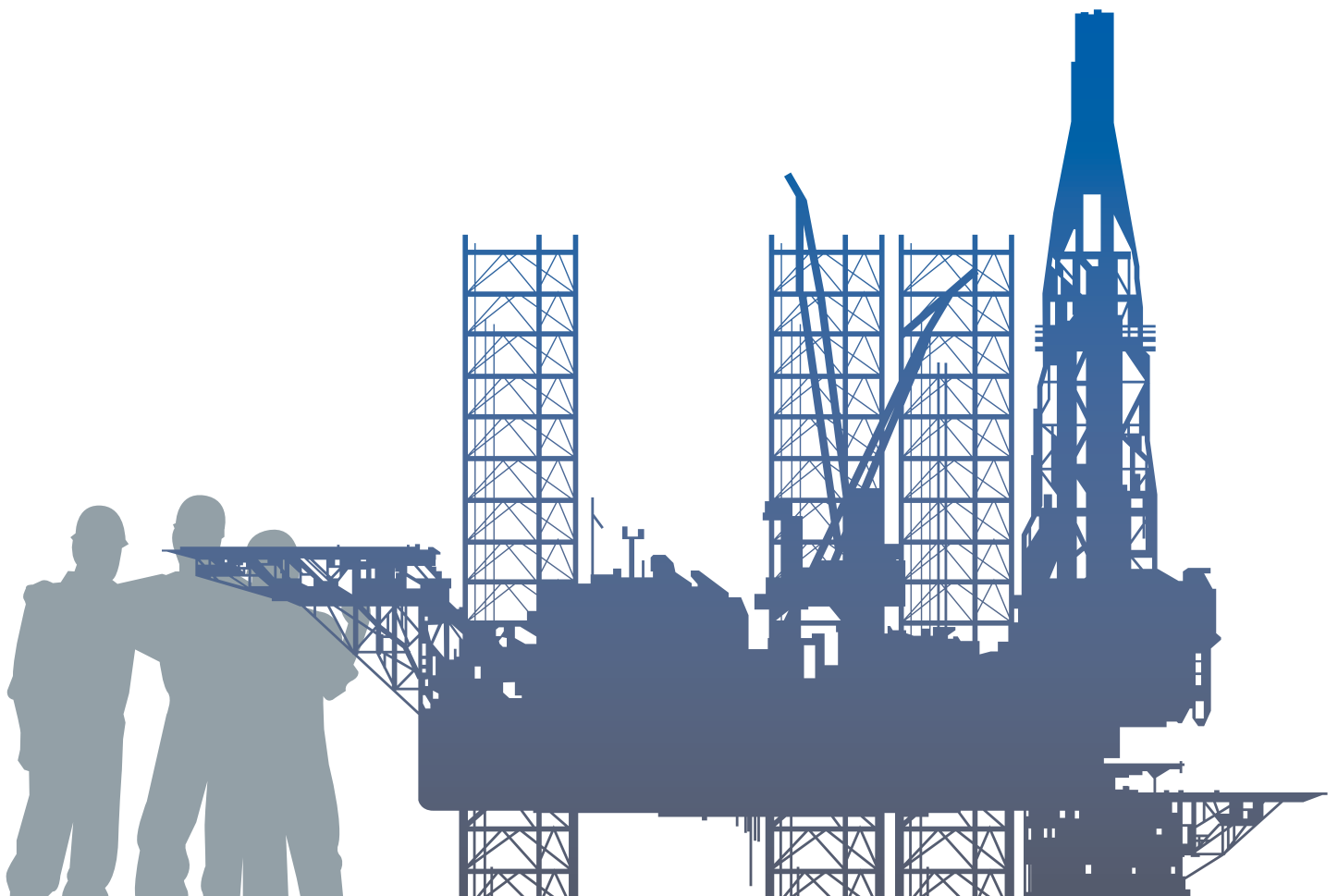




Korea  
National Oil Corporation

# KOREA NATIONAL OIL CORPORATION

RESPECTED WORLD-CLASS NATIONAL OIL COMPANY  
ANNUAL REPORT 2010





## KNOC's passion for energy future

KNOC explored Donghae-1 gas field with its technology, putting Korea on the list of oil-producing countries. Based on the 30-year-long technical competitiveness and know-how, KNOC, a state-run oil company, is playing a leading role in developing oil fields to stably supply the Korean economy with energy, stockpiling oil in case of emergencies and to improve oil distribution structure for wholesome development of the domestic oil industry.

Under its goal for sizeable growth, 'GREAT KNOC 3020', reaching a daily production volume of 300 thousand barrels and reserves of 2 billion barrels by 2012, the Corporation has taken over a series of overseas promising companies. In 2010, it has given strong impression to major global oil players by integrating with Dana petroleum plc., a British independent oil company, after a string of M&A with SAVIA-Peru, Harvest Energy Trust in Canada and Sumbe in Kazakhstan in 2009.

Growing as a major global oil corporation, KNOC promotes four core values: Challenge, Professionalism, Respect and Contribution.



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KNOC actively carries out petroleum exploration projects to become a global oil corporation. To realize GREAT KNOC 3020, KNOC has focused on M&A and successful Post-Merger Integration (PMI) with acquired counterparts, production volume increase at local and overseas operating blocks, and new business expansion. These activities resulted in securing 180 thousand barrels per day (b/d) (128 thousand b/d in 2009) reserve volume of 1.133 billion barrels in 2010 (881 million barrels in 2009).

One of the milestones is the successful hostile takeover, the first ever for a Korean public company, of the British independent oil company Dana Petroleum. The deal, financed with an

# ENVISIONING A GREATER SUCCESS

**KNOC, not afraid of failure,  
turns dreams into reality with creativity**



advantage of low interest rates, raised Korea's self-sufficiency rate of oil and gas to 10 percent level and expanded its overseas strongholds to the North Sea and Africa.

Meanwhile, KNOC is consolidating the business foundation with efficient management of local and overseas oil & gas blocks. The Corporation has been producing natural gas and condensate from a domestic continental shelf, Donghae-1 gas field, located 58 kilometers offshore Ulsan and found additional gas and oil in Vietnam 11-2 and 15-1 blocks. KNOC has also built sound international relations with national oil companies in Asia and oil producing countries.

An aerial photograph of the Great Knoc oil storage facility. The image shows a large industrial complex with numerous large, circular, white oil storage tanks arranged in a grid-like pattern. The tanks are surrounded by paved roads and some greenery. In the background, there are more industrial buildings and a parking lot. The overall scene is a well-organized industrial site.

GREAT KNOC

In April 2010, KNOC took a landmark step in its history, completing oil stockpile plan according to 3-phases of government oil stockpile plan that started from 1980.

Having completed the Korean government's stockpiling plan, starting in Ulsan city in 1980, KNOC has secured a storage capacity of 146 million barrels. It is equivalent to 158 days of net imports, at nine bases throughout the country.

KNOC plans to establish global trading system with increased trading of overseas-produced oil and makes efforts to stabilize oil supply and demand at home by lending reserved oil and oil facilities to local refineries in time.



# INCREASING ENERGY SECURITY

KNOC has been working as a guardian  
for national energy security



By building stockpiling bases optimized for logistics, KNOC is proactively preparing for the fast-changing global oil market, as well as playing a pivotal role in developing the nation into an oil hub for Northeast Asia, thus becoming a regional logistics center.



In line with its efforts to sharpen the competitive edge of Korea's oil industry, KNOC is striving to accomplish technological independence earlier than originally planned through systematic technology development. Since its announcement of an "E&P Technology Roadmap", KNOC has enhanced its competitiveness by securing E&P employees' expertise and systematically managing and utilizing technologies and capabilities of human resources around the world.

In 2010, the Corporation increased R&D investment and set up "Global Technology & Research Center (GTRC)" in Canada, the hub of oil technology development. The center



# SECURING TECHNOLOGICAL LEADERSHIP

KNOC will stand shoulder to shoulder with major oil companies  
and accomplish national energy independence based on  
superior technological competitiveness



is KNOC's first overseas R&D institute. It will contribute to raising exploration success rate, securing additional reserves and augmenting production volume by playing an advisory role and bringing proven technical capabilities to across the company's global operations.



The year 2011 will be crucial for KNOC.

It will continue to build its legacy of becoming a world-class company and become an exemplary role model for other public companies with advanced business management system.



To KNOC stakeholders,

I would like to express my heartfelt appreciation to all of you for your continued support for KNOC's passionate energy and potential.

The year 2010 was a truly meaningful for KNOC in that KNOC nears to be a genuinely global company. After a string of successful M&A in 2009, the historic integration with Dana Petroleum uplifted KNOC's profile. Completing national oil stockpiling plan assured that the company is a strong pillar in national energy security.

We are realizing a greater Korea as we are endeavoring to become a respected world-class national oil company.

#### *"Global KNOC", the story of "Pioneering Spirit"*

The Corporation's operating income rose to KRW 659.4 billion thanks to the acquisition of Dana Petroleum plc. After the acquisition, our overseas strongholds expanded and Korea's self-sufficiency rate of oil and gas rose to 10% for the first time. Based on that, we now aim to grow into a mega-size company with an operating income of KRW 1 trillion across global bases.

KNOC has also been committed to coming up with practical measures for cooperation with Asia's energy-rich countries. To this end, KNOC successfully hosted the Asian NOC CEO Forum last August solidifying Asia-NOC partnership.

In retrospect, 2010 gave us confidence and successful experience that we can leapfrog to a world-class company, and our vision and GREATER strategy are feasible.

#### *"Great KNOC", the pillar of energy security*

The year 2010 was also meaningful in stockpiling business. Accomplishing 30-year national plan, we completed stockpiling facility with a storage capacity of 146 million barrels.

This is the highest storage capacity among OECD countries, fitting with Korea's enhanced reputation after hosting G20 as a chair country. We plan to build harbor infrastructure to be the hub of Northeast oil logistics market.

Last year was remarkable in stockpiling business as well. We generated profits through diverse activities such as joint stockpiling with other countries, oil product trading, and lease of stored asset. And we obtained as much as 1 million barrels from our own blocks for the first time and increased marketing activities for overseas-produced crude oil of 4.2 million barrels, fulfilling its role as a national oil company.

## MESSAGE FROM THE CEO



### "Advanced KNOC," a model of advancement

KNOC has carried out diverse projects to improve management system. Corresponding to the bigger external size thanks to historic M&A results, we have been strengthening internal capabilities to prop up.

The biggest change was reshuffling the organizational structure based on regions. This reflects the fact that solidifying the internal structure, enlarging business from each region, and managing and PMI with acquired companies are absolutely crucial. The reorganization helped make the business more efficient, discover blocks based on each region and prepare ourselves after the strategic objective, "GREAT KNOC 3020"

The Corporation enhanced various business management programs to grow into a global E&P corporation. We set a roadmap to make the best use of international experts and introduced performance-based compensation policy, the key standard in public company's business innovation.

### KNOC, a genuine global player

The year 2011 will be crucial for KNOC as it will continue to build its legacy of becoming a world-class company and become an exemplary role model for other public companies with advanced business management system.

With consistency, we will pursue sustainable management that meets the people's expectation, and make corporate-wide efforts so that the culture of corporate social responsibility, ethical management, and autonomous management will take root deeply within the company.

I hope you will continue to support KNOC, which serve as communication channel with the Korean public and the world, and its greater endeavor shaping Korea's energy future.

Thank you very much.

President & CEO Young-Won Kang

**FINANCIAL HIGHLIGHTS****SUMMARIZED FINANCIAL POSITION** (KRW in billions)

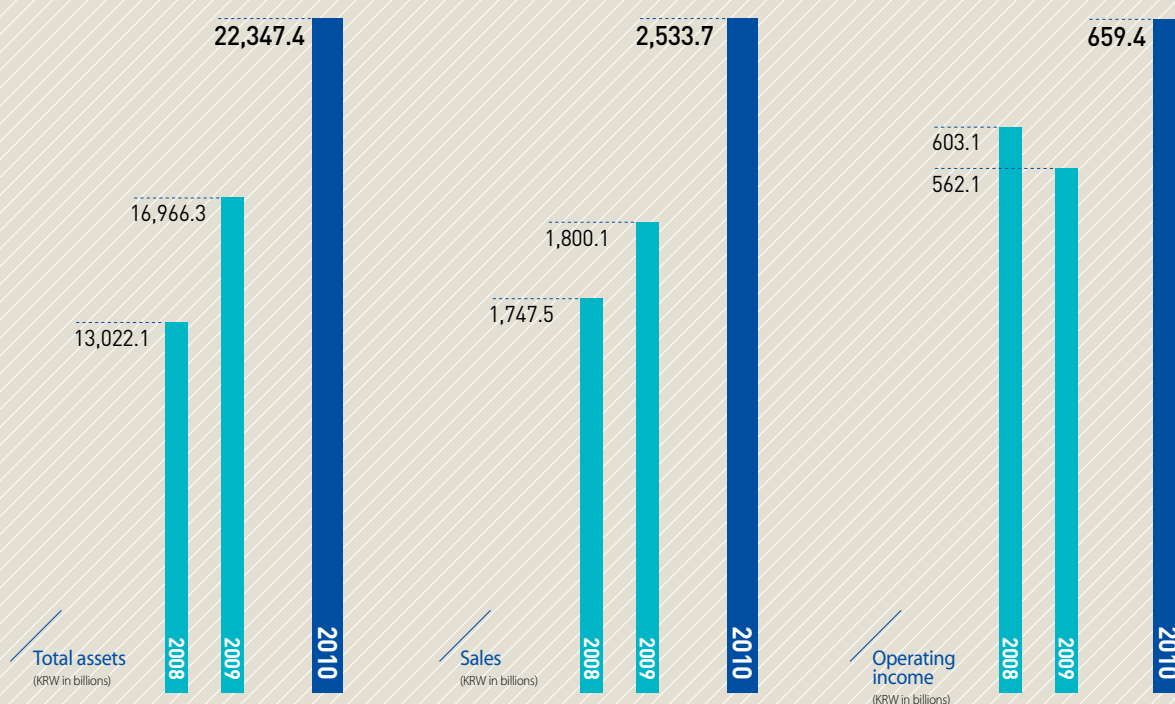
	2010	2009	2008
Total assets	22,347.4	16,966.3	13,022.1
Total liabilities	12,343.6	8,544.3	5,505.9
Total shareholders' equity	10,003.7	8,422.0	7,516.1

**SUMMARIZED INCOME STATEMENTS** (KRW in billions)

	2010	2009	2008
Sales	2,533.7	1,800.1	1,747.5
Gross income	758.2	637.6	681.7
Operating income	659.4	562.1	603.1
Net income	211.4	422.3	200.2

**SUMMARIZED CASH FLOWS** (KRW in billions)

	2010	2009	2008
Cash flows from operating activities	709.6	[229.1]	773.1
Cash flows from investing activities	(4,309.1)	(4,482.4)	(1,747.6)
Cash flows from financing activities	3,964.9	3,973.0	2,064.1
Net increase in cash and cash equivalents	365.4	[738.5]	1,089.6
Cash and cash equivalents at the beginning of the year	957.6	1,696.1	606.5
Cash and cash equivalents at the end of the year	1,323.0	957.6	1,696.1



KNOC has a passion to lead Korea  
to become a major player  
in the international energy industry.



Young-Won Kang  
President & CEO



Seong-Hoon Kim  
Director & Senior Executive Vice President



Hum-Sam Kwon  
Executive Vice President for Planning & Administration Group



Jin-Seok Yi  
Executive Vice President for Europe & Africa Group



Moon-Hyun Baik  
Executive Vice President for Petroleum Stockpile Group



Jai-Hyun Yoo  
Auditor General



Hong-Geun Im  
Executive Vice President for Asia Group



Myung-Huhn Yi  
Executive Vice President for America Group



Hugh Eaton Rowlett JR  
Chief of Institute for Exploration & Production Technology



Robert David Elliot  
HR Advisor

**GREAT KNOC**  
3020 ↗

Global Ranking top

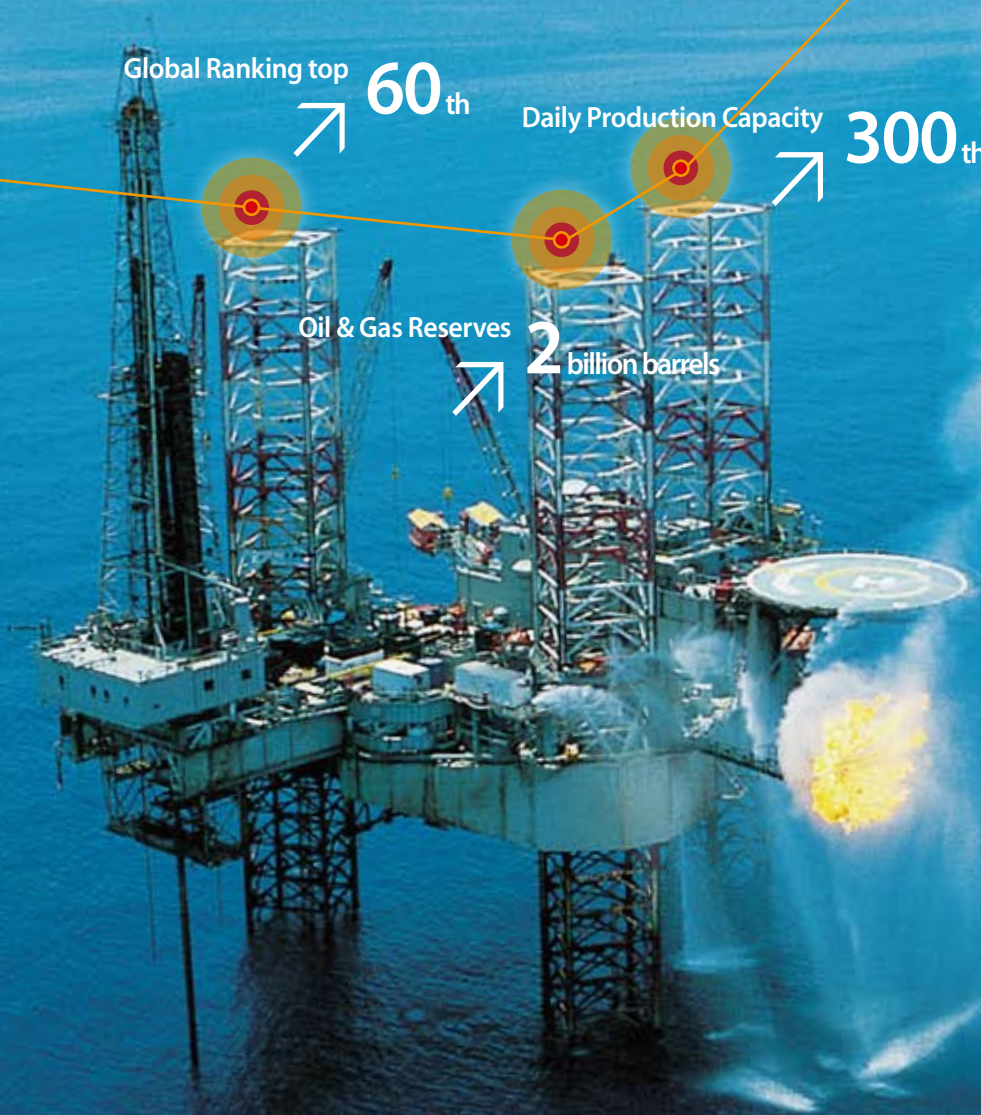
↗ **60<sup>th</sup>**

Daily Production Capacity

↗ **300** thousand barrels

Oil & Gas Reserves

↗ **2** billion barrels





Its endeavor to realize the dream for energy self-reliant Korea,  
KNOC creates new value with a goal of becoming  
energy powerhouse.



KNOC has been implementing "GREAT KNOC 3020," a strategic objective to become a respected world-class national oil company.

By creating five values – including "Globalization," "Respect", "Ethics", "Action", and "Trust" – this initiative is aiming at leading KNOC to become one of the top 60 global oil companies with a daily production capacity of 300 thousand barrels and reserves of 2 billion barrels by 2012.

In overseas exploration and production, KNOC is focusing on the acquisition of promising overseas oil companies or purchasing their assets to sharpen global competitive edge in production volumes and technologies. KNOC is also committed to maximizing the efficiency of block operations to increase the output and advancing systems to improve success rates.

In oil stockpiling, KNOC successfully completed the construction according to the 3rd government's stockpiling plan in April 2010, thereby providing Korea with a world-leading capability to respond to oil crisis. KNOC is also actively carrying out joint international stockpiling projects to improve cost-effectiveness as well as to boost stockpiles. Furthermore, KNOC established "Oiltanking-KNOC" to build an oil hub in Northeast Asia, thus becoming a regional logistics hub.

Additionally, KNOC continues research and development for technological progress in Gas-to-Liquids (GTL) technology, an alternative energy source to fossil fuels that promotes low carbon and green-growth as a new future-growth engine. KNOC is also planning the construction of solar and wind power generation facilities at unused land surrounding stockpiling bases at Yeosu and Seosan.

## MILESTONES

### Successful Integration with Dana Petroleum plc



KNOC laid the foundation for another leap-forward by successfully acquiring Dana Petroleum through public bidding on the stock market.

Dana Petroleum plc is a British independent oil company with reserves of 244 million barrels in 9 countries including the UK, Norway, the Netherlands and Egypt.

Immediately after the deal, oil and gas layers were discovered in South October block in Egypt and 7-block in Mauritania in November and December respectively.

The takeover pushed Korea's self-sufficiency rate of oil and gas into double digit level, 10%, for the first time in Korea's exploration history.

The takeover also provided with opportunities to expand its core footholds to the North Sea and Africa as well as existing Americas and the former Soviet Union regions in overseas E&P business. It also secured 277 oil experts along the way, who are expected to contribute to the development of exploration technology.

A ceremony celebrating merger with Dana was held in Aberdeen on January 21, 2011. The event was also meaningful in that private and public officials in the oil industry met in the same occasion, built a social network and created win-win opportunities between Korea and the U.K.

The Corporation now is committed to stabilizing the new subsidiary and its operation with vigorous PMI.

### KNOC Global Technology & Research Center (GTRC)



The Corporation set up "Global Technology & Research Center (GTRC)" in Calgary, Canada, rich in oil development experts and technology infrastructure. The Calgary-based center is operated in collaboration between overseas E&P experts and the Corporation's technicians. The center is the first overseas R&D center conducting research on local resource development. It will concentrate on securing core

technologies, strengthening technical capabilities and nurturing technicians.

The center will play an advisory role in providing technical assessment when making major decisions for new business. And it will advise when deciding a drilling location in exploration blocks. The center will contribute to raising exploration success rate, securing additional reserves and augmenting production volume.

In addition, it will sharpen technological edge in petroleum geology, geophysics, reservoir engineering and production engineering and will focus on promising fields of work that will bear fruit in the future by selecting 6 strategic technologies such as regional geology, imaging underground structures and enhanced oil recovery (EOR), which will reinforce local technical edge and expertise.

Calgary is the place where the Corporation successfully acquired Harvest Operations Corp. and is currently carrying out the BlackGold Oil sands project. KNOC expects synergy effects to be created by linking R&D with nearby blocks where KNOC is operating.

## Completion of government oil stockpiling project

Under the government's mid- and long-term oil stockpiling plan, 3-phases of stockpiling facility construction starting from 1980 was completed in last April 2010. Three series of large-scale national construction projects began in 1995 and was finalized in 2010, costing KRW 1.4 trillion, 2.11 million experts & technicians, and a great volume of steel plates enormous enough to build 10 Eiffel Towers.

Under the 1st and 2nd oil stockpiling plans from 1980 to 1999, KNOC constructed 7 bases in Guri, Ulsan, Pyungtaek and other provincial areas with reserves of 95 million barrels of oil. It was followed by the 3rd stockpiling plan starting from July 1995, reserving 50 million barrels in 6 bases in Geoje, Yeosu, Ulsan, and other areas, reaching 146 million barrels of total reserve capacity. It is equivalent to 158 days of net imports, surpassing the 90-day standard which is the requirement for IEA (International Energy Agency) member countries. Including private reserve volume, KNOC has secured 176 million barrels of oil (equivalent to 193 days as of January 2011), contributing to international assistance and stable oil supply and demand at home. Of the total reserves, KNOC has gained on valuation for 82 million barrels of reserves compared to the initial purchasing price. This stockpiling program will contribute to creating jobs and relevant industries' development.



By building the stockpiling bases optimized for oil logistics business such as international joint stockpile business, KNOC is proactively preparing for possible national oil crisis and the fast-changing international oil market, as well as playing a pivotal role in developing the nation into an oil hub for Northeast Asia, thus becoming a regional logistics center.

## Asian NOC CEO Forum

Asian NOC CEO Forum was held for 3 days in Seoul and Ulsan from August 23 in 2010.

The Forum was the first hosted by KNOC aiming at strengthening Asia-NOC cooperative relations. Its main purpose is to maintain and develop reciprocal partnership among Asia NOCs.

Under the theme, "Asian NOCs toward Humanity, Environment and Energy," NOC CEOs from 12 organizations (10 national oil companies, 2 government agencies) in 8 countries and 100 local companies involving with overseas resource development attended the forum.

The forum was in line with government's initiatives, "the New Asia Initiative," and "the Energy Diplomacy Initiative" seeking to upgrade Korea's role as a power player in Asia by engaging the region and creating stronger ties with Asian NOCs. The international occasion to discuss energy cooperation ties was supported by the Ministry of Knowledge Economy and the Ministry of Foreign Affairs and Trade as well as the Energy & Mineral Resources Development Association of Korea (EMRD) in which KNOC is taking the chair.

KNOC, through the meeting, laid the foundation for upgraded international competitiveness of Korea, maintaining and developing its partnership with Asian NOCs which will lead the world economy.



The Corporation also discussed with China National Offshore Oil Corporation (CNOOC) and China Petroleum & Chemical Corporation (SINOPEC), Japan Oil, Gas and Metals National Corporation (JOGMEC) in Japan, Vietnam Oil & Gas Group, the Ministry of Oil Iraq on how to cooperate and exchange in the future.

# MAKING DREAMS BECOME REALITY

KNOC dreams the future when all the Korean public feels relieved and hopeful by stable oil supply. KNOC is committed to be an energy security guardian and become a respected world-class national oil company.





In 2010, pursuing its vision of becoming a “respected world-class national oil company” and the goal of “GREAT KNOC 3020,” the Corporation has advanced business management, stimulated and strengthened E&P business so that it can lead the national oil industry.

Based on these efforts, KNOC achieved KRW 2,533.7 billion in revenue and KRW 659.4 billion in operating income, all-time high in its history.



### Meaningful achievement for “GREAT KNOC 3020”

KNOC has been pursuing “GREAT KNOC 3020,” a strategic objective to lead KNOC as one of the top global oil companies with a daily production capacity of 300 thousand barrels and reserves of 2 billion barrels by 2012.

KNOC is participating in 191 promising overseas oil development projects in 25 countries as of the end of December 2010, the firm foundation for KNOC to boost its sizable growth, stably supply oil to the domestic market as well as leapfrog into a true global player.

By taking over overseas promising oil companies successfully, it has contributed largely to enhance Korea’s self-sufficiency rate of oil and gas and increased its strongholds in core regions based on its technical edge and qualified expertise. Through its expansion strategies, KNOC is transforming itself into a world-class national oil corporation by strengthening E&P activities, diversifying businesses into oil sands, and pursuing joint business with strategic partners.

### 2010 MILESTONES

While KNOC is conducting E&P business actively to become a global oil company, it has made efforts to secure new oil fields and enhance exploration business efficiency.

As of the end of 2010, the volume of daily production and reserves reached 180 thousand barrels and 1.13 billion barrels each, increasing by 40.6% and 28.6% respectively, entering the first 10% level of self-sufficiency rate of oil and gas. Its overseas strongholds also have expanded from America and Russia to the North Sea and Africa, reinforcing its profile as a genuine global oil company.

What KNOC has been focusing on is successful M&A and PMI with previously merged companies. The acquisition of Dana Petroleum with benefits of low-interest financing decisively contributed to the raise of Korea’s oil and gas self-sufficiency rate and expanded overseas strongholds. Also in block operations,

# Overseas Exploration & Production



KNOC has made efforts to create synergy effects and raise efficiency and made the best use of overseas experts.

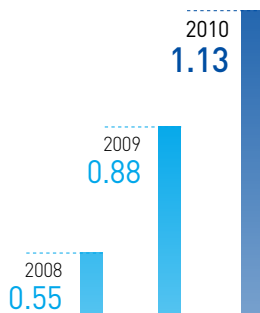
The efficient management of local and overseas blocks brought KNOC a meaningful result: production augmentation. KNOC has secured additional production volume after additional discovery of oil and gas at Vietnam 11-2 and 15-1 blocks and succeeded in pilot drilling while evaluating exploration potential on a block in Egypt. In addition, the company's construction of production facilities has continued on schedule for the BlackGold oil sands block in Canada and has completed its production facilities for the ADA Block in Kazakhstan.

KNOC has expanded new business opportunities by reinforcing international cooperation ties by hosting the Asian NOC CEO Forum successfully and seeking cooperation with oil & gas production countries such as Australia, Russia, Venezuela and Iraq.

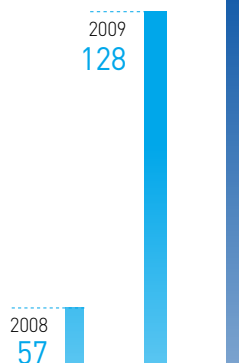


“KNOC is participating in 191 overseas promising oil development projects in 25 countries as of the end of December 2010. It produces 180 thousand barrels per day and total reserves reach approximately 1.13 billion barrels of oil equivalent.”

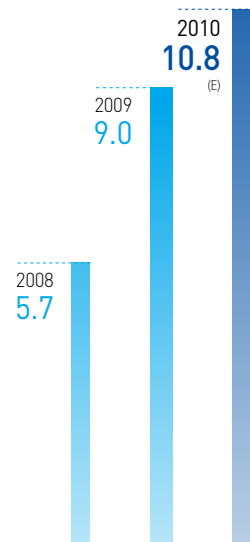
**Proven Reserves**  
(in billions of barrels)



**Daily Production Volume**  
(in thousands of barrels)



**National Self-sufficiency Rate of Oil and Gas in 2010**  
(in percentage)



### Expanded Production Volume at the Donghae-1 Gas Field

KNOC has continued its efforts to explore Korea's domestic continental shelf for last two decades. In July 1998, KNOC discovered a quality natural gas layer, the Donghae-1 gas field, located around 60 kilometers offshore southeast Ulsan, with proven reserves of 250 billion cubic feet. This discovery made Korea the 95th oil producing country in the world.

Based on successful experience of the first discovery of Donghae-1 gas field, KNOC has continued to explore untapped oil reserves under the continental shelf in the Southern Sea and the Yellow Sea. To develop the domestic continental shelf more systematically and efficiently, KNOC established and implemented mid-/long-term comprehensive exploration plans (2009~2018). Recently KNOC is also focusing on exploring deep waters and gas hydrates which are gaining world-wide interests more than ever.

### 2010 MILESTONES

After commencing production at the Donghae-1 gas field in July 2004, another gas layer, designated the B5 Layer, with reserves of 42 billion cubic feet, was discovered in early 2005. With the completion of the layer development in November 2009, the company started the production of natural gas and oil via connection with existing production facilities at the Donghae-1 gas field. During 2010, the overall production at Donghae-1 gas field grew by 1.3 billion cubic feet of natural gas compared to the previous year, producing 19.5 billion cubic feet of natural gas and 60 thousand barrels of oil, totaling 3.8 million barrels. As a result, sales rose by KRW 42.5 billion to KRW 237.5 billion and net income increased to KRW 136.5 billion.

Meanwhile, KNOC drilled 1 well to explore untapped oil reserves under the continental shelf at Block VI-2 in the Southern sea between November 2009 and February 2010, and found oil and gas show from Eocene sandstone.

# Domestic Continental Shelf Exploration



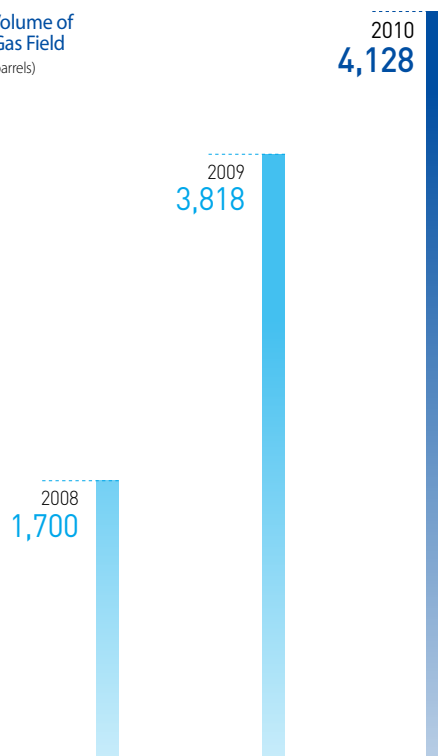
After finding the Donghae-1 gas field on Block VIII in the deep waters of the East Sea, KNOC and Woodside, which has an extensive experience of deep water exploration, jointly applied deep water explorative play to find drilling structure and location, enhancing deepwater explorative techniques and self-dependant rate.

KNOC's domestic continental shelf development projects have yielded a set of comprehensive E&P technologies including drilling, development and production. With these technologies, KNOC is revitalizing additional exploration both at home and abroad. KNOC plans to secure 100 million barrels of oil and gas resources through 20 exploratory drilling campaigns over the next ten years according to The First Domestic Offshore E&P Master Plan(2009~2018), established in February 2009. To this end, KNOC will focus on exploring deep-sea areas ranging from 300 to 3,000 meters which are emerging as promising resources as well as developing the domestic shallow continental shelf at depths up to 200 meters. Meanwhile, KNOC will carry out joint oil system researches with a Japanese private oil company for Joint Development Zone(JDZ), uplifting its exploration capability to the next level.



“To develop the domestic continental shelf more systematically and efficiently, KNOC established and implemented mid-/long-term comprehensive exploration plans (2009~2018). It is focusing on exploring deep-sea area and gas hydrates which are gaining world-wide interests more than ever.”

Production Volume of  
Donghae-1 Gas Field  
(in thousands of barrels)



### Strengthening global competitiveness of 'Doo Sung'

In the era of high oil prices, KNOC's offshore rig operation is growing as a competitive business area thanks to Korea's only semi-submersible rig, "Doo Sung," and our excellent human resources. Doo Sung since it was built in 1984 by Daewoo Shipbuilding Co. has successfully drilled numerous wells both in Korea and overseas including Alaska, China, Vietnam, Malaysia, Indonesia, and Russia.

With its increased deep-sea drilling experience and high-performance environment- friendly equipment installed, there is a consistent demand for the deep-sea drilling rig. To maximize the rig's competitiveness, KNOC continues to improve the performance of Doo Sung with refurbishment and upgrade, while maintaining a high standard of HSEQ (Health, Safety, Environment & Quality) management, garnering an international reputation for safe and efficient operation.

### 2010 MILESTONES

Doo Sung has conducted KRW 137.1 billion worth of operation in Sakhalin, Russia for 2 years from 2009. While preparing for 2010 operational season, Doo Sung participated in exploratory drilling project in the South Sea. Thanks to Doo Sung, KNOC saved about KRW 7.2 billion. After successful operations in Russian region for 3 years, Doo Sung has not only secured long-term operation contracts worth KRW 109.1 billion for two years between 2011 and 2012 in Sakhalin, Russia, but also resulted in higher profits from the rig-chartering services through overseas marketing, raising KRW 1.8 billion in income additionally.

The average operation rate of Doo Sung marked 93%, 26% higher than competitors in Southeast Asia in 2010. And its daily chartering fee is KRW 350 thousand, higher compared to that of Southeast Asia on the average of 200 thousand to 250 thousand per day. Its excellent performance led to post KRW 82.8 billion in sales from offshore rig operations, an increase of 18% over the year's target of KRW 70.4 billion. And in terms of gross profits, it reached KRW 53.8 billion, 34% above the target of KRW 40.1 billion.

# Offshore Rig Operations



In addition, Doo Sung achieved 337 days of operation period as well as a zero accident rate for three years in a row. With customer satisfaction and feedback system in place, the level of customer satisfaction has improved for 5 years in a row.

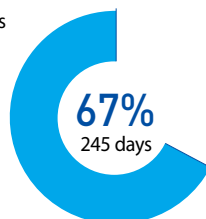
KNOC established a mid- and long-term roadmap on rig business expansion in phases to secure future growth engines. Based on mid-/long-term roadmap, the Corporation will focus on upgrading Doo Sung, securing additional 2 rigs rated to 5,000ft, including 1 new rig by 2015. Building a barge drilling rig for drilling in Zhambyl block in Kazakhstan, owning a deep-sea drilling rig rated to 7,500ft, and pursuing land drilling rig business are also included in the roadmap.



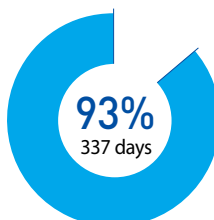
“Korea’s only semi-submersible rig, Doo Sung, has successfully drilled 106 wells both in Korea and overseas including Alaska, China, Vietnam, Malaysia, Indonesia, and Russia since its construction as of the end of 2010.”

#### Rig Utilization Rate in 2010

Semi-submersible Rigs  
in Southeast Asia:



Doo Sung:



#### Gross profits of Rig business in 2010

KRW **53.8** billion



### Successfully completing oil stockpile bases

Since the state-owned oil company was founded by the government in 1979 in preparation for possible oil crisis, it has pursued oil stockpiling business to stabilize supply and demand of oil and contribute to the national economic development.

While carrying out the strategic stockpiling business for the nation's energy security, it has sought more efficient and economic ways to manage and use stockpile assets. And it has maximized profits through joint international stockpiling projects and reserved asset trading. Moreover, it reinforces cooperation with neighboring countries such as China and Japan to become a logistics hub for Northeast Asia's oil market.

### 2010 MILESTONES

The completion of the Korean government's stockpiling plan in April 2010 allowed KNOC to reach the final stage of its 30-year long plan for the construction of oil storage facilities. With these new facilities, the nation has secured a storage capacity of 146 million barrels, which is equivalent to the amount of oil demands for 158 days of the whole nation, which is far above the level of IEA member nations, 90 days.

By adopting a dynamic stockpile concept, KNOC has actively utilized stockpile assets to create revenues. As a result, revenue from international joint stockpiling business recorded the highest ever KRW 101.1 billion and sales from trading was KRW 701.9 billion, which is certainly above the level of the initial goal of KRW 358.4 billion. The revenue is reinvested to finance stockpiling management and augmenting reserves that cost around KRW 150 billion, enabling KNOC to achieve its stockpiling target through economical and efficient ways.

# Oil Stockpile



In 2010, Korea's response capability to oil crisis was enhanced as oil started coming from newly obtained blocks overseas thanks to the expansion strategy. During 2010, it acquired 980 thousand barrels (617 barrels from Harvest and 363 barrels from Ankor).

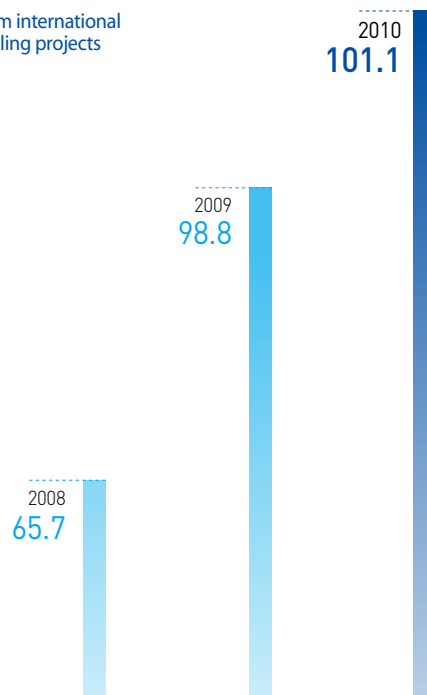
As more trading volume is expected with the sizable growth, KNOC will focus on nurturing traders and set up professional trading organizations to enhance efficiency of oil trading business.

To make Korea an oil hub in the Northeast Asia, as the first step, KNOC plans to break the ground in the early 2011 to construct additional oil storage tanks with a capacity of 8.2 million barrels in Yeosu and run the tanks commercially from the latter half of 2012. Building tanks with a capacity of 28.4 million barrels in Ulsan is the second phase, the Ulsan project is waiting a relevant legislation being passed.



“Having completed the Korean government's stockpiling plan, KNOC, which secured a storage capacity of 146 million barrels at nine bases, is promoting the construction of additional oil storage tanks in Yeosu and Ulsan to make Korea an oil hub in the Northeast Asia.”

Revenue from international  
Joint stockpiling projects  
(KRW in billions)



**Contributing to stabilizing domestic oil prices along with timely provision of precise information**

KNOC is committed to timely providing oil information to government organizations, private oil players and academies by comprehensively gathering, analyzing and evaluating oil-related issues, which is making great contribution to researches of academies as well as the establishment of oil policies.

In addition, the reinforced oil information service provides professional and specialized research analysis data easing the access to oil information and strengthening marketing activity to secure overseas customers.

**2010 MILESTONES**

The company has launched the world's first oil-price information system, Opinet ([www.opinet.co.kr](http://www.opinet.co.kr)) to extend the purchasing options of customers and improve the structure of oil distribution channels. It expanded the Opinet service into new areas including portal, mobile and navigation systems to ease the access and enhance information value.

As a result of the improved quality control of oil price information and continual expansion of service areas, 98% of gas station operators began disclosing and sharing their oil price ranges and the average number of daily users exceeded 80,000. In recognition of its easy and convenient statistical information service, KNOC has received a presidential award for 3 years in a row as a model statistics institution. The company recently launched a special application service for Android smart phone users following the services for iPhone users to provide an even more convenient option for accessing oil price information.

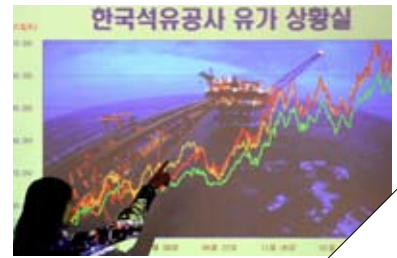
# Oil Information Service



The Petronet ([www.petronet.co.kr](http://www.petronet.co.kr)), a web-based multimedia oil information network which is operated by KNOC, provides users with a comprehensive database of oil information selected from domestic and overseas markets. The number of subscribers to the Petronet service exceeded 170,000 as of January 2011.

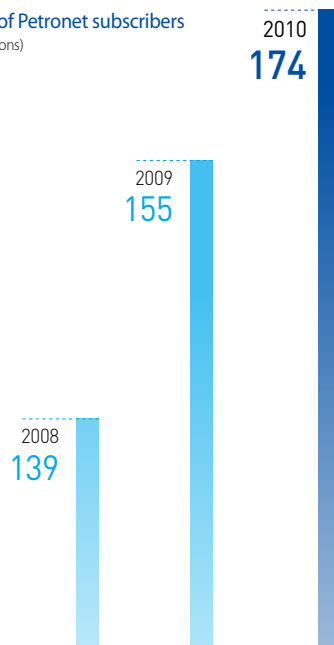
The oil information service has a strategic function presenting future strategies for E&P business and discovering future growth engine by detecting market change and flow. In 2010, the Corporation completed the analyses of oil market situations of major 56 countries by adding market research on 23 countries to identify regional E&P trend and to provide strategic information.

In order to emerge as a key oil think-tank in the global industry, after drawing a roadmap focusing on reinforcing research capability and information capacity, KNOC is conducting research on business strategy and analysis on the oil market.



“KNOC’s timely analysis and provision of information on international oil market changes and industry trends have played an essential role for the policy-making of the government and decision-making of the management. And by extension, as it brings about appropriate market responses of the domestic oil industry and the public, it largely contributes to the stabilization of the domestic oil prices.”

The Number of Petronet subscribers  
(in thousands persons)



The Number of daily Opinet users



### The growth engine, KNOC Global Technology & Research Center

Since the inception of E&P Technology Institute in January 2006, KNOC has been promoting 4 main strategies: training E&P experts and managing their career for large-scale M&A with promising overseas oil companies and for increased exploration success rate; establishing effective technical support system; conducting R&D oriented to project results; and running a technology information system of international standard.

Moreover, KNOC is committed to discovering potentially beneficial new ventures and providing high quality oil exploration technology and technical assistance to enhance managerial ability of existing businesses. KNOC's R&D activities have also extended into more diversified areas such as Oil Sands, Enhanced Oil Recovery (EOR), GTL, and Gas Hydrates and other future-oriented researches.

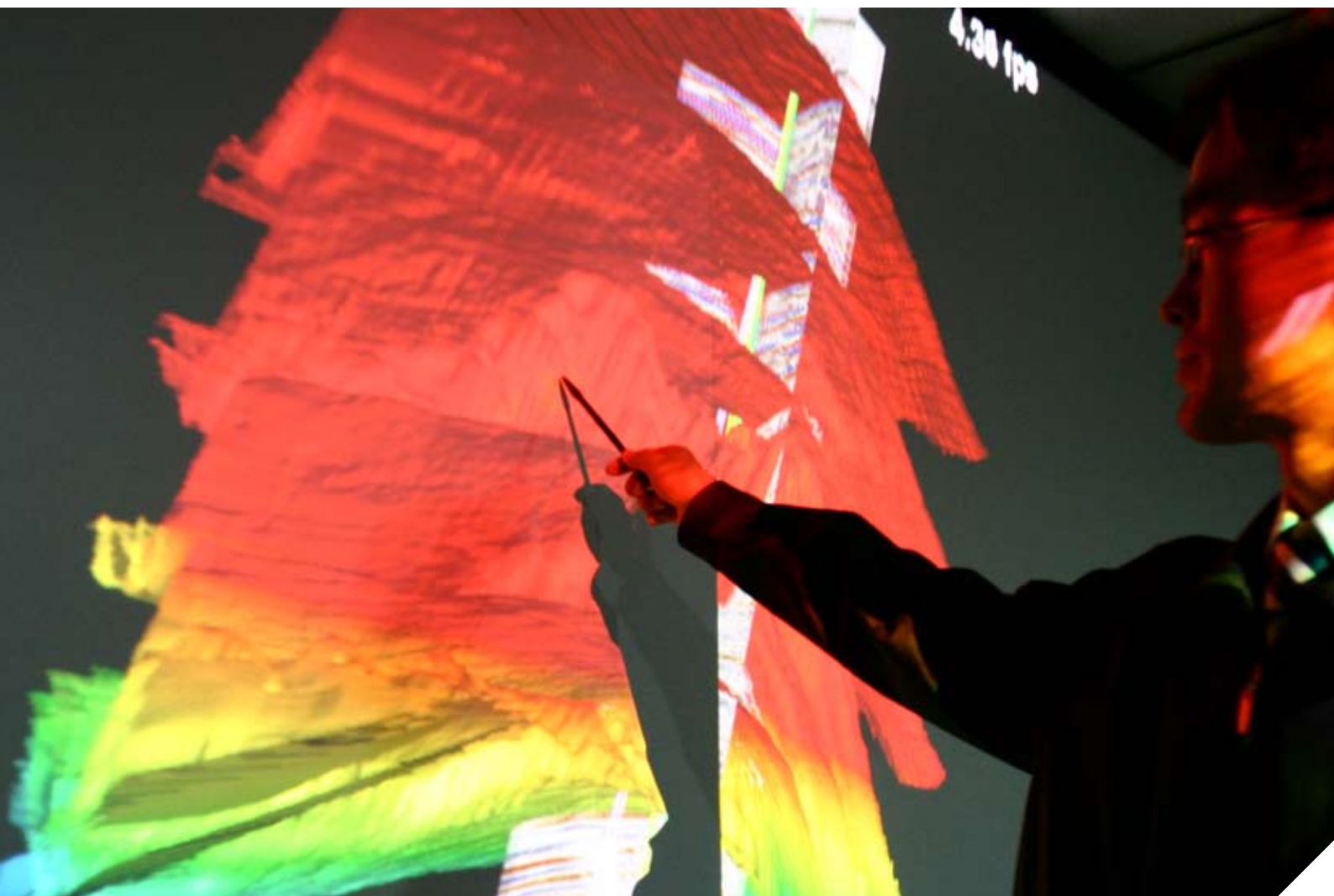
### 2010 MILESTONES

In order to strengthen technical capabilities, KNOC is implementing a strategic roadmap and "JUMP 2012 (Job-competency Upgrade & Mastery Program)" and introduced knowledge management system to share technical data and materials with overseas offices.

KNOC recently hired two international experts as the Chief of E&P Technology Institute and the HR advisor, which will be an innovative approach to foster E&P specialists. And it also opened KNOC GTRC (Global Technology & Research Center) in Calgary, Canada, the hub of E&P business, heralding its global R&D network era.

In 2010, KNOC delivered results for 14 R&D projects, which have contributed enormously to improving operation and production capabilities finding new growth engine. KNOC is currently conducting 23 projects. Especially to comply proactively with the government's "Low Carbon, Green Growth" policy, KNOC is

# Research & Development



participating in 17 governments commissioned projects to seek green growth and alternative energies.

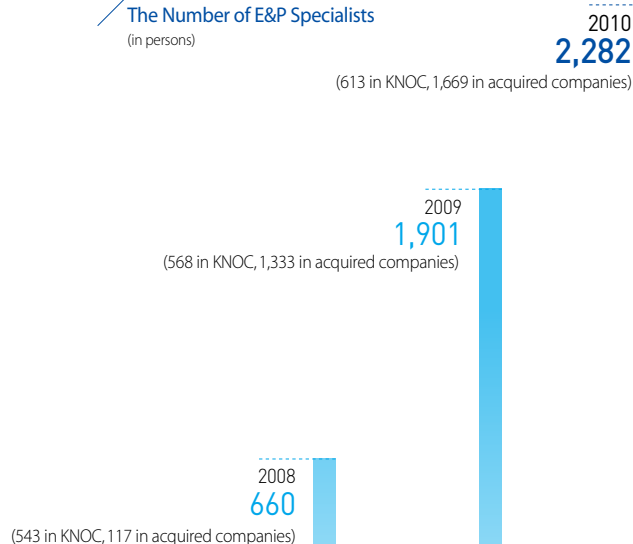
KNOC has planned and implemented Global HR & Technology Integration Plan to make the best use of high-quality international experts and high-end technologies from abroad in an integrated way to develop core technologies of its own.

The assessment on capabilities of all the E&P specialists and the organic relations of "career development - training - integrated management of human resources" are systemically managed. Capability improvement program is also implemented at CoP, showing the Corporation also focuses on advanced management and utilization of HR.



“The Calgary-based Global Technology & Research Center will play a pivotal role for KNOC to grow into a world-class major energy company. It will be committed to securing core technologies and hiring overseas talented E&P technicians, contributing to efficiently operating oil blocks as well as raising success rate in exploration.”

The Number of E&P Specialists  
(in persons)



# CONTRIBUTING TO PEOPLE AND SOCIETY

Sustainable management is a core value for long-term development and growth for any company. KNOC fulfills its social responsibilities by establishing a sustainable management system and having active exchanges with interested parties so that all Korean public and the society grow and develop together.



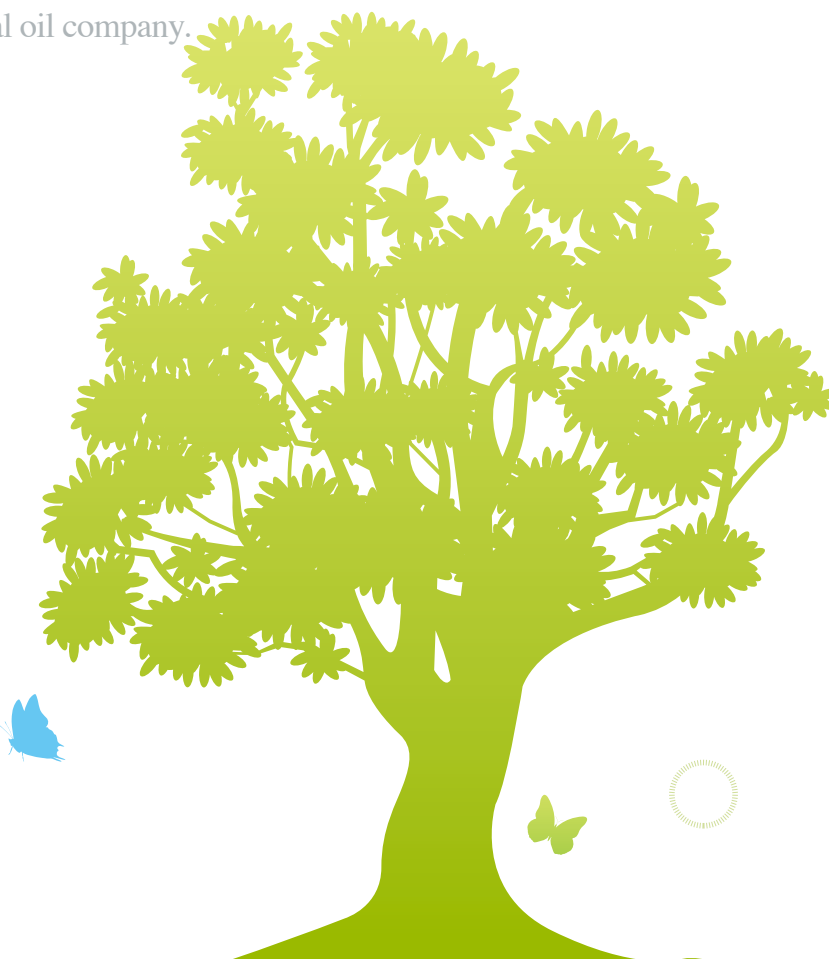
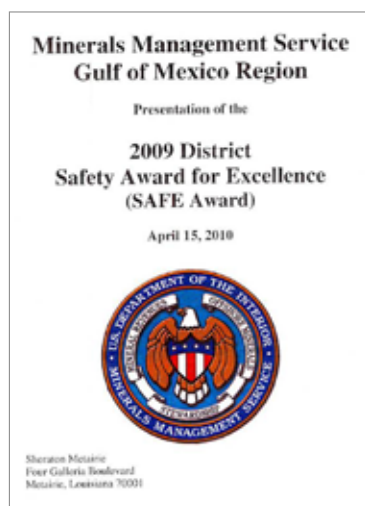


KNOC has a strong conviction that fulfilling its responsibility as a member of society rather than being obsessed with short-term business result will guarantee its long-term existence and growth. Based on stringent ethical management principles, corporate-wide social contribution activities, environment-friendly management for realizing the national vision of "Low Carbon & Green Growth," KNOC is consolidating its basis for becoming a respected world-class national oil company.



# ENVIRONMENTAL MANAGEMENT

KNOC realizes its vision of providing clean and plentiful energy resources for day-to-day lives. KNOC promotes harmonious and wonderful life by living in harmony with our environment. By pursuing environment-friendly management, KNOC will become a respected world-class national oil company.



KNOC aims at accident and disaster free operations at its every work sites by adhering to International Health, Safety and Environmental Standards. In addition to ISO 9001 and ISO 14001 certificates for work sites, KNOC acquired a KOSHA18001 certification for stockpile bases and an ISO 9001 Certification for rig operations, as well as an ISM/ISPS Codes.

KNOC monitors and reduces water, air and soil pollutants at all stages, from planning to storage. This includes guarding against marine pollution during receipt and transfer of stored oil. KNOC operates state-of-the-art pollution-prevention facilities for water, air and soil, suitable for all petroleum storage methods, whether underground caverns or above-ground tanks. With regard to water-quality control, its in-house standards for effluents exceed the statutory limit by 75% (based on Chemical Oxygen Demand, or COD).

In addition, to comply proactively with the government's "Low Carbon, Green Growth" policy, KNOC has initiated its own low-carbon, green-growth action plans, with three major drives: a green-growth R&D projects expansion; policy responses to climate changes; and improvements in energy efficiency. It is also implementing development plans for technology to control pollution from fossil fuels, such as GTL (Gas To Liquids) and CCS (Carbon Capture and Storage). KNOC is also working

on activating infrastructure to respond to climate change, establishing a greenhouse gas inventory, improving energy efficiency and developing wind and sun power generations.

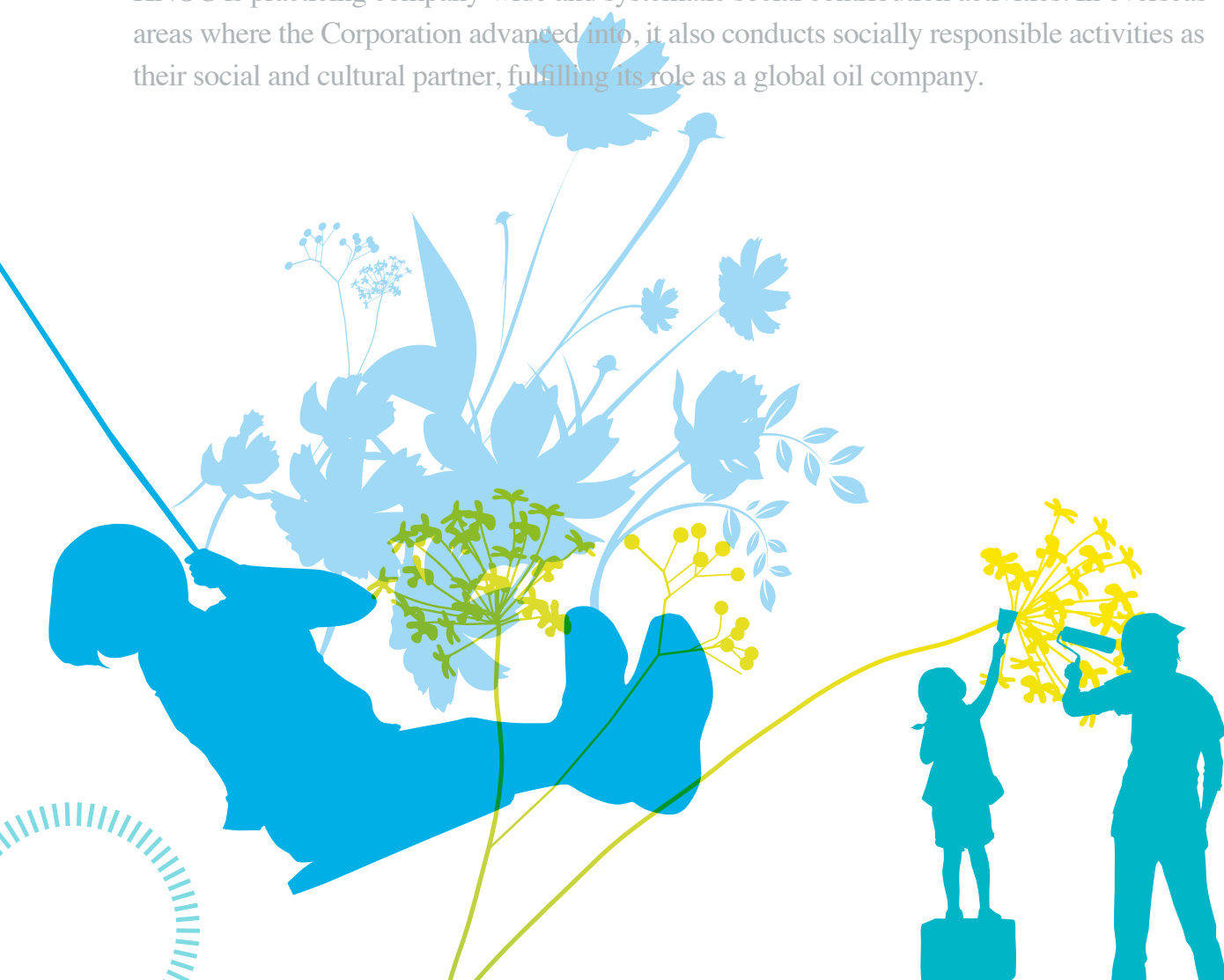
For efficient HSE (Health, Safety, and Environment) management system fitting global oil company standard, the Corporation organized a task force team to set and revise the HSE direction, manual and framework and presented 50 best practices. KNOC is committed to continual improvement and monitoring of HSE management system to create safe exploration environment at home and abroad.

Recently, ANKOR Energy, operated by KNOC, received a Safety Award for Excellences (SAFE) from the Minerals Management Service (MMS), a bureau of the U.S. Department of the Interior in recognition of reducing the accident rate by a fifth over the pre-acquisition period, despite full operation and tough environmental conditions. KNOC, as a frontrunner of the domestic economy, will continue to fulfill its responsibilities to cherish people, nature and environment.



# SOCIAL CONTRIBUTION

To hold up its end in corporate social responsibility and to help out the underprivileged, KNOC is practicing company-wide and systematic social contribution activities. In overseas areas where the Corporation advanced into, it also conducts socially responsible activities as their social and cultural partner, fulfilling its role as a global oil company.



KNOC is practicing company-wide and systematic social contribution activities in four core areas: supports for the underprivileged, contribution to regional communities, overseas social contribution and sponsorships for art and culture events.

Since KNOC Volunteer Service Corps was launched in March 2006 under a slogan "We, Explore & Volunteer," 33 teams have been providing a broad array of voluntary activities to promote the welfare of the communities throughout the nation. Through joint social contribution activities between main and branch offices, KNOC is devoted to charity for underprivileged neighbors, such as free coal briquette delivery during winter seasons, and voluntary work during the busy agricultural seasons of rice-planting and harvesting. KNOC's social contributions have been also extended to cover scholarship programs for teenagers, the "One Company-One School Sisterhood Program," multicultural family support, as well as events such as "Rice of Love" and "Kimchi sharing" events. To ensure a more professional approach to social contribution and expand opportunities into related areas, KNOC is carrying out joint programs with NGOs such as World Together and Habitat for Humanity Korea.

KNOC also makes socially responsible contributions in overseas countries. KNOC built an elementary school in underprivileged area in Vietnam and supported medical treatment and made efforts to eradicate poverty jointly with the Yemen government. And in Kazakhstan, KNOC aided constructing railroads and donated wheelchairs for the disabled.

The socially responsible activities started from executives and employees' conviction and voluntary participation. In 2010, the number of employees who participated in volunteering work rose by 20% to 2,190 and the volunteering time rose by 62% to as much as 10,009 hours.

KNOC will remain committed to fulfilling its social responsibility through continuing social contribution activities and to obtaining respect and affection from the communities it belongs to.



# ETHICAL MANAGEMENT

All KNOC employees put ethical management principles into practice all the time with a conviction that ethical management is a fundamental philosophy and value for sustaining a healthy, strong organizational structure.



The Corporation modified its own code of ethics and guidelines to set a global standard and strengthened ethical management training to become a widely respected public company.

In 2010, KNOC introduced “One-Strike” eviction policy which is designed to immediately dismiss improper employees who are accused of taking bribes. And it greatly raised the compensation for a whistleblower from KRW 10 million to KRW 2 billion maximum and whistleblower protection policy was also created, taking disciplinary action for those who leaked the identity of the whistleblower.

Following the dedication to the ethical management, when Anti-Corruption & Civil Rights Commission assessed the level of integrity of public organizations in October, KNOC ranked 3rd out of 21 companies, gaining 9.18 points (rose from 7.34 points in 2009), and topped in terms of integrity improvement. Meanwhile, KNOC was awarded the top grade (“AAA”) by KoBEX SM, whereby KNOC laid a cornerstone of transparent management.



# INNOVATIVE MANAGEMENT

To secure competitiveness strong enough to compete with major global companies, KNOC is dedicated to building unique corporate culture and raising business management system to be the global standard level. KNOC also set management principles and guidelines to practice the company's four core values: Challenge, Professionalism, Respect and Contribution.



KNOC is committed to making enterprise-wide efforts to build advanced management system and better the corporate culture to be a world-class corporation.

KNOC introduced performance-based compensation system applicable for the entire employees in 2010, which was the first case as a public company in Korea. KNOC has reinforced KPI (Key Performance Indicators), MBO-based (Management By Objectives) evaluation and the according compensation system to improve the corporate fundamentals to be based on capability and performance. In addition, it is making efforts to carry out the government plans for advancement with efficient organizational management policies such as reorganization based on region and repositioning of employees so that the majority of workers work at core business sector, and by strengthening capability of core business areas.

To build advanced labor relations based on law and principle, KNOC introduced "Open-Shop," "Time-off" policies and renewed collective agreement. This started from recognition from the both sides, the management and the labor, global

management is a must after the string of successful global M&As. More than that, the agreement was possible because the leaders of the both sides set an exemplary model and the both had confidence in each other.

In terms of business management, KNOC established Enterprise-wide Risk Management (ERM) at a global level to detect risk in advance, and expanded the ERP system linking the network between HQ and overseas offices.

As KNOC believes collaboration and knowledge-sharing are the main drives for major E&P company, it established and expanded CoP(Community of Practice) "Dagachi", to integrate and share knowledge from overseas companies resulting from M&A and organizational expansion.



# FINANCIAL SECTION

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- 55\_ Statements of Cash Flows

Su Excelencia Rafael Correa  
el Presidente de la República del Ecuador  
Septiembre de 2010



## MANAGEMENT'S DISCUSSION &amp; ANALYSIS

**OVERVIEW**

KNOC was established in 1979 to implement an integrated and systematic energy policy after the first global oil crisis. Since then, under the vision of providing sense of hope and comforts for the public by securing energy stably, KNOC has played a key role in the development of Korea's oil industry by continuously expanding its businesses into E&P at home and abroad and oil stockpiling for contingency, and improving the oil distribution system for sound development of the local oil industry.

KNOC's major business areas include overseas exploration and production, domestic continental shelf exploration, offshore rig operation, construction and operation of oil stockpiling bases, research and development, and oil information services. With the 'Greater KNOC' strategy mapped out in 2008, KNOC has obtained substantial results through aggressive M&A activities such as SAVIA-Peru, Harvest Energy Trust in Canada and Sumbe in Kazakhstan in a row during 2009 and Dana Petroleum in the UK in 2010. KNOC has made significant progress toward a world-class national oil company.

The company has 10 domestic and 13 overseas branches and offices as of the end of 2010. Participating in 191 promising overseas projects in 25 countries, KNOC produced 180 thousand b/d on average and secured reserves of 1.13 billion barrels of oil equivalent.

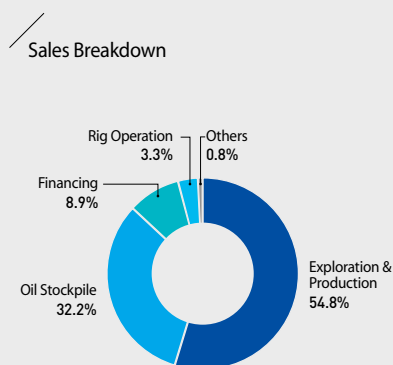
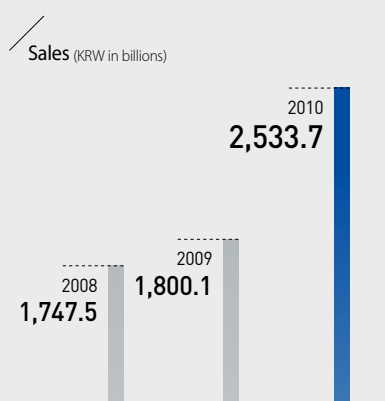
The rise of resource nationalism and increasing development costs has made the competition in the global oil market fiercer. As international crude oil prices have continued upward trend because of anticipation about the global economic recovery and the unrest in the Middle East, securing oil resources is highlighted as long-term national issue. To address these shifts in the global oil market, KNOC is implementing its expansion strategies to increase the nation's energy-sufficiency rate and to secure a target production volume of 300 thousand b/d and reserves of 2 billion barrels by 2012.

**RESULTS OF OPERATIONS**

In 2010, KNOC recorded sales of KRW 2,533.7 billion, up 40.8% or KRW 733.6 billion over the previous year, backed by active participation in E&P projects and facility expansion under the scheme for new and additional stockpile bases.

Cost of sales showed a 52.7% increase year on year to KRW 1,775.5 billion due to higher interest costs with increased investment. Accordingly gross profit rose to KRW 758.2

(KRW in millions)	2010	2009	2008
Sales	2,533,664	1,800,052	1,747,479
Cost of sales	1,775,494	1,162,472	1,065,778
(Rate of sales cost)	70.10%	64.60%	61.00%
Gross income	758,170	637,580	681,701
(Gross income margin)	29.90%	35.40%	39.00%
Operating income	659,410	562,117	603,127
(Operating income margin)	26.00%	31.20%	34.50%
Net income	211,396	422,292	200,193
(Net income margin)	8.30%	23.50%	11.50%



billion in 2010, an increase of 18.9% year on year. Meanwhile, non-operating balance turned to net losses of KRW 269 billion in 2010 from gains of KRW 86.8 billion in 2009 and net income decreased 49.9% year on year to KRW 211.4 billion in 2010. This was because non-operating income decreased KRW 83.5 billion due mainly to the decrease of gains on foreign currency translations and of other incomes on overseas blocks while non-operating expenses rose by 40.2% to KRW 950.2 billion due to rise in interest costs after acquiring overseas blocks and the increase of losses on foreign currency translations and equity method valuation during the period.

Total sales of KNOC is broken down to E&P (exploration, development and selling of domestic and overseas oil resources), stockpiling (trading of crude oil and oil products, lease or selling of stored assets, management of oil stockpiling facilities), financing (financing for corporations engaged in energy and resources related businesses), rig operation (drill ship chartering) and other businesses. The respective shares of total sales by business were 54.8% for E&P, 32.2% for oil stockpiling, 8.9% for financing, 3.3% for rig operation and 0.8% for others. More details are as follows:

Sales in oil exploration and production increased 9.2% over the previous year to KRW 1,388.9 billion in 2010 as average sale price rose by US\$20 to US\$80 year on year despite a relatively small increase in overall production volume. While production volume at Vietnam Block 15-1 decreased 16.9% year on year to record 4.18 million barrels, that of US ANKOR Block rose 27.3% year on year to be 4.2 million barrels, contributing to the overall production volume increase.

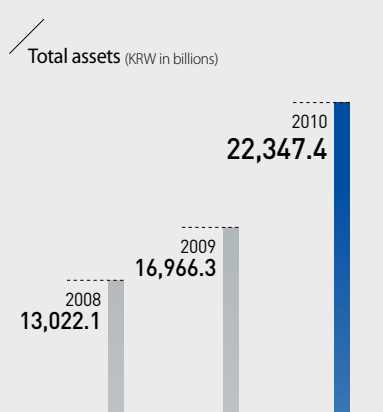
Oil stockpiling business also achieved KRW 815.9 billion in sales, an increase of 122.8% compared to the previous year, backed by the expansion of stored oil supply capacity and vigorous marketing activities for overseas-produced crude oil. Sales in this business were broken down to KRW 689.9 billion for oil products, KRW 101.1 billion for international joint stockpile projects, KRW 12 billion for oil trading, and KRW 13 billion for lease of reserves and storage facilities.

Meanwhile, sales in rig operations recorded KRW 82.8 billion, an increase of 52.3% over the previous year, mainly due to a long-term contract for operations in Sakhalin, and a rise of ship chartering fees from US\$0.25 million a day in 2009 to US\$0.35 million a day in 2010. In 2010, the operation days of the Doo Sung totaled 337 and the utilization rate reached 93%.

(KRW in millions)	2010	2009	2008
Exploration & Production	1,388,926	1,271,418	1,115,161
Oil Stockpile	815,923	366,138	130,959
Financing	225,812	94,413	382,100
Rig Operation	82,765	54,345	108,242
Others	20,238	13,738	11,017
<b>Total Sales</b>	<b>2,533,664</b>	<b>1,800,052</b>	<b>1,747,479</b>

## MANAGEMENT'S DISCUSSION &amp; ANALYSIS

## FINANCIAL STATUS



As of the end of 2010, KNOC's total assets recorded KRW 22,347 trillion, an increase of 31.7% over a year earlier. While quick assets decreased 12.2%, non-current assets increased by 43.7% to KRW 17,359 trillion. The sharp increase in non-current assets resulted from a surge in equity investments via acquisition of overseas oil company, Dana Petroleum in the U.K., in pursuit of the company's expansion strategies.

Meanwhile, total liabilities were KRW 12,343 trillion at the end of 2010, an increase of 44.5% over the previous year. Current liabilities increased 75.5% year on year, triggered by a rise in short-term borrowings from financial institutions such as K-Eximbank to raise funds for acquisitions. Non-current liabilities also grew by 31.9% over the previous year to KRW 784 billion due mainly to the issue of five-year overseas bonds.

Capital stock rose by 22.3% year on year to KRW 8.13 trillion backed by the Korean government's additional investments in the oil stockpile and E&P projects. Total shareholders' equity was KRW 10.37 trillion and shareholders' equity to total assets reached 44.8%. Debt to equity was 123.4% at the end of 2010.

(KRW in millions)	2010	2009	2008
Current assets	4,988,088	4,883,136	5,182,850
Quick assets	1,891,115	2,154,515	2,670,182
Inventories	3,096,973	2,728,621	2,512,668
Non-current assets	17,359,280	12,083,143	7,839,212
Investment assets	11,069,877	6,396,588	2,605,694
Tangible assets	1,905,118	1,966,058	1,966,276
Intangible assets	4,269,431	3,602,868	3,189,608
Other non-current assets	114,854	117,629	77,634
Total assets	22,347,368	16,966,279	13,022,063
Current liabilities	4,327,754	2,465,357	1,943,610
Non-current liabilities	8,015,888	6,078,948	3,562,304
Total liabilities	12,343,642	8,544,305	5,505,913
Capital stock	8,130,196	6,649,417	5,914,815
Capital surplus	24,954	24,954	24,954
Accumulated other comprehensive income	113,602	156,467	382,398
Retained earnings	1,734,974	1,591,136	1,193,982
Total equity	10,003,726	8,421,974	7,516,149

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### OUTLOOK & STRATEGY

Korea National Oil Corporation is pursuing economies of scale and obtaining technology with M&A in the short-term. Acquisition of quality blocks and participation in new promising blocks will be the mid- and long-term growth drivers.

In the short term, the company set its goals in 2011 at KRW 8.6 trillion in sales and KRW 1.14 trillion in operating income. Other goals were set at 78.07 million barrels in oil production, 1.36 billion barrels in reserves and 129.5 million barrels in stored oil.

To achieve the goal, KNOC will make every effort to carry out each section's project in a multi-pronged approach: augmenting production volume by efficiently managing local and overseas blocks; M&A for sizable growth; PMI with stabilization of the operation of acquired companies; enhancing rig businesses in phases; reinforcing marketing for sales of overseas-produced oil and stabilizing oil supply and demand with enhanced oil stockpile capacity.

In addition, in preparation for the time when KNOC produces 100 million barrels of commercially viable oil, it is committed to securing future growth engines, including the Oil Hub project in Northeast Asia, new and renewable energy projects in compliance with the government's national "Green Growth" initiative, and self-development of core oil development technologies. To achieve these goals, it is focusing not only on growth in quantity, but also improvement in quality. That is how KNOC is transforming itself into a world-class oil company as well as the exemplary model for all the state companies.

**INDEPENDENT AUDITORS' REPORT****The Board of Directors and Owner Korea National Oil Corporation**

We have audited the accompanying statements of financial position of Korea National Oil Corporation (the "Company") as of December 31, 2010 and 2009, and the related statements of income, appropriations of retained earnings, changes in equity and cash flows for the years then ended, all expressed in Korean won.

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of a subsidiary incorporated in Canada, Harvest Operations Corp., the investment in which is reflected in the accompanying financial statements using the equity method of accounting. The carrying value of the investment in this subsidiary amounting to ₩3,564,423 million represents 16% of the Company's total assets as of December 31, 2010 and equity in net loss of Harvest Operations Corp., amounts to ₩199,907 million for the year then ended. Those financial statements were audited by other auditors whose audit conclusion has been furnished to us, and our opinion, insofar as it relates to the amounts included for the subsidiary, is based solely on the audit conclusion of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the audit conclusion of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the audit conclusion of the other auditors, the financial statements referred to above expressed in Korean won present fairly, in all material respects, the financial position of Korea National Oil Corporation as of December 31, 2010 and 2009, and the results of its financial performance, and its cash flows for the years then ended in conformity with accounting principles for government-controlled corporations, as issued by the Ministry of Strategy and Finance of the Republic of Korea.

We have also reviewed the translation of the accompanying financial statements mentioned above into United States dollar amounts on the basis described in Note 2 to the accompanying financial statements. In our opinion, such statements have been properly translated on such basis.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are prepared in accordance with accounting principles for government controlled corporations in the Republic of Korea and are not intended to present the financial position, results of financial performance and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are knowledgeable about accounting principles for Korean government-controlled corporations and Korean auditing standards and their application in practice.

February 24, 2011

This audit report is effective as of February 24, 2011, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

# STATEMENTS OF FINANCIAL POSITION

As of December 31, 2010 and 2009

Korea National Oil Corporation

(Korean won and US dollars in thousands)

	Korean won		US dollars	
	2010	2009	2010	2009
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents (Note 17)	1,323,040,209	957,621,213	1,161,683	840,830
Short-term financial instruments	2,000,000	317,237,500	1,756	278,547
Trading securities (Note 6)	12,834,100	-	11,269	-
Trade accounts receivable, net of allowance for doubtful account of ₩2,774,869 in 2010 and ₩2,929,051 in 2009	181,512,236	428,738,492	159,375	376,450
Short-term loans (Notes 15, 17 and 18)	199,097,000	244,031,189	174,815	214,269
Other accounts receivable, net of allowance for doubtful account of nil in 2010 and ₩911,902 in 2009 (Note 17)	42,491,539	73,527,328	37,309	64,560
Inventories (Notes 4 and 10)	3,096,972,873	2,728,620,518	2,719,267	2,395,839
Derivative assets (Note 21)	17,154,681	32,299,861	15,062	28,361
Refundable income taxes	5,790,217	-	5,084	-
Other current assets (Notes 5 and 17)	107,195,582	101,059,822	94,122	88,734
<b>Total current assets</b>	<b>4,988,088,437</b>	<b>4,883,135,923</b>	<b>4,379,742</b>	<b>4,287,590</b>
<b>Non-current assets:</b>				
Long-term financial instruments	-	2,000,000	-	1,756
Available-for-sale securities (Note 7)	59,927,055	46,979,032	52,618	41,249
Equity method investments (Notes 8 and 20)	8,281,016,752	3,894,539,006	7,271,066	3,419,562
Long-term loans, net of allowance for doubtful accounts of ₩10,912,876 in 2010 and ₩12,842,072 in 2009 (Notes 17 and 18)	2,218,906,959	2,079,621,888	1,948,290	1,825,992
Loans to affiliates, net of allowance for doubtful accounts of ₩141,059,753 in 2010 and ₩129,205,784 in 2009 (Notes 9 and 17)	478,903,889	359,493,208	420,497	315,649
Property, plant and equipment, net (Notes 10 and 32)	1,905,117,800	1,966,057,920	1,672,770	1,726,278
Intangible assets (Notes 11, 20 and 32)	4,269,430,938	3,602,867,995	3,748,732	3,163,463
Long-term trade accounts receivable, net of allowance for doubtful account of ₩4,444,213 in 2010 and ₩6,070,544 in 2009 (Note 18)	43,198,313	51,394,709	37,930	45,127
Long-term guarantee deposits	825,607	2,954,942	725	2,595
Deferred income tax assets (Note 26)	48,106,681	18,656,485	42,240	16,381
Long-term other accounts receivable, net of allowance for doubtful account of nil in 2010 and ₩10,236,380 in 2009	-	11,151,058	-	9,791
Other non-current assets (Notes 9, 12 and 16)	53,845,646	47,427,006	47,278	41,642
<b>Total non-current assets</b>	<b>17,359,279,640</b>	<b>12,083,143,249</b>	<b>15,242,146</b>	<b>10,609,485</b>
<b>Total assets</b>	<b>22,347,368,077</b>	<b>16,966,279,172</b>	<b>19,621,888</b>	<b>14,897,075</b>

## STATEMENTS OF FINANCIAL POSITION

As of December 31, 2010 and 2009

Korea National Oil Corporation

(Korean won and US dollars in thousands)

	Korean won		US dollars	
	2010	2009	2010	2009
<b>Liabilities and equity</b>				
<b>Current liabilities:</b>				
Trade accounts payable, less present value discount of ₩2,262,817 in 2010 and ₩2,379,266 in 2009 (Note 18)	18,805,357	12,914,186	16,512	11,339
Short-term borrowings, less present value discount of ₩1,338,547 in 2010 and nil in 2009 (Note 13 and 17)	2,424,103,021	1,499,939,499	2,128,460	1,317,007
Other accounts payable (Notes 8, 17 and 20)	1,296,178,292	328,022,856	1,138,097	288,017
Withholdings	19,980,600	11,449,319	17,544	10,053
Accrued expenses	46,931,761	44,047,082	41,208	38,675
Income taxes payable	45,607	26,638	40	23
Current portion of long-term borrowings and ABS liabilities, less present value discount of nil in 2010 and ₩499,827 in 2009 (Notes 14, 15, 17 and 18)	272,209,483	345,164,594	239,011	303,068
Firm commitment liabilities (Note 21)	17,154,681	5,978,112	15,062	5,249
Derivative liabilities (Note 21)	36,822,731	16,579,031	32,332	14,557
Deferred income tax liabilities (Note 26)	66,900,450	83,295,350	58,741	73,137
Others	128,622,615	117,940,739	112,936	103,558
<b>Total current liabilities</b>	<b>4,327,754,598</b>	<b>2,465,357,406</b>	<b>3,799,943</b>	<b>2,164,683</b>
<b>Non-current liabilities:</b>				
Bonds payable (Note 14 and 17)	3,705,117,886	1,818,101,382	3,253,243	1,596,366
Long-term borrowings denominated in Korean won (Note 14)	843,401,809	981,017,381	740,541	861,373
Long-term borrowings denominated in foreign currencies (Notes 14, 17 and 18)	2,515,238,389	2,555,896,049	2,208,480	2,244,180
Long-term trade accounts payable, less present value discount of ₩3,573,669 in 2010 and ₩4,946,523 in 2009 (Note 18)	39,072,226	46,668,499	34,307	40,977
Severance and retirement benefits (Note 16)	2,771,662	-	2,434	-
Provision for restoration costs (Note 19)	255,073,349	247,373,779	223,965	217,204
Asset-backed securitization ("ABS") liabilities (Note 15)	3,605,140	20,847,554	3,165	18,305
Derivative liabilities (Note 21)	-	12,084,285	-	10,610
Other long-term liabilities (Note 17 and 20)	651,607,210	396,958,757	572,136	348,545
<b>Total non-current liabilities</b>	<b>8,015,887,671</b>	<b>6,078,947,686</b>	<b>7,038,271</b>	<b>5,337,560</b>
<b>Total liabilities</b>	<b>12,343,642,269</b>	<b>8,544,305,092</b>	<b>10,838,214</b>	<b>7,502,243</b>
<b>Equity:</b>				
Paid-in-capital (Note 22)	8,130,195,780	6,649,416,780	7,138,639	5,838,455
Capital surplus	24,954,221	24,954,221	21,911	21,911
Accumulated other comprehensive income (Note 2 and 24)	113,602,169	156,467,255	99,747	137,385
Retained earnings (Note 23)	1,734,973,638	1,591,135,824	1,523,377	1,397,081
<b>Total equity</b>	<b>10,003,725,808</b>	<b>8,421,974,080</b>	<b>8,783,674</b>	<b>7,394,832</b>
<b>Total liabilities and equity</b>	<b>22,347,368,077</b>	<b>16,966,279,172</b>	<b>19,621,888</b>	<b>14,897,075</b>

# STATEMENTS OF INCOME

For the years ended December 31, 2010 and 2009

Korea National Oil Corporation

(Korean won and US dollars in thousands)

	Korean won		US dollars	
	2010	2009	2010	2009
<b>Sales</b> (Note 32)	<b>2,533,664,176</b>	<b>1,800,051,781</b>	<b>2,224,659</b>	<b>1,580,518</b>
Cost of sales (Note 29 and 32)	1,775,493,965	1,162,471,936	1,558,955	1,020,697
Gross profit	758,170,211	637,579,845	665,704	559,821
Selling and administrative expenses (Note 28, 29 and 31)	98,759,991	75,462,842	86,715	66,259
<b>Operating income</b>	<b>659,410,220</b>	<b>562,117,003</b>	<b>578,989</b>	<b>493,562</b>
Other income (expenses):				
Interest income	51,333,214	75,318,421	45,073	66,133
Interest expense on borrowings and bonds	(194,727,836)	(120,846,796)	(170,979)	(106,108)
Interest expense on ABS liabilities	(43,097,754)	(18,772,575)	(37,842)	(16,483)
Loss on foreign currency transactions, net	(21,740,438)	(118,716,777)	(19,089)	(104,238)
Gain on foreign currency translation, net	127,201,896	324,101,873	111,688	284,574
Equity in loss of equity method investments, net (Note 8)	(176,329,950)	(36,582,647)	(154,825)	(32,121)
Loss on disposal of equity method investments	-	(676,130)	-	(594)
Gain (loss) on disposal of property, plant and equipment, net	5,803,093	(37,831)	5,095	(33)
Gain on disposal of available-for-sale securities	2,626,698	-	2,306	-
Gain on disposal of intangible assets (Note 8)	114,379,530	3,643,003	100,430	3,199
Reversal of allowance for doubtful account	1,849,108	8,220,714	1,624	7,218
Gain from extinguishment of debts (Note 18)	916,975	1,364,335	805	1,198
Loss on settlement of derivative instruments, net	(41,166,254)	(8,912,807)	(36,146)	(7,826)
Loss on valuation of derivative instruments, net (Note 21)	(5,757,238)	(6,106,173)	(5,055)	(5,361)
Gain (loss) on valuation of firm commitments, net (Note 21)	(14,993,004)	6,106,173	(13,164)	5,361
Other allowance for doubtful accounts (Notes 9 and 18)	(13,038,357)	(27,573,753)	(11,448)	(24,211)
Dues on income from oil fields	(49,526,300)	(23,546,567)	(43,486)	(20,675)
Provision for restoration costs (Note 19)	(10,121,958)	(11,959,781)	(8,887)	(10,501)
Impairment loss on oil interests (Note 2 and 11)	(12,768,304)	(24,651,977)	(11,211)	(21,645)
Donation (Note 31)	(4,476,026)	(4,178,002)	(3,930)	(3,668)
Non-operating income from overseas oil fields, net	14,991,740	72,524,099	13,163	63,679
Prior period error corrections	-	(9,742,167)	-	(8,554)
Others, net	(335,557)	7,851,850	(294)	6,892
	(268,976,722)	86,826,485	(236,172)	76,236
Income before income taxes	390,433,498	648,943,488	342,817	569,798
Provision for income taxes (Note 26)	179,037,610	226,651,536	157,203	199,009
<b>Net income</b>	<b>211,395,888</b>	<b>422,291,952</b>	<b>185,614</b>	<b>370,789</b>

## STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

For the years ended December 31, 2010 and 2009

Korea National Oil Corporation

(Korean won and US dollars in thousands)

	Korean won		US dollars	
	2010	2009	2010	2009
<b>Retained earnings before appropriations:</b>				
Unappropriated retained earnings carried forward from the prior year	-	-	-	-
Net income	211,395,888	422,291,952	185,614	370,789
	211,395,888	422,291,952	185,614	370,789
<b>Appropriations (2010-proposed):</b>				
Legal reserve (Note 23)	88,785,917	177,366,939	77,958	155,735
Reserve for business expansion (Note 23)	88,785,917	177,366,939	77,958	155,735
Cash dividends (Note 27)	33,824,054	67,558,074	29,698	59,319
	211,395,888	422,291,952	185,614	370,789
<b>Unappropriated retained earnings to be carried forward to the next year</b>	-	-	-	-

## STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2010 and 2009

Korea National Oil Corporation

(Korean won and US dollars in thousands)

	Paid-in-capital	Capital surplus	Accumulated other comprehensive income	Retained earnings	Total equity
As of January 1, 2009	5,914,814,780	24,954,221	382,398,278	1,193,981,836	7,516,149,115
Dividends	-	-	-	(25,137,964)	(25,137,964)
Increase of paid-in-capital	734,602,000	-	-	-	734,602,000
Net income for the year	-	-	-	422,291,952	422,291,952
Gain on valuation of available-for-sale securities	-	-	1,952,482	-	1,952,482
Equity adjustments in equity method	-	-	(25,009,200)	-	(25,009,200)
Foreign currency translation adjustments	-	-	(70,410,283)	-	(70,410,283)
Loss on valuation of derivative investments	-	-	(132,464,022)	-	(132,464,022)
As of December 31, 2009	6,649,416,780	24,954,221	156,467,255	1,591,135,824	8,421,974,080
US dollars (Note 2)	5,838,455	21,911	137,385	1,397,081	7,394,832
As of January 1, 2010	6,649,416,780	24,954,221	156,467,255	1,591,135,824	8,421,974,080
Dividends	-	-	-	(67,558,074)	(67,558,074)
Increase of paid-in-capital	1,480,779,000	-	-	-	1,480,779,000
Net income for the year	-	-	-	211,395,888	211,395,888
Gain on valuation of available-for-sale securities	-	-	9,839,596	-	9,839,596
Equity adjustments in equity method	-	-	(11,053,818)	-	(11,053,818)
Foreign currency translation adjustments	-	-	(38,243,447)	-	(38,243,447)
Loss on valuation of derivative investments	-	-	(3,407,417)	-	(3,407,417)
As of December 31, 2010	8,130,195,780	24,954,221	113,602,169	1,734,973,638	10,003,725,808
US dollars (Note 2)	7,138,639	21,911	99,747	1,523,377	8,783,674

## STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

Korea National Oil Corporation

(Korean won and US dollars in thousands)

	Korean won		US dollars	
	2010	2009	2010	2009
<b>Cash flows from operating activities:</b>				
Net income	211,395,888	422,291,952	185,614	370,789
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Provision for severance and retirement benefits	6,642,741	1,698,502	5,833	1,491
Depreciation	139,049,087	124,817,450	122,091	109,595
Amortization of intangible assets	330,925,195	334,190,395	290,566	293,433
Other allowance for doubtful accounts	13,038,357	27,573,753	11,448	24,211
Interest income	(155,264,022)	(21,614,239)	(136,328)	(18,978)
Interest expense	155,434,245	26,043,335	136,478	22,867
Gain on foreign currency translation, net	(128,791,856)	(325,365,415)	(113,084)	(285,684)
Equity in loss of equity method investments, net	176,329,950	36,582,647	154,825	32,121
Loss on disposal of equity method investments	-	676,130	-	594
Loss (gain) on disposal of property, plant and equipment, net	(5,803,093)	37,831	(5,095)	33
Gain on disposal of intangible assets	(114,379,530)	(3,643,003)	(100,430)	(3,199)
Reversal of allowance for doubtful accounts	(1,849,108)	(8,220,714)	(1,624)	(7,218)
Gain from extinguishment of debts	(916,975)	(1,364,335)	(805)	(1,198)
Loss on valuation of derivative instruments, net	5,757,238	6,106,173	5,055	5,361
Loss (gain) on valuation of firm commitments, net	14,993,004	(6,106,173)	13,164	(5,361)
Provision for restoration costs	10,121,958	11,959,781	8,887	10,501
Impairment loss on oil interests	12,768,304	24,651,977	11,211	21,645
Prior period error corrections	-	9,742,167	-	8,554
Gain on disposal of available-for-sale securities	(2,626,698)	-	(2,306)	-
Others, net	3,803,957	(3,525,926)	3,340	(3,096)

## STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

Korea National Oil Corporation

(Korean won and US dollars in thousands)

	Korean won		US dollars	
	2010	2009	2010	2009
Changes in operating assets and liabilities:				
Trade accounts receivable	263,266,539	(243,283,733)	231,159	(213,613)
Short-term loans	243,944,465	252,658,820	214,193	221,845
Other accounts receivable	35,380,997	27,084,424	31,066	23,781
Inventories	(367,404,443)	(215,973,021)	(322,596)	(189,633)
Long-term loans	(178,113,911)	(274,405,827)	(156,391)	(240,939)
Long-term other accounts receivable	11,151,058	1,188,191	9,791	1,043
Refundable income taxes	(5,790,217)	-	(5,084)	-
Deferred income taxes	(46,173,687)	49,660,919	(40,542)	43,604
Other assets, net	(5,755,821)	(23,062,200)	(5,054)	(20,250)
Foreign currency translation adjustments	(83,726,590)	(99,590,517)	(73,515)	(87,444)
Trade accounts payable	(9,120,449)	(18,530,149)	(8,008)	(16,270)
Other accounts payable	20,081,981	(306,194,737)	17,633	(268,851)
Withholdings	8,531,281	71,529	7,491	63
Accrued expenses	2,884,678	40,828,998	2,533	35,850
Income taxes payable	18,970	25,433	17	22
Current portion of long-term borrowings	(243,944,465)	(252,658,820)	(214,193)	(221,845)
Long-term borrowings denominated in Korean won (for loans to private companies)	48,780,708	86,023,050	42,831	75,532
Long-term borrowings denominated in foreign currencies (for loans to private companies)	129,333,203	188,459,421	113,560	165,475
Payment of severance and retirement benefits	(2,819,339)	(2,059,370)	(2,475)	(1,808)
Operational assets for pension plan	(1,040,634)	(7,192,983)	(914)	(6,316)
Derivative assets	13,249,765	(113,379,973)	11,634	(99,552)
Other liabilities, net	206,268,859	24,647,073	181,109	21,641
Total adjustments	498,235,702	(651,443,136)	437,471	(571,993)
Net cash provided by (used in) operating activities	709,631,590	(229,151,184)	623,085	(201,204)

## STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

Korea National Oil Corporation

(Korean won and US dollars in thousands)

	Korean won		US dollars	
	2010	2009	2010	2009
<b>Cash flows from investing activities:</b>				
Decrease (increase) in short-term financial instruments	317,237,500	(167,137,500)	278,547	(146,753)
Acquisition of trading securities	(12,834,100)	-	(11,269)	-
Increase in long-term financial instruments	-	(2,000,000)	-	(1,756)
Proceeds from disposal of available-for-sale securities	5,829,988	-	5,119	-
Proceeds from disposal of equity method investments	2,562,306	1,322,400	2,250	1,161
Increase in loans to affiliates, net	(128,792,396)	(53,018,297)	(113,085)	(46,552)
Decrease in long-term guarantee deposits, net	2,129,336	923,237	1,870	811
Proceeds from disposal of property, plant and equipment	31,650,405	438,529	27,790	385
Proceeds from disposal of intangible assets	9,733,034	4,154,885	8,546	3,648
Acquisition of available-for-sale securities	(3,536,446)	(30,789)	(3,105)	(27)
Acquisition of equity method investments	(4,089,095,647)	(3,823,592,442)	(3,590,390)	(3,357,268)
Acquisition of property, plant and equipment	(106,640,054)	(136,759,201)	(93,634)	(120,080)
Acquisition of intangible assets	(320,054,897)	(304,916,274)	(281,021)	(267,729)
Others, net	(17,314,336)	(1,782,257)	(15,203)	(1,565)
Net cash used in investing activities	(4,309,125,307)	(4,482,397,709)	(3,783,585)	(3,935,725)
<b>Cash flows from financing activities:</b>				
Proceeds from short-term borrowings	4,475,985,141	1,508,336,270	3,930,095	1,324,380
Repayment of short-term borrowings	(3,569,696,860)	(502,066,080)	(3,134,337)	(440,834)
Proceeds from long-term borrowings	96,619,732	816,350,415	84,836	716,788
Repayment of long-term borrowings	(342,809,735)	(115,678,038)	(301,001)	(101,570)
Proceeds from issuance of bonds payable	2,000,610,965	1,966,148,449	1,756,617	1,726,357
Increase of paid-in-capital	1,480,779,000	734,602,000	1,300,184	645,010
Repayment of current portion of long-term borrowings and ABS liabilities	(109,017,456)	(409,504,183)	(95,722)	(359,561)
Payment of dividends	(67,558,074)	(25,137,964)	(59,319)	(22,072)
Net cash provided by financing activities	3,964,912,713	3,973,050,869	3,481,353	3,488,498
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>365,418,996</b>	<b>(738,498,024)</b>	<b>320,853</b>	<b>(648,431)</b>
<b>Cash and cash equivalents at the beginning of the year</b> (Note 33)	<b>957,621,213</b>	<b>1,696,119,237</b>	<b>840,830</b>	<b>1,489,261</b>
<b>Cash and cash equivalents at the end of the year</b> (Note 33)	<b>1,323,040,209</b>	<b>957,621,213</b>	<b>1,161,683</b>	<b>840,830</b>

## 1. Corporate information

Korea National Oil Corporation was incorporated on March 3, 1979 to engage in the development of oil fields, distribution of crude oil, maintenance of petroleum reserve stock and improvement of the petroleum distribution structure under the Korea National Oil Corporation Act.

The Company's head office is located in Anyang, Gyeonggi-do in Korea. The Company also has 9 petroleum stockpile offices, 1 domestic gas field management office, 13 overseas offices in Vietnam and other countries and numerous overseas subsidiaries and affiliates in the US and other countries.

As of December 31, 2010 and 2009, the Company is wholly owned by the Korean government.

## 2. Summary of significant accounting policies

### Basis of financial statement preparation

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with accounting principles for government-controlled corporations, as issued by the Ministry of Strategy and Finance (MSF). The accounting standards for government-controlled corporations requires the accounting principles generally accepted in the Republic of Korea to be applied where there is no specific guidance under accounting standards for government-controlled corporations. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. In the event of any differences in interpreting the financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements.

The financial statements of the Company have been prepared in accordance with accounting standards for government-controlled corporations and Statements of Korea Accounting Standards (SKAS) 1 to 23. The summary of significant accounting policies used for the preparation of the financial statements is as follows:

### Financial statements translation

The accompanying financial statements are expressed in Korean won and, solely for the convenience of the readers, have been translated into United States dollars at the rate of ₩1,138.90 to US\$1, the year end exchange rate on December 31, 2010. Such translation should not be construed as a representation that the Korean won amounts can actually be converted into United States dollars at the exchange rate used for the purposes of such translation.

### Revenue recognition

Revenue from the sale of petroleum is recognized when significant risks and rewards of ownership of the petroleum have been transferred to the buyer, usually upon delivery. Revenue from sales activities other than petroleum is recognized when the Company's earnings process has been substantially completed, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Company.

### Cash equivalents

Highly liquid deposits and marketable securities with original maturities of three months or less, and which have no significant risk of loss in value by interest rate fluctuations, are considered as cash equivalents.

### Financial instruments

Financial instruments, such as time deposits and restricted bank deposits, which are traded by financial institutions and are held for short-term cash management purposes or which will mature within one year, are accounted for as short-term financial instruments. Financial instruments other than cash equivalents and short-term financial instruments are recorded as long-term financial instruments.

### Allowance for doubtful accounts

The Company provides an allowance for doubtful accounts in consideration of the estimated loss that may arise from non-collection of its receivables. The estimate of losses, if any, is based on a review of the aging and current status of the outstanding receivables.

## NOTES TO FINANCIAL STATEMENTS

### Inventories

Inventories are stated at the lower of cost or net realizable value, with cost being determined using the moving-average method. A perpetual inventory system is used to record inventories, in which inventories are adjusted to physical inventory counts that are performed at the end of the year.

When a decline in the value of inventory indicates that its cost exceeds net realizable value or replacement costs, a valuation loss will be recognized to write the inventory down to its net realizable value, except for oil stockpile inventory, which is recorded at acquisition cost regardless of whether acquisition cost is lower than net realizable value in accordance with the Special Accounting Provisions of MSF.

### Investments in securities

Investments in securities within the scope of SKAS 8 Investments in Securities are classified as either trading, held-to-maturity or available-for-sale securities, as appropriate, and are initially measured at cost, including incidental expenses, with cost being determined using the moving-average method. The Company determines the classification of its investments after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. Trading securities are classified as current assets. Available-for-sale and held-to-maturity securities are classified as long-term investments, except that securities maturing within one year or that are certain to be disposed of within one or that are certain to be disposed of within one year from the reporting date are classified as short-term investments.

Securities that are acquired and held principally for the purpose of selling them in the near term are classified as trading securities. Debt securities which carry fixed or determinable payments and fixed maturity are classified as held-to-maturity if the Company has the positive intention and ability to hold to maturity. Securities that are not classified as either trading or held-to-maturity are classified as available-for-sale securities.

After initial measurement, available-for-sale securities are measured at fair value with unrealized gains or losses being recognized directly in equity as other comprehensive income. Likewise, trading securities are also measured at fair value after initial measurement, but with unrealized gains or losses reported as part of net income. Held-to-maturity securities are measured at amortized cost after initial measurement. The cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initially recognized amount and the maturity amount.

The fair value of trading and available-for-sale securities that are traded actively in the open market (marketable securities) is measured at the closing price of those securities at the reporting date. Non-marketable equity securities are measured at cost subsequent to initial measurement if their fair values cannot be reliably estimated. Non-marketable debt securities are carried at a value using the present value of future cash flows discounted using an appropriate interest rate which reflects the issuer's credit rating announced by a public independent credit rating agency. If the application of such measurement method is not feasible, estimates of fair values may be made using a reasonable valuation model or quoted market prices of similar debt securities issued by entities conducting business in similar industries.

The Company recognizes an impairment loss on its investments in securities if there is objective evidence that the securities are impaired. The impairment loss is charged to the statement of income.

### Equity method investments

Investments in entities over which the Company has control or significant influence are accounted for using the equity method.

Under the equity method of accounting, the Company's initial investment in an investee is recorded at acquisition cost. Subsequently, the carrying amount of the investment is adjusted to reflect the Company's share of income or loss of the investee in the statement of income and share of changes in equity that have been recognized directly in the equity of the investee in the related equity account of the Company on the statement of financial position. If the Company's share of loss of the investee equals or exceeds its interest in the investee, it suspends recognizing its share of further losses. However, if the Company has other long-term interests in the investee, it continues recognizing its share of further losses to the extent of the carrying amount of such long-term interests.

At the date of acquisition, the excess of the cost of the investment over the Company's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill which is amortized over its useful life of within 20 years using the straight-line method. Conversely, negative goodwill represents the excess of the Company's share in the net fair value of the investee's identifiable assets and liabilities over the cost of the investment. Negative goodwill is recorded to the extent of the fair value of acquired non-monetary assets and recognized as income using the straight-line method over the remaining weighted-average useful life of those acquired non-monetary assets. The amount of negative goodwill in excess of the fair value of acquired non-monetary assets is recognized as income immediately.

The Company's share in the investee's unrealized profits and losses resulting from transactions between the Company and its investee is eliminated to the extent of the interest in the investee.

In translating the financial statements of foreign investees into Korean won, assets and liabilities are translated at the exchange rate on the reporting date and income and expenses are translated at the weighted-average exchange rate for the period. All resulting exchange differences are recognized as foreign currency translation adjustments in other comprehensive income within equity.

## NOTES TO FINANCIAL STATEMENTS

### Investments in entities engaging in oil field activities

For investment in an entity engaging in exploring, developing and producing oil fields, which the Company has substantial control over the investee and the significant risks and rewards from the operations of the investee, the Company accounts for its proportionate share of assets, liabilities, profits and expenses of the investee directly within the corresponding line items on its financial statements based on percentage ownership. Otherwise, the Company accounts for its interest either as an equity method investment or available-for-sale investment, as appropriate.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Maintenance and repairs are expensed in the year in which they are incurred. Expenditures which enhance the value or extend the useful life of the related assets are capitalized.

Property, plant and equipment used for oil production wells are depreciated using the unit-of-production method. Depreciation of other property, plant and equipment is provided using the declining-balance method, except for buildings and structures for which the straight-line method is used, over the estimated useful lives of the assets as follows:

	Years
Buildings	20,40
Structures	20,40
Machinery and equipment	5
Vehicles	5
Furniture and fixtures	5
Oil prospecting vessels	12

When there is a legal or contractual obligation for dismantling, removing facilities and restoring sites on which they are located to their original condition at the end of the useful lives of the facilities, the present value of the estimated future restoration costs are capitalized at the acquisition date as additions to the cost of facilities and are accounted for as a provision. The Company subsequently depreciates the restoration costs using the unit-of-production method and the difference between estimated restoration costs and their present value is charged to current operations by applying the effective-interest-rate method over the useful lives of the facilities.

### Intangible assets

Intangible assets of the Company consist of oil wells, development costs and other intangible assets, which are stated at cost less accumulated amortization and impairment losses.

#### (i) Oil exploratory, development and production wells

The Company engages in the development of overseas natural resources either by entering into contracts for sharing the extracted natural resources or by acquiring interests in the related projects. The acquisition cost of the interests in oil fields is included in oil interests in exploration, development or production in intangible assets.

- (1) Oil exploratory wells consist of geomorphic and geophysical investigation costs and excavation costs on promising structures for exploratory drilling. When proved successful, the cost is reclassified to oil development wells.
- (2) Oil development wells consist of costs for oil field valuation, construction of production facility and offshore rig operation by using information obtained through exploration step. The cost is reclassified to oil production wells upon the commercial production of petroleum.
- (3) Oil production wells consist of operation costs for improving productivity, oil reservoir management for prediction of oil output and production optimization, and increasing the return rate of crude oil.

The costs of successful production wells are amortized using the unit-of-production method. For exploratory wells proven to be unsuccessful upon evaluation, the investments in such wells are immediately charged to current operations and the Company is exempt from its obligation to repay the borrowings associated with the unsuccessful exploratory wells in accordance with the Special Accounting for Energy and Resources (SAER) and a gain from liabilities exempted is recognized.

Borrowing costs directly attributable to the production, acquisition or construction of qualifying intangible assets that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. Borrowing costs attributable to the acquisition of oil exploratory wells are not generally capitalized as it is uncertain that they would result in future economic benefits. However, borrowing costs attributable to exploratory wells guaranteed with the minimum reserves resulting in guaranteeing future economic benefits are capitalized. As such capitalized borrowing costs amounted to ¥13,637,957 thousand for the year ended December 31, 2010.

## NOTES TO FINANCIAL STATEMENTS

The effects of the borrowing costs on the Company's 2010 financial statements if such borrowing costs were expensed are as follows (Korean won in thousands):

	Exploratory oil wells		Total assets		Interest expense		Income before income taxes
Capitalized	₩	2,277,549,492	₩	22,347,368,077	₩	194,727,836	₩ 390,433,497
Expensed		2,263,911,535		22,333,730,120		208,365,793	376,795,540
	₩	13,637,957	₩	13,637,957	₩	13,637,957	₩ 13,637,957

## (ii) Other intangible assets

Development costs in intangible assets are amortized using the straight-line method. Amortization of the asset begins when development is completed and the asset is available for use, over the estimated useful lives of 5 years. The amortization expense is recognized as part of manufacturing costs or selling and administrative expenses.

Other intangible assets other than oil wells and development costs are amortized using the straight-line method, except for software for which the declining-balance method is used, over the estimated useful lives of the assets as follows:

	Years
Industrial proprietary right	5
Other intangible assets	5, 20

**Impairment of assets**

When the recoverable amount of an asset is less than its carrying amount due to obsolescence, physical damage or unexpected decline in the market value of the asset, the decline in value, if material, is deducted from the carrying amount and recognized as an asset impairment loss in the current year.

Subsequently, if the recoverable amount of the asset exceeds its carrying amount which has been impaired, carrying amount is increased to the extent of lower of the carrying amount that would have been determined, net of amortization or depreciation had no impairment loss been recognized in prior periods, or its recoverable amount.

**Government subsidies and customers' contribution**

Government subsidies and customers' contribution, which are used for the acquisition of certain assets, are accounted for as a deduction from the acquisition cost of the acquired assets. Such amounts are offset against the depreciation or amortization of the acquired assets during such assets' useful life. Government subsidies which are required to be repaid are recorded as a liability in the statement of financial position.

**Defined contribution and defined benefit plans**

In accordance with the Employee Retirement Benefit Security Act (ERBSA) and the Company made a transaction to a defined benefit pension plan ("DB plan") effective from 2006 and a defined contribution pension plan ("DC plan") effective from 2008 for its employees to replace the traditional severance and retirement benefit plan.

Prior to above effective dates, the Company was obliged to pay all employees a severance payment which required no external funding under the traditional severance and retirement benefits plan. The accumulated severance and retirement benefits under the previous severance and retirement benefits plan were transferred to the DB plan at the effective date of the DB plan.

Under the DB plan, the provision for retirement benefits is determined based on the final salary equal in value at retirement to at least one month's final salary for every year of service by an employee. The retirement benefit plan is partially funded by the Company and the plan's assets are managed by the plan's administrator. The liability for retirement benefits under the defined benefit plan is presented as the net of the accrued defined benefit obligation minus the plan's assets at the end of the reporting period.

Under the DC plan, the Company pays a fixed monthly contribution of at least 1/12th of an employee's annual salary for each year of service to a separately administered fund which is managed by the plan's administrator. Contributions to the DC plan are recognized as an expense in the statement of income as incurred.

### Provisions and contingent liabilities

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provision is used only for expenditures for which the provision was originally recognized. If the effect of the time value of money is material, provisions are stated at present value.

A contingent liability is disclosed, but not recognized when it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

### Income taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. Deferred income taxes are provided using the liability method for the tax effect of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred income tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse, and are classified as current or non-current, respectively, based on the classification of the related asset or liability in the statement of financial position. In addition, current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity.

### Valuation of receivables or payables at present value

Receivables or payables arising from long-term installment transactions are stated at present value. The difference between the carrying amount and present value of the receivables or payables is amortized using the effective-interest-rate method and credited or charged to the statement of income over the installment period.

When credit terms (e.g., principal, interest rate, payment period) of receivables or payables between debtors or creditors experiencing financial difficulties (e.g., court receivership, debt restructuring, financial workout) are unfavorably changed from the perspective of the Company, such receivables or payables are stated at present value calculated by discounting the future cash flows in accordance with the modified terms of the restructured receivables or payables by using the effective-interest-rate method from the origination date and the difference between the carrying amount and present value of such receivables or payables is charged or credited to the statement of income.

### Foreign currency translation

Transactions involving foreign currencies are recorded at the exchange rates prevailing at the time the transactions are made.

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the appropriate exchange rates on the reporting date. The resulting unrealized foreign currency translation gains or losses are credited or charged to current operations. Non-monetary items that are re-measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. However, monetary assets and liabilities denominated in foreign currencies in connection with the Company's loan used in developing an oil field, whose repayment obligation is contingent upon the success of the project, is translated into Korean won using the exchange rate on the date of the initial transaction until the development is proven to be successful.

### Translation of foreign operations' financial statements

Financial statements of foreign operations are maintained in the currencies of the countries in which they conduct their operations. In translating the foreign operations' financial statements into Korean won, assets and liabilities are translated at the year-end exchange rate at the reporting date and income and expenses are translated at the weighted-average exchange rate during the year. All resulting exchange differences are recognized as foreign currency translation adjustments in other comprehensive income within equity.

On disposal, close down or dissolution of a foreign operation, the cumulative amount of the exchange rate differences recognized in other comprehensive income relating to such operation is reclassified from equity to the statement of income. As of December 31, 2010 and 2009, gain from foreign currency translation adjustments recognized in accumulated other comprehensive income amounted to ₩136,443,754 thousand and ₩174,687,201 thousand, respectively.

## NOTES TO FINANCIAL STATEMENTS

### Derivative financial instruments and firm commitments

Derivative financial instruments are presented as assets or liabilities valued principally at the fair value of the rights or obligations associated with the derivative contracts. The unrealized gain or loss from a derivative transaction with the purpose of hedging the exposure to changes in the fair value of a recognized asset or liability or unrecognized firm commitment is recognized in net income. For a derivative instrument with the purpose of hedging the exposure to the variability of cash flows of a recognized asset or liability or a forecasted transaction, the hedge-effective portion of the derivative instrument's gain or loss is deferred as other comprehensive income in equity. The ineffective portion of the gain or loss is charged or credited to net income. Derivative instruments that do not meet the criteria for hedge accounting, or contracts for which the Company has not elected hedge accounting are measured at fair value with unrealized gains or losses reported in net income.

### Restatement of 2009 financial statements

In 2009, the Company changed an accounting policy for translation of loans and borrowings denominated in foreign currencies used for oil exploration activities to deferring translation until such oil fields are proven to be successful instead of recognizing translation from beginning. The Company applied such changes in the accounting policy prospectively in 2009. However, in accordance with the audit by Board of Audit and Inspection of Korea, the Company was required to restate 2009 financial statements reflecting such changes in the accounting policy retrospectively. As a result, long-term loans and long-term borrowings denominated in foreign currency as of December 31, 2009 decreased by ₩148,291,816 thousand, respectively, with no effects on the net income and net equity in 2009.

### Significant judgments and accounting estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The management's judgments, estimates and assumptions include the carrying value of property, plant and equipments and intangible assets, equity method investments, trade accounts receivable, inventories and valuation of deferred income tax assets, derivative financial instruments, provision for restoration costs and others.

## 3. The impact of adoption of Korea International Financial Reporting Standards (K-IFRS)

### The Company's implementation plan and status for K-IFRS

The Company is scheduled to apply K-IFRS for the first time in the financial period beginning January 1, 2011. The Company's primary activities in connection with its K-IFRS implementation include establishment of a task force team (TFT) to oversee and manage the implementation process of K-IFRS, assessment of its preliminary impact of K-IFRS and development of accounting information system. Additionally, the Company has planned to provide trainings its employees to develop K-IFRS-trained resources within the Company and the plan and status of K-IFRS implementation are periodically reported to management.

Details of the Company's plan and status for the implementation of K-IFRS are as follows:

Major activities	Implementation plan	Status
Analysis of effects of accounting differences	Appointment of an external advisor and analysis of the differences between K-IFRS and Korean GAAP	In progress
Training programs for the employees	Basic training of K-IFRS and specific training on the analysis of the impact of individual standards	Complete in 2010
Establishment of accounting policies	Documentation and establishment of accounting policies considering elective accounting treatments	In progress
Development of accounting information system	Development of accounting information system capable of generating K-IFRS financial information	In progress

### Major accounting differences between K-IFRS and Korean GAAP

The table below describes the major accounting policy changes that are expected to give rise to a significant impact on the Company's financial statements for its first K-IFRS reporting period in 2011. The areas mentioned above are not exhaustive, and additional areas may be identified in the future as a result of further assessment.

## NOTES TO FINANCIAL STATEMENTS

Subject	Company's current accounting policy	K-IFRS
Classification of oil stockpile	Classified as inventory	Classified as non-current asset
Useful life and depreciation method of property, plant and equipment	Determination of useful life based on tax law and accounting practice in Korea (applying the declining balance method)	Determination of useful life based on the expected term of usage and the expected pattern of consumption of the assets being used (applying the straight-line method)
Deemed cost for land	Cost method	Fair value as of the date of transition (as of January 1, 2010)
Consolidated financial statements and separate financial statements	Individual non-consolidated financial statements are primary and no requirement for preparation of separate financial statements	Consolidated financial statements are primary and the separate financial statements are required to be presented
Accumulated paid-time-off and annual bonus.	Recognized when obligation to pay is established	Recognized when the employees render services
Defined benefit obligation	The provision for severance and retirement benefits is determined based on the amount that would be payable assuming all employees were to terminate their employment as of the reporting date	The defined benefit obligation is recognized as the present value of the expected retirement benefit which is calculated using actuarial assumptions including discount rate according to the Projected Unit Credit Method
Goodwill	Amortized using the straight-line method over the estimated useful life within 20 years	No amortization and annual impairment test is required
Membership	Presented as a non-current asset	Presented as an intangible asset with an indefinite useful life
Measurement of loans and receivables	Initially and subsequently measured at cost	Recognized at fair value on the date of initial recognition and subsequently measured using amortized cost method
Business combination	Purchase accounting method except pooling of interest method for business combination under common control	Purchase accounting method (exemption of the retrospective application for business combination before first-time adoption is allowed)
Functional currency	N/A	US dollar is identified as the functional currency and Korean won is identified as the reporting currency

### 4. Inventories

Inventories as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010	2009
Merchandise	₩ -	₩ 55,000,955
Finished goods	11,078,372	12,533,007
Raw materials	11,162,405	6,052,867
Oil stockpile	3,065,709,156	2,646,769,862
Supplies	9,022,940	8,263,827
	₩ 3,096,972,873	₩ 2,728,620,518

## NOTES TO FINANCIAL STATEMENTS

## 5. Other current assets

Other current assets as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010		2009	
Accrued income	₩	573,558	₩	3,687,008
Advance payments		34,044,929		34,196,152
Prepaid expenses		5,606,545		4,053,430
Other		66,970,550		59,123,232
	₩	107,195,582	₩	101,059,822

## 6. Trading securities

Trading securities as of December 31, 2010 consists of the following (Korean won in thousands):

	2010			
Accrued income	Book value		Fair value	
	₩	12,834,100	₩	12,834,100
			₩	-

## 7. Available-for-sale securities

Available-for-sale equity securities as of December 31, 2010 and 2009 consist of the following (Korean won in thousands):

	2010					Impairment loss	
	Ownership %	Acquisition cost	Fair value	Book value	Unrealized gain	Prior to 2010	2010
Non-marketable securities:							
Micronic Korea Co., Ltd. <sup>(*)1</sup>	16.70	₩ 775,000	₩ -	₩ 378,853	₩ -	₩ 396,147	₩ -
Daehan Oil Pipeline Corporation <sup>(*)2</sup>	2.26	5,094,710	9,900,040	9,900,040	4,805,330	-	-
Petronado S.A. <sup>(*)1</sup>	5.64	14,146,922	-	14,146,922	-	-	-
Yemen LNG Company Ltd. <sup>(*)1</sup>	1.06	23,978,341	34,555,261	34,555,261	10,576,920	-	-
Troika Resource Investment PEF	14.47	767,479	-	767,479	-	-	-
Global Dynasty Natural Resource PEF <sup>(*)1</sup>	15.67	178,500	-	178,500	-	-	-
		₩ 44,940,952	₩ 44,455,301	₩ 59,927,055	₩ 15,382,250	₩ 396,147	₩ -

	2009					Impairment loss	
	Ownership %	Acquisition cost	Fair value	Book value	Unrealized gain	Prior to 2009	2009
Non-marketable securities:							
Micronic Korea Co., Ltd.	16.70	₩ 775,000	₩ -	₩ 378,853	₩ -	₩ 396,147	₩ -
Daehan Oil Pipeline Corporation	3.69	8,298,000	11,065,383	11,065,383	2,767,383	-	-
Petronado S.A.	5.64	14,344,292	-	14,344,292	-	-	-
Yemen LNG Company Ltd.	1.06	21,190,504	-	21,190,504	-	-	-
		₩ 44,607,796	₩ 11,065,383	₩ 46,979,032	₩ 2,767,383	₩ 396,147	₩ -

(\*)1) These equity investments are measured at cost less any impairment loss since their fair value cannot be reliably determined.

(\*)2) The fair values of those equity investments were determined by reference to the amount provided by an independent appraiser in Korea.

## 8. Equity method investments

Investments in equity securities accounted for using the equity method as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

	Ownership %	2010		
		Acquisition cost	Proportionate net asset value	Book value
KNOC Samsung Lantian Oil Development Co., Ltd.	44	₩ 5,858,010	₩ 5,458,739	₩ 5,458,739
Oiltanking KNOC Yeosu	29	2,335,950	776,793	776,793
Dolphin Property Limited	75	58,026	929,852	58,026
Kernhem B.V.	37	8,978,069		8,978,069
ADA OIL LLP <sup>(*)1</sup>	13	21,420,610	5,011,222	21,420,610
KNOC Bazian Limited	38	35	55,474	35
KNOC Inam Limited	40	37	(8,869)	37
KNOC Kamchatka Petroleum Limited	55	1,120	(1,208,409)	1,120
Fosco B.V.	33	7,315	(59,511)	7,315
KC Karpovsky B.V.	35	8,534	(678,348)	8,534
KNOC Nigerian West Oil Company Limited	75	57,284	(18,689,130)	57,284
KNOC Nigerian East Oil Company Limited	75	57,284	(20,756,545)	57,284
KNOC Aral Ltd.	51	49	121,087	49
Korea Kamchatka Co. Limited	50	6,736,364	4,738,284	6,736,364
KC Kazakh B.V.	35	232,674	227,739	232,674
KNOC Ferghana Ltd.	50	777	605	777
Harvest Operations Corp. <sup>(*)2</sup>	100	2,676,978,802	2,283,592,888	2,676,978,802
Offshore International Group Inc. <sup>(*)3</sup>	50	821,223,644	185,172,505	754,366,677
KNOC Kaz B.V. <sup>(*)4</sup>	100	419,399,817	421,642,736	419,399,817
KNOC Ferghana2 Ltd.	65			
Dana Petroleum Plc <sup>(*)5</sup>	100			
		₩ 3,963,354,401	₩ 2,867,488,286	₩ 3,894,539,006

(\*)1 As ADA OIL LLP is an affiliate of Kernhem B.V., equity method was applied considering the indirect ownership interest held by Kernhem B.V. in addition to ownership by the Company.

(\*)2 KNOC Canada, which is a wholly owned subsidiary of the Company, acquired 100% ownership interest in Harvest Energy Trust located in Canada on December 23, 2009. On May 1, 2010, KNOC Canada and Harvest Energy Trust were merged into one new entity named Harvest Operations Corp. (Harvest). Harvest considered December 31, 2009 as the deemed acquisition date and accounted for Harvest's assets and liabilities at fair value at the deemed acquisition date. As a result of the merger, CAD405 million of goodwill was recognized in Harvest's financial statements and its amortization was reflected in equity in loss of equity method investment.

(\*)3 In February 2009, the Company jointly acquired Offshore International Group Inc. (OIG) for US\$900 million (the Company's share: US\$450 million) with Ecopetrol S.A. which is a Colombian government-owned company. The Company and Ecopetrol S.A. individually have a 50% of ownership interest in OIG. OIG mainly owns Petro-Tech Peruana S.A. which is located in Peru and has one oil producing well and ten exploratory wells.

In accordance with the purchase contract for OIG's ownership interest, the Company and Ecopetrol S.A. should individually pay US\$150 million for the combined amount of US\$300 million as the international average oil price per barrel for the following 2 years since the contract date exceeded US\$70. As such, the Company accounted for the additional US\$150 million (equivalent to ₩182,874 million) as an acquisition cost and other accounts payable as of December 31, 2010.

(\*)4 On December 28, 2009, the Company acquired 85% of ownership interest in KNOC Caspian LLP in Kazakhstan through KNOC Kaz B.V. and applied December 31, 2009 as the deemed acquisition date for recording the investment. KNOC Caspian LLP has one oil exploration well and one development well in Kazakhstan.

(\*)5 In October 2010, the Company acquired 100% equity in Dana Petroleum Plc (Dana) and accounted for the investments in Dana using the equity method with October 1, 2010 as the deemed acquisition date. Dana has numerous production oil wells, development oil wells and exploratory oil wells in the United Kingdom, Netherland, Norway, Egypt and other countries.

## NOTES TO FINANCIAL STATEMENTS

	Ownership %	2009		
		Acquisition cost	Proportionate net asset value	Book value
KNOC Samsung Lantian Oil Development Co., Ltd.	44	₩ 5,638,359	₩ 5,458,739	₩ 5,458,739
Oiltanking KNOC Yeosu	29	2,335,950	776,793	776,793
Dolphin Property Limited	75	58,026	929,852	58,026
Kernhem B.V.	37	8,978,069		8,978,069
ADA OIL LLP	13	21,420,610	5,011,222	21,420,610
KNOC Bazian Limited	38	35	55,474	35
KNOC Inam Limited	40	37	(8,869)	37
KNOC Kamchatka Petroleum Limited	55	1,120	(1,208,409)	1,120
Fosco B.V.	33	7,315	(59,511)	7,315
KC Karpovsky B.V.	35	8,534	(678,348)	8,534
KNOC Nigerian West Oil Company Limited	75	57,284	(18,689,130)	57,284
KNOC Nigerian East Oil Company Limited	75	57,284	(20,756,545)	57,284
KNOC Aral Ltd.	51	49	121,087	49
Korea Kamchatka Co. Limited	50	6,736,364	4,738,284	6,736,364
KC Kazakh B.V.	35	232,674	227,739	232,674
KNOC Ferghana Ltd.	50	777	605	777
Harvest Energy Trust	100	2,676,978,802	2,283,592,888	2,676,978,802
Offshore International Group Inc.	50	821,223,644	185,172,505	754,366,677
KNOC Kaz B.V.	100	419,399,817	421,642,736	419,399,817
		₩ 3,963,134,750	₩ 2,867,488,286	₩ 3,894,539,006

## NOTES TO FINANCIAL STATEMENTS

The details of changes in carrying amount of equity method investments for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010					
	Jan. 1, 2010	Acquisition (disposals)	Equity in earnings (loss) of investee	Equity adjustments	Other	Dec. 31, 2010
KNOC Samsung Lantian Oil Development Co., Ltd.	₩ 5,458,739	₩ -	₩ 607,025	₩ 51,886	₩ -	₩ 6,117,650
Oiltanking KNOC Yeosu	776,793	8,117,650	110,679	-	-	9,005,122
Dolphin Property Limited	58,026	-	-	-	-	58,026
Kernhem B.V.	8,978,069	3,038,841	(13,149,931)	19,029,207	-	17,896,186
ADA OIL LLP	21,420,610	-	(4,867,605)	(132,735)	-	16,420,270
KNOC Bazian Limited	35	-	-	-	-	35
KNOC Inam Limited	37	-	-	-	-	37
KNOC Kamchatka Petroleum Limited	1,120	-	-	-	-	1,120
Fosco B.V.	7,315	-	-	-	-	7,315
KC Karpovsky B.V.	8,534	-	-	-	-	8,534
KNOC Nigerian West Oil Company Limited	57,284	-	-	-	-	57,284
KNOC Nigerian East Oil Company Limited	57,284	-	-	-	-	57,284
KNOC Aral Ltd.	49	-	-	-	-	49
Korea Kamchatka Co. Limited	6,736,364	-	-	-	-	6,736,364
KC Kazakh B.V.	232,674	-	-	-	-	232,674
KNOC Ferghana Ltd.	777	-	-	-	-	777
Harvest Operations Corp.	2,676,978,802	1,063,205,803	(199,906,680)	24,144,909	-	3,564,422,834
Offshore International Group Inc.	754,366,677	59,683,554	(16,115,348)	(5,055,718)	-	790,316,859
KNOC Kaz B.V.	419,399,817	-	(8,803,790)	(10,100,450)	(2,562,306)	400,495,577
KNOC Fefghana2 Ltd.	-	121	-	-	-	121
Dana Petroleum Plc	-	3,441,971,489	65,795,700	(38,584,555)	-	3,469,182,634
	₩ 3,894,539,006	₩ 4,576,017,458	₩ (176,329,950)	₩ (10,647,456)	₩ (2,562,306)	₩ 8,281,016,752

## NOTES TO FINANCIAL STATEMENTS

	2009				
	Jan. 1, 2009	Acquisition (disposals)	Equity in earnings (loss) of investee	Equity adjustments	Dec. 31, 2009
KNOC Samsung Lantian Oil Development Co., Ltd.	₩ 5,783,803	₩ -	₩ 92,100	₩ (417,164)	₩ 5,458,739
Oiltanking KNOC Yeosu	1,094,750	1,241,200	(1,559,157)	-	776,793
Dolphin Property Limited	58,026	-	-	-	58,026
Kernhem B.V.	6,491	8,971,578	-	-	8,978,069
ADA OIL LLP	-	21,420,610	-	-	21,420,610
KNOC Bazian Limited	35	-	-	-	35
KNOC Inam Limited	37	-	-	-	37
KNOC Kamchatka Petroleum Limited	1,120	-	-	-	1,120
Fosco B.V.	7,315	-	-	-	7,315
KC Karpovsky B.V.	8,534	-	-	-	8,534
KNOC Nigerian West Oil Company Limited	57,284	-	-	-	57,284
KNOC Nigerian East Oil Company Limited	57,284	-	-	-	57,284
KNOC Aral Ltd.	49	-	-	-	49
Korea Kamchatka Co. Limited	6,736,364	-	-	-	6,736,364
KC Kazakh B.V.	232,674	-	-	-	232,674
Korea Offshore Logistics Co., Ltd.	1,840,894	(1,998,530)	157,636	-	-
KNOC Ferghana Ltd.	-	777	-	-	777
Harvest Energy Trust	-	2,676,978,802	-	-	2,676,978,802
Offshore International Group Inc.	-	821,223,644	(35,273,226)	(31,583,741)	754,366,677
KNOC Kaz B.V.	-	419,399,817	-	-	419,399,817
	₩ 15,884,660	₩ 3,947,237,898	₩ (36,582,647)	₩ (32,000,905)	₩ 3,894,539,006

The changes in carrying amount of the goodwill and the difference between the fair value and carrying value of the investees the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010			
	Jan. 1, 2010	Increase (decrease)	Amortization	Dec. 31, 2010
Harvest Operations Corp. <sup>(*)1</sup>	₩ 393,385,914	₩ (380,174,096)	₩ (660,591)	₩ 12,551,227
Offshore International Group Inc.	569,194,172	57,229,725	(50,087,669)	576,336,228
Kernhem B.V.	7,816,895	490,543	(199,554)	8,107,884
ADA OIL LLP	16,409,388	(4,268,729)	(291,632)	11,849,027
Dana Petroleum Plc	-	2,103,256,872	(80,579,497)	2,022,677,375
	₩ 986,806,369	₩ 1,776,534,315	₩ (131,818,943)	₩ 2,631,521,741

## NOTES TO FINANCIAL STATEMENTS

	2009			
	Jan. 1, 2009	Increase	Amortization	Dec. 31, 2009
Harvest Energy Trust <sup>(*)</sup>	₩ -	₩ 393,385,914	₩ -	₩ 393,385,914
Offshore International Group Inc.	-	618,459,799	(49,265,627)	569,194,172
Kernhem B.V.	-	7,816,895	-	7,816,895
ADA OIL LLP	-	16,409,388	-	16,409,388
	₩ -	₩ 1,036,071,996	₩ (49,265,627)	₩ 986,806,369

(\*)1) The difference between fair value and carrying value of the Harvest Energy Trust amounting to ₩393,386 million arising from the acquisition in 2009 by KNOC Canada is reflected in Harvest Operations Corp.'s financial statements in 2010 due to the merger of Harvest Energy Trust and KNOC Canada in 2010. Accordingly, such amount was excluded in the above table.

Unrealized gains or losses for the year ended December 31, 2010 is as follows (Korean won in thousands):

	2010		
	Jan. 1, 2010	Increase	Dec. 31, 2010
Harvest Operations Corp.	₩ -	₩ 102,304,097	₩ 102,304,097

On August 6, 2010, the Company transferred its oil development wells named Black Gold Oilsands in Canada, including the related assets and liabilities, to Harvest Operations Corp.(Harvest). In return for the transfer, the Company received newly issued 37,416,913 shares of Harvest at the price of CAD10 per share. The Company recognized gain on disposal of intangible asset amounting to ₩102,304,097 thousand and such amount is reflected as unrealized gain when accounting for the Company's investment in Harvest using the equity method.

## NOTES TO FINANCIAL STATEMENTS

The summary of financial position of the investees as of December 31, 2010 and 2009 and their results of financial performance for the years ended December 31, 2010 and 2009 are presented as follows (Korean won in thousands):

	2010			
	Total assets	Total liabilities	Sales	Net income (loss)
KNOC Samsung Lantian Oil Development Co., Ltd.	₩ 27,202,364	₩ 13,298,613	₩ 7,728,753	₩ 1,379,603
Oiltanking KNOC Yeosu	31,489,173	437,027	-	(2,265,945)
Dolphin Property Limited	8,039,266	7,961,898	-	272
Kernhem B.V.	158,585,258	131,892,316	-	(569,383)
ADA OIL LLP	114,342,983	77,773,039	20,453,544	(36,405,234)
KNOC Bazian Limited	136,394,881	136,394,767	-	-
KNOC Inam Limited	67,331,882	67,331,768	-	51
KNOC Kamchatka Petroleum Limited	96,811,164	96,808,886	-	1,286
Fosco B.V.	45,014,381	44,987,136	-	1,564
KC Karpovsky B.V.	64,621,467	64,591,407	-	31
KNOC Nigerian West Oil Company Limited	198,890,938	198,799,826	-	-
KNOC Nigerian East Oil Company Limited	304,148,467	304,057,355	-	-
KNOC Aral Ltd.	24,817,969	24,817,855	-	82,707
Korea Kamchatka Co. Limited	300,226,273	274,745,512	-	7,905
KC Kazakh B.V.	187,126,889	186,239,285	-	457
KNOC Ferghana Ltd.	17,065,106	17,063,967	-	225
Harvest Operations Corp.	6,111,500,446	2,409,749,085	4,438,173,095	(50,031,084)
Offshore International Group Inc.	710,323,286	282,362,023	368,622,563	68,082,208
KNOC Kaz B.V.	458,201,594	57,706,018	-	(11,021,252)
KNOC Ferghana2 Ltd.	1,963,457	1,963,281	-	-
Dana Petroleum Plc <sup>(*)</sup>	3,406,969,141	1,964,694,748	548,088,153	111,349,380

(\*) Sales and net income are presented for the period after October 1, 2010, the deemed acquisition date.

As audited financial statements of some investees were not available as of the audit opinion date, the Company performed certain procedures including obtaining unaudited financial statements of the investees signed by the investee's management to assess the reliability of such unaudited financial statements.

## NOTES TO FINANCIAL STATEMENTS

	2009			
	Total assets	Total liabilities	Sales	Net income (loss)
KNOC Samsung Lantian Oil Development Co., Ltd.	₩ 26,043,812	₩ 13,637,588	₩ 4,551,607	₩ 209,317
Oiltanking KNOC Yeosu	2,967,456	288,859	-	(5,184,129)
Dolphin Property Limited	9,476,734	8,236,931	-	1,257,146
Kernhem B.V.	132,799,508	129,632,957	-	(80,873)
ADA OIL LLP	139,024,134	98,934,359	-	11,531
KNOC Bazian Limited	94,282,373	94,136,388	-	159,461
KNOC Inam Limited	69,006,339	69,028,512	-	963
KNOC Kamchatka Petroleum Limited	93,378,539	95,575,647	-	834
Fosco B.V.	39,981,517	40,161,853	-	20,095
KC Karpovsky B.V.	55,442,764	57,380,900	-	-
KNOC Nigerian West Oil Company Limited	160,041,059	184,959,899	-	-
KNOC Nigerian East Oil Company Limited	263,030,966	290,906,359	-	-
KNOC Aral Ltd.	21,891,105	21,653,680	-	257,553
Korea Kamchatka Co., Limited	297,355,146	287,878,579	-	915
KC Kazakh B.V.	119,407,847	118,757,165	-	2,914
KNOC Ferghana Ltd.	5,121,559	5,120,349	-	46
KNOC Kaz B.V. <sup>(*)1</sup>	421,668,026	25,290	-	-
Offshore International Group Inc. <sup>(*)2</sup>	496,125,348	125,780,338	239,513,220	27,984,802
Harvest Energy Trust <sup>(*)1</sup>	4,801,004,624	2,517,411,736	-	-

(\*)1) Operating results are not presented as the deemed acquisition date was December 31, 2009.

(\*)2) Sales and net income are presented for the period after March 31, 2009, the deemed acquisition date.

### 9. Related party disclosures

The major related parties of the Company and nature of their relationship with the Company are as follows:

	Years
Subsidiaries and affiliates	KNOC Samsung Lantian Oil Development Co., Ltd., Oiltanking KNOC Yeosu, Dolphin Property Limited, Kernhem B.V., KNOC Bazian Limited, KNOC Inam Limited, KNOC Kamchatka Petroleum Limited, Fosco B.V., KC Karpovsky B.V., KNOC Nigerian West Oil Company Limited, KNOC Nigerian East Oil Company Limited, KNOC Aral Ltd., Korea Kamchatka Co. Limited, KC Kazakh B.V., KNOC Ferghana Ltd., KNOC Ferghana2 Ltd., Harvest Operations Corp., Offshore International Group Inc., KNOC Kaz B.V., Dana Petroleum Plc
Other	KNOC White Hill B.V.

## NOTES TO FINANCIAL STATEMENTS

The outstanding balances with related parties as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

	Account	2010	2009
KNOC Samsung Lantian Oil Development Co., Ltd.	Loans to affiliates	₩ 2,761,474	₩ 3,978,593
Dolphin Property Limited	Loans to affiliates	4,696,973	4,696,973
Kernhem B.V.	Loans to affiliates	49,725,426	47,470,362
KNOC Bazian Limited	Loans to affiliates	47,903,133	27,254,296
KNOC Inam Limited	Loans to affiliates	22,986,085	22,984,985
	Allowance for doubtful accounts	(12,256,692)	(12,256,693)
KNOC Kamchatka Petroleum Limited	Loans to affiliates	48,182,635	46,172,355
	Allowance for doubtful accounts	(22,639,126)	(14,026,117)
Fosco B.V.	Loans to affiliates	22,069,894	20,649,180
	Allowance for doubtful accounts	(12,344,478)	(9,103,518)
KC Karpovsky B.V.	Loans to affiliates	30,348,994	15,691,929
KNOC Nigerian West Oil Company Limited	Loans to affiliates	53,244,626	50,523,364
	Allowance for doubtful accounts	(7,355,502)	(7,355,501)
KNOC Nigerian East Oil Company Limited	Loans to affiliates	58,854,264	56,133,002
	Allowance for doubtful accounts	(6,845,150)	(6,845,150)
KNOC Aral Ltd.	Loans to affiliates	12,564,039	10,551,277
Korea Kamchatka Co. Limited	Loans to affiliates	121,270,622	121,270,622
	Allowance for doubtful accounts	(79,618,805)	(79,618,805)
KC Kazakh B.V.	Loans to affiliates	66,436,006	45,795,619
ADA Oil LLP	Loans to affiliates	12,027,236	13,031,452
KNOC Ferghana Ltd.	Loans to affiliates	8,871,700	2,494,983
KNOC Ferghana2 Ltd.	Loans to affiliates	1,356,921	-
KNOC Kaz B.V.	Loans to affiliates	22,353,914	368,622,563
KNOC White Hill B.V.	Loans to affiliates	34,309,700	
	Total loans to affiliates	₩ 619,963,642	₩ 488,698,992
	Total allowance for doubtful accounts	₩ (141,059,753)	₩ (129,205,784)

The Company charged ₩11,853,969 thousand to allowance for doubtful accounts against the loans to affiliates in 2010 (₩25,639,973 thousand in 2009).

The outstanding balances with related parties other than those entities accounted for using the equity method as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

Related parties	Account	2010	2009
Employees	Short-term loans	₩ 234,171	₩ 86,724
	Long-term loans	34,122,272	13,955,383
		₩ 31,356,443	₩ 14,042,107

## NOTES TO FINANCIAL STATEMENTS

### 10. Property, plant and equipment

Details of property, plant and equipment as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010		
	Cost	Accumulated depreciation	Net income (loss)
Land	₩ 198,602,998	₩ -	₩ 198,602,998
Buildings	91,277,415	(22,426,777)	68,850,638
Structures	1,819,911,103	(463,856,817)	1,356,054,286
Machinery and equipment	533,231,479	(414,400,835)	118,830,644
Vehicles	2,517,046	(1,969,421)	547,625
Furniture and fixtures	33,337,120	(26,675,787)	6,661,333
Oil prospecting vessels	57,282,018	(46,140,517)	11,141,501
Construction-in-progress	144,428,775	-	144,428,775
	₩ 2,880,587,954	₩ (975,470,154)	₩ 1,905,117,800

	2009		
	Cost	Accumulated depreciation	Net income (loss)
Land	₩ 211,941,376	₩ -	₩ 211,941,376
Buildings	100,554,233	(22,432,116)	78,122,117
Structures	1,711,984,855	(399,423,570)	1,312,561,285
Machinery and equipment	452,001,248	(351,482,068)	100,519,180
Vehicles	2,535,350	(1,826,310)	709,040
Furniture and fixtures	32,819,168	(26,053,667)	6,765,501
Oil prospecting vessels	51,863,953	(42,979,706)	8,884,247
Construction-in-progress	246,555,174	-	246,555,174
	₩ 2,810,255,357	₩ (844,197,437)	₩ 1,966,057,920

Changes in the net book value of property, plant and equipment for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010					
	Jan. 1, 2010	Increase	Decrease	Depreciation	Transfer <sup>(*)</sup>	Dec. 31, 2010 <sup>(*)</sup>
Land	₩ 211,941,376	₩ -	₩ (13,891,346)	₩ -	₩ 552,968	₩ 198,602,998
Buildings	78,122,117	920,097	(11,948,441)	(2,420,610)	4,177,475	68,850,638
Structures	1,312,561,285	11,498,933	(6,191)	(75,966,088)	107,966,347	1,356,054,286
Machinery and equipment	100,519,180	3,004,922	(197)	(54,043,830)	69,350,569	118,830,644
Vehicles	709,040	264,282	(5)	(425,692)	-	547,625
Furniture and fixtures	6,765,501	2,830,372	(1,131)	(3,032,056)	98,647	6,661,333
Oil prospecting vessels	8,884,247	2,391,353	-	(3,160,811)	3,026,712	11,141,501
Construction-in-progress	246,555,174	85,730,095	-	-	(187,856,494)	144,428,775
	₩ 1,966,057,920	₩ 106,640,054	₩ (25,847,311)	₩ (139,049,087)	₩ (2,683,776)	₩ 1,905,117,800

(\*)1) Transfer to intangible assets amounting to ₩2,683,776 thousand is included.

(\*)2) Customers' contribution to construction of structures and machinery and equipment amounting to ₩149,741 thousand and ₩6,154,056 thousand is included.

## NOTES TO FINANCIAL STATEMENTS

	2009					
	Jan. 1, 2009	Increase	Decrease	Depreciation	Transfer	Dec. 31, 2009
Land	₩ 201,222,320	₩ -	₩ (337,462)	₩ -	₩ 11,056,518	₩ 211,941,376
Buildings	74,089,727	566,521	(134,140)	(2,477,713)	6,077,722	78,122,117
Structures	1,324,594,902	3,844,831	(11,683,217)	(69,032,489)	64,837,258	1,312,561,285
Machinery and equipment	89,832,515	1,926,418	(4)	(46,463,507)	55,223,758	100,519,180
Vehicles	500,597	559,902	(18)	(449,567)	98,126	709,040
Furniture and fixtures	7,234,621	3,409,356	(4,737)	(3,873,739)	-	6,765,501
Oil prospecting vessels	9,846,045	1,249,669	-	(2,520,435)	308,968	8,884,247
Construction-in-progress	258,955,020	125,202,504	-	-	(137,602,350)	246,555,174
	₩ 1,966,275,747	₩ 136,759,201	₩ (12,159,578)	₩ (124,817,450)	₩ -	₩ 1,966,057,920

The assessment value of the Company's land, as determined by the Government of the Republic of Korea for tax administration purposes, is ₩419,905,091 thousand and ₩347,373,097 thousand as of December 31, 2010 and 2009, respectively.

Insurance coverage under major insurance policies carried by the Company as of December 31, 2010 is as follows (Korean won in thousands):

Description	Insured asset / risk	Amounts	Insurance company
Center fire and others	Buildings, machinery and equipment	₩ 17,145,004	Samsung Fire & Marine Insurance Co., Ltd. and others
Property all risks	Buildings, structures, machinery, suppliers and oil stockpile	7,959,108,851	LIG Insurance Co., Ltd. and others
Terrorism	Facilities on land and sea (except for seabed)	2,797,593,280	Samsung Fire & Marine Insurance Co., Ltd. and others
Buoy	Buoy and pipelines	39,692,915	Dongbu Insurance Co., Ltd. and others
Drillship all risks	Drillship (shipbody and equipment)	279,045,200	Dongbu Insurance Co., Ltd. and others
Donghae-1 gas fields	Machinery and fixtures	505,134,614	Hyundai Marine & Fire Insurance Co., Ltd. and others
Directors' professional indemnity insurance	Directors' and executive officers' liability	50,000,000	Samsung Fire & Marine Insurance Co., Ltd. and others

## NOTES TO FINANCIAL STATEMENTS

### 11. Intangible assets

Details of intangible assets as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010	2009
Oil interests:		
Exploration	₩ 2,277,549,492	₩ 1,148,834,758
Development	29,091,107	343,744,358
Production	1,954,638,664	2,104,290,550
	4,261,279,263	3,596,869,666
Other intangible assets	8,151,675	5,998,329
	₩ 4,269,430,938	₩ 3,602,867,995

Changes in the net book value of oil interests for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010						Dec. 31, 2010
	Jan. 1, 2010	Increase	Decrease	Depreciation	Transfer	Other changes (*)	
Oil interests in exploration	₩ 1,148,834,758	₩ 1,143,111,161	₩ (2,002,810)	₩ -	₩ (12,393,617)	₩ -	₩ 2,277,549,492
Oil interests in development	343,744,358	12,633,192	(327,286,443)	-	-	-	29,091,107
Oil interests in production	2,104,290,550	139,183,150	-	(327,363,295)	(374,687)	38,902,946	1,954,638,664
	₩ 3,596,869,666	₩ 1,294,927,503	₩ (329,289,253)	₩ (327,363,295)	₩ (12,768,304)	₩ 38,902,946	₩ 4,261,279,263

	2009						Dec. 31, 2010
	Jan. 1, 2010	Increase	Decrease	Depreciation	Transfer	Other changes (*)	
Oil interests in exploration	₩ 644,800,121	₩ 529,190,215	₩ (503,601)	₩ -	₩ (24,651,977)	₩ -	₩ 1,148,834,758
Oil interests in development	318,634,813	25,109,545	-	-	-	-	343,744,358
Oil interests in production	2,220,668,956	168,382,491	-	(331,149,067)	-	46,388,170	2,104,290,550
	₩ 3,184,103,890	₩ 722,682,251	₩ (503,601)	₩ (331,149,067)	₩ (12,768,304)	₩ 46,388,170	₩ 3,596,869,666

(\*) Other changes represent increase or decrease in provision for restoration costs.

Changes in the net book value of other intangible assets for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010					Dec. 31, 2010
	Jan. 1, 2010	Increase	Amortization	Other		
Industrial property rights	₩ 376	₩ -	₩ -	₩ -	₩ -	₩ 376
Development costs	2,633,233	1,529,037	(1,977,866)	2,683,776		4,868,180
Others	3,364,720	1,502,433	(1,584,034)	-		3,283,119
	₩ 5,998,329	₩ 3,031,470	₩ (3,561,900)	₩ 2,683,776	₩ -	₩ 8,151,675

## NOTES TO FINANCIAL STATEMENTS

	2009				
	Jan. 1, 2009	Increase	Amortization	Other	Dec. 31, 2009
Industrial property rights	₩ 376	₩ -	₩ -	₩ -	₩ 376
Development costs	3,058,746	1,252,328	-	(1,677,841)	2,633,233
Others	2,445,310	2,291,178	(8,281)	(1,363,487)	3,364,720
	₩ 5,504,432	₩ 3,543,506	₩ (8,281)	₩ (3,041,328)	₩ 5,998,329

**12. Other non-current assets**

Other non-current assets as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010	2009
Loans to employees (see Note 9)	₩ 31,122,272	₩ 13,955,383
Defined benefits plan assets (see Note 16)	-	11,105
Others	22,623,374	33,460,518
	₩ 53,845,646	₩ 47,427,006

**13. Short-term borrowings**

Short-term borrowings as of December 31, 2010 and 2009 are as follows:

Lender	Description	2010			2009	
		Interest rate (%)	US dollars	Korean won in thousands	US dollars	Korean won in thousands
BNP Paribas Bank	General operations	6M LIBOR+0.7	\$ 250,000,000	₩ 284,725,000	\$ 250,000,000	₩ 291,900,000
"	"	-	-	-	200,000,000	233,520,000
ABN AMRO	"	-	-	-	107,418,063	125,421,331
BTMU	"	-	-	-	200,000,000	233,520,000
DBS	"	-	-	-	100,000,000	116,760,000
Mizuho	"	-	-	-	100,000,000	116,760,000
ING	"	-	-	-	50,000,000	58,380,000
Societe Generale	"	6M Libor + 0.9	400,000,000	455,560,000	-	-
Societe Generale	"	6M Libor + 0.9	100,000,000	113,890,000	-	-
Korea Finance Corp.	"	3M Libor + 1.2	500,000,000	569,450,000	-	-
Korea Exim Bank	"	3M Libor + 1.2	750,000,000	854,175,000	-	-
Societe Generale	Trading of oil stockpile	11M Libor + 0.7	76,784,831	87,450,245	-	-
Deutsche Bank	"	3M Libor + 1.4	52,850,402	60,191,323	52,850,402	61,708,130
Masefield	"	-	-	-	58,025,293	67,750,332
Deutsche Bank	"	-	-	-	36,575,431	42,705,473
Vitol	"	-	-	-	44,119,761	51,514,233
Korea Development Bank	General operations	-	-	-	-	50,000,000
ShinHan Bank	"	-	-	-	-	50,000,000
			\$ 2,129,635,233	₩ 2,425,441,568	\$ 1,198,988,950	₩ 1,499,939,499

**14. Bonds payable and long-term borrowings**

Bonds payable as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

Description	Issuance date	Maturity date	Annual interest rate	2010	2009
Foreign currency debentures	2009-02-04	2012-02-04	6M Libor+3.5%	₩ 250,558,000	₩ 256,872,000
"	2009-06-24	2012-02-04	3M Libor+3.4%	307,503,000	315,252,000
"	2010-06-11	2013-06-11	3M Libor+1.0%	569,450,000	-
"	2010-07-22	2013-07-22	3M Libor+1.2%	569,450,000	-
"	2009-07-30	2014-07-30	5.40%	1,138,900,000	1,167,600,000
"	2010-11-10	2015-11-10	2.90%	797,230,000	-
Local currency debentures	2009-06-25	2014-06-25	5.20%	100,000,000	100,000,000
				3,733,091,000	1,839,724,000
Less: discount on bonds payable				(27,973,114)	(21,622,618)
				₩ 3,705,117,886	₩ 1,818,101,382

Long-term borrowings denominated in Korean won as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

Lender	Annual interest rate	2010	2009
SAER for petroleum business	2.80%	₩ 1,029,798,089	₩ 1,195,244,205
Less: current portion		(186,396,280)	(214,226,824)
		₩ 843,401,809	₩ 981,017,381

## NOTES TO FINANCIAL STATEMENTS

Long-term borrowings denominated in foreign currencies as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

Lender	Annual interest rate	2010		2009	
		US dollars	Korean won equivalent	US dollars	Korean won equivalent
SAER for loan to 3rd party:					
Borrowings for exploration and production <sup>(*)</sup>	1.25%	\$ 1,188,215,738	₩ 1,325,536,303	\$ 953,278,038	₩ 1,036,249,781
Borrowings for general operations	0.00% ~ 1.25%	64,402,877	73,348,273	89,854,779	104,914,440
Less: current portion		(10,946,132)	(12,466,550)	(25,451,902)	(29,717,641)
		1,241,672,483	1,386,418,026	1,017,680,915	1,111,446,580
SAER for KNOC:					
Borrowings for exploration and production <sup>(*)</sup>	1.25% ~ 2.25%	787,404,617	869,679,726	716,785,496	786,378,298
Borrowings for general operations	1.25% ~ 2.25%	76,855,468	87,530,693	126,117,270	147,254,525
Less: current portion		(49,261,778)	(56,104,239)	(49,261,794)	(57,518,071)
		814,998,307	901,106,179	793,640,972	876,114,752
Korea Development Bank:					
Borrowings for general operations	3M Libor+4.25%	-	-	250,000,000	291,900,000
Less: current portion		-	-	-	-
		-	-	250,000,000	291,900,000
Societe Generale:					
Borrowings for general operations	6M Libor+2.5%	-	-	50,000,000	58,380,000
Less: current portion		-	-	(12,500,000)	(14,595,000)
		-	-	37,500,000	43,785,000
Bank of Communications Co., Ltd.:					
Borrowings for general operations	3M Libor+3.5%	200,000,000	227,780,000	200,000,000	233,520,000
Less: current portion		-	-	-	-
		200,000,000	227,780,000	200,000,000	233,520,000
		\$ 2,256,670,790	2,515,304,205	\$ 2,298,821,887	2,556,766,332
Less: present value discount			(65,816)		(870,283)
			₩ 2,515,238,389		₩ 2,555,896,049

(\*) The principal amount of these borrowings is to be repaid on an installment basis dependent on the success of commercial production of oil. The Company's obligation to repay the principal amount is exempted if the exploration is proven to be unsuccessful and withdrawn without any commercial production in accordance with the policy of the MSF (No. 2009-315) on loans.

## NOTES TO FINANCIAL STATEMENTS

A summary of the repayment schedule of bonds payable and long-term borrowings as of December 31, 2010 is as follows (Korean won in thousands):

Year	Bonds payable	Korean won denominated borrowings	Foreign currency denominated borrowings (SAER)	Foreign currency denominated borrowings (Bank)	Total
2011	₩ -	₩ 186,396,280	₩ 68,570,789	₩ -	₩ 254,967,069
2012	558,061,000	164,438,285	18,434,377	-	740,933,662
2013	1,138,900,000	152,994,666	25,367,324	-	1,317,261,990
2014	1,238,900,000	136,990,758	19,404,214	227,780,000	1,623,074,972
2015 and thereafter	797,230,000	388,978,100	29,102,263	-	1,215,310,363
	₩ 3,733,091,000	₩ 1,029,798,089	₩ 160,878,966	₩ 227,780,000	₩ 5,151,548,056

Borrowings of ₩2,195,216,029 thousand that are dependent on the successful commercial production of oil and ABS liabilities (see Note 15) as described above are not included in the above repayment schedule of long-term borrowings.

### 15. ABS liabilities

During 2006, the Company entered into a contract to borrow money in exchange for transferring future trade receivables from Vietnam 15-1 interests to be generated next five years to an overseas resources investment company under the Overseas Resources Development Business Act. ABS liabilities as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

Description	2010	2009
Vietnam 15-1		
ABS liabilities	₩ 20,847,554	₩ 50,454,439
Less: current portion	(17,242,414)	(29,606,885)
	₩ 3,605,140	₩ 20,847,554

### 16. Severance and retirement benefits

Changes in net carrying amount of the liability for severance and retirement benefits for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010	2009
As of January 1,	₩ 49,207,270	₩ 49,568,138
Provision during the year	6,642,741	1,698,502
Payments during the year	(2,819,340)	(2,059,370)
	53,030,671	49,207,270
Less: defined benefit plan assets	(50,259,009)	(49,207,270)
As of December 31,	₩ 2,771,662	₩ -

Details of the plan assets funded under the DB plan as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010	2009
Short-term and long-term financial instruments	₩ 22,708,147	₩ 18,103,306
Investment securities	25,071,012	20,240,742
Loans	1,479,790	506,122
Others	1,000,060	10,368,205
	₩ 50,259,009	₩ 49,218,375

The DB plan is mostly funded by the Company (94.8% funded in 2010 and 100% funded in 2009) and the plan assets are managed by Samsung Life Insurance Co., Ltd., Kyobo Life Insurance Co., Ltd. and others.

## NOTES TO FINANCIAL STATEMENTS

**17. Assets and liabilities denominated in foreign currencies**

Assets and liabilities denominated in foreign currencies as of December 31, 2010 and 2009 are as follows:

	Foreign currencies		Korean won equivalent (in thousands)		Foreign currencies		Korean won equivalent (in thousands)	
Assets:								
Short-term and long-term loans <sup>(*)</sup>	US\$	1,252,618,615	₩	1,398,884,576	US\$	1,043,132,817	₩	1,141,164,220
Loans to affiliates	US\$	571,547,059		614,766,841	US\$	462,859,944		484,890,111
	GBP	160,100		320,450	GBP	122,957		254,600
Trade accounts receivable	US\$	68,293,529		78,205,536	US\$	291,550,452		340,414,308
Other accounts receivable	US\$	21,777,534		24,802,433	US\$	49,764,847		58,105,435
	CAD	-		-	CAD	63,189		69,950
Other current assets	US\$	27,908,688		31,785,205	US\$	27,211,332		31,771,951
	AUD	573,373		647,143	AUD	573,373		792,659
Cash and cash equivalents	US\$	494,582,109		563,279,564	US\$	55,364,520		64,493,173
	CAD	-		-	CAD	469,482,001		519,711,881
	SGD	63,715		56,324	SGD	24,757		20,580
Total assets	US\$	2,436,727,534	₩	2,712,748,072	US\$	1,929,883,912	₩	2,641,839,309
	AUD	573,373			AUD	573,373		
	CAD	-			CAD	469,545,190		
	SGD	63,715			SGD	24,757		
	GBP	160,100			GBP	122,957		
Liabilities:								
Short-term borrowings	US\$	2,129,635,233	₩	2,425,441,568	US\$	1,198,988,950	₩	1,399,939,499
Current portion of long-term borrowings								
Long-term borrowings <sup>(*)</sup>	US\$	78,939,484		85,813,203	US\$	119,377,612		131,437,596
Bonds payable	US\$	2,256,670,790		2,515,304,205	US\$	2,298,821,887		2,556,766,332
Other accounts payable	US\$	3,190,000,000		3,633,091,000	US\$	1,490,000,000		1,739,724,000
	US\$	1,089,104,209		1,240,481,660	US\$	217,899,607		254,419,581
	GBP	466,960		820,786	GBP	196,395		368,777
	EUR	-		-	EUR	79,677		133,401
	SGD	710,935		628,279	SGD	148,965		123,830
	CAD	-		-	CAD	731,241		809,476
	SEK	1,417,000		238,722	SEK	-		-
	AUD	37,392		43,297	AUD	-		-
Other long-term liabilities	US\$	427,780,373		486,343,703	US\$	216,042,518		252,251,244
Total liabilities	US\$	9,172,130,089	₩	10,388,206,423	US\$	5,541,130,574	₩	6,335,973,736
	GBP	466,960			GBP	196,395		
	EUR	-			EUR	79,677		
	SGD	710,935			SGD	148,965		
	CAD	-			CAD	731,241		
	SEK	1,417,000			SEK	-		
	AUD	37,392			AUD	-		

(\*) Translation gains (losses) on loans and borrowings denominated in foreign currencies associated with exploratory oil fields are not recognized until the development of oil fields is proven to be successful (see Note 2).

## 18. Valuation of receivables and payables at present value

The present value and related discounts on short-term and long-term receivables and payables arising from long-term installment transactions or with unfavorable credit terms as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010					
	Company	Interest rate (%)	Maturity	Nominal amount	Present value	Present value discount
Short-term and long-term loans denominated in foreign currencies	SK Energy Co., Ltd.	5 ~ 7	2011 ~ 2012	₩ 799,255	₩ 740,836	₩ (58,419)
Long-term borrowings, including current portion, denominated in foreign currencies	SK Energy Co., Ltd.	4 ~ 6	2011 ~ 2012	799,255	733,439	(65,816)
Long-term trade accounts receivable	DOPCO	Floating rates reset quarterly	2012 ~ 2015	47,642,526	43,198,313	(4,444,213)
Long-term trade accounts payable	DOPCO	Floating rates reset quarterly	2012 ~ 2015	42,645,895	39,072,226	(3,573,669)
Trade accounts receivable	DOPCO	Floating rates reset quarterly	2011	16,598,868	13,823,999	(2,774,869)
Trade accounts payable	DOPCO	Floating rates reset quarterly	2011	14,895,171	12,632,354	(2,262,817)

	2009					
	Company	Interest rate (%)	Maturity	Nominal amount	Present value	Present value discount
Short-term and long-term loans denominated in foreign currencies	SK Energy Co., Ltd.	5 ~ 7	2010 ~ 2012	₩ 1,365,660	₩ 1,227,153	₩ (138,507)
Long-term borrowings, including current portion, denominated in foreign currencies	SK Energy Co., Ltd.	4 ~ 6	2010 ~ 2012	1,365,660	1,209,566	(156,094)
Long-term trade accounts receivable	DOPCO	Floating rates reset quarterly	2011 ~ 2015	57,465,253	51,394,709	(6,070,544)
Long-term trade accounts payable	DOPCO	Floating rates reset quarterly	2011 ~ 2015	51,615,022	46,668,499	(4,946,523)
Trade accounts receivable	DOPCO	Floating rates reset quarterly	2010	13,493,016	10,563,965	(2,929,051)
Trade accounts payable	DOPCO	Floating rates reset quarterly	2010	11,741,867	9,362,601	(2,379,266)

The collection schedule of loans to SK Energy Co., Ltd. (previously called SK Incheon Oil Co., Ltd.), for which the Company borrowed from the SAER under the policy of the MSF, was rescheduled from the period 2001 to 2005 to the period 2005 to 2012. As such, the repayment schedule for the Company's borrowings from the SAER was rescheduled accordingly.

Since Daehan Oil Pipeline Co., Ltd. (DOPCO), previously a government-controlled corporation, was privatized, and the Company provided a loan to DOPCO through borrowings from the SAER under the policy of the MSF. In 2002, the original collection schedule for the period 2002 to 2007 was rescheduled to the period 2007 to 2015. The repayment schedule for the Company's borrowings from the SAER was also rescheduled accordingly. The Company accounted for the revised collection schedule by providing additional allowance for doubtful accounts amounting to ₩1,148,537 thousand and ₩1,739,788 thousand for the years ended December 31, 2010 and 2009, respectively. Further, the Company recorded gains from extinguishment of debts amounting to ₩916,975 thousand and ₩1,364,335 thousand for the years ended December 31, 2010 and 2009, respectively.

## NOTES TO FINANCIAL STATEMENTS

**19. Provision for restoration costs**

The Company accounts for the present value of restoration costs relating to structures, and machinery and equipment of oil fields as a provision for liability (see Note 2). As of December 31, 2010, the Company's provision for restoration costs for the Peru 8 and Donghae-1 properties amounted to ₩3,179,647 thousand and ₩88,607,915 thousand, respectively. For the Vietnam 15-1, Vietnam 11-2, England Captain and Ankor properties, the Company's provision for restoration costs amounted to ₩16,400,429 thousand, ₩14,268,145 thousand, ₩74,610,677 thousand and ₩61,353,434 thousand, respectively, as of December 31, 2010. Actual restoration costs are expected to incur starting from 2014 thru 2030.

Changes in the net carrying amount of the provision for restoration costs during 2010 and 2009 are as follows (Korean won in thousands):

	2010	2009
As of January 1,	₩ 250,076,223	₩ 188,874,347
Provision during the year	10,121,958	11,959,781
Adjustments during the year <sup>(*)</sup>	1,777,934	49,242,095
As of December 31,	258,420,247	250,076,223
Less: deposits for restoration costs	(3,346,898)	(2,702,444)
	₩ 255,073,349	₩ 247,369,779

(\*) Adjustments include changes in estimated restoration costs and additional obligations assumed through acquisitions of oil fields.

**20. Commitments and contingencies**

(i) As of December 31, 2010, the Company is a plaintiff in a pending lawsuit against Nigeria government claiming the validity of the exploration right on OPL 321 and 323. The Company is also a defendant in a pending lawsuit against Ubiwe Eriye Esq and other party who claim the compensation for the co-operation in the acquisition of exploration rights. The outcomes of these pending lawsuits and their impact on the Company's financial statements cannot presently be determined as of December 31, 2010.

(ii) As of December 31, 2010, the Company has guarantees provided by non-related parties for the Company's obligations and indebtedness as follows (Korean won in thousands, US dollars):

Guarantee received from	Guaranteed amount	Description of guarantee
BNP Paribas	US\$ 248,178,180	Guarantee for exploration of OPL 321/323 oil fields
Seoul Guarantee Insurance Co., Ltd.	₩ 1,252,639	Restoration of Donghae-1 gas fields
The Export-Import Bank of Korea	US\$ 12,504,000	Performance guarantee on oil exploration for Columbia CPO2, 3 and 4

(iii) As of December 31, 2010 and subsequent to the reporting date, the Company has provided the following guarantee as follows (US dollars in thousands):

Guarantee provided to	Guaranteed amount	Description of guarantee
Yemen LNG Company Ltd.	US\$ 32,831	Guarantee for project financing for Maribe LNG wells
KC KAZAKH PANAMA SA	35% of principal and related interest	Funding for ship-building of an oil prospecting vessel and its operation

(iv) The Company, in relation to the acquisition of Dana Petroleum Plc's equity interest, has provided guarantee for any potential environmental and human damages to Norwegian government.

(v) In November 2007, a consortium led by the Company and SK Energy Co., Ltd. entered into an agreement (Produced Sharing Contract) for exploration and production in Bazian oil fields, located in Iraq, with the Kurdistan regional government, in accordance with the local Kurdish oil exploration laws. In January 2008, the Company and other participating companies were notified by the Iraqi federal government that such agreement, without obtaining proper approval from the federal government, would be invalid. The oil interests in exploration of ₩47,903,168 thousand are accounted for as an equity method investment and loan to an affiliate as of December 31, 2010. The Company was advised by legal consultants in England and in Iraq that there is no legal basis on the above alleging nullity of the agreement.

(vi) In return for acquiring the rights of oil exploratory wells from the Kurdistan regional government, the Company paid US\$200 million of signing bonus and committed to providing US\$1.9 billion of Social Overhead Capital (SOC) construction. Pursuant to amendment to the Product Sharing Contract in 2010, the Company committed to paying for SOC construction costs, instead of performing such SOC construction, except for US\$0.7 billion, which is currently in-process by the Company, in return for the additional rights on oil exploratory wells. Out of US\$1.9 billion of Social Overhead Capital committed to Kurdistan government, no liabilities are recorded for US\$600 million due to uncertainty of timing of payment.

## 21. Derivative financial instruments

### Commodity swaps

The Company entered into commodity swaps to hedge the exposure to changes in the fair value and the variability in future cash flows of petroleum inventories. Details of the contracts as of December 31, 2010 are presented as follows (Korean won in thousands, BBL: Barrels):

Objective	Counter-party	Due date	Sell or buy	Quantity (BBL)	Contract price	Fair value	Valuation gain
Fair value hedge	J Aron and others	2011.1.31	Buy	1,000,000	₩ 86,872,445	₩ 104,027,126	₩ 17,154,681

### Currency forward contracts

The Company entered into currency forward contracts to hedge the exposure to change in fair value due to foreign exchange rates on bonds payable denominated in foreign currency. Details of the contracts as of December 31, 2010 are presented as follows (Korean won in thousands, US dollars):

Objective	Counter-party	Due date	Sell or buy	Contract values in (US\$)	Contract values in (KRW)	Fair value	Valuation loss
Fair value hedge	DBS and others	2012.2.6 /2012.6.22 /2013.6.11	Buy	1,000,000	₩ 86,872,445	₩ 104,027,126	₩ 17,154,681

	2010
As of January 1, 2010	₩ 6,649,416,780
Increases during 2010:	
January 22 (contributed for oil stockpiling business)	24,000,000
January 29 (contributed for exploring and developing oil fields)	50,000,000
February 26 (contributed for exploring and developing oil fields)	353,999,000
March 30 (contributed for oil stockpiling business)	55,800,000
April 30 (contributed for oil stockpiling business)	82,600,000
April 30 (contributed for exploring and developing oil fields)	150,000,000
May 31 (contributed for oil stockpiling business)	4,300,000
June 28 (contributed for exploring and developing oil fields)	254,500,000
June 30 (contributed for oil stockpiling business)	3,600,000
August 11 (contributed for oil stockpiling business)	3,600,000
September 2 (contributed for exploring and developing oil fields)	100,000,000
September 2 (contributed for oil stockpiling business)	2,600,000
September 30 (contributed for oil stockpiling business)	150,000,000
September 30 (contributed for oil stockpiling business)	25,300,000
October 29 (contributed for oil stockpiling business)	9,300,000
October 29 (contributed for exploring and developing oil fields)	100,000,000
November 30 (contributed for oil stockpiling business)	8,000,000
December 24 (contributed for exploring and developing oil fields)	97,078,000
December 24 (contributed for oil stockpiling business)	6,102,000
	1,480,779,000
As of December 31, 2010	₩ 8,130,195,780

## NOTES TO FINANCIAL STATEMENTS

	2009
As of January 1, 2009	₩ 5,914,814,780
Increases during 2009:	
February 26 (contributed for oil stockpiling business)	40,000,000
March 19 (contributed for oil stockpiling business)	30,000,000
March 23 (contributed for exploring and developing oil fields)	100,000,000
April 9 (contributed for oil stockpiling business)	40,000,000
April 29 (contributed for exploring and developing oil fields)	110,000,000
May 25 (contributed for oil stockpiling business)	20,000,000
June 12 (contributed for oil stockpiling business)	35,000,000
June 23 (contributed for exploring and developing oil fields)	110,000,000
August 28 (contributed for exploring and developing oil fields)	50,000,000
September 22 (contributed for oil stockpiling business)	20,000,000
September 25 (contributed for exploring and developing oil fields)	45,000,000
October 26 (contributed for oil stockpiling business)	40,202,000
November 6 (contributed for exploring and developing oil fields)	40,000,000
November 30 (contributed for exploring and developing oil fields)	40,000,000
December 24 (contributed for exploring and developing oil fields)	14,400,000
	<u>734,602,000</u>
As of December 31, 2009	₩ 6,649,416,780

**23. Retained earnings**

Retained earnings of the Company as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010	2009
Appropriated retained earnings:		
Legal reserve	₩ 762,510,686	₩ 585,143,747
Reserve for business expansion	761,067,064	583,700,125
	<u>1,523,577,750</u>	<u>1,168,843,872</u>
Unappropriated retained earnings	211,395,888	422,291,952
	<u>₩ 1,734,973,638</u>	<u>₩ 1,591,135,824</u>

**Legal reserve**

In accordance with the Korean Oil Corporation Act, an amount equal to at least 20% of net income for each accounting period is required to be appropriated as a legal reserve until the reserve equals 50% of paid-in capital after having offset an accumulated deficit with net income for the current year. The legal reserve may be transferred to the paid-in capital.

**Reserve for business expansion**

The Korean Oil Corporation Act requires the Company to appropriate, from retained earnings, an amount equal to at least 20% of net income for each accounting period as a reserve for business expansion until the reserve equals paid-in capital after having appropriated for the legal reserve. This reserve may be used to offset an accumulated deficit.

**24. Accumulated other comprehensive income**

Details of accumulated other comprehensive income (loss) of the Company as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010		2009	
Gain on valuation of available-for-sale securities <sup>(Note 7)</sup>	₩	11,998,155	₩	2,158,559
Capital adjustments in equity method -credit <sup>(Note 8)</sup>		39,877,557		-
Capital adjustments in equity method -debit <sup>(Note 8)</sup>		(74,717,297)		(23,785,922)
Foreign currency translation adjustments <sup>(Note 2)</sup>		136,443,754		174,687,201
Gain on valuation of derivative instruments <sup>(Note 21)</sup>		-		3,407,417
	₩	113,602,169	₩	156,467,255

**25. Comprehensive income**

The details of comprehensive income for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010		2009	
Net income	₩	211,395,888	₩	422,291,952
Other comprehensive income (loss):				
Valuation of available-for-sale securities, less tax effect of ₩2,275,271 in 2010 and ₩26,516 in 2009		9,839,596		1,952,482
Equity adjustments in equity method, less tax effect of ₩(406,361) in 2010 and ₩(6,991,705) in 2009		(11,053,817)		(25,009,200)
Foreign currency translation adjustments, less tax effect of ₩(1,765,184) in 2010 and ₩(24,088,608) in 2009		(38,243,447)		(70,410,283)
Valuation of derivative instruments, less tax effect of ₩(1,087,856) in 2010 and ₩(39,999,457) in 2009		(3,407,417)		(132,464,022)
		(42,865,085)		(225,931,023)
Comprehensive income	₩	168,530,803	₩	196,360,929

**26. Income taxes**

For the financial year ended December 31, 2010, the Company is subject to corporate income taxes, including resident surtax, at the aggregate rates of 11.0% (12.1% in 2009) on taxable income up to ₩200 million and 24.2% (24.2% in 2009) on taxable income in excess of ₩200 million.

The components of the provision for income taxes for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010		2009	
Current income taxes	₩	225,211,297	₩	173,895,794
Deferred income taxes arising from tax effect of temporary differences		(45,845,096)		(18,350,544)
Deferred income taxes recognized directly to equity		(328,591)		71,106,286
Provision for income taxes	₩	179,037,610	₩	226,651,536

## NOTES TO FINANCIAL STATEMENTS

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax reporting purposes. Significant changes in cumulative temporary differences and deferred income tax assets and liabilities for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010					
	Jan. 1, 2010	Net changes	Dec. 31, 2010	Deferred income tax assets (liabilities)	Current	Non-current
Accrued income	₩ (3,687,008)	₩ 3,113,450	₩ (573,558)	₩ (138,801)	₩ (138,801)	₩ -
Gain on foreign currency Translation	(324,100,518)	13,229,728	(310,870,790)	(75,230,731)	(75,230,731)	-
Allowance for doubtful accounts	121,448,463	(5,719,378)	115,729,085	25,460,399	-	25,460,399
Severance & retirement benefits	37,291,132	(4,350,720)	32,940,412	7,246,891	-	7,246,891
Deposits for severance & retirement benefits	(37,291,132)	4,350,720	(32,940,412)	(7,246,891)	-	(7,246,891)
Impairment loss on available-for-sale securities	6,037,299	-	6,037,299	1,328,206	-	1,328,206
Equity in earnings of overseas oil interests (KNOC USA)	(98,053,237)	(56,344,358)	(154,397,595)	(33,967,471)	-	(33,967,471)
Interest income (KNOC USA)	-	85,449,035	85,449,035	18,798,788	-	18,798,788
Equity adjustments from overseas oil interests (KNOC USA)	(114,317,751)	1,401,477	(112,916,274)	(24,841,580)	-	(24,841,580)
Equity in earnings of overseas oil interests (KCCL)	(167,582,714)	(48,706,028)	(216,288,742)	(47,583,523)	-	(47,583,523)
Dividend from overseas oil interests (KCCL)	26,272,184	76,566,668	102,838,852	22,624,547	-	22,624,547
Equity adjustments from overseas oil interests (KCCL)	(63,465,066)	6,622,089	(56,842,977)	(12,505,455)	-	(12,505,455)
Equity in loss of equity method investments	34,887,895	176,385,710	211,273,605	13,702,138	-	13,702,138
Capital adjustments in equity method	30,494,772	10,647,456	41,142,228	6,302,489	-	6,302,489
Depreciation	61,111,214	8,312,939	69,424,153	15,273,315	-	15,273,315
Amortization	6,049,405	-	6,049,405	1,330,869	-	1,330,869
Gain from extinguishment of debt	(7,394,533)	1,560,512	(5,834,021)	(1,283,485)	-	(1,283,485)
Oil interests in production	(69,925,237)	26,251,746	(43,673,491)	(9,608,168)	-	(9,608,168)
Provision for restoration costs	117,203,191	8,074,492	125,277,683	27,561,090	-	27,561,090
Impairment loss on oil interests	70,110,601	12,768,304	82,878,905	18,233,359	-	18,233,359
Available-for-sale securities	(2,767,383)	(12,614,867)	(15,382,250)	(3,384,095)	-	(3,384,095)
Gain on valuation of derivatives (capital adjustment)	(4,495,274)	4,495,274	-	-	-	-
Loss on valuation of derivatives	6,106,173	5,757,238	11,863,411	2,870,946	2,870,946	-
Gain on valuation of firm commitments	(6,106,173)	29,238,966	23,132,793	5,598,136	5,598,136	-
Others	122,780,239	44,907,306	167,687,543	30,665,258	-	30,665,258
Total	₩ (259,393,458)	₩ 391,397,757	₩ 132,004,299	₩ (18,793,769)	₩ (66,900,450)	₩ 48,106,681
Tax rates	24.2%, 22%		24.2%, 22%			
Deferred income tax liabilities, net	₩ (64,638,865)		₩ (18,793,769)			

## NOTES TO FINANCIAL STATEMENTS

	2009					
	Jan. 1, 2009	Net changes	Dec. 31, 2009	Deferred income tax assets (liabilities)	Current	Non-current
Accrued income	₩ (5,478,170)	₩ 1,791,162	₩ (3,687,008)	₩ (892,256)	₩ (892,256)	₩ -
Gain on foreign currency translation	139,356,202	(463,456,720)	(324,100,518)	(78,432,325)	(78,432,325)	-
Allowance for doubtful accounts	-	121,448,463	121,448,463	26,718,662	-	26,718,662
Severance & retirement benefits	28,970,199	8,320,933	37,291,132	8,204,049	-	8,204,049
Deposits for severance & retirement benefits	(28,970,199)	(8,320,933)	(37,291,132)	(8,204,049)	-	(8,204,049)
Impairment loss on available-for-sale securities	6,037,299	-	6,037,299	1,328,206	-	1,328,206
Equity in earnings of overseas oil interests (KNOC USA)	(38,296,702)	(59,756,535)	(98,053,237)	(21,571,712)	-	(21,571,712)
Equity adjustment from overseas oil interests (KNOC USA)	(219,532,310)	105,214,559	(114,317,751)	(25,149,905)	-	(25,149,905)
Equity in earnings of overseas oil interests (KNOC USA)	(149,262,360)	(18,320,354)	(167,582,714)	(36,868,197)	-	(36,868,197)
Dividend from overseas oil interests (KCCL)	-	26,272,184	26,272,184	5,779,880	-	5,779,880
Equity adjustment from overseas oil interests (KCCL)	(67,744,181)	4,279,115	(63,465,066)	(13,962,315)	-	(13,962,315)
Equity in loss of equity method investments	(2,527,523)	37,415,418	34,887,895	7,675,337	-	7,675,337
Equity adjustments in equity method	(1,285,704)	31,780,476	30,494,772	6,708,850	-	6,708,850
Depreciation	8,771,020	52,340,194	61,111,214	13,444,468	-	13,444,468
Amortization	3,985,024	2,064,381	6,049,405	1,330,869	-	1,330,869
Gain from extinguishment of debt	(8,885,995)	1,491,462	(7,394,533)	(1,789,477)	(1,789,477)	-
Oil interests in production	(62,849,200)	(7,076,037)	(69,925,237)	(15,383,552)	-	(15,383,552)
Provision for restoration costs	110,493,062	6,710,129	117,203,191	25,784,702	-	25,784,702
Impairment loss on oil interests	45,474,205	24,636,396	70,110,601	15,424,332	-	15,424,332
Depreciation - Peru	(10,917,709)	10,917,709	-	-	-	-
Restoration costs - Peru	642,345	(642,345)	-	-	-	-
Available-for-sale securities	(841,417)	(1,925,966)	(2,767,383)	(608,824)	-	(608,824)
Gain on valuation of derivatives (capital adjustment)	(176,958,753)	172,463,479	(4,495,274)	(1,087,856)	(1,087,856)	-
Loss on valuation of derivatives	113,379,973	(107,273,800)	6,106,173	1,211,840	(1,446,703)	2,658,543
Gain on valuation of firm commitments	(306,330,564)	300,224,391	(6,106,173)	(1,211,840)	1,446,703	(2,658,543)
Others	85,985,571	36,794,668	122,780,239	26,912,248	(1,093,436)	28,005,684
Total	₩ (536,785,887)	₩ 277,392,429	₩ (259,393,458)	₩ (64,638,865)	₩ (83,295,350)	₩ 18,656,485
Tax rates	24.2%, 22%		24.2%, 22%			
Deferred income tax liabilities, net	₩ (82,989,409)		₩ (64,638,865)			

## NOTES TO FINANCIAL STATEMENTS

A reconciliation of the provision for income taxes applicable to income before income taxes at the Korea statutory tax rate to the provision for income taxes at the effective income tax rate of the Company is as follows (Korean won in thousands):

	2010	2009
Income before income taxes	₩ 390,433,498	₩ 648,943,488
Tax at the statutory income tax rate (2010: 24.2%, 2009: 24.2%)	94,458,506	157,020,124
Adjustments:		
Expenses not deductible for tax purposes (2010: ₩1,584,795, 2009: ₩46,494,486)	383,520	11,251,666
Income not subject to tax purposes (2010: -, 2009: ₩28,791)	-	(6,967)
Additional payment of income tax	22,305,902	-
Recognition of previously unrecognized deferred income tax	41,752,856	32,837,719
Effects of difference in tax rates of overseas subsidiaries	50,269,126	33,146,565
Adjustments of corporate tax return in prior year	(21,757,136)	-
Others	(8,375,164)	(7,597,571)
Provision for income taxes at the effective income tax rate of 45.86% (2009: 34.93%)	₩ 179,037,610	₩ 226,651,536

## 27. Dividends

The dividend rates for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010	2009
Cash dividends (A)	₩ 33,824,054	₩ 67,558,074
Paid-in capital (B)	₩ 8,130,195,780	₩ 6,649,416,780
Dividend rate (A/B)	0.42%	1.02%

The dividend payout ratios for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010	2009
Cash dividends (A)	₩ 33,824,054	₩ 67,558,074
Net income (B)	₩ 211,395,888	₩ 422,291,952
Dividend payout ratio (A/B)	16.00%	16.00%

**28. Selling and administrative expenses**

Details of selling and administrative expenses for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2009	2008
Salaries	₩ 48,522,802	₩ 36,625,906
Provision for severance and retirement benefits	3,978,794	1,130,296
Other employee benefits	6,162,950	4,626,757
Travel	1,978,843	525,495
Communications	777,236	327,603
Utilities	418,692	322,865
Taxes and dues	850,211	855,028
Supplies	223,613	221,862
Clothing	68,717	115,128
Books and printing	476,058	233,814
Rent	554,005	149,860
Depreciation	2,530,413	2,726,909
Amortization	3,508,809	2,868,788
Maintenance	1,905,471	1,339,288
Vehicle maintenance	221,937	209,923
Insurance	406,184	112,506
Commissions and fees	8,863,180	6,372,377
Entertainment	299,046	312,807
Advertisement	1,585,711	664,329
Training	2,474,027	2,159,721
Research	16,269	4,130
Rewards	189,964	119,468
Registry and legal fees	91,446	96,521
Association	328,888	242,207
Development expense	11,535,467	12,472,299
Miscellaneous	791,258	626,955
	₩ 98,759,991	₩ 75,462,842

**29. Value added information**

In accordance with SKAS 21 Preparation and Presentation of Financial Statements, the "value added" items as defined by the standard, which are required to be disclosed by the Company for the years ended December 31, 2010 and 2009, are as follows (Korean won in thousands):

	2009	2008
Salaries	₩ 86,419,339	₩ 73,980,306
Severance and retirement benefits	6,642,741	1,698,502
Employee benefits	10,752,205	11,242,150
Rental expense	2,622,276	2,388,470
Depreciation	139,049,087	124,817,450
Amortization	330,925,195	334,190,395
Taxes and dues	9,185,036	7,973,549

## NOTES TO FINANCIAL STATEMENTS

**30. Environmental consideration**

The Company has established environmental objectives from mid-term to long-term and detailed strategies to meet its objectives. They are being executed in preparation for the potential safety problems and the Company's inherent business risks, including contamination or pollution of water, soil and seabed that may occur during the construction of stockpiling facilities, development of petroleum resources or preservation of oil in reserve stock.

To ensure both systematic implementation of environmental policies and efficiency of allocation and investment of resources, the Company adopted ISO 14000 in 1998 and has been operating under the system.

**31. Employee welfare, contributions to society and human resources development**

For employee welfare, the Company maintains a refectory, an infirmary, athletic facilities, a scholarship fund, workmen's accident compensation insurance, medical insurance, and other benefits.

The Company donated ₩4,476,026 thousand and ₩4,178,002 thousand as a scholarship for oil development for the years ended December 31, 2010 and 2009, respectively.

Expenditures associated with development of specialization in human resources during the years ended December 31, 2010, 2009 and 2008 are as follows (Korean won in thousands):

	2010		2009		2008		Total
Training	₩	3,940,056	₩	3,271,486	₩	2,748,396	₩ 9,959,938

**32. Segment information**

The Company has five reportable business segments as follows:

Segment	Main goods (or services)
Oil resource development	Exploration, development and production of domestic and overseas oil resources
Stockpiling of oil	Imports and exports of crude oil and petroleum products; lending and sales of oil stockpile; management, operation and lending of oil stockpiling facilities
Financing	Financing for companies engaging in energy and natural resources industries
Drillship chartering	Drillship chartering business
Other	Incidental income from the above businesses

## NOTES TO FINANCIAL STATEMENTS

The financial information of the Company by business segment for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

	2010					
	Oil resource development	Stockpiling of oil <sup>(*)</sup>	Financing	Drillship chartering	Others	Total
Sales	₩ 1,388,926,062	₩ 815,923,213	₩ 225,812,072	₩ 82,764,961	₩ 20,237,868	₩ 2,533,664,176
Cost of sales	704,365,820	820,059,927	220,557,128	29,002,610	1,508,480	1,775,493,965
Gross profit (loss)	₩ 684,560,242	₩ (4,136,714)	₩ 5,254,944	₩ 53,762,351	₩ 18,729,388	₩ 758,170,211
Property, plant and equipment:						
Land	₩ 5,701,101	₩ 170,884,418	₩ -	₩ -	₩ 22,017,479	₩ 198,602,998
Buildings	8,126,696	47,464,559	-	-	13,259,383	68,850,638
Structures	139,855,287	1,215,873,717	-	-	325,282	1,356,054,286
Machinery and equipment	31,028,607	87,743,843	-	-	58,195	118,830,645
Construction-in-progress	7,891,631	98,145,801	-	515,712	37,875,631	144,428,775
Others	283,666	1,485,019	-	12,066,911	4,514,862	18,350,458
	₩ 192,886,988	₩ 1,621,597,357	₩ -	₩ 12,582,623	₩ 78,050,832	₩ 1,905,117,800
Intangible assets:						
Oil interests	₩ 4,231,113,479	₩ -	₩ -	₩ -	₩ 30,165,784	₩ 4,261,279,263
Others	-	1,469,698	-	-	6,681,977	8,151,675
Depreciation and amortization	₩ 4,231,113,479	₩ 1,469,698	₩ -	₩ -	₩ 36,847,761	₩ 4,269,430,938

(\*)1 As of December 31, 2010, oil stockpile (inventories) amounting to ₩3,065,709,156 thousand was included in the stockpiling of oil business.

	2009					
	Oil resource development	Stockpiling of oil <sup>(*)</sup>	Financing	Drillship chartering	Others	Total
Sales	₩ 1,271,418,223	₩ 366,137,737	₩ 94,413,337	₩ 54,344,769	₩ 13,737,715	₩ 1,800,051,781
Cost of sales	706,272,405	342,879,020	87,923,800	22,058,607	3,338,104	1,162,471,936
Gross profit (loss)	₩ 565,145,818	₩ 23,258,717	₩ 6,489,537	₩ 32,286,162	₩ 10,399,611	₩ 637,579,845
Property, plant and equipment:						
Land	₩ 6,024,294	₩ 183,899,603	₩ -	₩ -	₩ 22,017,479	₩ 211,941,376
Buildings	9,991,894	54,495,009	-	-	13,635,214	78,122,117
Structures	177,629,628	1,117,231,038	-	-	17,700,620	1,312,561,286
Machinery and equipment	39,453,966	61,049,386	-	-	15,828	100,519,180
Construction-in-progress	6,710,731	216,307,497	-	3,026,712	20,510,234	246,555,174
Others	450,313	2,096,759	-	9,613,673	4,198,042	16,358,787
	₩ 240,260,826	₩ 1,635,079,292	₩ -	₩ 12,640,385	₩ 78,077,417	₩ 1,966,057,920
Intangible assets:						
Oil interests	₩ 3,567,480,511	₩ -	₩ -	₩ -	₩ 29,389,155	₩ 3,596,869,666
Others	-	1,526,986	-	-	4,471,343	5,998,329
	₩ 3,567,480,511	₩ 1,526,986	₩ -	₩ -	₩ 33,860,498	₩ 3,602,867,995
Depreciation and amortization	373,744,990	76,664,673	-	3,002,485	5,595,697	459,007,845

(\*)1 As of December 31, 2009, oil stockpile (inventories) amounting to ₩2,646,769,862 thousand was included in the stockpiling of oil business.

## NOTES TO FINANCIAL STATEMENTS

**33. Supplementary cash flow information**

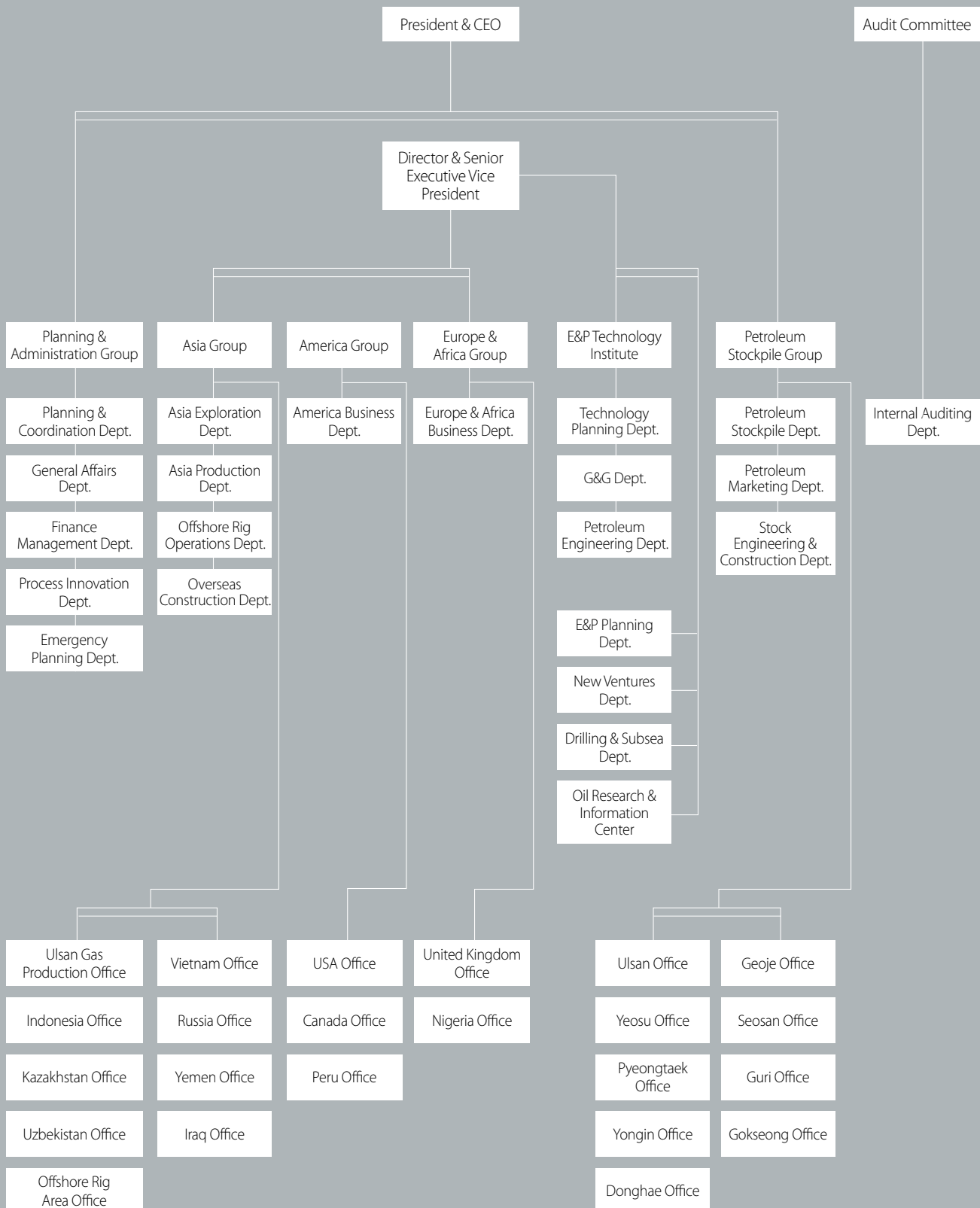
Significant transactions not involving cash flows for the years ended December 31, 2010 and the 2009 are as follows (Korean won in thousands):

	2010	2009
Increase in equity method investments with a corresponding increase in other accounts payable	₩ 57,229,725	₩ -
Increase in equity method investments with a corresponding increase in other long-term liabilities	-	125,643,986
Increase in equity method investments with a corresponding increase in contribution-in-kind	429,692,086	-
Increase in oil interests in exploration with a corresponding increase in other accounts payable and other long-term liabilities	972,374,504	421,309,482
Increase in oil production wells with a corresponding increase in provision for restoration costs	5,529,572	-
Increase in other accounts receivable with a corresponding disposal of oil exploratory wells	4,345,209	-
Increase in long-term other accounts receivable with a corresponding increase in customers' contribution	-	11,683,217
Decrease in derivative assets due to the valuation loss	-	161,895,839

**34. Approval of 2010 financial statements**

The financial statements of the Company for the year ended December 31, 2010 are scheduled to be approved at the Board of Directors' meeting to be held on February 24, 2011.

## ORGANIZATION CHART



### 1970



- 1978. 12 Proclaimed the Korea Petroleum Development Act
- 1979. 03 Established Korea Petroleum Development Corp.

### 1980



- 1981. 07 Opened Guri and Ulsan offices
- 1981. 08 Opened Houston Representative Office
- 1982. 04 Established Korea Drilling Company
- 1985. 01 Opened Geoje Office
- 1986. 08 Established Korean Oil Pipeline Corp.
- 1987. 12 Discovered gas in Korea's continental shelf
- 1989. 07 Opened Pyeongtaek Office

### 1990



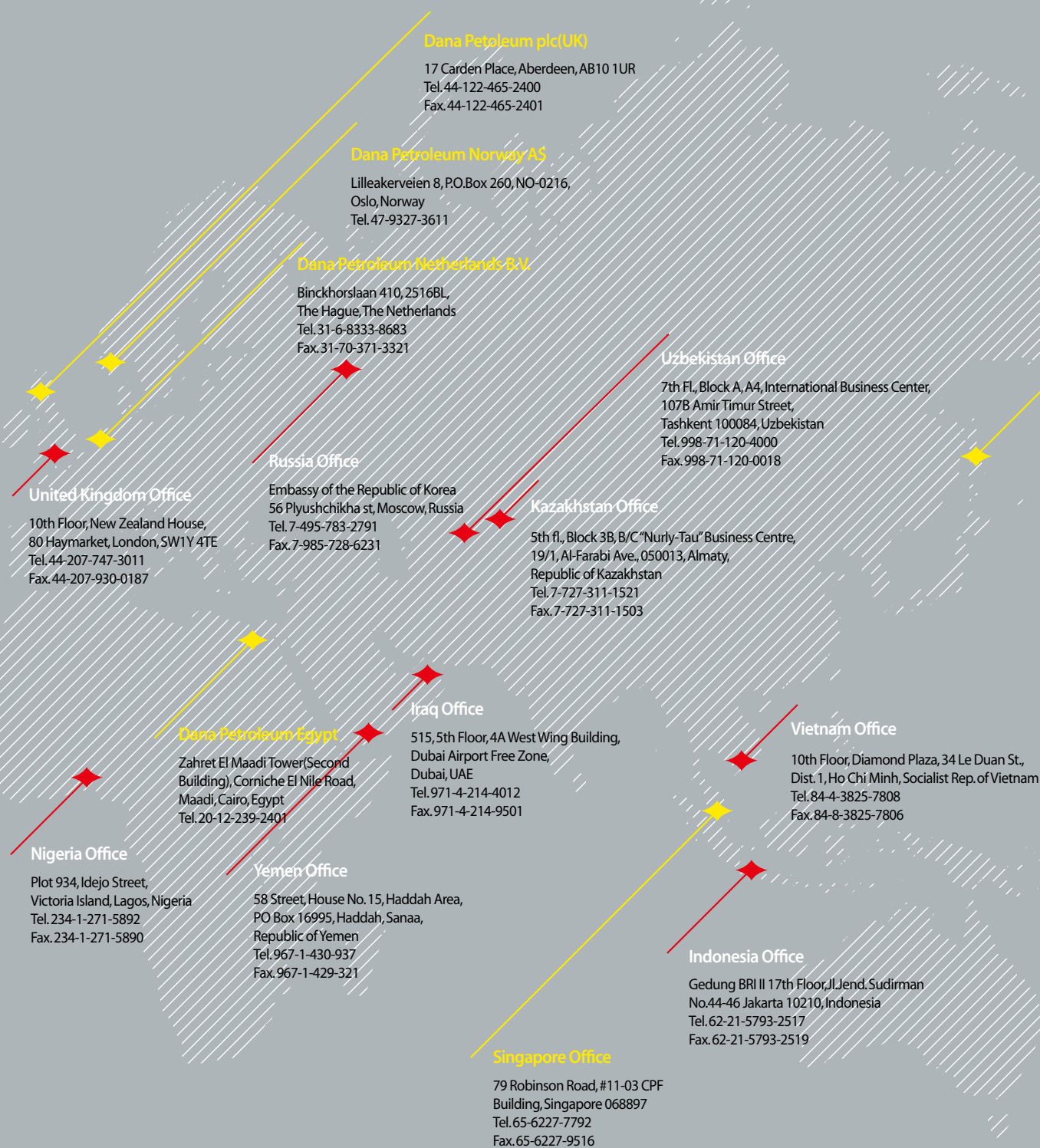
- 1992. 10 Opened Vietnamese Office
- 1994. 10 Merged with Korean Pipeline Corp.
- 1994. 12 Disposed of stake in Korean Oil Pipeline Corp. and invested in Daehan Oil Pipeline Corp.
- 1996. 02 Established Korea Captain Company Ltd. (KCCL), a local subsidiary in U.K.
- 1997. 01 Opened Peruvian Office
- 1997. 10 Established KNOC-Sambidoyong Ltd.(KSL), a local subsidiary in Indonesia
- 1998. 05 Opened Yongin Office
- 1998. 09 Opened Yeosu Office
- 1999. 01 Changed the company name to Korea National Oil Corporation (Legal capital increased to KRW 5 trillion from KRW 3 trillion.)
- 1999. 05 Opened Gokseong Office

### 2000



- 2000. 02 Officially announced Donghae-1 Gas Field development
- 2000. 07 Opened Donghae Office
- 2001. 09 Officially announced crude oil production at Vietnam Block 15-1 and held a ceremony celebrating Korea-Vietnam oil development success
- 2003. 10 Commenced oil production at Vietnam 15-1 block Sutuden
- 2004. 05 Began crude oil production at Libya Elephant
- 2004. 09 Began commercial gas production at Donghae-1 gas field
- 2005. 08 Opened Seosan Office
- 2005. 10 Opened Kazakhstan Office
- 2006. 02 Established E&P Technology Institute and opened Yemen, Nigeria and Canada Offices
- 2006. 11 Held a ceremony celebrating the completion of gas production facilities at Vietnam Block 11-2
- 2007. 08 Revised Korea National Oil Corporation Act (Legal capital increased to KRW 10 trillion from KRW 5 trillion.)
- 2008. 05 Established ANKOR Energy
- 2009. 02 Acquired SAVIA-Peru (former Petro-Tech) in Peru
- 2009. 10 Acquired Harvest Energy Trust in Canada
- 2009. 12 Acquired Sumbe in Kazakhstan
- 2010. 05 Completed the government's oil stockpiling plan
- 2010. 09 Acquired Dana in the UK

## OVERSEAS OFFICES



## DOMESTIC OFFICES

### Ulsan Office

300, Hagnam-ri, Onsan-eup, Ulju-gun,  
Ulsan-si, Korea  
Tel.82-52-270-4400

### Geoje Office

8-7, Jisepo-ri, Irun-myeon, Geoje-si,  
Gyeongsangnam-do, Korea  
Tel.82-55-680-1789

### Yeosu Office

1157, Nakpo-dong, yeosu-si,  
Jeollanam-do, Korea  
Tel.82-61-688-8700

### Seosan Office

San 58-1, Daejook-ri, Daesan-eup, Seosan-si,  
Choongcheongnam-do, Korea  
Tel.82-41-660-4114

#### Kamchatka Office

Rubin hotel, offices 105, 85 Chekhova Street  
Yuzhno-Sakhalinsk 693008  
Tel. 070-7725-5031  
Fax. 7-4242-499-866

#### North Atlantic Refining Limited

PO Box 40, 1 Refinery Rd. Come By  
Chance, NL A0B 1N0 Canada  
Tel. 1-709-463-8811  
Fax. 1-709-463-8076

#### Harvest Operation Corp.

2100, 330 - 5th Avenue SW, Calgary,  
Alberta T2P 0L4 Canada  
Tel. 1-403-265-1178  
Fax. 1-403-265-3490

#### ANKOR E&P Holdings Corp.

1615 Poydras Street, Suite 1124  
New Orleans, LA 70112, USA  
Tel. 1-504-587-6500

#### Houston Office

5555 San Felipe Road, Suite 1130,  
Houston, TX 77056  
Tel. 1-713-552-9888  
Fax. 1-713-552-1898

#### Peru Office

Calle Dionicio Derteano No.144 office  
801B, San Isidro, Lima, Peru  
Tel. 51-1-652-2685  
Fax. 51-1-652-2689

#### SAVIA-Peru

Av. Rivera, Navarrete 501,  
San Isidro, Lima 27 - Peru  
Tel. 51-1-513-7500  
Fax. 51-1-441-4217

#### Pyeongtaek Office

79, Wonjeong-ri, Poseung-myeon, Pyeongtaek-si,  
Gyeonggi-do, Korea  
Tel. 82-31-680-1414

#### Guri Office

297, Achun-dong, Guri-si,  
Gyeonggi-do, Korea  
Tel. 82-2-2204-7700

#### Yongin Office

517-2, Ho-dong, Yongin-si,  
Gyeonggi-do, Korea  
Tel. 82-31-329-4900

#### Gokseong Office

612, Gyoejeong-ri, Gyeon-myeon,  
Gokseong-gun, Jeollanam-do, Korea  
Tel. 82-61-360-2114

#### Donghae Office

226, Guho-dong, Donghae-si,  
Gangwon-do, Korea  
Tel. 82-33-520-7800

#### Ulsan Gas Production Office

400, Hagnam-ri, Onsan-enb, Ulju-gun,  
Ulsan-si, Korea  
Tel. 82-52-240-4700



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