Korean
Peninsula
Energy
Development
Organization
Annual
Report
2003

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, 2003, through December 31, 2003, and contains the Organization's Audited Financial Statements for calendar year 2003.

The year 2003 began dramatically for the Korean Peninsula. On January 10, the Democratic People's Republic of Korea (DPRK) announced its formal withdrawal from the Treaty on the Non-Proliferation of Nuclear Weapons (NPT). The DPRK subsequently resumed operation of its small, graphite-moderated reactor at Yongbyon and announced plans to resume operation of its reprocessing plant.

Under those circumstances, the Executive Board members of KEDO met regularly over the course of the year to assess the impact of the DPRK's nuclear program on the Organization and its work. The Board continuously reviewed the schedule for construction on the light-water reactor (LWR) project including the pace of construction and size of the workforce at the site. KEDO maintained good communications with its DPRK counterparts throughout this period via its office at the construction site. Suspension of heavy fuel oil (HFO) deliveries, in place since December 2002, remained in effect throughout 2003.

On November 21, the Executive Board announced a decision to suspend the LWR project for a one-year period beginning on December 1. In its press release, the Board said that the suspension process would require preservation and maintenance activities both on- and off-site. The Board also said KEDO would continue to consult with the DPRK during the suspension period. So far, KEDO has engaged with the DPRK on a number of outstanding issues related to suspension. The two sides have agreed to observe all the existing protocols and agreements.

Since December, the Organization has maintained a much reduced staff presence at the site to conduct preservation and maintenance activities and to protect project-related assets. KEDO is preserving the partially built LWR units, construction facilities and equipment at the Kumho site, as well as their components being manufactured outside the DPRK, against degradation. They will be maintained in accordance with the approved codes and standards, or lacking such codes and standards, the manufacturers' recommendations. KEDO is also preserving project-related documentation. Engineering work continues on an as-needed basis, to provide the support necessary to preserve and maintain essential structures and components.

The political situation in the Korean Peninsula remains uncertain due to the DPRK's continued position regarding its nuclear program. Nevertheless, the Organization has weathered the difficulties of the past year, and remains ready to meet the challenges which may arise. KEDO continues to rely 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 they will enhance your understanding of our activities, and that, if future developments warrant it, we may rely on your continued cooperation and support.

Charles Kartman
Executive Director
New York, December 31, 2003

Contents

Organization

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

The KEDO staff consisted of 46 professional and support personnel at the end of 2003. 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. Kyu-Hyung Cho held the post of Deputy Executive Director from July 31, 2000 to May 31, 2003. The incumbent, Mr. Young-Mok Kim, assumed the post of Deputy Executive Director on June 1, 2003. Mr. Hideto Mitamura has served as Deputy Executive Director since September 26, 2002.

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

The HFO and Financing Division was responsible for arranging for the financing of the LWR project until the project 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 (see pages 5, 9 and 24). 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 other contacts with the DPRK. The Project Operations Division was responsible for managing the design and construction of the LWR project until the project was suspended in December 2003. Since that time, the division has managed the preservation and maintenance activities related to the project. 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. 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.

Unit 1 RCB Basemat at 83 feet after concrete pouring

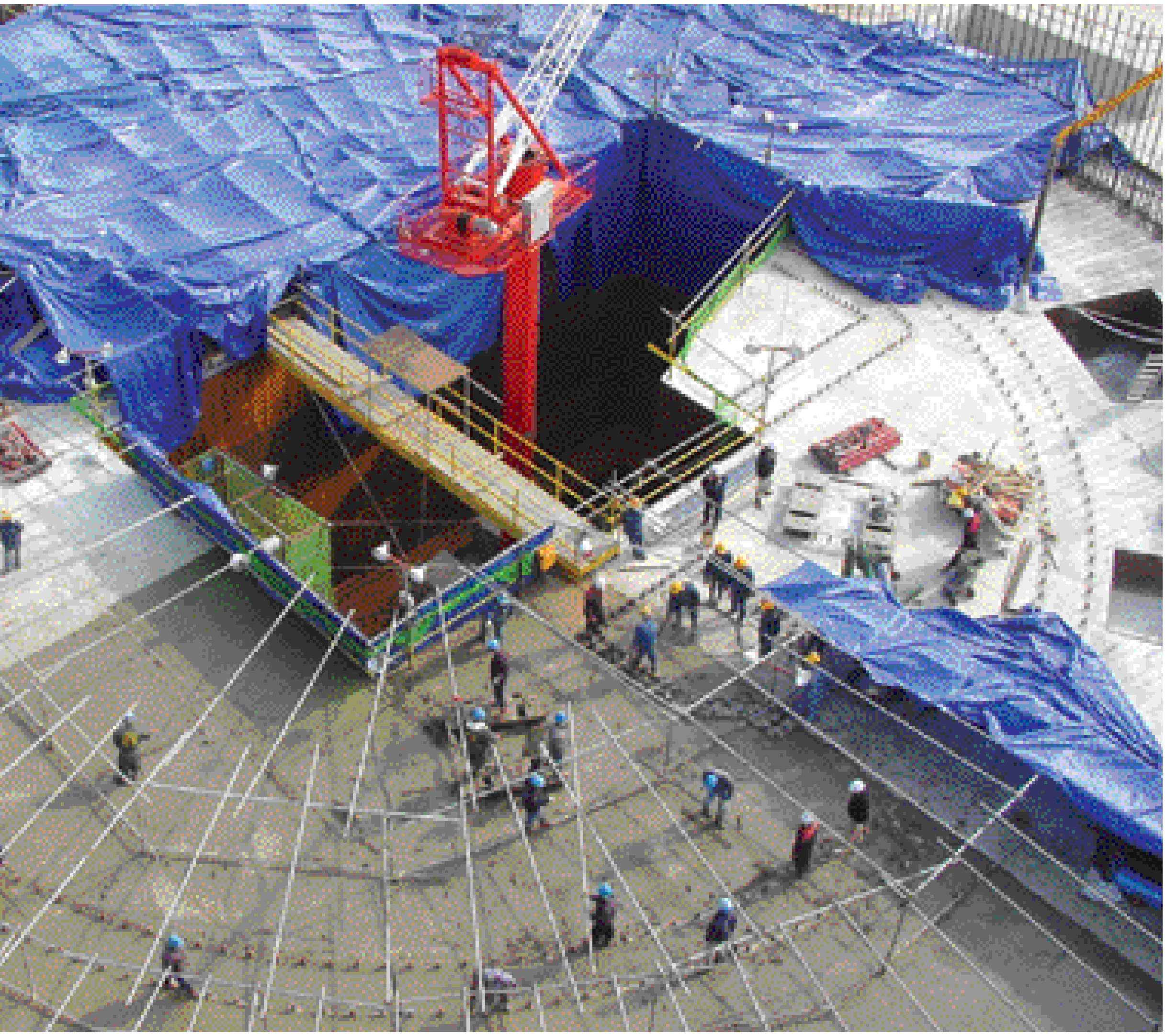
KEDO Office in Kumho

KEDO maintains a staff of eight from its Executive Board members at the LWR 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 contacts 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. ■

Status of Relations with the DPRK

In November 2002, following the admission by the DPRK that it was engaged in an undeclared program to develop highly enriched uranium, KEDO's Executive Board decided to suspend the supply of heavy fuel oil from December of that year. Subsequently, the DPRK expelled inspectors from the International Atomic Energy Agency (IAEA) from Yongbyon at the end of December 2002; announced its withdrawal from the Treaty on the Non-Proliferation of Nuclear Weapons on January 10, 2003; and resumed operations at its Yongbyon nuclear facility, which had been frozen under the Agreed Framework.

Several diplomatic initiatives emerged seeking to resolve these nuclear issues. The most notable of these were the U.S.-DPRK-China three-party talks in April and at the six-party talks in August, which, in addition to the abovementioned countries, included Japan, the Republic of Korea and the Russian Federation.



Throughout 2003, Executive Board members held several meetings to assess the implications for the construction of its LWR project. As DPRK nuclear activities advanced, the Executive Board members continuously reviewed key questions, including the pace of construction and the size of the workforce at the site. During this period, KEDO maintained good communications with the DPRK through working-level contacts at the Kumho site; KEDO also continued to send teams of experts to the site.

In October 2003, the DPRK imposed a ban on the removal of any equipment, facility and materials from the Kumho site.

The Executive Board met November 3-4 in New York and decided to suspend the LWR project for one year beginning December 1. The Executive Director of KEDO, Charles Kartman, visited Pyongyang November 15-17 to inform Choe Chol Su, the newly appointed DPRK Director-General of the DPRK General Bureau for the LWR Project, of the Board's decision on suspension.

On November 21, KEDO issued a press release containing the following points:

- Given that the conditions necessary for continuing the LWR project have not been met by the DPRK, KEDO has decided to suspend the LWR project in the DPRK for a period of one year, beginning December 1.
- The future of the project will be assessed and decided by the Executive Board before the expiration of the suspension period.
- The suspension process will require preservation and maintenance both on-site and off-site. KEDO continues to consult with the DPRK in this process.
- Suspension implies that KEDO and the DPRK will continue to observe the applicable provisions of the agreements and protocols concluded between them.

Following the start of the suspension, KEDO sent a team of experts to Kumho and held a meeting with DPRK officials December 10-11. KEDO's representatives explained to DPRK officials the technical steps KEDO intended to take to preserve the project in accordance with professional standards during suspension. ■

LWR Project

Construction for the LWR project proceeded along the schedule described in the Turnkey Contract (TKC) with the Korea Electric Power Corporation (KEPCO), the prime contractor for the project, until early 2003 when concerns were raised by Executive Board members regarding the DPRK's compliance with its nuclear nonproliferation obligations under the NPT, the Agreed Framework, and the DPRK's IAEA safeguards agreement. In the 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 November 30, just before its suspension, the project was approximately 34.5% complete.

In line with the Executive Board's decision to suspend work, and to consult and decide on the future of the project before the expiration of the suspension period, the Organization prepared a plan identifying measures to preserve the construction works and manufactured equipment.

The plan provided an assessment of the current project status, preservation criteria, preservation work scope, quality assurance, contractor demobilization and staffing during suspension, contract management and site security.

Site Construction

Power block construction work continued at a reduced pace through most of 2003. After the project's suspension was announced, work stopped at a stage which permitted proper preservation and maintenance of the structures. These included the power block and supporting facilities, as well as those of the community area. Installation of Unit 1 Reactor Containment Building (RCB) liner plate was suspended after the installation of rings 9 and 10. Exterior concrete was poured up to ring 3 of the container liner plate to reduce the amount of plate subject to corrosion.

In addition, concrete pouring for the primary shield wall for Unit 1 RCB, for the basemat concrete for Unit 1 Primary Auxiliary Building (PAB), and for Unit 2 RCB containment sump basemat and tendon gallery were completed to protect previously installed reinforcing steel. KEDO contractors also took steps on the partially excavated intake and discharge channels to protect for slope erosion and completed work on the box culverts for the road. They also finished work on the mud mat for Unit 2 Turbine Generator Building (TGB), PAB and the construction of other limited Unit 2 structures as required for Unit 1 interfaces.

KEDO halted construction activities in the community area in early 2003. Certain completed facilities were closed to reduce Operation & Management manpower. However, work continued on supporting facilities needed to support Unit 1 construction, such as the completion of several fabrication shops and warehouses, and an office building.

Offsite Work

The plan proposed by the Secretariat, dated November 21, projected that KEDO would halt production of the Nuclear

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

Steam Supply System (NSSS) and the Turbine/Generator (T/G) components when their manufacture had reached a stage which would permit proper preservation and maintenance during suspension. The plan outlined that their storage would follow approved codes and standards, or in their absence, manufacturers' recommendations.

In addition to manufacturing, engineering activities proceeded until they reached a stage suitable for preserving the design documents. Engineering work continued on a reduced scale to provide the support necessary to preserve and maintain structures and components.

Preservation and Maintenance (P&M) Work

The plan also set forth guidelines to be used by KEPCO to establish a preservation and maintenance (P&M) program which would be economical and acceptable to regulatory authorities. In accordance with this plan, KEPCO has performed most of the P&M activities to protect, store and secure the works against any deterioration, loss or damage during the suspension as follows:

Construction Site: For the power block structures (RCB, PAB, TGB, etc.), KEPCO's contractors installed membrane covers or protective coatings over exposed items such as reinforcing steel bars, and anchor bolts. They conducted periodic checks and maintenance. They also applied protective coatings or membranes to cover exposed items at the construction support facilities (concrete production facilities, temporary shops and warehouse). KEPCO contractors isolated the power supply at the community facilities (living quarters, hospital, community center, restaurant and convenience center), locked entrances, and drained the plumbing.

NSSS, T/G, Equipment and Balance of Plant (BOP) Procurement: Storage and maintenance of these components, including testing where appropriate, began in accordance with the manufacturer's instruction based on the requirement of ASME NQA-1.

In addition, the design and engineering outputs have been preserved and maintained. Environmental quality monitoring and data gathering will continue during the suspension period at the site.

Site Demobilization and Caretakers

As the scope of original TKC work decreased, and initial P&M activities were completed, KEDO reduced the number of personnel at the site. On December 31, 2003, KEDO's workforce included 308 personnel, including 100 DPRK laborers, at the site. Uzbek laborers were demobilized from the site on December 17. There were 93 pieces of heavy equipment and around 190 vehicles at the site on December 31. All mobile equipment, vehicles and all cranes (including fixed cranes), except for those that were essential for preservation and maintenance activities, were scheduled to leave. However, due to the DPRK's ban on their removal, no equipment has been demobilized since October 21. Under the plan, some 123 caretakers will remain at the site during the period of suspension to protect, store and secure the suspended works.

KEDO's nuclear safety responsibilities are guided by its Nuclear Safety Policy, which states that all LWR project activities shall be conducted in a manner that ensures nuclear safety is accorded the highest priority and will not be compromised for any reason. This policy is carried out through a unique system, the Nuclear Safety Confirmation System (NSCS), in place since February 1998 to confirm the safety and reliability of the reactors, while overseeing all nuclear safety aspects of the LWR project.

Nuclear Safety Confirmation System

KEDO relies heavily on outside expertise to support its safety activities through the 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 would be preserved in accordance with applicable codes and standards during suspension. Owing to the project's suspension, however, there were no NSAG or IAEA meetings with KEDO in 2003. KEDO continues to review the NSAG and IAEA recommendations.

KINS, acting on KEDO's behalf, reviewed the proposed P&M activities on nuclear safety-related structures and equipment prior to the development of KEDO's plan. It also conducted safety inspections at the LWR site in February; of Mitsubishi Heavy Industries in March; of Korea Power Engineering Company (KOPEC) in April; of Westinghouse Electric Corporation in June; and of Doosan Heavy Industries & Construction Co., Ltd. and KEPCO's head office in July. It also conducted a review of the LWR site in March and August to review geological, technical, and environmental areas. No major issues were identified during these inspections and the site visit.

Cooperative Activities with the DPRK

In February 2003, regulatory personnel from the DPRK's State Nuclear Safety Regulatory Commission (SNSRC) participated in a joint inspection with KINS at the LWR site. KEDO had met on a periodic basis with the SNSRC from 1998-2002 to discuss nuclear safety-related issues. In 2003, 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 March and November, respectively, KEDO's Quality Assurance Program concluded audits of Mitsubishi Heavy Industries in Japan and Westinghouse Electric Corporation in the United States. In July, KEDO conducted surveillance of Doosan's manufacturing. Other KEDO quality assurance activities included indoctrination training, management assessments, internal quality audits, supplier evaluation, and maintenance of the KEDO Quality Assurance Procedure Manual. ■

Membership

The original members of KEDO are Japan, the Republic of Korea, 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"), an organization 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
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 2003 (see also page 24).

Two workers from the Integrated Construction Group check a protection cap for instrumentation tubes at the Unit 1 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
04/23/1997	Australia				1,543,200			1,543,200

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

DATE	COUNTRY	ADMINISTRATION	LWR	INTEREST*	HFO	UNRESTRICTED	OTHER	TOTAL
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**
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

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

DATE	COUNTRY	ADMINISTRATION	LWR	INTEREST*	HFO	UNRESTRICTED	OTHER	TOTAL
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]				2,297,600
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**	**0**	**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**	**0**	**0**	**0**	**425,540,537**
Grand Total		**103,996,992**	**1,425,749,887**(18)	**165,007,408**	**394,538,950**	**114,119,270**	**29,110,678**	**2,232,523,184**(18)

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

B. Total Financial Support by Country

March 1995 through December 2003

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	446,936,136(19)	ROK	1,227,332,425(20)
Czech Republic	127,816	Malaysia	300,000	Singapore	1,600,000
EAEC	120,287,723	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		

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 and spent 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

The Korean Peninsula Energy Development Organization

Report of Independent Auditors

December 31, 2003

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1177 Avenue of the Americas
New York NY 10036
Telephone (646) 471 4000
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, 2003, 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 2002 financial statements, and in our report dated March 12, 2003, 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. 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, 2004 and the loans may be declared to be forthwith due 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.

1

PRICEWATERHOUSECOOPERS

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information presented on Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

March 12, 2004

2

Balance Sheet

The Korean Peninsula Energy Development Organization

December 31, 2003 and 2002

	2003	2002
Assets		
Cash and cash equivalents	$17,376,701	$27,391,948
Cash restricted for collateral	19,000,000	19,000,000
Contributions receivable, net	3,249,131	2,849,487
Furniture, equipment, and leasehold improvements, net (note 2)	1,049,567	1,476,300
Other assets	432,620	381,238
Light-Water Reactor Project (note 6)	1,479,946,002	1,145,739,547
Total assets	$1,521,054,021	$1,196,838,520
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	4,471,658	3,926,858
Due to contractor (note 8)	47,093,599	68,422,587
Loans payable (note 7)	1,462,733,486	1,083,759,408
Total liabilities	1,514,298,743	1,156,108,853
Net assets		
Unrestricted	(21,487,329)	11,096,261
Temporarily restricted (note 4)	28,242,607	29,633,406
Total net assets	6,755,278	40,729,667
Total liabilities and net assets	$1,521,054,021	$1,196,838,520

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Statement of Activities

The Korean Peninsula Energy Development Organization

Years Ended December 31, 2003 and 2002

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL 2003	TOTAL 2002
Revenues				
Contributions	$ -	$ 12,488,726	$ 12,488,726	$120,317,107
Contributed and imputed interest (note 7)	-	58,689,629	58,689,629	48,308,388
Interest income	228,866	-	228,866	1,043,786
Net assets released from restrictions (note 4)	72,569,154	(72,569,154)	-	-
Total revenues	72,798,020	(1,390,799)	71,407,221	169,669,281
Expenses:				
Program services				
Heavy fuel oil	265,893	-	265,893	70,539,664
Light-Water Reactor Project interest expense (notes 7 and 8)	58,933,287	-	58,933,287	48,432,591
Total Program Services	59,199,180	-	59,199,180	118,972,255
Supporting Services				
Administration	13,645,961	-	13,645,961	14,944,130
Total expenses	72,845,141	-	72,845,141	133,916,385
Foreign exchange loss	(32,536,469)	-	(32,536,469)	(89,972,562)
Decrease in net assets	(32,583,590)	(1,390,799)	(33,974,389)	(54,219,666)
Net assets				
Beginning of year	11,096,261	29,633,406	40,729,667	94,949,333
End of year	$ (21,487,329)	$ 28,242,607	$ 6,755,278	$ 40,729,667

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Statement of Cash Flows

The Korean Peninsula Energy Development Organization

Years Ended December 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Decrease in net assets	$ (33,974,389)	$ (54,219,666)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities		
Depreciation	425,642	328,765
Loss on disposition of assets	1,091	-
Foreign exchange loss	32,536,469	89,972,562
Changes in assets and liabilities		
(Increase) decrease in contributions receivable	(399,644)	14,860,513
Increase in other assets	(51,382)	(74,173)
Increase (decrease) in accounts payable and accrued expenses	544,800	(61,621)
Decrease in suppliers' credits	-	(18,900,409)
(Decrease) increase in due to contractor	(21,328,988)	18,224,359
Net cash (used in) provided by operating activities	(22,246,401)	50,130,330
Cash flows from financing activities:		
Light-Water Reactor Project expenditures	(334,206,455)	(352,024,957)
Other capital expenditures	-	(803,812)
Net cash used in investing activities	(334,206,455)	(352,828,769)
Cash flows from financing activities		
Proceeds from notes payable	-	61,000,000
Repayments of notes payable	-	(76,000,000)
Proceeds from loans payable	346,437,609	310,264,905
Net cash provided by financing activities	346,437,609	295,264,905
Net decrease in cash and cash equivalents	(10,015,247)	(7,433,534)
Cash and cash equivalents		
Beginning of year	27,391,948	34,825,482
End of year	$ 17,376,701	$ 27,391,948
Supplemental cash flow information:		
Interest paid during the year	$ 5,714,708	$ 4,481,257
In-kind contribution (interest-free loans)	52,585,369	43,154,522

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Notes to Financial Statements

December 31, 2003

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 the 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. 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. Then 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, and agreed to consult and decide on the future of the LWR project before the expiration of the suspension period of one year. Following the decision on the future of the LWR project, the Organization and the banks, which provide financing for the project, 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 Organization is dependent on contributions from governments to carry out its objectives and cover its operating costs. In 2003, three countries and the EAEC provided all of the Organization's contributions. In 2002, eight countries and the EAEC provided all of the Organization's contributions.

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 purposes have 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. Contribution receivable at December 31, 2003 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. 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.

g. 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.

h. 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, 2003 and 2002, such foreign currency rates for U.S. dollars were as follows:

	2003	2002
South Korea (Won)	1,192.60	1.186.30
Japan (Yen)	107.35	118.75

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.

i. Comparative Information

The accompanying statement of activities is presented with comparative information for the year ended December 31, 2002 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, 2002.

2. Furniture, Equipment, and Leasehold Improvements

Furniture, equipment, and leasehold improvements consisted of the following at December 31, 2003 and 2002:

	2003	2002
Furniture	$382,490	$382,490
Equipment	1,747,785	1,749,604
Automobiles	54,200	54,200
Leasehold improvements	1,008,083	1,008,083
	$3,192,558	**$3,194.377**
Less accumulated depreciation and amortization	(2,142,991)	(1,718,077)
	$1,049,567	**$1,476,300**

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 years ended December 31, 2003 and 2002 amounted to $877,182 and $840,488, respectively.

4. Temporarily Restricted Net Assets

Temporarily restricted net assets were released from restrictions for the following purposes during 2003 and 2002.

	2003	2002
Administration	$ 13,645,961	$ 13,868,698
Heavy fuel oil	-	88,030,597
Imputed interest	52,585,369	43,154,522
Loan interest	6,337,824	5,537,326
Future period	-	17,710,000
	$ 72,569,154	**$ 168,301,143**

Temporarily restricted net assets at December 31, 2003 and 2002 were available for the following purposes or for future periods:

	2003	2002
Collateral	$ 19,000,000	$ 19,000,000
Administration	7,843,437	9,000,617
Site survey	236,494	236,494
Project survey and other than heavy fuel oil	1,162,676	1,162,676
Loan interest	-	233,565
	$ 28,242,607	**$ 29,633,406**

5. 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, 2003 and 2002 was $861,822 and $766,751, respectively.

The future minimum lease payments at December 31, 2003 are as follows:

YEAR ENDING DECEMBER 31,	AMOUNT
2004	$ 841,883
2005	631,413
	$ 1,473,296

6. 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 for a period of one year. The Executive Board of the Organization agreed to consult and decide on the future of the LWR project before the expiration of the suspension period of one year.

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 Won (which is equivalent to $2,970 million at December 31, 2003). 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. Total disbursements made from Loan Facility B as of December 31, 2003 and 2002 amounted to $1,053,033,363 and $781,508,040, respectively. Imputed interest of $52,585,369 (an average interest rate of 5.74% as provided by the Government of Republic of Korea) and $43,154,522 (an average interest rate of 6.97% 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, 2003 and 2002, 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 $1,085 million at December 31, 2003.) 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 1.82% and 1.90 % as of December 31, 2003 and 2002, respectively. Interest is payable on each February 16 and August 16. Interest expense for this loan amounted to $6,347,918 and $5,278,068 for the years ended December 31, 2003 and 2002, respectively. In a separate agreement, the Government of Japan has agreed to extend a grant to the Organization to pay the interest, of which $6,347,918 and $5,153,866 was contributed during 2003 and 2002, 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 $409,700,123 and $302,251,368 as of December 31, 2003 and 2002, respectively.

After the decision on suspension of the LWR project, in December 2003, the banks above confirmed to KEDO that they (1) will not cancel the undrawn portion of loan facility and/or 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 6), 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. Due to Contractor

Amounts due to contractor of $47,093,599 as of December 31, 2003 and $68,422,587 as of December 31, 2002 represent unpaid KEPCO invoices for costs associated with the TKC. The balance as of December 31, 2002 was paid in full in January and February of 2003, in accordance with the procedures set forth in the TKC. Of the balance as of December 31, 2003, approximately $32 million was paid in January and February 2004 through a draw down of loan facilities B and C described in the note 7, and approximately $15 million has been deferred under terms as agreed with KEPCO. ■

Schedule of Heavy Fuel Oil Expenses

The Korean Peninsula Energy Development Organization

December 31, 2003 and 2002

	2003	2002
Commodity, freight and demurrage	$ 106,067	$ 69,740,041
Interest	-	189,220
Technical services—flow meters	-	421,611
Freight forwarding service fees	-	(58,241)
Insurance	-	91,519
Depreciation	159,826	155,514
Total expenses	$ 265,893	$ 70,539,664