

CONFORMED COPY

LOAN NUMBER 3178 KO

KOWACO Agreement

(Juam Regional Water Supply Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

KOREA WATER RESOURCES CORPORATION

Dated August 10, 1990

LOAN NUMBER 3178 KO

KOWACO AGREEMENT

AGREEMENT, dated August 10, 1990, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and KOREA WATER RESOURCES CORPORATION (KOWACO).

WHEREAS by the Loan Agreement of even date herewith between Republic of Korea (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to thirty-four million dollars (\$34,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that KOWACO agrees to undertake such obligations toward the Bank as are hereinafter set forth; and

WHEREAS KOWACO, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Agreement, unless the context shall otherwise require, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Transfer of Works and Facilities; Operation and Maintenance of the Project

Section 2.01. KOWACO declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement.

Section 2.02. For the purposes of operating and maintaining the works and facilities completed under the Project, KOWACO shall prior to the completion of the Project, enter into a Transfer and Operations Agreement, satisfactory to the Bank, with the Borrower.

Section 2.03. KOWACO shall, as soon as the transfer of the works and facilities completed under the Project is effected, operate and maintain such works and facilities in accordance with the provisions of the Transfer and Operations Agreement, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility practices.

Section 2.04. (a) KOWACO shall, at the request of the Bank, exchange views with the Bank with regard to the performance of its obligations under this Agreement.

(b) KOWACO shall promptly inform the Bank of any condition which interferes or threatens to interfere with the performance by KOWACO of its obligations under this Agreement.

ARTICLE III

Management and Operations of KOWACO

Section 3.01. KOWACO shall carry on its operations and conduct its affairs in accordance with sound administrative financial, engineering and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. KOWACO shall at all times operate and maintain the plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices.

Section 3.03. KOWACO shall take out, and maintain with responsible insurers or make other provisions satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. KOWACO shall maintain records adequate to reflect, in accordance with consistently maintained appropriate accounting practices, its operations and financial conditions.

Section 4.02. KOWACO shall:

(a) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any

case not later than six months after the end of each such year: (i) certified copies of its financial statements for such year as so audited; and (ii) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning said accounts, financial statements, records and expenditures, as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 4.03. KOWACO shall revalue from time to time the fixed assets of its Water and Dams Divisions on the basis permitted by the relevant laws of the Borrower.

Section 4.04. Except as the Bank shall otherwise agree, KOWACO shall take all steps necessary on its part to set and maintain the tariffs and other charges of its Water and Dams Divisions at such levels as shall be necessary to provide revenues sufficient to produce an annual rate of return on the value of the net fixed assets in operation of each such Division of not less than 5%, provided, however, that rate of return of its Water Division for financial years 1990 and 1991 may be not less than 2% and 3.5%, respectively.

For the purposes of this Section:

- (i) The annual rate of return shall be calculated by dividing the operating income of the concerned Division for the year in question by the average value of its net fixed assets in operation at the beginning and at the end of each year.
- (ii) The term "value of net fixed assets in operation" shall mean the gross book value of such assets, (excluding the fixed assets of the Geumgang System until December 31, 1989) less the amount of accumulated depreciation, as such assets shall be revalued in accordance with the provisions of Section 4.03 of this Agreement.
- (iii) The term "operating income" shall mean the difference between:
 - (A) all operating revenues accruing from operations of KOWACO's Water or Dams Division, as the case may be; and
 - (B) all operating and administrative expenses of such Division and adequate maintenance and depreciation but excluding interest and other charges on debt.

ARTICLE V

Effective Date; Termination Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of KOWACO thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify KOWACO thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For KOWACO:

Korea Water Resources Corporation
San 6-2 Yeonchug-dong, Daejeon-Si
Chungcheongnam-Do
Republic of Korea

Cable Address:

KOWACO
Daejeon

Telex:

K-5554

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of KOWACO, may be taken or executed by the President of KOWACO or such other person or persons as the President of KOWACO shall designate in writing, and KOWACO shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Heinz Vergin
Acting Regional Vice President
Asia

KOREA WATER RESOURCES CORPORATION

By /s/ Sohn Myung Hyun Authorized Representative

