in the Conditions, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the Calculation Amounts (determined in the manner provided above) and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 6.1:

(a) if "Actual/Actual (ICMA)" is specified in the applicable Pricing Supplement:

(i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

(ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(b) if "30/360" is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

"**Determination Period**" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

"**sub-unit**" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

6.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) ***Interest Payment Dates***

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an "**Interest Payment Date**") which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in the Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

In these Conditions, if a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(A) in any case where Specified Periods are specified in accordance with Condition 6.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls in the Specified Period after the preceding applicable Interest Payment Date occurred; or

(B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, "**Business Day**" means a day which is both:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Pricing Supplement; and

(b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open.

(b) ***Rate of Interest***

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(i) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this subparagraph (i), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the "**ISDA Definitions**") and under which:

(A) the Floating Rate Option is as specified in the applicable Pricing Supplement;

(B) the Designated Maturity is a period specified in the applicable Pricing Supplement; and

(C) the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on the London interbank offered rate ("**LIBOR**") on the Euro-zone interbank offered rate ("**EURIBOR**"), the first day of that Interest Period or (b) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this subparagraph (i), "**Floating Rate**," "**Calculation Agent**," "**Floating Rate Option**," "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Pricing Supplement the Minimum Rate of Interest shall be deemed to be zero.

(ii) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Fiscal Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Fiscal Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(c) ***Minimum Rate of Interest and/or Maximum Rate of Interest***

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) ***Determination of Rate of Interest and calculation of Interest Amounts***

The Fiscal Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Fiscal Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Fiscal Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

(A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the Calculation Amount (determined in the manner provided above) and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 6.2:

(i) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;

(iii) if "Actual/365 (Sterling)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "Actual/360" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;

(v) if "30/360," "360/360" or "Bond Basis" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2-Y1)]+[30 \times (M2-M1)]+(D2-D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360\times(Y2\text{-}Y1)]+[30\times(M2\text{-}M1)]+(D2\text{-}D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30; and

(vii) if "30E/360 (ISDA)" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

(e) ***Notification of Rate of Interest and Interest Amounts***

The Fiscal Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed by no later than the first day of each Interest Period and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 15. For the purposes of this paragraph, the expression "**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(f) ***Certificates to be final***

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6.2, whether by the Fiscal Agent or, if applicable, the Calculation Agent shall (in the absence of wilful default, bad faith, manifest error or proven error) be binding on the Issuer, the Fiscal Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of wilful default and bad faith) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Fiscal Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

6.3 Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

6.4 Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

6.5 Accrual of interest

Each interest-bearing Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 15.

7. PAYMENTS

7.1 Method of payment

Subject as provided below:

(a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and

(b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9.

7.2 Presentation of Definitive Bearer Notes, Receipts and Coupons

Payments of principal in respect of Definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Definitive Bearer Notes, and payments of interest in respect of Definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of Definitive Bearer Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Definitive Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Bearer Note to which it appertains. Receipts presented without the Definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 9) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A Long Maturity Note is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon **provided that** such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any Definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Definitive Bearer Note.

7.3 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of any Notes represented by any Bearer Global Note will (subject as provided below) be made in the manner specified above in relation to Definitive Bearer Notes and otherwise in the manner specified in the relevant Bearer Global Note, against presentation or surrender, as the case may be, of such Bearer Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

7.4 Payments in respect of Definitive Registered Notes and Registered Global Notes

Payments of principal and interest in respect of each Definitive Registered Note will be made against presentation (in the case of the final instalment of principal) and surrender (or, in the case of part payment of any sum due, endorsement) of the Definitive Registered Note at the specified office of the Registrar or any of the Paying Agents. Payment of principal and interest in respect of each Definitive Registered Note and each Registered Global Note will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the "**Register**") at the close of business on the fifteenth business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) (in the case of a Definitive Registered Note) and the business day (being for this purpose a day which Euroclear and Clearstream are open for business) (in the case of a Registered Global Note) before the relevant due date (each a "**Record Date**"). Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Notes held by a holder is less than U.S.$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "**Designated Account**" means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and "**Designated Bank**" means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holder by the Registrar in respect of any payments of principal or interest in respect of Registered Notes.

Neither the Issuer nor any of the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Each payment in respect of a Registered Note will be made to the person shown as the Noteholder in the Register at the Record Date. Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Noteholder in the Register at the close of business on the relevant Record Date.

So long as the Global Note is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Note will be made to the person shown as the Noteholder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "Clearing System Business Day" means a day on which each clearing system for which the Global Note is being held is open for business.

7.5 General provisions applicable to payments

The holder of a Global Note shall be the only person(s) entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

(a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

7.6 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay.

For these purposes, "**Payment Day**" means any day which (subject to Condition 10) is:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

    (i) the relevant place of presentation;

    (ii) London;

    (iii) each Additional Financial Centre specified in the applicable Pricing Supplement; and

(b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

7.7 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(a) any additional amounts which may be payable with respect to principal under Condition 9;

(b) the Final Redemption Amount of the Notes;

(c) the Early Redemption Amount of the Notes;

(d) the Optional Redemption Amount(s) (if any) of the Notes;

(e) in relation to Notes redeemable in instalments, the Instalment Amounts;

(f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 8.5); and

(g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9.

7.8 Payments subject to fiscal laws

All payments in respect of the Bearer Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

8. REDEMPTION AND PURCHASE

8.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

8.2 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if:

(a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction (as defined in Condition 9), or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

(b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; **provided that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts or give effect to such treatment, as the case may be, were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of the change or amendment.

Notes redeemed pursuant to this Condition 8.2 will be redeemed at their Early Redemption Amount referred to in Condition 8.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

8.3 Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Pricing Supplement, the Issuer may, having given:

(a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 15; and

(b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Fiscal Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the

"**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 8.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 15 at least five days prior to the Selection Date.

8.4 Redemption at the option of the Noteholders (Investor Put)

(a) If Investor Put is specified in the applicable Pricing Supplement, then, if and to the extent specified in the applicable Pricing Supplement, upon the holder of this Note, giving to the Issuer, in accordance with Condition 15, not less than 15 nor more than 30 days' notice (or such other notice period as is specified in the applicable Pricing Supplement) (which notice shall be irrevocable), the Issuer will, upon the expiry of such notice, redeem subject to, and in accordance with, the terms specified in the applicable Pricing Supplement in whole (but not in part) such Note on the Optional Redemption Date and at the relevant Optional Redemption Amount as specified in, or determined in the manner specified in, the applicable Pricing Supplement, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Pricing Supplement.

(b) To exercise the right to require redemption of such Note, the holder of the Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, deliver, at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes), at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a "**Put Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition or evidence satisfactory to the Paying Agent concerned or, as the case may be, the Registrar that the Note will, following delivery of the Put Notice, be held to its order or under its control and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2.2. If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, to exercise the right to require redemption of this Note, the holder of this Note must, within the notice period, give notice to the Fiscal Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) of such exercise in accordance with the standard procedures of Euroclear, Clearstream (which may include notice being given on his instruction by Euroclear or Clearstream or any common depositary or common safekeeper, as the case may be, for them to the Fiscal Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) by electronic means) in a form acceptable to Euroclear and Clearstream from time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Fiscal Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) for notation accordingly.

(c) Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream given by a holder of any Note pursuant to this Condition 8.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event, such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 8.4 and instead to declare such Note forthwith due and payable pursuant to Condition 11.

8.5 Early Redemption Amounts

For the purpose of Condition 8.2 above and Condition 11.1, each Note will be redeemed at its Early Redemption Amount calculated as follows:

(a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or

(c) in the case of a Zero Coupon Note, at an amount (the "**Amortised Face Amount**") calculated in accordance with the following formula:

Early Redemption Amount = $RP \times (1+AY)^{y}$ where:

"**RP**" . . . . means the Reference Price;

"**AY**" . . . . means the Accrual Yield expressed as a decimal; and

"Y" . . . . is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

8.6 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 8.5.

8.7 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

8.8 Purchases

The Issuer or any of its Subsidiaries may at any time purchase Notes (**provided that**, in the case of Definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancellation.

8.9 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to Condition 8.8 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Fiscal Agent and cannot be reissued or resold.

8.10 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 8.1, 8.2, 8.3 or 8.4 above or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 8.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Fiscal Agent, the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 15.

9. TAXATION

All payments of principal, premium and interest in respect of the Notes, Receipts and Coupons by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of any Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of the withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) presented for payment by or on behalf of, a holder who is liable to the Taxes in respect of such Note, Receipt or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or

(b) to or on behalf of a Holder or beneficial owner who presents a Note (where presentation is required) more than 30 days after the relevant date except to the extent that the Holder or beneficial owner thereof would have been entitled to such Additional Amounts on presenting a Note for payment on the last day of such 30-day period; for this purpose the "**relevant date**" in relation to any payments of interest on, or principal of, any Note means: (i) the due date for payment thereof; or (ii) if the full amount of the monies payable on such date has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount of such monies having been so received, notice to that effect is duly given to Holders of the Notes in accordance with the Agency Agreement; or

(c) any combination of (a) or (b) above.

As used in these Conditions:

(a) "**Relevant Date**" in relation to any payments of interest on, or principal of, any Note means: (i) the due date for payment thereof; or (ii) if the full amount of the monies payable on such date has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount of such monies having been so received; notice to that effect is duly given to Holders of the Notes in accordance with the Agency Agreement; and

(b) "**Relevant Jurisdiction**" means Korea or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes, Receipts or Coupons.

10. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years after the Relevant Date (as defined in Condition 9) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7.2 or any Talon which would be void pursuant to Condition 7.2.

11. EVENTS OF DEFAULT

11.1 Events of Default

If any of the following events (each an "**Event of Default**") occurs and is continuing:

(a) default is made in the payment of any amount of principal or interest in respect of any of the Notes on the due date for payment thereof and such default remains unremedied for, in the case of default in the payment of interest, seven days thereafter; or

(b) default is made in the performance or observance of any other obligation of the Issuer under or in respect of the Notes and these Conditions and (except in any case where the failure is incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) such default remains unremedied for 60 days after written notice thereof, addressed to the Issuer by any holder of a Note, has been delivered to the Issuer or to the specified office of the Paying Agent; or

(c) if (i) any Indebtedness for Borrowed Money (as defined below) of the Issuer or any of its Principal Subsidiaries (as defined below) becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer or any of its Principal Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment; (iii) any security given by the Issuer or any of its Principal Subsidiaries for any Indebtedness for Borrowed Money becomes enforceable; or (iv) default is made by the Issuer or any of its Principal Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person; **provided that** no event described in this subparagraph 11.1(c) shall constitute an Event of Default unless the relevant amount of Indebtedness for Borrowed Money or other relative liability due and unpaid, either alone or when aggregated (without duplication) with other amounts of

Indebtedness for Borrowed Money and/or other liabilities due and unpaid relative to all (if any) other events specified in (i) to (iv) above, amounts to at least U.S.$10,000,000 (or its equivalent in any other currency); or

(d) if (i) proceedings are initiated against the Issuer or any of its Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Principal Subsidiaries or, as the case may be, in relation to the whole or any part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or any part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of any of them, and (ii) in any such case (other than the appointment of an administrator) unless initiated by the relevant company, is not discharged within 60 days; or

(e) if the Issuer or any of its Principal Subsidiaries (or their respective directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(f) if the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of Noteholders, or the Issuer or any of its Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

(g) an order is made by any competent court or resolution is passed for the winding-up, liquidation or dissolution of the Issuer or any of its Principal Subsidiaries; or

(h) if the government of Korea ceases to hold directly at least 51% of the issued share capital of the Issuer;

(i) all or any substantial part of the undertaking, assets and revenues of the Issuer is condemned, seized or otherwise appropriated by any person acting or purporting to act under the authority of any national, regional or local government of Korea or (ii) the Issuer is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets and revenues; or

(j) any event occurs which under the laws of Korea has an analogous effect to any of the events referred to in paragraphs (d) to (h) above; or

then any holder of any Note may, by written notice to the Issuer at the specified office of the Paying Agent, effective upon the date of receipt thereof by the Paying Agent, declare such Note held by that holder to be forthwith due and payable together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

11.2 Interpretation

In these Conditions:

(a) "**Indebtedness for Borrowed Money**" means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money or any liability under or in respect of any acceptance or acceptance credit; and

(b) "**Principal Subsidiary**" means any Subsidiary of the Issuer that is incorporated and existing under the laws of Korea:

(i) whose profits from ordinary activities before taxation ("**pre-tax profit**") or (in the case of a Subsidiary which itself has subsidiaries) consolidated pre-tax profit, as shown by its latest audited income statement, are at least 15% of the consolidated pre-tax profit as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries including, for the avoidance of doubt, the Issuer and its consolidated Subsidiaries share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

(ii) whose gross assets or (in the case of a Subsidiary which itself has subsidiaries) gross consolidated assets, as shown by its latest audited financial position, are at least 15% of the amount of the consolidated gross assets of the Issuer and its Subsidiaries as shown by the latest published audited consolidated financial position of the Issuer and its Subsidiaries, plus any amount represented by the investment of the Issuer in each Subsidiary whose financial statements are not consolidated with the audited consolidated financial statements of the Issuer and after adjustment for minority interests;

provided that, in relation to paragraphs (i) and (ii) above:

(A) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest audited consolidated financial statements of the Issuer relate, the reference to the then latest audited consolidated financial statements of the Issuer for the purposes of the calculation above shall, until audited consolidated financial statements of the Issuer for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest audited consolidated financial statements of the Issuer adjusted to consolidate the latest audited financial statements (consolidated in the case of a Subsidiary which itself has subsidiaries) of such Subsidiary in such financial statements;

(B) if at any relevant time in relation to the Issuer or any Subsidiary which itself has subsidiaries, no consolidated financial statements are prepared and audited, gross assets of the Issuer and/or any such Subsidiary shall be determined on the basis of *pro forma* consolidated financial statements prepared for this purpose by the Issuer, which are reviewed by the Issuer's auditors for the time being, for the purposes of preparing a certificate thereon to the Fiscal Agent to be made available for inspection at its specified office by Holders;

(C) if at any relevant time in relation to any Subsidiary, no financial statements are audited, its gross assets (consolidated, if appropriate) shall be determined on the basis of *pro forma* financial statements (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Issuer, which are reviewed by the Issuer's auditors for the time being for the purposes of preparing a certificate thereon to the Fiscal Agent to be made available for inspection at its specified office by Holders;

(D) if the financial statements of any subsidiary (not being a Subsidiary referred to in proviso (A) above) are not consolidated with those of the Issuer, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a *pro forma* consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements (determined on the basis of the foregoing) of the Issuer; and

(E) any Subsidiary of the Issuer to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, **provided that** the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall become a Principal Subsidiary at the date on which the first published audited financial statements (consolidated, if appropriate) of the Issuer prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such financial statements by virtue of any other provision of this definition of "**Principal Subsidiary**."

12. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent or the Paying Agent (in the case of Bearer Notes, Receipts or Coupons) or the Registrar or the Transfer Agent (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. FISCAL AGENT, REGISTRAR, PAYING AND TRANSFER AGENTS

The names of the initial Fiscal Agent, the other initial Paying Agents, the initial Registrar and the other initial Transfer Agents are their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent, Registrar or Transfer Agent and/or appoint additional or other Paying Agents, Registrars or Transfer Agents and/or approve any change in the specified office through any of the same acts, **provided that**:

(a) there will at all times be a Fiscal Agent and a Registrar;

(b) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Registrar and Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and

(c) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to the European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(d) so long as the Notes are listed on the Singapore Exchange Securities Trading Limited (the **SGX-ST)** and the rules of the SGX-ST so require, if the Notes are issued in definitive form, there will at all times be a Paying Agent in Singapore.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 7.5. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days prior notice thereof shall have been given to the Noteholders in accordance with Condition 15.

In acting under the Agency Agreement, the Fiscal Agent, the Paying Agents, the Registrar or the Transfer Agent act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

14. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 10.

15. NOTICES

All notices regarding Bearer Notes will be deemed to be validly given if published in a leading daily newspaper of general circulation in Asia by the Issuer. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange (or any other relevant authority) on which the Bearer Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding Registered Notes will be deemed to be validly given if (a) sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the third day after mailing and (b) if and for so long as the Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Fiscal Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Fiscal Agent or the Registrar through Euroclear and/or Clearstream, as the case may be, in such manner as the Fiscal Agent, the Registrar and Euroclear and/or Clearstream, as the case may be, may approve for this purpose.

Receiptholders and Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this condition.

16. MEETINGS OF NOTEHOLDERS, MODIFICATIONS AND CONSOLIDATIONS

16.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened if required in writing by Noteholders holding not less than 10% in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing more than 50% in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons or the Agency Agreement (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons) the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

16.2 Modifications and Waivers

The Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders (as the case may be), to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or the provisions of the Notes or the Agency Agreement either (i) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (ii) in any other manner which is not, in the opinion of the Issuer, materially prejudicial to the interests of the Noteholders, Receiptholders and/or Couponholders (as the case may be). Any determination as to material prejudice applying to the interests of the Noteholders, Receiptholders and/or Couponholders (as the case may be) shall be made by the Issuer and none of the Agents shall have any responsibility or liability whatsoever with respect to such determinations. Any modification shall be binding on the Noteholders, Receiptholders and/or Couponholders (as the case may be) and, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Noteholders, Receiptholders and/or Couponholders (as the case may be) as soon as practicable thereafter in accordance with Condition 15.

17. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding notes of any series (including the Notes) or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue.

18. CURRENCY INDEMNITY

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Receipt or Coupon is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Noteholder, Receiptholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the currency of payment under the relevant Note, Receipt or Coupon that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note, Receipt or Coupon, the Issuer shall indemnify such Noteholder, Receiptholder or Couponholder, as the case may be, against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it shall be sufficient for the Noteholder, Receiptholder or Couponholder to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder, Receiptholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Receipt or Coupon or any other judgment or order.

19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20. GOVERNING LAW

(a) **Governing law:** The Agency Agreement, the Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection thereunder are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction:** The courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes (including a dispute relating to any non-contractual obligations arising out of or in connection thereunder) and accordingly any legal action or proceedings arising out of or in connection with the Notes ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient or inappropriate forum. This submission is made for the benefit of each of the Noteholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) **Agent for service of process:** The Issuer irrevocably appoints Law Debenture Corporate Services Limited at its registered office for the time being at Fifth Floor, 100 Wood Street, London EC2V 7EX United Kingdom as its agent in England to receive service of process in any Proceedings in England. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Noteholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(d) **Waiver of immunity:** The Issuer hereby irrevocably and unconditionally waives and agrees not to raise with respect to the Notes (including a dispute relating to any non-contractual obligations arising out of or in connection thereunder) any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

CAPITALISATION

The following table sets out the Company's capitalisation, consisting of long-term debt (consisting of long-term borrowings and debentures but each excluding current portion thereof) and equity, as of 31 December 2017. This information has been derived from the audited consolidated statements of financial position as of 31 December 2017 included elsewhere in this Offering Circular.

The table below should be read in conjunction with the Company's financial statements, including the notes thereto, included elsewhere in this Offering Circular.

	As of 31 December 2017	
	(in billions of Won and millions of U.S. dollars[1])	
Long-term debt (excluding current portion)[2]:		
Long-term borrowings[2]	₩342.5	US$319.7
Debentures, net[2]	9,932.7	9,270.8
Total long-term debt	**10,275.2**	**9,590.5**
Equity:		
Issued capital	8,101.9	7,562.0
Retained earnings (accumulated deficit)	(864.0)	(806.5)
Other equity components	(37.8)	(35.3)
Non-controlling interests	33.9	31.7
Total equity	**7,234.0**	**6,751.9**
Total capitalisation[3]	**₩17,509.2**	**US$16,342.4**

(1) Won amounts have been converted into U.S. dollars solely for the convenience of the readers at the Market Average Exchange Rate of ₩1,071.4 to US$1.00 on 31 December 2017.

(2) All of the Company's long-term debt is unsecured and not guaranteed.

(3) Long-term debt (excluding current portion) plus equity as of 31 December 2017. As of 30 April 2017, the Government made a capital contribution of ₩175.7 billion to the Company. Other than such capital contribution, there has been no material change in the capitalisation of the Company since 31 December 2017.

SELECTED CONSOLIDATED FINANCIAL DATA

The following tables set forth selected consolidated financial data with respect to the Company. The selected consolidated financial information and other data set forth below has been derived from and should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto as of and for the years ended 31 December 2016 and 2017, all of which are included elsewhere in this Offering Circular.

	For the Year Ended 31 December	
	2016	**2017**
	(in billions of Won)	
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME:		
Revenue	₩3,618.1	₩3,375.6
Cost of sales	(3,105.6)	(2,793.7)
Gross profit	**512.5**	**581.8**
Selling, general and administrative expenses	(148.4)	(154.1)
Operating profit	**364.1**	**427.7**
Other income	20.1	68.5
Other expenses	(120.1)	(42.9)
Other gain (loss), net	(143.0)	(1.9)
Financial income	46.2	125.3
Financial costs	(329.1)	(383.3)
Share of profit of equity accounted investees, net	(3.3)	(1.1)
Net income (loss) before income tax expense (benefit)	**(165.2)**	**192.3**
Total comprehensive loss for the period	**₩(114.1)**	**₩157.4**

	As of 31 December	
	2016	**2017**
	(in billions of Won)	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION:		
Total current assets	₩6,422.0	₩7,041.8
Total non-current assets	13,877.4	13,825.5
Total assets	**20,299.4**	**20,867.3**
Total current liabilities	3,154.6	3,056.1
Total non-current liabilities	10,484.3	10,577.2
Total liabilities	**13,638.9**	**13,633.3**
Total shareholder's equity	**6,660.6**	**7,234.0**
Total liabilities and equity	**₩20,299.4**	**₩20,867.3**

	For the Year Ended 31 December	
	2016	**2017**
	(in billions of Won)	
OTHER FINANCIAL DATA:		
Depreciation	₩84.9	₩87.4
Amortization	608.1	614.2
Cash flows from operating activities	274.5	220.5
Cash flows from investing activities	(884.2)	(631.8)
Cash flows from financing activities	₩596.7	₩460.6

THE KOREAN WATER INDUSTRY

Overview

According to the values in the Long-term Comprehensive Water Resources Plan published by the MOLIT, as updated in December 2017, the amount of annual precipitation in Korea is, on average, about 1,300 mm, which is slightly higher than the global average. However, due to Korea's high density of population, the average annual precipitation per capita is about one-sixth of the global average. In addition, about two-thirds of Korea's rainfall falls in a four month period from June to September and approximately three-fourths of the total water resources in Korea in a given year is lost as a result of the water flowing into the ocean and through evaporation and infiltration. For these reasons, in the summer season, Korea frequently suffers from flood damage, while in the spring and winter seasons, Korea can be affected by drought. Furthermore, regional imbalances exist with respect to available water resources.

To deal with these problems that are peculiar to Korea, numerous large dams have been constructed since 1960 to store water and to regulate water flows in major rivers in Korea. Most of the large reservoirs in Korea were created by multi-purpose dams that also supply water, produce hydro- powered electricity and provide flood control.

Due to the industrial development and a rapid increase in population, which began in the mid-1960s, water pollution has become a major problem threatening the quality of water resources in Korea. Although significant strides have been made toward reducing pollutant sources, water sources in Korea still remain at risk from pollution. Since 1999, the ME has begun a watershed protection approach, which is an integrated and holistic strategy for more effectively restoring and protecting aquatic resources. This approach focuses on hydro-logically defined drainage basin watersheds, rather than on areas arbitrarily defined by political boundaries.

Regulations

The Company was established as a juridical entity under the K-water Act, and it is subject to the rules and regulations of that Act and other acts governing the water industry, such as the Water Supply and Water Works Installation Act and the Act on Construction of Dams and Assistance etc. to their Environs (the "**Act on Construction of Dams**").

In Korea, primary legislation is supported by a presidential decree or ordinance, which in turn is supported by regulations. This section examines the legislation concerning the regulation of the water industry in Korea. It does not consider any other facets of regulation such as company law and taxation.

Framework

The Korean water industry is currently regulated by various divisions of the Government or local governments depending on the specific function and objective. The MOLIT oversees the development, construction and management of water resources, waterworks and dams. The ME supervises all activities that relate to environment. The agricultural dams and waterworks are regulated by the MAFRA, the hydropower dams are supervised by the MOTIE and the water tariff determination process is regulated by the MOSF. Local water and sewage are managed and regulated by the local governments.

Supervision by the Government

Under the K-water Act and the Company's articles of incorporation, the MOLIT supervises the Company's general activities relating to its business plan, execution plan, completion of project, amendments to its articles of incorporation and budget preparation. The ME supervises activities of the Company that may affect the environment.

The Public Agencies Management Committee (the "**PAM Committee**") formed under the Public Agencies Management Act is granted the power to, among other things, (i) evaluate the performance of the Company's operations, (ii) nominated (by vote) non-standing directors of the Company from a pool of qualified candidates recommended by the Executive Recommendation Committee (the "**ER Committee**"), which nominees the MOSF then formally appoints (and whom the MOSF may also subsequently dismiss), (iii) nominate (by vote) the president of the Company from pools of qualified candidates recommended by the ER Committee, which nominees the President of Korea then formally appoints (and whom the President of Korea may also subsequently dismiss) and (iv) evaluate matters relating to certain disclosure requirements under the relevant Korean law.

When a budget is established or amended, the president of the Company reports the details of the budget to the MOSF, the MOLIT and the Board of Audit and Inspection. At the end of a financial year, the actual expenditure is approved by the MOSF.

K-water Act

Under the K-water Act, which was last amended in December 2015, the Company was established as a juridical entity for the purpose of facilitating water supply and improving the quality of water through developing and managing water resources, improving national living standards and contributing to the promotion of public welfare. To achieve these objectives, the K-water Act allows the Company to undertake the following activities:

- construction, operation and management of waterworks, including:

  (i) multi-purpose dams and dams for a residential water use (excluding dams for an agricultural water use only);

  (ii) estuary barrage and multi-purpose waterways;

  (iii) inland ship transportation and canal facilities; and

  (iv) other facilities for comprehensive development and utilization of water resources;

- construction, operation and management of multi-regional water supply systems and waterworks;

- water analysis for dams;

- construction, operation and management of wastewater treatment facilities that may have a direct effect on the quality of water which may be supplied to two or more local governments;

- development of industrial complexes and the Special Area (limited to those areas that are currently under development by the Company);

- construction, operation and management of new or recycled energy facilities using water resources development facilities and water supply system and sites thereof, etc.;

- levy on charges of water or electricity supplied from waterworks and water supply systems, charges of water resources development facilities and water thereof and rental fee of sewage treatment facilities;

- levy on charges of water or electricity supplied from water resources development facilities and water supply systems, charges of water resources development facilities and water thereof and rental fee of sewage treatment facilities;

- management of hydro power plants;

- formation of relocation sites and reclamation of public water for the purposes of the Company's projects;

- performing basic survey and information management for efficient development, utilization and management of water resources; and

- providing technical support and education for the benefit of the water industry.

Water Supply and Waterworks Installation Act

The purpose of the Water Supply and Waterworks Installation Act, which was wholly amended in 2007 and last amended in January 2016, is to improve the public sanitation and contribute to the improvement of living environment through the establishment of a comprehensive plan for waterworks and the appropriate and reasonable management of waterworks.

According to Article 12 of the Water Supply and Waterworks Installation Act, waterworks businesses are in principle to be managed by the national government, local governments and the Company, except where the supply of tap water by private business operators on behalf of local governments is deemed necessary.

Anyone who intends to engage in a general waterworks business must obtain a license from the MOLIT (in the case of multi-regional waterworks, other than those installed by the local governments) or the ME (in the case of water-purifying works approved by MOLIT and local waterworks and multi-regional waterworks installed by the local governments). When the Company obtains an approval on the execution plan for the construction or management of waterworks pursuant to Article 15 of the Special Act on the Utilization of Waterfronts, it is deemed to have obtained the relevant licenses from the MOLIT and/or the ME.

Under the Water Supply and Waterworks Installation Act, the MOLIT may entrust the management of the waterworks installed by the Government to the Company and the local governments may also entrust the management of the local waterworks to the Company for the purpose of efficiently managing waterworks. In addition, according to the latest amendment of the Water Supply and Waterworks Installation Act, a general waterworks business operator may also entrust the operation and management of the waterworks facilities to, *inter alia*, the Company.

Act on Construction of Dams

The purpose of the Act on Construction of Dams, which was last amended in December 2016, is to develop the national economy through the rational development and utilization of water resources by the construction and management of dams, and other activities in relation to dams.

Under the Act on Construction of Dams, the basic plan and the implementation plan for a dam construction project that is not undertaken by the MOLIT or a local government must be approved by the MOLIT. In addition, when dam construction is completed, an application for the authorization for the completion of construction must be filed with the MOLIT.

Under the Act on Construction of Dams, the MOLIT is responsible for managing dams, other than those dams constructed by a local government, which must be managed by the relevant local government. According to the Presidential Decree of Act on Construction of Dams, the management of dams constructed by the MOLIT or the Company is entrusted to the Company.

Special Act on the Utilization of Waterfronts

The purpose of the Special Act on the Utilization of Waterfronts, which was last amended in January 2016, is to prevent ill-conceived development, promote sustainable growth of neighbouring areas near national rivers and improve public welfare via improved management of rivers.

Under the Special Act on the Utilization of Waterfronts, the MOLIT may designate qualifying adjacent area of a national river to be a waterfront area which may be deemed necessary for development and utilisation as a sustainable waterfront area.

The MOLIT may designate a project developer among designated list of developers, including the Company, to perform a project for developing and managing a waterfront area so that such area may have residential, commercial, industrial, cultural, sightseeing and/or leisure functions in harmony with the adjacent national river (a "**Waterfront Development Project**"). The project developer so designated must prepare an action plan for the Waterfront Development Project and obtain approval from the MOLIT. If a project developer fails to apply for approval of an action plan on all or any part of the waterfront within three years from the date it is designated and announced as waterfront, designation of the relevant waterfront will be cancelled. To obtain the approval, the designated project developer must also conduct an environment impact assessment under the Environmental Impact Assessment Act in advance. If the MOLIT has, in granting approval of an action plan, held prior consultation with the head of the related administrative agency in regard to certain permission, approval, reporting, determination, designation, licenses, consultation, consent, cancellation or deliberation required under other statues, the project developer will be deemed to have obtained such approval and permit. If the project developer fails to commence a Waterfront Development Project within three years after it has obtained approval of an action plan, is deemed unable to complete or is impossible to complete a Waterfront Development Project within the period set in the action plan, the MOLIT may replace the project developer.

Where the project developer has completed all or any part of the Waterfront Development Project, the project developer must submit a report on completion of the construction work to the MOLIT without delay and operate an inspection to confirm completion. After a satisfactory inspection, the MOLIT will issue a certificate of completion. However, if the project developer has failed to perform construction works in accordance with an action plan, the MOLIT will order the project developer to take necessary measures, such as additional work, without delay.

The Government must establish, and the MOLIT must operate and manage, a river management fund in order to secure funds necessary for river conservation works and river maintenance and repair to secure water and prevent flood in preparation for climate change. The River Management Fund shall be managed for the uses prescribed under the Special Act on the Utilization of Waterfronts, including for river works and river maintenance and repair as defined in the River Act and for compensation of expenses incurred in river works approved and announced by the MOLIT. The Government shall recapture some of increases in the value of land in excess of normal increases in land prices due to a waterfront development project. In such cases, it shall not collect development charges under the Restitution of Development Gains Act.

Long-term Comprehensive Water Resources Plan

Pursuant to the River Act, the Long-term Comprehensive Water Resources Plan is prepared every twenty years by the MOLIT for the stable supply and effective management of water resources. The most recent Long-term Comprehensive Water Resources Plan announced in July 2001 and revised in June 2006 and last amended in December 2016 lists its objectives as, among other things, the development of new water resources for a stable water supply, promotion of various projects for flood control, implementation of technologies for flood control and promotion of multi-purpose utilization of rivers. Under the Long-term Comprehensive Water Resources Plan, the Basic Plan for Waterworks and the Long Term Plan for Dam Construction (as defined below) have been established.

Pursuant to the Water Supply and Waterworks Installation Acts, the Basic Plan for Waterworks Installation and Management is prepared every ten years by the MOLIT. The last Basic Plan for Waterworks Installation and Management, which was first announced in December 2009 and as further revised in 2015, among other things:

- the water demand forecast;

- the waterworks supply plan;
- the plan for water quality control; and
- the plan for water demand control.

Under Article 4 of the Act on Construction of Dams, the MOLIT is required every ten years to establish a long-term plan for dam construction (the "**Long-Term Plan for Dam Construction**"). The last Long Term Plan for Dam Construction, which was announced in December 2001 and amended in December 2012, included, among other things:

- the basic goal for the long term plan for dam construction;
- the general policy on new dam construction; and
- the dam construction plan (including location, size and funding plan).

Rate Regulation

Under the K-water Act, the Company may charge tariffs on water supplied from and through its dams and multi-regional water supply systems, and treated at its wastewater treatment facilities. The water supply rates of local waterworks businesses are in principle to be managed by the local governments.

The Company prescribes the rules for the calculation and collection of certain water tariffs, and these rules must be approved by the MOLIT (in the case of the rules relating to tariffs on water supplied from and through its dams and multi-regional water supply systems) or the ME (in the case of the rules relating to tariffs on water treated at its wastewater treatment facilities). According to the Price Stabilization Act, the MOLIT or the ME must consult with the MOSF before approving these tariffs. In September 2016, the tariff on water supplied for dams and multi-regional water supply system was increased by 4.8% for the purposes of securing budget to replace equipment for old dam and water supply system.

Overview

The Company is a Government-owned corporation existing under the K-water Act in Korea to develop and manage the nation's water resources and to improve the quality of water. To achieve these objectives, the Company engages primarily in the construction and management of multi-purpose dams and estuary barrages and construction and management of multi-regional and industrial water supply systems and water supply dams, and also in the development of industrial complexes and certain areas designated by the Government as development sites for industrial, commercial, and residential use (the "**Special Area**"), and in related ancillary businesses, including (i) conducting research in the field of water resources, (ii) providing technological support and education on water resources and water supply, (iii) providing waterworks related services overseas, and (iv) engaging in local waterworks management business and waste water treatment business.

As of the date of this Offering Circular, the Company oversaw the construction and management of 20 multi-purpose dams and one estuary barrage, whose functions include supplying water, controlling floods and generating electricity. These multi-purpose dams and estuary barrage together had an annual raw water supply capacity of 12.4 billion cubic meters, which represented approximately 65% of total annual raw water supply capacity of dams in Korea, and a flood control capacity of 5.3 billion cubic meters, representing approximately 95% of the total flood control capacity of dams in Korea, in each case as of 31 December 2017 according to the Long-term Comprehensive Water Resources Plan published by MOLIT in 2017 and the Company's internal data, and an annual hydroelectric power capacity of 1,080 megawatts, representing approximately 61% of total annual hydroelectric power capacity in Korea as of 31 December 2017 according to the Power Exchange Statistics System compiled by the Korea Power Exchange (the "**KPX**"). The Company is also responsible for constructing and managing multi-regional water supply systems and industrial water supply systems and related facilities in Korea. As of 31 December 2017, the Company managed 39 multi-regional water supply systems and 14 industrial water supply systems in Korea, with a combined daily water supply capacity of 17.6 million cubic meters. This accounted for 46.7% of the daily water supply capacity in Korea, according to the 2017 Waterworks Statistics published by the ME and the Company's internal data. The development of industrial complexes and the Special Area generally entails construction of infrastructures, such as roads, water and sewage pipelines and electricity power lines, and preparation of land for industrial, commercial and residential purposes. The Company is currently constructing one additional multi-purpose dams, one flood control dam, six multi-regional water supply systems and four industrial water supply systems and is involved in two industrial complex expansion projects, two development projects in the Special Area and one development projects in waterfront areas.

As of 31 December 2017, the Company's total assets and liabilities amounted to ₩20,867.3 billion and ₩13,633.3 billion, respectively, compared to total assets of ₩20,299.4 billion and total liabilities of ₩13,638.9 billion as of 31 December 2016. In 2016 and 2017, the Company had total revenue of ₩3,618.1 billion and ₩3,375.6 billion, respectively, operating profit of ₩364.1 billion and ₩427.7 billion, respectively, and net profit (loss) for the period of ₩(117.0) billion and ₩184.9 billion, respectively.

Relationship with the Government

The Government, through the MOLIT, oversees the development, construction and management of water resources, waterworks and multi-purpose dams. Under the K-water Act, the MOLIT is granted the power to direct and supervise the Company's activities. The MOLIT supervises the Company's general activities relating to its business plans, execution plans, completion of projects, amendments to its articles of incorporation and budget preparation. In addition, different ministries of the Government and local governments also regulate the Company's activities. The ME supervises activities of the Company that relate to the environment, and the water tariff determination process is regulated by the MOSF.

Pursuant to the K-water Act, the Company's authorized capital is ₩10 trillion and contributions to its capital may only be made by local governments, the Korea Development Bank and the Government, with at least 50.0% of its outstanding capital being directly owned by the Government. As of 31 December 2017, the Government and the local governments held ownership interests of 92.5% and 0.1%, respectively, and the Korea Development Bank held ownership interests of 7.4%. As an entity serving the public policy objectives of the Government, the Company does not seek to maximize its profits.

Under the K-water Act, the Government may guarantee bonds issued by the Company. The Government may also cover the Company's expenses for construction and reconstruction of facilities for development and utilization of water resources, flood control and for construction and management of facilities used for irrigation water, water for household consumption and industrial water. Furthermore, the Government may subsidize the Company's expenses incurred in connection with (i) the construction and management of multi-purpose dams and dams for supply of water (including hydroelectric power generation units but excluding dams supplying water only for agriculture purposes), estuary barrages and multi-purpose canals, facilities for transportation by ship and canals and other facilities for the comprehensive development and use of water resources and (ii) the construction and management of wastewater treatment facilities for the treatment of wastewater in regions that directly affect the water quality of water sources supplied to two or more local governments (limited to wastewater treatment facilities that are either fully funded by the Government or the Company, or are commissioned by the local governments or any other person under relevant law).

Long-term Comprehensive Water Resources Plan

Pursuant to the River Act, the Long-term Comprehensive Water Resources Plan is prepared every twenty years by the MOLIT for the stable supply and effective management of water resources.

The objectives of the most recent Long-term Comprehensive Water Resources Plan announced in July 2001 and revised in June 2006 and last amended in December 2016 include the development of new water resources for a stable water supply, promotion of various projects for flood control, implementation of technologies for flood control and promotion of multi-purpose utilization of rivers. Under the Long-term Comprehensive Water Resources Plan, the Basic Plan for Waterworks and the Long-Term Plan for Dam Construction have been established.

Pursuant to the Water Supply and Waterworks Installation Acts, the Basic Plan for Waterworks is prepared every ten years by the MOLIT. The last Basic Plan for Waterworks, which was first announced in 2009 and revised in 2016, included: the water demand forecast; the waterworks supply plan; the plan for water quality control; and the plan for water demand control.

The Act on Construction of Dams requires the MOLIT to establish a Long-Term Plan for Dam Construction. The last Long-Term Plan for Dam Construction, which was announced in December 2001 and revised in 2012, included, among other things, (i) the basic goal for the Long-Term Plan for Dam Construction, (ii) the general policy on new dam construction and (iii) the dam construction plan (including location, size and funding plan).

The Four River Restoration Project was included as a part of the amended Long-term Comprehensive Water Resources Plan. See "*– Project Initiatives – Four River Restoration Project*."

Project Initiatives

Four River Restoration Project

In June 2009, the Company was mandated by the Government to implement the Four River Restoration Project, a plan to reinforce eroded riverbanks, repair washed-out areas and restore the ecosystem of four main rivers of Korea, namely, Han, Nakdong, Geum and Youngsan. The main project consisting of the construction of two multi-purpose dams, 16 new weirs on the four rivers, reinforcement of 234 miles of riverbanks, and dredging 450 million cubic meters of sediment from 333 river miles was completed in 2016 and the construction of one multi-purpose dam was completed in 2017. The total project cost incurred was approximately ₩22 trillion. The Company, as an entity that is directly supervised by the MOLIT, was involved in the Four River Restoration Project, either directly or indirectly by (i) constructing, managing, and developing weirs, reservoirs and their surrounding areas; or (ii) commissioning the MOLIT to carry out the Company's projects. The total cost borne by the Company relating to the Four River Restoration Project was approximately ₩8.0 trillion, which the Company mainly funded through issuances of bonds in Korean Won and foreign currencies.

Following the enactment of the Special Act on Utilization of Waterfront Area in December 2010, the Company was granted the right to develop waterfront areas. The Company selects candidates for development areas from regions surrounding the four rivers through comprehensive reviews of relevant factors, including suitability for development and potential for revenue generation. Korea Development Institute and other research institutions have been engaged to assist the Company in forming development strategies and assessing business feasibility.

Total outstanding indebtedness relating to the Four River Restoration Project as of 31 December 2017 was ₩6,790 billion, which the Company expects to amortize by 2036. At the National Cabinet Members Policy Coordination Meeting held in September 2009, the Government resolved for the Company to participate in the Four River Restoration Project. The Government further resolved to cover all the interest on the outstanding indebtedness in connection with the funding of the Four River Restoration Project, as well as a portion of the principal amount of such indebtedness in consideration of the financial condition of the Company as of the completion of the project. As such the Company began investment in the Four River Restoration Project in 2009 and the investment cost was recognized as the intangible assets under development and other intangible assets on a net book value basis.

At a subsequent meeting held in September 2015, the Government further resolved to assume responsibility for 30% of the principal amount of the Company's indebtedness incurred for funding the Four River Restoration Project via capital contributions spread out over 16 years, which amounts to approximately ₩2,400 billion in total, in addition to any interest expenses incurred during and until the full redemption of the indebtedness.

Out of the total investment cost recognized as the intangible assets, excluding those that are recoverable, the Company recognized impairment losses of ₩143 billion in 2016, respectively, pertaining to the difference between the recoverable amount and net book value. There were no further impairment losses relating to the Four River Restoration Project in 2017.

The National Assembly of Korea has approved a budget of ₩340 billion for 2016, ₩278 billion for 2017 and ₩296 billion for 2018 to fund the Company's financing costs and repayments of outstanding indebtedness incurred in connection with the project, respectively.

The Company expects to repay the remaining 70% from revenues derived from hydroelectric power and site development projects. Revenues from water supply businesses of the Company will be excluded from contributing to the debt repayment. However, no assurance can be given that our revenues and Government support under the current plan will sufficiently cover all of the Company's repayment obligations. See "*Risk Factors – Risks Relating to the Company – While the Company expects to recover its investments made in connection with large public infrastructure projects, such as the Four River Restoration Project and the Kyung-In Canal Project through revenues derived from related development projects and Government support, there is no assurance that the Company will not be tasked with additional projects requiring large scale investments where revenue is uncertain and investment recovery will largely depend on financial support from Government*."

Kyung-In Canal Project

The Company carried out the Kyung-In Canal Project, which involved the construction of an 18-kilometer waterway connecting the Han River near Seoul to the Yellow Sea near Inchon. The purpose of this project was twofold:

- prevention of the recurring Gulpo stream basin flooding which has been affecting the over 1.5 million residents living in Inchon and Buchon, and

- reduction of the logistics costs in the Seoul Metropolitan area, which will in turn help the national economy by saving transportation costs.

In addition to the construction of the waterway, the project also included the construction of two terminals, three locks and other waterfront creations such as cultural and leisure space for local residents. The project began in June 2009 and the waterway was opened in May 2012. As of 31 December 2016, the total project cost was ₩2,676 billion (including ₩1,565 billion recognized as intangible assets), all of which was borne by the Company. The investment by the Company in the Kyung-In Canal Project has since completed. The Company's investment in the Kyung-In Canal Project is expected to be recovered primarily through revenues from sales of developed lots, sales of port facility management rights, leases of port facilities and operations of other facilities along the waterways, although the Government provides some supports for a portion of the Company's investment such as subsidies for land compensation costs. However, there is no assurance that such revenues and Government support will be sufficient for the full recovery of the Company's investments in the project.

See "*Risk Factors – Risks Relating to the Company – While the Company expects to recover its investments made in connection with large public infrastructure projects, such as the Four River Restoration Project and the Kyung-In Canal Project through revenues derived from related development projects and Government support, there is no assurance that the Company will not be tasked with additional projects requiring large scale investments where revenue is uncertain and investment recovery will largely depend on financial support from Government.*"

Water Resources Business

The Company provides a stable source of raw water supply to local governments and industrial complexes by constructing and managing multi-purpose dams and an estuary barrage. Raw water means unfiltered and untreated water. Multi-purpose dams serve several functions, including flood control, water supply and hydroelectric power generation. Currently, the Company overseas 20 multi-purpose dams and one estuary barrage in Korea, all of which have been constructed by the Company.

As of the date of this Offering Circular, the Company oversaw the construction and management of 20 multi-purpose dams and one estuary barrage, whose functions include supplying water, controlling floods and generating electricity. These multi-purpose dams and estuary barrage together had an annual raw water supply capacity of 12.4 billion cubic meters, which represented approximately 65% of total annual raw water supply capacity of dams in Korea, and a flood control capacity of 5.3 billion cubic meters, representing approximately 95% of the total flood control capacity of dams in Korea, in each case as of 31 December 2017 according to the Long-term Comprehensive Water Resources Plan published by MOLIT in 2017 and the Company's internal data, and an annual hydroelectric power capacity of 1,080 megawatts, representing approximately 61% of total annual hydroelectric power capacity in Korea as of 31 December 2017 according to the Power Exchange Statistics System compiled by the KPX.

Dam Construction

Combined water resources development commenced in Korea during the 1960s with the enactment of the Specified Multi-purpose Dam Act and the establishment of the Company. Since its establishment, the Company has constructed 20 multi-purpose dams in Korea. The Company believes that these dams have significantly contributed to national economic growth by meeting the increasing demand for water and, in part, electricity and reduced damages from floods.

In March 2000, the Specified Multi-purpose Dam Act was repealed and replaced by the Act on Construction of Dams. Recognizing the necessity for efficient dam construction and securing stable water resources in light of forecasted water shortages, the Act on Construction of Dams provides for the MOLIT to act as an overall coordinator for the implementation of dam construction plans. Previously, the responsibility of planning dam construction was borne by several ministries, depending on the intended use of the dam. The Act on Construction of Dams applies not only to multi-purpose dams, but to all other structures within the definition of "dam" as defined therein. The Act on Construction of Dams requires the MOLIT to establish the Long-Term Plan for Dam Construction every 10 years on the basis of various dam construction plans prepared by the respective ministries involved. The Act on Construction of Dams requires the Long-Term Plan for Dam Construction, which was first implemented in 2001 and replaced by new plans in 2012 to specify information on (a) basic principles for dam construction, (b) prospects of the supply and demand of water for various purposes, (c) dam construction plans by each water system, (d) plans for securing financial resources, (e) standards for selecting dam construction sites and (f) means to minimize the environmental impact of dam construction.

The following table sets forth the water storage, flood control, water supply and hydroelectric power generation capacities of the 20 multi-purpose dams and one estuary barrage as of 31 December 2017.

Name	River	Water Storage Capacity(1)	Flood Control Capacity(2)	Annual Water Supply Volume(3)	Installed Capacity(4)	Year of Completion
		(in millions of cubic meters)			*(megawatts)*	
Multi-Purpose Dams:						
Chungju	Han	2,750	616	3,380	412	1986
Heongsong	Han	87	10	120	1	2002
Soyanggang	Han	2,900	500	1,213	200	1973
Yeongju	Nakdong	181	75	203	5	2016
Andong	Nakdong	1,248	110	926	92	1977
Hapchun	Nakdong	790	80	599	101	1989
Imha	Nakdong	595	80	592	51	1993
Milyang	Nakdong	74	6	73	1	2002
Namgang	Nakdong	309	270	573	14	1999
Gunwui	Nakdong	49	3	38	1	2012
Boryeong	Geum/Seomjin	117	10	107	1	2000
Buan	Geum/Seomjin	50	9	35	0	1996
Daechung	Geum/Seomjin	1,490	250	1,649	91	1981
Juam	Geum/Seomjin	707	80	489	24	1992
Seomjingang	Geum/Seomjin	466	32	350	35	1965
Yongdam	Geum/Seomjin	815	137	650	26	2006
Jangheung	Tamjin	191	8	128	1	2007
Buhang	Nakdong	54	12	36	1	2014
Bohyunsan	Nakdong	22	3	15	0	2015
Seongdeok	Nakdong	28	4	21	0	2015
Estuary Barrage:						
Nakdong Estuary	Nakdong	–	–	750	–	1990
Total		**12,923**	**2,295**	**11,947**	**1,057**	

(1) Water storage capacity represents the maximum volume of water that may be stored in the dam without a significant risk of damage to the facility.

(2) Flood control capacity represents volume of water that may be added to the volume of water generally stored in the dam without a significant risk of damage to the facility.

(3) Annual water supply volume is presented on an annual basis as of 31 December 2017.

(4) Installed capacity represents the level of output that may be sustained continuously without significant risk of damage to the facility.

Currently, Korea is classified as a water-scarce country by Population Action International, a nongovernmental research and advocacy organization, primarily as a result of high population density. In order to efficiently manage scarce water resources in Korea, the MOLIT implements the Long-Term Plan for Dam Construction, which was first implemented in 2001. In accordance with the current Long-Term Plan for Dam Construction implemented in 2012, construction of four additional multi-purpose dams and two flood control dams are planned by 2021.

Construction Process

Generally, the Company subcontracts to construction companies the construction of dams, while it provides relevant technology and supervises the dam construction in progress. In some cases, the Company subcontracts the construction of dams on a turn-key basis. The Company's Technology Examination Committee and Contract Review Committee are responsible for selecting the subcontractors. The procedure for selecting subcontractors depends on the total value of the relevant subcontract. In the case of a multi-purpose dam construction subcontracts, the total value of which, in almost all cases, exceeds ₩30 billion, the subcontractor is selected through a competitive bidding process. However, only those construction companies that possess the relevant qualifications, including, but not limited to, the relevant technological know-how and experience, are permitted to participate in the competitive bidding process. In most cases, the lowest bidder is awarded the multi- purpose dam construction subcontract. However, in certain other cases, the Company further examines the lowest bidder's qualifications to determine whether that bidder would be suitable for the construction project. If the Company determines that the lowest bidder lacks the relevant qualifications, then the Company examines the next lowest bidder's qualifications. This process continues until the Company makes its final selection.

Once the Company selects the subcontractor for a multi-purpose dam construction project, it enters into a master subcontract agreement (the "**Master Subcontract Agreement**") with the subcontractor. The Master Subcontract Agreement governs the relationship between the parties for the duration of the construction period. The Company and the subcontractor also enter into an annual subcontract agreement (the "**Annual Subcontract Agreement**") which sets out the respective parties obligations for a given year. Under the Annual Subcontract Agreement, the Company pays approximately 50% of the annual contract amount at the start of a given year so that the subcontractor can purchase its annual requirements of raw materials and supplies. The remainder of the annual contract amount is paid by the Company according to the progress of the construction project. Under the Master Subcontract Agreement, the subcontractor is required to insure the construction project for the benefit of the Company.

The Government reimburses the Company for part of its dam construction expenses and these reimbursements are recorded as revenue, as well as cost of sales, for accounting purposes. Accordingly, the Company does not generate any profit from its dam construction activities. Previously, most of the construction and compensation costs were born by the Government but beginning from 2011, the Government and the Company share construction and compensation costs based on the cost-benefit analysis. In general, the Government may bear construction and compensation costs for those utilised for a public purpose, such as flood control, whereas the Company bears the costs for those relating to water supply and power generation. Once a dam is fully constructed, the Government retains ownership interests in the dam and compensates the Company for the management of the dams by granting perpetual dam usage rights to the Company. With the dam usage rights, the Company is able to charge tariffs on the water it supplies and rates on the electricity generated from the dams operated by the Company.

The Company's revenue from its dam construction activities amounted to ₩260 billion and ₩135 billion, representing 7.2% and 3.7% of its total revenues in 2016 and 2017, respectively.

Upgrading Flood Control Capacity

Due to unusual flooding caused by climate change in Korea, including an increase in the frequency of localized torrential rain, in June 2000, Korea Institute of Construction Technology re- calculated the volume of the heaviest torrential rain that could fall in each region of Korea (for each region, the "**Maximum Regional Rainfall**"). From April 2003 to September 2004, Korea Infrastructure Safety & Technology Corporation conducted a safety inspection on the multipurpose dams and the water supply dams managed by the Company. This safety inspection concluded that, in the event of a Maximum Regional Rainfall, the dams (other than the Yongdam multi-purpose dam) managed by the Company are in danger of water spilling over the dam walls or the water level in the dams exceeding the acceptable level of water, above which significant structural damage to the dams may result. Furthermore, if dam water does spill over, there is a risk of dam walls collapsing. This safety inspection also found that the maximum differential between the volume of flood water that would flow into a multi-purpose dam as a result of a Maximum Regional Rainfall and the water storage capacity of that multi-purpose dam was 132%. In the case of a water supply dam, the safety inspection found that the maximum differential was 317%.

To better protect the dams against the damage that may be caused by a Maximum Regional Rainfall, in 2003, the Company commenced construction or renovation projects on 24 of the dams managed by the Company so that each of these dams would be able to release a larger volume of water as and when necessary. As of 31 December 2017, the Company completed such construction or flood control capacity expansion projects on 18 dams and was in the process of conducting construction or flood control capacity expansion projects on three additional dams. The Company intends to complete necessary construction or flood control capacity expansion projects on the remaining dams. In the meantime, the Company maintains the water levels of the dams managed by it at low levels so as to provide the dams with additional capacity to take in flood water.

The estimated costs of upgrading the dams were jointly calculated by the MOLIT and the MOSF. It is expected that the Government will reimburse the Company for the actual costs incurred by the Company in connection with the upgrading of the dams.

Supply of Raw Water from Dams

The Company supplies raw water from its dams to industrial complexes, local governments and its multi-regional water supply facilities. The Company supplied 5,824 million cubic meters of raw water from its dams in 2017.

The tariff on the raw water supplied by the Company is deemed to be a public utilities charge and, therefore, it is subject to the Price Stabilization Act. Under this Act, the tariff on the raw water provided by the Company is at present calculated in accordance with the Total Costing Method under which the tariff is fixed to be the fair value as calculated by the Company on the basis of "Basis of Calculation of Utility Rates" established by the MOSF and "Guidance for Calculating Dam Water Rates" established by the MOLIT plus a margin. The tariff so determined must be approved by the MOLIT after consultation between the MOLIT and the MOSF.

In 2005, the Government implemented a temporary hold-order on increases in tariffs on water supplied by the Company in order to offset inflation on costs of basic necessities, such as water, which was lifted in January 2013 when the Government approved a 4.9% increase in water tariffs. In September 2016, the tariff on water supplied for dams and multi-regional water supply system was further increased by 4.8% for the purposes of securing budget to replace equipment for old water supply dam and water supply system.

The current tariff on the raw water supplied from dams is ₩52.7 per cubic meter. The following table sets out the increases in the tariff on the raw water supplied by the Company from its dams.

July 1999	December 2000	October 2001	September 2002	January 2004	January 2005	January 2013	September 2016
			(Won per cubic meter)				
22.93	25.54	30.35	35.12	41.70	47.93	50.3	52.7

The Company's revenue from sale of raw water from its dams amounted to ₩279.4 billion and ₩292.1 billion, representing 7.7% and 8.7% of total revenue in 2016 and 2017, respectively.

Management of Dams

Each multi-purpose dam is operated to meet its own particular objectives, including flood control and water supply, along with the greater goal of efficient water utilization. To achieve the latter goal and to operate the reservoir and the water gates in an efficient manner, the Company collects and analyzes various data, including precipitation, water inflow, water discharge, storage, meteorology and quality of water.

The Company remotely monitors the multi-purpose dams in Korea at its Water Resource Management Center located at its head office in Daejeon. At its Water Resource Management Center, the Company centrally monitors and operates all of the water gates located throughout Korea for greater efficiency.

The Company receives fees from the Government for undertaking some of the responsibilities of the Government, such as, but not limited to, flood control by operating the dams and estuary barrage entrusted to it by the Government. Each year when the Government formulates its budget for the coming year, the Company's fees are decided through budgetary discussion and negotiation with the MOLIT and the MOSF. The Company was established to implement public policy objectives of the Government and not for the purposes of maximizing its profits and the Company's fees are determined based on factors other than profit maximization, including the financial condition of the Company. Therefore, in a given period, the fees received by the Company may not necessarily cover all of its dam operating expenses. Historically, however, taking into account the Company's profits from the sale of raw water and electricity generated and supplied from its dams, the Company has not suffered any loss from constructing and managing its multi-purpose dams.

The Company's dam management revenue amounted to ₩34.3 billion and ₩40.8 billion, representing 0.9% and 1.2% of total revenue in 2016 and 2017, respectively.

Hydroelectric Power Generation

The Company's hydroelectric power generation business comprises a total of 61 generation facilities located at its dams and weirs. As of 31 December 2017, these generation units had an aggregate installed capacity of 1,080 megawatts, which represented approximately 61% of the total hydroelectric power generation installed capacity in Korea. The Company generated approximately 1,655 GWh of hydroelectric power in 2017.

The table below sets forth the date installed, installed capacity as of 31 December 2017 and standard hydroelectric power generation amount for 2017 for each power generation facility at its multi- purpose dams.

Dam	Date Installed	Installed Capacity[(1)]	Standard Hydroelectric Power Generation Amount[(2)]
		(megawatts)	*(megawatt hours per annum)*
Soyanggang	October 1973	200	353,000
Chungju I, II	June/September 1985	412	844,100
Hapchun	December 1987	101	223,000
Andong	October 1976	92	89,000
Imha	August 1992	51	78,700
Namgang	October 1998	14	41,300
Daechung	November 1980	91	196,000
Yongdam	September 2001	26	180,400
Juam	April 1991	24	46,400
Others[(3)]	June 1998	69	426,340

(1) Installed capacity represents the level of output that may be sustained continuously without a significant risk of damage to the facility.

(2) Standard hydroelectric power generation amount is derived from the yearly minimum water discharge amount of the reservoirs

(3) Others include micro hydroelectric power generation facilities of dams and weirs

The useful lives of hydroelectric power generation units range 35 to 40 years in general The Company conducts periodic inspection of these units in accordance with the applicable internal and external standards A routine inspection is conducted every two years and lasts approximately 10 to 25 days and a major inspection is conducted every six years and lasts approximately 50 to 70 days.

The Company sells all of the electricity it generates to KEPCO through the KPX. Under the Electricity Business Law, all electricity generated at multi-purpose dams constructed after 2001 must be sold through the KPX.

The table below sets out the Company's revenues of electricity for the periods indicated.

Period	Total Volume	Revenues	Unit Price
	(GWh)	*(in billions of Won)*	*(Won/KWh)*
For the year ended 31 December 2016	1,347	141.0	87.4
For the year ended 31 December 2017	1,371	154.3	98.0

Water Supply Business

Water supply systems in Korea may be classified into three categories: multi-regional water supply systems, industrial water supply systems and regional water supply systems Until the mid-1970s, the regional water supply systems accounted for a majority of the water supply systems in Korea as the rivers were not severely polluted, which made local water procurement possible and efficient, and the volume water demand was relatively modest However, an increase in demand for water has continuously increased and rivers near cities have become polluted, which made it difficult to secure clean water sources in the region As a result, the Government granted the usage rights over all of the industrial water supply systems in Korea to the Company A multi-regional water supply system is designed to provide water to more than two local municipalities through a network of large-scale water supply infrastructure The multi-regional water supply systems help address the issue of imbalances in water supply among different regions in Korea and alleviate some of the water shortage problems during drought seasons.

Under the K-water Act, the Company is responsible for constructing and managing multi-regional water supply systems and industrial water supply systems and related facilities in Korea. As of 31 December 2017, the Company managed 39 multi-regional water supply systems and 14 industrial water supply systems in Korea. According to data from the ME and the Company's internal data, the Company's water intake facilities had the combined daily water supply capacity of 17.6 million cubic meters, which accounted for 46.7% of the daily water supply capacity in Korea as of 31 December 2017 and supplied an aggregate of 3,997 million tons of water in 2017.

The Company supplies wholesale water to both local governments and industrial complexes through the multi-regional and industrial water supply systems. These multi-regional and industrial water supply systems are equipped with large-scale pipelines and water treatment facilities and 14 water supply dams. These water supply dams, all of which have been constructed by the Company, provide raw water, semi-treated water and treated water to local governments for further treatment and/or distribution to consumers and to industrial complexes. Currently, the Company supplies raw water, semi-treated water and treated water to 113 cities, including the Seoul metropolitan area, in Korea.

The Company's revenue from its water supply Business amounted to ₩1,050 billion and ₩1,116 billion, representing 29% and 33.1% of its total revenues in 2016 and 2017, respectively. The table below sets out the water source, supply capacity, facilities and length of pipelines for each of the Company's multi-regional and industrial water supply systems as of 31 December 2017.

	Capacity	Water Source		Management Facility					Pipeline
Location		**Dam**	**River**	**Total**	**Dam**	**Water Collection Plant**	**Water Purification Plant**	**Pressurizing Plant**	
		(1,000 cubic meters per day)					*(number of plants)*		
Multi-regional water supply system:									
Seoul Metropolitan and Gyeonggi Province area	8,285.0	7,810.0	475.0	25	–	4	8	13	1,031.0
Ilsan	250.0	–	250.0	2	–	1	1	–	61.0
Taebaek	110.0	110.0	–	8	2	1	1	4	72.0
Wonju	100.0	100.0	–	4	–	–	1	3	76.0
Chungju	250.0	250.0	–	8	–	1	1	6	245.0
Daechung (I, II)	1,010.0	1,010.0	–	7	–	2	2	3	237.0
Geumgang	–	–	–	5	–	1	1	3	151.0
Boryeong	285.2	285.2	–	4	–	–	1	3	195.0
Chungnam Central	163.0	163.0	–	3	–	–	1	2	100.0
Jeonju	700.0	700.0	–	1	–	–	1	–	181.0
Seomjingang	90.0	–	90.0	6	–	1	1	4	129.0
Buan	87.0	87.0	–	6	–	–	1	5	103.0
Donghwa	52 0	52 0	–	10	–	–	1	9	168.0
Juam (I, II)	596.0	596.0	–	3	–	1	1	1	148.0
West Jeollanam-do	30.0	30.0	–	9	1	–	1	7	102.0
South Jeollanam-do	150.0	150.0	–	4	–	–	1	3	368.0
Gumi (I, II)	400.0	–	400.0	6	–	1	2	3	117.0
Pohang	161.2	161.2	–	1	–	–	1	–	43.0
Gampo	4.5	4.5	–	1	1	–	–	–	0.1
Geumho	376.0	376.0	–	3	1	–	2	–	78.0
Inner Yeongnam	44.0	–	44.0	2	–	1	1	–	78.0
Ulsan	220.0	220.0	–	2	2	–	–	–	4.0
Milyang	150.0	150.0	–	5	–	–	2	3	90.0
Namgang (I, II)	325.0	325.0	–	5	–	1	1	3	344.0
Geumsan-Muju	27.0	27.0	–	3	–	–	1	2	28.0
Subtotal	**13,865.9**	**12,606.9**	**1,259.0**	**133**	**7**	**15**	**34**	**77**	**4,149.0**
Industrial water supply system:									
Asan (I, II)	421.0	71.0	350.0	4	–	1	1	2	200.0
Gunsan	130.0	–	130.0	2	–	1	1	–	60.0
Yeocheon (I – III)	1,080.0	540.0	540.0	7	1	2	1	3	284.0
Daebul	57.5	–	57.5	2	–	1	1	–	24.0
Gumi	64.0	–	64.0	–	–	–	–	–	19.0
Pohang	295.0	195.0	100.0	4	2	1	–	1	56.0
Ulsan (I, II)	1,325.0	50.0	1,275.0	8	2	1	1	4	234.0
Changwon	285.0	–	285.0	4	–	1	1	2	180.0
Geoje	36.0	36.0	–	5	2	1	2	–	59.0
Subtotal	**3,693.5**	**892.0**	**2,801.5**	**36**	**7**	**9**	**8**	**12**	**1,116.0**
Total	**17,559.4**	**13,498.9**	**4,060.5**	**169**	**14**	**24**	**42**	**89**	**5,265.0**

The table below sets out the water storage and water supply capacities of the water supply dams managed by the Company as of 31 December 2017.

Dam	Water Storage Capacity[1]	Annual Water Supply Volume	Year of Completion
	(in millions of cubic meters)		
Angye	17.7	–	1971
Daeam	9.5	18.3	1969
Dalbang	7.7	14.6	1990
Gucheon	9.7	7.5	1987
Gwangdong	11	26.4	1989
Sayeon	25	36.5	1965
Sunam	2	–	1964
Suo	27.5	29.7	1978
Unmun	135.3	162.4	1994
Yeoncho	5	6.3	1979
Yeongcheon	96.4	107.3	1980
Daegok	28.5	32	2005
Gampo	2.4	1.6	2006
Pyeongrim	8.5	14	2007
Total	**386.2**	**456.6**	

(1) Water storage capacity represents the maximum volume of water that may be stored in the dam without a significant risk of damage to the facility.

Construction of Water Supply Systems

As of 31 December 2017, the Company was engaged in (a) the construction of six multi-regional waterworks facilities, which include, among other things, water collection plants, water purification plants and pressurizing plants, (b) the readjustment of three multi-regional water supply systems and (c) four industrial waterworks facilities, for purposes of integrating the multi-region water supply systems and the industrial water supply system in a region. A multi-regional water supply system comprises waterworks facilities and networks of pipelines.

The table below sets out the construction period, the water supply capacity (in the case of water supply dams, water storage capacity) upon completion and the aggregate percentage of investment made as of 31 December 2017 for each of the waterworks facilities, the water supply systems under construction or improvement.

Projects	Construction Period	Water Supply Capacity	Investment Made as of 31 December 2017	
		(1,000 cubic meters per day)	*(in billions of Won)*	*(percentage)*
Construction of multi-regional waterworks facilities:				
Nakdong riverside filtration	2011-2019	680	622.1	3.6%
Daechung (III) waterworks facilities	2011-2019	853	681.1	55.1
Youngnam (II)	2016-2019	22	13.0	30.7
Choongnam water welfare	2018-2022	108	263.2	0.0
Kumho River emergency supply facilities	2017-2018	13	27.5	40.0
Water welfare expansion	2016-2020	0.2	3.0	43.3
Readjustment of multi-regional water supply systems:				
Downstream Han River (II)	2009-2019	540	269.1	94.4
Downstream Han River (III)	2014-2018	107	80.3	49.7
Youngsan River (II)	2015-2018	29	47.2	46.3
Construction of industry waterworks facilities:				
Gumi Industrial	2014-2018	88	33.5	91.3
Choongjoo Dam Industrial	2012-2020	200	228.9	12.4
Janghang National Ecosystem Industrial	2016-2018	11	10.1	59.2
Pohang Blue Valley Water Supply	2015-2019	29	58.4	6.7%

Generally, the Company subcontracts to construction companies the construction of waterworks facilities, water pipelines and water supply dams, while it provides relevant technology and supervises the construction in progress. In some cases, the Company subcontracts the construction of waterworks facilities on a turn-key basis. The Company's Technology Examination Committee and Contract Review Committee are also responsible for selecting the subcontractors for the waterworks construction. The procedure for selecting the subcontractors and the terms of the Master Subcontract Agreement and the Annual Subcontract Agreement for the waterworks construction are, in general, the same as that of the multi-purpose dam construction. See "*– Water Resources Business – Dam Construction – Construction Process.*"

The Government contributes part of the Company's estimated expenditures for the construction of multi-regional and industrial water supply systems in the form of paid-in capital for accounting purposes. The Company is responsible for the expenditures incurred for the construction of the integrated water treatment facilities. The Company does not generate any profit from its waterworks construction activities. Once waterworks are fully constructed, the Government retains ownership interests in the waterworks and grants waterworks usage rights to the Company. With the waterworks usage rights, the Company is able to charge tariffs on the water it supplies to its customers.

Water Supply, Customers and Rates

Under the Water Supply and Waterworks Installation Act, the Government, local governments, the Company or any person authorized by the MOLIT may supply water to two or more local governments. However, the large initial capital expenditures required for laying large-scale water pipelines and related facilities across regions have prevented local governments and other entities from engaging in multi-regional water supply business.

The Company supplies raw water, semi-treated water and treated water to local governments for further treatment and/or distribution to consumers and to industrial complexes. Raw water is water delivered from the Company's pipelines to customers without any filtration or treatment. Semi-treated water is raw water that has been filtered and treated at the Company's waterworks facilities to remove some of the larger particles in the raw water. Treated water is semi-treated water that has been further treated and purified at the Company's waterworks facilities. Treated water can be supplied to households without any additional treatment.

The following table set out the volume of water for each grade of water supplied by the Company for the years ended 31 December 2016 and 2017.

	For Year Ended 31 December	
	2016	**2017**
	(in millions of cubic meters)	
Raw	1,759	1,817
Semi-treated	393	403
Treated	1,733	1,777
Total	**3,885**	**3,997**

The tariff on the waterworks water supplied by the Company is deemed a public utilities charge subject to the Price Stabilization Act. The tariffs on waterworks water are fixed according to the grade of water and the tariff for each grade of water is uniform throughout Korea. These tariffs are calculated in accordance with the Total Costing Method under which each tariff is fixed at the fair value as calculated by the Company on the basis of "Basis of Calculation of Utility Rates" established by the MOSF and "Guidance for Calculating Waterworks Water Rates" established by the MOLIT plus a margin.

Each tariff so determined must be approved by the MOLIT after consultation between the MOLIT and the MOSF. The Company expects that the same calculation method will be in use for the foreseeable future.

In 2005, the Government implemented a temporary hold-order on increases in tariffs on water supplied by the Company in order to offset inflation on costs of basic necessities, such as water, which was lifted in January 2013 and September 2016 when the Government approved a 4.9% and 4.8% increase in water tariffs, respectively.

The following table sets out the changes in tariffs for each grade of waterworks water from December 2000 to 2017.

Grade	December 2000	October 2001	September 2002	January 2004	January 2005	January 2013	September 2016
			(Won per cubic meters)				
Raw	125.4	143.4	178.0	196.0	213.0	223.0	233.7
Semi-treated	228.5	241.5	268.0	292.0	314.0	313.0	328.0
Treated	245.9	275.1	319.0	357.0	394.0	413.0	432.8

Tariffs for waterworks water are higher as compared to raw water from dams because, as opposed to raw water from dams, waterworks water requires significant additional work on part of the Company. While the Company is currently in discussions with MOLIT and MOSF regarding further increases in water tariffs to more closely reflect the Company's actual costs, there can be no assurance that the water tariffs will further increase in the near future or at all.

Local Waterworks Management

As of 31 December 2017, 161 local governments were involved in the distribution of treated water to consumers in their respective regions. The Government has restructured the local water supply systems and has commissioned public corporations, including the Company, to undertake local water distribution activities in multiple regions. The Government's policy goal is to improve the treated water distribution efficiency through economies of scale and to increase competition as each local government currently has a monopoly on the distribution of treated water in its district. The Company has been engaged in the local waterworks management since 2004.

As of 31 December 2017, the Company has entered into waterworks management agreements with 23 municipalities.

Under the waterworks management agreements with municipalities, which have the terms of 20 to 30 years, the Company is generally responsible for managing, operating and improving the waterworks, distributing water to consumers and billing. As the Water Supply and Waterworks Installation Act prohibits the Company from engaging in collection activities, the relevant municipalities collect water tariffs and the Company receives a portion of the water tariff as its management fees. Such fees take into account the Company's investment and maintenance costs.

The Company strives to increase the water retention rate of the water supply systems of the municipalities with which it has waterworks management agreements by replacing old and leaking pipes and plans to repair water meters in certain cities to improve the efficiency of water tariff collection. The Company plans to recover its investments in the waterworks of these cities though the cost savings realized from increasing the water retention rate.

The Company's revenue from its local waterworks management activities amounted to ₩150.9 billion and ₩157.5 billion, representing 4.2% and 4.7% of its total revenues in 2016 and 2017, respectively.

Wastewater Treatment

As of 31 December 2017, the Company was operating wastewater treatment facilities for nine municipalities and was involved in the construction of wastewater treatment facilities for two municipalities. The Company's total fees for operating these wastewater treatment facilities amounted to ₩21.9 billion and ₩27.3 billion in 2016 and 2017, respectively.

Waterfront Development Business

Since 1973, the Company has been engaged in the development of industrial complexes and the new town in Ansan City, Sihwa district, Songsan district and the Special Area. The Government commissioned the Company to develop the Special Area to alleviate some of the problems caused by overcrowding in the Seoul metropolitan area, including housing shortages, traffic congestion and pollution. In line with the Government's policy in the 1970s to promote heavy and chemical industries in Korea, the Company, then existing as Industrial Sites and Water Resources Development Corporation under the Industrial Sites and Water Resources Development Corporation Act, was active in the development of industrial complexes. Since then, the Government's policy has gradually shifted and the K-water Act and the Company's articles of incorporation have been amended to limit the Company's development activities to those industrial complex and the Special Area development projects that began prior to 4 December 1987. The development of industrial complexes by private construction companies is now permitted under Korean law. In the land development area, Korea Land Corporation and Korea National Housing Corporation, established in March 1979 and July 1962, respectively, which merged in 2009 to form Korea Land & Housing Corporation, have undertaken substantially all of the Government land development projects. Also, pursuant to the Special Act on the Utilization of Waterfronts which became effective in April 2011, the Company was designated as one of the project developers by the MOLIT and has engaged in Busan Eco-delta city project, which involves development of industrial, residential, logistics, research and development as well as commercial complexes in Busan. The developments of industrial complexes and new towns by the Company are generally limited under the K-water Act to those already ongoing at the time the permitting legislation came into force.

The development of industrial complexes and the Special Area generally entails construction of infrastructure, such as roads, water and sewage pipelines and electricity power lines, and preparation of land for industrial, commercial and residential purposes. Prior to the completion of the land development, the pre-developed lots are sold (the "**Pre-development Sale**") to private companies, including, industrial companies, real estate developers and construction companies.

As of 31 December 2017, the Company was engaged in the development of two industrial complexes, two Special Areas and three waterfront areas. The table below sets out the construction period, the size of the development area, the total investment made and the aggregate percentage of investment made as of 31 December 2017.

Project	Construction Period	Area	Investment Made as of 31 December 2017	
		(in millions of square meters)	*(in billions of Won)*	*(percentage)*
Industrial complexes:				
Gumi expansion complex	2008-2018	2.5	811.8	94.4%
Gumi High Tech Valley	2009-2020	9.3	1,686.8	59.9
Special Areas:				
Sihwa MTV	2002-2020	10.0	3,602.2	67.1
Songsan Green City	2007-2030	55.6	8,881.2	27.4
Waterfront Areas:				
Busan Eco-delta City	2012-2018	11.8	5,438.6	55.7
Gyuam, Buyeo	2012-2018	0.1	17.8	39.0
Noan, Naju	2012-2018	0.1	24.8	31.6

The development of the Gumi expansion complex located next to Nakdong River involves the expansion of the existing Gumi industrial complexes. This project includes the construction of industrial complexes and commercial and residential premises. The Gumi High Tech Valley, on the other hand, involves the development of industrial area for information-technology companies.

The Sihwa MTV project involves development of an industrial and commercial area for information-technology companies, R&D companies, software companies and distribution and logistics companies, among others. The Songsan Green City project involves the development of the southern part of the reclaimed tideland in Songsan area for residential and commercial uses, among others. The waterfront area projects involve development of such areas for residential, commercial, business and cultural uses.

The price for Pre-development Sales is determined according to the intended use of the pre-developed lots and is calculated in accordance with the Industrial Sites and Development Act and the internal regulations on site management of the Company. While the price for Pre-development Sales for industrial use is determined to realize the land reclamation costs plus a margin, such sale price for commercial and residential uses is determined by the appraised value.

As Pre-development Sales involve transactions with private counterparts, the Company is subject to the credit risks of the purchasers. To minimize its exposure to the credit risks of such purchasers, the Company takes the following measures:

- the Company transfers title to the relevant lot only after it receives the sale proceeds in full;
- if any payment in respect of the Pre-development Sales is overdue by more than one year and the remaining payments are determined to be uncollectible, the Company terminates the relevant Pre-development Sales contract and retains 10% of the prepaid amount as penalty;
- in the case of the Pre-development Sales amount being paid on an installment basis, the Company engages third-party collection agencies; and
- the Company provides discounts on prepaid Pre-development Sales.

The Company's revenue from its Waterfront Development business amounted to ₩798.9 billion and ₩620.5 billion, representing 22% and 18% of its total revenues in 2016 and 2017, respectively.

Renewable Energy Business

The Company has been engaged in the production of alternative energy business. As of 31 December 2016, the Company had a power generation capacity by alternative energy in the aggregate of 1,352 megawatts, which accounts for approximately 18% of the total alternative power generation capacity in Korea according to the Power Exchange Statistics System compiled by the KPX. The Company's alternative energy business comprises a total of ten macro hydroelectric power generation facilities located at its multi-purpose dams, 51 micro hydroelectric power generation facilities located at its weirs and dams, 30 solar power generators, three wind power generation plants and one tidal power generation plant.

The Company also began developing other alternative energy business such as floating solar panels and thermal batteries. In 2016, the Company completed construction of floating solar panel facilities in Boryung, Jechun and Hapchun with a combined power generation capacity of 5.5 megawatts, and eleven other floating solar panel facilities with a total expected power generation capacity of 99.0 megawatts is under construction as of the date of this Offering Circular.

The Company's revenue from its renewable energy business (which excludes hydroelectric power generation business) amounted to ₩78.0 billion and ₩113.0 billion, representing 2.2% and 3.3% of its total revenues in 2016 and 2017, respectively.

Overseas Business

The Company provides waterworks related services overseas. As of 31 December 2017, the Company was engaged in 12 overseas projects in ten countries.

On 5 May 2010, the Company won a bid to acquire and operate Angat hydropower plant in Norzagaray, Bulacan in Philippines, which had a 218 megawatt power generation capacity, at US$441 million from Power Sector Assets and Liabilities Management Corp. ("**PSALM**"), the privatization arm of the Philippine government. Since 2014, the Company has been in charge of the operation of the plant and commercial power generation and expects to continue operation in Angat until 2039. Also in January 2016, the consortium of the Company and San Miguel Corp. signed a 30-year contract with the Metropolitan Waterworks and Sewerage System to undertake financing, design and construction, as well as operation and maintenance of water conveyance and treatment facilities and water source in Bulacan area. The Company plans to begin financing for this project in the first half of 2018.

In December 2011, a consortium that the Company formed with other Korean companies entered into financing agreements with multi-national and regional financial institutions to finance approximately 75% of the estimated total investment in the construction of a 150MW-capacity hydroelectric power plant in Patrind, Pakistan pursuant to an existing agreement between the Korean consortium and the government of Pakistan. The Patrind project consists of the construction of a hydropower dam, which began in December 2012, and its operation for a period of 30 years, after which its management and operation rights will be transferred to the government of Pakistan. The Company began commercial power generation at Patrind plant in August 2017. The Company expects to recover its investment in this project through revenues from sales of electricity to the Pakistani government during the 30-year operation period.

In September 2015, the Company, along with Georgian Partnership Fund, a state-owned fund, signed an agreement to jointly finance the development and construction of a 280MW-capacity hydroelectric power plant in Svaneti, Georgia near Nenskra river, with a total investment of approximately ₩1,000 billion. The Company expects to finalize relevant financing arrangement in the latter half of 2018 and begin construction of the plant in 2018, with commercial power generation expected by the end of 2022.

As of the date of this Offering Circular, the Company is under review of overseas projects in Indonesia, Equatorial Guinea, Cambodia, Morocco, Mozambique, Laos, Uzbekistan and Bangladesh, including hydroelectric power plant development, dam development, water supply management, water resources development, drainage system improvement and operation of water filtration plants.

The Company's revenues from its overseas business, which are primarily consulting and engineering services, amounted to ₩2.8 billion and ₩7.3 billion in 2016 and 2017, respectively, and related revenues of the Company's overseas subsidiaries in connection with private-funded overseas construction projects amounted to ₩174.1 billion and ₩113.3 billion, respectively. Revenues attributable to such business on a consolidated basis accounted for 4.8% and 3.4%, respectively, of the Company's total revenues in the respective periods.

Warranties

The Company's subcontractors generally provide warranties on any defective construction work in respect of dams and waterworks facilities they have constructed. The subcontractors for dam construction provide warranties of approximately five to 10 years, the subcontractors for weir construction provide warranties of approximately 10 years and the subcontractors for waterworks construction provide warranties of approximately five to seven years in respect of buildings, three years in respect of pipelines, three years in respect of construction and two years in respect of landscaping.

Project	Construction Completion Date	Duration	Coverage
		(years)	
Multi-Purpose Dams:			
Buhang	September 2014	10	1 dam
Bohyunsan	December 2014	10	1 dam
Gunwui	May 2011	10	1 dam
Seongdeok	November 2016	10	1 dam
Youngju	December 2016	10	1 dam

Project	Construction Completion Date	Duration	Coverage
		(years)	
Other Dams:			
Gunnam	June 2012	10	1 dam
Hantangang	December 2016	10	1 dam
Weirs:			
Ipo	June 2012	10	1 weir
Yeoju	July 2012	10	1 weir
Gangcheon	June 2012	10	1 weir
Baekje	June 2012	10	1 weir
Gongju	July 2012	10	1 weir
Sejong	June 2012	10	1 weir
Juksan	May 2012	10	1 weir
Seungchon	May 2012	10	1 weir
Changnyeong Haman	June 2012	10	1 weir
Hapcheon Changnyeong	November 2012	10	1 weir
Dalseong	August 2012	10	1 weir
GangjeongGoryeong	June 2013	10	1 weir
Chilgok	June 2012	10	1 weir
Gumi	June 2012	10	1 weir
Nakdan	October 2012	10	1 weir
Sangju	June 2012	10	1 weir
Tidal Power:			
Sihwa Tidal Power Generation Plant			
Tidal Power Generation Plant construction	November 2011	buildings: 7 power transmission equipment: 5 others: 3	hydraulic turbine structure (193m) roads (2EA) floodgate structure (154.4m) connecting structure (27m) administrative building (2 stories) power transmission lines power transmission line entrance and exit hydraulic turbine generators (10) floodgates (8) roads (1,930m) park (68,100m^2)
Waterworks:			
Geumsan-Muju multi-regional waterworks			
Water Conveyance Facility Construction	June 2012	buildings: 7 pipelines: 3	two water pressuring plants pipelines (27.8km)
Water Purification Facility Construction	October 2012	building: 7	one water purification plant (27,000m^2/day)
Namgang (II) metropolitan waterworks			
Water Conveyance Facility Construction	September 2013	pipelines: 3	pipelines (8.2km)
Water Purification Facility Construction	September 2013	buildings: 7 construction: 3 landscaping: 2	one water purification plant (64,000m^2/day)
Sihwa Multi-Techno Valley	June 2016	buildings: 7 pipelines: 3	one water pressuring plant pipelines (9.8km)
Iksan Food Industrial	December2016	buildings:7 pipelines: 3	pipelines (10.5km)

Maintenance and Safety Inspection

In accordance with the Special Act on the Safety Control of Public Structures, the Company is required to conduct periodical inspections, precision inspections and precision safety inspections for each of the 184 facilities it manages. The results of the detailed safety examination are managed through the integrated facility information management system at the Korea Infrastructure Safety and Technology Corporation.

• Safety inspections on the waterworks facilities (other than the hydroelectric power generators) managed by the Company are classified into the periodical inspections, precision inspections and precision safety inspections.

- Periodic inspections, which are conducted every six months, consist of detailed inspections by sight to analyze the functional condition of the relevant facility and to determine whether current operating conditions can be sustained.

- Precision inspections, which are conducted at least once every one to three years, depending upon the safety level, consist of detailed inspections by sight and several simple tests to determine the condition of the relevant facility and whether initial operational conditions are being sustained.

- Precision safety inspections, which are conducted at least once every four to six years, depending upon the safety level, consist of a wide range of tests utilizing measurements to determine the safety level of the relevant facility. The initial precision safety inspection is to be conducted within 11 years after the construction of the relevant facility.

While the periodical and precision inspections are conducted by both the Company's technicians and independent safety inspectors, the precision safety inspections are conducted by independent safety inspectors only.

Safety inspections on the hydroelectric power generation units managed by the Company are classified into either a routine safety inspection or a major safety inspection.

- A routine safety inspection, which is conducted every two years, comprises disassembling and inspecting certain parts of the hydroelectric power generators and the ancillary equipment and lasts approximately 10 to 25 days.

- A major safety inspection, which is conducted every six years, comprises disassembling and inspecting all major parts of the hydroelectric power generators and the ancillary equipment and lasts approximately 50 to 70 days.

Based on the most recent safety inspections, all facilities under the Company's management received satisfactory grades or better. The table below sets out the results of the safety inspection conducted by Korea Infrastructure Safety & Technology Corporation on the multi-purpose dams, flood control dams and weirs managed by the Company at the time of inspection. For a discussion on water supply dams, see "– *Water Supply Business*."

Classification	Multi-purpose Dams	Flood Control Dams	Estuary Barrage(s)
A[(1)]	–	–	–
B[(2)]	Hwaengsung, Hapchun, Juam, Janghung, Imha, Yongdam, Andong, Soyanggang, Seomjingang, Buan, Boryeong, Milyang, Daechung	–	Nakdong
C[(3)]	Namgang, Chungju	Pyonghwa	–
Uninspected[(4)]	Youngju, Gunwui, Buhang	Gunnam	–

(1) A classification of "**A**" means the facility has no problem in its functions.

(2) A classification of "**B**" means the facility has no problem in its functions although there are minor defects in auxiliary components and some partial repairs are required to enhance its durability.

(3) A classification of "**C**" means there are no major safety hazards in the facility although there are minor defects in major components or widespread in auxiliary components and the facility requires repairs to prevent decline in its functionality or durability of major components or light reinforcement of auxiliary components.

(4) "**Uninspected**" means the particular facility has not yet been inspected. Detailed inspections are required to be conducted within one to ten years of completion of construction.

Property, plant and equipment

The following table sets out details of the Company's property, plant and equipment for the periods specified.

	Net Book Value at 1 January 2017	Acquisitions	Disposals	Depreciation	Transfer	Others	Net Book Value at 31 December 2017
				(in millions of Won)			
Land	182,608	1,792	(1)	0	0	0	184,399
Buildings	295,370	3,579	(1,229)	(16,137)	15,537	(5,000)	292,121
Structures	300,653	11	(59)	(14,036)	780	0	287,349
Machinery and equipments	481,552	31	(812)	(43,840)	30,040	46,151	513,122
Ships	3,430	2	(15)	(771)	1,347	0	3,992
Vehicles	4,306	3,424	0	(1,627)	7	(12)	6,098
Furniture and fixtures	16,378	10,726	(1)	(6,455)	46	(1)	20,691
Tools	11,164	3	(7)	(4,537)	5,595	0	12,218
Construction-in-progress	195,272	131,333	0	0	(53,352)	(1,052)	272,201
Total	**1,490,732**	**150,901**	**(2,126)**	**(87,403)**	**0**	**40,085**	**1,592,190**

	Net Book Value at 1 January 2016	Acquisitions	Disposals	Depreciation	Transfer	Others	Net Book Value at 31 December 2016
				(in millions of Won)			
Land	182,368	1	0	0	0	238	182,608
Buildings	279,097	0	(1,204)	(14,839)	9,829	22,486	295,370
Structures	282,874	16	(150)	(13,426)	818	30,521	300,653
Machinery and equipments	498,845	0	(1,001)	(43,695)	15,351	12,052	481,552
Ships	3,910	18	(94)	(776)	185	188	3,430
Vehicles	3,465	1,957	(17)	(1,180)	0	80	4,306
Furniture and fixtures	15,989	6,377	(8)	(5,988)	0	8	16,378
Tools	11,770	0	(13)	(5,013)	4,339	81	11,164
Construction-in-progress	131,882	109,236	0	0	(30,522)	(15,324)	195,272
Total	**1,410,200**	**117,604**	**(2,487)**	**(84,917)**	**0**	**50,331**	**1,490,732**

The table below sets out the Company's construction-in-progress of intangible assets (excluding the government grant amounts) for its multi-purpose dams, multi-regional and industrial water supply systems and wastewater treatment facilities and others as of 31 December 2017.

	As of 31 December 2017
	(in billions of Won)
Multi-purpose dams	409
Multi-regional and industrial waterworks	1,330
Others[(1)]	73
Total	**₩1,812**

(1) Excluding government grants.

Competition

The Company has a complete monopoly in Korea with respect to construction and management of multipurpose dams and multi-regional waterworks. Also, more frequent drought and floods due to climate change (such as the drought in Korea in 2015) increased demand from municipalities and corporations for consistent supply of water. The Company expects a steady increase in the sales volume of water for multi-regional as well as industrial use of which supply is relatively resilient to climate change. Moreover, the Company continues to serve a strategic role in water resources management as the Government gears towards integrated management. For example, in June 2016, the Company was delegated by the MOSF to operate and manage ten hydropower dams owned by Korea Hydro and Nuclear Power Co., Ltd.

With respect to the Company's business of managing local waterworks, the Company believes that it enjoys competitive advantages over other entrants in this industry as it has been providing local waterworks management services to 22 municipalities and, as of 31 December 2017, was in preliminary discussions to enter into such agreements with 23 municipalities. The Company believes that Korea Environment Corporation and the Company are the only two entities (other than local governments managing its own waterworks) that are currently providing local waterworks management services in Korea. The Company believes that its competitive advantage stems from its management of multi-regional water supply systems, from which it has accumulated experience and technological know-how and benefits from economies of scale.

Environmental Matters

The Framework Act on Environmental Policy and other related legislation and regulations (the "**Environment Acts**"), which are principally administered by the ME, regulate the quality of water at the dams managed by the Company, the quality of different grades of water supplied by the Company through its multi-regional supply systems and the environmental effects of the construction of waterworks, industrial complexes and the Special Area. Each year the Company's internal evaluators examine the operations of its facilities to ensure compliance with the Environment Acts.

Prior to the construction of waterworks, the Company must perform an environmental impact assessment which is designed to evaluate public hazards, damage to the environment and concerns of local residents. A report reflecting this evaluation and proposed measures to address the problems identified must be submitted to and approved by the ME prior to the construction of waterworks. The Company is then required to implement the measures reflected in the approval report. As of the date of this Offering Circular, the Company has undergone all relevant environmental assessments. The Company believes that it is in compliance in all material respects with the Environment Acts and fully expects to comply with all future laws and regulations.

Research and Development and Intellectual Property

The Company's R&D activities are carried out at its 83,000 square meter R&D center located in Daedeok Science Town. For the year ended 31 December 2017, the Company was involved in 133 R&D projects, 48 of which were carried out for third parties and 41 of which were outsourced to independent experts. In 2018, the Company plans to undertake 104 R&D projects, 30 of which will be carried out for third parties and 33 of which will be outsourced to independent experts. These R&D projects are related to the study of water resources, geology and groundwater, the development of wastewater treatment technologies, the environment and dam safety.

As of 31 December 2017, the Company owned 391 domestic patents, 6 utility model rights, 93 trademarks, 276 copyrights, 5 new technologies and 21 design patents, and had 1,112 patent applications and 103 trademark applications pending in Korea. Most of the Company's patents are in the fields of water resources and water supply technologies, and relate to water resources operations, water purification technologies and processes and wastewater treatment technologies and processes. Most of the Company's copyrights relate to software programs used for the management of dams, waterworks, and R&D. The Company's new technologies relate to advanced wastewater treatment, measuring the efficiency of pumps and hydraulic turbines and water purification technologies.

Legal and Other Proceedings

As of 31 December 2017, the Company on a consolidated basis was involved in 213 lawsuits of which 160 was as a defendant and 53 was as a plaintiff, with an aggregate amount claimed of ₩299.0 billion and aggregate provisions for lawsuits of ₩38.0 billion. See Note 22 to the Company's audited financial statements included elsewhere in this Offering Circular.

In recent years, the Company has been involved in a number of disputes with local governments over water supply fees charged by the Company, and of those disputes which led to litigation, all such litigations have been held in favor of the Company.

From time to time, the Company has experienced adverse publicity and allegations directly or indirectly involving the Company, including with respect to employee misconducts. In many cases, such allegations turned out to be groundless or frivolous but in some cases, they resulted in internal disciplinary action against, or termination of, the responsible employees. None of such actions has resulted in material losses, damages, fines or other sanctions against the Company. However, the precautions the Company takes to prevent and detect such activities may not be effective in all cases and employee misconducts may not be always deterred or prevented.

Employees and Labour Relations

As of 31 December 2017, the Company had 5,095 employees, substantially all of whom were employed within Korea.

As of 31 December 2017, approximately 85.5% of the Company's employees (excluding executive officers and employees involved in labour-management relations) were members of the K-water Labour Union, which is a union shop. The labour union participates in the management of the Company by having a representative in each of the investment evaluation committee, the personnel committee, executive management meetings and nationwide executive management meetings and jointly preparing annual management reports.

The Company negotiates collective bargaining agreements every two years with its labour union and annually negotiates a wage agreement. The current collective bargaining agreement expires on 13 December 2019. The current wage agreement expires on 13 December 2018.

The Company provides its full-and part-time employees with benefits under the national pension plan and medical insurance program. In addition, the Company provides a wide range of welfare programs which include tuition assistance, healthcare and housing and dormitory assistance.

The Company considers its current relations with its workforce to be good. It has not experienced any work stoppages, strikes or other labour problems in the past.

Insurance

As of 31 December 2017, the dams and inventories, properties, plants and equipment of the Company were insured against various losses of up to ₩6.9 trillion. As of that date, the Company also had general vehicle insurance and casualty insurance for its employees.

The Company believes that the Government will provide financial support in the event of significant damage to the dams or other water facilities as the operation of these facilities serve national interests. There can be no assurance, however, that the Government will provide such financial support in the event of a significant damage to the dams or other water facilities or that such damage will not have a material adverse effect on the financial condition or results of operations of the Company.

MANAGEMENT

Under the Public Agencies Management Act and the Company's articles of incorporation, the Company's management is vested in the board of directors (the "**BOD**"), which consists of not more than 15 directors, including the president.

The directors are classified into two categories: standing directors and non-standing directors. The number of standing directors including the president must be less than one-half of the total number of directors. The Company currently has seven standing directors and eight non-standing directors. The standing directors other than the president and a member of audit committee are appointed by the president. For each standing director that will be a member of audit committee (the "**Standing Audit Committee Member**"), the ER Committee, which is established in accordance with the Public Agencies Management Act and composed of the non-standing directors and other members appointed by the BOD, recommends more than one candidates to the PAM Committee, which reviews the recommendations and selects candidates. The MOSF then formally nominates the selected candidate for the Standing Audit Committee Member to the President of Korea for appointment. The Company's standing directors presently constitute the Company's executive officers. For non-standing directors, the ER Committee recommends more than one qualified candidates to the PAM Committee, which reviews the recommendations and selects a nominee. Such nominee is then formally appointed by the MOSF. When a new president of the Company is to be appointed, the ER Committee recommends more than one candidates for the position. The PAM Committee reviews the recommendations and selects a nominee. The MOLIT then formally nominates the selected candidate for the president of the Company to the President of Korea for appointment.

The names, titles, and outside occupations, if any, of the directors, as of the date of the Offering Circular, and the respective years in which they took office are set forth below. The business address of the directors is 200 Sintanjin-Ro, Daedeok-gu, Daejeon, 34350, Korea.

Name	Title/Position	Other Activities, If Any	Position Held Since
Lee, Hak Soo	President	Vice President of K-Water, Director of the Audit and Inspection Department, Vice president of the Urban Environment Business Division of the Company	23 September 2016
Park, Jung Hyun	Senior Audit Director	None	18 March 2017
Kim, Bong Jae	Executive Director of Business Management, Acting Executive Vice President	None	13 December 2016
Lim, Sung Ho	Vice President – Han river Business Division	None	13 December 2016
Park, Byung Don	Vice President- Geum, Youngsan and Seomjin rivers Business Division	None	13 December 2016
Kwak, Soo Dong	Vice President – Nakdong river Business Division	None	13 December 2016
Park, Seung Ki	Non-standing Director	Chairman, Hyundai S&C	6 March 2014
Kim, Won Tae	Non-standing Director	Editorial Writer, *The Seoul Shinmun*	6 March 2014
Lee, Won Seok	Non-standing Director	Steering Committee Member, Coalition for Happy SmartMovement	6 March 2014
Kim, Keun Sik	Non-standing Director	Policy Advisor, The Youido Institute of Saenuri party	12 August 2014
Choi, Yoon Ho	Non-standing Director	Secretary General, ROTC Forum	1 October 2014
Cho, Young Jae	Non-standing Director	None	10 March 2015
Park, Woo Ho	Non-standing Director	President of Seyoung Accounting firm, Director of Garam Accounting firm	10 March 2015

Lee, Hak Soo has been a president since 23 September 2016. Mr. Lee received a Bachelor's degree in Administration from Yonsei University and a Master's Degree and a Ph.D. degree in Administration from the University of Arizona. He previously served as the vice president of K Water and the director of the Audit and Inspection Department and the vice president of the Urban Environment Business Division of the Company.

Park, Jung Hyun has been a Senior Audit Director since 18 March 2017. Mr. Park received a Bachelor's degree in French Language and Literature from Yonsei University.

Kim, Bong Jae has been an Executive Director of Business Management since 13 December 2016 and an Executive Vice President since January 2018. Mr. Kim received a Bachelor's degree in Civil Engineering from Kyungbuk National University and a Master's Degree in Civil Engineering from Kyungbuk National University.

Lim, Sung Ho has been a Vice President of Han river Business Division since 13 December 2016. Mr. Lim received a Bachelor's degree in Civil Engineering from Sungkyunguan University.

Park, Byung Don has been a Vice President of Geum, Youngsan and Seomjin rivers Business Division since 13 December 2016. Mr. Park received a Bachelor's degree in Electronics from Chungnam National University.

Kwak, Soo Dong has been a Vice President of Nakdong river Business Division since 13 December 2016. Mr. Kwak received a Bachelor's degree in Economics from Yongnam University and a Master's Degree in Public Administration from Hannam University.

Park, Seung Ki has been a non-standing director since 6 March 2014. Mr. Park received a Bachelor's degree in Business from Kyung Hee University and a Master's Degree in International Trade from Chung-Ang University. Mr. Park is currently the chairman of Hyundai S&C.

Kim, Won Tae has been a non-standing director since 6 March 2014. Mr. Kim received a Bachelor's degree in Law from Dong-A University, a Master's degree in Administration from Pusan National University and a Ph.D. degree in Law from the University of Seoul. He is currently an Editorial Writer of the Seoul Shinmun.

Lee, Won Seok has been a non-standing director since 6 March 2014. Mr. Lee received a Bachelor's degree in Civil Engineering from Danguk University. He is currently a steering committee member of the Coalition for Happy Smart Movement.

Kim, Keun Sik has been a non-standing director since 12 August 2014. Mr. Kim received a Bachelor's degree in Political Science and International Studies from Yonsei University and a Master's degree in Business Administration from Myongji University. He is currently a policy advisor at the Youido Institute of Saenuri party.

Choi, Yoon Ho has been a non-standing director since 1 October 2014. Mr. Choi received a Bachelor's degree and a Master's degree in Agricultural Studies from Korea University. He is currently the secretary general of the ROTC (Reserve Officers' Training Corps) Forum.

Cho, Young Jae has been a non-standing director since 10 March 2015.

Park, Woo Ho has been a non-standing director since 10 March 2015. Mr. Cho received a Bachelor's degree in Public Administration from Kyungbuk National University. He currently serves as President of Seyoung Accounting firm and a Director of Garam Accounting firm.

Cho, Hong Sik has been a non-standing director since 12 December 2016. Mr. Cho received a Bachelor's degree in Science of Law from Seoul National University and a Ph.D. degree in Science of Law from the U.C. Berkeley. He is currently a Dean of Seoul National University College of Law.

Compensation of Directors and Executive Officers

The aggregate amount of remuneration paid and accrued to the directors and executive officers, as a group, was ₩1.11 billion in 2016 and ₩1.00 billion in 2017. The aggregate amount the Company set aside or accrued during 2016 and 2017 to provide retirement and severance benefits for directors and executive officers was ₩34 million and nil, respectively.

Board Practices

The term of office of the president is three years, and the terms of the directors (other than the president) are two years. The president and directors may be reappointed for successive periods of one year each.

The president's management contract provides for benefits upon termination of his or her employment. The president is only eligible for termination benefits after more than one year of continuous service. For each year of employment with the Company, the payment amount for termination benefits is equal to the average value of compensation for one month.

The terms for termination benefits for standing directors are determined in accordance with the Company's internal regulations for executive compensation. Standing directors are only eligible for benefits after retirement or upon death following one year of continuous service. The payment amount for retirement benefits is calculated by computing the standard level of compensation and multiplying by the number of continuous years of service.

The Company has an audit committee, consisting of three or more directors, in accordance with the Public Agencies Management Act and its articles of incorporation. The number of non-standing directors in the audit committee must be more than two-thirds of the total number of members of the audit committee. The audit committee currently consists of one standing director and two non-standing directors. The audit committee oversees the Company's business and accounting and reports the results thereof to the BOD, and approves the appointment of the Company's independent registered public accounting firm.

The Company's board of directors does not maintain a remuneration committee.

OWNERSHIP

The following table sets out certain information relating to the ownership of the Company as of 31 December 2017.

	As of 31 December 2017	
	Amount of Share Capital	**% of Total Share Capital**
	(in billions of Won)	*(percentages)*
The government	₩7,500.6	92.5%
The Korea Development Bank	601.4	7.4
Local governments[1]	7.0	0.1
Total	**₩8,109.0**	**100.0%**

(1) Includes shares of the Company owned by Boseong County and Buyeo County.

EXCHANGE RATES

The table below sets forth, for the periods and dates indicated, information concerning the Market Average Exchange Rate for translations of Won amounts into U.S. dollars. Where applicable, the translations of Won into U.S. dollars as of 31 December 2017 have been made at the Market Average Exchange Rate in effect as of 31 December 2017, which was ₩1,071.4 = U.S.$1.00. The Company does not intend to imply that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all.

Year Ended 31 December	At End of Period	Average[(1)]	High	Low
		(Won per US$1.00)		
2011	1,049.5	1,199.5	1,108.1	1,153.3
2012	1,071.1	1,181.8	1,126.9	1,071.1
2013	1,051.5	1,159.1	1,095.0	1,055.3
2014	1,008.9	1,118.3	1,053.2	1,099.2
2015	1,068.1	1,203.1	1,131.5	1,172.0
2016	1,208.5	1,160.5	1,240.9	1,093.2
2017	1,071.4	1,130.8	1,208.5	1,071.4
2018				
January	1,071.5	1,066.7	1,071.5	1,061.3
February	1,071.0	1,079.6	1,094.3	1,068.0
March (through 22 March 2018)	1,071.4	1,071.4	1,081.9	1,064.3

Source: Seoul Money Brokerage Services, Ltd.

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

TAXATION

Korea

The Information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisers.

The taxation of non-resident individuals and non-Korean corporations ("**Non-Residents**") generally depends on whether they have a "permanent establishment" (as defined under Korean law and applicable tax treaty) in Korea to which the relevant Korean source income is attributable or with which such income is effectively connected. Non-Residents without a permanent establishment in Korea are taxed in the manner described below. Non-Residents with permanent establishments in Korea are taxed in accordance with different rules.

Tax on Interest

Interest payable to Non-Residents in respect of the Notes, if qualified as certain foreign currency-denominated bonds issued outside of Korea pursuant to the Special Tax Treatment Control Law ("**STTCL**"), is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the STTCL.

The rate of income tax or corporation tax applicable to interest on the Notes without the tax exemption under the STTCL, for a Non-Resident without a permanent establishment in Korea, is currently 14% of income. In addition, a tax surcharge called a local income tax would be imposed at the rate of 10% of the income or corporation tax (raising the total tax rate to 15.4%).

In addition, in order to obtain the benefit of a reduced rate available under applicable tax treaties, a Non-Resident holder must submit an application for reduced rate to either the payor or the entity obligated to withhold such tax liable for the withholding before the receipt of the relevant interest payment (if there is no change in the contents of such application, it is not required to submit such application again within three years thereafter), together with a certificate of the Non-Resident holder's tax residence issued by a competent authority of the Non-Resident holder's resident country. If the Non-Resident holder was unable to receive the benefit of a reduced rate due to his or her failure to timely submit the aforementioned application, the Non-Resident holder may still receive a tax return if the submission to the relevant tax office is made within five years from the last day of the month in which the date of withholding occurs.

The tax rates may be reduced or exempted by applicable tax treaty, convention or agreement between Korea and the country of the recipient of the income. The relevant tax treaties are discussed below.

Tax on Capital Gains

Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a permanent establishment in Korea from the sale of Notes to Non-Residents (other than to their permanent establishments in Korea). In addition, capital gains earned by Non-Residents from the transfer outside Korea of Notes to Non-Residents are currently exempt from taxation by virtue of the STTCL.

If the exclusion or exemption from Korean taxation referred to above were to cease to be in effect, in the absence of an applicable treaty or any other special tax laws reducing or eliminating tax on capital gains, the applicable rate of tax is the lower of 11% (including local income tax) of the gross realisation proceeds and (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Note) 22% (including local income tax) of the realised gain (i.e., the excess of the gross realisation proceeds over the acquisition cost and certain direct transaction costs) made. If such evidence shows that no gain (or a loss) was made on the sale, no Korean tax is payable. There is no provision under relevant Korean law for offsetting gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of instruments issued by

Korean companies. The purchaser or any other designated withholding agent of Notes is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from tax under an applicable tax treaty or on the failure of the seller to produce satisfactory evidence of his acquisition cost and certain direct transaction costs in relation to the Notes being sold, the purchaser or such withholding agent must withhold an amount equal to 11% of the gross realisation proceeds. Any amounts withheld by the purchaser or withholding agent must be paid to the relevant Korean tax authority. The purchaser or withholding agent must pay any withholding tax no later than the tenth day of the month following the month in which the payment for the purchase of the relevant Notes occurred. Failure to transmit the withheld tax to the Korean tax authorities in time subjects the purchaser to penalties under Korean tax laws. The Korean tax authorities may attempt to collect such tax from a Non-Resident who is liable for payment of any Korean tax, either as a seller of Notes or as a purchaser or withholding agent who is obliged to withhold such tax through proceedings against payments due to the Non-Resident from its Korean investments and the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea and (b) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the rate varies from 10% to 50% depending on the price of the assets and the nature of the relationship between the parties. At present, Korea has not entered into any tax treaties regarding its inheritance or gift taxes.

Under Korean inheritance and gift tax laws, bonds issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned, and consequently, the Korean inheritance and gift taxes will be imposed on transfers of the Notes by inheritance or gift. Prospective purchasers should consult their personal tax advisors regarding the consequences of the imposition of the Korean inheritance or gift tax.

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the holders in connection with the issue of the Notes except for nominal amount of stamp duty on certain documents executed in Korea. No securities transaction tax will be imposed on the transfer of Notes.

Tax Treaties

At the date of this Offering Circular, Korea has tax treaties with, *inter alia*, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, Malaysia, the Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States under which the rate of withholding tax on interest (including local income tax) is reduced, generally to between 5 and 16.5% and the tax on capital gains is often eliminated.

The special withholding tax system took effect 1 July 2006. Under the system, residents of Labuan, Malaysia are presumed to be tax treaty shopping, and are denied tax treaty benefits. Instead, payments made to the residents of Labuan, Malaysia will be subject to the default Korean withholding tax rates (generally 15.4% for interest and 11% of gross realisation proceeds or 22% of the net realised gain for capital gain (including local income tax)) rather than the reduced or exempted rate available under the Korea-Malaysia tax treaty. A Labuan taxpayer, however, will be given an opportunity to get refund by proving that it is entitled to the tax treaty benefits as a beneficial owner of the income and a real resident of Labuan, Malaysia. A Labuan taxpayer may also file an application with the National Tax Service (the "**NTS**") for confirmation that it is entitled to the tax treaty benefits and obtain an advance confirmation from the NTS prior to receiving Korean source income.

Each holder should enquire for himself whether he is entitled to the benefit of a tax treaty with respect to any transaction involving Notes. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the payer or the Company a certificate as to his residence. In the absence of sufficient proof, the payer or the Company must withhold taxes in accordance with the above discussion. Each holder must submit an application for entitlement to reduced tax rate on domestic source income in order to benefit from reduced rates under a tax treaty for any income (e.g., interest).

Further, in order for a non-resident to obtain the benefit of a tax exemption under an applicable tax treaty, Korean tax law requires such non-resident (or its agents) to submit to the payer of such Korean source income an application for tax exemption under a tax treaty along with a certificate of tax residency of such non-resident issued by a competent authority of the non-resident's country of residence, subject to certain exceptions. If the Korean source incomes are paid to Non-Residents through an overseas investment vehicle, such investment vehicle must obtain an application for tax exemption from each Non Resident, who are the beneficial owners of such investment vehicle and submit to the payer of such Korean source incomes an overseas investment vehicle report, together with the applications for tax exemption prepared by the Non-Resident beneficial owners. An application for tax exemption submitted by a Non-Resident remains effective for three years from submission, and if any material changes occur with respect to information provided in the application, an application reflecting such change must be newly submitted.

The payer of such Korean source income, in turn, is required to submit such application to the relevant district tax authority by the ninth day of the month following the date of the first payment of such income. However, this requirement does not apply to tax exemptions under Korean tax laws.

Withholding and Gross-up

As mentioned above, interest under the Notes could be exempt from any withholding or deduction on account of income tax or corporation tax pursuant to the STTCL. However, in the event that the payer or the Company is required by law to make any withholding or deduction for or on account of any Korean taxes (as more fully described in Condition 9), the Company has agreed to pay (subject to the customary exceptions as set out in such Condition 9) such additional amounts as may be necessary in order that the net amounts receivable by the holder of any Note or Coupon after such withholding or deduction shall equal the respective amounts which would have been receivable by such holder in the absence of such withholding or deduction.

Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the each of the Issuer and the Guarantor believes to be reliable, but none of the Issuer, any Arranger or Dealer, the Trustee or any Agent takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer or any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective accountholders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other. Euroclear and Clearstream participants are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by any Paying Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

SUBSCRIPTION AND SALE

The Dealers have, in an amended and restated programme agreement dated 12 May 2017, as supplemented and amended from time to time (the "**Programme Agreement**"), agreed with the Company a basis upon which they or any of them may from time to time agree to purchase or procure purchasers for Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*." In the Programme Agreement, the Company has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may to the extent permitted by applicable laws and regulations engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Company. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilize or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilisation activities are subject to certain prescribed time limits in certain jurisdictions.

The Dealers and certain affiliates of the Dealers may have performed banking and advisory services (which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities) for the Company from time to time for which they have received customary fees and expenses. The Dealers and certain of their affiliates may, from time to time, engage in transactions with and perform services for the Company in the ordinary course of their business. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and instruments of the Company.

The Dealers or certain of their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution. The Dealers and/or their affiliates may purchase Notes for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes, and/or other securities of the Company or its respective subsidiaries or associates at the same time as the offer and sale of the Notes, or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes.

In addition, in the ordinary course of their business activities, the Dealers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Company or its affiliates. The Dealers and their respective affiliates may also make investment recommendations and/or publish or express independent research views with respect to such securities or financial instruments and may hold, or recommend to clients that they acquire long and/or short positions in such securities and instruments.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealer or any affiliate of the Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Dealer or its affiliate on behalf of the Company in such jurisdiction.

Selling Restrictions

United States of America

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Bearer Notes are subject to U.S. tax law requirements. The Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Each of the Dealers has agreed that, except as permitted by the Programme Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver the Notes within the United States or to U.S. persons.

In addition, until 40 days after the commencement of any offering, an offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Public Offer Selling Restriction under the Prospectus Directive

Unless the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable," each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the pricing supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

    (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

    (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

    (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"); and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable," each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented (the "**Relevant Implementation Date**") in a Member State of the European Economic Area which has implemented the Prospectus Directive it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the pricing supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(i) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(ii) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Company for any such offer; or

(iii) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (i) to (iii) above shall require the Company or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of Notes to the public in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) *No deposit-taking:* in relation to any Notes having a maturity of less than one year:

  (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and:

  (b) it has not offered or sold and will not offer or sell any Notes other than to persons:

    (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

    (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

  where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Company;

(ii) *Financial promotion:* it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and

(iii) *General compliance:* it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that the Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended) (the "**FIEA**"). Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949, as amended)) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other applicable laws, regulations and ministerial guidelines of Japan.

Switzerland

Each Dealer has represented and agreed and each further Dealer appointed under the Dealer Agreement will be required to represent and agree that it (a) it has not offered and sold and will not publicly offer or sell, the Notes in Switzerland, as such term is defined or interpreted under the Swiss Code of Obligations ("**CO**") and the Swiss Collective Investment Schemes Act ("**CISA**") and (b) neither this Prospectus nor any other documents related to the Notes constitute a prospectus within the meaning of art.652a or art.1156 CO.

The Company has not applied for a listing of the Notes on the SIX Swiss Stock Exchange or any other regulated securities market in Switzerland, and consequently the information presented in this Offering Circular does not necessarily comply with the information standards set out in the listing of the SIX Swiss Exchange. In addition, the Notes do not constitute a participation in a collective investment scheme in the meaning of the CISA and they are neither subject to approval nor supervision by the Swiss Federal Banking Commission, the Swiss Financial Market Supervision Authority or any other regulatory authority in Switzerland.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold, and will not offer or sell, in Hong Kong Special Administrative Region of the PRC ("**Hong Kong**"), by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**")) other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued, or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"). Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold the Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Korea

Each Dealer severally but not jointly has represented and agreed, and each further Dealer appointed under the Programme will be required to severally but not jointly represent and agree that the Notes have not been and will not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as defined in the Foreign Exchange Transactions Act of Korea and the rules and regulations promulgated thereunder), or to any other person for reoffering, resale or re-delivery, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea, except as otherwise permitted by applicable Korean laws and regulations.

Each Dealer severally but not jointly has undertaken, and each further Dealer appointed under the Programme will be severally but not jointly required to undertake, to ensure that any securities dealer to which it sells Notes confirms that it is purchasing such Notes as principal and agrees with such Dealer that it will comply with the restrictions described above.

GENERAL INFORMATION

Authorisation

The establishment of the Programme was duly authorised by a resolution of the Board of Directors of the Company dated 24 March 2008. Each issue of Notes under the Programme will be authorised by the Board of Directors of the Company at the time of issue or at a meeting held annually to approve the issue of Notes to be issued in the following fiscal year.

Listing of Notes on the SGX-ST

Approval in-principle has been received in connection with the Programme and application will be made for the listing and quotation of Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted for listing and quotation on the SGX-ST. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S$200,000 or its equivalent in foreign currencies.

For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that any Global Note is exchanged for definitive Notes, the Company will appoint and maintain a Paying Agent in Singapore where the Notes may be presented or surrendered for payment or redemption and make an announcement of such exchange through the SGX-ST, and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the Paying Agent in Singapore.

Documents Available

Copies of the following documents will be available for inspection and, in the case of the documents referred to in paragraphs (ii) and (iii) below, copies may be obtained during normal business hours at the specified office of the Company at 200 Sintanjin-Ro, Daedeok-gu, Daejeon, 34350, Korea for so long as the Notes are capable of being issued under the Programme:

(i) the constitutional documents (or equivalent) of the Company;

(ii) the auditors reports and the consolidated audited financial statements of the Company in respect of the financial years ended 31 December 2015 and 2016;

(iii) the most recently published interim financial statements of the Company;

(iv) the Programme Agreement, the Agency Agreement, the Deed of Covenant and the forms of the Global Notes; and

(v) a copy of this Offering Circular, together with any supplement to the Offering Circular.

Clearing Systems

The Notes may be accepted for clearance through Euroclear and Clearstream. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the relevant Pricing Supplement. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

Auditors

The current auditors of the Company are Deloitte Anjin LLC.

INDEX OF FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

English Translation of Independent Auditors' Report Originally Issued in Korean on February 27, 2018.

To the Shareholders and the Board of Directors of
Korea Water Resources Corporation and its Subsidiaries:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Korea Water Resources Corporation and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, respectively, and the related consolidated statements of comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows, all expressed in Korean won, for the years ended December 31, 2017 and 2016, respectively, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean Government-owned and Quasi-government Accounting Regulations and Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an audit opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing ("KSAs"). Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, respectively, and its financial performance and its cash flows for the years ended December 31, 2017 and 2016, respectively, in accordance with Korean Government-owned and Quasi-government Accounting Regulation and Standards.

Emphasis of Matter

The following matters may be helpful to the readers in their understanding of the consolidated financial statements:

1. Uncertainty in the Gyeong-in Canal Project

   As other matter does not have any impact on our audit conclusion, the readers of the report need to pay attention to Note 44.

   As described in Note 44 to the consolidated financial statements, in accordance with the government's resolution at the National Policy Coordination Conference (December 11, 2008), the Group invested a sum of ₩15,043 hundred million (book value) as of December 31, 2017, in the Gyeong-in Canal Project, which is currently recognized as intangible assets.

   As of December 31, 2017, as a result of the resolution at the National Policy Coordination Conference (May 22, 2014), the Group is negotiating with the Ministry of Maritime Affairs and Fisheries to settle the procedures of progressing property rights and the changes in business plans in accordance with the Port Act, as a support measure for the Gyeong-in Canal Project, whose recoverable amount of the major waterway investment cost could fluctuate significantly depending on the outcome of the negotiation. As the negotiation (December 2017 with current government) has not been confirmed, there is a significant uncertainty related to impairment of the intangible assets.

2. Adaption of Korean Government-owned and Quasi-government Accounting Regulations and Standards

   As described in Note 2 to the consolidated financial statements, if there is no accounting treatment for certain transactions specified under Korean Government-owned and Quasi-government Accounting Regulations and Standards, the Group accounts for such transactions in accordance with Korean International Financial Reporting Standards.

Deloitte Anjin LLC

February 27, 2018

Notice to Readers

This report is effective as of February 27, 2018, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the consolidated financial statements and may result in modifications to the auditors' report.

KOREA WATER RESOURCES CORPORATION AND SUBSIDIARIES (the “Group”)

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

The accompanying consolidated financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, the Group.

Lee, Hak Soo
Chief Executive Officer
Korea Water Resources Corporation

KOREA WATER RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017 AND 2016

	December 31, 2017	December 31, 2016
	(In thousands of Korean won)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Notes 6, 7 and 38)	₩160,865,887	₩111,502,376
Short-term loans and receivables (Notes 12 and 38)	8,640,246	-
Short-term financial instruments (Notes 11 and 38)	23,897,420	79,605,251
Derivative assets (Notes 8 and 38)	2,180,359	13,940,759
Trade and other receivables, net (Notes 9 and 38)	338,920,824	297,800,217
Inventories (Note 13)	6,416,510,928	5,838,039,077
Current tax assets (Note 36)	50,122	19,396
Other non-financial assets (Note 14)	90,740,237	81,103,125
TOTAL CURRENT ASSETS	7,041,806,023	6,422,010,201
NON-CURRENT ASSETS		
Non-current AFS financial assets (Notes 10 and 38)	23,131,909	17,040,121
Long-term loans and receivables (Notes 12 and 38)	17,762,987	19,436,514
Non-current derivative assets (Notes 8 and 38)	28,672,132	62,389,624
Long-term trade and other receivables, net (Notes 9 and 38)	662,483,263	648,922,129
Property, plant and equipment (Notes 16 and 23)	1,592,189,869	1,490,732,119
Intangible assets other than goodwill (Notes 17, 23, 24 and 44)	11,382,626,363	11,498,154,422
Investments in associates (Note 15)	75,025,579	86,636,527
Deferred tax assets (Note 36)	39,227,137	49,309,867
Other non-financial assets (Note 14)	4,370,145	4,798,298
TOTAL NON-CURRENT ASSETS	13,825,489,384	13,877,419,621
TOTAL ASSETS	₩20,867,295,407	₩20,299,429,822

(Continued)

KOREA WATER RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
AS OF DECEMBER 31, 2017 AND 2016

	December 31, 2017	December 31, 2016
	(In thousands of Korean won)	
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables (Notes 18 and 38)	₩349,176,235	₩329,739,964
Short-term borrowings (Notes 19 and 38)	5,018,749	-
Current portion of long-term borrowings (Notes 19 and 38)	102,918,456	73,952,246
Current portion of debentures, net (Notes 19 and 38)	1,341,689,500	1,494,543,000
Derivative liabilities (Notes 8, 20 and 38)	20,161,613	-
Current tax liabilities (Note 36)	1,738,162	1,968
Other non-financial liabilities (Note 25)	1,135,920,047	1,139,863,553
Provisions (Note 22)	99,472,152	116,464,377
TOTAL CURRENT LIABILITIES	3,056,094,914	3,154,565,108
NON-CURRENT LIABILITIES		
Long-term trade and other payables (Note 18)	3,950	4,850
Long-term borrowings (Notes 19 and 38)	342,475,031	405,843,160
Debentures, net (Notes 19 and 38)	9,932,699,270	9,799,643,323
Derivative liabilities (Notes 8, 20 and 38)	35,837,762	26,977,212
Other non-financial liabilities (Notes 24 and 25)	41,392,575	41,659,075
Employee benefits (Note 21)	164,341,891	140,377,217
Deferred tax liabilities (Note 36)	58,149	58,149
Provisions (Notes 22 and 43)	60,387,705	69,727,023
TOTAL NON-CURRENT LIABILITIES	10,577,196,333	10,484,290,009
TOTAL LIABILITIES	13,633,291,247	13,638,855,117
SHAREHOLDERS' EQUITY		
Issued capital (Notes 1 and 26)	8,101,944,481	7,687,517,325
Retained earnings (accumulated deficit) (Notes 27 and 28)	(864,040,732)	(1,044,967,874)
Other equity components (Note 29)	(37,848,682)	(14,524,684)
CONTROLLING INTERESTS	7,200,055,067	6,628,024,767
NON-CONTROLLING INTERESTS	33,949,093	32,549,938
TOTAL SHAREHOLDERS' EQUITY	7,234,004,160	6,660,574,705
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	₩20,867,295,407	₩20,299,429,822

(Concluded)

See accompanying notes to consolidated financial statements.

KOREA WATER RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
	(In thousands of Korean won)	
REVENUE (Notes 5, 30, 40 and 41)	₩3,375,560,292	₩3,618,084,600
COST OF SALES (Notes 37 and 41)	(2,793,723,888)	(3,105,616,495)
GROSS PROFIT	581,836,404	512,468,105
Selling, general and administrative expenses (Notes 31 and 37)	(154,119,986)	(148,368,676)
OPERATING PROFIT	427,716,418	364,099,429
Other incomes (Notes 9, 24 and 32)	68,450,293	20,053,389
Other expenses (Notes 9 and 32)	(42,887,498)	(120,128,132)
Other gains (losses), net (Notes 17 and 33)	(1,889,366)	(143,011,414)
Financial incomes (Notes 8, 34 and 38)	125,341,339	46,182,234
Financial costs (Notes 8, 35 and 38)	(383,289,611)	(329,105,380)
Share of profit of equity-accounted investees, net (Note 15)	(1,145,493)	(3,308,952)
NET INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT)	192,296,082	(165,218,826)
Income tax expense (benefit) (Note 36)	7,362,030	(48,253,507)
NET INCOME (LOSS) FOR THE YEAR	184,934,052	(116,965,319)
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial profit (loss) (Note 27)	1,678,689	(1,155,534)
Total items that will not be reclassified to profit or loss	1,678,689	(1,155,534)
Items that are or may be reclassified subsequently to profit or loss:		
Effective portion of unrealized change in fair values of cash flow hedges	18,896,899	1,331,329
Unrealized net change in fair value of AFS financial assets, net of income tax	913	156
Foreign currency translation differences for foreign operations	(37,627,558)	4,556,686
Unrealized gain (loss) on valuation of equity method investments	(10,469,571)	(1,888,232)
Total items that are or may be reclassified subsequently to profit or loss (Notes 8 and 29)	(29,199,317)	3,999,939
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF INCOME TAX	(27,520,628)	2,844,405
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	₩157,413,424	₩(114,120,914)

(Continued)

KOREA WATER RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
	(In thousands of Korean won)	
Net income (loss) attributable to:		
Controlling interests	₩179,248,453	₩(120,912,854)
Non-controlling interests	5,685,599	3,947,535
NET INCOME (LOSS) FOR THE YEAR	184,934,052	(116,965,319)
Total comprehensive income (loss) attributable to:		
Controlling interests	157,603,263	(120,045,631)
Non-controlling interests	(189,839)	5,924,717
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	₩157,413,424	₩(114,120,914)

(Concluded)

See accompanying notes to consolidated financial statements.

KOREA WATER RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Equity attributable to owners of the Group					
	Issued capital	Retained earnings	Other equity components	Subtotal	Non-controlling interests	Total equity
			(In thousands of Korean won)			
Balance at January 1, 2016	₩7,193,548,343	₩(2,374,278,653)	₩1,434,831,946	₩6,254,101,636	₩23,366,881	₩6,277,468,518
Comprehensive income (loss) for the year						
Net loss	-	(120,912,853)	-	(120,912,853)	3,947,535	(116,965,319)
Other comprehensive loss	-	(1,155,534)	2,022,756	867,222	1,977,182	2,844,404
Loss reserves	-	1,451,379,166	(1,451,379,166)	-	-	-
Total comprehensive income for the year	-	1,329,310,779	(1,449,356,410)	(120,045,631)	5,924,717	(114,120,914)
Transactions with owners of the Group						
Increase in paid-in capital	493,968,982	-	-	493,968,982	-	493,968,982
Others	-	-	(220)	(220)	3,258,340	3,258,120
Total transactions with owners of the Group	493,968,982	-	(220)	493,968,762	3,258,340	497,227,102
Balance at December 31, 2016	₩7,687,517,325	₩(1,044,967,874)	₩(14,524,684)	₩6,628,024,767	₩32,549,938	₩6,660,574,706
Balance at January 1, 2017	₩7,687,517,325	₩(1,044,967,874)	₩(14,524,684)	₩6,628,024,767	₩32,549,938	₩6,660,574,706
Comprehensive income (loss) for the year						
Net loss	-	179,248,453	-	179,248,453	5,685,599	184,934,052
Other comprehensive loss	-	1,678,689	(23,323,879)	(21,645,190)	(5,875,439)	(27,520,629)
Total comprehensive income (loss) for the year	-	180,927,142	(23,323,879)	157,603,263	(189,840)	157,413,423
Transactions with owners of the Group						
Increase in paid-in capital	414,427,156	-	-	414,427,156	-	414,427,156
Others	-	-	(119)	(119)	1,588,995	1,588,876
Total transactions with owners of the Group	414,427,156	-	(119)	414,427,037	1,588,995	416,016,032
Balance at December 31, 2017	₩8,101,944,481	₩(864,040,732)	₩(37,848,682)	₩7,200,055,067	₩33,949,093	₩7,234,004,160

See accompanying notes to consolidated financial statements

KOREA WATER RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
	(In thousands of Korean won)	
Cash flows from operating activities		
Net income (loss) for the year	₩184,934,052	₩(116,965,319)
Adjustments for:		
Expenses for employee benefits	29,986,260	30,775,872
Depreciation	87,403,233	84,917,226
Amortization	614,237,966	608,110,128
Allowance for bad and doubtful debts	(33,848)	(872,973)
Other bad debt expense	508,991	47,353
Recovery of provisions	-	(4,506,879)
Provisions recognized	97,923,850	172,350,736
Gain on disposal of property, plant and equipment, net	(646,979)	(178,356)
Impairment loss on intangible assets	2,536,346	143,018,579
Interest income	(12,610,934)	(9,345,215)
Dividend income	(743,367)	(502,403)
Loss on valuation of derivatives, net	84,655,000	(33,760,000)
Loss on derivative transactions, net	27,332,000	-
Gain (loss) on foreign currency translation, net	(83,522,242)	31,795,630
Gain (loss) on foreign currency transactions, net	(24,425,418)	312,500
Gain (loss) on valuation of investments in associates and subsidiaries, net	1,145,493	3,411,155
Interest expense	262,545,872	294,422,633
Loss on redemption of debenture	3,778,767	-
Gain on disposal of investments in associates and subsidiaries	-	(102,204)
Income tax expense (benefit)	7,362,030	(48,253,507)
Others, net	(266,500)	(266,500)
Changes in:		
Trade accounts receivable	(7,819,494)	107,343,834
Inventories	(446,778,739)	(451,396,074)
Other operating assets	(38,730,737)	67,103,587
Long-term trade accounts receivable	(14,905,823)	(200,994,243)
Trade accounts payable	4,584,089	1,807,441
Other operating liabilities	(324,741,491)	74,700,132
Payment of employee benefits	(3,806,956)	(3,465,094)
Cash generated from operating activities	449,901,421	749,508,039
Dividends received	743,367	502,403
Interest received	9,811,054	651,823
Interest paid	(241,046,888)	(476,135,944)
Income taxes paid	1,088,814	(36,534)
Net cash provided by operating activities	220,497,768	274,489,792

(Continued)

KOREA WATER RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
	(In thousands of Korean won)	
Cash flows from investing activities		
Acquisition of short-term financial instruments	₩(304,296,299)	₩-
Proceeds from sale of short-term financial instruments	360,004,130	36,913,692
Acquisition of AFS financial assets	(6,275,822)	(2,252,000)
Proceeds from sale of AFS financial assets	184,946	119,108
Increase in long-term loans	(47,365,219)	(1,142,738)
Collection of long-term loans	36,359,122	2,540,497
Increase in deposit	(50,005,272)	(53,472,999)
Decrease in deposit	49,878,780	43,569,839
Acquisition of property, plant and equipment	(150,842,186)	(117,604,442)
Proceeds from sale of property, plant and equipment	2,772,560	3,907,217
Acquisition of intangible assets	(566,778,369)	(706,141,612)
Proceeds from sale of intangible assets	39,600,001	43
Government grant returned	5,000,000	-
Contributions for construction received	-	900,000
Acquisition of investments in associates	-	(91,924,000)
Proceeds from sale of investments in associates	-	426,004
Net cash used in investing activities	(631,763,628)	(884,161,391)
Cash flows from financing activities		
Repayment of current portion of long-term borrowings	(1,536,107,000)	(42,159,340)
Settlement of derivatives	(12,557,000)	-
Repayment of debentures	(26,446,767)	(1,336,581,000)
Proceeds from debentures	1,607,543,277	1,372,440,000
Increase in short-term borrowings	5,018,749	-
Increase in long-term borrowings	7,162,080	105,768,755
Equity investments from government	414,427,155	493,968,982
Increase in investment in subsidiaries	1,588,877	3,258,121
Net cash (used in) provided by financing activities	460,629,371	596,695,518
Net decrease in cash and cash equivalents	49,363,511	(12,976,081)
Cash and cash equivalents at January 1	111,502,376	124,832,949
Effect of changes in exchange rates on cash and cash equivalents denominated in foreign currencies	-	(354,492)
Cash and cash equivalents at December 31	₩160,865,887	₩111,502,376

(Concluded)

See accompanying notes to consolidated financial statements.

1. REPORTING ENTITY:

(1) The Parent company

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

The Parent was reorganized as Industrial Sites and Water Resources Development Corporation on December 24, 1973, pursuant to the Act for Promotion of Industrial Site Development, and had been reorganized again as Korea Water Resources Corporation, pursuant to the Korea Water Resources Corporation Act (the "K-water Act") on July 1, 1988.

The Parent is engaged in the business of promoting public interests by developing and managing water resources, facilitating water supply and improving the quality of water. In addition, the Parent is involved in developing projects for industrial complexes and special-purpose areas in accordance with the K-water Act.

As of December 31, 2017, issued capital of the Parent amounts to ₩8,109 billion, and the present ownership of the Parent is as follows:

(Unit: In thousands of Korean won)

	Share capital	Percentage of ownership
Government of the Republic of Korea	₩7,500,557,930	92.5%
Korea Development Bank	601,390,088	7.4%
Local government	7,026,278	0.1%
	₩8,108,974,296	100.0%

(2) Consolidated subsidiaries

1) Details of consolidated subsidiaries as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

Consolidated subsidiary	Main business	Ownership ratio of the Parent (%) 2017	2016	Location
KDS Hydro Pte. Ltd.	Pakistan Patrind Hydropower Project, etc.	80.0%	80.0%	Singapore
Waterway Plus Co., Ltd.	Gyeong-in Canal Project, operation and maintenance of Marina, etc.	100.0%	100.0%	Korea
K-Water Thailand Co., Ltd.	Water Management Project	99.9%	99.9%	Thailand
JSC Nenskra Hydro	Georgia Nenskra Hydroelectric Project	100.0%	100.0%	Georgia

2) Details of the consolidated subsidiaries as of and for the years ended December 31, 2017 and 2016, are as follows:

(i) December 31, 2017

(Unit: In thousands of Korean won)

Consolidated subsidiary	Assets	Liabilities	Revenue	Net income (loss)
KDS Hydro Pte. Ltd.	₩538,714,132	₩368,958,600	₩113,310,631	₩28,429,674
Waterway Plus Co., Ltd.	7,364,948	1,860,340	9,509,891	65,909
K-Water Thailand Co., Ltd.	8,058	1,269	-	2,028
JSC Nenskra Hydro	98,470,069	461,717	-	(5,434,944)

(ii) December 31, 2016

(Unit: In thousands of Korean won)

Consolidated subsidiary	Assets	Liabilities	Revenue	Net income (loss)
KDS Hydro Pte. Ltd.	₩499,567,991	₩336,808,047	₩174,082,644	₩19,738,921
Waterway Plus Co., Ltd.	9,530,226	4,092,440	9,408,493	(29,138)
K-Water Thailand Co., Ltd.	10,017	5,096	-	(4,579)
JSC Nenskra Hydro	68,249,314	1,390,253	-	232,992

3) Change in the scope of consolidation for the year ended December 31, 2017, is none.

2. BASIS OF PREPARATION:

(1) Basis of preparation

The Parent and subsidiaries (the “Group”) prepared consolidated financial statements in accordance with the Korean Government-owned and Quasi-government Accounting Regulations and Standards. If there are no regulations other than Korean Government-owned and Quasi-government Accounting Regulations and Standards, accounting standards of the Group are adopted in accordance with Korean International Financial Reporting Standards (“K-IFRS”).

Accounting standards that the Group adopted in accordance with Korean Government-owned and Quasi-government Accounting Regulation and Standards are as follows:

(i) Government grants (Article 44: Accounting of Government Grants)
Government grants used for the acquisition of certain assets are deducted from the acquisition cost of the acquired assets and such grants are offset against the depreciation expenses of the acquired assets during the useful lives of the assets. Government grants received for consignment management service provided by the Group are recognized as other income.

(ii) Contribution to the Employee Welfare Fund (Article 49)
The Group contributes to the employee welfare fund and contributions are recognized as operating expenses in accordance with Employee Welfare Fund Act.

(iii) Presentation of financial statements (Article 2)
Financial statements are prepared and accounts are created and classified in accordance with guidelines set by the Minister of Strategy and Finance.

(i) Allowance for doubtful accounts (Article 11 of Quasi-Government Accounting Regulations)
Allowance for doubtful accounts is calculated based on the evaluation of accounts receivable aging. Accounts receivable for which collection is certain, such as amounts due from national and local governments and amounts relating to industrial complexes, are excluded from the analysis of aging.

(2) Amendments to K-IFRSs and new interpretations that are mandatorily effective for the current year

In the current year, the Group has applied for a number of amendments to K-IFRSs and new interpretations issued that are mandatorily effective accounting periods beginning on or after January 1, 2017.

(i) Amendments to K-IFRS 1007 – *Statement of Cash Flows*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

(ii) Amendments to K-IFRS 1012 – *Income Taxes*

The amendments clarify that, in evaluating the deferred tax assets arising from deductible temporary difference of debt instruments measured at fair value, the carrying amount of an asset does not limit the estimation of probable future taxable profits. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

(iii) Annual Improvements to K-IFRS 2014-2016 Cycle

The Group has applied the amendments to K-IFRS 1112—Share-based Payment included in the annual improvements to K-IFRS 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group.

The amendments state that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements for K-IFRS 1112.

(3) New and revised K-IFRSs in issue, but not yet effective.

(i) Amendments to K-IFRS 1109 – *Financial Instruments*

The amendments to K-IFRS 1109 contain the requirements for the classification and measurement of financial assets and financial liabilities based on a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses, broadened types of instruments that qualify as hedging instruments, the types of risk components of non-financial items that are eligible for hedge accounting and change in the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018.

(ii) Amendments to K-IFRS 1115 – *Revenue from Contracts with Customers*

The core principle under K-IFRS 1115 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments introduce a five-step approach to revenue recognition and measurement: 1) Identify the contract with a customer, 2) Identify the performance obligations in the contract, 3) Determine the transaction price, 4) Allocate the transaction price to the performance obligations in the contract and 5) Recognize revenue when (or as) the entity satisfies a performance obligation. This standard will supersede K-IFRS 1011 - Construction Contracts, K-IFRS 1018- Revenue, K-IFRS 2113 - Customer Loyalty Programmes, K-IFRS 2115-Agreements for the Construction of Real Estate, K-IFRS 2118 - Transfers of Assets from Customers and K-IFRS 2031-Revenue-Barter Transactions Involving Advertising Services. The amendments are effective for annual periods beginning on or after January 1, 2018.

(iii) Amendments to K-IFRS 1116 – *Leases*
K-IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accountings treatments for both lessors and lessees. K-IFRS 16 will supersede the current lease guidance, including K-IFRS 1017 Leases and the related interpretations when it becomes effective. The amendments are effective for annual periods beginning on or after January 1, 2019.

K-IFRS 1116 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting and replaced by a model where a right-of-use asset and corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low-value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, among others. Furthermore, the classification of cash flows will also be affected as operating lease payments under K-IFRS 1017 are presented as operating cash flows, whereas under the K-IFRS 1116 model, the lease payments will be split into a principal and an interest portion that will be presented as financing and operating cash flows, respectively.

In contrast to lessee accounting, K-IFRS 1116 substantially carries forward the lessor accounting requirements in K-IFRS 1017, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by K-IFRS 1116. The Group is currently assessing its potential impact.

(iv) Amendments to K-IFRS 2122 – *Foreign Currency Transactions and Advance Consideration*
The interpretation addresses how to determine the ‘date of transaction’ for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income when consideration for that item has been paid or received in advance in a foreign currency that resulted in the recognition of a non-monetary asset or non-monetary liability (e.g., a non-refundable deposit or deferred revenue).

The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The interpretation is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. Entities can apply the interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The Group does not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements because the Group already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

(v) Annual Improvements to K-IFRS 2014-2016 Cycle
The annual improvements include amendments to K-IFRS 1101 First-time Adoption and K-IFRS 1028 Investment in Associates and Joint Ventures. The amendments to K-IFRS 1028 clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at fair value through profit or loss ("FVTPL") is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity ("IE") to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively, with earlier application permitted.

Both the amendments to K-IFRS 1101 and K-IFRS 1028 are effective for annual periods beginning on or after January 1, 2018. The Group does not anticipate that the application of the amendments in the future will have any impact on the Group's consolidated financial statements, as the Group is neither a first-time adopter of K-IFRS nor a venture capital organization. Furthermore, the Group does not have any associate or joint venture that is an IE.

The Group believes the application of these amendments will have no significant impact on its consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES:

The principal accounting policies are set out below. Except for the effect of the amendments to K-IFRSs and new interpretations set out below, the principal accounting policies used to prepare the consolidated financial statements as of and for the year ended December 31, 2017, are consistent with the accounting policies used to prepare the consolidated financial statements as of and for the year ended December 31, 2016.

The consolidated financial statements have been prepared on the historical cost basis, except for certain non-current assets and financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is based on the fair values of the consideration given.

(1) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Group and entities (including structured entities) controlled by the Group (and its subsidiaries). Control is achieved where the Group 1) has the power over the investee; 2) is exposed, or has rights, to variable returns from its involvement with the investee; and 3) has the ability to use its power to affect its returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

- When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income (loss) from the date the Group gains control until the date when the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies.

All intra-Group transactions and related assets, liabilities, income and expenses are eliminated in full on consolidation.

Changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, a gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(2) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but having no control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses on an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate or joint venture.

When the Group reduces its ownership interest in an associate or a joint venture, but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Group applies K-IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

The requirements of K-IFRS 1039 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group’s investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036, Impairment of Assets, by comparing its recoverable amount (higher of value in use and fair value, less costs to sell) with its carrying amount; any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(3) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount or fair value, less costs to sell.

(4) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below:

1) Sale of goods
Revenue from the sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.

2) Rendering of services
Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. Depending on the nature of the transaction, the Group determines the stage of completion by reference to surveys of work performed, services performed to date as a percentage of total services to be performed or the proportion that costs incurred to date bear to the estimated total costs of the transaction, as applicable.

3) Dividend and interest income
Dividend income from investments is recognized when the shareholders' right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4) Rental income

The Group's policy for recognition of revenue from operating leases is described in Note 3 (5).

5) Service concession arrangements

The Group's essential businesses (dam (inclusive of current dam maintenance and downstream business) and regional water supply) in K-IFRS 2112(5) are met. These businesses apply to public-to-private service concession arrangement due to the grantor controls or regulate what services the operator must provide with the infrastructure. The service concession arrangements recognize its sales and cost of goods sold via constructional processes to the extent that related cost of sales are highly probable of being recoverable.

(5) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2) The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs (see Note 3 (7)). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(6) Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in Korean won, which is the functional currency of the entity and the presentation currency of the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise, except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 3 (17) below for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore, forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

(7) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(8) Retirement benefit costs and termination benefits

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes on the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statements of financial position, with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost and past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement.

The Group presents the service cost and net interest expense (income) components in profit or loss, and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statements of financial position represents the actual deficit or surplus in the Group’s defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or when the entity recognizes any related restructuring costs.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan. When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to services, as follows:

If the contributions are not linked to services (e.g., contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability (asset).

If the contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by K-IFRS 1019 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost in the period in which the related service is rendered.

(9) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income (loss) because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive income or directly in equity. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(10) Property, plant and equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized at the carrying amount of an asset, or as a separate asset, if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Group does not depreciate land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Useful lives (years)
Buildings	30
Structures	30
Machinery	20
Ships	10
Vehicles	5
Other property, plant and equipment	5

If each part of an item of property, plant and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Group reviews the depreciation method, the estimated useful lives and residual values of property, plant and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(11) Intangible assets

1) Intangible assets acquired separately
Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

2) Internally generated intangible assets - research and development expenditure
Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Expenditure arising from development (or from the development phase of an internal project) is recognized as an intangible asset if, only if, the development project is designed to produce new or substantially improved products, and the Group can demonstrate the technical and economic feasibility and measure reliably the resources attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

4) Amortization of intangible assets

The Group does not amortize club memberships, which are no limits to the periods. Amortization expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Useful lives (years)
Usage rights of water dam	50
Usage rights of water supply plant	20
Concession assets' usage rights	Concession period
Other intangible assets	5

(12) Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units or, otherwise, they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell, or value in use. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(13) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost of inventories, except for those in transit, is measured using the weighted-average method and consists of the purchase price, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price for inventories, less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense (cost of sales) in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(14) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The discount rate used is a pretax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage is recognized in profit or loss as borrowing cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during that period.

(15) Financial instruments

Financial assets and financial liabilities are recognized when an entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

All regular-way purchases or sales of financial assets are recognized and derecognized on a trade-date basis. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets are classified into the following specified categories: 'FVTPL,' 'held-to-maturity investments,' 'available-for-sale ("AFS") financial assets' and 'loans and receivables.' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

2) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is a contingent consideration that may be paid by an acquirer as part of business combination to which K-IFRS 1103 applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms part of a group of financial assets or financial liabilities, or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the consolidated statements of comprehensive income (loss).

3) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates for which the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment, with revenue recognized on an effective yield basis.

4) AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income. When the investment is disposed of or determined to be impaired, the cumulative gain or loss previously accumulated in other comprehensive income is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity investments are measured at cost, less any identified impairment losses at the end of each reporting period.

5) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments and are not quoted in an active market are classified as 'loans and receivables.' Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

6) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events have occurred after the initial recognition of the financial asset and the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment includes:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments;
- probability that the borrower will enter bankruptcy or financial reorganization; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

7) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, it recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g., when the Group retains an option to repurchase part of a transferred asset or retains a residual interest and such a retained interest indicates that the transferor has neither transferred nor retained substantially all the risks and rewards of ownership and has retained control of the transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part that is no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair value of those parts.

(16) Financial liabilities and equity instruments

1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

3) Compound instruments

The component parts of compound instruments (convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is an equity instrument.

At the date of issue, the fair value of a liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised; in which case the balance recognized in equity will be transferred to share premium. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to liability and equity components in proportion to the allocation of gross proceeds. Transaction costs relating to equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible notes using the effective interest method.

4) Financial liabilities

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction cost that is directly attributable to the issue of financial liabilities is deducted from the fair value of the financial liabilities on initial recognition. Transaction costs directly attributable to acquisition of financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

5) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103 applies, is held for trading or is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities, or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group 's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the ‘other gains and losses’ line item in the consolidated statements of comprehensive income (loss).

6) Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments, including all fees and points paid or received (that form an integral part of the effective interest rate), transaction costs and other premiums or discounts through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

7) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*; or
- the amount initially recognized, less cumulative amortization recognized in accordance with K-IFRS 1018.

8) Derecognition of financial liabilities

The Group derecognizes financial liabilities when its obligations are discharged, canceled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(17) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument; in which case, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset, and a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

1) Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are closely related to those of the host contracts and the contracts are not measured at FVTPL.

2) Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the consolidated statements of comprehensive income (loss) relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

4) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss and is included in the 'Financial income and cost' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss in the same line of the consolidated statements of comprehensive income (loss) as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or when it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

(18) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102, *Share-Based Payment;* leasing transactions that are within the scope of K-IFRS 1017, *Leases*; and measurements that have some similarities to fair value but are not fair value, such as net realizable value in K-IFRS 1002, *Inventories*, or value in use in K-IFRS 1036.

In addition, for financial reporting purposes, fair value measurements are categorized into Levels 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety.

(19) Accounting treatment related to the emission rights cap and trade scheme

The Group classifies the emission rights as intangible assets. Emission right allowances that the government allocated free of charge are not measured, and emission right allowances purchased are measured at cost that the Group paid to purchase. If emission rights that the government allocated free of charge are sufficient to settle the emission right allowances allotted for vintage year, the emission liabilities are not measured. However, for the emission liabilities that exceed the allowances allocated free of charge, the shortfall is measured at the best estimate at the end of the reporting period.

(20) The approval date for issue of consolidated financial statements

The Group's consolidated financial statements for submission to Ministry of Strategy and Finance are approved by the board of directors on February 27, 2018.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTIES:

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(1) Defined benefit obligation

The Group's defined benefit obligation is determined based on the actuarial valuation carried out at the end of each annual reporting period. Actuarial assumptions are the Group's best estimates of the variables, such as discount rates, rates of expected future salary increases and mortality rates.

(2) Warranty provision

Provisions for the expected cost of warranty obligations are recognized at the best estimate of the expenditure required to settle the Group's current and future obligations. Provisions are determined by the estimate based on past experience.

(3) Deferred tax

Recognition and measurement of deferred tax assets and liabilities require the management's judgment, in particular, whether to recognize if the scope of deferred tax assets is affected by management's judgment and assumption in the future.

(4) Estimated useful lives of property, plant, equipment and intangible assets

Useful lives for depreciation and amortization are determined by the management's judgment.

5. SEGMENT INFORMATION:

(1) The Group discloses operating segment

The Group is not required to disclose operating segment information. The Group instead has elected to present certain financial information for its six business units, as described below.

Business segment	Main goods and services
Multiregional waterworks business	Operational management of multiregional waterworks
Multipurpose dams operation business	Operational management of multipurpose dams
Site development business	Sales and rent of land
Construction business	Construction of tangible assets (waterworks, dams, etc.)
Local waterworks and sewage treatment business	Operation and management of local waterworks and sewage treatment
Other businesses	Foreign business, aggregate business, consignment business, Kyung-in canal operation business, Four River Restoration operation business and renewable energy business

(2) The following table provides information of operations for each operating segment for the years ended December 31, 2017 and 2016:

(i) 2017

(Unit: In thousands of Korean won)

	Multiregional waterworks business	Multipurpose dams operation business	Site development business	Construction business	Local waterworks and sewage treatment business	Other businesses	Total
Total revenue	₩1,116,183,837	₩468,331,165	₩544,912,165	₩618,247,496	₩184,804,454	₩453,024,683	₩3,385,503,800
Interbusiness unit revenue	-	-	-	-	-	9,943,508	9,943,508
External revenue	1,116,183,837	468,331,165	544,912,165	618,247,496	184,804,454	443,081,175	3,375,560,292
Operating profit	98,600,351	107,062,370	136,684,875	-	20,820,177	64,548,646	427,716,419
Depreciation and amortization	474,451,763	127,486,179	1,567,915	22,727	27,907,434	70,205,180	701,641,198

(ii) 2016

(Unit: In thousands of Korean won)

	Multiregional waterworks business	Multipurpose dams operation business	Site development business	Construction business	Local waterworks and sewage treatment business	Other businesses	Total
Total revenue	₩1,049,862,339	₩431,491,083	₩689,740,883	₩829,384,230	₩172,798,258	₩454,373,928	₩3,627,650,721
Interbusiness unit revenue	-	-	-	-	-	9,566,122	9,566,122
External revenue	1,049,862,339	431,491,083	689,740,884	829,384,230	172,798,258	444,807,806	3,618,084,600
Operating profit	98,438,279	70,285,651	104,894,028	-	31,342,531	59,138,939	364,099,428
Depreciation and amortization	469,271,072	124,605,239	-	198,014	23,770,665	75,182,364	693,027,354

The Group does not provide information of asset and liability for each operating segment and regional financial information on account of most of the sales being domestic.

6. CASH AND CASH EQUIVALENTS:

Details of cash and cash equivalents as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Demand deposits	₩83,763,307	₩62,007,627
Cash equivalent classified as short-term investment assets	77,102,580	49,494,749
	₩160,865,887	₩111,502,376

7. RESTRICTED FINANCIAL INSTRUMENTS:

Details of cash and cash equivalents that are restricted in use as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	Description	December 31, 2017	December 31, 2016
Cash and cash equivalents	Restricted in use for designated purpose (*)	₩40,202,215	₩29,784,724

(*) Restricted cash and cash equivalents consist of advance payments received from customers in light of local waterworks and the use is restricted for designated purposes.

8. DERIVATIVE INSTRUMENTS:

(1) Details of derivative instruments as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Financial derivative assets:				
Currency swap	₩2,180,359	₩-	₩13,940,759	₩38,055,471
Interest rate swap	-	28,672,132	-	24,334,153
	₩2,180,359	₩28,672,132	₩13,940,759	₩62,389,624
Financial derivative liabilities:				
Currency swap	₩20,161,613	₩24,759,399	₩-	₩14,628,459
Interest rate swap	-	11,078,363	-	12,348,753
	₩20,161,613	₩35,837,762	₩-	₩26,977,212

(2) Purpose

(i) Currency swap

The Group entered into currency swap contracts to hedge cash flow risk associated with change in foreign exchange rate and interest rate of foreign currency debentures.

(ii) Rate swap

The Group entered into interest rate swap contracts to hedge cash flow risk associated with change in interest rate of Korean won-denominated debentures.

(3) Details of risks and the Group's strategy

(i) Details of risks

The Group is exposed to risks of fluctuations in exchange rates of Korean won against foreign currencies and interest rate appreciation on the repayment of foreign currency-denominated debentures. Also, the Group is exposed to cash flow risk associated with change in interest rate of Korean won-denominated debentures.

(ii) Strategy

The Group entered into cross-currency interest rate swap contracts to fix the principal and interest amount in Korean won and interest rate swap contracts to fix the interest rate of Korean won-denominated debentures.

(4) Details of cross-currency swaps (cash flow hedge) as of December 31, 2017, are as follows:

(Unit: In thousands of Korean won, JPY and USD)

		Notional amount		Interest rate		Contract
Counterparty	Contract period	Payment	Receipt	Payment (%)	Receipt (%)	foreign exchange rate
BNP-PARIBAS	10/01/2013-10/01/2018	₩161,934,000	JPY 15,000,000	3.28	2.00	10.80
Societe Generale	10/16/2014-04/16/2018	105,990,000	USD 100,000	2.11	2.00	1,059.90
BNP-PARIBAS	10/16/2014-04/16/2018	105,990,000	USD 100,000	2.11	2.00	1,059.90
Standard Chartered	10/16/2014-04/16/2018	105,990,000	USD 100,000	2.11	2.00	1,059.90
KDB	05/20/2017-05/20/2031	117,250,000	USD 100,000	1.84	2.77	1,172.50
KDB	05/23/2017-05/23/2022	111,900,000	USD 100,000	2.055	2.75	1,119.00
KEB	05/23/2017-05/23/2022	167,850,000	USD 150,000	2.045	2.75	1,119.00
KB	05/23/2017-05/23/2022	111,900,000	USD 100,000	2.05	2.75	1,119.00

(5) Details of interest rate swaps (cash flow hedge) as of December, 2017, are as follows:

(Unit: In thousands of Korean won)

			Interest rate	
Counterparty	Contract period	Notional amount	Payment (%)	Receipt (%)
Standard Chartered	07/16/2010–07/16/2020	₩50,000,000	4.97	Pegged with IRS Index
Standard Chartered	08/09/2010–08/09/2020	40,000,000	4.86	Pegged with IRS Index
BNP-PARIBAS	08/09/2010–08/09/2020	30,000,000	4.86	Pegged with IRS Index
BNP-PARIBAS	08/09/2010–08/09/2020	30,000,000	4.86	Pegged with IRS Index
BNP-PARIBAS	11/23/2010–11/23/2020	20,000,000	4.59	Pegged with BPSTAR Index
Nomura Financial Investment	08/20/2014–08/20/2029	50,000,000	3.109	4.07
Nomura Financial Investment	09/04/2014–09/04/2029	50,000,000	3.073	4.06
BNP-PARIBAS	09/15/2014–09/15/2029	100,000,000	3.10	4.06
Nomura Financial Investment	01/26/2016–01/26/2036	30,000,000	2.038	2.91
Societe Generale	03/09/2017–06/09/2022	30,000,000	2.11	CD+0.24
Nomura Financial Investment	11/09/2017–11/09/2037	50,000,000	2.555(*)	2.86

(*) CD+15bp after 10 years

(6) Valuation gain (loss) and transaction gain (loss) of derivative instruments for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	Valuation gain (loss)				Transaction gain (loss)	
	Finance income (loss)		Other comprehensive income (*)		Finance gain (loss)	
	2017	2016	2017	2016	2017	2016
Cash flow hedge	₩(84,655,000)	₩33,760,000	₩18,896,898	₩1,331,329	₩(27,332,000)	₩-

(*) Net of tax effects

9. TRADE AND OTHER RECEIVABLES:

(1) Details of trade account receivables as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017			December 31, 2016		
	Gross	Allowance for doubtful accounts	Book value	Gross	Allowance for doubtful accounts	Book value
Current:						
Trade receivables	₩228,667,514	₩(195,234)	₩228,472,280	₩218,919,547	₩(253,683)	₩218,665,864
Other receivables	117,443,952	(6,995,408)	110,448,544	85,707,036	(6,572,683)	79,134,353
Total	₩346,111,466	₩(7,190,642)	₩338,920,824	₩304,626,583	₩(6,826,366)	₩297,800,217

	Gross	Present value discount	Book value	Gross	Present value discount	Book value
Non-Current:						
Trade receivables	₩496,392,360	₩(33,730)	₩496,358,630	₩483,439,611	₩(132,707)	₩483,306,904
Other receivables	166,124,633	-	166,124,633	165,615,225	-	165,615,225
Total	₩662,516,993	₩(33,730)	₩662,483,263	₩649,054,836	₩(132,707)	₩648,922,129

(2) Other receivables as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017			December 31, 2016		
	Gross	Allowance for doubtful accounts	Book value	Gross	Allowance for doubtful accounts	Book value
Current:						
Accounts receivable	₩82,605,908	₩(6,995,408)	₩75,610,500	₩62,285,473	₩(6,572,684)	₩55,712,789
Accrued income	34,690,566	-	34,690,566	23,050,417	-	23,050,417
Deposit	147,478	-	147,478	371,146	-	371,146
Total	₩117,443,952	₩(6,995,408)	₩110,448,544	₩85,707,036	₩(6,572,684)	₩79,134,352

	Gross	Present value discount	Book value	Gross	Present value discount	Book value
Non-Current:						
Deposit	₩166,124,633	-	₩166,124,633	₩165,615,225	-	₩165,615,225
Total	₩166,124,633	-	₩166,124,633	₩165,615,225	-	₩165,615,225

(3) Credit risk and allowance for doubtful accounts

The above trade and other receivables are classified as loans and receivables and measured at amortized cost. Trade accounts receivable are non-interest bearing and are generally on 30 days' term.

(i) Details of the aging of trade accounts receivable as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Neither overdue nor impaired trade accounts receivable	₩707,739,522	₩678,825,912
Overdue, but not impaired trade accounts receivable	16,922,384	22,366,802
- More than 24 months	8,989,830	11,702,250
- 12 months–24 months	2,541,373	1,318,937
- 6 months–12 months	4,529,669	6,111,968
- 3 months–6 months	850,853	3,233,647
- 1 month–3 months	10,659	-
Trade accounts receivable tested for impairment	397,968	1,166,444
- More than 24 months	78,659	75,060
- 12 months–24 months	174,249	12,676
- 6 months–12 months	94,964	134,211
- 3 months–6 months	13,999	885,651
- 1 month–3 months	36,097	58,846
	725,059,874	702,359,158
Less: allowance for doubtful accounts	(195,234)	(253,683)
	₩724,864,640	₩702,105,475

(ii) Details of the aging of other receivables as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Neither overdue nor impaired trade accounts receivable	₩242,013,935	₩242,899,943
Overdue, but not impaired trade accounts receivable	33,083,032	1,158,066
- More than 24 months	11,072	9,832
- 12 months–24 months	10,626,424	-
- 6 months–12 months	11,618,832	938,498
- 3 months–6 months	6,871,884	187,909
- 1 month–3 months	3,954,820	21,827
Trade accounts receivable tested for impairment	8,471,618	7,264,252
- More than 24 months	6,438,384	6,305,308
- 12 months–24 months	648,998	362,856
- 6 months–12 months	267,690	110,939
- 3 months–6 months	1,078,960	193,965
- 1 month–3 months	37,586	291,184
	283,568,585	251,322,261
Less: allowance for doubtful accounts	(6,995,408)	(6,572,684)
	₩276,573,177	₩244,749,577

(4) Changes in allowance for trade and other receivables for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017		December 31, 2016	
	Trade accounts receivable	Other receivables	Trade accounts receivable	Other receivables
Beginning balance	₩253,683	₩6,572,685	₩1,070,420	₩6,692,141
Bad debt expense	-	508,991	-	47,353
Impairment loss recognized	(33,848)	-	(775,275)	(97,698)
Write-off	(24,601)	(86,268)	(41,462)	(69,111)
Ending balance	₩195,234	₩6,995,408	₩253,683	₩6,572,685

10. AFS FINANCIAL ASSETS:

(1) Changes in AFS financial assets for the years ended December 31, 2017 and 2016, are as follows:

(i) 2017

(Unit: In thousands of Korean won)

	Beginning balance	Acquisitions	Disposals	Assessment	Ending balance
Non-market equity securities	₩17,040,121	₩6,275,822	₩(184,947)	₩913	₩23,131,909

(ii) 2016

(Unit: In thousands of Korean won)

	Beginning balance	Acquisitions	Disposals	Assessment	Ending balance
Non-market equity securities	₩14,907,073	₩2,252,000	₩(119,108)	₩156	₩17,040,121

(2) Details of AFS financial assets as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Non-current unlisted securities:		
Korea Construction Management Corporation (*1)	₩4,000,000	₩4,000,000
Global Infra Fund	17,380,105	12,758,051
P-waters Corporation (*1)	180,720	180,720
Korea Specialty Contractor Financial Cooperative (*1)	102,262	101,350
Luzon Clean Water(Bulacan) (*1, 2)	1,468,822	-
	₩23,131,909	₩17,040,121

(*1) Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

(*2) For the year ended December 31, 2017, the Group has acquired 67,500,000 stocks of Luzon Clean Water (Bulacan).

11. SHORT-TERM FINANCIAL INSTRUMENTS:

Details of short-term financial instruments as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Money market trust	₩19,897,420	₩79,605,251
Time deposit	4,000,000	-
	₩23,897,420	₩79,605,251

12. OTHER FINANCIAL ASSETS:

Details of other financial assets as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017		December 31, 2016	
	Current	Non-Current	Current	Non-Current
Loans to employees	₩-	₩9,824,472	₩-	₩11,204,560
Other loans	8,640,246	7,938,515	-	8,231,954
	₩8,640,246	₩17,762,987	₩-	₩19,436,514

13. INVENTORIES:

Details of inventories as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017		December 31, 2016	
	Acquisition cost	Book value	Acquisition cost	Book value
Raw material	₩3,727,340	₩3,727,340	₩2,992,081	₩2,992,081
Finished goods	6,404,515,538	6,404,515,538	5,826,664,810	5,826,664,810
Stored goods	8,135,069	8,135,069	8,358,666	8,358,666
Other inventories	132,981	132,981	23,520	23,520
Total	₩6,416,510,928	₩6,416,510,928	₩5,838,039,077	₩5,838,039,077

14. OTHER NON-FINANCIAL ASSETS:

Details of other non-financial assets as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Advance payments	₩76,734,054	₩-	₩76,776,603	₩-
Prepaid expenses	14,006,182	-	4,326,522	-
Others	-	4,370,145	-	4,798,298
Total	₩90,740,236	₩4,370,145	₩81,103,125	₩4,798,298

15. INVESTMENT IN SUBSIDIARIES AND ASSOCIATES:

(1) Details of investment in subsidiaries and associates as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

Companies	Principal activity	Country of incorporation	Ownership (%)	Acquisition cost	Book value December 31, 2017	Book value December 31, 2016
Associates:						
KWPP Holdings Co.	Angat dam hydropower project in Philippines	Philippines	38.50%	₩268	₩9,465	₩17,026
Angat Hydropower Co.	Angat dam hydropower project in Philippines	Philippines	40.00%	100,845,106	75,016,114	86,619,501
				₩100,845,374	₩75,025,579	₩86,636,527

(2) Changes in investment in associates for the years ended December 31, 2017 and 2016, are as follows:

(i) 2017

(Unit: In thousands of Korean won)

	Net book value at January 1, 2017	Acquisitions	Equity gain (loss) in associates, net	Unrealized gain (loss) on valuation of equity method investments	Net book value at December 31, 2017
KWPP Holdings Co.	₩17,026	₩-	₩(6,404)	₩(1,157)	₩9,465
Angat Hydropower Co.	86,619,501	-	(1,139,089)	(10,464,299)	75,016,114

(ii) 2016

(Unit: In thousands of Korean won)

	Net book value at January 1, 2016	Acquisitions	Equity gain (loss) in associates, net	Unrealized gain (loss) on valuation of equity method investments	Net book value at December 31, 2016
KWPP Holdings Co.	₩-	₩-	₩17,016	₩9	₩17,026
Angat Hydropower Co.	-	91,924,000	(3,428,172)	(1,876,327)	86,619,501

(3) Details of investment in associates for the years ended December 31, 2017 and 2016, are as follows:

(i) December 31, 2017

(Unit: In thousands of Korean won)

	Assets	Liabilities	Revenue	Net income (loss)
KWPP Holdings Co.	₩553,465	₩528,650	₩32,573	₩(16,650)
Angat Hydropower Co.	465,095,383	277,370,864	49,058,362	(2,850,520)

(ii) December 31, 2016

(Unit: In thousands of Korean won)

	Assets	Liabilities	Revenue	Net income (loss)
KWPP Holdings Co.	₩597,777	₩551,453	₩-	₩66,986
Angat Hydropower Co.	542,453,847	325,692,363	30,099,602	(7,612,008)

16. PROPERTY, PLANT AND EQUIPMENT:

(1) Details of property, plant and equipment as of December 31, 2017 and 2016, are as follows:

(i) December 31, 2017

(Unit: In thousands of Korean won)

	Acquisition cost	Government grant	Accumulated depreciation and impairment	Net book value
Land	₩184,398,914	₩-	₩-	₩184,398,914
Buildings	489,781,121	(5,786,451)	(191,874,013)	292,120,657
Structures	413,808,428	-	(126,459,526)	287,348,902
Machinery and equipment	1,049,772,577	-	(536,650,827)	513,121,750
Ships	13,830,312	-	(9,838,329)	3,991,983
Vehicles	14,906,151	-	(8,808,225)	6,097,926
Furniture and fixtures	67,046,089	-	(46,354,759)	20,691,330
Tools	79,808,199	-	(67,590,587)	12,217,612
Construction in progress	272,200,795	-	-	272,200,795
	₩2,585,552,586	₩(5,786,451)	₩(987,576,266)	₩1,592,189,869

(ii) December 31, 2016

(Unit: In thousands of Korean won)

	Acquisition cost	Government grant	Accumulated depreciation and impairment	Net book value
Land	₩182,608,107	₩-	₩-	₩182,608,107
Buildings	472,748,005	(827,286)	(176,551,094)	295,369,625
Structures	413,181,804	-	(112,528,715)	300,653,089
Machinery and equipment	980,409,838	-	(498,857,881)	481,551,957
Ships	12,917,904	-	(9,487,709)	3,430,195
Vehicles	13,160,948	-	(8,855,051)	4,305,897
Furniture and fixtures	63,375,588	-	(46,997,959)	16,377,629
Tools	75,536,097	-	(64,372,489)	11,163,608
Construction in progress	195,272,012	-	-	195,272,012
	₩2,409,210,303	₩(827,286)	₩(917,650,898)	₩1,490,732,119

(2) Changes in property, plant and equipment for the years ended December 31, 2017 and 2016, are as follows:

(i) 2017

(Unit: In thousands of Korean won)

	Net book value at January 1, 2017	Acquisitions (*1)	Disposals	Depreciation	Transfer	Others (*2)	Net book value at December 31, 2017
Land	₩182,608,107	₩1,791,992	₩(1,185)	₩-	₩-	₩-	₩184,398,914
Buildings	295,369,625	3,579,476	(1,229,192)	(16,136,565)	15,537,314	(5,000,000)	292,120,658
Structures	300,653,089	10,680	(58,661)	(14,035,754)	779,548	-	287,348,901
Machinery and equipment	481,551,957	31,097	(812,148)	(43,840,134)	30,039,822	46,151,156	513,121,750
Ships	3,430,195	2,100	(15,407)	(771,452)	1,346,547	-	3,991,983
Vehicles	4,305,897	3,424,317	(46)	(1,627,424)	7,245	(12,063)	6,097,926
Furniture and fixtures	16,377,629	10,725,792	(1,451)	(6,455,013)	45,856	(1,483)	20,691,330
Tools	11,163,608	3,014	(7,489)	(4,536,891)	5,595,370	-	12,217,612
Construction in progress	195,272,012	131,332,610	-	-	(53,351,702)	(1,052,125)	272,200,795
	₩1,490,732,119	₩150,901,078	₩(2,125,580)	₩(87,403,233)	₩-	₩40,085,485	₩1,592,189,869

(*1) Included in additions are capitalized borrowing costs of ₩58,891 thousand.

(*2) Others included ₩46,151,099 thousand transferred from intangible assets.

(ii) 2016

(Unit: In thousands of Korean won)

	Net book value at January 1, 2016	Acquisitions	Disposals	Depreciation	Transfer	Others (*)	Net book value at December 31, 2016
Land	₩182,368,264	₩1,391	₩-	₩-	₩-	₩238,452	₩182,608,107
Buildings	279,096,561	-	(1,203,595)	(14,838,534)	9,829,097	22,486,096	295,369,625
Structures	282,874,008	15,800	(150,335)	(13,425,878)	818,434	30,521,060	300,653,089
Machinery and equipment	498,845,428	-	(1,001,187)	(43,695,160)	15,350,507	12,052,369	481,551,957
Ships	3,910,069	17,824	(94,453)	(776,138)	185,342	187,551	3,430,195
Vehicles	3,465,389	1,957,044	(16,537)	(1,180,407)	-	80,408	4,305,897
Furniture and fixtures	15,989,191	6,376,518	(7,883)	(5,988,392)	-	8,195	16,377,629
Tools	11,769,604	-	(12,742)	(5,012,717)	4,338,510	80,953	11,163,608
Construction in progress	131,881,729	109,235,865	-	-	(30,521,890)	(15,323,692)	195,272,012
	₩1,410,200,243	₩117,604,442	₩(2,486,732)	₩(84,917,226)	₩-	₩50,331,392	₩1,490,732,119

(*) Others included ₩51,001,938 thousand transferred from intangible assets.

17. INTANGIBLE ASSETS OTHER THAN GOODWILL:

(1) Details of intangible assets as of December 31, 2017 and 2016, are as follows:

(i) December 31, 2017

(Unit: In thousands of Korean won)

	Acquisition cost	Contributions toward construction	Government grants	Accumulated amortization and impairment	Net book value
Software	₩130,553,984	₩-	₩-	₩(91,660,130)	₩38,893,854
Industrial proprietary rights	449,094	-	-	(359,800)	89,294
Intangible assets under development	2,980,918,043	-	(6,334,196)	(1,168,853,889)	1,805,729,957
Concession assets usage rights	16,675,020,674	(4,889,628)	(41,035,237)	(8,098,756,667)	8,530,339,142
Other intangible assets	6,277,408,428	-	-	(5,269,834,313)	1,007,574,115
	₩26,064,350,223	₩(4,889,628)	₩(47,369,433)	₩(14,629,464,799)	₩11,382,626,363

(ii) December 31, 2016

(Unit: In thousands of Korean won)

	Acquisition cost	Contributions toward construction	Government grants	Accumulated amortization and impairment	Net book value
Software	₩107,695,795	₩-	₩-	₩(88,429,766)	₩19,266,029
Industrial proprietary rights	449,094	-	-	(332,787)	116,307
Intangible assets under development	2,807,472,002	-	(6,334,196)	(1,166,317,543)	1,634,820,263
Concession assets usage rights	16,370,465,108	(5,375,471)	(44,590,329)	(7,484,038,413)	8,836,460,895
Other intangible assets	6,277,322,350	-	-	(5,269,831,422)	1,007,490,928
	₩25,563,404,349	₩(5,375,471)	₩(50,924,525)	₩(14,008,949,931)	₩11,498,154,422

(2) Changes in intangible assets for the years ended December 31, 2017 and 2016, are as follows:

(i) 2017

(Unit: In thousands of Korean won)

	Net book value at January 1, 2017	Additions (*1)	Disposals	Amortization	Impairment loss(*2)	Transfer	Others(*3)	Net book value at December 31, 2017
Software	₩19,266,029	₩22,158,618	₩(1)	₩(3,531,110)	₩-	₩-	₩1,000,319	₩38,893,855
Industrial proprietary rights	116,307	-	-	(27,013)	-	-	-	89,294
Intangible assets under development	1,634,820,263	563,692,728	-	-	(2,536,346)	(344,147,366)	(46,099,322)	1,805,729,957
Concession assets usage rights	8,836,460,895	8,200	(39,600,000)	(610,677,319)	-	344,147,366	-	8,530,339,142
Other intangible assets	1,007,490,928	85,709	-	(2,524)	-	-	2	1,007,574,115
	₩11,498,154,422	₩585,945,255	₩(39,600,001)	₩(614,237,966)	₩(2,536,346)	₩-	₩(45,099,001)	₩11,382,626,363

(*1) Included in additions are capitalized borrowing costs of ₩19,166,886 thousand.

(*2) An impairment loss of ₩2,536,346 thousand was recognized as the recoverable amount was determined to be lower than the net book value.

(*3) Included in others are transfers of fixed assets amounting to ₩46,151,099 thousand.

(ii) 2016

(Unit: In thousands of Korean won)

	Net book value at January 1, 2016	Additions (*1)	Disposals	Amortization	Impairment loss(*2)	Transfer	Others(*3)	Net book value at December 31, 2016
Software	₩17,636,265	₩5,537,579	₩(43)	₩(3,908,010)	₩-	₩-	₩238	₩19,266,029
Industrial proprietary rights	146,823	1,699	-	(32,215)	-	-	-	116,307
Intangible assets under development	1,677,101,208	718,134,582	-	-	(143,018,579)	(566,322,045)	(51,074,903)	1,634,820,263
Concession assets usage rights	8,902,396,700	-	(28,800,000)	(604,169,557)	-	566,322,045	711,707	8,836,460,895
Other intangible assets	1,007,489,171	2,100	-	(346)	-	-	3	1,007,490,928
	₩11,604,770,167	₩723,675,960	₩(28,800,043)	₩(608,110,128)	₩(143,018,579)	₩-	₩(50,362,955)	₩11,498,154,422

(*1) Included in additions are capitalized borrowing costs of ₩17,534,348 thousand.

(*2) The Group recognized an impairment loss of ₩143,018,579 thousand was recognized as the recoverable amount was determined to be lower than the net book value.

(*3) Included in others are transfers of fixed assets amounting to ₩51,001,938 thousand and transfers of inventory assets amounting to ₩72,416 thousand.

(3) Significant individual intangible assets as of December 31, 2017 and 2016, are detailed as follows:

(i) December 31, 2017

(Unit: In thousands of Korean won)

	Description	Amount	Residual useful life(*)
Software	Development expense, other intangible assets and construction in progress for data processing	₩38,893,855	3.51
Industrial proprietary rights	Copyright, patents and industrial proprietary rights	89,294	3.35
Intangible assets under development	Water facilities under construction	1,805,729,958	-
Concession assets usage rights	Management right of water facilities in capital area	7,629,551,458	20.54
	Usage rights of water dams, usage rights of hydrogen dams, concession asset usage rights and management right of aggregate complex	900,787,684	Concession period
Other intangible assets	Waterfront business front	1,000,000,000	Concession period
	Membership	7,574,115	Indefinite

(*) Weighted-average residual useful life

(ii) December 31, 2016

(Unit: In thousands of Korean won)

	Description	Amount	Residual useful life(*)
Software	Development expense, other intangible assets and construction in progress for data processing	₩19,266,029	2.99
Industrial proprietary rights	Copyright, patents and industrial proprietary rights	116,307	4.73
Intangible assets under development	Water facilities under construction	1,634,820,263	-
Concession assets usage rights	Management right of water facilities in capital area	7,888,444,426	22.04
	Usage rights of water dams, usage rights of hydrogen dams, concession asset usage rights and management right of aggregate complex	948,016,468	Concession period
Other intangible assets	Waterfront business front	1,000,000,000	Concession period
	Membership	7,490,928	Indefinite

(*) Weighted-average residual useful life

18. TRADE AND OTHER PAYABLES:

Details of trade and other payables as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Trade accounts payable	₩20,906,173	₩-	₩16,322,083	₩-
Non-trade payables	205,003,317	-	196,775,275	-
Accrued expenses	120,262,658	-	104,335,880	-
Dividends payable	312,406	-	312,407	-
Others	2,691,682	3,950	11,994,319	4,850
	₩349,176,236	₩3,950	₩329,739,964	₩4,850

19. BORROWINGS AND DEBENTURES:

(1) Details of borrowings and debentures as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Current:		
Short-term borrowings	₩ 5,018,749	₩-
Current portion of long-term borrowings	102,918,456	73,952,246
Current portion of debentures	1,341,689,500	1,494,543,000
	1,449,626,705	1,568,495,246
Non-current:		
Long-term borrowings	344,324,609	408,438,472
Less: present value discount on long-term borrowings	(1,849,578)	(2,595,311)
Debentures	9,937,819,000	9,802,014,500
Less: present value of discount on debentures	(5,119,730)	(2,371,177)
	10,275,174,301	10,205,486,484
	₩11,724,801,006	₩11,773,981,730

(2) Details of redemption plan of borrowings and debentures as of December 31, 2017 and 2016, are as follows:

(i) December 31, 2017

(Unit: In thousands of Korean won)

	Borrowings	Debentures	Total
Within a year	₩107,937,205	₩1,341,689,500	₩1,449,626,705
One year–five years	139,335,403	4,780,679,000	4,920,014,403
After five years	204,989,206	5,157,140,000	5,362,129,206
	₩452,261,814	₩11,279,508,500	₩11,731,770,314

(ii) December 31, 2016

(Unit: In thousands of Korean won)

	Borrowings	Debentures	Total
Within a year	₩73,952,246	₩1,494,543,000	₩1,568,495,246
One year–five years	180,813,491	5,341,164,500	5,521,977,991
After five years	227,624,981	4,460,850,000	4,688,474,981
	₩482,390,718	₩11,296,557,500	₩11,778,948,218

(3) Details of short-term borrowings as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	Financial institutions	Interest rate	Maturity	December 31, 2017	December 31, 2016
Short-term borrowings in foreign currency	Daewoo Engineering & Construction Co., Ltd.	Libor + 1%	2018	₩5,018,749	₩-

(4) Details of long-term borrowings as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	Financial institutions	Interest rate	Maturity	December 31, 2017	December 31, 2016
Long-term borrowings denominated in Korean won	Korea Development Bank	Floating interest rate	2025	₩74,194,000	₩115,618,000
	Korea Labor Welfare Corporation	2.00%	2020	-	525,000
	Global Infra Fund	Floating interest rate	2018	32,388,246	32,388,246
Long-term borrowings in foreign currency	Islamic Development Bank and others	Floating interest rate	2024	340,660,819	333,859,472
				447,243,065	482,390,718
Less: Present value discount				(1,849,578)	(2,595,311)
Less: Current portion				(102,918,456)	(73,952,246)
				₩342,475,031	₩405,843,161

(5) Details of debentures as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won, JPY and USD)

			December 31, 2017		December 31, 2016	
Series	Interest rate	Maturity	Foreign currency	Korean won	Foreign currency	Korean won
100th–236th	5.49%, etc.	01/18/2018 –12/21/2047	-	₩10,300,000,000	-	₩10,290,000,000
Land compensation (14-01–17-12)	3.11%, etc.	01/31/2018 –12/31/2020	-	33,592,000	-	53,426,000
Euro bonds	2.77%, etc.	04/16/2018 –05/20/2031	USD 750,000 JPY 15,000,000	945,916,500	USD 660,000 JPY 15,000,000	953,131,500
				11,279,508,500		11,296,557,500
Less: Present value of discount				(5,119,730)		(2,371,177)
Less: Current portion				(1,341,689,500)		(1,494,543,000)
				₩9,932,699,270		₩9,799,643,323

20. OTHER FINANCIAL LIABILITIES:

Details of other financial liabilities as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Derivative liabilities	₩20,161,613	₩35,837,762	₩-	₩26,977,212

21. EMPLOYEE BENEFITS:

(1) Defined contribution retirement benefit plan

The Group sponsors defined contribution plan for certain qualified employees. The plan assets are managed independently from the Group’s assets by the plan administrator. If employees leave before they meet the requirements to be qualified for the defined contribution plan, the Group’s contribution payable is reduced by the amount of the contribution lost.

(i) The amount of contribution recognized in the comprehensive income for the years ended December 31 2017 and 2016, is as follows:

(Unit: In thousands of Korean won)

	2017	2016
Cost of goods sold	₩11,905,681	₩12,260,751
Operating cost	4,993,589	1,775,488
Other	470,894	415,696
	₩17,370,164	₩14,451,935

(2) Defined retirement benefit plan

(i) Actuarial assumptions as of December 31, 2017 and 2016, are as follows:

	December 31, 2017	December 31, 2016
Discount rate/expected rate on plan assets	2.47%	2.16%
Future salary increase rate	4.97%	4.97%

(ii) Details of expenses recognized in profit or loss for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Current service cost	₩26,187,464	₩23,520,166
Interest on obligation	4,028,510	2,926,978
Interest on plan assets	(229,714)	(196,260)
Past service cost	-	4,524,988
	₩29,986,260	₩30,775,872

The amounts recognized in employee expenses in the accompanying consolidated statements of comprehensive income (loss) are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Cost of sales	₩20,504,408	₩24,186,159
Selling, general and administrative expenses	3,782,587	3,944,798
Others	5,699,265	2,644,915
	₩29,986,260	₩30,775,872

(iii) Present value of defined benefit obligations and fair value of plan assets as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	₩177,153,191	₩152,344,059
Fair value of plan assets	(12,811,300)	(11,966,842)
Recognized as defined benefit liabilities in the consolidated statements of financial position	₩164,341,891	₩140,377,217

(iv) Movements in the present value of defined benefit obligations for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Beginning balance	₩152,344,059	₩123,310,395
Past service cost	-	4,524,988
Current service cost	26,187,464	23,520,166
Interest expense	4,028,510	2,926,978
Actuarial loss	(2,236,133)	1,597,074
Benefits paid	(3,170,708)	(3,535,542)
Ending balance	₩177,153,192	₩152,344,059

(v) Movements in plan assets for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Beginning balance	₩11,966,842	₩11,768,408
Operating commissions	(33,173)	(36,879)
Interest on plan assets	229,714	196,260
Actuarial loss	(21,504)	72,623
Defined benefits payments	1,151,734	-
Benefits paid by the plan	(482,313)	(33,570)
Ending balance	₩12,811,300	₩11,966,842

(vi) Accumulated actuarial loss recorded in other comprehensive income as of December 31, 2017 and 2016, is as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Accumulated actuarial loss	₩41,785,055	₩ 42,308,210

(vii) Main categories of the plan assets and the expected return on plan assets by categories as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	Expected return on plan assets		Fair value of plan assets	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Derivative liabilities	2.47%	2.16%	₩12,811,300	₩11,966,842

For the year ended December 31, 2017, the actual return on plan assets is ₩208,210 thousand.

22. PROVISIONS:

(1) Details of provisions as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Provision for benefits	₩86,679,602	₩-	₩81,340,357	₩-
Provision for Greenhouse gases exhaustion	1,498,816	-	27,020	-
Provision for litigation	-	37,641,847	-	44,703,748
Provision for restoration	-	22,745,858	-	25,023,275
Provision for other current liabilities	11,293,734	-	35,097,000	-
	₩99,472,152	₩60,387,705	₩116,464,377	₩69,727,023

(2) Changes in provisions for the years ended December 31, 2017 and 2016, are as follows:

(i) 2017

(Unit: In thousands of Korean won)

	Book value at Jan. 1, 2017	Increase	Utilization	Reversal	Book value at Dec. 31, 2017
Provision for benefits	₩81,340,357	₩76,265,041	₩(70,925,797)	₩-	₩86,679,601
Provision for Greenhouse gases exhaustion	27,020	1,471,796	-	-	1,498,816
Provision for litigation	44,703,748	16,690,932	(23,752,833)	-	37,641,847
Provision for restoration	25,023,275	3,496,081	(5,773,498)	-	22,745,858
Provision for other current liabilities	35,097,000	-	(23,803,265)	-	11,293,735
	₩186,191,400	₩97,923,850	₩(124,255,393)	₩-	₩159,859,857

(ii) 2016

(Unit: In thousands of Korean won)

	Book value at Jan. 1, 2016	Increase	Utilization	Reversal	Book value at Dec. 31, 2016
Provision for benefits	₩73,247,027	₩88,363,047	₩(80,269,717)	₩-	₩81,340,357
Provision for Greenhouse gases exhaustion	291,405	-	-	(264,385)	27,020
Provision for litigation	4,768,325	44,242,601	(4,307,178)	-	44,703,748
Provision for restoration	20,375,187	4,648,088	-	-	25,023,275
Provision for financial guarantee	4,242,494	-	-	(4,242,494)	-
Provision for other current liabilities	-	35,097,000	-	-	35,097,000
	₩102,924,438	₩172,350,736	₩(84,576,895)	₩(4,506,879)	₩186,191,400

23. GOVERNMENT GRANTS:

(1) Details of government grants as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Buildings	₩(5,786,451)	₩(827,286)
Intangible assets under development	(6,334,196)	(6,334,196)
Concession assets usage rights	(41,035,237)	(44,590,329)
	₩(53,155,884)	₩(51,751,811)

(2) Details of government grants related to assets for the years ended December 31, 2017 and 2016, are as follows:

(i) 2017

(Unit: In thousands of Korean won)

	Book value at January 1, 2017	Receive	Acquisitions	Offset the depreciation	Profit	Others	Book value at December 31, 2017
Buildings	₩(827,286)	₩(5,000,000)	₩-	₩40,835	₩-	₩-	₩(5,786,451)
Intangible assets under development	(6,334,196)	-	-	-	-	-	(6,334,196)
Concession assets usage rights	(44,590,329)	-	-	3,555,092	-	-	(41,035,237)
	₩(51,751,811)	₩(5,000,000)	₩-	₩3,595,927	₩-	₩-	₩(53,155,884)

(ii) 2016

(Unit: In thousands of Korean won)

	Book value at January 1, 2016	Receive	Acquisitions	Offset the depreciation	Profit	Others	Book value at December 31, 2016
Buildings	₩(868,121)	₩-	₩-	₩40,835	₩-	₩-	₩(827,286)
Intangible assets under development	(6,334,196)	-	-	-	-	-	(6,334,196)
Concession assets usage rights	(48,145,421)	-	-	3,555,092	-	-	(44,590,329)
	₩(55,347,738)	₩-	₩-	₩3,595,927	₩-	₩-	₩(51,751,811)

24. CUSTOMERS' CONTRIBUTION TO CONSTRUCTION COSTS:

(1) Details of revenue generated from customers' contribution to construction costs recognized as profit or loss for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Offset against the deferred construction income	₩266,500	₩266,500
Offset against the depreciation	485,843	485,843
	₩752,343	₩752,343

(2) Changes in deferred income related to customers' contribution to construction costs for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Beginning balance	₩41,659,075	₩41,025,575
Increase	-	900,000
Decrease	(266,500)	(266,500)
Ending balance	₩41,392,575	₩41,659,075

(3) Changes in construction costs for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Beginning balance	₩5,375,471	₩5,861,313
Increase	-	-
Decrease	(485,843)	(485,842)
Ending balance	₩4,889,628	₩5,375,471

25. NON-FINANCIAL LIABILITIES:

(1) Details of other non-financial liabilities as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Advance received	₩1,105,089,646	₩-	₩1,109,528,114	₩-
Prepaid income	193,710	-	253,873	-
Withholdings	21,951,071	-	21,168,745	-
Deferred income	-	41,392,575	-	41,659,075
Others	8,685,620	-	8,912,821	-
	₩1,135,920,047	₩41,392,575	₩1,139,863,553	₩41,659,075

26. ISSUED CAPITAL:

(1) Details of issued capital as of December 31, 2017 and 2016, are as follows:

(i) December 31, 2017

(Unit: In thousands of Korean won)

	Government	Others	Total
Share capital	₩7,500,557,930	₩608,416,366	₩8,108,974,296

(ii) December 31, 2016

(Unit: In thousands of Korean won)

	Government	Others	Total
Share capital	₩7,084,131,930	₩608,416,366	₩7,692,548,296

(2) Details of discount on shares issued as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Discount on shares issued	₩7,029,816	₩5,030,971

27. RETAINED EARNINGS:

(1) Details of retained earnings (accumulated deficit) as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Unappropriated retained earnings (accumulated deficit)	₩(917,017,301)	₩(1,080,255,882)

(*) In accordance with the K-water Act, an amount equal to at least 20% of net income in each fiscal year is required to be appropriated as a legal reserve, until the reserve equals 50% of share 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 share capital.

(2) Changes in retained earnings (accumulated deficit) for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Beginning balance	₩(1,080,255,882)	₩(2,384,847,331)
Net income (loss)	161,559,892	(145,632,184)
Dividends	-	-
Loss reserves	-	1,451,379,166
Actuarial gain (loss)	1,678,689	(1,155,533)
Others	-	-
Ending balance	₩(917,017,301)	₩(1,080,255,882)

(3) Dividend paid for the years ended December 31, 2017 and 2016, is as follows:

(Unit: In thousands of Korean won)

	2017		2016	
	Investment	Dividend	Investment	Dividend
Investment	₩8,108,974,296	₩-	₩7,692,548,296	₩-

(4) Changes in actuarial loss for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Beginning balance	₩(43,463,744)	₩(42,308,210)
Changes for the year	2,214,629	(1,524,451)
Tax effect	(535,940)	368,917
Ending balance	₩(41,785,055)	₩(43,463,744)

28. CONSOLIDATED STATEMENTS OF DISPOSITION OF DEFICIT:

Consolidated statements of appropriation of retained earnings for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
I. Unappropriated retained earnings (accumulated deficit)	₩(917,017,301)	₩(1,080,255,882)
Balance at beginning of year	(1,080,255,882)	(933,468,166)
Income (loss) for the year	161,559,892	(145,632,183)
Actuarial gains (loss)	1,678,689	(1,155,533)
II. Disposal of deficit (appropriation of retained earnings)	-	-
III. Unappropriated retained earnings (accumulated deficit) to be carried over to subsequent year	₩(917,017,301)	₩(1,080,255,882)

29. OTHER COMPONENTS OF EQUITY:

(1) Details of other components of equity as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Other capital surplus	₩(1,628,759)	₩(1,628,640)
Accumulated other comprehensive loss	(36,219,923)	(12,896,044)
	₩(37,848,682)	₩(14,524,684)

(2) Changes in other capital surplus for the years ended December 31, 2017 and 2016, are as follows:

	December 31, 2017	December 31, 2016
Beginning balance	₩(1,628,640)	₩731,749
Changes	(119)	(220)
Loss reserves		(2,360,169)
Ending balance	₩(1,628,759)	₩(1,628,640)

(3) Changes in accumulated other comprehensive loss for the years ended December 31, 2017 and 2016, are as follows:

(i) 2017

(Unit: In thousands of Korean won)

	Gain (loss) on valuation of derivatives	Gain (loss) on valuation of AFS financial assets	Unrealized gain (loss) on valuation of equity method	Gain (loss) on foreign operations translation	Total
Beginning balance	₩(3,869,081)	₩(59,950)	₩(1,958,082)	₩(7,008,931)	₩(12,896,044)
Changes	24,929,945	1,205	(10,469,571)	(31,752,119)	(17,290,540)
Tax effect	(6,033,047)	(292)	-	-	(6,033,339)
Ending balance	₩15,027,817	₩(59,037)	₩(12,427,653)	₩(38,761,050)	₩(36,219,923)

(ii) 2016

(Unit: In thousands of Korean won)

	Gain (loss) on valuation of derivatives	Gain (loss) on valuation of AFS financial assets	Unrealized gain (loss) on valuation of equity method	Gain (loss) on foreign operations translation	Total
Beginning balance	₩(5,200,409)	₩(60,106)	₩(69,850)	₩(9,588,435)	₩(14,918,800)
Changes	1,756,370	205	(2,491,071)	2,579,504	1,845,008
Tax effect	(425,042)	(49)	602,839	-	177,748
Ending balance	₩(3,869,081)	₩(59,950)	₩(1,958,082)	₩(7,008,931)	₩(12,896,044)

(4) Changes in other capital for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Beginning balance	₩-	₩1,449,018,998
Changes	-	(1,449,018,998)
Ending balance	₩-	₩-

30. REVENUE:

Details of revenue from continuous operation of the Group for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Revenue from selling product:		
Land held for sale revenue	₩544,912,165	₩689,740,883
Water supply business revenue	1,116,183,837	1,049,862,339
Multiple-purpose dams business revenue	562,389,990	532,644,306
Ara waterway operation business revenue	100,896,577	134,162,539
	2,324,382,569	2,406,410,067
Revenue from providing service:		
Local waterworks business revenue	157,493,061	150,882,692
Sewage treatment business revenue	27,311,394	21,915,566
Four river management business revenue	24,663,636	25,237,272
	209,468,091	198,035,530
Revenue from construction contract:		
Water resource revenue	92,539,680	194,749,723
Sewage construction revenue	9,437,524	9,377,717
Private investment construction revenue (waterworks)	303,732,462	325,147,600
Private investment construction revenue (multiple-purpose dams)	155,259,186	239,195,312
Private investment construction revenue (local)	49,038,559	55,438,165
Private investment construction revenue (Kyung-in Canal Project)	8,240,085	5,475,713
	618,247,496	829,384,230
Other revenue:		
Foreign business revenue	7,284,073	2,835,298
Aggregate business revenue	19,564,694	26,006,826
Incidental business revenue	196,613,369	155,412,649
	223,462,136	184,254,773
	₩3,375,560,292	₩3,618,084,600

31. SELLING, GENERAL AND ADMINISTRATIVE EXPENSE:

Details of selling, general and administrative expenses for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Wages and salaries	₩42,834,599	₩45,173,039
Contribution to the Employee Welfare Fund	6,500,000	6,900,000
Expenses for employee benefits	8,776,176	5,720,286
Other employee benefits	6,365,157	6,849,161
Insurance	4,395,443	1,078,225
Depreciation	4,229,981	4,171,638
Amortization	593,587	754,638
Reversal of bad debt expense	(33,848)	(775,275)
Commissions	7,946,004	9,133,908
Advertisement	11,849,562	11,601,251
Training	6,617,792	5,061,296
Vehicle maintenance	352,129	354,861
Printing	492,015	582,198
Entertainment	157,616	124,304
Rent	1,523,220	1,405,549
Communications	2,360,340	2,351,757
Taxes and dues	2,495,935	1,387,451
Supplies	733,372	721,476
Utilities	1,535,394	1,492,197
Repairs	9,542,670	9,858,348
Development	27,923,041	27,004,933
Travel	2,443,614	2,727,242
Clothing	388,285	150,210
Research and analysis	342,175	259,626
Sales promotions	805,292	1,242,001
Sales commissions	894,216	1,301,169
Others	2,056,219	1,737,187
	₩154,119,986	₩148,368,676

32. OTHER INCOMES AND OTHER EXPENSES:

(1) Details of other incomes for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Reversal of allowance for bad debts	₩-	₩97,698
Customers' contribution to construction	266,500	266,500
Rent income	2,142,666	1,878,686
Others	66,041,127	17,810,505
	₩68,450,293	₩20,053,389

(2) Other expenses for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Transfer of provision for other current liabilities	₩22,142,824	₩117,857,622
Other bad debt expense	508,991	47,353
Donations	1,904,907	1,380,789
Others	18,330,776	842,368
	₩42,887,498	₩120,128,132

33. OTHER GAINS AND LOSSES:

Details of other gains and losses for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Gain on disposal of property, plant and equipment	₩2,085,381	₩3,267,534
Loss on disposal of property, plant and equipment	(1,438,402)	(3,089,178)
Impairment loss on intangible assets(*1)	(2,536,345)	(143,018,579)
Others, net	-	(171,190)
	₩(1,889,366)	₩(143,011,413)

(*1) As recovered amount was decided, which is investment cost in respect to Four River Restoration Project, an impairment loss of ₩143,018,579 thousand was recognized in 2016.

34. FINANCE INCOMES:

(1) Details of finance incomes for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Interest income	₩12,610,934	₩9,345,215
Dividends	743,367	502,403
Gain on valuation of derivative instruments	-	33,760,000
Gain on settlement of derivative instruments	-	-
Gain on foreign currency translation	84,655,000	2,574,616
Gain on foreign currency transactions	27,332,038	-
	₩125,341,339	₩46,182,234

(2) Details of interest income for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Cash and cash equivalents	₩7,026,435	₩5,735,160
Trade and other receivables	5,584,499	3,610,055
	₩12,610,934	₩9,345,215

35. FINANCE COSTS:

(1) Details of finance costs for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Interest expenses	₩262,545,873	₩294,422,633
Loss on valuation of derivative instruments	84,655,000	-
Loss on settlement of derivative instruments	27,332,000	-
Loss on redemption of debenture	3,778,767	-
Loss on foreign currency translation	1,132,758	34,370,246
Loss on foreign currency transactions	3,845,213	312,501
	₩383,289,611	₩329,105,380

(2) Details of interest expenses for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Trade and other payables	₩94,095	₩20,581
Long-term borrowings	2,936,969	2,607,334
Debentures	380,748,221	425,836,565
Derivative liabilities	29,685,478	20,106,463
	413,464,763	448,570,943
Less: capitalized borrowing costs	(150,918,890)	(154,148,310)
	₩262,545,873	₩294,422,633

Weighted-average interest rate used to capitalize the borrowing costs for the year ended December 31, 2017, is 2.82% (3.64% for 2016).

36. INCOME TAX EXPENSE:

(1) The components of income tax expense (benefit) for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Current tax expense	₩2,935,617	₩60,292
Adjustment for prior years	912,963	1,017,208
Income taxes directly charged to equity	(6,569,279)	(56,174)
Origination and reversal of temporary differences	10,082,729	(49,274,833)
Total income tax expense (benefit)	₩7,362,030	₩(48,253,507)

(2) Reconciliation of effective tax rate:

(Unit: In thousands of Korean won)

	2017	2016
Profit (loss) before income tax expense	₩192,296,083	₩(165,218,826)
Tax rate	24.20%	24.20%
Income tax using the Group's statutory tax rate	46,535,652	(39,982,956)
Adjustments:		
Effect of graduated tax rates	(462,000)	(462,000)
Current adjustments for prior periods	900,125	1,017,208
Effect of tax investigation	-	-
Non-taxable income	(5,164,627)	(7,336,536)
Non-deductible expenses	6,033,046	425,042
Temporary difference not recognized as deferred income tax	(40,480,166)	(1,914,265)
Income tax expense (benefit)	₩7,362,030	₩(48,253,507)
Average effective tax rate	3.83%	(*)

(*) Due to loss before income tax expense, effective tax rate does not need to be calculated.

(3) Details of income tax expenses recognized as other comprehensive income (loss) for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Gain (loss) on valuation of derivative instruments	₩(6,033,047)	₩(425,042)
Net change in fair value of AFS financial assets	(292)	(50)
Defined benefit plan actuarial gain (loss)	(535,940)	368,918
Others	-	-
	₩(6,569,279)	₩(56,174)

(4) Deferred tax assets (liabilities) recognized in consolidated financial statements as of December 31, 2017 and 2016, are detailed as follows:

(i) December 31, 2017

(Unit: In thousands of Korean won)

	Beginning balance	Profit or loss	Other comprehensive income (loss)	Ending balance
Depreciation	₩6,375,172	₩3,246,805	₩-	₩9,621,978
Government grant	12,523,938	(870,214)	-	11,653,724
Contribution toward construction	1,300,864	(117,574)	-	1,183,290
Deferred revenue contribution toward construction	10,346,410	(329,407)	-	10,017,003
Defined benefit liabilities	22,943,746	11,453,990	(535,940)	33,861,796
Plan assets	(2,895,976)	(42,241)	-	(2,938,217)
AFS financial assets	19,184	-	(292)	18,892
Investment securities	58,149	3,289,040	-	3,347,189
Acquisition tax (Gyeong-in Canal Project)	149,041	(7,353)	-	141,688
Accrued of administrative expenses	6,055,633	(551,135)	-	5,504,498
Allowance for doubtful accounts in excess of limit	769,110	30,561	-	799,671
Depreciation by exemption law	(3,221,889)	379,618	-	(3,045,381)
Interest capitalized on inventory during construction period	(142,396,463)	(25,918,449)	-	(168,314,912)
Tax on excessive appreciation of land value (inventories)	(2,750,858)	(1,953,546)	-	(4,704,404)
Accrued income	(11,829)	1,721	-	(10,108)
Tax and dues (land excessive profit tax)	(3,601)	-	-	(3,601)
Reserve for temporary depreciation	(15,960,292)	500,937	-	(15,459,355)
Understatement of impairment loss	(242,000,000)	-	-	(242,000,000)
Dividends payable (Bosung gun)	(5,430)	-	-	(5,430)
Acquisition tax (land)	(37,450)	-	-	(37,450)
Provision for litigation	18,848,459	(7,172,311)	-	11,676,148
Payment guarantee for foreign related party	107,552	8,729	-	116,281
Debentures	(5,356,815)	-	-	(5,356,815)
Loss on valuation of derivatives	6,592,063	3,575,550	(6,033,046)	4,134,566
Amortization of Port marina management rights	1,225,815	-	-	1,225,815
Provision for Greenhouse gases exhaustion	6,539	356,174	-	362,713
Foreign currency deposits	-	4,612	-	4,612
Adjustments for foreign exchange rates	5,545,146	-	-	5,545,146
Common input tax	244,243	(725)	-	243,518
Deficit carried forward from the prior period	1,731,527,342	(23,363,284)	-	1,708,164,058
Gain on overseas operations translation	1,644	-	-	1,644
Consolidation adjustments	1,286	3,626	-	4,912
Others	(14,781,552)	1,438,688	-	(13,342,864)
Total	1,395,219,181	(36,239,297)	(6,569,279)	1,352,410,605
Except for reorganization of deferred tax assets (liabilities)	(1,345,967,462)	32,725,846	-	(1,313,241,616)
Ending balance	₩49,251,719	₩(3,513,451)	₩(6,569,279)	₩39,168,989

(ii) December 31, 2016

(Unit: In thousands of Korean won)

	Beginning balance	Profit or loss	Other comprehensive income (loss)	Ending balance
Depreciation	₩6,005,433	₩369,739	₩-	₩6,375,172
Government grant	13,394,152	(870,214)	-	12,523,938
Contribution toward construction	1,418,438	(117,574)	-	1,300,864
Deferred revenue contribution toward construction	10,831,599	(485,189)	-	10,346,410
Defined benefit liabilities	22,936,232	(361,403)	368,917	22,943,746
Plan assets	(2,847,955)	(48,021)	-	(2,895,976)
AFS financial assets	19,234	-	(50)	19,184
Investment securities	58,149	-	-	58,149
Acquisition tax (Gyeong-in Canal Project)	-	149,041	-	149,041
Accrued of administrative expenses	4,930,795	1,124,838	-	6,055,633
Allowance for doubtful accounts in excess of limit	785,819	(16,709)	-	769,110
Depreciation by exemption law	(3,601,506)	379,617	-	(3,221,889)
Interest capitalized on inventory during construction period	(121,514,027)	(20,882,436)	-	(142,396,463)
Tax on excessive appreciation of land value (inventories)	(2,271,180)	(479,678)	-	(2,750,858)
Accrued income	(65,855)	54,026	-	(11,829)
Tax and dues (land excessive profit tax)	(3,601)	-	-	(3,601)
Reserve for temporary depreciation	(16,243,428)	283,136	-	(15,960,292)
Understatement of impairment loss	(242,000,000)	-	-	(242,000,000)
Dividends payable (Bosung gun)	(5,430)	-	-	(5,430)
Acquisition tax (land)	(37,450)	-	-	(37,450)
Provision for litigation	1,153,935	17,694,524	-	18,848,459
Payment guarantee for foreign related party	177,244	(69,692)	-	107,552
Debentures	(5,356,815)	-	-	(5,356,815)
Loss on valuation of derivatives	7,017,104	-	(425,041)	6,592,063
Amortization of Port marina management rights	1,225,815	-	-	1,225,815
Provision for Greenhouse gases exhaustion	70,520	(63,981)	-	6,539
Foreign currency deposits	(90,750)	90,750	-	-
Adjustments for foreign exchange rates	5,545,146	-	-	5,545,146
Common input tax	244,969	(726)	-	244,243
Deficit carried forward from the prior period	1,651,537,245	79,990,097	-	1,731,527,342
Gain on overseas operations translation	1,644	-	-	1,644
Consolidation adjustments	(24,759)	26,045	-	1,286
Others	(16,350,690)	1,569,138	-	(14,781,552)
Total	1,316,940,027	78,335,328	(56,174)	1,395,219,181
Except for reorganization of deferred tax assets (liabilities)	(1,316,963,141)	(29,004,321)	-	(1,345,967,462)
Ending balance	₩(23,114)	₩49,331,007	₩(56,174)	₩49,251,719

(5) Temporary differences, which are not recognized as deferred tax assets, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Tax deficit	₩1,313,241,616	₩1,345,967,463

Accumulated tax deficits that are not recognized as deferred income tax assets are expected to expire in eight to nine years.

(6) Deferred tax assets (liabilities) as of December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Deferred tax assets	₩39,227,137	₩49,309,867
Deferred tax liabilities	(58,149)	(58,149)
	₩39,168,988	₩49,251,718

37. NATURE OF EXPENSES:

Details of nature of expenses for the years ended December 31, 2017 and 2016, are as follows:

(i) 2017

(Unit: In thousands of Korean won)

	Changes in inventories	Selling, general and administrative expenses	Cost of sales	Total
Changes in inventories:				
- Raw material	₩(735,260)	₩-	₩-	₩(735,260)
- Product	(577,850,728)	-	-	(577,850,728)
- Raw material used	-	-	1,960,343,250	1,960,343,250
Wages and salaries	-	42,834,599	349,941,166	392,775,765
Expenses for employee benefits	-	8,776,176	35,545,162	44,321,338
Other employee benefits	-	6,365,157	39,038,040	45,403,197
Insurance	-	4,395,443	1,121,475	5,516,918
Depreciation	-	4,229,981	82,676,180	86,906,161
Amortization	-	593,587	613,361,362	613,954,949
Bad debts expense (refund)	-	(33,848)	-	(33,848)
Commissions	-	7,946,004	49,834,974	57,780,978
Advertisements	-	11,849,562	1,040,920	12,890,482
Training	-	6,617,792	1,058,162	7,675,954
Vehicle maintenance	-	352,129	2,043,479	2,395,608
Printing	-	492,015	686,715	1,178,730
Entertainments	-	157,616	16,562	174,178
Rent	-	1,523,220	3,387,926	4,911,146
Communications	-	2,360,340	5,647,383	8,007,723
Tax and dues	-	2,495,935	75,889,993	78,385,928
Supplies	-	733,372	2,015,555	2,748,927
Utilities	-	1,535,394	3,510,705	5,046,099
Repair	-	9,542,670	104,212,493	113,755,163
Development	-	27,923,041	7,280,825	35,203,866
Travel	-	2,443,614	17,172,893	19,616,507
Clothing	-	388,285	5,489	393,774
Research and analysis	-	342,175	2,914,886	3,257,061
Sales promotion	-	805,291	-	805,291
Sales commissions	-	894,216	-	894,216
Others	-	8,556,220	13,564,281	22,120,501
	₩(578,585,988)	₩154,119,986	₩3,372,309,876	₩2,947,843,874

(ii) December 31, 2016

(Unit: In thousands of Korean won)

	Changes in inventories	Selling, general and administrative expenses	Cost of sales	Total
Changes in inventories:				
- Raw material	₩55,351	₩-	₩-	₩55,351
- Product	(588,333,880)	-	-	(588,333,880)
- Raw material used	-	-	2,304,592,204	2,304,592,204
Wages and salaries	-	45,173,039	343,151,050	388,324,089
Expenses for employee benefits	-	5,720,286	36,446,910	42,167,196
Other employee benefits	-	6,849,161	41,590,313	48,439,474
Insurance	-	1,078,225	1,129,495	2,207,720
Depreciation	-	4,171,638	80,745,589	84,917,227
Amortization	-	754,638	607,355,490	608,110,128
Bad debts expense (refund)	-	(775,275)	-	(775,275)
Commissions	-	9,133,908	37,465,379	46,599,287
Advertisements	-	11,601,251	1,062,657	12,663,908
Training	-	5,061,296	1,117,995	6,179,291
Vehicle maintenance	-	354,861	1,889,238	2,244,099
Printing	-	582,198	682,020	1,264,218
Entertainments	-	124,304	38,631	162,935
Rent	-	1,405,549	3,251,657	4,657,206
Communications	-	2,351,757	5,649,137	8,000,894
Tax and dues	-	1,387,451	76,840,485	78,227,936
Supplies	-	721,476	1,894,934	2,616,410
Utilities	-	1,492,197	3,291,448	4,783,645
Repair	-	9,858,348	104,106,445	113,964,793
Development	-	27,004,933	9,269,543	36,274,476
Travel	-	2,727,242	16,909,457	19,636,699
Clothing	-	150,210	6,816	157,026
Research and analysis	-	259,626	3,824,821	4,084,447
Sales promotion	-	1,242,001	-	1,242,001
Sales commissions	-	1,301,169	-	1,301,169
Others	-	8,637,187	11,583,310	20,220,497
	₩(588,278,529)	₩148,368,676	₩3,693,895,024	₩3,253,985,171

38. CATEGORIES OF FINANCIAL INSTRUMENTS:

(1) Financial assets and liabilities by categories as of December 31, 2017 and 2016, are detailed as follows:

(i) December 31, 2017

(Unit: In thousands of Korean won)

Current financial assets	Financial assets at FVTPL	Loans and receivables	Derivative hedging instrument designated	Total
Cash and cash equivalents	₩-	₩160,865,887	₩-	₩160,865,887
Loans and receivables	-	8,640,246	-	8,640,246
Short-term financial assets	23,897,420	-	-	23,897,420
Trade and other receivables	-	338,920,824	-	338,920,824
Derivative instrument assets	-	-	2,180,359	2,180,359
Subtotal	₩23,897,420	₩508,426,957	₩2,180,359	₩534,504,736

(Unit: In thousands of Korean won)

Non-current financial assets	Loans and receivables	AFS financial assets	Derivative hedging instrument designated	Total
Derivative instrument assets	₩-	₩-	₩28,672,132	₩28,672,132
AFS assets	-	23,131,909	-	23,131,909
Loans and receivables	17,762,987	-	-	17,762,987
Subtotal	17,762,987	23,131,909	28,672,132	69,567,028
Trade and other receivables	662,483,263	-	-	662,483,263
Total	₩680,246,250	₩23,131,909	₩28,672,132	₩732,050,291

(Unit: In thousands of Korean won)

Current financial liabilities	Financial liabilities measured at amortized cost	Derivative hedging instrument designated	Total
Short-term borrowings	₩5,018,749	₩-	₩5,018,749
Current portion of long-term borrowings	102,918,456	-	102,918,456
Current portion of debentures	1,341,689,500	-	1,341,689,500
Current portion of derivative instrument liabilities	-	20,161,613	20,161,613
Subtotal	1,449,626,705	20,161,613	1,469,788,318
Trade and other payables	348,863,829	-	348,863,829
Total	₩1,798,490,534	₩20,161,613	₩1,818,652,147

(Unit: In thousands of Korean won)

Non-current financial liabilities	Financial liabilities measured at amortized cost	Derivative hedging instrument designated	Total
Long-term borrowings	₩342,475,031	₩-	₩342,475,031
Debentures	9,932,699,270	-	9,932,699,270
Derivative instrument liabilities	-	35,837,762	35,837,762
Subtotal	10,275,174,301	35,837,762	10,311,012,063
Trade and other payables	3,950	-	3,950
Total	₩10,275,178,251	₩35,837,762	₩10,311,016,013

(ii) December 31, 2016

(Unit: In thousands of Korean won)

Current financial assets	Financial assets at FVTPL	Loans and receivables	Derivative hedging instrument designated	Total
Cash and cash equivalents	₩-	₩111,502,376	₩-	₩111,502,376
Short-term financial assets	79,605,251	-	-	79,605,251
Trade and other receivables	-	297,800,217	-	297,800,217
Derivative instrument assets	-	-	13,940,759	13,940,759
Subtotal	₩79,605,251	₩409,302,593	₩13,940,759	₩502,848,603

(Unit: In thousands of Korean won)

Non-current financial assets	Loans and receivables	AFS financial assets	Derivative hedging instrument designated	Total
Derivative instrument assets	₩-	₩-	₩62,389,624	₩62,389,624
AFS assets	-	17,040,121	-	17,040,121
Loans and receivables	19,436,514	-	-	19,436,514
Subtotal	19,436,514	17,040,121	62,389,624	98,866,259
Trade and other receivables	648,922,129	-	-	648,922,129
Total	₩668,358,643	₩17,040,121	₩62,389,624	₩747,788,388

(Unit: In thousands of Korean won)

Current financial liabilities	Financial liabilities measured at amortized cost	Derivative hedging instrument designated	Total
Current portion of long-term borrowings	₩73,952,246	₩-	₩73,952,246
Current portion of debentures	1,494,543,000	-	1,494,543,000
Subtotal	1,568,495,246	-	1,568,495,246
Trade and other payables	329,427,557	-	329,427,557
Total	₩1,897,922,803	₩-	₩1,897,922,803

(Unit: In thousands of Korean won)

Non-current financial liabilities	Financial liabilities measured at amortized cost	Derivative hedging instrument designated	Total
Long-term borrowings	₩405,843,161	₩-	₩405,843,161
Debentures	9,799,643,323	-	9,799,643,323
Derivative instrument liabilities	-	26,977,212	26,977,212
Subtotal	10,205,486,484	26,977,212	10,232,463,696
Trade and other payables	4,850	-	4,850
Total	₩10,205,491,334	₩26,977,212	₩10,232,468,546

(2) Details of finance income and costs by categories for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	2017	2016
Loans and receivables (including cash and cash equivalents):		
Interest income	₩12,610,934	₩9,345,215
AFS financial assets:		
Dividend income	743,367	502,403
Derivative hedging instrument designated:		
Gain (loss) on transaction of derivative instruments, net	(27,332,000)	-
Gain (loss) on valuation of derivative instruments, net	(84,655,000)	33,760,000
Financial liabilities measured at amortized cost:		
Interest expense	(262,545,872)	(294,422,633)
Loss on redemption of debenture	(3,778,767)	-
Gain (loss) on foreign currency transactions, net	23,486,825	(312,500)
Gain (loss) on foreign currency translation, net	83,522,242	(31,795,631)
	₩(257,948,271)	₩(282,923,146)

39. RISK MANAGEMENT:

(1) Capital risk management

The fundamental goal of capital risk management is to maintain the Group's going-concern ability and to maximize shareholders' value by means of minimizing capital finance cost. The Group's management reviews the Group's capital structure periodically and maintains optimal capital structure by borrowings, capital increase and so forth.

As of December 31, 2017 and 2016, the Group defines net debt and equity as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Net debt:		
Debts (borrowings and debentures)	₩11,724,801,006	₩11,773,981,729
Less: cash and cash equivalents	(160,865,887)	(111,502,376)
	11,563,935,119	11,662,479,353
Equity	7,234,004,160	6,660,574,705
Total equity	₩18,797,939,279	₩18,323,054,058
Adjusted debt ratio	61.52%	63.65%

(2) Financial risk management

(i) Goal of financial risk management

The board of directors is responsible for preparing overall systems for financial risk management and supervising financial risk management. The board of directors established risk management committee to develop the strategy for financial risk management and supervise financial risk management. The committee reviews the compliance of the risk management policy and procedure periodically and reports the result to the board of directors.

The Group's policies for financial risk management are prepared to recognize and analyze the Group's financial risk, establish the Group's risk threshold and control and manage the Group's financial risk to be not over the risk threshold. The Group's risk management systems and policies are reviewed periodically to reflect the market environments and Group's underlying operations. The Group makes employees to understand their own roles and responsibilities, and structure control environments by training employees, financial risk management standards and procedures.

(ii) Credit risk management

(a) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The Group limits its exposure to credit risk by depositing cash and cash equivalents in financial institutions that have a high credit rate. The maximum exposure to credit risk at the reporting date is as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
AFS financial assets	₩23,131,909	₩17,040,121
Loans and receivables	1,027,841,051	966,291,566
Cash and cash equivalents	160,865,887	111,502,376
Short-term financial assets	23,897,420	79,605,251
Derivative assets used for hedging	30,852,491	76,330,383
Financial guarantee contracts (*)	180,720	180,720
	₩1,266,769,478	₩1,250,950,417

(*) The above amounts are maximum amounts that the Group should pay in case the principal debtors make a claim.

(iii) Liquidity risk management

(a) December 31, 2017

The following are the contractual maturities of financial liabilities as of December 31, 2017, including estimated interest payments and excluding the impact of netting agreements:

(Unit: In thousands of Korean won)

	Carrying amount	Contractual cash flows	6 months or less	6–12 months
Trade and other payables	₩348,867,779	₩348,867,779	₩348,863,829	₩-
Debentures	11,274,388,770	13,537,636,151	1,099,465,796	611,693,295
Borrowings	450,412,236	453,687,565	16,941,075	92,863,881
Derivative financial liabilities used for hedging	55,999,375	55,999,375	-	20,161,613
	₩12,129,668,160	₩14,396,190,870	₩1,465,270,700	₩724,718,789

(Unit: In thousands of Korean won)

	1 year–2 years	2–5 years	More than 5 years
Trade and other payables	₩3,950	₩-	₩-
Debentures	1,489,833,849	4,281,069,166	6,055,574,045
Borrowings	23,147,961	16,766,926	303,967,722
Derivative financial liabilities used for hedging	-	27,992,874	7,844,888
	₩1,512,985,760	₩4,325,828,966	₩6,367,386,655

(a) December 31, 2016

The following are the contractual maturities of financial liabilities as of December 31, 2016, including estimated interest payments and excluding the impact of netting agreements:

(Unit: In thousands of Korean won)

	Carrying amount	Contractual cash flows	6 months or less	6–12 months
Trade and other payables	₩329,432,407	₩329,432,407	₩329,427,557	₩-
Debentures	11,294,186,323	13,601,877,386	1,332,142,593	541,151,593
Borrowings	479,795,407	486,676,802	22,300,190	54,688,436
Derivative financial liabilities used for hedging	26,977,212	26,977,212	-	-
	₩12,130,391,349	₩14,444,963,807	₩1,683,870,340	₩595,840,029

(Unit: In thousands of Korean won)

	1 year–2 years	2–5 years	More than 5 years
Trade and other payables	₩4,850	₩-	₩-
Debentures	1,733,372,986	4,248,279,337	5,746,930,876
Borrowings	34,045,414	39,036,046	336,606,716
Derivative financial liabilities used for hedging	9,346,847	12,348,753	5,281,612
	₩1,776,770,097	₩4,299,664,136	₩6,088,819,204

(iv) Currency risk

The Group's exposure to foreign currency risk is as follows based on notional amounts:

(Unit: In thousands of Korean won)

	December 31, 2017			December 31, 2016		
	USD	JPY	EUR	USD	JPY	EUR
Loan	₩345,679,568	₩-	₩-	₩333,859,472	₩-	₩-
Debentures	803,550,000	142,366,500	-	797,610,000	155,521,500	-

As of December 31, 2017, the Group entered into currency swap contracts to hedge foreign currency risk, and the currency swap was designated as a hedging instrument for a hedge of a foreign currency risk related to liabilities denominated in foreign currencies.

Currency swap was designed to offset fluctuation of foreign currency-denominated liabilities; therefore, assuming all other variables are consistent, there might be no effect on income before taxes resulting from fluctuation in foreign exchange rate.

(v) Interest rate risk

Borrowings with floating rates were exposed to interest rate risk. The Group entered into currency and interest swap contracts to hedge interest rate risk of a considerable portion of borrowings with floating rates. The Group measures its interest rate risk based on 100 basis points ("bp"), which reflects the management's assessment of reasonable level of interest rate risk.

(a) At the reporting date, the interest rate profile of the Group's interest-bearing financial liabilities is as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Debentures	₩277,140,000	₩484,210,000
Borrowings	333,663,308	375,087,308
	₩610,803,308	₩859,297,308

(b) Cash flow sensitivity analysis for variable-rate instruments

A change of 100 bp in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2016

(Unit: In thousands of Korean won)

	December 31, 2017		December 31, 2016	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Equity and profit (loss)	₩(6,108,033)	₩6,108,033	₩(8,592,973)	₩8,592,973

(3) Fair values

(i) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated statements of financial position, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value:				
Short-term financial assets	₩23,897,420	₩23,897,420	₩79,605,251	₩79,605,251
AFS financial assets	23,131,909	23,131,909	12,758,051	12,758,051
Derivative instrument assets	30,852,491	30,852,491	76,330,384	76,330,384
	77,881,820	77,881,820	168,693,686	168,693,686
Assets carried at amortized cost:				
Loans and receivables	1,027,807,320	1,027,807,320	966,158,860	966,158,860
Cash and cash equivalents	160,865,887	160,865,887	111,502,376	111,502,376
	1,188,673,207	1,188,673,207	1,077,661,236	1,077,661,236
Liabilities carried at fair value:				
Derivative instrument liabilities	55,999,375	55,999,375	26,977,212	26,977,212
Liabilities carried at amortized cost:				
Debentures	11,274,388,770	11,274,388,770	11,294,186,323	11,294,186,323
Borrowings	450,412,236	450,412,236	479,795,407	479,795,407
Trade and other payables	348,867,779	348,867,779	329,432,407	329,432,407
	₩12,073,668,785	₩12,073,668,785	₩12,103,414,137	₩12,103,414,137

(ii) Fair value hierarchy

The different levels have been defined as follows:

- ✓ Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- ✓ Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- ✓ Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The table below analyzes financial instruments carried at fair value, by valuation method, as of December 31, 2017:

(Unit: In thousands of Korean won)

	Level 1	Level 2	Level 3	Total
Short-term financial assets	₩23,897,420	₩-	₩-	₩23,897,420
Derivative financial assets	-	30,852,491	-	30,852,491
AFS financial assets	-	-	17,380,105	17,380,105
Derivative financial liabilities	-	55,999,375	-	55,999,375

40. SERVICE CONCESSION ARRANGEMENTS:

If the Group constructs or replaces a public facility, such facility is transferred to the national or local government with no consideration received in return in accordance with Article 32 of the K-Water Act. Under Article 9, Paragraph 1 No. 6, the Group may impose fees for goods sold or services provided by such facility.

Under K-IFRS, the business related to “Multiregional water facility construction in progress,” “Multipurpose dams construction in progress,” and “Local waterworks construction in progress” of the Group falls under the ‘Service Concession Arrangement.’ Therefore, sales and cost of sales are recognized using the percentage-of-completion method. The Group recognizes revenue to the extent that related costs of sales will result in revenue.

41. TRANSACTIONS AND BALANCES WITH RELATED COMPANIES:

(1) Details of related parties as of December 31, 2017, are as follows:

Control relationship	Related party
Ultimate parent company	Korean Government
Associates	KWPP Holdings Co. and Angat Hydropower Co.

(2) There is no guarantee provided on behalf of related parties as of December 31, 2017.

(3) Key management personnel compensation in total and for each of the following categories for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Short-term employee benefits	₩1,000,944	₩1,108,848
Expenses for employee benefits	9,945	34,271
	₩1,010,889	₩1,143,119

(4) Assets pledged as collateral for related parties as of December 31, 2017, are as follows:

(Unit: In thousands of Korean won and USD)

Financial institutions	Related party	Collateral assets	Carrying amount(*1)
BPI, KEB Hana Bank, Maybank, UCPB, PBB, Shinhan Bank, BOC, etc.	Angat Hydropower Co.	1,878,180 shares in Angat Hydropower Co (*2) 50 shares in KWPP Holdings Co.	₩100,845,106

(*1) The carrying amount is equal to the acquisition cost.
(*2) The issuance of Angat Hydropower Co. shares is underway, and thus 18,482,800 shares issued in 2017 have been excluded from the number of shares collateralized.

(5) The Korean government issued stock for cash amounting to ₩414,427,155 thousand.

42. NON-CASH INVESTING AND FINANCING ACTIVITIES:

Significant non-cash investing and financing activities for the years ended December 31, 2017 and 2016, are as follows:

(Unit: In thousands of Korean won)

	December 31, 2017	December 31, 2016
Reclassification of construction in progress to asset	₩53,351,702	₩30,521,890
Reclassification of intangible assets under development to asset	344,147,366	566,322,045
Transfer to current portion of long-term borrowing	102,918,456	73,952,246
Transfer to current portion of debentures	1,341,689,500	1,494,543,000

43. CONTINGENCIES:

(1) Assets pledged as collateral for other parties

As of December 31, 2017, the Group has provided 36,144 shares of P-waters Corporation (book value: ₩180,720 thousand) as collaterals to NH Bank for the borrowings of P-waters Corporation.

(2) Litigations

The Group is a plaintiff and defendant in 53 and 160 litigations, respectively.

Details of major pending litigations as a defendant as of December 31, 2017, are as follows:

(Unit: In thousands of Korean won)

Nature of litigation	Number of litigations	Amount of litigation	Note
Claims for construction costs	8	₩52,197,128	Demand for additional payment
Claims for interruption in water supply (Gumi)	4	3,520,050	Damage claims
Claims related to construction and management of dams	18	110,556,986	Damage claims and compensation for loss
Claims for Four River Restoration Project	14	74,993,569	Compensation for loss
Claims for sale of land	86	49,402,120	Damage claims and compensation for loss
Other claims	30	8,303,811	-
	160	₩298,973,664	

The amount of provision the Group recognized with respect to the lawsuits is ₩37,641,847 thousand.

(3) Major construction contracts

As of December 31, 2017, the Group has entered into various contracts totaling ₩4,835 billion for the development of new cities and industrial complex sites and construction of water facilities, dams and others. In connection with these contracts, contractors have designated the Group as a beneficiary of performance guarantee insurance by Seoul Guarantee Insurance and Construction Guarantee and others amounting to 15% of total contract amount.

(4) Credit line agreements

The Group has entered into loan agreements with Hanabank Korea Inc. and five other Korean financial institutions. The available credit lines under these agreements amounted to ₩290,000 million as of December 31, 2017. The Group has not drawn any amount as of December 31, 2017.

(5) Guarantees received

Details of guarantees received from the third parties of the Group as of December 31, 2017, are as follows:

(Unit: In thousands of USD)

Guarantees from	Guarantee amount	Description
The Export-Import Bank of Korea	USD 24,800	Equity injection guarantee for Star Hydro Power Ltd.

44. INVESTMENT FOR KYUNG-IN CANAL PROJECT:

As the Group was appointed to carry out the Gyeong-in Canal Project by the government at the National Policy Coordination Conference on December 11, 2008, the Group has invested and recognized a sum of ₩15,043 hundred million (book value) as intangible assets as of December 31, 2017.

Upon resolution made at the National Policy Coordination Conference on May 22, 2014, the Group is currently negotiating with the government on changes in business plans and procedures for the processing of property rights under the Port Act with regard to investments made in navigation channels, of which were made toward facilities functioning as ports.

Meanwhile, depending on the outcome of the negotiation with the government, uncertainties exist as to the recoverability of investments such as changes in business plans and possibility of exclusion from property rights. The impact these uncertainties will have on the consolidated financial statements cannot be estimated as of December 31, 2017.

INDEX OF DEFINED TERMS

REGISTERED AND HEAD OFFICE OF THE ISSUER

Korea Water Resources Corporation
200 Sintanjin-Ro
Daedeok-gu
Daejeon 34350
Korea

FISCAL AGENT, PAYING AGENT AND CALCULATION AGENT

The Bank of New York Mellon, London Branch
One Canada Square
London E14 5AL
United Kingdom

REGISTRAR AND TRANSFER AGENT

The Bank of New York Mellon SA/NV, Luxembourg Branch
Vertigo Building – Polaris
2-4 rue Eugene Ruppert
L – 2453 Luxembourg

LEGAL ADVISERS

To the Dealers as to English law
Clifford Chance LLP
(Foreign Legal Consultant Office)
22nd Floor, D1 Tower
17, Jongno-3 Gil, Jongno-Gu
Seoul 03115
Korea

To the Company as to Korean law
Bae, Kim & Lee LLC
133 Teheran-ro
Gangnam-gu
Seoul 06133
Korea

DEALERS

BNP Paribas
63/F, Two International Finance Cent
8 Finance Street, Central
Hong Kong

Citigroup Global Markets Limited
Citigroup Centre, Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Credit Agricole Corporate and Investment Bank
30/F Two Pacific Place
88 Queensway
Hong Kong

Goldman Sachs International
Peterborough Court
133 Fleet Street
London EC4A 2BB
United Kingdom

Nomura International plc
1 Angel Lane
London EC4R 3AB
United Kingdom

Société Générale
29, boulevard Haussmann
75009 Paris
France

SINGAPORE LISTING AGENT

Clifford Chance Pte. Ltd.
25th Floor, Marina Bay Financial Centre, Tower 3
12 Marina Boulevard
Singapore 018982

INDEPENDENT AUDITOR

Deloitte Anjin LLC
8th Floor, One IFC Bldg.
23 Yoido-dong
Youngdeungpo-gu
Korea

A.Plus International
FINANCIAL PRESS LIMITED
180380125