



Korean Peninsula Energy Development Organization

Executive Director's Statement

I am pleased to submit to the Executive Board and to members of the Korean Peninsula Energy Development Organization (KEDO) the Annual Report called for under Article XII of the Agreement on the Establishment of the Korean Peninsula Energy Development Organization. The Report covers the activities of KEDO from January 1, 2004, through December 31, 2004, and contains the Organization's Audited Financial Statements for that same period.

The past year has been a unique one for KEDO by any standard. We began the year with the initiation of activities necessary to preserve and maintain the light-water reactor (LWR) project, both at the construction site and at off-site manufacturing facilities where a significant amount of equipment resides. In support of these reduced activities, we have drawn down the personnel at the project site to just over one hundred caretaker workers.

Even though work on and off the LWR project site has now moved into a maintenance phase, coordination with our counterparts in the Democratic People's Republic of Korea (DPRK) continued unabated. KEDO maintained close contacts with the DPRK throughout the year in order to ensure that the DPRK continued to respect the presence and status of KEDO, and that preservation and maintenance activities were implemented smoothly. This coordination process included my visit to the DPRK in November to meet with the Director General of the DPRK's General Bureau for the LWR Project, where we agreed on the importance of sustaining good working relations and cooperation between the two organizations.

On the political front, 2004 was another eventful year. The DPRK did not take any action to reverse its course on the

Treaty on the Non-Proliferation of Nuclear Weapons (NPT) and has said that it continued operation of its small, graphite-moderated reactor and reprocessing plant at Yongbyon. In an effort to address these and other issues, Japan, the Republic of Korea, and the United States, along with the People's Republic of China and the Russian Federation, met with the DPRK for six-party talks in February and June 2004.

Within this political context, on November 25, 2004, KEDO's Executive Board decided to continue the suspension of the LWR project for another year, beginning December 1, 2004. In its statement, the Executive Board said that the future of the project will be assessed and decided by the Board before the expiration of the suspension period; preservation and maintenance work, both on-site and off-site will continue; and, that KEDO will consult with the DPRK in this process. Suspension of heavy fuel oil (HFO) deliveries, in place since December 2002, remained in effect throughout 2004.

Consistent with our previous year of operation, the political situation surrounding the Korean Peninsula remains uncertain. Nevertheless, the Organization, approaching its tenth anniversary, serves as a unique asset for maintaining stability in East Asia through its contacts with the DPRK. As we work to meet the challenges that lie ahead, KEDO depends upon support from its members and other contributors.

This Annual Report and the attached Audited Financial Statements provide a means for the Organization to account for its activities to member and contributing countries. I hope that this document will enhance your understanding of our activities, and that, as future developments warrant, we may rely on your continued cooperation and support.

Charles Kartman
Executive Director
New York, December 31, 2004





Contents

Executive Director's Statement	1
Organization	4
Status of Relations with the DPRK	5
Light-Water Reactor Project	6
Nuclear Safety Activities	8
Membership	9
Heavy Fuel Oil Project	9
Appendix 1: Financial Support	12
Appendix 2: Financial Statements	17
Report of Independent Auditors	17
Balance Sheet	18
Statement of Activities	19
Statement of Cash Flows	20



The Governments of Japan, the Republic of Korea (ROK), and the United States signed the Agreement on the Establishment of the Korean Peninsula Energy Development Organization (“the Agreement”) on March 9, 1995, with the objective of resolving the DPRK nuclear issue, as referred to in the Agreed Framework between the United States of America and the Democratic People’s Republic of Korea (“the Agreed Framework”), signed in Geneva on October 21, 1994. In September 1997, the European Atomic Energy Community became a member of KEDO and joined Japan, the ROK, and the United States on KEDO’s Executive Board. Other members of the Organization are the Governments of Argentina, Australia, Canada, Chile, the Czech Republic, Indonesia, New Zealand, Poland, and Uzbekistan.

As stipulated in the Agreement, the Organization was established to:

1. Provide for the financing and supply of a light-water reactor project in the DPRK consisting of two reactors of the Korean Standard Nuclear Plant model with a capacity of approximately 1,000 megawatts each;
2. Provide for the supply of interim energy alternatives in lieu of the energy from the DPRK’s graphite-moderated reactors pending construction of the first light-water reactor unit; and,
3. Provide for the implementation of any other measures deemed necessary to accomplish the foregoing or otherwise to carry out the objectives of the Agreed Framework.

The DPRK’s full implementation of its undertakings, as described in the Agreed Framework, is the primary condition for the Organization in fulfilling these objectives.

Structure and Staff of the Organization

KEDO’s staff consisted of 38 professional and support personnel at the end of 2004. In accordance with the Agreement, nationals of the original members and other Executive Board members are fairly represented among the professional staff with due regard to the importance of securing the highest standards of integrity, efficiency, and technical competence.

Mr. Charles Kartman, former U.S. representative to KEDO’s Executive Board, has served as Executive Director since his appointment by the Executive Board on May 1, 2001. Mr. Young-Mok Kim has held the post of Deputy Executive Director since June 1, 2003. Mr. Hideto Mitamura held the post of Deputy Executive Director from September 26, 2002, to July 29, 2004. Mr. Mari Amano assumed the post held by Mr. Mitamura on July 30, 2004.

Seven divisions operate under the direction of the Directors. They are: Financing and Heavy Fuel Oil (HFO), General Affairs, Legal Affairs, Nuclear Safety and Quality Assurance, Policy and DPRK Affairs, Project Operations, and Public and External Promotion and Support.

The Financing and HFO Division was responsible for

arranging for the financing of the light-water reactor (LWR) project until it was suspended in December 2003, after which time it has been responsible for arranging the financing of the project’s preservation and maintenance activities. This division’s HFO-related responsibilities substantially ended when HFO deliveries were suspended in November 2002. The General Affairs Division provides overall administrative support for the Organization, and handles non-LWR contracts and budgetary matters. The Legal Affairs Division advises and provides assistance on issues of public and private international and domestic law related to the activities of the Organization and represents it in legal proceedings. The Nuclear Safety and Quality Assurance Division oversees all nuclear safety and quality assurance matters related to the LWR project.

The Policy and DPRK Affairs Division is responsible for coordination of protocol negotiations and ensuring the DPRK’s compliance with the protocols, as well as other contacts with the DPRK. The Project Operations Division was responsible for managing the design and construction of the LWR project until it was suspended in December 2003. Since that time, the division has managed preservation and maintenance activities related to the project. Framatome ANP/DE&S, as KEDO’s Technical Support Consultant, assists KEDO in the management of the LWR project as directed by the Project Operations Division. The Public and External Promotion and Support Division is responsible for outreach efforts to build understanding and support for KEDO, including relations with the media.

KEDO Office in Kumho

KEDO maintains a staff of eight from its Executive Board members at the project site in the Kumho District, DPRK. The KEDO Office at Kumho oversees day-to-day operations at the site and maintains contact with DPRK authorities to facilitate the smooth and expeditious implementation of the LWR project. The staff’s responsibilities include ensuring the safety and security of all KEDO personnel at the site, exercising all consular protection functions on behalf of KEDO personnel in the DPRK, and coordinating all contracts between KEDO’s contractors and subcontractors and the DPRK company responsible for the provision of DPRK workers, goods, facilities, and other services as needed by KEDO. ■



Unit 1 Reactor Vessel undergoing non-destructive examination

Status of Relations with the DPRK



Since the Executive Board decision in November 2003 to suspend the light-water reactor (LWR) project, KEDO has focused significant efforts on its relationship with the DPRK. In particular, both during regular interactions at the site and in periodic high-level meetings, KEDO has worked on securing DPRK cooperation in maintaining an atmosphere at the site that allows for full implementation of project-related preservation and maintenance (P&M) activities. These interactions have been carried out within the broader context of avoiding any adverse impact on the ongoing diplomatic process aimed at resolving the DPRK nuclear issue.

To this end, in December 2003 KEDO held a high-level experts meeting with the DPRK to discuss technical measures for P&M activities and to stress the importance of continued

As a means of reconfirming such commitments, in March 2004, KEDO and the DPRK signed a Memorandum of Understanding (MOU) to apply during the suspension. The MOU reiterated several key arrangements, including that the DPRK would continue to observe all agreements and protocols entered into with KEDO; guarantee the security of KEDO personnel at the site; and, render cooperation for P&M activities. The MOU also specified temporary measures on entry, stay, and travel, to be applied during the suspension.

As set out in the MOU, KEDO and the DPRK reached an important agreement that enabled KEDO vessels to use the newly built docking facility at the site, instead of the more distant Yanghwa port that had been used up to that time. By using the new docking facility, travel to and from the site became more convenient and safe for KEDO personnel.



In April, June, and September 2004, KEDO continued to hold expert-level meetings with the DPRK. The two sides used these meetings as a means to explore various issues of mutual concern and interest, with a view that the resolution of such issues would help sustain the relationship between KEDO and the DPRK. On these occasions, KEDO repeatedly urged the DPRK to lift the ban it had imposed on the removal from the DPRK of certain types of KEDO equipment, material, and documents, which it instituted in late 2003. As of the end of 2004, the ban remains in effect.

As the expiration date of the initial suspension, November 30, 2004, approached, Executive Director Charles Kartman visited Pyongyang on November 13-16, 2004, and met Choe Chul-Su, Director General of DPRK General Bureau for the LWR Project. Mr. Kartman explained the overall status of the project and the

cooperation from the DPRK. Follow-on expert meetings in January, February, and March 2004 were held to confirm that the existing protocols and agreements between KEDO and the DPRK remained in place and that the cooperative relations between KEDO and the DPRK would continue.

prospect of extending the suspension, while stressing the importance of continued DPRK cooperation. On November 25, 2004, KEDO officially decided on the extension of the suspension of the LWR project for another year effective December 1, 2004. ■



Construction for the light-water reactor (LWR) project proceeded on the schedule prescribed in the Turnkey Contract (TKC) with the Korea Electric Power Corporation (KEPCO), the prime contractor for the project, until early 2003. During this period, concerns were raised by Executive Board members regarding the DPRK's compliance with its nuclear nonproliferation obligations under the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) and the DPRK's IAEA safeguards agreement as well as its commitments under the Agreed Framework. In light of these concerns, and in order to put work on the LWR project in line with various diplomatic efforts to address the nuclear issue, the Organization deemed it prudent to review on a continuous basis the pace of construction and manufacturing work on- and off-site. On December 1, 2003, the LWR project was suspended for a period of one year. At that point, the project was approximately 34.5% complete. On November 25, 2004, the Executive Board agreed to extend the suspension for an additional year effective December 1, 2004.

Suspension Plan

As part of the suspension plan, the Executive Board directed the Organization to preserve the option to complete the LWR project, in case the original basis for the project could be reestablished. Maintaining the ability to complete the project required that KEDO take steps during the suspension to achieve a suitable state of preservation, and to maintain that state of preservation, for most elements of completed work, whether those elements related to engineering, manufacturing, or construction. To effectively implement the Executive Board's direction, the Organization developed a comprehensive suspension plan with the following primary objectives:

- Document detailed plans for the suspension in a manner which will both facilitate technical review by experts and justify the necessary funding to the Executive Board;
- Specify standards and criteria for establishing and verifying preservation measures;
- Specify requirements for creating a complete and permanent record of both the status of the project at suspension and the proper implementation of preservation measures; and,
- Establish a definitive work scope for negotiating a fixed-price change to the Turnkey Contract to implement the suspension.

During 2004 the suspension plan was reviewed by safety experts including the Korea Institute of Nuclear Safety (KINS), KEDO's Nuclear Safety Advisory Group, and KEDO's Technical Support Consultant (TSC). These groups approved of the overall plan developed by KEDO, and provided constructive comments, that were incorporated and implemented.



Unit 1 reactor power block as seen from the observatory at the construction site.



Suspension Plan Implementation

Immediately after the official start of the suspension, December 1, 2003, contractors ceased all engineering, manufacturing, and construction, with some exceptions noted below, and began preparations for preservation and maintenance (P&M) of LWR project assets.

Early in 2004, as prescribed by the suspension plan, KEPCO and its subcontractors completed an assessment of project status. A fourteen volume Assessment Report documents the status of engineering, manufacturing, and construction using photographs, manufacturing process sheets, marked-up drawings, or other tools suitable to capture a detailed status of the work. KEDO then conducted an on-site review of the Assessment Report finding it satisfactory in both detail and accuracy. In parallel, the contractors prepared a set of preservation and maintenance procedures in five volumes that were reviewed and accepted by KEDO with the assistance of TSC and KINS. These procedures, which form the detailed technical basis for the P&M program, are based on nuclear industry codes and standards to the extent applicable. Whenever codes and standards could not be directly applied, manufacturer's recommendations were adopted.

In a limited number of cases involving large and/or complex components such as the steam generators, main coolant pumps, and instrumentation and control cabinets, it was determined that the best and most economical approach to their preservation would be to continue manufacturing until the configuration of each component was compatible with implementation of the necessary P&M measures. In addition, engineering activities proceeded until they reached a stage suitable for preserving design documents and/or to the point necessary for supporting development and implementation of P&M measures.

To finance the suspension plan, KEDO modified its financial arrangements with the Government of the Republic of Korea and the Export-Import Bank of Korea, and with the Government of Japan and the Japan Bank for International Cooperation. Under those arrangements, the banks continued to provide loan disbursements for the P&M activities and Turnkey Contract work needed to preserve the project during the suspension as well.

P&M Activities

Preservation of the construction works at the Kumho site presents a unique challenge, since they are only partially completed and thus, for the most part, are exposed to the harsh weather conditions posed by the site's seaside location. For plant structures such as the Reactor Containment Building (RCB) and the Primary Auxiliary Building, membrane covers and/or protective coatings have been used to cover exposed

items such as reinforcing bar and anchor bolts (see orange and green coverings in picture on preceding page). In addition, items such as embedded cooling system piping and tendon tubing in the RCB post-tensioning system have been capped and in some cases filled with dry nitrogen to minimize internal corrosion. Protective coatings and/or membranes have also been used on exposed items in some construction support facilities such as concrete production facilities, temporary shops, and partially completed warehouses and material stocks stored in yard areas.

Site manpower has been reduced from a peak of roughly 1,500 persons in mid-2002 to about 125 at the end of 2004. As such, many of the community facilities (living quarters, hospital, community center, restaurant, and convenience centers) are vacant. For these unused facilities, the entrances have been locked, plumbing drained, electrical power supplies isolated, and boiler facilities shut down. To support the remaining site personnel, several facilities, such as housing, power generation facilities, water purification and sewage treatment systems, and dining and other facilities, remain in operation.

In all cases, the preservation measures that have been implemented are periodically inspected to ensure their integrity and effectiveness. For some structural components such as the containment liner plate and concrete, preservation measures were not considered to be necessary, given the duration of the suspension. However, such areas are included in the periodic inspection program and preservation measures will be implemented if inspections identify unacceptable deterioration in those components.

Nuclear Steam Supply System (NSSS) and Turbine/Generator (T/G) Components

Storage and maintenance of NSSS and T/G components were completed in accordance with the manufacturer's instructions based on the nuclear quality assurance requirements of American Society of Mechanical Engineers (ASME) standard NQA-1. In general, small to mid-size components were protected with plastic films or specially-made covers and stored in wooden crates using desiccant materials and humidity monitors, as necessary, to maintain a dry, non-corrosive atmosphere. Other mid-size to large components such as the reactor vessel, steam generators, turbine casings, and reactor vessel heads were protected for storage by sealing all openings to prevent the entry of dirt and other contaminants and covering the external surfaces with special coatings or specially-made covers. In some cases, the sealed components were filled with dry nitrogen gas to prevent corrosion. In all cases the manufacturers have implemented periodic inspection programs to determine the integrity and effectiveness of the P&M program. When problems are found, the components will be repaired, if necessary, and/or repackaged.

Finally, design and engineering outputs (drawings, calculations, computer analyses, etc.) have been preserved and maintained. Environmental quality monitoring and data gathering at the plant construction site continued during the suspension period. ■



Nuclear Safety Confirmation System (NSCS)

KEDO relies heavily on outside expertise to support its safety activities through the Nuclear Safety Confirmation System (NSCS). The key contributors to the NSCS are the Korea Institute of Nuclear Safety (KINS), the Nuclear Safety Advisory Group (NSAG), and the International Atomic Energy Agency (IAEA).

The NSCS remained in place to ensure that nuclear safety structures at the site are preserved in accordance with applicable codes and standards during suspension. NSAG held a meeting at the light-water reactor (LWR) project site in May 2004 to review the integrity of power block structures and implementation of the suspension plan. Owing to the project's suspension, there were no IAEA meetings with KEDO in 2004. KEDO continues to review all NSAG and IAEA recommendations.

KINS, acting on KEDO's behalf, reviewed the implementation of preservation and maintenance (P&M) activities on nuclear safety-related structures and equipment. KINS conducted a safety inspection at the LWR project site in February 2004. It also conducted safety inspections of P&M activities at Doosan Heavy Industries & Construction Co., Ltd. (DOOSAN) in February and October; of Mitsubishi Heavy Industries (MHI) in March; of Jeumont of France in June; of Westinghouse Electric Corporation (WEC) in June; and, of KEPCO's head office in October. KINS also conducted a review of the site in November to review the corrosion development of the containment liner plate. No major issues were identified during the inspections and site visit.

Cooperative Activities with the DPRK

In February 2004, regulatory personnel from the DPRK's State Nuclear Safety Regulatory Commission (SNSRC) participated in a joint inspection with KINS at the LWR project site. KEDO had met on a periodic basis with the SNSRC from 1998-2002 to discuss nuclear safety-related issues. In 2004, with the suspension of the LWR project, no other cooperative activities took place between KEDO and the SNSRC.

Quality Assurance Program

KEDO has responsibility for providing appropriate controls over and oversight of LWR suspension and quality assurance activities of KEPCO, its subcontractors, and suppliers. In June 2004, KEDO's Quality Assurance Program concluded an audit of KEPCO's head office. KEDO also conducted P&M surveillances of DOOSAN and MHI in March, a P&M surveillance of the LWR site in September, and a P&M surveillance of WEC in October. Other KEDO quality assurance activities included internal training, management assessments, internal quality audits, supplier evaluations, and maintenance of the KEDO Quality Assurance Procedure Manual. ■

Membership



The original members of KEDO are Japan, the Republic of Korea (ROK), and the United States.

Article V(b) of the Agreement on the Establishment of the Korean Peninsula Energy Development Organization states that “additional states that support the purposes of the Organization and offer assistance, such as providing funds, goods, or services to the Organization, may, with the approval of the Executive Board, also become members of the Organization.”

In accordance with Article XIV(b) of the Agreement, “states approved by the Executive Board for membership in accordance with Article V(b) may become members by submitting an instrument of acceptance of this Agreement to the Executive Director, which shall become effective on the date of receipt by the Executive Director.”

The Governments of Japan, the ROK, and the United States amended the Agreement on September 19, 1997, to include international organizations, including regional integration organizations, as eligible for membership in the Organization and for representation on the Executive Board on the basis of substantial and sustained support for the Organization. At that time, KEDO and the European Atomic Energy

Community (the “Community”), within the European Union, concluded an accession agreement, calling for the Community’s representation on the KEDO Executive Board for a term to coincide with its substantial and sustained support to KEDO. In December 2001, KEDO and the Community concluded a five-year extension of the September 1997 KEDO-Euratom Accession Agreement.

The following ten states or international organizations, including regional integration organizations, are members of KEDO under Article V(b) of the Agreement, effective from the dates shown:

New Zealand	June 26, 1995
Australia	September 19, 1995
Canada	November 24, 1995
Indonesia	May 7, 1996
Chile	July 17, 1996
Argentina	September 5, 1996
European Atomic Energy Community (EAEC)	September 19, 1997 (Board member)
Poland	September 25, 1997
Czech Republic	February 9, 1999
Uzbekistan	December 11, 2000

Note: KEDO welcomes as members other states that support the work of the Organization. In practice, the following procedures are followed in admitting new members:

- (1) States or entities interested in membership formally notify the Executive Director of KEDO of their interest in membership. The Executive Director promptly conveys the fact of such notification to the members of the Executive Board for their consideration.
- (2) KEDO reaches agreement with the prospective member on a draft instrument of acceptance.
- (3) In an Executive Board Resolution, the Executive Board approves the membership of the prospective member and authorizes the Executive Director to receive the instrument of acceptance in substantially the form agreed under Step (2) above.
- (4) The executed instrument of acceptance, signed by the Minister of Foreign Affairs or other representative with full powers, is submitted to the Executive Director of KEDO. Membership becomes effective on the date the instrument of acceptance is received by the Executive Director.

Instruments of acceptance should be along the following lines:

“Pursuant to instructions from my Government, I have the honor to notify the Korean Peninsula Energy Development Organization that the Government of (name of intending member) hereby accepts the Agreement on the Establishment of the Korean Peninsula Energy Development Organization, done at New York on March 9, 1995. The present note constitutes the instrument of acceptance of the Government of (name of intending member) to the aforesaid Agreement, in accordance with Article XIV(b) thereof.” ■

Heavy Fuel Oil Project



Consistent with the Executive Board’s decision of November 14, 2002, KEDO made no deliveries of heavy fuel oil to the DPRK in 2004 ■.



*View into Reactor
Containment Building.*





Appendix 1: Financial Support

The following schedule was prepared on a cash basis of accounting and does not reflect announced financial support.

A. Chronology of Financial Support to KEDO

In U.S. Dollars

DATE	COUNTRY	ADMINISTRATION	LWR	INTEREST*	HFO	UNRESTRICTED	OTHER	TOTAL
03/09/1995	Japan	2,800,000	3,000,000 ⁽¹⁾					5,800,000
04/04/1995	Canada				1,054,482			1,054,482
04/05/1995	United Kingdom						1,000,000 ⁽²⁾	1,000,000
04/19/1995	New Zealand				334,750			334,750
05/25/1995	Singapore					300,000		300,000
06/02/1995	ROK	1,800,000						1,800,000
06/29/1995	Australia				5,000,000			5,000,000
06/30/1995	Finland						93,833	93,833
08/07/1995	Malaysia						300,000	300,000
09/11/1995	Netherlands						500,000	500,000
10/31/1995	United States ⁽³⁾	4,000,000			5,500,000			9,500,000
11/01/1995	Thailand						300,000	300,000
11/14/1995	Indonesia				324,895 ⁽⁴⁾			324,895
1995 Total		8,600,000	3,000,000		12,214,127	1,493,833	1,000,000	26,307,960
01/02/1996	Finland						22,810 ⁽⁵⁾	22,810
01/24/1996	Brunei						352,793	352,793
03/08/1996	Japan						19,000,000 ⁽⁶⁾	19,000,000
04/02/1996	Canada						735,565 ⁽⁷⁾	735,565
04/30/1996	Germany						1,011,485	1,011,485
04/30/1996	New Zealand				343,025			343,025
05/03/1996	Australia				1,590,000			1,590,000
05/31/1996	ROK	2,700,000						2,700,000
06/20/1996	United States				22,000,000			22,000,000
06/25/1996	Singapore						100,000	100,000
07/09/1996	Netherlands						290,192	290,192
07/15/1996	ROK		6,000,000 ⁽¹⁾					6,000,000
07/16/1996	EAEC**						3,792,000 ⁽⁸⁾	3,792,000
07/23/1996	Philippines						150,000	150,000
07/24/1996	Greece						25,000	25,000
07/26/1996	Norway						250,000 ⁽⁹⁾	250,000
08/26/1996	Argentina						200,000	200,000
09/30/1996	Finland						100,000	100,000
10/16/1996	Brunei						70,897	70,897
10/21/1996	Indonesia				325,012 ⁽⁴⁾			325,012
11/22/1996	Switzerland						118,148	118,148
12/06/1996	EAEC						2,470,000 ⁽¹⁰⁾	2,470,000
12/18/1996	New Zealand				355,700			355,700
12/27/1996	ROK	165,000						165,000
1996 Total		2,865,000	6,000,000		24,613,737	2,668,515	26,020,375	62,167,627
02/20/1997	Japan	3,140,000						3,140,000
03/27/1997	Japan	590,000						590,000
03/31/1997	Canada						906,454 ⁽⁷⁾	906,454
04/22/1997	Oman						50,000	50,000

*Interest paid or foregone on loans for the LWR project. **European Atomic Energy Community.

DATE	COUNTRY	ADMINISTRATION	LWR	INTEREST*	HFO	UNRESTRICTED	OTHER	TOTAL
04/23/1997	Australia				1,543,200			1,543,200
05/15/1997	United States	4,000,000			21,000,000			25,000,000
06/20/1997	ROK	3,000,000						3,000,000
07/07/1997	Japan	3,200,000						3,200,000
08/04/1997	Norway						250,000 ⁽⁹⁾	250,000
09/03/1997	Singapore					100,000		100,000
10/14/1997	New Zealand				321,935			321,935
10/15/1997	EAEC					11,195,000		11,195,000
10/22/1997	Finland					75,119	18,780 ⁽¹¹⁾	93,899
11/10/1997	EAEC					17,197,497		17,197,497
12/27/1997	Hungary					10,000		10,000
1997 Total		13,930,000			22,865,135	28,627,616	1,175,234	66,597,985
01/09/1998	ROK		45,000,000 ⁽¹²⁾					45,000,000
01/12/1998	Indonesia				325,000 ⁽⁴⁾			325,000
02/24/1998	Japan	530,000						530,000
05/01/1998	United States	3,600,000			26,400,000			30,000,000
07/10/1998	ROK	3,500,000						3,500,000
07/17/1998	New Zealand				258,800			258,800
07/22/1998	Czech Republic					127,816		127,816
08/04/1998	United States				5,000,000			5,000,000
08/04/1998	Singapore					100,000		100,000
08/11/1998	Australia				1,207,800			1,207,800
08/27/1998	Finland					91,193		91,193
09/29/1998	United States				10,000,000			10,000,000
10/16/1998	Japan	3,067,133						3,067,133
10/27/1998	EAEC	900,000				16,740,000		17,640,000
11/06/1998	ROK	97,133		1,993,416				2,090,549
11/16/1998	United States				5,000,000			5,000,000
1998	France						503,778 ⁽¹³⁾	503,778
1998 Total		11,694,266	45,000,000	1,993,416	48,191,600	17,059,009	503,778	124,442,069
01/11/1999	Italy					1,250,000		1,250,000
01/25/1999	Singapore					400,000		400,000
02/05/1999	United States				12,000,000			12,000,000
03/18/1999	Italy					571,429		571,429
03/22/1999	Finland					92,333		92,333
03/25/1999	Japan	432,867						432,867
03/30/1999	Canada						161,447 ⁽⁷⁾	161,447
04/20/1999	United States	1,000,000			14,000,000			15,000,000
06/25/1999	United States	2,500,000			17,500,000			20,000,000
08/05/1999	ROK	1,700,000						1,700,000
08/17/1999	ROK	1,800,000						1,800,000
09/22/1999	New Zealand				261,150			261,150
09/24/1999	EAEC	1,227,000				14,343,000		15,570,000
10/07/1999	Mexico				99,985			99,985
10/08/1999	United States				18,100,000			18,100,000
10/20/1999	Australia				1,294,800			1,294,800
11/12/1999	Japan	3,067,133						3,067,133
1999	ROK			2,907,868 ⁽¹⁴⁾				2,907,868
1999 Total		11,727,000		2,907,868	63,255,935	16,656,762	161,447	94,709,012

*Interest paid or foregone on loans for the LWR project. **European Atomic Energy Community.

DATE	COUNTRY	ADMINISTRATION	LWR	INTEREST*	HFO	UNRESTRICTED	OTHER	TOTAL
01/20/2000	Singapore					300,000		300,000
03/07/2000	Peru				100,000			100,000
03/20/2000	Japan	432,867						432,867
03/21/2000	Canada				665,336			665,336
04/05/2000	United States				15,000,000			15,000,000
04/07/2000	Japan			864,085 ⁽¹⁵⁾				864,085
04/20/2000	Australia				599,800			599,800
04/27/2000	Chile					20,000		20,000
05/24/2000	Finland					75,356		75,356
05/25/2000	ROK	3,000,000						3,000,000
06/16/2000	Japan	2,454,633						2,454,633
07/05/2000	EAEC**	1,350,000				12,904,500		14,254,500
07/07/2000	ROK	850,000						850,000
07/10/2000	Oman					50,000		50,000
07/28/2000	Norway						249,844 ⁽⁹⁾	249,844
08/10/2000	United States				20,000,000			20,000,000
09/11/2000	New Zealand				209,500			209,500
09/18/2000	Japan			1,530,821 ⁽¹⁵⁾				1,530,821
09/25/2000	Australia				1,075,200			1,075,200
10/16/2000	United States	3,850,000			25,557,000			29,407,000
11/16/2000	Japan	962,500						962,500
2000	ROK		288,782,714 ⁽¹⁶⁾					288,782,714
2000	ROK			16,239,208 ⁽¹⁴⁾				16,239,208
2000	Japan		123,764,020 ⁽¹⁷⁾					123,764,020
2000 Total		12,900,000	412,546,734	18,634,114	63,206,836	13,349,856	249,844	520,887,384
02/14/2001	Singapore					300,000		300,000
02/23/2001	Japan			1,970,618 ⁽¹⁵⁾				1,970,618
02/23/2001	United States				54,879,000			54,879,000
03/16/2001	Canada				624,883			624,883
07/23/2001	United States	4,561,000			15,439,000			20,000,000
08/07/2001	ROK	4,561,000						4,561,000
08/22/2001	Japan	3,850,000						3,850,000
09/05/2001	Finland					76,169		76,169
09/07/2001	New Zealand				218,100			218,100
09/19/2001	Japan			2,222,970 ⁽¹⁵⁾				2,222,970
09/20/2001	Australia				1,000,000			1,000,000
11/28/2001	Japan	711,000						711,000
12/31/2001	Poland					10,000		10,000
2001	ROK		232,971,583 ⁽¹⁶⁾					232,971,583
2001	ROK			33,529,537 ⁽¹⁴⁾				33,529,537
2001	Japan		99,844,964 ⁽¹⁷⁾					99,844,964
2001 Total		13,683,000	322,816,547	37,723,125	72,160,983	386,169		456,769,824
01/07/2002	EAEC**	1,599,000				16,101,000		17,700,000
02/04/2002	Thailand					56,510		56,510
03/11/2002	Japan			2,304,378 ⁽¹⁵⁾				2,304,378
03/27/2002	Japan	1,330,000						1,330,000
03/28/2002	Canada				490,497			490,497

*Interest paid or foregone on LWR loans. **European Atomic Energy Community

DATE	COUNTRY	ADMINISTRATION	LWR	INTEREST*	HFO	UNRESTRICTED	OTHER	TOTAL
04/02/2002	Qatar					100,000		100,000
04/29/2002	United States	4,330,000			86,170,000			90,500,000
06/05/2002	Australia				1,133,600			1,133,600
06/25/2002	EAEC**	1,520,000				17,620,000		19,140,000
09/06/2002	ROK	4,330,000						4,330,000
09/23/2002	New Zealand				236,500			236,500
12/12/2002	Japan	3,000,000						3,000,000
2002	ROK		241,230,851 ⁽¹⁶⁾	43,154,522 ⁽¹⁴⁾				284,385,373
2002	Japan		75,393,929 ⁽¹⁷⁾					75,393,929
2002 Total		16,109,000	316,624,780	45,458,900	88,030,597	33,877,510		500,100,787
02/04/2003	Japan			2,826,164 ⁽¹⁵⁾				2,826,164
08/13/2003	Japan			2,878,452 ⁽¹⁵⁾				2,878,452
08/29/2003	ROK	3,720,000						3,720,000
09/19/2003	Japan	3,720,000						3,720,000
10/15/2003	United States	3,720,000						3,720,000
12/24/2003	EAEC**	1,328,726						1,328,726
2003	ROK			52,585,369 ⁽¹⁴⁾				52,585,369
2003	ROK		276,714,224 ⁽¹⁶⁾					276,714,224
2003	Japan		78,047,602 ⁽¹⁷⁾					78,047,602
2003 Total		12,488,726	354,761,826	58,289,985				425,540,537
2/17/2004	Japan			3,596,182 ⁽¹⁵⁾				3,596,182
3/30/2004	Japan	2,280,000						2,280,000
8/12/2004	Japan			3,604,040 ⁽¹⁵⁾				3,604,040
8/26/2004	ROK	3,110,000						3,110,000
12/8/2004	Japan	830,000						830,000
12/29/2004	EAEC**	1,090,000						1,090,000
2004	ROK			58,937,968 ⁽¹⁴⁾				58,937,968
2004	ROK		75,048,302 ⁽¹⁶⁾					75,048,302
2004	Japan		23,652,253 ⁽¹⁷⁾					23,652,253
2004 Total		7,310,000	98,700,554	66,138,190				172,148,744
Grand Total		111,306,992	1,524,450,441⁽¹⁸⁾	231,145,598	394,538,950	114,119,270	29,110,678	2,404,671,928⁽¹⁸⁾

B. Total Financial Support by Country

March 1995 through December 2004

Argentina	200,000	Greece	25,000	Peru	100,000
Australia	14,444,400	Hungary	10,000	Philippines	150,000
Brunei	423,690	Indonesia	974,907	Poland	10,000
Canada	4,683,664	Italy	1,821,429	Qatar	100,000
Chile	20,000	Japan	480,898,610 ⁽¹⁹⁾	ROK	1,364,428,695 ⁽²⁰⁾
Czech Republic	127,816	Malaysia	300,000	Singapore	1,600,000
EAEC**	121,377,723	Mexico	99,985	Switzerland	118,148
Finland	645,593	Netherlands	790,192	Thailand	356,510
France	503,778	New Zealand	2,539,460	United Kingdom	1,000,000
Germany	1,011,485	Norway	749,844	United States	405,106,000
		Oman	100,000		

*Interest paid or foregone on LWR loans. **European Atomic Energy Community

Notes to Appendix 1:

- (1) For pre-project services and site survey.
- (2) For “non-proliferation aspects of KEDO activity.” Approximately \$400,000 of this amount was set aside in 1998 for a study by a UK contractor on management of spent fuel from the DPRK’s experimental reactor. The remaining \$600,000 was spent on non-proliferation aspects of KEDO activity in 1998, as follows: \$260,000 on heavy fuel oil and \$340,000 on a study by a Canadian contractor on management of spent fuel from the DPRK’s experimental reactor.
- (3) Amount listed under “HFO” was provided for 1995 HFO Year deliveries before KEDO was established on March 9, 1995.
- (4) Value of in-kind provision of heavy fuel oil.
- (5) For payment for services by Finnish contractors. Consulting services provided in September 1996 at cost of \$20,000. By subsequent agreement with the Government of Finland, remainder of \$2,810 was made available in support of heavy fuel oil purchases.
- (6) “Collateral Fund” to be used as needed to support the financing of KEDO expenses in case of a liquidity shortfall.
- (7) For the work of the consortium, to include the supply of interim conventional energy, activities related to the provision of new nuclear reactors, and management of spent fuel from existing gas-graphite reactors.
- (8) First installment of \$6,262,000 provided by the EAEC in 1996.
- (9) For heavy fuel oil or other non-nuclear energy purposes.
- (10) \$500,000 of this amount has been set aside to support “means existing within the European Union in the scientific, industrial and technological field.”
- (11) For payment of expenses associated with the participation of a Finnish expert in nuclear safety-related activities of KEDO.
- (12) The ROK provided \$45 million in January 1998 in support of KEDO activities, in the form of a KEXIM* loan to meet the cost of work performed under the Preliminary Works Contract.
- (13) France earmarked 10 million Francs for support of KEDO in December 1995, the use of which was tied to the provision of services by French contractors. Three million Francs of that amount (the equivalent of which in U.S. dollars is shown here) was used for a study carried out in 1998 related to the management of spent fuel from the DPRK’s experimental reactor. As noted in (2) above, KEDO also received a total of \$740,000 of available amount in the “Other” category for similar studies in 1998 by one UK and one Canadian contractor.
- (14) Amount the ROK paid in the form of interest for the ROK Government bond issued to raise funds for the South-North Korea Cooperation Fund, the source of the KEXIM loan. The numbers were provided by the ROK.
- (15) Grant provided by Japan for KEDO’s payment of interest to JBIC**, in accordance with Article III of the Agreement between KEDO and the Government of Japan on the Provision of Financing for the Implementation of the Light-Water Reactor Project.
- (16) Provided by the ROK in the form of a KEXIM loan to meet the cost of work performed under the Turnkey Contract. \$45,000,000 out of the Year 2000 installments was used to repay the January 1998 KEXIM loan referenced in footnote (12). Amounts which were denominated in foreign currency were translated to US Dollars by foreign exchange rates on the date of requesting loan disbursement.
- (17) Provided by Japan in the form of a JBIC loan to meet the cost of work performed under the Turnkey Contract. Amounts which were denominated in foreign currency were translated to US Dollars by foreign exchange rates on the date of requesting loan disbursement.
- (18) The Grand Total reflects the fact that the Year 2000 KEXIM loan included the \$45,000,000 used to repay the January 1998 KEXIM loan, as explained in footnote (16), instead of adding the \$45,000,000 of January 1998 and the Year 2000 KEXIM loan together with the other LWR numbers.
- (19) This amount includes \$19,000,000 provided by Japan in 1996 as a “Collateral Fund,” the LWR-related support to meet the cost of work performed under the TKC, and the interest-related support for KEDO’s payment of interest to JBIC. Please see Footnotes (6), (15), and (17) above.
- (20) This amount includes LWR-related support to meet the cost of work performed under the TKC and interest-related support paid, according to the ROK, in the form of interest for the ROK Government bond issued to raise funding for the South-North Korea Cooperation Fund, the source of the KEXIM loan. Please see Footnotes (14) and (16) above. The consideration in footnote (18) is made in this table, too. ■

* KEXIM - Export-Import Bank of Korea ** JBIC - Japan Bank for International Cooperation

Appendix 2: Financial Statements

The Korean Peninsula Energy Development Organization

Report of Independent Auditors

December 31, 2004

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Center
300 Madison Avenue
New York NY 10017
Telephone (646) 471 3000
Facsimile (813) 286 6000

Report of Independent Auditors

To The Executive Board of
The Korean Peninsula Energy Development Organization

In our opinion, the accompanying balance sheet and the related statements of activities and cash flows present fairly, in all material respects, the financial position of The Korean Peninsula Energy Development Organization (the "Organization") at December 31, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Organization's management; our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2003 financial statements, and in our report dated March 12, 2004, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 1, the Government of the Democratic People's Republic of Korea (DPRK) has agreed to repay the cost of two light-water reactors to the Organization over a 20-year term after the completion of each of the light-water reactors. The repayment amount will be determined jointly by the Government of DPRK and the Organization and therefore is uncertain. In November 2003, the Executive Board of the Organization decided to suspend the light-water reactor project beginning December 1, 2003 for a period of one year. In November 2004, the Executive Board of the Organization extended the suspension of the light-water reactor project beginning December 1, 2004, for a period of one additional year. The Organization has obtained waivers from the banks on repayment of the loans during the suspension period in accordance with the terms and conditions of the agreements between the Organization and relevant parties. The waivers may not be extended beyond December 1, 2005 and the loans may be declared to be due forthwith and payable. This raises substantial doubt about the Organization's ability to continue as a going concern without sufficient support from sponsoring governments. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

March 4, 2005



Balance Sheet

The Korean Peninsula Energy Development Organization

December 31, 2004 and 2003

	2004	2003
Assets		
Cash and cash equivalents	\$12,132,246	\$17,376,701
Cash restricted for collateral	19,000,000	19,000,000
Contributions receivable, net	3,695,379	3,249,131
Furniture, equipment, and leasehold improvements, net ^(note 2)	640,899	1,049,567
Other assets	323,885	432,620
Light-Water Reactor Project ^(note 5)	1,548,103,813	1,479,946,002
Total assets	<u>\$1,583,896,222</u>	<u>\$1,521,054,021</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	4,361,201	4,471,658
Due to contractor ^(note 6)	16,911,534	47,093,599
Loans payable ^(note 7)	1,751,233,071	1,462,733,486
Total liabilities	<u>1,772,505,806</u>	<u>1,514,298,743</u>
Net assets		
Unrestricted	(210,882,718)	(21,487,329)
Temporarily restricted ^(note 8)	22,273,134	28,242,607
Total net assets	<u>(188,609,584)</u>	<u>6,755,278</u>
Total liabilities and net assets	<u>\$1,583,896,222</u>	<u>\$1,521,054,021</u>

Statement of Activities

The Korean Peninsula Energy Development Organization

Years Ended December 31, 2004 and 2003

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	
			2004	2003
Revenues				
Contributions	\$ -	\$ 7,310,000	\$ 7,310,000	\$12,488,726
Contributed and imputed interest (note 7)	-	66,584,437	66,584,437	58,689,629
Interest income	276,628	-	276,628	228,866
Net assets released from restrictions (note 8)	79,863,910	(79,863,910)	-	-
Total revenues	80,140,538	(5,969,473)	74,171,065	71,407,221
Expenses:				
Program services				
Heavy fuel oil	159,826	-	159,826	265,893
Light-Water Reactor Project interest expense (notes 5 and 7)	66,584,437	-	66,584,437	58,933,287
Total Program Services	66,744,263	-	66,744,263	59,199,180
Supporting Services				
Administration	13,032,115	-	13,032,115	13,645,961
Total expenses	79,776,378	-	79,776,378	72,845,141
Foreign exchange loss (notes 1 and 7)	(189,759,549)	-	(189,759,549)	(32,536,469)
Decrease in net assets	(189,395,389)	(5,969,473)	(195,364,862)	(33,974,389)
Net assets				
Beginning of year	(21,487,329)	28,242,607	6,755,278	40,729,667
End of year	\$ (210,882,718)	\$ 22,273,134	\$ (188,609,584)	\$ 6,755,278

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Statement of Cash Flows

The Korean Peninsula Energy Development Organization

Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (195,364,862)	\$ (33,974,389)
Adjustments to reconcile decrease in net assets to net cash used in operating activities		
Depreciation	415,730	425,642
Loss on disposition of assets	5,678	1,091
Foreign exchange loss	189,759,549	32,536,469
Changes in assets and liabilities		
Increase in contributions receivable	(446,248)	(399,644)
Decrease (increase) in other assets	108,735	(51,382)
(Decrease) increase in accounts payable and accrued expenses	(110,457)	544,800
Decrease in due to contractor	(30,182,065)	(21,328,988)
	<u>(35,813,940)</u>	<u>(22,246,401)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Light-Water Reactor Project expenditures	(68,157,811)	(334,206,455)
Other capital expenditures	(12,741)	-
Net cash used in investing activities	<u>(68,170,552)</u>	<u>(334,206,455)</u>
Cash flows from financing activities		
Proceeds from loans payable	98,740,037	346,437,609
Net cash provided by financing activities	<u>98,740,037</u>	<u>346,437,609</u>
Net decrease in cash and cash equivalents	(5,244,455)	(10,015,247)
Cash and cash equivalents		
Beginning of year	17,376,701	27,391,948
End of year	<u>\$ 12,132,246</u>	<u>\$ 17,376,701</u>
Supplemental cash flow information:		
Interest paid during the year	\$ 7,200,222	\$ 5,714,708
In-kind contribution (interest-free loans)	58,937,968	52,585,369

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Notes to Financial Statements

December 31, 2004

1. Description of Organization and Summary of Significant Accounting Policies

Description of Organization

The Korean Peninsula Energy Development Organization (the "Organization" or "KEDO") was established on March 9, 1995 to advance the implementation of the "Agreed Framework" signed by the United States of America and the Democratic Peoples Republic of Korea (the "DPRK") in 1994. The founding members of the Organization are Japan, the Republic of Korea and the United States of America. Those three founding members were joined on the Organization's Executive Board in 1997 by the European Atomic Energy Community (the "EAEC").

The purpose of the Organization is to (i) provide for the financing and supply of a light-water reactor project in the DPRK consisting of two reactors of the Korean standard nuclear plant model with a capacity of approximately 1,000 megawatts each; (ii) provide for the supply of interim energy alternatives in lieu of the energy from the DPRK's graphite-moderated reactors pending construction of the first light-water reactor unit in the form of 500,000 metric tons of heavy fuel oil each year; and (iii) provide for the implementation of any other measures deemed necessary to accomplish the foregoing or otherwise to carry out the objectives of the Agreed Framework. The terms of the Agreement on the Establishment of KEDO may be amended, terminated or suspended by written agreement of all Executive Board Members, or, if such agreement is not achievable, by written agreement of a majority of the Executive Board Members of the Organization.

The Organization has been designated by the President of the United States of America as a public international organization entitled to enjoy privileges, exemptions and immunities as an international organization under the International Organizations Immunities Act, 22 U.S.C. §§288-288f. As such, the Organization is also classified as an international organization under Section 7701(a)(18) of the Internal Revenue Code (the "Code"), and is entitled to an exemption from Federal income taxes under Section 892 of the Code.

Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. As an international organization exempt from Federal income taxes, the Organization follows accounting standards applicable to not-for-profit organizations. Under these standards, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets

Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets

Net assets subject to donor-imposed stipulations that they be maintained permanently. The organization does not have any permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

b. Contributions

Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Contributions receivable at December 31, 2004 are expected to be collected at their full realizable value.

c. Cash Equivalents

Cash equivalents represent highly liquid debt instruments with original maturities of three months or less.

d. Depreciation

Depreciation of furniture, equipment, and leasehold improvements is provided on a straight-line basis. Furniture, equipment, and automobiles are depreciated over their estimated useful lives, ranging from five to ten years. Leasehold improvements are depreciated over their useful lives or life of the lease, whichever is shorter.

e. Light-Water Reactor Project

Expenditures for the LWR project have been capitalized at cost. According to the Supply Agreement between the Organization and the Government of the DPRK, the Government of the DPRK has agreed to pay for the two light-water reactors from the Organization on a long-term interest-free basis over a twenty-year term beginning three years after the completion of the LWR project. The amount to be repaid will be jointly determined by the Organization and the Government of the DPRK based on the examination by each side of the technical description of the LWR project, the fair and reasonable market value of the LWR project, and the contract price

paid by the Organization to its contractors and subcontractors for costs outlined in the Supply Agreement. Negotiations relating to the repayment terms which will occur in the future may or may not result in a repayment amount that differs from the costs capitalized. This difference, if any, cannot be reasonably estimated at this time and, accordingly, has not been provided for in the accompanying financial statements.

In an October 1999 Memorandum of Understanding (Memorandum), the Government of the DPRK agreed to indemnify the Organization from any claims arising out of Environmental Harm, as defined in the Memorandum.

f. Fair Value of Financial Instruments

The carrying amount of financial instruments other than loans payable approximates fair value. The fair value of loans payable is not readily determinable due to the uncertainty of the repayment period.

g. Foreign Currency Translation

The Organization has transactions involving various currency denominations, including those relating to its contributions and loans payable. The Organization translates its foreign currency denominated assets and liabilities into U.S. dollars at the rate in effect at the balance sheet date. At December 31, 2004 and 2003, such foreign currency rates for U.S. dollars were as follows:

	2004	2003
South Korea (Won)	1,035.00	1,192.60
Japan (Yen)	102.63	107.35

The translation of these amounts into U.S. dollars should not be construed as representing that foreign currencies have been, could have been or could be converted into U.S. dollars at these rates. The adjustment resulting from this translation is recorded as a foreign exchange gain or loss in the statement of activities.

h. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Significant estimates include the carrying value of the LWR project, imputed interest and the carrying value of contributions receivable. Actual results could differ from those estimates.

i. Risks and Uncertainties

The Organization is exposed to certain risks and uncertainties, among others, repayment from the DPRK, the future of the LWR project, funding of deferred payment to contractor, contribution from member countries and foreign exchange fluctuations.

- Repayment from DPRK - The Government of the DPRK has agreed to repay the cost of two light-water reactors to

the Organization over a 20-year term after the completion of each of the light-water reactors. The repayment amount will be determined jointly by the Government of DPRK and the Organization and therefore is uncertain (see note 5).

- The future of the LWR project - At a meeting held in November 2002 to discuss the implications of the Government of the DPRK's acknowledgement that it was pursuing a program to produce highly-enriched uranium for nuclear weapons, the Executive Board agreed to suspend the delivery of interim energy alternatives, heavy fuel oil, to the DPRK. In November 2003, the Executive Board of the Organization decided to suspend the Light-Water Reactor project (the "LWR project") starting from December 1, 2003 for a period of one year. In November 2004, the Executive Board of the Organization extended the suspension period for one additional year beginning December 1, 2004, and agreed to consult and decide on the future of the LWR project before the expiration of the continued suspension period (see note 5). The Organization has obtained waivers from the banks, which provide financing for the project, on repayment of the loans during the suspension period in accordance with the terms and conditions of the agreements between the Organization and relevant parties. Following the decision on the future of the LWR project, the Organization and the banks shall hold a consultation together with governments concerned with a view to finding appropriate actions to be taken in accordance with respective loan and financing agreements. The waivers may not be extended beyond December 1, 2005 and the loans may be declared to be forthwith due and payable (see note 7).
- Funding of deferred payment to contractor - Amounts due to contractor, which have not been covered by loan facilities for the LWR project, have been deferred under terms as agreed to with the contractor (see note 6). The funding of such amounts due to contractor remains uncertain.
- Contributions from member countries - The Organization is dependent on contributions from member governments to carry out its objectives and cover its operating costs. In 2003, the Governments of Japan, Republic of Korea and United States of America, and the EAEC provided contributions to the Organization. In 2004, the Governments of Japan and Republic of Korea, and the EAEC provided contributions to the Organization. It is uncertain whether contribution commitments from member countries will be sufficient to cover all future funding needs of the Organization.
- Foreign exchange fluctuations - The Organization has transactions involving currency denominations other than U.S. dollar. When those transactions are translated into U.S. dollars, adjustments resulting from the translation are recorded as a foreign exchange gain or loss in the statement of activities. The loan balances denominated in Japanese Yen and Korean Won are translated at the rate in effect at the balance sheet date. To date, foreign exchange fluctua-

tions have not impacted the Organization's cash flows and solvency; however, the Organization continues to be exposed to such fluctuations in the future and the ultimate gain or loss which may be recorded as a result.

j. Comparative Information

The accompanying statement of activities is presented with comparative information for the year ended December 31, 2003 in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2003.

2. Furniture, Equipment, and Leasehold Improvements

Furniture, equipment, and leasehold improvements consisted of the following at December 31, 2004 and 2003:

	2004	2003
Equipment	\$ 1,741,598	\$ 1,747,785
Leasehold improvements	1,008,083	1,008,083
Furniture	382,490	382,490
Automobiles	54,200	54,200
	\$ 3,186,371	\$ 3,192,558
Less accumulated depreciation and amortization	(2,545,472)	(2,142,991)
	\$ 640,899	\$ 1,049,567

3. Lease Commitments

The Organization rents office space in New York City under a lease agreement which expires on September 30, 2005. Rent expense for the years ended December 31, 2004 and 2003 was \$863,079 and \$861,822, respectively.

The future minimum lease payments at December 31, 2004 are as follows:

YEAR ENDING DECEMBER 31	AMOUNT
2005	\$ 631,413
	\$ 631,413

4. Pension Plan

The Organization has a money purchase defined contribution pension plan covering substantially all employees. Employees become eligible to participate after three months of service. The organization contributes, with a trustee, an amount equal to 16.667% of an employee's annual compensation. Employees vest immediately in the organization's contribution. The plan is entirely funded by the Organization. Pension expense for the years ended December 31, 2004 and 2003 amounted to \$868,072 and \$877,182, respectively.

5. Light-Water Reactor Project

Under a Preliminary Works Contract ("PWC") signed in 1997 between the Organization and Korea Electric Power Corporation ("KEPCO"), the prime contractor, the Organization began capitalizing costs related to the construction of the LWR Project which included site activities for grading and infrastructure development under the PWC. On December

15, 1999, the Organization and KEPCO signed the Turnkey Contract ("TKC"), which became effective on February 3, 2000 and supersedes the PWC and will govern the entire scope of the LWR project under which the light-water reactor plants will be designed, constructed, and commissioned under the terms of the Agreed Framework discussed in note 1. Capitalized costs will not be depreciated due to the fact that the Government of the DPRK, under the Supply Agreement, has committed to repay the LWR project (see note 1(e)).

Beginning December 1, 2003, the LWR project has been suspended in accordance with a resolution of the Executive Board. The Executive Board of the Organization agreed to consult and decide on the future of the LWR project before the expiration of the continued suspension period.

6. Due to Contractor

Amounts due to contractor of \$16,911,534 as of December 31, 2004 and \$47,093,599 as of December 31, 2003 represent unpaid KEPCO invoices for costs associated with the TKC. Of the balance as of December 31, 2004, approximately \$7.1 million was paid in 2005 through a draw down of loan facilities B and C as described in note 7, and approximately \$9.8 million has been deferred under terms as agreed with KEPCO.

7. Loans Payable

To finance the preliminary construction of the LWR Project, the Organization entered into an interest-free loan facility agreement in 1998 ("Loan Facility A") with the Export-Import Bank of Korea ("KEXIM") to borrow up to \$45,000,000. The amount outstanding at December 31, 1999 of \$44,736,393 was paid in full on February 24, 2000 through a disbursement from Loan Facility B.

On December 15, 1999, the Organization entered into another interest-free loan facility agreement ("Loan Facility B") with the KEXIM to borrow up to 3,542 billion Korean Won (which is equivalent to \$3,422 million at December 31, 2004). The amount of Loan Facility B will be adjusted, as necessary, to ensure that the total equals 70% of the Actual Costs of the LWR Project, as defined in the agreement. The proceeds of Loan Facility B are to be used to finance the construction of the two LWR units. The amount of the loan will be allocated to both LWR units. The loan is due in 34 equal semiannual installments after a certain grace period following the completion of each LWR unit. The loan balance outstanding amounted to \$1,297,422,283 (1,342,832 million Won) and \$1,053,033,363 (1,255,848 million Won) as of December 31, 2004 and 2003, respectively. Imputed interest of \$58,937,968 (at an average interest rate of 5.15% as provided by the Government of Republic of Korea) and \$52,585,369 (at an average interest rate of 5.74% as provided by the Government of Republic of Korea) on the loan has been reflected in revenues-contributed and imputed interest and Light-Water Reactor Project interest expense in the statement of activities for the years ended December 31, 2004 and 2003, respectively.

On January 31, 2000, the Organization entered into a loan facility agreement ("Loan Facility C") with Japan Bank for International Cooperation ("JBIC") to cover a portion of the

LWR Project. Loan Facility C allows the Organization to borrow up to ¥116.5 billion (which is equivalent to \$1,135 million at December 31, 2004.) The interest rate is, as defined, the higher of the Japanese-yen long-term prime rate less 0.2% or the Fiscal Investment and Loans Program Rate. The interest rate in effect was 1.77 % and 1.82 % as of December 31, 2004 and 2003, respectively. Interest is payable on each February 16 and August 16. Interest expense for this loan amounted to \$7,646,469 and \$6,347,918 for the years ended December 31, 2004 and 2003, respectively. In a separate agreement, the Government of Japan has agreed to extend a grant to the Organization to pay the interest, of which \$7,646,469 and \$6,347,918 was contributed during 2004 and 2003, respectively, and is included in revenues contributed and imputed interest in the statement of activities. The amount of the loan will be allocated to both LWR units. The loan is due in 34 equal semiannual installments after a certain grace period, as defined, following the completion of each LWR unit. The balance outstanding amounted to \$453,810,788 (¥46,575 million Yen) and \$409,700,123 (¥43,981 million Yen) as of December 31, 2004 and 2003, respectively.

After the decision on suspension of the LWR project, in December 2004 and 2003, the banks above confirmed to the Organization that they (1) will not cancel the undrawn portion of the loan facility and/or to declare the loan to be forthwith due and payable during the suspension period, and (2) will continue loan disbursements for the LWR project, as

agreed. Following the decision on the future of the LWR project (see note 1 and 5), the Organization and the banks shall hold a consultation together with governments concerned with a view to finding appropriate actions to be taken in accordance with respective loan and financing agreements.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2004 and 2003 were available for the following purposes:

	2004	2003
Collateral	\$ 19,000,000	\$ 19,000,000
Administration	2,121,322	7,843,437
Project survey and other than heavy fuel oil	924,017	1,162,676
Site survey	227,795	236,494
	\$ 22,273,134	\$ 28,242,607

Temporarily restricted net assets were released from restrictions for the following purposes during 2004 and 2003.

	2004	2003
Administration	\$ 13,032,115	\$ 13,645,961
Imputed interest	58,937,968	52,585,369
Loan interest	7,646,469	6,377,824
Project survey and other than heavy fuel oil	238,659	-
Site Survey	8,699	-
	\$ 79,863,910	\$ 72,569,154