



Korean Peninsula Energy Development Organization

Deputy Executive Directors' Statement

We are 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, 2005, through December 31, 2005, and contains the Organization's Audited Financial Statements for calendar year 2005.

The past year has been one of drastic contrasts. In March, amidst continuation of activities necessary to preserve and maintain the light-water reactor (LWR) project, KEDO celebrated its 10th anniversary. To commemorate this milestone, KEDO staff participated in seminars in New York City and Washington, D.C., and held its annual General Conference to coincide with the anniversary. However, by the end of the year, KEDO had stopped all on-site work and initiated withdrawal of personnel.

KEDO maintained close contacts with the Democratic People's Republic of Korea (DPRK) throughout the year to ensure that the presence and status of KEDO was continuously respected, and that preservation and maintenance activities were implemented smoothly. Significant discussions took place regarding a range of local measures requested by the DPRK. These talks resulted in the early initiation of efforts to restore the railroad running through the construction site to its original location.

However, KEDO's activities were overshadowed by much larger developments on the political front. The DPRK, which remained outside the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), said that it continued operation of its small, graphite-moderated reactor and reprocessing plant at Yongbyon and publicly announced that it had nuclear weapons. The continued failure by the DPRK to perform a number of the relevant steps called for in the Supply

Agreement and related agreements and protocols led KEDO's Executive Board in November to decide in principle on the termination of the LWR project. Although no formal agreement was reached, the Board agreed to continue its discussion of legal and financial issues surrounding stoppage of the project. At the same time, KEDO began to analyze scenarios for dealing with project assets and initiated plans for ensuring manufactured components were maintained for the near-term.

The results of the November Executive Board meeting were conveyed to the DPRK and in subsequent KEDO-DPRK meetings in December, the DPRK took the position that it considered the LWR project terminated and, therefore, that KEDO no longer existed. Under these circumstances, further cooperative activities under consideration with the DPRK were shelved. The DPRK went on to inform KEDO that existing privileges and immunities would remain in place only through January 8, 2006. Additional negotiations on this issue with the DPRK led nowhere, so KEDO was left with no other alternative than to quickly begin the process of removing all its personnel from the project site. At the same time, KEDO was analyzing possible alternatives for repatriating equipment and materials left behind at the site.

As the year 2005 came to a close, the political situation surrounding the Korean Peninsula remained uncertain. We remain committed, however, to meeting the challenges that lie ahead, and we will continue to meet the objectives set by Executive Board members.

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

Byung-Yun Park and Mari Amano
Deputy Executive Directors
New York, December 31, 2005



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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 35 professionals and support personnel at the end of 2005. 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 concluded his tenure as Executive Director on August 31, 2005 (he was appointed by the Executive Board on May 1, 2001). After his departure, the Organization was led jointly by Mr. Young-Mok Kim and Mr. Mari Amano, who have held the posts of Deputy Executive Directors since June 1, 2003, and July 30, 2004, respectively.

With the downturn in activities at KEDO, the number of divisions operating was reduced from seven to five. They are: Financing and Heavy Fuel Oil (HFO), General Affairs, Legal Affairs, Policy and DPRK Affairs, and Project Operations.

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 deals with issues of international and domestic law, advises and assists in negotiating and drafting legal agreements and documents related to KEDO-DPRK agreements, Turnkey contract, loan agreements, and the Organization’s operation, and represents the Organization in legal proceedings.

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.

KEDO Office in Kumho

For most of 2005, KEDO maintained a staff of five from its Executive Board members at the project site in the Kumho District, DPRK. The KEDO Office at Kumho oversaw day-to-day operations at the site and maintained contact with DPRK authorities to facilitate the smooth and expeditious implementation of the LWR project. The staff’s responsibilities included 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. (By January 8, 2006, all KEDO staff had been withdrawn from the site.) ■



KEDO's efforts in 2005 focused on maintaining a relationship with the DPRK conducive to implementation of the project-related preservation and maintenance (P&M) activities that had continued from the time the project was suspended in November 2003 through the end of that suspension at the end of November 2005. That relationship and those activities were also designed to ensure that the status of the LWR project did not adversely affect the ongoing diplomatic process aimed at resolving the DPRK nuclear issue.

KEDO and DPRK officials interacted regularly at the site during the course of the year and in meetings at either the "high" or "expert" level in February, April, June, August, and twice in December. The first high-level meeting in February took place shortly after the February 10 DPRK public statement that it possessed nuclear weapons and would suspend its participation in the 6-party talks. While the atmosphere of the meeting was overshadowed by this announcement, meeting participants were nevertheless able to discuss KEDO-DPRK relations and the status of the LWR project, with particular emphasis on the ongoing preservation and maintenance of the LWR project and on KEDO's continuing problems resulting from the DPRK ban on the export of KEDO equipment from the site. Similar subjects were discussed during a follow-on meeting in April, which KEDO also used to reinforce the message that the DPRK export ban was seriously undermining KEDO's efforts to accommodate the DPRK's concerns arising from the prolonged suspension. In an agreed-to record of the meeting, both sides recognized the importance of the continued observance of all existing agreements and protocols between KEDO and the DPRK.

The two parties convened again in June at the high-level to discuss many of the same issues. On this occasion, however, no agreements could be reached. KEDO and the DPRK met again in early August to discuss restoration of the previous railroad passage that had been temporarily diverted to accommodate early construction activity. Both sides confirmed that KEDO would be responsible for the restoration of the previous railroad passage, which had been removed, and an agreement was reached on the implementation of the work and each side's responsibilities.

With the second year of LWR project suspension concluded on November 30, 2005, KEDO met twice with the DPRK in December. The defining moment of these meetings took place on December 8 when the DPRK took the position that it considered the LWR project to be terminated and, therefore, that KEDO no longer existed. In that situation, the DPRK stated that all KEDO staff would have to leave the site by January 8, 2006. The DPRK informed KEDO at that time that it intended to take control of the site following KEDO's departure. KEDO argued that its Executive Board had not yet reached a formal decision on termination and that it was prepared to carry on with the railroad restoration after January 8 on the condition that all agreements and protocols, including privileges and immunities of KEDO personnel in the DPRK, would continue to be recognized. Furthermore, KEDO reiterated that its

assets at the site were and remained the lawful property of KEDO.

Later in December, KEDO returned to begin withdrawal of its personnel at the site, with fifty-seven of the 114 persons remaining at the site on December 28. KEDO took that opportunity to meet with the DPRK, which reconfirmed its view that KEDO was no longer welcome at the site after January 8, again claiming that KEDO had terminated the project and repeating its intention to take ownership of the site and assets following KEDO's departure. KEDO again requested repatriation of equipment and other assets, and stated that KEDO sought compensation for its investments. The delegation left the DPRK with no new developments.

(The final 57 KEDO persons withdrew from the site as requested by the DPRK on January 8, 2006. Following their departure, KEDO reiterated its position in writing that KEDO sought compensation from the DPRK for the losses arising from DPRK actions.) ■



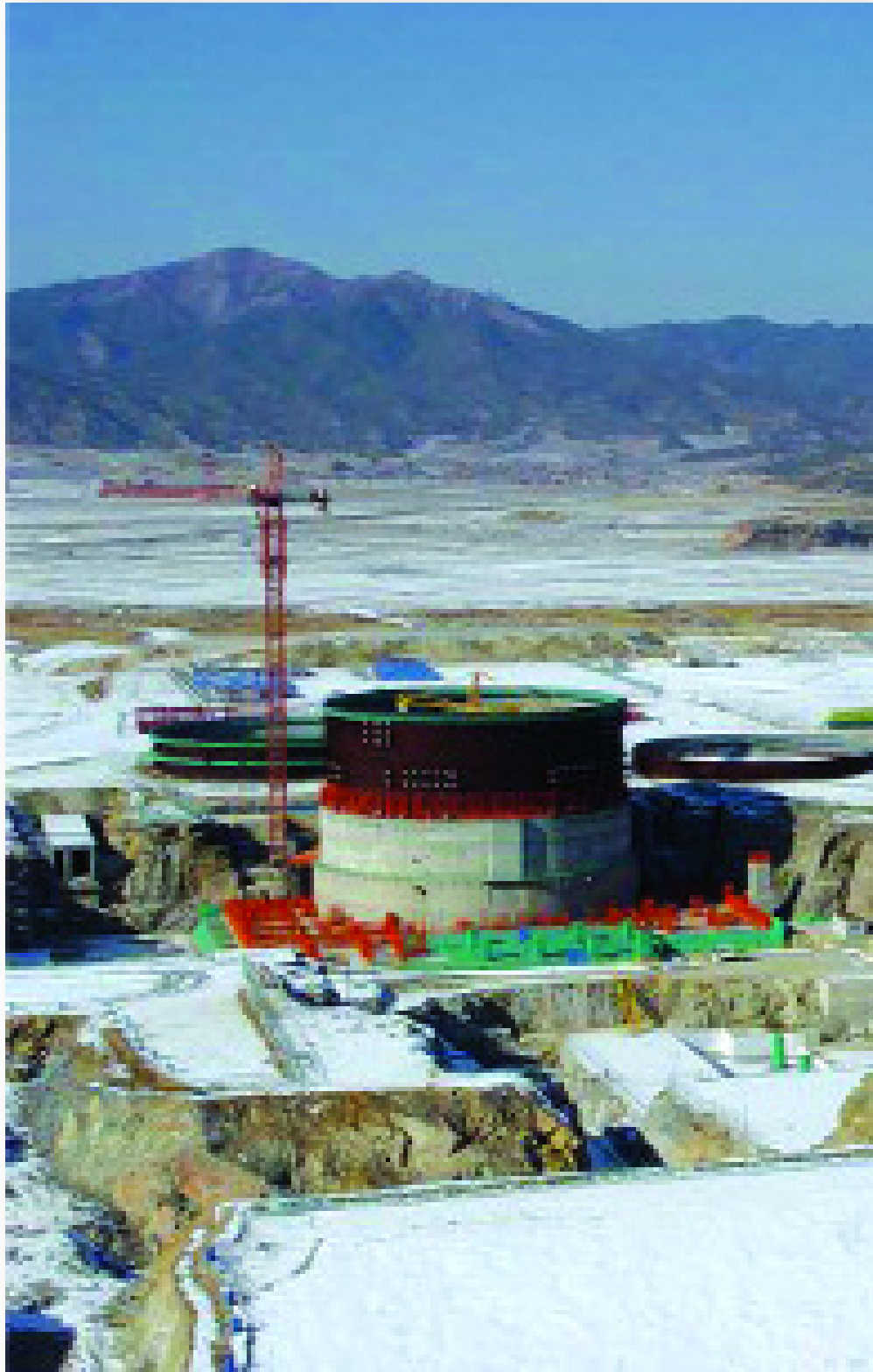
On December 1, 2003, acting on concerns raised by Executive Board members regarding the DPRK's compliance with its nuclear non-proliferation obligations under the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) and the DPRK's IAEA safeguards agreement as well as its commitments under the Agreed Framework, the light-water reactor (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.

In late November 2005, the Executive Board reached a decision in principle to terminate the LWR project. Acting on that decision, on November 30, 2005, the Organization instructed the prime contractor, Korea Electric Power Corporation (KEPCO), to halt preservation and maintenance activities on all structures, components, and materials except for those components for which there was a possibility of resale to another party. Until the Organization indicated otherwise, KEPCO was instructed to simply store all other items and to demobilize all persons from the site who were no longer needed.

Accordingly, approximately half of the site workforce was demobilized in late December 2005, and plans were put into place to demobilize all remaining personnel by January 8, 2006. (As planned, all remaining personnel were withdrawn from the site on January 8, 2006.)

Preservation and Maintenance During Suspension

During the two consecutive suspension periods, 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 relate to engineering, manufacturing, or construction. During 2005, preservation and maintenance (P&M) of LWR project



assets continued through November 30 at the same level as was performed in 2004.

Site Structures and Facilities

The construction works at the Kumho site are only partially completed and thus, for the most part, are exposed to



the harsh environmental 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 were used to cover exposed items such as reinforcing bar and anchor bolts. In addition, items such as embedded cooling system piping

and tendon tubing in the RCB post-tensioning system were capped and in some cases filled with dry nitrogen to minimize internal corrosion. Protective coatings and/or membranes were also used to cover exposed items in various construction support facilities such as concrete production facilities, temporary shops, and partially completed warehouses and material stocks stored in yard areas, such as reinforcing bar and containment liner plate.

Site manpower stood at roughly 125 persons at the end of 2004 (down from the mid-2002 peak of more than 1,500 workers) and remained at that same level through 2005. As such, many of the community facilities (living quarters, hospital, community center, restaurant, and convenience centers) continued to be vacant. For these unused facilities, the entrances were 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, remained in operation.

In all cases, the preservation measures that have been implemented were periodically inspected to ensure their integrity and effectiveness. For some structural components such as the containment liner plate and concrete, preservation measures were considered unnecessary, given the duration of the suspension. However, such areas were included in the periodic inspection program so that preservation measures could be implemented if inspections identified unacceptable deterioration in those components.

The Executive Board's agreement in principle to terminate the LWR project ended any reasonable possibility that work would resume at

the construction site. Therefore, on November 30, 2005, the Organization instructed KEPCO to halt P&M activities on all site structures and to prepare for demobilization from the site.

In early December, representatives of the Organization met with DPRK officials at the Kumho site to inform them of

the current state of the project. At that meeting, the DPRK informed the delegation that it considered that the LWR project was, in effect, terminated, and that there was no reason for any KEDO personnel to remain at the site. The DPRK also stated that the ban on the repatriation of construction equipment and technical documents remained in effect. The delegation was informed that all personnel should leave the site within one month.

Accordingly, approximately one-half of the site personnel was demobilized in late December, leaving only sufficient personnel to operate site necessities such as the restaurant and the water and power supply facilities. Enough KEDO security guards also remained in place to safeguard the remaining personnel and facilities. Plans were made to fully demobilize the remaining personnel on January 8, 2006.

Nuclear Steam Supply System, Turbine/Generator Components, and Balance of Plant

During the suspension portion of 2005, storage and maintenance of Nuclear Steam Supply System (NSSS), Turbine/Generator (T/G) components, and Balance of Plant (BOP) items continued 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. Periodic inspection programs were maintained to determine the integrity and effectiveness of the P&M program.

On November 30, 2005, in anticipation of termination, the Organization instructed KEPCO to continue P&M of certain high-value components, primarily portions of the NSSS and certain BOP items, while the possibility of their resale was under review. The remaining components will be stored without P&M until final decisions can be made on their disposition. ■

Nuclear Safety Activities



Nuclear Safety Confirmation System (NSCS)

KEDO has relied heavily on outside expertise to support its safety activities through the Nuclear Safety Confirmation System (NSCS). The key contributors to the NSCS have been 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-related structures and equipment are preserved in accordance with applicable codes and standards during suspension. Owing to the situation surrounding the project, there were no NSAG meetings or activities with IAEA in 2005. During 2005, KEDO continued to review the NSAG and IAEA recommendations.

Acting on KEDO's behalf, KINS reviewed the implementation of preservation and maintenance (P&M) activities on nuclear safety-related structures and equipment through most of 2005. KINS conducted a safety inspection at the LWR project site in April 2005. It also conducted safety inspections of P&M activities at Doosan Heavy Industries & Construction Co., Ltd. (DOOSAN) and of KEPCO's head office in April. KINS also conducted a review of the site to assess 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 April 2005, 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, but in 2005 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 the LWR project, including quality assurance activities of KEPCO, its subcontractors, and suppliers. In 2005, KEDO continued to implement its Quality Assurance Program, including P&M surveillances, management assessments, and internal quality audits. ■

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. Extension of the KEDO-Euratom agreement was near completion at the end of 2005.

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:

Finland	(1995-2001)
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 2005. ■

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
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

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

DATE	COUNTRY	ADMINISTRATION	LWR	INTEREST*	HFO	UNRESTRICTED	OTHER	TOTAL
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
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

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

DATE	COUNTRY	ADMINISTRATION	LWR	INTEREST*	HFO	UNRESTRICTED	OTHER	TOTAL
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
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

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

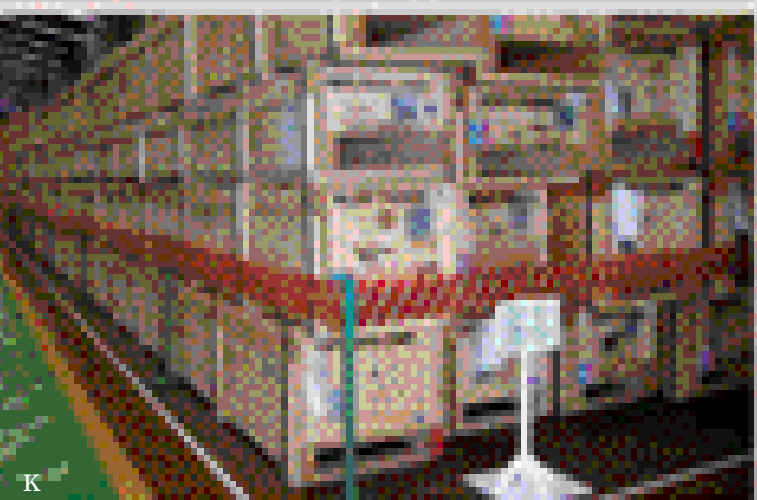
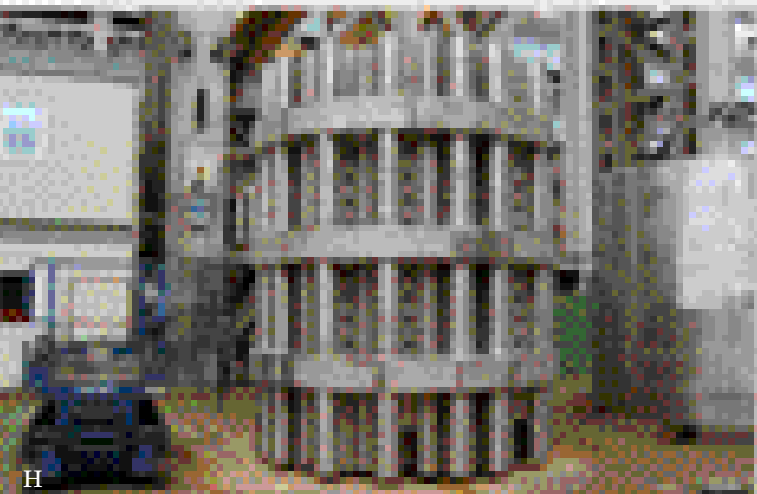
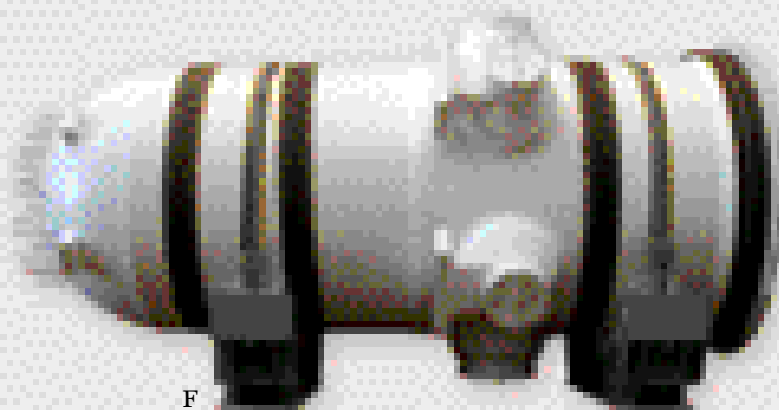
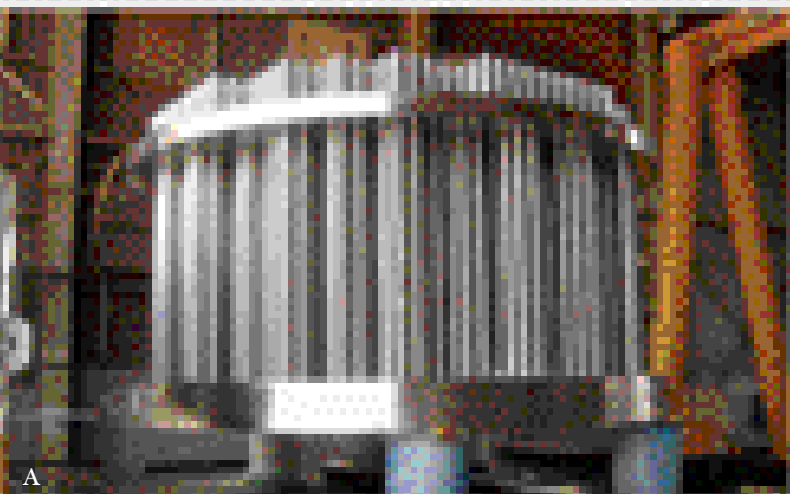
DATE	COUNTRY	ADMINISTRATION	LWR	INTEREST*	HFO	UNRESTRICTED	OTHER	TOTAL
02/04/2003	Japan			2,826,164 ⁽¹⁵⁾				2,826,164
08/13/2003	Japan			2,878,452 ⁽¹⁵⁾				2,878,452
08/29/2003	ROK	3,720,000						3,720,000
09/19/2003	Japan	3,720,000						3,720,000
10/15/2003	United States	3,720,000						3,720,000
12/24/2003	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
2/15/2005	Japan			4,001,575 ⁽¹⁵⁾				4,001,575
5/9/2005	Japan	2,880,000						2,880,000
5/10/2005	ROK	2,400,000						2,400,000
7/18/2005	ROK	480,000						480,000
8/4/2005	Japan			3,706,208 ⁽¹⁵⁾				3,706,208
12/23/2005	EAEC**	1,000,000						1,000,000
2005	ROK			65,069,651 ⁽¹⁴⁾				65,069,651
2005	ROK		22,270,696 ⁽¹⁶⁾					22,270,696
2005	Japan		6,999,362 ⁽¹⁷⁾					6,999,362
2005 Total		6,760,000	29,270,058	72,777,434	0	0	0	108,807,492
Grand Total		118,066,992	1,553,720,499⁽¹⁸⁾	303,923,032	394,538,950	114,119,270	29,110,678	2,513,479,420⁽¹⁸⁾

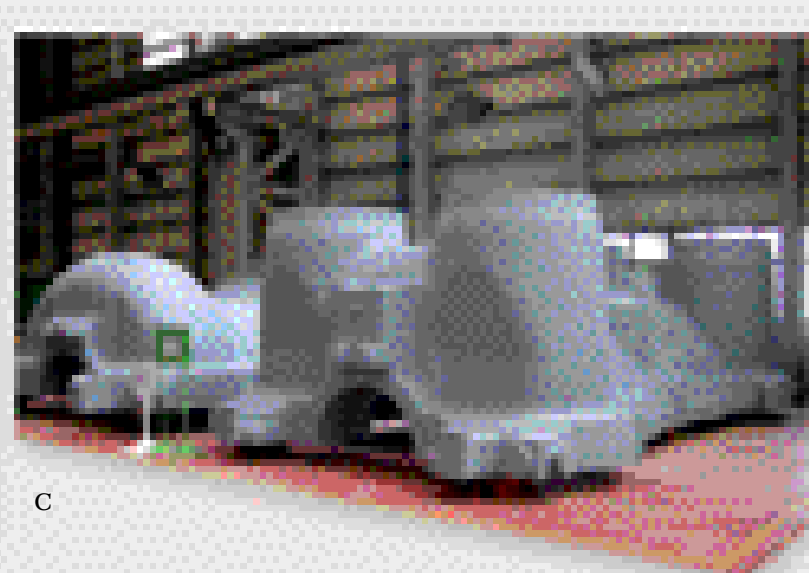
B. Total Financial Support by Country

March 1995 through December 2005

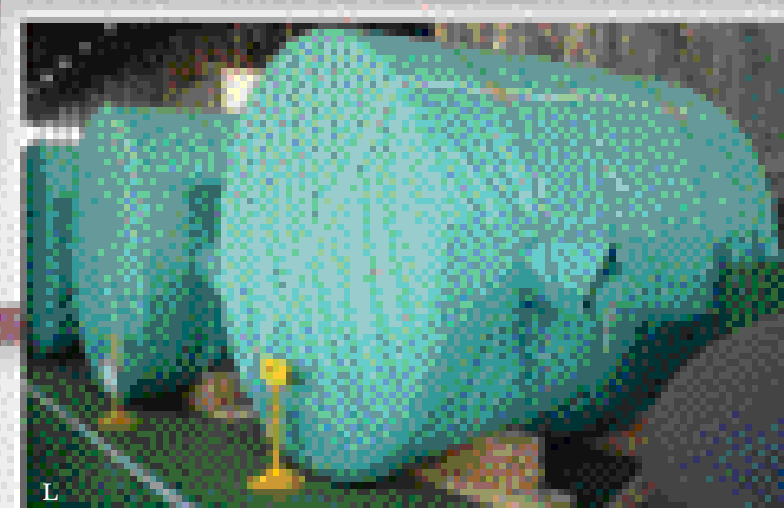
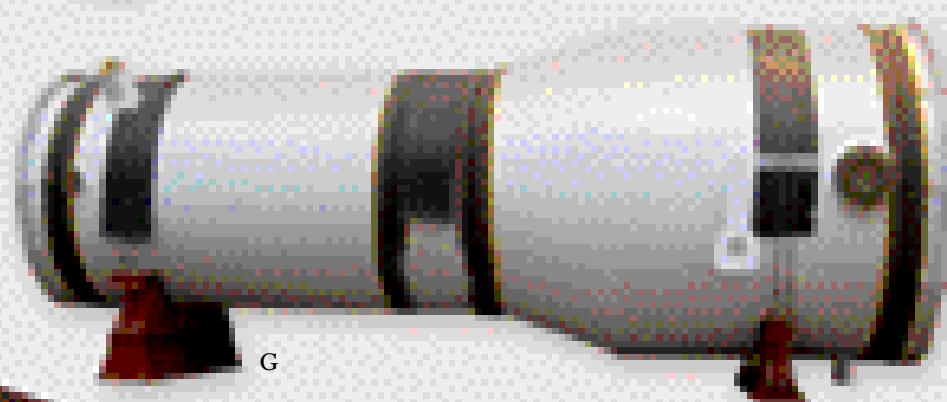
Argentina	200,000	Greece	25,000	Peru	100,000
Australia	14,444,400	Hungary	10,000	Philippines	150,000
Brunei	423,690	Indonesia	974,907	Poland	10,000
Canada	4,683,664	Italy	1,821,429	Qatar	100,000
Chile	20,000	Japan	498,485,755 ⁽¹⁹⁾	ROK	1,454,649,042 ⁽²⁰⁾
Czech Republic	127,816	Malaysia	300,000	Singapore	1,600,000
EAEC**	122,377,723	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





OUTER



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

Captions for the photographs on previous page

A: Upper Guide Structure (UGS) of Reactor Vessel Internals (RVI).
 B: Unit 1 High Pressure (HP) Turbine Rotor.
 C: Unit 1 High Pressure

(HP) Turbine Casings.
 D: Instrumentation and Control (I&C) Cabinets.
 E: Charging Pumps of Chemical and Volume Control System (CVCS).

F: Unit 1 Reactor Vessel (RV).
 G: Unit 2 Steam Generator (SG).
 H: Control Element Assembly (CEA) Shroud.
 I: Generator Stator Frame.
 J: Shells of Unit 1 Moisture

Separator Reheater (MSR).
 K: Storage of Moisture Separator Reheater (MSR) Finned Tubes.
 L: Packing of Unit 1 Safety Injection Tanks (SIT).

Appendix 2: Schedule of Administrative Revenues and Expenses

The Korean Peninsula Energy Development Organization

For the year ended December 31, 2005

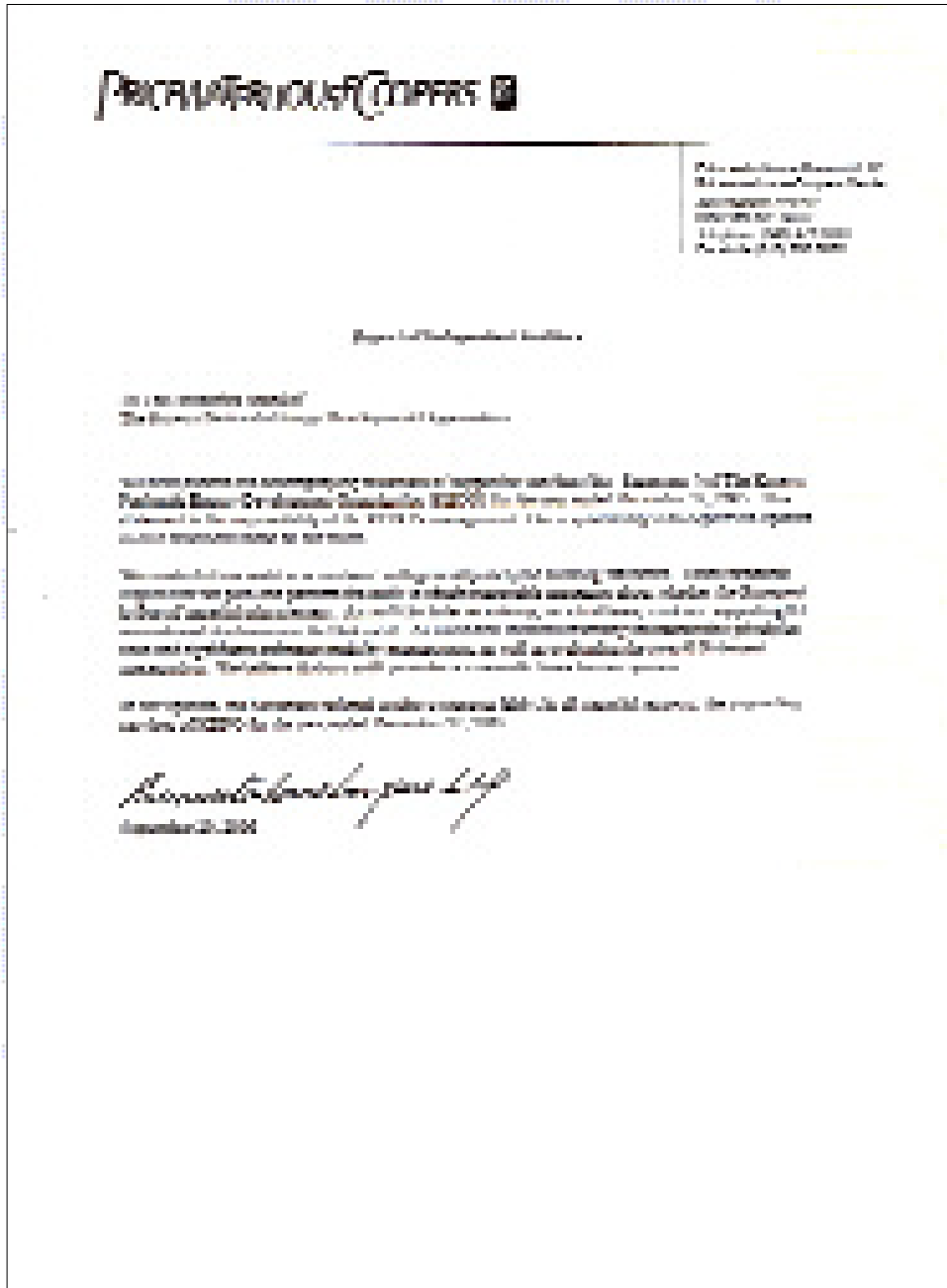
	ACTUAL AMOUNT	APPROVED BUDGET	OVER (UNDER) BUDGET
Administrative Revenues		(IN U.S. DOLLARS)	
Contribution for administration	\$ 6,760,000	\$ 9,640,000	\$ (2,880,000)
Interest income earned on the administrative fund in the year	54,853	—	54,853
Net assets released from cumulative administrative fund	2,121,322	1,600,000	521,322
Cumulative interest income and other unrestricted fund allowed to be used for administration	922,840	900,000	22,840
Total Administrative Revenues	9,859,015	12,140,000	(2,280,985)
Administrative Expenses			
Compensation and Benefits	5,828,111	6,102,939	(274,828)
Office expenses			
Office rent	924,231	997,080	(72,849)
Office supplies, communication and other office expenses	167,368	280,980	(113,612)
Relocation	310,776	388,440	(77,664)
Travel	535,614	851,867	(316,253)
KEDO office in Kumho	1,090,850	1,282,017	(191,167)
Nuclear safety confirmation	514,432	668,004	(153,572)
Technical support consultants	795,289	884,000	(88,711)
Legal consultation and audit fees	146,471	195,000	(48,529)
Liability Insurances	158,543	194,192	(35,649)
Meetings	37,631	39,730	(2,099)
Depreciation and loss of disposal of fixed assets	238,080	—	238,080
Contingency (other professional expenses)	40,666	237,885	(197,219)
Total Administrative Expenses	10,788,062	12,122,134	(1,334,072)

Appendix 3: Report of Independent Auditors

The Korean Peninsula Energy Development Organization

Report of Independent Auditors

December 31, 2005



Statement of Supporting Services

The Korean Peninsula Energy Development Organization

Years Ended December 31, 2005

Supporting Services

Compensation and benefits	\$ 5,828,111
Office rent	924,231
Office supplies, communication and other office expenses	167,368
Relocation	310,776
Travel	535,614
KEDO office in Kumho	1,090,850
Nuclear safety confirmation	514,432
Technical support consultants	795,289
Legal consultation and audit fees	146,471
Liability insurances	158,543
Meetings	37,631
Depreciation and loss on disposal of fixed assets	238,080
Other professional expenses	<u>40,666</u>

Total Supporting Services

10,788,062

Notes to Statement of Supporting Services

December 31, 2005

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 People's 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 statement of supporting services (the "Statement") has 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.

b. 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.

c. Expense Categories

Expenses for supporting services include the following.

Compensation and benefits: Compensation and benefits for KEDO's staff include staff salary, pension plan contributions, health and dental insurance. During 2005, KEDO terminated employment agreements. Employment termination expense of \$79,200 is included in compensation and benefits on the Statement.

Office expenses: Office expenses include office rent in New York, communication expenses, maintenance expenses for computerized information system and office security system, office supplies and stationary, and various other office expenses.

Relocation: Relocation expenses are airfare and moving expenses for internationally recruited staff.

Travel: International and domestic travel expenses for various meetings.

KEDO office in Kumho: KEDO office in Kumho oversaw day-to-day operations at the project construction site in Kumho, the DPRK, and maintained contact with the DPRK authorities. This category of expenses includes staff salaries, travel expenses, utilities, communication expenses and other office management expenses of the Kumho office.

Nuclear safety confirmation: KEDO relies heavily on outside expertise to support its safety activities to meet nuclear safety standards. The expense in this category represents fees for professional services to a governmental institution in the Republic of Korea.

Technical support consultants: KEDO also relies on outside expertise to manage technical and contractual matters regarding the project. The expense in this category is consulting fees for professional services of an electric power company in the U.S.

Legal consultation and audit fees: Professional fees for legal consultation with U.S. based law firms and to an accounting firm for the annual audit.

Liability insurances: Liability insurance program provides normal statutory and other types of protection from



lawsuits, damages to assets as well as covering other risks, losses, or catastrophic events.

Meetings: Expenses for the General Conference, the Executive Board meetings and other meetings to represent the Organization.

d. 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 disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

2. Lease Commitments

The Organization rents office space in New York City under a lease agreement which expires on September 30, 2007.

The future minimum lease payments at December 31, 2005 are as follows:

YEAR ENDING DECEMBER 31,	AMOUNT
2006	\$ 615,140
2007	470,991
	\$ 1,086,131

3. 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 year ended December 31, 2005 amounted to \$807,636.

4. Subsequent Events

The Executive Board decided to terminate the LWR project on May 31, 2006, recognizing that continued actions and measures by the DPRK violate the Agreement on Supply of a Light-Water Reactor Project to the DPRK between KEDO and the DPRK (the Supply Agreement) and the relevant protocols.

The termination of the LWR project has significant implications to the Organization and interested parties as described below.

- Repayment or compensation from the DPRK—According to the Supply Agreement the Government of the DPRK 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. Now that the LWR project is terminated as described above, KEDO's position is to seek compensation from the DPRK for the losses arising from the DPRK actions. Negotiations relating to the repayment terms or compensation may result in an amount that differs from the costs incurred.

- Repatriation of the on-site assets of the LWR project—All site workforce was demobilized from the construction site, Kumho in the DPRK, by January 8, 2006, and no preservation and maintenance activities have been conducted on the on-site construction works and equipment. The DPRK has banned repatriation and demobilization of KEDO's assets from the construction site in Kumho. KEDO has reiterated its position that equipment and other assets at the site remain the lawful property of KEDO, and KEDO has sought compensations from the DPRK for the losses arising from the DPRK actions.
- Disposition of the off-site assets of the LWR project—Components and materials, including works-in-progress, located outside of the Kumho site are to be disposed of in cooperation with a prime contractor. The way and amount of resale or disposition value of such equipments and components has not been determined.
- Repayment to the Export-Import Bank of Korea and Japan Bank for International Cooperation—The termination of the LWR project is an event of default under the terms and conditions of the loan agreements between the Organization and the banks. The banks do not intend to exercise its rights to declare the loans to be forthwith due and payable under the loan agreements for the time being; however, the waivers have not been extended beyond December 1, 2005 and the loans may be declared to be forthwith due and payable after that point. The Organization is unable to repay the loan balances without repayment or compensation from the DPRK and/or additional financial support from the Executive Board Member governments.

The final resolution of these matters is uncertain.