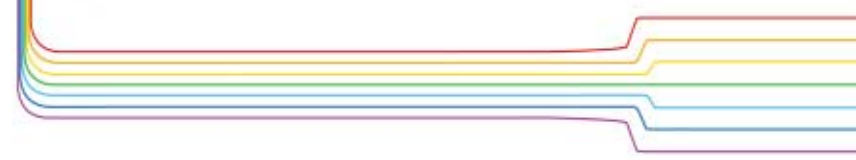




2007 Sustainability Report

Korea's Most Environmentally Friendly Energy Company, KDHC



KOREA DISTRICT HEATING CORP.

About This Report

Standards

This report has been prepared in accordance with Global Reporting Initiative (GRI) G3 Guidelines and BSR (B.E.S.T. Sustainability Reporting) Guidelines. Information related to the various indicators contained in the G3 and BSR Guidelines can be found in the BSR/GRI G3 Guidelines Index in the Appendix.

Period

The company's 2006 fiscal year, beginning in January 2006 and ending in December 2006, is covered herein. However, various aspects of the company's performance between 2004 and 2006 have sometimes been stated—particularly when analyses of past trends were necessary. This document, which constitutes the company's first sustainability report, also includes its future plans and objectives.

Purpose and Cycle

This is the Korea District Heating Corporation's first-ever sustainability report. We plan to publish one every year from now on. Our goal is to disclose our visions, strategies, and activities for sustainable management in an open, honest, and transparent manner. We also intend to gather opinions from our many stakeholders to improve our management activities and forward our mission of achieving sustainable growth.

Verification and Coverage

This report deals with the company's head office, branches, and business sites across the country, and our 13 branch names and their locations are included in it. The information and data contained herein have been verified by the Institute for Industrial Policy Studies (IPS) to ensure its reliability and accuracy. The currency unit is the Korean won (KRW), and all figures have been entered in their relevant units.



Cover

Our slogan, "Korea's Most Environmentally Friendly Energy Company" and cover illustrations depicting a flower, a child, and a rainbow are meant to signify that the Korea District Heating Corporation (KDHC) is an environmentally friendly energy company. The flower and child symbolize the sustainability that can result when people take good care of nature and that nature will return to us as energy, while the rainbow represents the comfort that KDHC can supply through its energy transmission operations.



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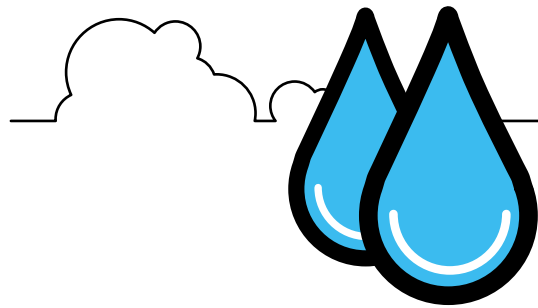


Application of GRI G3 Guidelines

This sustainability report satisfies all the requirements for an "A+" rating under the Global Reporting Initiative (GRI) G3 Guidelines' Application Levels system. This "A+" rating has been certified by an independent third-party assurance agency.



Sustainability Management Highlights



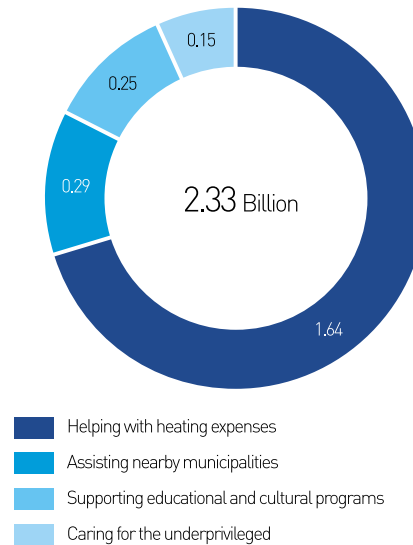
48%

Achieved a 48% reduction in CO₂ emissions

As part of its commitment to saving energy and minimizing the amount of environmental contaminants that it discharges, KDHC created a set of in-house guidelines that deal exclusively with controlling air pollution at its various operating sites. Last year, thanks to these efforts, we achieved a 35% reduction in the volume of air pollutants emitted (including sulfur oxide). There was a 48% fall just in the level of carbon dioxide—a prime contributor to global warming.

Support for social contribution activities

KDHC is actively involved in a host of social contribution activities, both to fulfill its responsibilities as a corporate citizen and to help create a more harmonious and caring society. These activities are led by a group of volunteers called "Sharing Happiness," and their slogan is "Building a Warm Society through the Joy of Sharing." In 2006 alone, we invested more than KRW 2.3 billion in such activities as helping our neighbors with their heating expenses, supporting educational and cultural programs, providing assistance to nearby municipalities, and caring for the underprivileged.



1st

Ranked first among all government organizations in 2006 customer satisfaction survey

KDHC endeavors to provide the ultimate in customer satisfaction by offering the very finest in services. As proof of our success in this extremely important area of operations, we were named an "excellent" organization in customer satisfaction surveys of government-affiliated organizations in 2004, 2005, and 2006. In 2006, we ranked first among all organizations under the authority of the Ministry of Commerce, Industry, and Energy.

KRW 613.4 Billion

Realized KRW 613.4 billion in sales

In 2006, KDHC realized sales of KRW 613.4 billion—an increase of approximately 9% from a year earlier—by supplying 10,240,000 Gcal. of energy to 876,775 homes.

Major Sustainability Management Performances

KDHC's sustainability management performances are covered in the following categories: economy, innovation, customers, employees, partners, and the environment. In 2006, the company recorded KRW 613.4 billion in sales, up 9.0% from a year earlier, due to the growth of district heating throughout the nation. Thanks to our continual innovation activities, we were also recognized as an innovation-leading organization (Innovation Stage 5) in surveys of government-affiliated organizations. As a result of our efforts to understand the needs of our customers and reflect them in our management activities, we also ranked first in public service customer satisfaction index (PCSI) surveys among all organizations under the authority of the Ministry of Commerce, Industry, and Energy-receiving 91.4 points on a 100-point scale.

In addition, our endeavors to improve efficiency led to a 10% rise in productivity per employee on a year-on-year basis. The company is committed to the continual expansion and distribution of district heating and to carrying out its social responsibilities as a concerned and caring public enterprise.

Core performance indicators of sustainable management

Core Success Factor (CSF)	Key Performance Indicator (KPI)	2004	2005	2006	2007 Target	
Economy	No. of households supplied (1,000 households)	788	825	877	928	
	Credit Rating	domestic	AAA	AAA	AAA	AAA
		overseas	-	-	-	A2 ¹⁾
	Sales (billions of KRW)*	467.8	562.3	613.4	704.6	
	Sales volume (1,000 Gcal)*	9,464	10,872	10,240	11,473	
Innovation	Registration of intellectual property rights (items)	-	-	6	8	
	Governmental evaluations (ranking)	1	1	2	1	
	Innovation Stage (stage)	4	5	5	Stage 5 and higher	
Customers	Public-Service Customer Satisfaction Index (PCSI) (points)	81.7	86.5	91.4	92.3	
	KDHC CSI (points)	74.8	84.4	86.9	88.2	
	Heat cutoff rate (%)	0	0	0	0	
Employees	Productivity, per employee (thousands of KRW)	215,972	182,898	200,976	212,771	
	Sales, per employee (thousands of KRW)	668,163	754,770	821,206	870,000	
	Investment in training, per employee (thousands of KRW)	1,337	1,755	2,541	3,500	
Environment	Reductions in CO ₂ emissions (registered greenhouse gas reduction certification business)	-	-	-	33,000 tons	
	New and renewable energy production volume (1,000 Gcal)	782	1,003	1,132	1,184	

* Combined sales and sales volume of heat and electricity

1) Overseas credit ratings by Moody's



The Greater The Hope,
The Greater The Happiness



KDHC is committed to building a solid foundation for sustainable development by creating new businesses that serve the public and provide healthy returns on investment. By doing so, we aim to grow with our various stakeholders and benefit the economy, our society, and the environment.

I am very pleased to offer this report to our stakeholders-including our customers and employees-who will share the growth of KDHC into a world-class, environmentally friendly energy company. In the pages of this, our first-ever sustainability report, you will find information about our performance and be able to peruse our plans for the future.

KDHC had one main end when it was established in 1985: to improve people's lives through energy savings and the betterment of the environment. Over the 22 years that have passed since then, we have enjoyed the increasing confidence and trust of those people by faithfully adhering to this original aim through the convenient and inexpensive supply of heating.

As a caring and committed member of the larger Korean society, our vision for sustainability management is to become a first-class, environmentally friendly energy provider that accepts and carries out its many economic, social, and environmental responsibilities in the most effective and efficient manner possible.

Accordingly, we will develop an operational culture that is based on sustainability management, since that is the very best way for us to satisfy the needs and demands of our various stakeholders and grow with them. To this end, we will continue with our policy of advancing into new businesses-including district air cooling, electricity, new and renewable energy sources, and international operations-that serve the public while also providing healthy returns on investment.

We have defined our major stakeholders below.

Firstly, we are making constant endeavors to improve our customer satisfaction levels. We consider customer satisfaction to be our primary source of competitiveness and do our very best to satisfy them. In order to ameliorate these relationships, we listen to the "voices of customers" (VOC) through online and offline channels, carry out direct visits to provide better services, and always take account of their opinions in our policies. We have also conducted customer satisfaction index (CSI) surveys on a regular basis. In 2006, we were selected as an "excellent organization" in the government's public service customer satisfaction index (PCSI) surveys for the third consecutive year. Our primary goal is to be an energy company that enjoys a healthy and positive relationship with its customers and protects their rights and interests.

Secondly, we endeavor to develop a human resources culture that is based on open and respectful management. Our employees are trained and promoted according to their abilities and qualifications and work in a pleasant and welcoming workplace that offers them a top-of-the-line benefits package. Likewise, we show our concern for employee satisfaction by encouraging

communications via joint labor and management conferences, open discussion rooms, and a "hotline." Thanks to these efforts, we were named a "Good Company for the New Management-Employees Culture" by the Ministry of Labor in 2006.

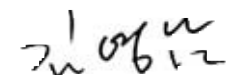
Thirdly, we regard our business associates as partners and are developing "Win-Win" relationship to grow with them. We win their trust through a fair and transparent bidding culture and have increased the level of transparency in the selection of our partners by introducing an electronic contract system and strict qualification screening standards. We are also implementing an "integrity pact" to root out unfair trade practices.

Fourthly, we share with and care about the communities that we live and work in. Some of our efforts include supporting the underprivileged, offering educational and cultural assistance to narrow the gaps between cities and rural communities, and protecting the environment. In addition, we are translating the theory of "energy support" into action through reductions and/or exemptions to basic heat charges for low-income earners residing in institutions and rental accommodations. We are also showing our belief in sharing and caring through the activities of our "sharing happiness" volunteer groups, which form the center of our community contribution efforts, and participate in talent cultivation programs at elementary schools in villages that have abandoned mines.

Lastly, We practice environmentally friendly management, and have established environmental management systems on a company-wide level. In 1996, we acquired an ISO 14001 Environmental Management Certification-a "first" among Korean public enterprises. Additionally, we have established goals for the systematic administration of an environmental management system. In order to minimize the environmental impacts of our operations, we are taking steps to protect the atmosphere, water quality, and soil while reducing green-house gas emissions.

Moving forward, we will continue pushing for sustainable growth and faithfully fulfilling our social responsibilities befitting our role as the world's largest district heating provider.

December 31, 2007
Kim Young Nam
President and CEO





I will be a CEO who is always committed to creating a sustainable world for all our stakeholders.





Thinking about Sustainability at KDHC

Q1: What would be your priorities for KDHC to grow into a world-leading energy company?

Q2: KDHC must take the lead in providing stable energy distribution. What roles are you playing to fulfill your responsibilities as a public enterprise?

Q3: Please suggest directions that KDHC will take in the area of sustainability management from economic, social, and environmental perspectives.

A1: It is difficult for private companies to participate in the integrated energy business due to its characteristics. Given the lack of participation by private entities, KDHC plans to focus on this business, utilizing mid- to large-sized combined heat and power plants. We will try to position KDHC as a world-leading energy provider by making healthy investments and supporting the development of relevant technologies. In addition, we will assist private companies in their efforts to participate in the CES to secure a stable Korean CES market. Through this, we will establish a fair competition system and provide people with more options, enabling them to use integrated energy more efficiently and reasonably.

A2: KDHC was established to promote the convenience of people's lives, and we are striving to offer people "a happy world of energy." We will take the lead in the expansion and distribution of integrated energy so that energy support will be made available to all. Right now, the majority of CES being pursued by private companies come from urban gas providers. Due to unsatisfactory conditions, other private enterprises are unable or unwilling to take part in the CES. KDHC wants to promote the expansion and distribution of integrated energy until a large number of companies join the business. In our role as the exclusive public enterprise in charge of CES, we will faithfully perform our various public functions to advance its expansion and distribution.

A3: From the economic perspective, we will strive to reduce burdens on people in this era of high oil prices. To do this, we will secure energy resources to expand and distribute district heating in apartment houses and stabilize demand and supply for energy resources. In addition, we will achieve sustainable growth by establishing linkages with overseas operations. From the social aspect, we will augment energy support-which is one of our roles-through the complete exemption of basic charges for low-income people and social institutions. We will also help to stabilize the CES industry by developing technologies to heighten the efficiency of resources and teaching them to late-comers.

In terms of the environment, we have extended the use of clean fuels to reduce the production of green-house gases and are operating high-efficiency air pollution prevention facilities as part of our efforts to meet the demands of the United Nations Framework Convention on Climate Change, including the Kyoto Protocol. We are also striving to set up a low-carbon energy system through the development of new and renewable energy technologies and improvements in energy efficiency. Finally, we will take the lead in technology development to deal with the growing problem of global warming.



ABOUT THE COMPANY

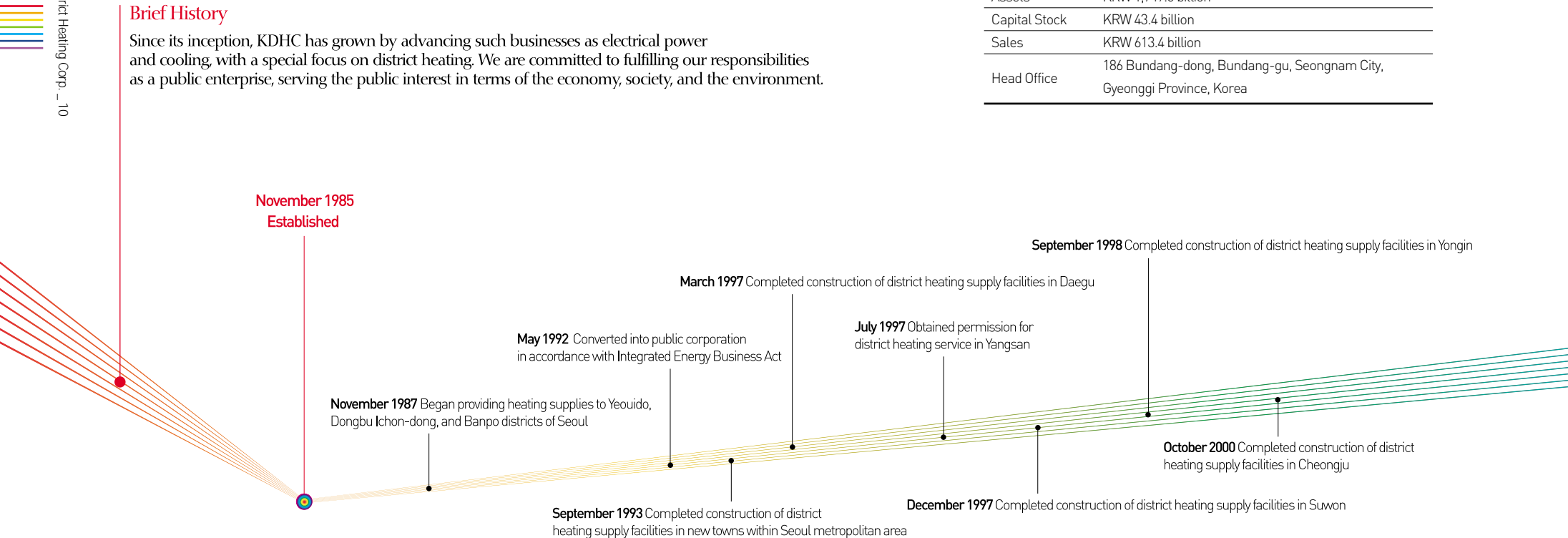
The Korean government recognized the importance of energy savings during the oil crises of 1973 and 1978. As a result, it established energy policies to accommodate changes in energy consumption styles and atmospheric environment problems. The Korea District Heating Corporation was founded in November 1985 to save energy, reduce environmental pollution, and promote the convenience of people's lives.

(As of December 31, 2006)

President & CEO	Kim Young Nam (August 2005-July 2008)
Established	November 1, 1985
Legal Basis	Integrated Energy Business Act Chapter 6, Article 29
Legal Duties	<ul style="list-style-type: none"> · Production, distribution, and sale of integrated energy · Installation and operation of integrated energy supply facilities · Research, technology development and supplementary businesses for integrated energy service · Other businesses as entrusted to it by the central and local governments
Number of Employees	1,044 (regular staff)
Assets	KRW 1,749.6 billion
Capital Stock	KRW 43.4 billion
Sales	KRW 613.4 billion
Head Office	186 Bundang-dong, Bundang-gu, Seongnam City, Gyeonggi Province, Korea

Brief History

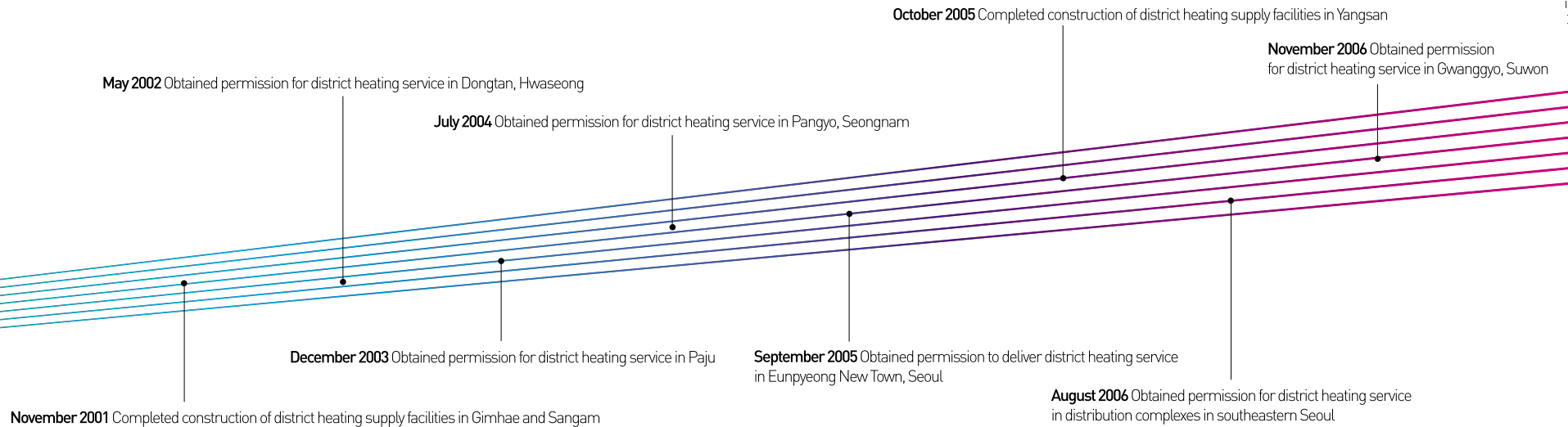
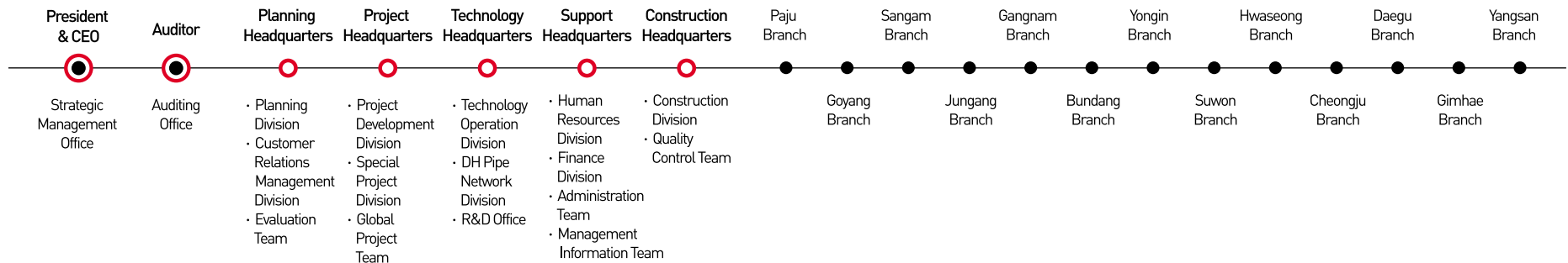
Since its inception, KDHC has grown by advancing such businesses as electrical power and cooling, with a special focus on district heating. We are committed to fulfilling our responsibilities as a public enterprise, serving the public interest in terms of the economy, society, and the environment.



Organization

KDHC has 5 headquarters, 12 divisions (offices), and 13 branches. Its corporate organization is designed to respond efficiently and effectively to the needs of customers and cope with environmental changes by enabling smooth communications. The company strives to provide its customers with a safe and efficient heat supply and high-quality service through the speedy and accurate exchange of information between its head office and each branch.

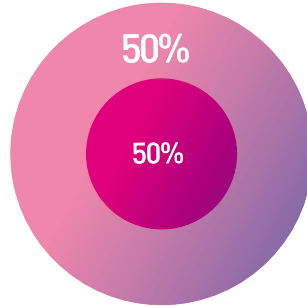
Organizational chart



Invested companies

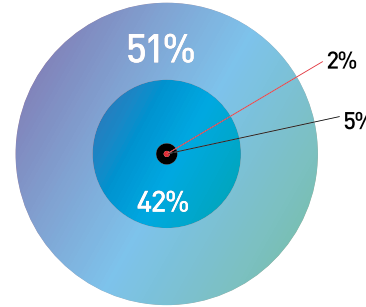
In 1991, KDHC established Korea District Heating Engineering in 1991 in company with Pöyry Energy of Finland to develop its expertise in heat reservoir facilities and heat supply facilities that it needed for its facilities. The various companies that it has invested in to seek a more stable supply of integrated energy are listed below.

Korea District Heating Engineering
November 1, 1991



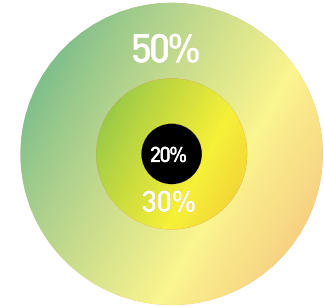
KDHC 50%
Finland Pöyry Energy 50%

Ansan Urban Development
June 28, 1995



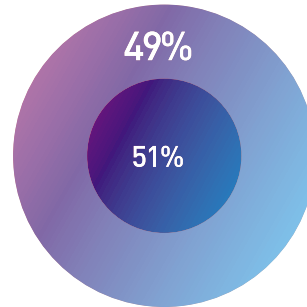
KDHC 51%
Ansan City 42% STX Energy 5%
National Agricultural Cooperative Federation 2%

Incheon Total Energy
June 1, 2004



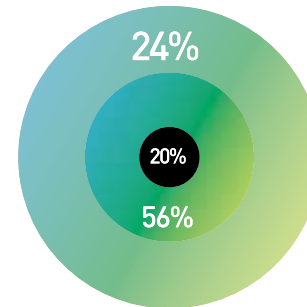
KHDC 50%
Incheon City 30% Samchully 20%

HUCES
September 1, 2006



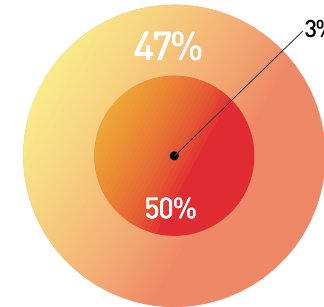
KHDC 49%
Samchully 51%

Korea CES
March 24, 1999



KDHC 24%
Kumho Ind. 56%
Gwangju City 20%

Qinhuangdao/Tonghe Heating Power and Electric Power (China)
September 24, 1996



KDHC 47%
Qinhuangdao Economic and Technological Development Zone 50%
Korea First Venture Capital 3%

Major operations of invested companies

Korea District Heating Engineering | Designing and inspection of district heating and cooling facilities

Ansan Urban Development | Supply of district heating and cooling to Ansan and Gojan new towns

Incheon Total Energy | Supply of integrated energy to Songdo new town, Incheon

HUCES | Supply of integrated energy to Homaesil District, Suwon

Korea CES | Supply of district heating and cooling to Sangmu new town, Gwangju

Qinhuangdao/Tonghe Heating Power and Electric Power (China) | Supply of heat and electricity to Qinhuangdao Economic and Technological Development Zone

Understanding KDHC

"Integrated energy service" (CES) refers to the supply of heat or heat and electricity produced by large-scale energy production facilities (such as combined heat and power plants, peak load boilers, and resources recovery facilities) to users-including apartment houses, buildings, and commercial districts. It is an advanced energy supply system boasting outstanding energy savings and meaningful reductions in environmental pollution.

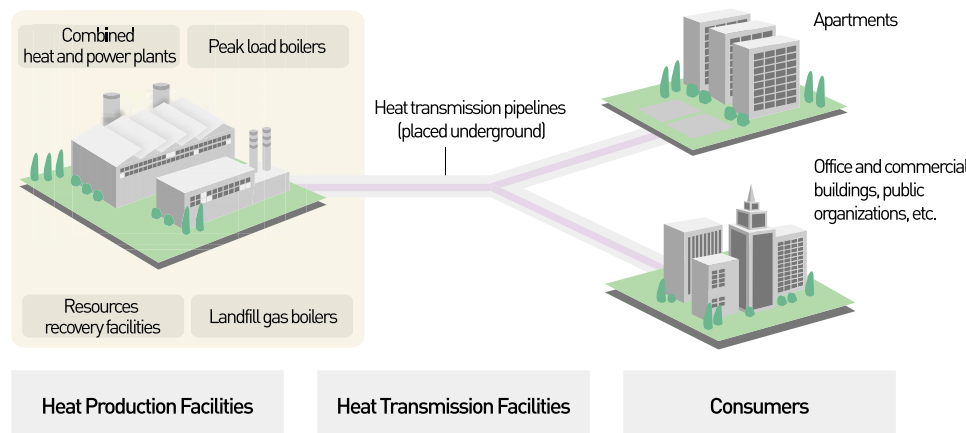
Major business of KDHC

District heating and cooling | Supply of heating, hot water, and cooling in a variety of buildings, including houses and commercial buildings in certain areas (i.e., large-scale building sites). KDHC supplies heating to 877,000 apartment houses and 1,815 buildings and cooling to 253 buildings from 13 branches across the country.

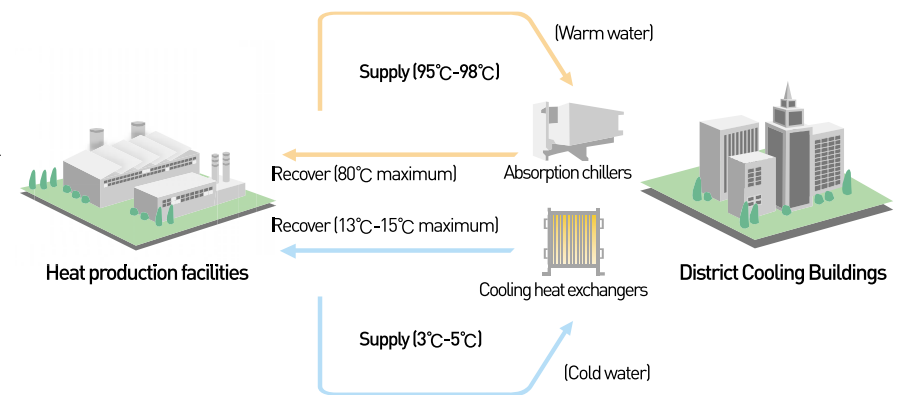
Electricity | Sales of electricity produced by combined heat and power plants (CHPs) to the electric power market or direct sales of electricity to users in district heating supply areas. KDHC sells electricity produced in Daegu, Suwon, and Cheongju to the Korea Power Exchange (as of 2006-end). The company expects this business to expand following the construction of mid- to large-sized CHPs in Hwaseong, Paju, and Pangyo.

New and renewable energy | KDHC utilizes new and renewable energy (such as incineration heat and landfill gases) for about 12% of its heat production. After concluding an agreement on its participation in new and renewable energy supplies with the Ministry of Commerce, Industry, and Energy in May 2005, the company is expanding its investments in this sector in such areas as photovoltaic power, solar heat, and biomass.

Integrated energy mechanisms



District cooling mechanisms

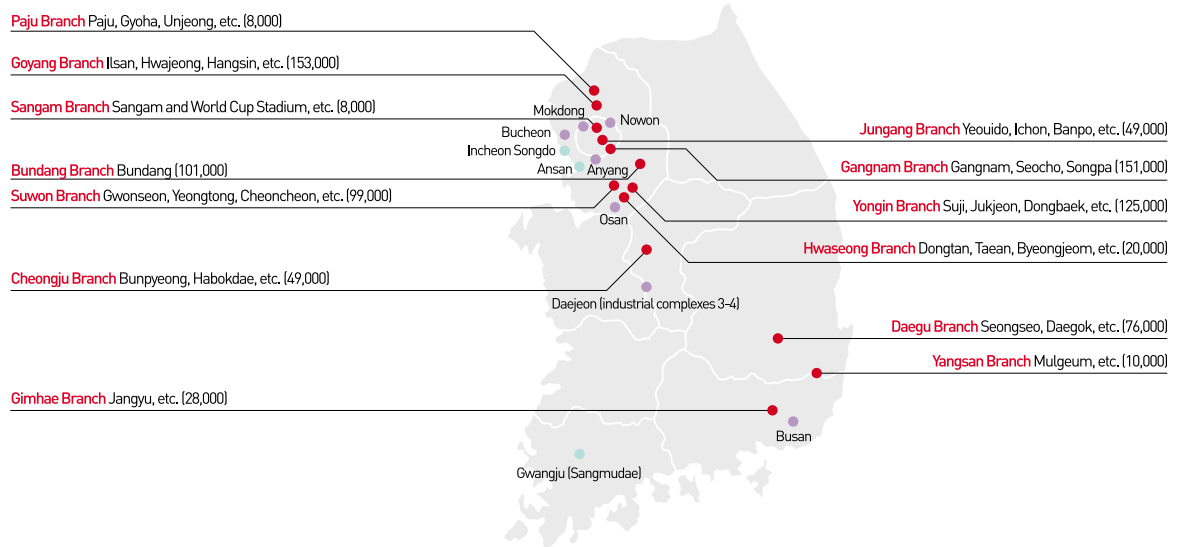


[Units: Households]

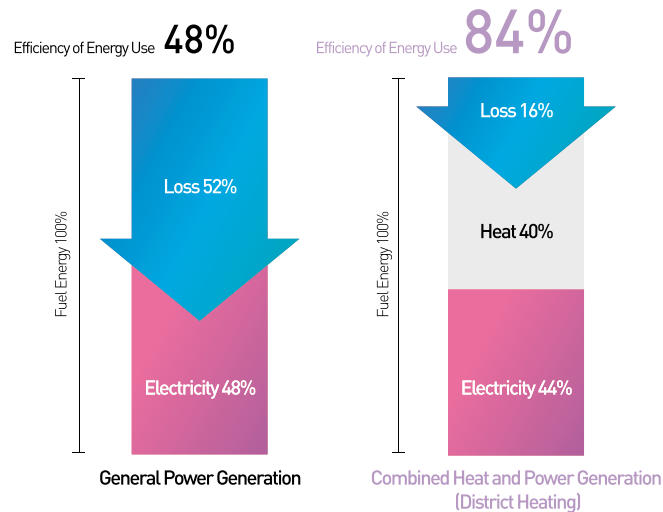
Distribution of district heating

- KDHC
- KDHC's invested companies
- Other district heating business sites

※ District heating is supplied to 1,480,000 households across the nation (penetration rate: 10%), of which approximately 60% is supplied by KDHC (as of 2006-end).



Efficiency of energy usage by combined heat and power generation



Benefits of Integrated Energy Business

The integrated energy business increases energy savings by approximately 50% compared to conventional energy services through efficiency improvements due to combined heat and power generation. It also results in reductions of about 30% in air pollutants (including sulfur oxides, nitrogen oxides, and dust) by way of basic energy savings and high-efficiency pollution prevention facilities while decreasing green-house gas emissions by 47% or so.

Under the district heating system, users no longer need to install individual heat generation facilities (such as boilers) in each household or complex, resulting in safer and cleaner environments. This also enables users to maintain constant indoor temperatures 24/7. CES also contributes to the stabilization of people's lives through lower heating bills.

The district cooling service is provided by using heat for the supply of district heating. This means that the service is environmentally friendly, since it does not use substances that destroy the ozone layer. It also aids in lessening peak-hour loads for electric power during the summer.

Major Facilities

KDHC's major facilities can be divided into "heat supply facilities" that produce, transport, and deliver energy to customers and "environmentally friendly facilities" that are designed to minimize the volume of environmental pollutants generated during the production and transportation processes.

Production and transportation facilities

Combined heat and power plants | Are very energy efficient because they can produce electricity and heat simultaneously. Conventional power generation facilities produce only electricity.

Heat exchangers | Generate warm water by exchanging the steam produced by electrical production at combined heat and power plants with that produced by heat-only boilers.

Heat accumulators | Used to store surplus heat when demand is low and discharge it when necessary, thereby assisting in the flexible operation of heat production facilities. They also help to maintain an appropriate level of pressure in the system's pipelines and can be used as an emergency heat source.

Heat transmission pipelines | Transport heat from production facilities to using ones. Consisting of supply and recovery lines, they are pre-insulated to prevent heat loss during transportation.

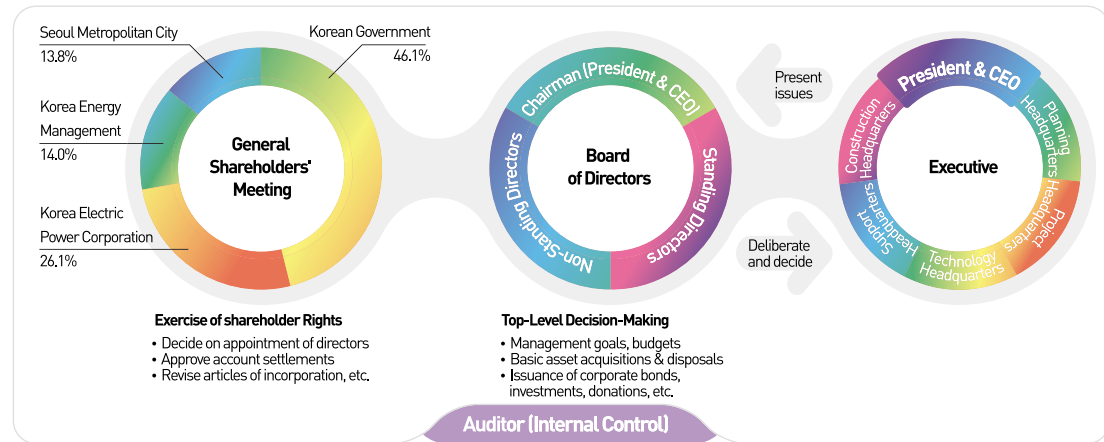
Facilities to reduce environmental pollution

KDHC operates a broad array of facilities to reduce environmental pollution; their major function is to remove or reduce nitrogen oxides, sulfuric oxides, and atmospheric pollutants. We also operate a monitoring system to manage for such pollutants. It measures the amount of emissions in real-time and transmits the results to the government's environmental control center.

Corporate Governance

KDHC was established to benefit the public through energy savings, reductions in environmental pollution, and improvements to people's lives through the efficient operation of an integrated energy service. Its corporate governance structure (including its shareholders and board of directors) reflects this mission.

Corporate governance structure

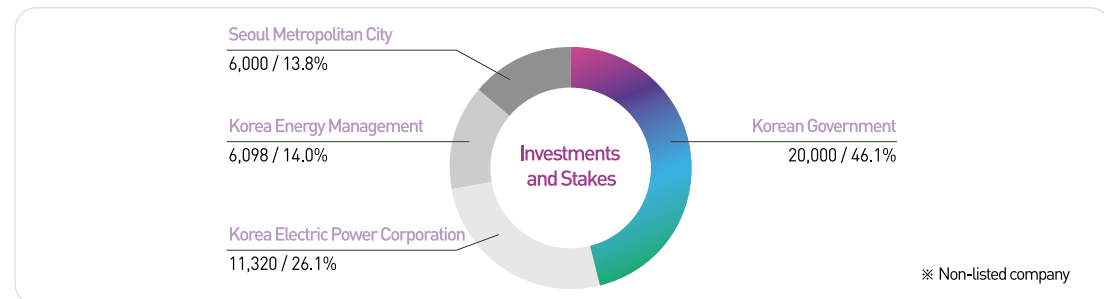


Shareholders

As of December 31, 2006, KDHC's shareholders were the Korean Government, the Korean Electric Power Corporation, the Korean Energy Management Corporation, and the Seoul Metropolitan Government. They can make revisions to the company's articles of incorporation, decide on the appointment of directors, and approve the settlement of accounts (at the general shareholders' meeting).

Investments and stakes

(Units: Millions of KRW, %)



Board of directors

The board of directors (BOD) is the company's top decision-making body. It decides on all matters concerning the company's operations, exclusive of those within the purview of the general shareholders' meeting and the auditors. The BOD at KDHC is mainly concerned with management goals, the budget, and the issuance of corporate bonds, as per Korean law and the company's articles of incorporation. It consists of four standing directors (including the President & CEO) and five non-standing directors.

The company attempts to ensure rational decision-making and transparent management by filling the majority of BOD seats with non-standing directors. In addition, we have formulated detailed screening standards for standing directors; they can be found in the regulations concerning the "Candidate Recommendation Committee." In the future, we plan to extend these regulations to include non-standing directors. The BOD held eleven meetings in 2006, dealing with 45 agendas and reports.

Compensation for the president, auditor, and standing directors comprises their base salaries, incentives, and retirement grants and is decided on by the BOD. The incentives are calculated on a graduated scale and are based on performance evaluations; these also apply to the company's directors, organizations, and divisions. Reappointment of non-standing directors is determined by evaluating their job performance and results.

Executive

Exercising duties that have been entrusted to it by the BOD, the executive consists of the president & CEO and five headquarters. Issues that require immediate decisions are determined in advance by gathering the opinions of employees and holding management meetings. This helps the company to maintain harmony and consistency in each sector and allows concerns within the various divisions and departments to be pursued in an efficient and speedy manner.

Auditor

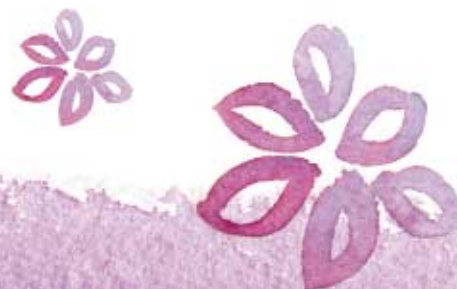
The auditor monitors the company's internal operations. He or she is tasked with participating in general shareholders' meetings, examining agendas and documents that the directors have submitted, and stating whether they violate Korean laws, ordinances or the company's articles of incorporation or include wrong or unreasonable matters. When a director has or may have broken the law, the auditor must report same to the BOD. He or she also conducts audits more than once a year according to a pre-determined schedule and carries out extra ones when deemed necessary.

Screening criteria for director candidates

	Screening Criteria
Presidential Candidates	1. Ability to determine and achieve corporate goals
	2. Ability to manage organizations and companies
	3. Knowledge and understanding of management, the Korean economy, and the energy sector
	4. Ability to lead a public service enterprise
	5. Suitable personality for the role
Standing Director Candidates	1. Expertise and experience in the integrated energy industry
	2. Innovative thinking to cope with rapidly changing operating environment
	3. Leadership and ability to direct external operations
	4. Set a good example as a manager through high-level qualifications and sense of ethics
Non-standing Director Candidates	1. Understanding of the energy industry
	2. Expertise and competency in management and the economy
	3. Willingness to improve levels of management transparency and efficiency
	4. Sound awareness of ethics and responsibilities

BOD operation

	2004	2005	2006
No. of meetings held	9	11	11
No. of agendas	54	60	66
Participation rate of non-standing directors	95.6%	96.4%	96.4%



Committees

KDHC's operational organization includes a Management Innovation Committee, an Open Public Enterprise Committee, an Ethical Management Committee, an Environmental Management Committee, and a Sliding Scale Fuel Cost Verification Committee. Each of these bodies is charged with dealing with key issues and improving systems relating to the company's sustainable development. To ensure transparency in our management, each committee must include both non-standing directors and stakeholder representatives.

Management innovation committee | Established in July 2004 to devise management innovation plans and analyze their results, the committee is made up of a chairman and standing and non-standing members. Meeting quarterly, its duties include evaluating and compensating for innovative projects, tasks, and other related issues.

Open public enterprise committee | This committee was established in June 1999 to evaluate the company's service improvement programs and offer advice on planned improvements to managerial transparency. Comprising twelve members, including representatives of customers, consumer group leaders, energy specialists, and internal customer-related directors, the committee holds quarterly meetings and acts as a communications channel between KDHC and its customers.

Ethical management committee | Established in July 2003 to heighten an awareness of ethical management, the committee's major duties include making plans to pursue ethical management, analyzing the results, and improving ethical management-related systems. Led by the president & CEO, it is composed of standing and non-standing directors, the heads of relevant divisions and departments, and representatives of employees. It held three meetings in 2006.

Environmental management committee | Established in October 1995, this committee is tasked with carrying out studies and inspections of the company's environmental systems at its head office and eight branches. Led by the head of the Technology Operation Division, it consists of branch managers and the heads of each department, office, and team. It holds one meeting per year, in January or February.

Sliding scale fuel cost verification committee | This committee ensures that the company observes all laws, ordinances, and regulations relating to the adjustment of heating charges and supply in accordance with the sliding scale fuel cost calculator and verifies the accuracy of such computations. Consisting of specialists who have been recommended by energy organizations and consumer groups, it is tasked with the protection of consumer rights and interests by guaranteeing objectivity and transparency in the company's rate adjustment processes. It held four meetings in 2006.

Risk Management

A variety of factors affect the integrated energy business, including climate change due to environmental degradation and competition with private entities. Because these complications have a direct influence on the future development of CES, our risk management programs analyze and anticipate all relevant risk factors and make preparations to deal with them.

Risk management activities

Our operations carry both internal and external risks. Internal risk refers to losses due to inefficiencies in our operational processes and/or a lessening in the competitiveness of our human resources. External risk encompasses losses due to environmental changes (such as a re-organization within the energy industry), competition with other companies, and government policies. Risk management activities involving reports on quarterly mid- to long-term financial forecasts, company facilities, and analyses of its management processes and results are all submitted to the BOD.

Risk management activities

	Risk	Causes	Management Activities
Internal Risk	Risk of lessening in competitiveness of human resources	Declines in efficiency following personnel management and the segmentation of organizations	Introduce multilateral evaluation mechanism, Increase employee training
	Risk of information loss	Hacking due to advances in IT	Build information firewalls, Strengthen information security and inspections
	Risk of loss of property and life	Fires in and damage to facilities	Increase education on safety management, Develop fire-fighting facilities, Carry insurance
	Liquidity risk	Increases in new investments and borrowing costs	Create advanced financial forecasting systems
	Risk in transparency of financial information	Errors, forgeries, and damage to financial information	Create internal accounting management systems
External Risk	Risk of loss due to lawsuits	Conflicts of interest at time of entering into projects	Hire in-house lawyers and utilize legal advisors Develop regulations on the transaction of legal proceedings
	Risk of decrease in operational competitiveness	Advancement of small-sized combined heat and power plant technologies	Strengthen capabilities (including establishing new organizations to carry forward new areas of interest)

SUSTAINABILITY AT KDHC

Strategies and Tasks for Sustainability Management

To guarantee the continuous expansion and distribution of integrated energy, KDHC is gradually moving away from the new housing development market and is instead entering the field of overseas integrated energy services. This step will lead to new and increased demand, activate both new and renewable energy services, and help us secure additional stable energy sources.

We practice sustainability management that addresses such areas of concern as the economy, ethical behavior, our customers, employees, and partners, and the environment, and have established a set of detailed strategies to achieve our corporate visions. This report deals with our core activities for sustainability management by operational area.

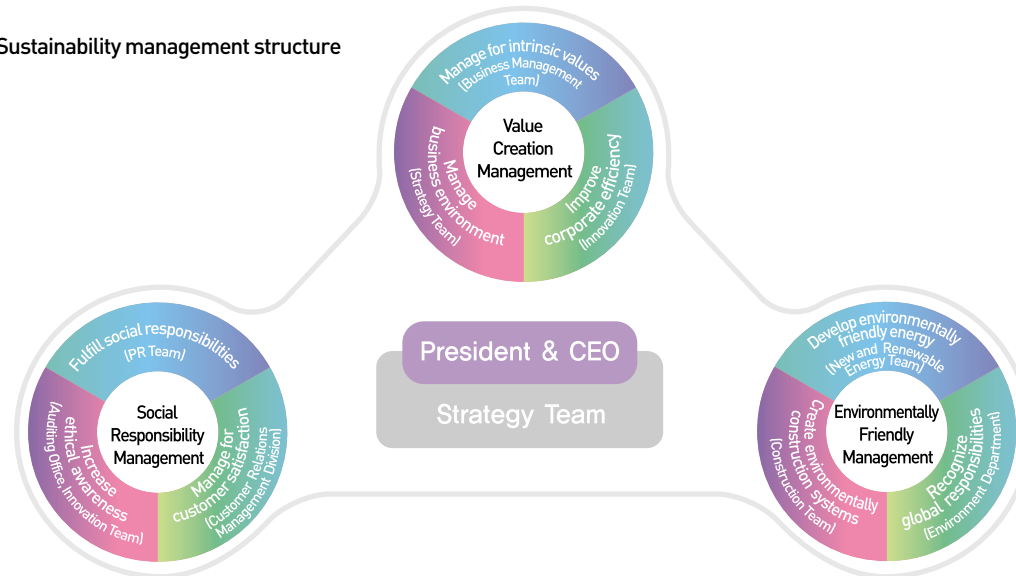
Sustainability management structure

Our sustainability management strategies reflect our desire to create an organization that can cope with changes to our operational environment in a proactive manner, and include the following three areas: value creation management, social responsibility management, and environmentally friendly management. Each area depends upon efficient and effective networking between operating divisions, while the Strategy Team plays an overall advisory role and is tasked with coordination. Final decisions follow in-depth reviews in terms of the company's overall sustainability management goals and are reflected in its operational strategies and tasks.

Sustainability management strategies



Sustainability management structure



Strategic tasks for sustainability management

KDHC creates annual tasks to help it realize its sustainability management strategies. These encompass eight areas.

Strategic tasks for sustainability management

	Strategic Tasks	Sustainable Effects
Economy	<ul style="list-style-type: none"> · Advance the CES · Expand district CES · Augment demand in existing areas · Enter overseas businesses · Build advanced heat supply systems through construction of pipe network in metropolitan areas · Create integrated business management system · Operate integrated operation system · Expand district cooling and heating services 	Increase competitiveness
Ethics	<ul style="list-style-type: none"> · Develop ethical management program · Strengthen open public enterprise management structure by increasing transparency of contracts and accounting systems · Add to corporate value through social expectations by stakeholders 	Establish ethical and transparent management
Innovation	<ul style="list-style-type: none"> · Innovate with focus on efficiency and performance · Spread innovation culture through change management 	Mature innovation
Customers	<ul style="list-style-type: none"> · Build customer-oriented organizational culture · Share customer satisfaction (CS) strategies and strengthen power of execution · Uplift external image · Activate customer relationships 	Improve customer satisfaction
Employees	<ul style="list-style-type: none"> · Reorganize personnel evaluation system · Pursue specialization of personnel · Continue seeking social equity-based employment · Develop quality talents · Cultivate talents to lead company's future-Nurture quality talents with fair compensation 	Nurture quality talents with fair compensation
Partners	<ul style="list-style-type: none"> · Expand integrity pact · Introduce financial support programs · Expand environmentally friendly and social contribution-type purchasing 	Build "Win-Win" cooperation systems
Society	<ul style="list-style-type: none"> · Achieve sustainability management visions · Pursue educational and heating expenses support for impoverished areas · Plan and carry forward company-wide volunteer service 	Heighten enterprise value through social contributions
Environment	<ul style="list-style-type: none"> · Continue expanding environmental management systems · Formulate in-house management guidelines · Continue seeking voluntary agreements 	Develop environmentally friendly energy



KDHC is creating a happy world of energy.

Sustainability Management Philosophy

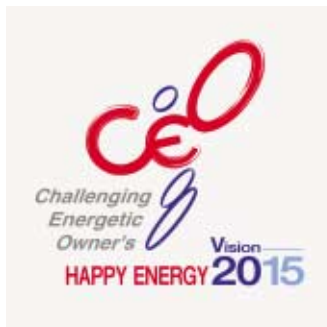
The "CEO mind" forms the basis of our corporate sustainability management strategies. It also reflects our determination to be a leader in the environmentally friendly energy field.

CEO Mind | This reflects the spirit of the KDHC family and our desire to become a world-class company. An acronym for "Challenging Minds," "Energetic Minds," and "Owner's Minds," it means that all employees should think and act like CEOs.

A happy world of energy | This means creating a happier world for everybody through energy security.

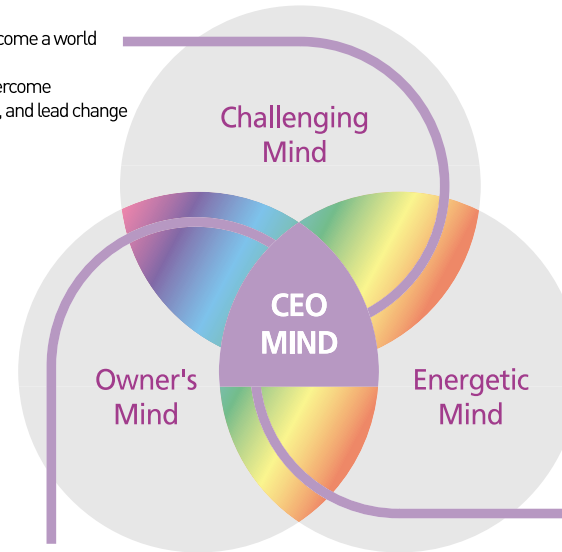
VISION 2015 | This encompasses our desire to become "Korea's Most Environmentally Friendly Energy Company" and includes our mid- to long-term goals for growth to KRW 2.5 trillion in sales and 2.0 million households for heat supply.

<Sustainability management philosophy>



CEO Mind

- Having the spirit to become a world class company
- Having the spirit to overcome unfavorable situations, and lead change

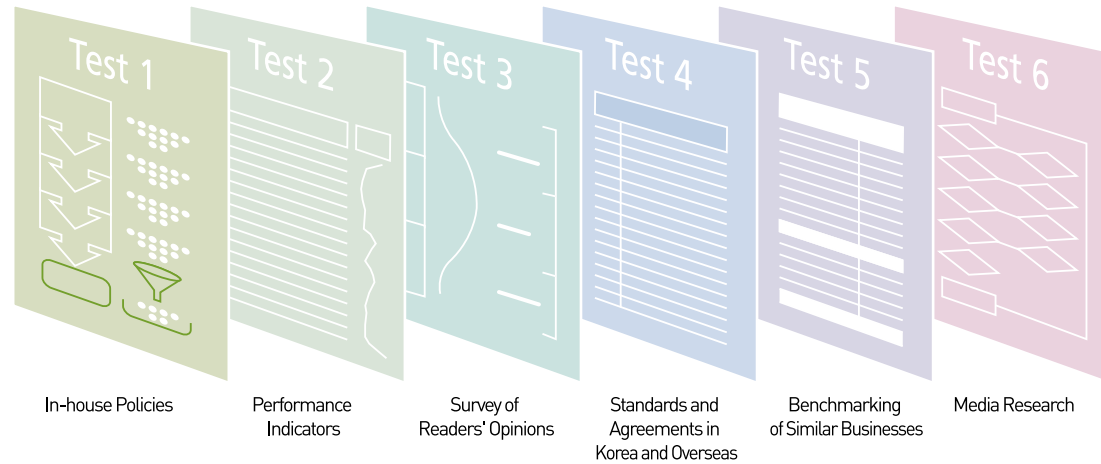


- Working with sincerity and devotion
- Guidelines leading to organizational and individual satisfaction
- "Me-first" awareness
- A sense of value on the part of all employees, believing that the company's strength begins with "me" and expands and grows from "me."

Selection of Major Sustainability Management Issues

KDHC has determined upon a selection of core issues that it believes reflect major concerns of its stakeholders, and information on them is contained in the page of this report. The following issues are of especial importance.

Selection of core issues



Selection of core Issues

- Test 1 – In-house Policies: Derived core issues, taking into account in-house policies such as visions, strategies, CEO's management policies, code of conduct, etc.
- Test 2 – Performance Indicators: Reflected major agendas, considering key performance indicators (KPIs) by the company and by department (team) that generate direct economic effects.
- Test 3 – Survey of Readers' Opinions: Sorted issues that were believed to be of high interest through surveys of readers' opinions.
- Test 4 – Standards and Agreements in Korea and Overseas: Considered issues relating to domestic criteria and international standards. Indicators suggested by the BSR Guidelines and GRI G3 Guidelines were reflected by core issue.
- Test 5 – Benchmarking of Similar Businesses: Derived sustainability management issues by benchmarking energy service-related companies both in Korea and overseas that are also working to implement sustainability management programs.
- Test 6 – Media Research: Determined upon core issues at KDHC that were found in media searches for the report period.

Selection of stakeholders

We have defined customers, employees, partners, communities, and the environment as our stakeholders and provide all of them with a variety of methods for voicing their opinions.

The joy of sharing and the warm world that the

“Happiness Sharing Volunteer Group”

is dedicated to creating.



Sharing the warmth of love



Love temperature of 20°C



Sharing "briquettes of love"



Making kimchi for the winter



Making donations to the "Beautiful Store"





The **“Happiness Sharing Club,”** a service club made up of KDHC employees

We have designated the last Wednesday of every month as a “sharing day” for our workers to care for disadvantaged people, including broken families, seniors living alone, and the differently-abled. We try to help these people with any difficulties and challenges they may face. Our activities include sharing “briquettes of love,” making kimchi for the winter, delivering boxed lunches to seniors living alone, and attending at meals for seniors suffering from dementia.

Kim Hyeon Jeong[28],
Management Office,
Head Office



“We Are **New Employees** at KDHC.”

KDHC’s innovative employment program has been drawing the public’s attention recently. We no longer hire just based on educational background, age, or English proficiency; we also choose 50% of our recruits from those who have been injured helping others, those from rural communities, the differently-abled, and physically challenged military veterans. Below, you can read some of their stories about working with us.



Lee Gyeong Yun(44),
Administration Team,
Head Office

“You will be given a chance if you do not give up.”

My husband got sick suddenly, and my two kids were still too young to help out. I had to quit the bank I was working for and take part-time jobs, only working half-days. Then I saw a job posting for KDHC. I thought it was a chance for me. I immediately began to study accounting at the library, and finally succeeded in meeting the challenges in my life. I’ve gone from being an ordinary housewife to a member of a well-known public enterprise . . . everyone is so amazed! My small efforts led to a dreamlike success, finding good and stable employment. Now I already have one year of service under my belt.

“There was nothing to be afraid of, once I was given an opportunity!”

Although my physical condition wouldn’t allow me to work on a job site, I had a dream of becoming a researcher. My efforts began to be recognized, and I was finally recommended for employment at a certain company! However, I was confronted with a lot of prejudice due to my disorders. Fortunately, KDHC’s “social equity-based employment program” raised my hope of really being treated as an equal. Because of my abilities, I am now filled with enthusiasm and confidence! I had nothing to be afraid of once I was given an opportunity. From now on, my dreams will grow with KDHC.



Jang Dong Hwan(29) ,
KDHC Technology
Institute



Unlimited Challenges

Would you like to share our dramatic employment success stories?



“Age? It’s just a number.”

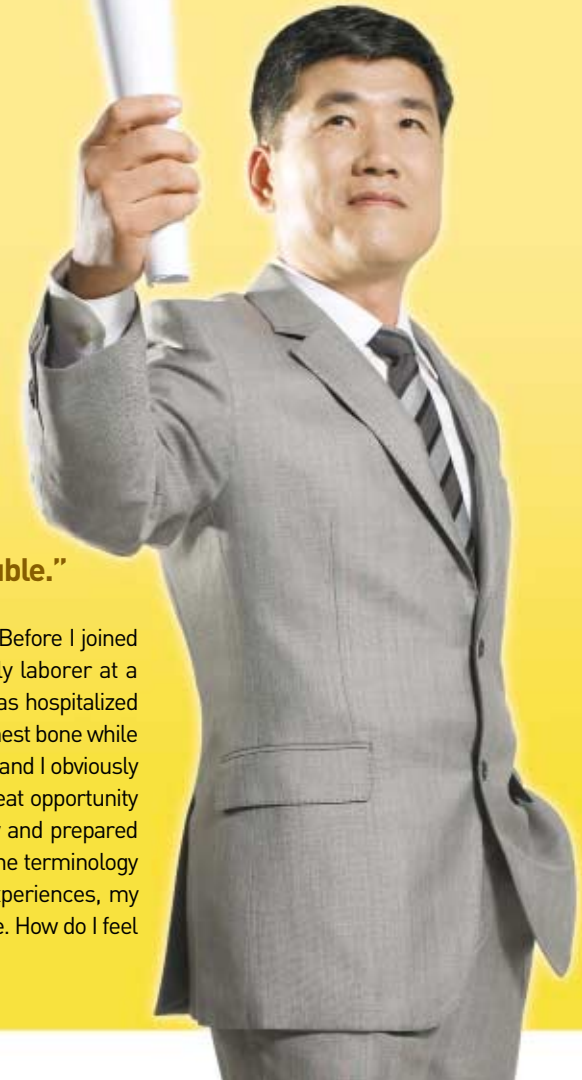
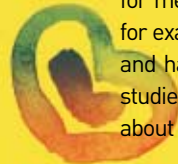
When I found a job posting with no age limit after my retirement last January, I took out the dust-covered books from my attic and began to prepare for new employment. I was 53 then. In September, the knowledge that I had accumulated on the job for more than 30 years led to my becoming a new employee at KDHC. Even though my monthly salary is far less than my previous one and I’ll only be able to work for four more years, I’m grateful that I can still go to work every day.

Han Sik Geun(54) ,
Control Center,
Operation Department,
Jungang Branch

Park Tae Hee(46) ,
Operation Department,
Cheongju Branch

“I just helped someone who was in trouble.”

This is my first time working as a regular employee. Before I joined the company, I had many jobs, such as being a daily laborer at a construction worksite and a truck driver. In 1999, I was hospitalized for about a month because I had suffered a cracked chest bone while catching a pickpocket. I just wanted to help someone, and I obviously didn’t realize that my actions would lead to such a great opportunity for me. I worked at construction sites during the day and prepared for exams at night. Since I was already familiar with the terminology and had some knowledge thanks to my previous experiences, my studies went faster than I would have thought possible. How do I feel about being a new employee? Why don’t you try it too?





We joined the company
at the same period.



Opening a world without barriers

“Social equity-based employment: reducing barriers to employment”

Job searches that focus solely on age, educational backgrounds, and English proficiency result in imbalances and social problems. To counter this problem, KDHC has developed a “social equity-based employment” program that targets the disadvantaged and helps it fulfill its social responsibilities as a public enterprise.

This program is based on the belief of our president and CEO, Mr. Kim Young Nam, that a public enterprise must be faithful to the reasons for its establishment, fulfilling its social responsibilities while always being aware of the “bottom line.” Our company-wide efforts to improve our employment method aim to pull down barriers facing the underprivileged and are based on ideas and suggestions from our employees and the public. As a result, we have committed to guaranteeing that such candidates will make up 50% of our workforce.

Some concerns have been raised about problems arising from hiring human resources through this program and others who are hired through more usual channels. Despite this, we have been able to maintain harmonious relationships through our policy of collective training for recruits and finding appropriate matches within both groups. We are happy to report that workers hired through the new program gained first to fourth places in their job evaluations, quelling any concerns over their qualifications and capabilities.

We feel that social equity-based employment is a step forward from the more traditional, “open employment” policies that other companies use and should be seen as a sea-change in employment paradigms. It has been praised throughout Korea for sharply reducing barriers to employment and expanding opportunities for the socially disadvantaged, and won plaudits during the inspection of the administration by the National Assembly. It was also hailed as an exemplary employment scheme at an employment fair in Yeosu, Jeonnam, and was included in the Ministry of Planning and Budget’s recommendations regarding employment plans by public institutions.

KDHC plans to continue implementing this scheme, both to help carry out our social responsibilities and to deal with the increasingly intensifying problem of social bipolarization. Our ultimate goal is to create a world without barriers for all.

Flowers of **Hope**, Blossoming in the hearts of children



Located in a village riddled with abandoned mines, the school was on the verge of being shut down in March 2006 due to its low student population. Our ties with the Yemi Elementary School began then.

“Buds of hope” from the Yemi Guardian Angel Club

I remember how uninterested and unimpressed the parents and students looked when we visited the Yemi Elementary School in 2006 with 80 students from Jeongseon, Gangwon Province to set up a sisterhood relationship. I could see that their minds were as closed as the abandoned mines and thought that it would be nothing more than an event for form’s sake. I felt broken-hearted.

The first thing we employees did was to form the “Yemi Guardian Angel Club” while pondering over what we could do next. Many ideas came . . . scholarships, better study materials, computer support, English conversation classes. Above all, we tried to become both teachers and friends.

Last winter, we held the ‘KDHC President’s Cup English-Speaking Contest.’ The children participated with great enthusiasm, and we selected four of them to attend the YMCA’s “National English Speaking Contest.” These children then came to our head office to study during the winter vacation; we held a 45-day English camp, during which we all worked very hard.

Some newspapers wrote about a “revolt” or a “disturbance” because two of these children were included in the contest’s final selection, beating other students from large cities. However, it was neither a revolt nor a disturbance. Instead, the eyes of those children were brimming with confidence and the assurance that they also “could do.” They were discovering and awakening their potential, all by themselves.

By observing these changes, we have seen that a sincere interest and continuous support can go far towards building a more just and balanced society. We will keep acting as “guardian angels” for the Yemi Elementary School, so that more flowers of hope can blossom in the hearts of more children.



English speaking contest at Yemi Elementary School



English speaking contest at Yemi Elementary School



Native English teacher,
Elizabeth Seaton,
at Yemi Elementary School

x

a



A

E



English camp during winter vacation



Orientation for English Town

Lee So Yeon
a fourth-grader of Yemi
Elementary School

KDHC's role in realizing public benefits and energy support

Creating a happier world

KDHC has grown into the world's largest district heating company by providing its customers with economical district cooling and heating. We are committed to using energy efficiently, improving the environment, and creating better living conditions through an expansion in the supply of integrated energy.

Our overall goal is to create a happier world by offering the finest in products and services and fulfilling our social responsibilities. In order to achieve that end, we set out our corporate vision-Korea's Most Environmentally Friendly Energy Company, providing our customers with cleaner and more pleasant lives through improvements to the environment, energy savings, and the development of new and renewable sources of energy. We have also laid the foundations for sustainable growth by developing three objectives (service, structure, and systems), four directions (value creation, innovative technology, customer happiness, and social friendliness), and eight strategies.

First, we will contribute to the national economy by continuously expanding the supply of integrated energy. In addition, we will engage in the overseas expansion of our district cooling and heating services, using our technological expertise and decades-long experiences to develop more national energy resources and stabilize their supply.

Secondly, we will strive to reduce the volume of our greenhouse gas emissions by adhering to the guidelines contained in United Nations Framework Convention on Climate Change.

Thirdly, we will continue being a transparently-operated public enterprise that serves the public good through innovation, performance-oriented operations, and a global management system.

Fourthly, we will continue establishing core technology systems and carrying our R&D activities in the district cooling and heating sectors.

Fifthly, we will strive for an ever greater degree of customer satisfaction. Our efforts will include making service improvements for our district heating customers, developing service standards and guidelines for their protection, and providing them with more information on user facilities.

Lastly, we will extend our program of energy support through complete exemptions of base charges for low-income earners and social institutions.



KDHC's Philosophy

We are committed to being a company that creates true values and serves its customers. To this end, we will use our creativity to challenge the future by developing technologies and adding to our store of knowledge. In addition, we will emphasize the need for a sense of ownership by our staff members and the importance of harmony between labor and management. By carrying out these plans, we will become a future-oriented energy company that uses the passion of its employees to create better lives for everyone.

Ethics Management and Innovation Management
SPECIAL THEME



3

For consecutive years

Selected as excellent public enterprise in 2006 ethics management survey by the Ministry of Commerce, Industry, and Energy (for third consecutive year)



3

For consecutive years

Selected as excellent organization in 2006 government customer satisfaction index survey (for third consecutive year)

389%



Registration of innovative ideas increased by 389% year-on-year in 2006

Special Theme 1 ETHICS MANAGEMENT

Ethics Management at KDHC

Corporate ethics is a necessary component of sustainable management, an essential element for a company's survival, and a key means of making a business more competitive in global markets. At KDHC, we engage in a host of social contribution activities to fulfill our responsibilities as a caring and concerned member of the community. In addition, we are strengthening our efforts to stress the need for ethics management within the organization by linking the behavior of our employees to their evaluations and compensation. We have also formulated a Code of Ethics that will serve as the standard for our employees' judgments and behavior. In order to enhance the practice of ethics management, we adopt, pursue, and evaluate tasks for it on a divisional level every year. We also operate a company-wide ethics management network.

Management philosophy

Our CEO's strongly-held belief is that we will only grow with and enjoy the respect of our customers if we make a commitment to the practice of open and ethics management and the carrying out of our corporate social responsibilities.

Institutional participation and practice | Every year, we demonstrate our CEO's commitment to ethics management by participating in the BEST Forum. This was inaugurated in February 2003 by a number of Korean corporations and individuals that had expressed an interest in forwarding the concept of ethics management. Within the company, 30 new directors and executives have pledged to act with integrity and practice ethical behavior as part of our "parents are good role models" campaign. In December, we developed an integrity pact for our president, auditor, and division heads; it describes their ethical responsibilities and sets out sanctions in the event of violations. In addition, we have made a serious effort to improve the nature of our corporate culture. This includes lectures by the CEO targeting new employees, evaluating the capabilities, performances, and ethical behavior of all candidates for promotion, publicizing all executive appointments, and instituting a "one strike and you're out" rule for attempts to use bribery for purposes of career advancement.

Background

KDHC's ethics management system aims to develop an open and honest corporate image and culture. Ever since our establishment, we have maintained an ideal image by building a corporate culture with no tolerance for irregularities or corruption and that has always put its customers and the environment first. However, our interest in ethics management has had to grow as the company itself has grown, to guarantee that our employees never relax their commitment to honesty and integrity. We also believe it is essential for us to continue serving our communities and the nation's energy environment due to an ever-increasing demand for the fulfillment of their social responsibilities by public enterprises. Finally, we are convinced that a sincere adherence to the tenets of ethics management will improve our corporate presence in an age of increasing competitiveness and lead to the sustainable development of our operations.



Ethics management has become a fundamental basis for judging companies in this new century. Backed by our employees, our customers, and especially our CEO, we at KDHC are committed to the development of an open and honest corporate culture.

KDHC, winning trust through ethics management

Company-wide ethics management structure



A top-quality structure

Our employees are determined to see that our core values—fairness, transparency, rationality, integrity, and a sense of responsibility—are transmitted to our customers, the environment, and the communities we serve. Our goal is to create a happier world and continue being a company that is trusted and respected by its customers and stakeholders.

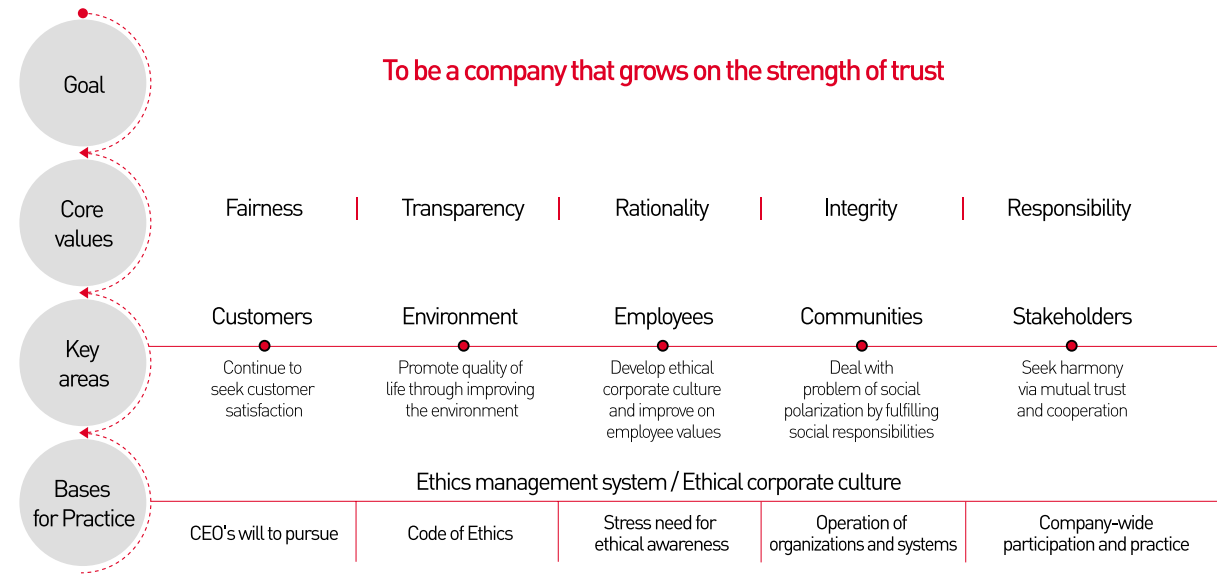
A top-flight organization

Ethics management at KDHC is the responsibility of the Ethics management Committee (Chairman: CEO), the Code of Ethics managers, the Innovation Team, the Auditing Team, and ethical facilitators at head office and each branch. Primarily tasked with deciding on major ethics management policies, the Ethics Management Committee is composed of members denominated both by job and position so that a wide variety of opinions can be reflected in its decision-making. Consultations on issues and the operation of the Code are carried out by the heads of the ethics management and auditing departments. The Innovation Team and Auditing Team deal with corruption, audits, and inspection, as well as activities within their own operational areas. These include an Internal reporting program that issues reports and makes decisions on remuneration and other matters when instances of corruption occur. Finally, the facilitators help to resolve problematical ethical situations and disseminate information on ethics management throughout the company.

Strategic ethics management

In July 2005, we developed a strategic model for our plan to become a leading company in the area of ethics management. Our goal is to become an energy company that will grow on the strength of trust. This will be achieved by consolidating the foundations for practical participation (Stage 1), encouraging voluntary participation (Stage 2), and expanding the level of committed participation (Stage 3). Specific tasks are carried out each year according to the dictates of the master plan. In addition, we carry forward tasks for ethics management by sector (including the CEO, employees, customers, partners, and communities) and operate a company-wide “ethics management in practice” system. In 2006, we carried out 41 ethics management tasks chosen on the basis of need and/or importance.

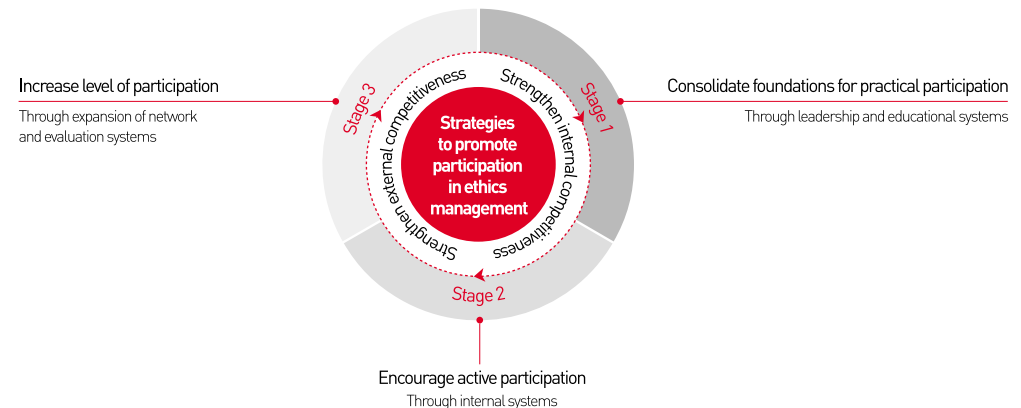
Ethics management structure



To be a company that grows on the strength of trust

Strategic model for master plan

A leading company in the area of ethics management





A corporate culture that stresses honesty, openness, and transparency

Spreading an ethical culture

Twenty-seven of our executives serve as ethical facilitators; in tandem with the Innovation Team, they operate a help line that offers consultations and advice when ethical dilemmas occur. In operation since September 2006, this program is also an official conduit for the exchange of opinions and growth in ethical awareness.

We offer a weekly self-awareness checking program on our in-house Intranet to strengthen our employees' knowledge of ethics management issues. We have also posted an online guidebook on ethics management on the Intranet; through it, our employees can educate themselves regarding our standards for ethical decision-making and behavior.

Employees and associations that have made substantial contributions to ethics management can earn a "Man of Ethics Award." We also conduct surveys on the level of integrity of our executives, hold conferences to inculcate the need for ethics management among our partners, take mandatory pledges to fulfill the demands of the integrity pact, and have expanded the use of an electronic procurement system. Finally, we are extending the "integrity pact for directors" to include our invested companies and placing greater emphasis on ethical matters when evaluating their performance.

Education in ethics

In order to enhance an awareness of ethical behavior among our employees, we operate training programs and offer "cyber education" in ethics management for our facilitators; in addition, we have budgeted KRW 270.0 million for ethical education. Twenty-seven facilitators have received outside professional training, which includes discussing problems that could occur on the job and learning about effective countermeasures. They also participate in external seminars, including the BEST Forum.

Ethical education

Tasks being pursued	Results
Special lectures by outside specialists	Held for 3.5 hours in February and June on trends in ethics management and directions for its development. Targets all employees
Training to foster ethical facilitators	Held for eight hours, focusing on their roles and activities
Training for ethics management specialists	Two-month-long Ethical Officer Program (EOP) to cultivate specialists in ethics management
Cyber education in ethics management	Held over 20 hours, this includes lessons in "ethics management: a key word for survival in the 21 st century." Targets all employees
Discussions on ethical behavior by division, organized by ethical facilitators	Discuss problems that might occur while pursuing business within divisions and offer effective countermeasures
Participation in external ethics management-related education	BEST Forum, workshops by Council for the Korean Pact on Anti-corruption and Transparency of Public Enterprises, and lectures on ethics management organized by Federation of Korean Industries

Standards for Ethical Behavior at KDHC

We have developed a code of ethical standards for all our employees. Its function is to improve the ethical underpinnings of our corporate activities and forward the realization of our corporate vision.

Charter of ethics | Our basic policy for ethics management, this document aims to create an open, honest, and transparent corporate culture through the development of high-standard ethical values, an adherence to fair business practices, and the prevention of corruption.

Code of ethics | This document contains directions in relation to ethical decision-making and standards in support of the charter.

Code of conduct and operational guidelines | These prescribe standards for ethical behavior that all our employees must obey in relation to our stakeholders-including customers, other employees, shareholders, communities, and partners.

Further examples of and commentaries on ethical dilemmas in the form of Q&As (including the rationale behind ethics management, explanations of the Code of Conduct, and checklists for ethical behavior) are available on our in-house Intranet, Nanbang Sawu. We also run ethical awareness self-checks on a weekly basis.

Observance of Regulations and Agreements

KDHC treats all its employees with dignity and respect, scrupulously following its own internal rules and all employee-related regulations in Korea's labor laws and ordinances-including the Labor Standards Act and International Labor

Organization (ILO) conventions. We have never violated any laws or regulations concerning the prevention of child and forced labor, and we also prohibit making illegal donations to political parties, politicians, and candidates for election.

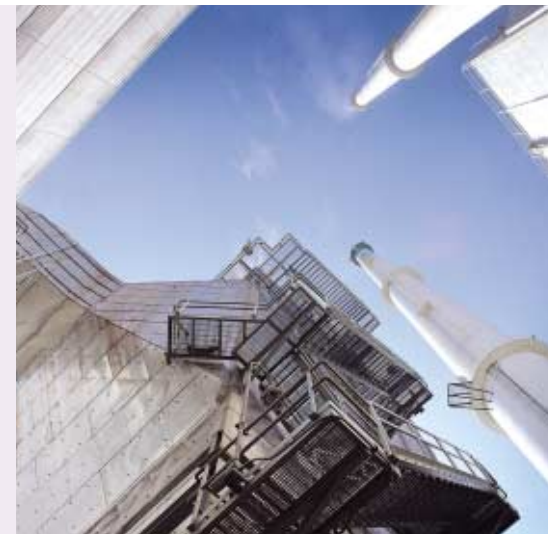
Observance of ILO conventions

	ILO Conventions	Observance by KDHC
Article 16	<ul style="list-style-type: none"> Employers shall be required to ensure that, so far as is reasonably practicable, the workplaces, machinery, equipment, and processes under their control are safe and without risk to health. 	<ul style="list-style-type: none"> Provide protective equipment, including safety protection tools Eliminate factors that can damage the musculoskeletal system Improve work environment and conduct biannual medical check-ups of at-risk workers according to results of work-related surveys
Article 18	<ul style="list-style-type: none"> Employers shall be required to provide, where necessary, for measures to deal with emergencies and accidents, including adequate first-aid arrangements. 	<ul style="list-style-type: none"> Appoint safety managers and health managers at each branch Conduct job training for health and safety managers Provide all necessary medical supplies
Article 19	<ul style="list-style-type: none"> Mutual cooperation between workers and employers in regard to occupational health and safety 	<ul style="list-style-type: none"> Scheduled to establish an occupational safety and health committee → Establish cooperative safety and health management system (after September 2007) Conduct occupational health and safety-related training (from September 2007) Targets: Safety managers, health managers, and other applicants (3-month course) Provide workers with information occupational health and safety through in-house Intranet

An Energy Company That is Growing on the Basis of Trust

KDHC is committed to the development of a fair, open, and transparent management system and the fulfillment of its social responsibilities. As always, it will remain true to the purposes behind its establishment: achieving lower energy costs, reducing environmental pollution, and bettering people's lives. We will also insist that our employees deal with all our stakeholders in an honest, forthright, and impartial manner.

To be a company that is as open as the skies:
this is KDHC's dream.



Special Theme 2 INNOVATION MANAGEMENT

Innovation Leadership

KDHC has developed an innovation management structure to help it to survive in a business environment featuring ever-intensifying competition due to market entry by private operators. We define innovation as “developing a competitive company by creating more efficient and valuable businesses.” Recognizing innovation as constituting an essential element for management, we have set innovation goals and strategies that apply to all areas of our operations-including human resources, organization, and operations.

Management philosophy

Our CEO is committed to the augmentation of innovation capabilities through programs that will enable all employees to create a consensus on translating theory into action. In addition, he has stressed his belief that innovation is the motive force that will enable the company to continue winning the trust and respect of all its stakeholders.

Guidelines for innovation

These include “Entity Innovation, to break away from stereotypes,” “Performance Innovation, to evaluate the results of innovations,” and “Culture Innovation, to improve on poor performances.”

Goal and Strategies

KDHC is committed to becoming an integrated energy provider that deploys innovation to lead the energy industry. In order to attain this goal, we chose the motto “To Become a Globally Competitive Company through Continuous Customer Value Management.” We strive to generate innovation results that everyone can see, feel, and benefit from, based on five core strategies. These include increasing customer satisfaction, creating future growth engines, generating efficiencies and value, developing performance-oriented systems, and building a corporate culture that is based on participation and trust.

Guidelines for innovation

“Entity Innovation”

Break away from stereotypes and change thought processes to achieve true rather than superficial innovation

“Performance Innovation”

Encourage, evaluate, and compensate for substantive innovation performances; build cycle of “good performances → evaluations → compensation”

Abandon egalitarian principles that are not based on one’s performance within an organization

“Culture Innovation”

Improve on poor performances,

Take pride in ownership of job and move away from “just follow” attitude

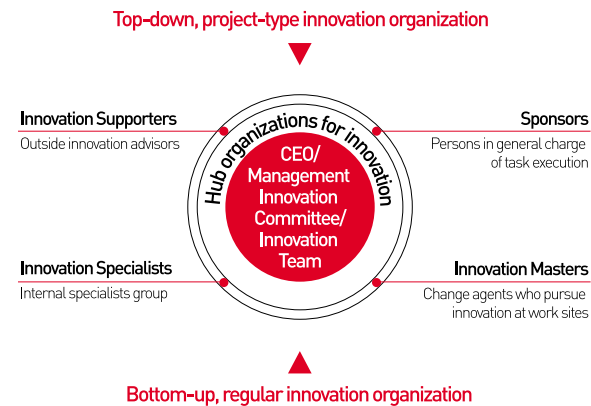
Innovation goal and directions



Innovation Organization

KDHC is committed to developing a network-style innovation organization to guarantee that innovative thinking will be encouraged at all its worksites. Centering on the Management Innovation Committee, which is the top decision-making body for the pursuit of innovation (chairman: CEO) and the Innovation Team (the leader in innovation efforts), this organization comprises internal innovation specialists, sponsors (in charge of innovation tasks), innovation supporters (i.e., external advisors), and innovation masters (in charge of innovation pursuit). This format creates valuable synergies by allowing us to combine the strengths of regular innovation organizations composed of innovation masters and innovation managers with those of project-based innovation organizations made up of sponsors, champions, and task team members.

Innovation network organization



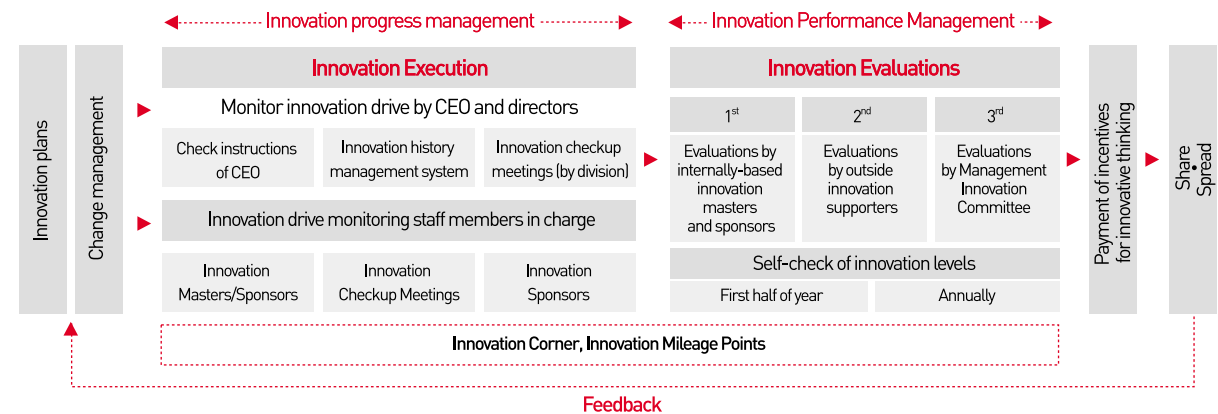
Innovation Management Structure

In 2006, we developed an IT system called the "Innovation Corner" and tasked it with monitoring our innovation activities in "real time." Its duties range from planning innovation tasks to managing their progress rates and evaluating the results. All this is done online. In addition, we encourage the development of innovative thinking on the part of our employees by awarding monthly "innovation mileage points" for their activities and acknowledge excellent performances by conducting innovation contests. This occurs after all tasks have been evaluated.

Innovation monitoring

We use both online and offline communications channels to keep track of innovative thoughts and suggestions. Our online communication channels include a "Participation Corner" in which employees are encouraged to offer their ideas and opinions and a "Policy-Sharing Room Corner," in which they can access and comment on company policies. Offline programs encompass an "Open Discussion Forum" and "Open Talk Time" with the CEO. The Open Discussion Forum is a venue for discussing major policies and learning what our employees think about the organization, while "Open Talk Time" gives workers an opportunity to meet the CEO in person and share their thoughts and feelings with him.

Innovation monitoring and evaluation structure



Results of open communications channels

	communications channel	details	major results
	Innovation Suggestion Program	• Suggest after improving businesses innovatively	• Chosen: 87 items
	Innovation Ideas	• Suggest innovation ideas on overall duties	• Chosen: 158 items
	Online	Voluntary Cooperation Groups (CoP)	• Share innovation and management: a "cyber community for learning"
	Online Policy-Sharing Corner	• A venue to report on important company policies	• 19 subjects
	Online Participation Corner	• A space for free communication by all employees	• 30 topics, 199 responses
Offline	Open Discussion Forum	• A venue for discussions of major policies to be implemented	• Held twice a month
	CEO Open Talk Time	• A face-to-face communications program between the CEO and employees	• Held monthly

In accordance with the CEO's innovation guidelines, we study and assess reports of factors that could negatively impact the innovation process. This includes an innovation task history management program that monitors the effects of management changes.

Core tasks for history management in 2006

- ① Social equity-based hiring program
- ② Talent cultivation project at Yemi Elementary School in Jeongseon, Gangwondo
- ③ New and renewable energy business using trees damaged by pine nematode

Innovation incentives

We evaluate and compensate for management performance in such areas as innovation tasks, innovation suggestions, and business results, all in accordance with the CEO's performance innovation guidelines. In 2006, we introduced an "innovation mileage point program," consolidated our performance-based compensation system, and used IT to link all our innovation systems with IT.

Disseminating information on innovation

Operation of the "Innovation portal KMS" (Knowledge Management System) | In 2002, we began to develop KMS, an innovation engine designed to generate, utilize, accumulate, and share knowledge. Renamed "Nanbang Sawu," this system was completely rebuilt in 2006. It is used to strengthen our core capabilities and develop and compensate for innovation ideas and suggestions.

Number of suggestions and ideas for innovation

	2005	2006	Change
Registered suggestions	540	802	49% ↑
Registered knowledge	1,418	6,932	389% ↑

KMS



Using education to further the capacity for innovation

KDHC offers a variety of educational programs to strengthen the innovation capabilities of its employees. These are divided into education to foster innovative mindsets and education in innovation techniques. The former, which encourages innovation activities at work sites, the sharing of innovation philosophies, and current management conditions, targets all employees and includes internal and outside specialists-including the CEO, division heads, the Innovation Team manager, and innovation supporters. The goals of the latter are to nurture specialists who will be able to execute innovation activities efficiently and effectively and to strengthen the competencies of innovation specialists.

Innovation Performance

We developed five strategies for carrying out continuous innovation activities. Based on these, we translated company-wide innovation tasks into action. Major results include improved customer satisfaction levels and the securing of core technologies for new and renewable energy businesses. We also enhanced our business efficiency through a "WorkOut" program, constructed a strategic business management system, and created a "Win-Win" labor-management culture.

Increasing customer satisfaction

Innovation for customer management | We developed innovation activities to help us hear the voice of customers (VOC) and reflect their opinions in our operations and are strengthening our VOC management efforts. For example, the frequency of VOC checking has been increased to quarterly from annually, while the time needed for customer suggestions processing has been shortened to less than 15 days from less than one month.

We are committed to transparent customer management, making our VOC handling processes known to all and reflecting worthwhile opinions in our policies. As a result of these efforts, we have been named an "excellent organization" in government surveys of customer satisfaction index levels for three consecutive years.

Programs to strengthen innovation capabilities

Programs & Target		Details	
Innovation assistance programs	Education to foster innovation mindsets	Special lectures by CEO Special lectures by headquarters heads Special lectures and discussions by Innovation Team manager Lectures by outside specialists	
	Education in innovation techniques	Special lectures by CEO Special lectures by headquarters heads Special lectures and discussions by Innovation Team manager Lectures by outside specialists	
		Education to strengthen competencies of innovation masters [28 innovation masters]	Spread innovation philosophy, make inspections at each worksite Hold lectures on innovation and give presentations on major management conditions at each branch Introduce innovation plans, hear VOC on innovation at work sites, reflect same in policies Present special lectures on innovation
		Education to strengthen competencies of innovation masters [28 innovation masters]	Offer training in innovation techniques and methods to reduce conflicts Training in methods to solve innovation problems through participation by all employees during company-wide "WorkOut" Training in innovation drive strategies and techniques

Five innovation performance strategies

Innovation Strategies	Results
Increase customer satisfaction	<ul style="list-style-type: none"> Improved PCSI: 86.5 points in 2005→91.4 points in 2006 (selected as "excellent organization" for 3rd consecutive year) Received grand prize at CS Management awards ceremony for 4th consecutive year Secured core technologies for business diversification, including pursuit of new and renewable energy businesses
Expand future growth engines	<ul style="list-style-type: none"> Increased R&D activities and number of patents <ul style="list-style-type: none"> No. of patents (2 in 2005→8 in 2006) R&D results (50 items in 2005→56 in 2006)
Generate efficiencies and value	<ul style="list-style-type: none"> Pursued "30% Up and Down" in efficiencies and value-oriented businesses on company-wide level Encouraged growth in number of company-wide innovation tasks at "WorkOuts"
Develop performance-oriented systems	<ul style="list-style-type: none"> Introduced a company-wide BSC performance structure (100%) Increased employees' acceptance of performance systems (59 points in 2004→73 in 2006)
Develop culture based on participation and trust	<ul style="list-style-type: none"> Selected as "excellent company for labor and management culture" by Ministry of Labor Received Management Grand Award (in Ethics management category) (KMAC)

Customer management innovation performance

	(Unit: No. of Items)	
	2005	2006
Customer comments on homepage	266	352
Replies to comments	62	70
Customer appeals	42	31
Customer suggestions	9	28

Expansion of future growth engines

Pursuit of new and renewable energy businesses | We are continuing our strategy of developing new and renewable energy sources. This is being done in response to a call from the UNFCCC, since renewable energy has become a salient issue in the international community and measures are needed to counteract the depletion of fossil fuels. Some areas that we are exploring include solar energy¹⁾, solar photovoltaic power generation²⁾, and combined heat and power generation using biomass and gases³⁾. These activities illustrate our desire to minimize the environmental impact of our operations

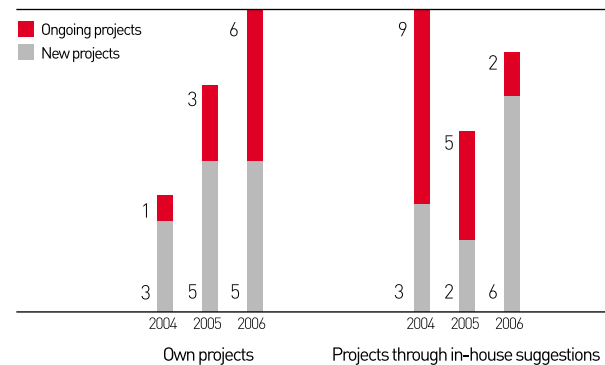
New and renewable energy projects

Utilizing energy	Details	Effects
	· Complete new and renewable energy facilities in Daegu	- Scheduled to produce and supply 360,000 Gcal of heat (enough for 35,000 households) and 18,000 MWh of electricity (enough for 7,000 households) per year after 2008
Solar energy	· Install solar systems	- Utilize solar heat in linkage with district heating systems (to produce more than 360 Gcal/year)
	· Pursue solar photovoltaic power generation in Sinan	- Generate substitution effect for crude oil imports of about 400 TOE annually
Biomass and Gases	· Biomass combined heat and power generation project in Daegu	- Generate substitution effect for crude oil imports of about 9,440 TOE annually
	· Biogas combined heat and power generation project in Goyang flower complex	- Save 3,000 TOE of energy annually - Generate substitution effect for crude oil imports of about KRW 1.6 billion annually

Research and development

KDHC has been expanding its investments in this area since 2003. In 2006, the number of R&D projects being pursued grew by 12.0% from the year before. We are accelerating our R&D activities by encouraging both in-house and public proposals for research projects. We are also committed to the development of new technologies and products with a view to providing a stable and efficient supply of heating. In response to a government-sponsored program for the "development of new overseas technologies on the condition of participation by small- and mid-sized enterprises," we have launched two projects to develop new equipment and materials for heat transmission pipelines. We are also working to begin the domestic production of four new overseas products, including a high-performance heating insulation material.

Number of R&D projects



1) A technology for cooling and heating buildings and supplying hot water by absorbing the sun's rays and converting them into energy

2) Power generation using solar cells-semiconductor devices that generate electricity when receiving sunlight

3) Featuring high calorific power, their principal components include methane and carbon dioxide that are generated during the anaerobic digestion of organic wastes.

Generation of efficiencies and value

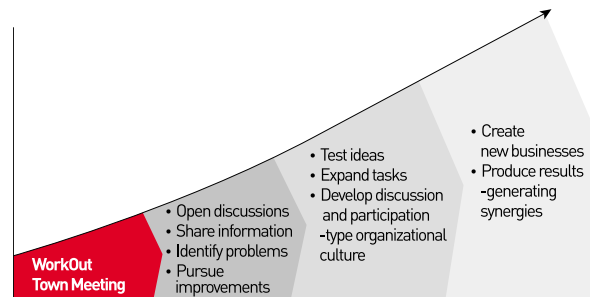
“30% Work Up & Down” | Our volume of new and operations has continued to increase, leading to more work-site operations. As a result, we have introduced a “30% Work Up & Down” program to improve our competitiveness by reducing the number of operations and concentrating on more efficient and worthwhile ones. We also evaluated the overall value of each of our operations, focusing on those that correspond most closely with the functions of each team and developing and strengthening the most sustainable and future-oriented ones. We assessed operations which do not conform to the purposes of a division as well as customary but unnecessary operations and improved our work methods by simplifying documents and business forms. This process resulted in 37 tasks being recommended by the head office team and 87 by our employees; out of these, we selected 29 “Down” tasks and 8 “Up” ones. This means that we can now concentrate more efficiently on our most worthwhile operations.

Company-wide innovation tasks identified by the “WorkOut” innovation technique | The “WorkOut Town Meeting”⁴⁾ innovation technique encourages sustainable growth by merging work with innovations. In 2006, 866 persons, including the CEO, outside directors, and employees, attended the meeting. We also offer classes to carry out tasks created at the meeting and engage in innovation studies and task fulfillment according to the WorkOut program. These efforts resulted in the identification of 18 tasks, including the implementation of a program called “methods to promote the positive reception of performance systems.”

Tests resulting from the 2006 workout town meeting

- Adopt measures to improve positive reception of performance systems
- Improve efficiencies in management of educational materials in repair and maintenance technology sector
- Enhance customer satisfaction by augmenting communications with housing representatives and/or occupants and tenants
- Improve customer satisfaction services at the “moment of truth”
- Better log sheet operation methods for operators, etc.

Synergy generation through workout town meeting



Development of performance-oriented systems

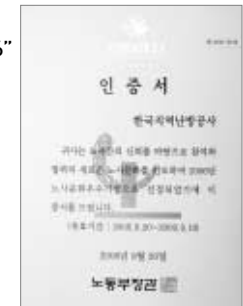
Operation of the BSC performance management system | KDHC also operates the BSC⁵⁾ performance management system. This encourages greater communications with our employees, with a focus on sharing strategies, identifying excellent performances, and evaluating individual accomplishments. In July and December of 2006, we used the BSC to evaluate measurement indexes for the first half of the year and conducted management evaluations of teams and departments. This system has made an extremely positive contribution to our performance management operations and enhanced their transparency.

Improvements in accepting performance systems on the part of employees | Inefficiencies were selected as the primary task at the “WorkOut Town Meeting.” These included failing to execute business plans, tasks, and evaluations, with the result that they did not lead to their original management goals. We revised our 2007 management goals and business plans after arriving at a consensus on the improvement of tasks through working-level meetings and the “Open Discussion Forum” and conducted surveys on changes to our performance management systems. As a result, the overall employee satisfaction level rose to 73%, up 14% from the 2004 level.

Developing a culture based on participation and trust

Named “Good company for new management-employees culture” | KDHC sponsors a quarterly joint labor-management conference; its primary goals are to discuss major issues, seek solutions to labor issues, and improve employee welfare. Other matters include safety measures and the budget. In 2006, our efforts to promote a better understating of management issues and work in advance to resolve conflicts between labor and management allowed us to reach a wage agreement without dispute for the 13th consecutive year. In recognition of these proactive labor-management relations, we were selected as a “good company for new management-employee culture” by the Ministry of Labor. We expect that this will lead to greater efficiencies by inspiring our employees to work even more efficiently and effectively.

Certificate of “Good Company For New Management-Employee Culture in 2006”



Using Innovation to Create a Better World

KDHC is committed to fulfilling its role as an energy industry leader by using innovation to pursue sustainable growth. Operating in conformity with our original purpose of supplying better energy to our customers, we will help to create a better and warmer world for everyone.

4) WorkOut Town Meeting: A management innovation technique to deal with operational inefficiencies, enabling employers and managers to streamline systems and procedures by building better channels of communication with employees.

5) BSC (Balanced Scorecard): An evaluation program designed to make positive changes to an organization’s mission and create strategies for developing comprehensive indicators for efficient measurements and management.

DMA Disclosure on Management Approach



Expansion of district heating supply

Transparent accounting management

Financial stability

* The higher, the more important the issue

Performance report on core issues

The major stakeholders of KDHC have determined that the following core issues are of the greatest importance for its economic performance.

Supply of district heating: As of the end of 2006, KDHC provided heat to 877,000 households across the nation and was continually working to ensure them a stable supply of energy. It plans to increase the number of households that it services to 1,293,000 by 2010.

Transparent accounting management: In December 2006, with the help of a professional outside organization, KDHC introduced an internal accounting management system to augment the transparency and reliability of its accounting systems. It has since built upon this to bring these systems to a global standard.

Financial stability: KDHC borrows funds to rationalize energy usage through the government's financing support program, which is part of its energy and support policies. The company also raises funds through the issuance of bonds and obtained the highest possible credit rating ("AAA") from the Korea Investors Service in 2005.

Vision and strategies

Vision

Korea's Most Environmentally Friendly Energy Company

Mission

Deploy value management to forward an expansion in the supply of integrated energy

Strategies and Tasks

Management system innovations

- Operate state-of-the-art business management and internal accounting management systems; maximize operational efficiencies

Expanded growth

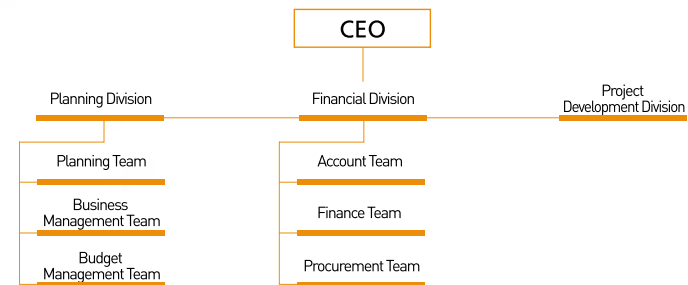
- Address changes in the environment, develop new and renewable energy businesses, expand range of integrated energy service

Business advancement and diversification

- R&D investments, overseas expansion of CES, establishment of efficient heating supply systems

KDHC was established to make people's lives better and more convenient. To help us achieve this goal, we have set our mission as being value management to expand the volume and distribution of integrated energy. We strive for sustainable and continually expanding growth through innovations to our management system and increases in our range of operations.

Organization



KDHC practices value management to expand the volume and distribution of integrated energy. By establishing cooperative relationships among our various divisions and departments, we are looking to enter into new markets and diversify our businesses. We are committed to meeting the challenges of a constantly changing operational environment and realizing a healthy rate of growth through the development of an efficient and effective administration.

Creating Value to Achieve Sustainable Growth

ECONOMY



KRW **31.4** billion
Net income in 2006



15%

New and renewable
energy penetration rate



2,630km

Length of heating pipe network

Major Economic Performance

KDHC has enjoyed continuous growth since it began to supply heat energy in 1988. We now serve 877,000 households and have assets valued at more than KRW 1.7 trillion. As an energy company whose mandate is to serve the public, we will strive for continual value creation and offer energy subsidization to all who need it.

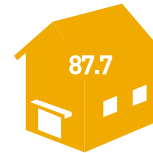
1988



4



2006



87.7

No. of heat supplied households (10,000 households)



11.9

Sales (Billions of KRW)



613.4



50.0

Assets (Billions of KRW)



1,749.6



56.62

Labor productivity per employee (Millions of KRW)



200.97

Summary of balance sheets

(Unit: Billions of KRW)

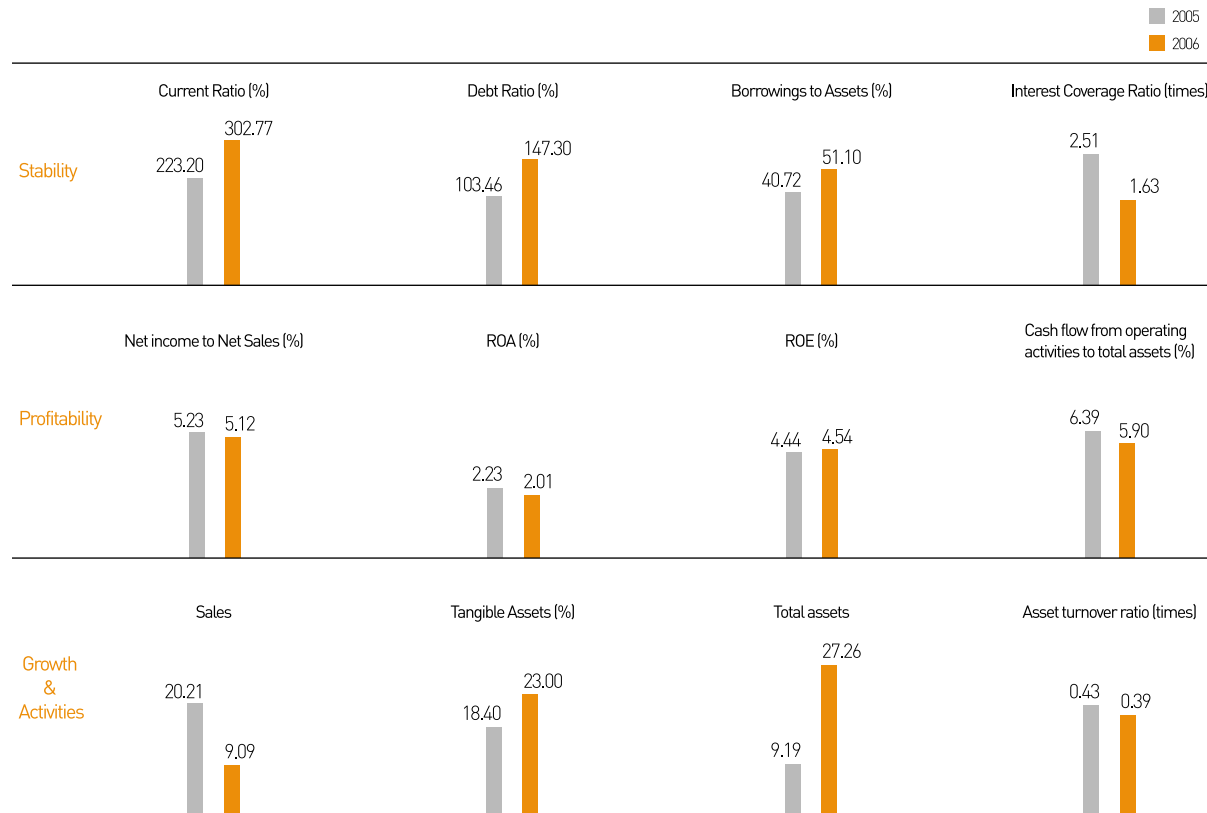
	2004	2005	2006
Current Assets	411.2	345.7	472.5
Fixed Assets	848.0	1,028.8	1,277.1
Total Assets	1,259.2	1,374.5	1,749.6
Current Liabilities	86.3	154.9	156.0
Fixed Liabilities	522.7	543.9	886.1
Total Liabilities	609.0	698.8	1,042.1
Capital Stock	43.4	43.4	43.4
Retained Earnings	606.8	632.3	662.4
Capital Adjustment	-	-	1.7
Total Shareholders' Equity	650.2	675.7	707.5
Total Liabilities and Shareholders' Equity	1,259.2	1,374.8	1,749.6
Sales	467.8	562.3	613.4
Operating Income	57.7	43.3	41.2
Net Income Before Income Taxes	55.0	29.5	29.0
Net Income	45.4	29.4*	31.4

* Caused by a sharp rise in international oil prices in the second half of 2005 and difficulties with the implementation of a sliding-scale fuel cost system in November of the same year.

Financial Performance

Sales and net income were KRW 613.4 billion and KRW 31.4 billion, respectively, at the end of 2006. These represented increases of 9% and 6.7%, respectively, from a year ago and arose from an expansion in new businesses, including district cooling and heating. We are also investing in additional fixed assets through the development and extension of new businesses.

Our year-on-year rises in current ratio and net income reflect a high degree of stability and potential for growth. We have a policy of sharing our economic results, since we realize that our achievements can only happen with the support of all our stakeholders.



Delivering performance—a profitable company's value is always reflected in its solid financial structure.



Growth and Distribution of Integrated Energy Service

District heating

We supply district heating to 1,450,000 households, about 10% of the total number of households in the country. KDHC provides district heating to 877,000 households from 13 branches throughout the nation, making up approximately 60% of this total. Our goal is to increase this to 2,000,000 households by 2015. We have built a series of pipelines to ensure a stable supply of district heating. These pipes, which have been installed throughout the country, are 2,630 km in length, equal to almost three return trips from Seoul to Busan. They account for 59% of the nation's domestic heating network. One of these networks is located in the metropolitan areas from Paju to Hwaseong, heightening both the efficiency and volume of supply in the national capital region.

We strive to deliver an economical and stable source of heating through technological developments and improvements within the heating pipe area, reductions in labor expenses, and strict attention to construction expenses.

District cooling

We began our district cooling operations in 1993; by the end of 2006, we were supplying cooling to 250 buildings. In 2006, this business generated KRW 43.0 billion in substitute savings effects relative to peak power plant demand, energy savings of 1,672TOE, and a 3,088 ton reduction in carbon dioxide emissions.

Although our main cooling supply method has been warm water-driven district cooling⁶⁾, we are gradually introducing a more economical, direct cold-water supply⁷⁾ that uses waste heat from power generation and thermal storage from late-night electricity. This latter system supplies district cooling to the Sangam Digital Media City, and we plan to expand its use to other areas. Our overall goal is to supply cooling to about 450,000 households by 2015.

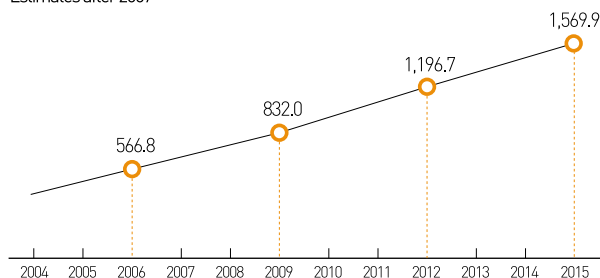
Supply of district heating

Year	For Housing (1,000 houses)	For Businesses (No. of units)	For the Public (No. of units)
2001	631	812	555
2002	685	903	602
2003	727	1,047	631
2004	788	1,118	643
2005	825	1,142	654
2006	877	1,157	658

Sales of district heating and estimates

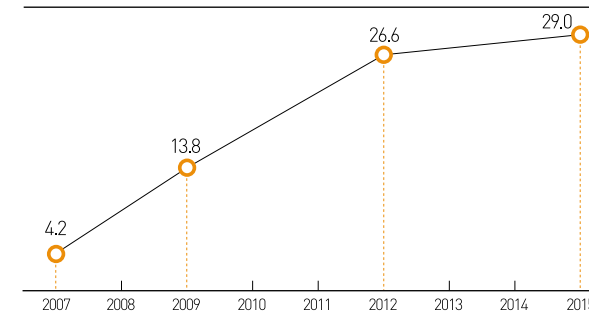
(Unit: Billions of KRW)

Estimates after 2007



Estimated sales of district cooling

(Unit: Billions of KRW)



6) Warm water-driven district cooling: Produce cold water using waste heat from electricity generation at combined heat and power plants by using absorption chillers.

7) Direct cold-water supply: Produce cold water more economically by using waste heat from combined heat and power plants and thermal storage from late-night electricity. It is supplied through pipes to buildings in heavily-populated areas.

Electricity

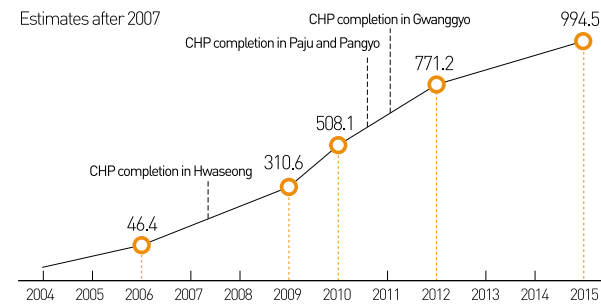
We first produced electricity at our Daegu Branch in 1997. Our output in 2006 was approximately 464,000 MWh, about 5.5 times our original volume. We now generate electricity at our Daegu, Suwon, and Cheongju branches and plan to expand this production by building mid- to large-sized combined heat and power plants (CHPs) in Hwaseong, Pangyo, and Gwanggyo. In 2011, when these facilities will all be completed, sales should grow by 49.0% on an annualized average basis, accounting for about 38% of all our sales.

Mid- to Large-sized CHPs under construction

Location	Capacity	Scheduled Completion (year)
Hwaseong	512MWh + 397G/h	2007
Paju	515MWh + 396G/h	2010
Pangyo	146MWh + 126G/h	2010
Gwanggyo	141MWh + 143G/h	2011

Electricity sales

(Unit: Billions of KRW)



New and renewable energy

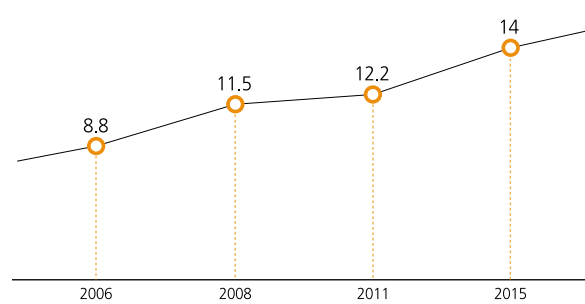
KDHC promotes the development of new and renewable energy sources by dealing with changes in the energy market as per the recommendations of the UNFCCC and the Kyoto Protocol. We are currently doing this by using unutilized energy, and aim to produce 14% of our total energy volume from new and renewable energy sources by 2015. This will be the equivalent of about 3,700,000 MWh of electrical power.

Heat production using unutilized energy

	Heat production (1,000 Gcal)		
	2004	2005	2006
Incinerator	572	929	1,016
LFG	84	74	115

Ratio of estimated new and renewable energy production to total energy production

(Unit: %)



Enhancement of Management Efficiency

Strategic enterprise management (SEM)

KDHC introduced an SEM system in 2006 to systematically integrate and manage data relating to performance evaluations, management analyses, and management information. This has enabled us to achieve our management goals in a more efficient and effective manner and provide a greater fund of information for strategic decision-making by management.

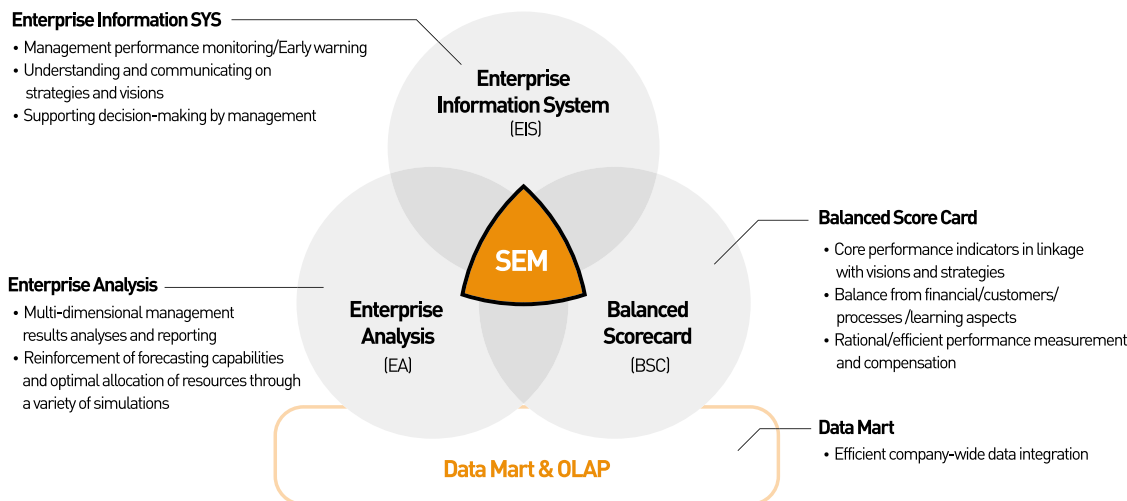
Mid- to Long-term financial forecasting system

We established a Mid- to Long-term Financial Forecasting System in 2006. In order to make truly efficient financial forecasts, we have developed standardized methods for forecasting demand, establishing production-linked plans, estimating production costs, and simplifying related processes. The system functions as a financial information tool that provides essential data for our vision management and value-oriented management strategies. It has also proved to be invaluable in assisting with decision-making on individual businesses from both an integrated and a long-term perspective.

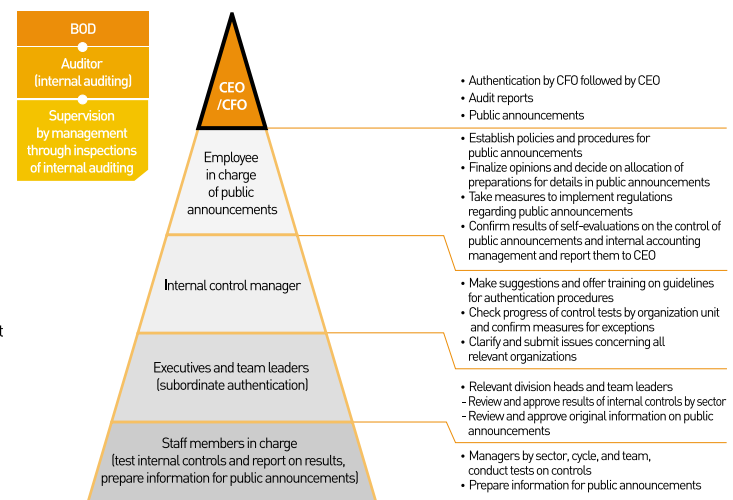
Internal accounting management system

We devised an internal accounting management system in 2006 with the help of an outside professional organization. This was done for two reasons: to cope with a rising demand for more transparent management and to strengthen our competitiveness by increasing our openness and reliability. Because the system is an extremely worthwhile tool for detecting errors, forgeries, damages, and other problems that can arise from the computation of financial information, ensures that we can produce a global-standard level of transparency in our accounting operations. The transparency and reliability of our public notice materials and data have also been augmented through improvements to our financial reports-related self-control functions. In order to guarantee the operational integrity of these various internal control systems, we will select and evaluate core control activities on a regular basis and bring in outside auditors to conduct additional verifications.

SEM structure



Internal control evaluation and authentication structure



Strategy-centered 3S structure

In March 2006, KDHC carried out a re-organization to cope with changes in the market environment and encourage proactive and flexible decision-making. Focusing on maximizing our efficiency, it was based on the following "3S" principles. For our Planning Headquarters and Project Headquarters, that needed a "strategic focus" and "speed and flexibility," we introduced the team system. On the other hand, we maintained the existing unit systems for our Technology Headquarters and Construction Headquarters that required more "stable operations." This revamping augmented the professionalism of our divisions and shortened the time needed for decision-making.

Results of reorganization

Division	Item	2005 (before reorganization)	2006 (after reorganization)	Change (increase/ decrease)
Project Development Division	Permission for new projects	2,	3,	+1,
	(No. of projects, No. of households)	23,000	73,000	+47,000
Special Project Division	CES Service	1	4	+3
	Government's permission for CDM	New	1	+1
	New and renewable energy (Biomass)	New	2	+2
	Return on RPA investment	New	93%	Ranked 1 st among 9 public enterprises under agreement
Strategic Management Office	Innovation Stage	4 th stage	5 th stage	+1stage
Management Information Team	Electronic document approval	91%	99.5%	+8.5%
R&D Office	No. of internally- developed projects	7	8	+1
	No. of self-developed research projects	17	19	+2
Customer Service	PCSI of state-run institutions	86.5 points	91.4 points	+4.9 points
	KDHC CSI	84.4 points	86.9 points	+2.5 points
	Handling of appeals within one day	62%	70%	+8%

Efforts towards Sustainable Growth

Obtaining stable investment funds

Part of KDHC's construction investment expenses are funded through the Energy Efficiency Improvement Project of the Special Account for Energy and Resources Projects that the Korean government has been promoting. However, in 2005, we needed a great deal of money in addition to borrowings from the Special Energy Account to pay for investments in new businesses, such as the construction of mid- to large-sized power plants to expand the volume and distribution of community cooling and heating. Consequently, we endeavored to raise funds for the construction of mid- to large-size CHPs. These efforts included estimating our capital needs on an annualized basis until 2015, seeking funding methods, and analyzing alternative plans. In addition, in order to raise funds through the issuance of corporate bonds, we asked the Korea Investors Service, a credit rating agency, for objective credit ratings and were awarded the highest-possible grade rating ("AAA") in December 2005. This improved our market reliability and corporate image, enabling us to raise funds at extremely favorable rates. As a consequence, we were able to borrow KRW 300.0 billion in 2006 with low interest rates on two separate occasions. This signal success went far toward guaranteeing our continuing financial soundness.

Growth in R&D

KDHC is increasing its number of research projects to assist in an expansion in the supply of integrated energy. Since 2003, our R&D budget has expanded by 25% annually. In addition, we established the KDHC Technology Institute in 2006 to develop core technologies in the comprehensive energy sector and conduct research more systematically and efficiently. In order to improve the competitiveness and professionalism of our integrated energy-related technologies, we hire and foster high-caliber R&D specialists and support research into promising new business models. Thanks to these R&D activities and our continuous efforts to develop an increasing number of intellectual property assets, we were able to register six intellectual property rights, eight new ideas and patents and three utility models in 2006. As a result, our total number of intellectual property rights for that year was 78-including eight patents, 56 copyrights, and 11 trademark rights.

R&D expenses to sales and No. of R&D projects

	R&D Expenses	Sales	R&D Expenses to Sales	No. of R&D Projects being pursued
2003	4,200	441,234	0.95%	33
2004	6,516	467,765	1.39%	47
2005	6,937	562,303	1.23%	49
2006	7,858	613,441	1.28%	52

Contributions to the nation through investments

KDHC is continually adding to its facilities and installations to grow its integrated energy operations, and is allowed to declare tax deductions for a certain percentage of its investment in these projects. Since our integrated energy facilities are classified as energy-saving facilities, part of our investments in them-along with the cost of developing R&D human resources and hiring new workers-are also deductible. When these factors were combined with a drop in taxable earnings in 2006, the overall result was that our income tax costs decreased, despite an increase in net income

Calculated tax amount and tax deductions

		2004	2005	2006
Net Income		45,389	29,424	31,396
Calculated Tax Amount		14,286	9,575	8,398
Tax Deductions	Energy-Saving Facilities	6,270	4,154	3,457
	R&D and HR Development	-	-	568
	Special Tax Deductions for Job Creation	73	76	-
	Total	6,343	4,590	4,025
	Income Tax Paid after Deductions	7,943	4,985	4,373

Continuous Expansion of Energy Supply

KDHC is committed to contributing to the nation by faithfully performing its mission of increasing the volume and distribution of integrated energy. We will also seek to secure a continuous and stable supply of energy through the expansion of district cooling and heating and investments in new and renewable energy sources.

DMA Disclosure on Management Approach



Improvements to *VOC system to better reflect customer opinions

Regular customer satisfaction index surveys

Provision of information

* The higher the number, the more important the issue

* VOC- Voice of Customer

Performance report on core issues

KDHC has identified three core issues that are of importance to its major stakeholders-its customers

Improvements to VOC system to better reflect customer opinions: The number of customer messages in 2006 was 352, while suggestions from customers increased to 28 from 9 the previous year. We also increased the frequency of our VOC check to once per quarter to augment our communications with customers. Additional improvements to our VOC programs will allow us to listen more carefully to these opinions and reflect them more fully in our operations.

Regular customer satisfaction index surveys: Our 2006 public service customer satisfaction index (PCSI) rose by 4.9 points to 91.4. These surveys inform us about customer needs and are reflected in our management policies.

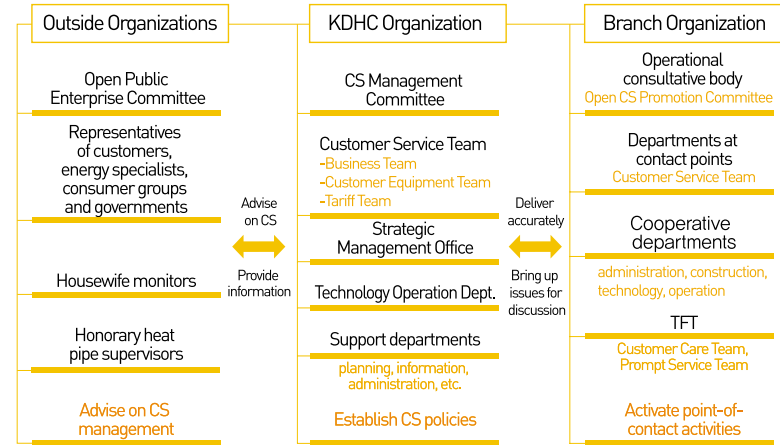
Provision of information: We provide a wealth of information to all our customers. This includes instructions on cooling and heating facilities and information on heating.

Vision and strategies

- **Vision**
Korea's Most Environmentally Friendly Energy Company
- **Mission**
Provide an Unparalleled Level of Customer Satisfaction
- **Strategies and Tasks**
 - Build customer-centered marketing system
 - Develop customer-oriented organizational culture
 - Enhance and differentiate brand value
 - Share CS strategies, strengthen execution, augment external image
 - Reinforce customer service
 - Develop more meaningful relationships with customers

KDHC's energy plans and customer satisfaction (CS) services result from understanding and analyzing the needs of customers so that they can enjoy a cleaner and more pleasant energy environment. In order to achieve our mission of developing more meaningful relationships with our customers, their insights and opinions are collected through regular CSI surveys and reflected in our operational policies.

Organization (CS Management committee)



The CS Management Committee is tasked with CS management. The committee, which is led by the head of the Planning Headquarters, is composed of the 12 heads of each department, outside directors, the head of the Planning Division, and branch managers. In general charge of CS management policies, it is responsible for developing and activating customer satisfaction programs.

We're Not Happy Until Our Customers Are Satisfied

CUSTOMER SATISFACTION




91.4

Points received in PCSI survey
of government-run enterprises

3,130

Number of customer heat
supply facilities that received
no-cost checkups



$\frac{1}{2}$

Reduction in average customer
suggestion processing period to
15 days-half that of the previous year



Received grand prize at Customer Satisfaction Management Awards for three consecutive years

This accomplishment reflects our commitment to providing the finest in customer-oriented services.

Customer-oriented Organizational Culture

KDHC is committed to customer satisfaction management, believing that customer satisfaction (CS) is the ultimate source of its competitiveness. We strive to provide customers with differentiated values and a clean and pleasant living environment. Our CS management services target both present and potential customers.

Charter of customer service

KDHC observes and obeys all consumer-related statutes and regulations. In 1999, we formulated a Charter of Customer Service outlining standards for quality customer services. It covers such areas as general customer services, attitudes toward customers, the provision of information and protection of customer information, and a declaration of district heating service. We measure and check the execution of these matters on a quarterly basis; the results are reflected in our CS management policies and made public on our homepage.

Charter of customer service in practice

Standards	Tasks
General Services	<ul style="list-style-type: none"> • Reply to opinions and enquiries • Reply to appeals and suggestions
Provision of information	<ul style="list-style-type: none"> • Make operations public and provide information on them • Implement customer suggestion program
Supply of safe and stable heat supply	<ul style="list-style-type: none"> • Maintain and repair heat supply facilities during off-peak-demand season • Give notice five days before suspension of heat supply for maintenance • Resume heat supply within 24 hours after suspension (exceptions allowed when absolutely necessary) • Free annual checkups of customer facilities • Free annual training for 500 managers of customer facilities • Reward energy-saving customers
Creation of pleasant environment	<ul style="list-style-type: none"> • Maintain environmental management system for heat source facilities • Compare reductions in pollutants emitted with those from central heating and publicize results • Observe guidelines regarding permissible levels of pollutants emitted and publicize results
Fair-rate management	<ul style="list-style-type: none"> • Maintain lower heat charges than those for LNG central heating • Use telemetering to calculate charges based on actual consumption
Compensation for errors	<ul style="list-style-type: none"> • Reduce and/or write off basic charges when failing to make advanced notification of suspension of heat supply • Reduce and/or write off charges when hours of heat supply suspension are extended from original notification • Visit customers who have not been so notified or compensate for inadequate service by employees (equivalent to KRW 10,000)
Evaluation of services	<ul style="list-style-type: none"> • Conduct semi-annual CSI surveys • Publicize service performance on homepage (annually)
Report on good/inadequate performances	<ul style="list-style-type: none"> • Continual

Customer Satisfaction Strategies

Regular CSI surveys

KDHC conducts customer satisfaction index (CSI) surveys twice a year. Sponsored by the company and the government, they are designed to garner information on customer needs. In 2006, our public service CSI (PCSI) rating by the government rose by 4.9 points to 91.4 points, resulting in our selection as an excellent CS organization for the third consecutive year—a first among Korean public enterprises. We also obtained 86.9 points in our own surveys, up 2.5 points from a year earlier. These results are publicized and reflected in our operational policies.

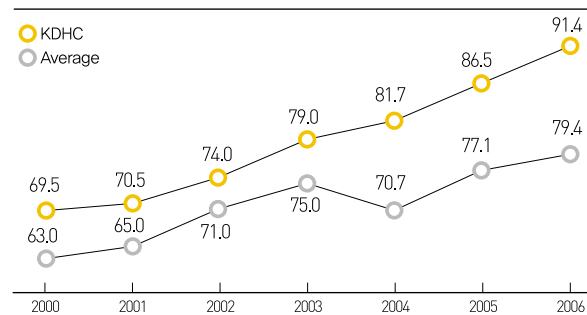
Protection of customer information

KDHC has a Code of Ethics and extremely stringent regulations governing the security and management of customer information, and all data on our customers are managed in accordance with them. They deal with such issues as the protection of and access to individual information and the prevention of its leakage, and contain guidelines governing the security of customer information in the light of rules pertaining to heat supply. Our security system is set up so that no one person has blanket access to customer information, and includes such information protection systems as “customer real name” authentication. We have designated the first Tuesday of each month as an Information Security Check Day and immediately fix any problems that may have arisen. Because of our dedication to customer information security, we have never received a privacy-related complaint.

Results of PCSI surveys by the government

	2005	2006	Chg.	
PCSI surveys by government	No. of targeted enterprises	77	80	+3
	Total average points	77.1	79.4	+2.3
	Average points of financial institutions	77.6	83.2	+5.6
	KDHC	86.5	91.4	+4.9
KDHC CSI survey		84.4	86.9	+2.5

Results of PCSI surveys of state-run institutions



Improvements to External Image

Provision of information






We have developed customized homepages by customer group so that customers can easily access any information they need—including directors’ business expenses, CSI survey results, annual evaluation reports by the government, and data on our social contributions and ethics management. We also provide directions for the use of cooling and heating facilities and maintaining appropriate temperatures.

Customized homepages by customer group

Menu	Details
Homepage for children	Quiz at “energy class corner,” etc.
Homepage for branches	Provide information on and notices of events by branch, etc.
Homepage for customer facilities	Inquire about charges, share information
English-language homepage	Raise profile as advanced district heating service provider
Web-mail system	Enhance two-way communications between KDHC and its customers



Examples of improvements to VOC

	2004	2005	2006
 Ratio of replies to customer messages within one day	28%	62%	70%
 No. of customer messages on homepage	323	266	352
 No. of customer appeals	6	46	31
 No. of customer suggestions	—	9	28
 No. of cases of poor or inadequate service	—	5	0

We utilize information corners, homepages, and “Allio,” an integrated management system for public institutions, to disclose management information-including operational results and financial statements. We also provide technical information to the heads of maintenance offices at each facility to foster the more efficient management of our customer satisfaction services. In addition, information regarding district heating, such as heat charges and directions for optimal heating operations, is offered to our customers in a booklet titled “Understanding District Heating.”

We provide information on the use of heating to enable optimal operations in accordance with changes in the weather-including temperatures and humidity-and guarantee our customers’ “right to know” through a variety of other channels. The company has never had a complaint regarding the provision of information.

In addition, public service advertising is used to give information on energy-saving methods and the proper operation of heating equipment. We also comply with all regulations regarding advertising and have never been in violation of them. Our overall goal is to increase our customers’ understanding by offering them a broad spectrum of information in a speedy, convenient, and accurate manner.

Creating Positive Customer Relationships

Online VOC

All of our employees, including top management, are dedicated to listening to the voice of customers (VOC). Customers can raise issues through such online channels as “sinmungo” (an alerting device) and our customer consultation corners or choose offline ones, such as the Open Public Enterprise Committee and the Open CS Promotion Committee. Every opinion is shared among our employees so that they can be reflected in our policies.

We have also improved our VOC systems and programs. For example, the VOC check is now conducted quarterly instead of annually, while the processing period for customer suggestions has been shortened to less than 15 days from less than one month. To further our commitment to total transparency in our operations, all VOC communications are shown on our homepages. As a result of these efforts, our ratio of less than 24-hour replies to customer messages rose to 70% in 2006. In addition, our petition handling procedures have been simplified. We did not receive any complaints about poor or unsatisfactory service in 2006.

Present status of VOC | The majority of VOCs received online over the past five years regarded heat charges⁸⁾, the allocation of construction costs, and general matters. Customer facilities-related petitions have been noticeably reduced due to free training for managers of customer facilities. Meanwhile, the number of VOC enquiries regarding customer facilities has increased due to the provision of new services, such as inspections of the quality of heating water.

We have been operating a Sliding Scale Fuel Cost Assurance Committee since September 2006 to enhance the objectivity and transparency of our billings and resolve heat charge-related VOC. Additionally, we have introduced ceilings for rate adjustments, giving our customers notice well in advance to increase their acceptance.

We have made a series of improvements to our technological standards to better deal with VOC enquiries relating to increases in heating temperatures and are examining ways to systemize the management of customer facilities. In addition, we are expanding our

8) Heat charges: Sum of heating and cooling charges

technical training regimen for the managers of these facilities and have instituted small-scale education on a regional basis. We have also reduced the number of customer complaints by increasing the frequency of inspections of our machinery room facilities and offering their operators more technical guidance.

Our homepage is separately running a CS center which is comprised of diverse sections for customer consultations, customer suggestions, and a cyber newspaper. This allows us to deal with customer enquiries and suggestions, civil petitions, and reports of work-related irregularities and corruption in a more efficient, effective, and proactive manner.

Our customers are eager to offer their thoughts and opinions through our online and offline customer suggestion programs, and their contributions are dealt with within 15 working days. In 2006, a total of 28 suggestions were submitted. We provide our customers with SMS replies detailing the entire process, from receipt through to completion.

Proactive CS activities

KDHC is improving the level of satisfaction with its service quality and operating its facilities more efficiently through the constant management of heating water quality and the proper operation of standards for heat-using facilities. In order to detect and deal with problems in the management of heat usage, we have conducted no-cost inspections of 3,130 machinery rooms and examined the quality of heating water in our customer facilities.

In order to augment the quality and efficiency of our CS infrastructure, we have expanded the number of CS organizations in which customers can participate. Other measures that we have taken include PR activities to help residents understand the rationale behind rate hikes, reinforcing the advisory capability of the Open Public Enterprise Committee, operating an Open CS Promotion Committee on a branch level, and gathering opinions from our housewife monitors regarding our overall CS activities. In addition, we have implemented an "Honorary Heat Pipe Supervisor" program that allows residents to participate in such activities as process

control, quality control, safety supervision, and operational guidance. In 2006, these supervisors took part in a total of 11 heat piping works.

Efforts toward customer safety | KDHC places top priority on customer safety and strives to ensure a safe and stable heat supply. In the interests of customer safety, we establish repair and maintenance plans that take the age of our facilities into account and focus on facility improvements. We also operate a rapid response system to deal with emergencies. As a result of these efforts, we have gone six years without a suspension in heat supply due to problems with heat production and supply facilities. There have been no civil petitions relating to customer safety and health, and we have never violated any regulations dealing with this aspect of our operations.

Creating a Happier Customer World

KDHC believes that successful CS management results from the promotion of value for its customers. We provide them with the finest in services by listening to the VOC, visiting them, conducting regular CSI surveys, and establishing ever-improved programs and systems to strengthen the VOC. Our efforts to create a happier world of energy will always be the driving force behind our sustainable development.



Our eyes and ears are always open to our customers.

DMA Disclosure on Management Approach



Provision of equal employment opportunities to fulfill corporate social responsibilities as a public enterprise

Customized employment benefits and educational programs

"Win-Win" relationship between labor and management

* The higher, the more important the issue

Performance report on core issues

KDHC has determined three core issues to be of paramount importance to its employees, who constitute one of its major stakeholder groups

Provision of equal employment opportunities to fulfill responsibilities as a public enterprise: KDHC operates a social equity-based employment program to fulfill its social responsibilities as a public enterprise. 55 out of its 109 new employees were hired through this scheme in 2006

Employment benefits and educational programs: KDHC strives to create a pleasant and welcoming workplace by offering its workers a wide range of employment benefits and educational programs

"Win-Win" relationship between labor and management: KDHC is committed to developing a positive, "Win-Win" relationship between labor and management. We have had no labor disputes for the past 13 years

Vision and strategies

Vision

Korea's Most Environmentally Friendly Energy Company

Mission

Maximize corporate value through optimal utilization of human resources

Strategies and Tasks

Ability - and performance-based personnel management

- Reform promotion and hiring practices
- Reorganize worker evaluation system
- Hire HR specialists

Practice balanced hiring

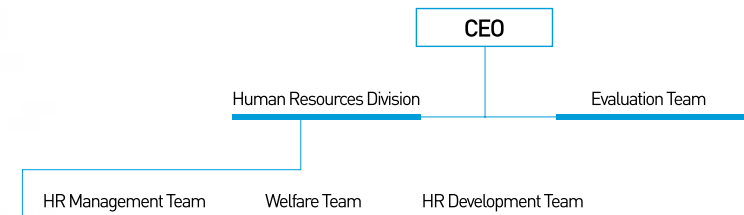
- Redefine job duties
- Continue social equity-based employment program
- Hire top-quality workers

Foster global-standard workers

- Foster highly-qualified professionals to drive the company's future
- Create self-directed learning culture
- Identify ten core capabilities and put them into practice

KDHC aims to maximize its corporate value through the optimal utilization of its human resources. To this end, we have developed the following three strategies: Establish fair performance evaluation- and ability-based personnel management; Hire and develop high-quality workers; Foster global-standard professionals.

Organization



We provide our workers with educational programs that fit with their capabilities and offer them a wide range of employment benefits. This is done to equip our core human resources with the technologies and knowledge that will help us survive in a rapidly changing operational environment. These programs are led by the HR Management Team, Welfare Team, and HR Development Team, under the supervision of the Human Resources Division. The Evaluation Team is tasked with carrying out employee evaluations to identify core capabilities and accomplishments



Open Mind for Open Management

EMPLOYEES



50%

Social equity-based employment rate



228%

Increase in average training hours per employee in 2006 from previous year

13 years

Dispute-free period between labor and management





Prejudices are not allowed to interfere when judging the abilities of our employees. We offer equal opportunities and fair evaluations to create a pleasant and welcoming corporate culture.

Creating a great workplace for everyone

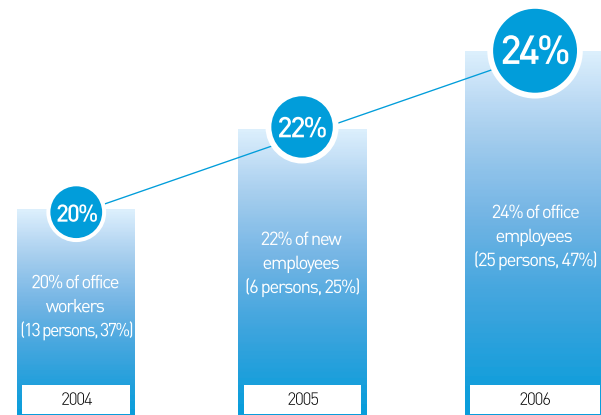


Practice Balanced Hiring

Employment at KDHC

KDHC has 1,042 employees, including four directors (as of 2006-end). Of these, 1,036 are full-time workers. Although the ratio of males to females is 90.4% to 9.6%, we are gradually adding to our female employee population to ensure a more balanced mix of human resources. As a result, our average female employment rate stood at 9.6% in 2006, greatly exceeding the industry average of 7.3%. Our job creation rate⁹⁾ reached 9.8%, with 109 people being hired in 2006. We operate an employment target program for those from rural communities and are concentrating on hiring science and engineering majors. Our turnover rate¹⁰⁾ and average length of continuous service stood at 0.48% and ten years, respectively, as of 2006.

Female employment program



9) Job creation rate = No. of employees in a certain year - No. of employees in the preceding year / No. of employees in the preceding year X 100

10) Turnover rate = Monthly average number of separations - Monthly average number of employees X 100

Providing equality of opportunity | In accordance with its Code of Ethics, KDHC treats all its employees equally in terms of education and promotions according to their abilities and qualifications. All of them are evaluated fairly and compensated on the basis of their accomplishments. We also guarantee equal opportunities for promotions by forbidding discrimination by reason of educational background, gender, age, religion, and physical impairments. When hiring, we endeavor to offer equal opportunities to all. We abolished academic requirements as a condition for employment in 2004, age in 2005, and language proficiency in 2006. In 2006, we took on seven workers who were 40 years old or more. The human rights of our employees are of paramount importance to us: we adhere to ILO regulations prohibiting child and forced labor and observe all international standards relating to workers.

Social equity-based employment program | We were the first Korean company to introduce a social equity-based employment program. It applies to those who have been injured helping others¹¹⁾, performed good deeds in society, belong to a low-income bracket, come from rural communities, are differently-abled, or are physically-challenged military veterans. In 2006, we met the nation's statutory employment rate by hiring nine differently-abled persons and 31 injured military veterans. In addition, we took on eight residents from low-income areas

Wage peak system | We have utilized a wage peak system since 2006-a first among organizations that answer to the Ministry of Commerce, Industry, and Energy. It has resulted in significant labor savings and increased employment opportunities.

Social equity-based employment program in 2006

	Social equity-based appointments							Open employment, etc.	Total
	People who have been injured helping others	Doers of good deeds	People from low-income brackets	People from rural areas	Physically-challenged	Physically-challenged military veterans	Sub-total		
No. of new hires	4	4	8	13	5	21	55	54	109

11) According to regulations on the treatment of people who have been injured helping others in danger but whose usual employment does not require them to do so

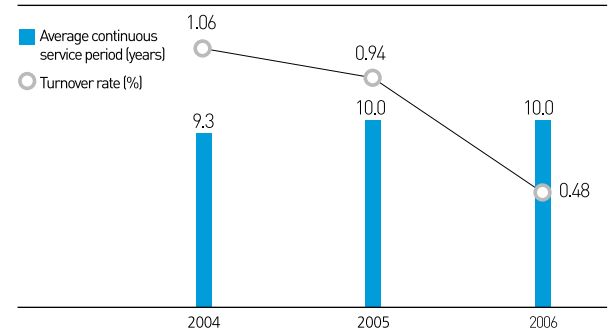
Composition of employees

		2004	2005	2006
No. of Directors		5	4	4
No. of employees		925	945	1038
No. of total staff		930	949	1042
Gender	Male	857	873	942
	Female	73	76	100
Employment Type	Full-Time	925	944	1036
	Contract	5	5	6
By Job Group	General	19	18	52
	Office Workers	224	225	246
	Technical Workers	677	697	734
Average continuous service period		9.3	10.0	10.0
Appointment	No. of new appointments	148	29	109
	Job creation rate	17.6%	2.0%	9.8%
Separation from service	Turnover rate	1.06%	0.94%	0.48%

* Based on current number of personnel (Maximum number: 1,044)

* No. of employees by job group, excluding directors and contract-basis workers

Average continuous service period and turnover rate



Social equity-based employment program and "Win-Win" labor-management culture-advanced management to open minds and become a single unit.

Cultivation of High-quality Human Resources

Training and educational programs to foster partners for the company's development strategies

KDHC recognizes the importance of reinforcing the capabilities of its human resources in an age of intensifying competition. As a result, we have developed a self-directed learning culture by introducing the principle of competition into our human resources program. To begin with, we encourage spirited but well-meaning competition among employees by giving extra points towards promotions to workers with excellent training records. In addition, we offer a wide variety of educational programs to equip high-quality human resources with the technologies and knowledge needed to prosper in a knowledge-based, future-oriented society.

Our training system was completely reconfigured in 2006. We operate a series of leadership training programs, targeting team leaders and those in equivalent positions. Designed to encourage the development of a team spirit, these exercises primarily focus on the preparation of proposals and reports, accounting, and developing a professional mindset.

We have been increasing our investment in human resources every year so that our employees can develop the capabilities needed to cope with rapid change in the energy industry. Both the frequency of education per employee and average training hours per person are on the rise, and we are steadily expanding job training opportunities for our employees.

We also implemented a self-development support program to deal with the wide range of learning needs among our employees; this includes higher education and other means of improving their abilities. We spent about KRW 550,000 per person in 2006 in this area.

Steps have also been taken to root out sexual harassment and create a healthier workplace culture. We carry out training on the prevention of sexual harassment twice a year, targeting all employees.

Finally, we offer sensitivity training to all employees who are in charge of security or deal directly with customers.

Education structure with introduction of team system

	Team members	Team Leaders
Content	• Future leaders class	
	• Introduction to junior managers class	• Workshops in management and training by Advanced Management Program (AMP)
	• Multi-player team member cultivation class	
	• New employee guide class	
	• Basic job skills training	

Employee education

	2004	2005	2006
Education and training expenses (Thousands of KRW)	1,241,797	1,684,125	2,674,691
No. of trainees	2,073	4,917	6,465
Frequency of education per person	2.2	5.2	6.2
Education and training expenses per person (thousands of KRW)	1,337	1,775	2,541
Average education and training hours per person (hours)	25	32	73

Training in the prevention of sexual harassment



Outline of educational programs in 2006

Program	Details	No. of participants
Required courses	Consist of education by job level, basic job training, and compulsory courses that each employee must take	552
Training for technological development	Job skills training Includes planning/management, finance, sales/business development, general abilities, energy/engineering, machinery, electricity, control, construction, environment, quality control, heat pipe, customer facilities, R&D, operation and maintenance, electrical energy trading, self-education, etc.	834
	Intensive job-training courses	10
	General courses to develop abilities	5,069
Total no. of trainees		6,465

Career development programs

KDHC takes its employees' desires, work conditions, and career ambitions into consideration before deciding on work transfers and job shuffles. We have also established a career development program (CDP) to encourage employees to enhance their professionalism. In addition, we help new employees to adapt to their new work environment and manage their careers according to their capabilities and values through a mentoring program.

Ability-based Personnel Management

Balanced and fair personnel systems

We employ a multi-rater system to establish an ability- and performance-based personnel management structure. Through it, we attempt to build objectivity, fairness, and transparency into all our personnel management activities.

In addition, we run a "grade and position separation" system to ensure the development of a performance-based personnel culture. Introduced in 2006, it has since been expanded to include all positions of team leaders and higher. This has enabled the performance-based operation of organizations, helped to create a competitive working atmosphere, and ensured the fairness and transparency of our personnel management activities.

Applications for job postings

	2005	2006
No. of target positions	· 8	· 114
No. of applications	· 3	· 838

Wage levels

KDHC sets wage levels in accordance with government guidelines. Our average annual wage last year was at KRW 54.2 million, very close to the average of KRW 54.7 million for 25 other energy-related public enterprises. Men and women are given the same pay for the same work.

"Win-Win" Labor Management Relations

Current status of labor union

KDHC allows its employees complete freedom of association in terms of membership and activities in their labor union, as per the articles of the collective agreement. The union was inaugurated on May 24, 1993. It has adopted a union shop system, accepting all employees below the fourth grade level as full members. As of 2006, it had 904 members in 13 chapters, including one at the head office. Its organization includes a general members' meeting, a board of representatives, a steering committee, an executive council, and an auditor, and its mission is to promote better working conditions for workers and enhance their social and economic status.

Union membership

	2004	2005	2006
Total no. of employees	930	949	1,042
No. of union members	805	826	904
Ratio	86.6%	87.0%	86.7%

Articles of the collective agreement relating to hiring

Article 5 (scope of union membership)

It shall be a union shop accepting all employees of the 4th grade and lower as members.

Article 6 (entry of union members)

Employees falling under Article 5 shall automatically become members upon joining the company.



Labor-management communications

Quarterly joint labor-management conference | The goal of this event is to discuss such major issues as labor disputes, working conditions, employee benefits, and safety measures. Results are transmitted to employees in real-time through our in-house Intranet, adding to their understanding of management conditions and building mutual trust. In addition, we attempt to resolve conflicts between labor and management through discussions prior to labor actions. Because of this positive labor-management atmosphere, we have had no strikes or work stoppages for 13 consecutive years.

We run a 24/7 "hot line" enabling our employees to directly communicate with the CEO. Part of our "Win-Win partnership" between labor and management, this and the other channels that we operate are designed to help us better understand our employees' problems and concerns.

Certificate of good company for new management-employee culture in 2006



Reported grievances

		2004	2005	2006	Settlement rate
Head office	Received	15	16	14	84%
	Settled	13	14	11	
Branches	Received	156	160	147	92%
	Settled	144	150	134	

Grievance-handling procedure



A Pleasant and Welcoming Workplace

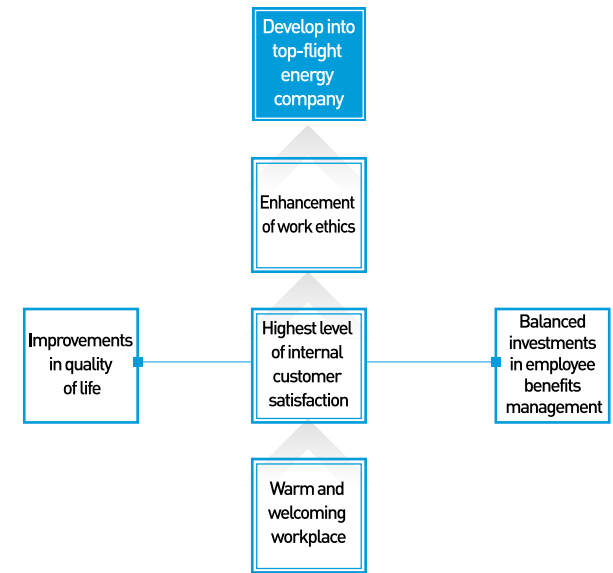
Employee benefits

KDHC is committed to improving the quality of life of its employees. We offer them a wide range of benefits, mainly aimed at the stabilization of housing and livelihoods and healthy and comfortable lives. All these benefits are included in our "Cafeteria Plan," which we introduced in 2003. We also conduct employee satisfaction index surveys every year. Retiring workers are provided with retirement grants through a reserve account for severance benefits. These reserves amounted to approximately KRW 21.5 billion at the end of 2006, representing 35% of our yearly personnel expenses (KRW 61.5 billion). These retirement allowances are operated by eight insurance companies.

2006 Benefits package

Employee benefits programs	
Support for housing	<ul style="list-style-type: none"> Loans for house payments Provision of company houses & boarding houses
Support for stable livelihoods	<ul style="list-style-type: none"> Loans from livelihood stabilization funds Support for tuition fees of middle and high school students and loans for higher education
Support for health-care	<ul style="list-style-type: none"> Annual health checkups Support for employees working overseas
Support for work and life	<ul style="list-style-type: none"> Support for transfer expenses Shuttle buses Employee facilities (cafeterias, barbershops, customer reception rooms, etc) Operate Cafeteria Plan (comprising 13 items, including expenses for cultural activities)
Support for leisure and recreation	<ul style="list-style-type: none"> Support for club activities and annual selection of excellent clubs Recreation facilities (condos) Individualized compensation leaves Sports facilities (table tennis rooms, swimming pools, gyms, etc.)

Salary and benefits at KDHC



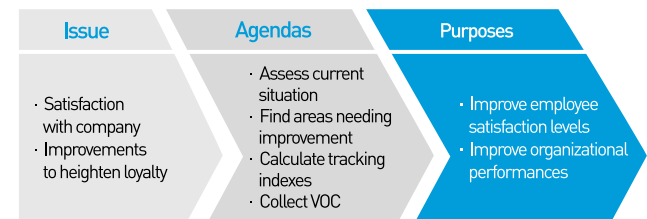
Family-friendly management | KDHC offers a variety of maternity programs to comply with government policies on such social problems as the country's falling birthrate and aging and to improve working conditions for female workers. Beginning in 2006, we have been operating child-care centers and nursing rooms, paying subsidies for childbirth expenses, and offering maternity leaves. These improvements to our employees' working conditions have resulted in improved productivity. We plan to continue expanding our range of career support programs for married women. Finally, we hold an annual "beginning employment ceremony" for new employees and their families.

Employee satisfaction index surveys | KDHC monitors its employees' satisfaction levels every year, with the results being utilized in its customer satisfaction management programs. In 2006, our employees' level of satisfaction with their benefits advanced to 67.8 points, up 4.4 points from 2004.

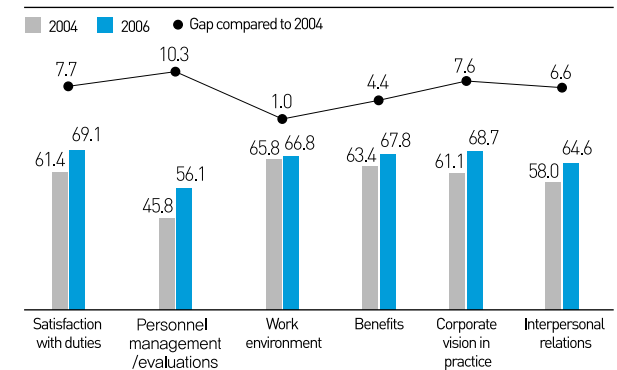
Programs to support compatibility between work and home life

Major programs	
	<ul style="list-style-type: none"> · Operation of child-care centers (to be operated by company as of March 2007) · Childbirth subsidies · Nursing rooms
Enhance maternity programs	<ul style="list-style-type: none"> · Child-care day (6th day of every month) · Improved working conditions for female workers before and after childbirth · Maternity leaves: 98 days (including 60 days after childbirth) · Miscarriage leaves (10 days, 30 days, 60 days) · Child-care leave (including male employees, expanded to 3 years after childbirth) · Payment of allowances for child-care leave

Satisfaction index monitoring system



Results of employee satisfaction index surveys



Family invitation event | Beginning employment ceremony with family members | Child-care centers



Health and Safety Management

Accident prevention and management systems

KDHC is committed to offering its employees the ultimate in advanced safety management. We also conduct job-training programs to educate our employees about our operations and improve the abilities of our safety supervisors.

In 2006, we offered 289 hours of safety awareness training programs for existing employees, 143 hours for recruits, and 612 hours for outsiders, helping us make everyone more aware of the need for safety awareness. Other activities in this area included holding safety meetings, establishing safety committees, safety-check days, and simulation drills to address potential work problems. As a result, six branches achieved a total of 2,100 accident-free workdays. We have no accidents at all from 2004 through to 2006, except for a very minor accident in 2005.

Occupational health committee

KDHC's occupational safety and accident compensation policies, programs, and equipment are available to all its employees. This includes safety gear, comprehensive annual medical checkups, compensation for occupational diseases, and the inspection of hazards.

Results of accident-free campaigns

Six branches achieved a total of **2,100** accident-free days

Three branches achieved a total of **1,260** accident-free days

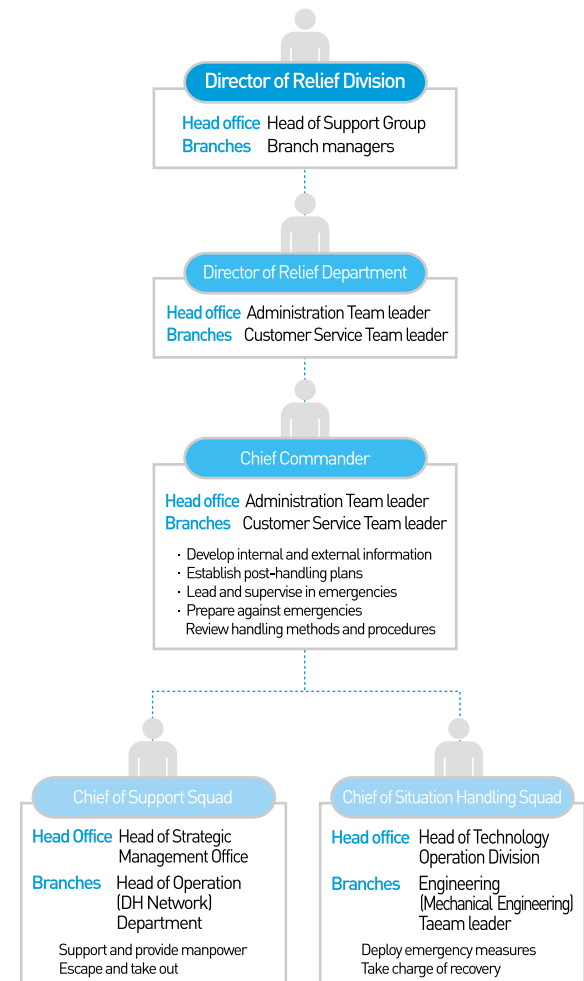
Sharing a Joyful World with Our Employees

KDHC guarantees a happy life for its employees by providing them with a customized benefits system. They are encouraged to offer their opinions freely, and these are in turn reflected in our policy-making.

Plans for safety management in 2006



Safety and emergency structure



DMA Disclosure on Management Approach



Small- and medium-sized enterprise (SME) support programs and projects

Establishment of transparent partnerships through fair contract procedures

Communications with partners

* The higher, the more important the issue

Performance report on core issues

KDHC has determined three core issues to be of paramount importance to its partners, who constitute one of its major stakeholder groups.

Small- and medium-size enterprise (SME) support programs and projects:

KDHC carries out a number of SME support programs and projects with its partners. In 2006, we engaged in a variety of new product development with guaranteed purchase and R&D support projects and expanded the ratio of environmentally friendly and social contribution-type purchases to 88% of our total.

Establishment of transparent partnership relationships through fair contract procedures:

KDHC utilizes an electronic contracting system to ensure transparent relationships with its partners through the execution of fair contract procedures. This has increased the openness of these processes by simplifying them, and applies all the way to the conclusion of contracts and post-management procedures.

Communications with partners:

KDHC augments the quality of its partnerships through partner satisfaction surveys and enhanced communications. We engaged in public opinion polls to measure corruption levels in 2004, assessed partners' grievances in 2005, and conducted integrity and satisfaction level surveys in 2006. We also held meetings with our suppliers in September 2006.

Vision and strategies

Vision

Korea's Most Environmentally Friendly Energy Company

Mission

Establish "Win-Win" systems through open and fair trade

Strategies and Tasks

Transparent and fair bidding culture

- Distribute integrity pact
- Develop increased level of transparency through electronic contracting system

Support for growth of SME partners

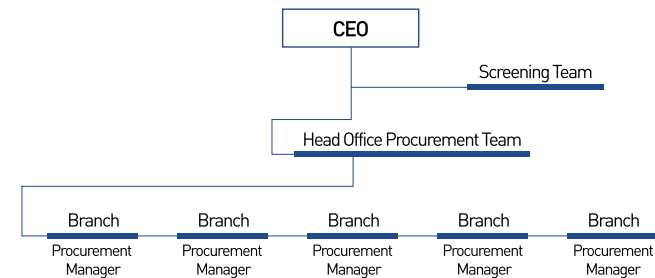
- Carry out new product development with guaranteed purchase program
- Implement R&D support programs
- Share accomplishments
- Introduce financial support program

Sustainable growth with partners

- Expand environmentally friendly purchasing
- Increase social contribution-type purchasing

KDHC has established three strategies to ensure a transparent and fair trade culture with its partners. These include building an open and fair bidding culture, supporting the growth of our SME partners, and continuing to grow with them. We also developed a variety of matching tasks.

Organization



KDHC's Procurement Team heads a group that is in charge of partner management. It includes purchasing managers at each branch. The qualifications of our partners are assessed by the Screening Team.

88%

Ratio of "green" and SME support purchases to total in 2006



"Win-Win" Strategies for Growing Together

PARTNERS

Ratio of sharing cost reductions with partners

50 : 50



95%

Percentage of positive responses in employee integrity-level evaluations





Contented partners-growing together through transparent and fair management .

Transparent Management for Mutual Well-being

KDHC has formed "Win-Win" relationships with its partners in the three following sectors: the maintenance and management of heat production and supply facilities, raw materials and equipment purchasing, and construction. In 2006, we worked with a total of 531 partners. To guarantee transparent and fair trade with them, we carry out open management activities all the way from bidding to post-management.

In 2006, SMEs accounted for 39% of our total transactions with partners and we purchased 554 SME products (17.47% of the total). They were included in 78.97% of 137 projects and 35.29% of 301 services. This shows that SMEs enjoy a significant portion of our relationships with partners, and we plan to gradually widen these weightings through our various SME support policies. Our ultimate goal is to seek an ever-increasing level of mutual well-being by continuously expanding our support for and ties with SMEs.

No. of partners and results

(Unit: Billions of KRW)

	2005			2006		
	No. of cases	Amount	Percentage to total amount	No. of cases	Amount	Percentage to total amount
Construction	462	620.0	48.6%	137	109.5	29.5%
Services	799	138.4	10.8%	301	41.2	11.1%
Purchasing	195	517.3	40.6%	554	220.7	59.4%
Total	1,456	1,275.7	100.0%	992	371.4	100.0%

Transparent and Fair Contract Procedures

Our partnerships are based on open and fair contracts. All contract processes are carried out through an electronic

contracting system, which aids tremendously in building trust-based relationships.

Electronic contract system

KDHC is participating in the government's "Government to Business (G2B)" development and e-Biz projects to expand the foundations for e-commerce. In March 2006, as part of this, we introduced an electronic contracting system to add to our levels of ethics management and contracting transparency and reduce the volume of expenses generated at the conclusion of contracts. Contract procedures have been simplified through the organic integration of each system, resulting in heightened efficiency. The openness of these procedures has also been increased by computerizing the bidding, conclusion of contract, and post-management processes¹²⁾. In 2006, this system allowed KDHC and its counterparts to realize cost savings of about KRW 0.2 billion and KRW 1.5 billion, respectively, by reducing the amount of travel expenses generated by conventional contract procedures.

Electronic contracts

	2005	2006
Total no. of contracts	1,052	1,103
No. of electronic contracts ¹³⁾	-	566
Percentage	-	50.77%

Screening standards

We have developed standards for screening our partners' qualifications in the areas of construction, services, and purchasing. These assessments aid us in evaluating the soundness of a company at the time of bidding, build stronger foundations for quality heat supplies, and contribute to the spread of a corporate social contribution culture. Our accounting standards reflect those established by the Ministry of Finance and Economy, while the screening standards mirror

¹²⁾ Bidding, conclusion of contracts, and post-management: Receipt of results, receipt of tenders (for small-sum bids), receipt of screening documents, receipt of contract documents, electronic signing of contracts, receipt of applications for inspection, receipt of bills, etc.

¹³⁾ Since the electronic contracting system was only introduced in March 2006, there are no records for 2005.

those set by the Office of Supply. Major factors that are evaluated include the ability to carry out construction work successfully, technological capabilities, management conditions, and market credibility.

When evaluating a potential partner's market credibility, we add or deduct points for social and environmental contribution activities—including its attitude towards the improvement of human rights. Points are added for positive social contribution endeavors, exemplary new employment practices, and companies that have been included in the "Good Company For New Management-Employees Culture" established by the Ministry of Labor. On the other hand, we deduct points for companies that have abused the public trust-by, for example, violating the Wastes Control Act. Another positive valuation factor is the advancement of the public good in such areas as rights for women and the disabled and environmental friendliness.

Integrity pact

KDHC's Code of Ethics and Code of Business Conduct are seminal to its overall ethics management structure. The Code of Conduct contains regulations prohibiting the exchange of money and other valuables between our employees and partners. In addition, we introduced an "integrity pact" in June 2006 to define the nature of relationships between internal and external contracting parties, reinforce the transparency of our contract systems, and ensure "Win-Win relationships" with our SME partners. We also formulated rules pertaining to bidding; they include limitations to qualifications, the cancellation of contracts, and the suspension of transactions when the integrity pact has been violated. In addition, all of our partners must promise that they will not engage in unfair business practices or provide money or other valuables or entertainment in their dealings. We also operate a hot line, a help line, and a "cyber sinmungo" (or "alert device") to aid in the detection of unfair trade practices.

Protection and Support for Partners

Subcontract management system

KDHC protects the rights and interests of subcontractors by adhering to all regulations contained in the Framework Act on the Construction Industry and the Fair Transactions in Subcontracting Act. In addition, we foster the growth and development of small-sized constructors. Some of our other measures in this area include the swift payment of fees after concluding agreements and meeting our obligation to change the wording of subcontracts at the time of changes to original ones. For construction projects worth more than KRW 5.0 billion, we ensure that the details of all subcontract plans are confirmed by the subcontractors themselves.

Expansion of SME product purchasing and support for R&D costs

One way that KDHC encourages the participation of SMEs in bidding is by including conditions for priority purchasing of SME R&D products in our bidding guides. In 2006, we made purchases worth a total of KRW 3.5 billion for ten items—including heat pipe monitoring systems and computers—and placed direct orders of less than KRW 5.0 billion for heat pipe projects. We plan to expand our volume of SME-targeted orders even more in the future.



New product development with guaranteed purchase and support for R&D expenses | KDHC engages in new product development with guaranteed purchase and R&D cost-support programs to help SMEs maintain stable sales structures and boost their level of technological development. By doing this-and then purchasing the products when they have been developed and put on the market-we contribute both to technological innovation on the part of SMEs and significant foreign exchange savings. Apart from government-supported spending¹⁴⁾, we plan to provide funding to a maximum of KRW 0.2 billion (or 75% of our total R&D expenses), to SMEs that are engaged in manufacturing, construction, or software development and are also involved in R&D in the field of district heating. To encourage even more technology development by SMEs and support the development of stable sales channels, we have extended our priority purchasing period to a maximum of five years from 2-3 years when they develop new products or services.

New product development with guaranteed purchase

Year	Support projects and tasks	No. of participating Companies	Effects
2004	Research in Twin Pipe and its practical use (first developed in Korea)	4	• Annual reduction: KRW 0.2 billion
2006	Development of foam pads	1	• Extend life span of core parts of heat pipes and generate sales of about KRW 2.0 billion when applied to work sites
	Development of air plugs	1	

“Win-Win” purchasing | KDHC encourages environmentally friendly and social contribution-type purchasing. Our purchasing percentage of environmentally friendly products (including office supplies manufactured by SMEs and products produced by the physically-challenged) rose by a dramatic 88% in 2006 from 32% in 2005.

Financial support for partners

Since September 2006, we have been providing collateral-free working capital to SMEs in line with their credit ratings. This program is operated in linkage with Korean commercial banks.

Benefits sharing system

We will soon begin operating a benefits sharing system in which we and our partners work together to reduce costs, improve quality, and develop new products, with results to be evaluated in 2007. Some anticipated benefits of this process include the formation of stronger strategic partnerships, cost reductions, and a greater level of competitiveness. We intend to focus on items that will generate a high degree of technology development and significant cost reductions (such as KDHC materials¹⁵⁾), and will set goals for sharing these benefits with the companies involved in their development. All results will be evaluated by an outside professional agency. We plan to share these cost reductions on a 50:50 basis¹⁶⁾ by signing contracts ad libitum for them over the next 1-2 years.

Purchasing of environmentally friendly products and products produced by the physically disabled

(Unit: Thousands of KRW)

Year	Environmentally friendly products	Products produced by the physically disabled	R&D products
2004	127,813	484	-
2005	207,220	3,817	-
2006	721,423	11,368	3,546,523

Benefit-sharing process

Process	Details
Task selection	Review validity, confirm task and company
▼	
Plan/Training	Establish schedule, organize team
▼	
Execution	Develop and apply improvement devices
▼	
Measurement of accomplishments	Verify evaluations by outside professional agency
▼	
Compensation	Compensation according to contract (including contracts ad libitum)

14) The government supports SMEs that are involved in new product development with guaranteed purchase by providing up to 75% of their expenses to a maximum of KRW 0.2 billion.

15) Materials that are directly supplied to builders by KDHC.

16) All details-including the selection of items and actual details of such benefit-sharing-will only be finalized after deliberations by the Contract Review Committee.

Communications with Partners

Partnership through communications

We held meetings with all our materials suppliers in September 2006 to strengthen our relations as cooperative partners. Some of the subjects we discussed included our Code of Ethics and the supply and delivery of goods and materials. We also took heed of all their suggestions. 17 of these were brought up at the meeting and we took measures to deal with most of them on an ASAP basis. With regard to matters requiring investigation and verification-such as fairly reflecting development expenses in the calculation of total costs-we decided to notify our partners after carrying out feasibility studies. In addition, we discussed our plans for supporting SMEs (including financial support and the benefit-sharing program). In 2007, we will hold ceremonies to celebrate these "Win-Win" partnerships and offer our SME partners even more training programs.

Partner satisfaction level surveys, by year

	2004	2005	2006	Remarks
Survey method	Anonymous questionnaire (sent out and replied to by post)	Check by phone	Anonymous questionnaire (sent out and replied by to post)	Survey targets were companies who had done
Survey target	321 companies	287 companies	365 companies	business with KDHC over the
Survey subjects	Opinion surveys (gather opinions on corruption level)	Listen to grievances	Opinion surveys (gather opinions on corruption level)	last year worth over KRW 10.0 million

Partner satisfaction level surveys

KDHC conducts partner satisfaction level surveys every year. These dealt with corruption in 2004, grievances in 2005, and integrity in 2006. On the whole, we received favorable evaluations. For example, more than 95% of the respondents replied positively about the integrity of our employees, and more than 93% of them had good things to say about our disclosure of information in 2006. We are also developing measures to tackle corruption by diagnosing its actual conditions and causes. This will help us to establish a fairer and more transparent corporate culture and raise our corporate credibility and image.

Translating "Win-Win" Relationships into Action

KDHC is committed to developing and maintaining positive and trust-based relationships with all its partners.

Creating a corporate culture in which we can continuously grow with our partners .



DMA Disclosure on Management Approach



Community programs

Cooperation with communities and community support

Energy support

* The higher, the more important the issue

Performance report on core issues

KDHC has determined three core issues to be of paramount importance to its communities, who constitute one of its major stakeholder groups.

Community programs: KDHC engages in a variety of community activities, all of which mirror their unique characteristics. These include the development of superior human resources by means of educational support for a village with abandoned mines and assistance for school means.

Cooperation with communities and support: KDHC is sharing happiness and joy through the activities of its Happiness Sharing Club.

Energy support: KDHC subsidizes heat charges for rental apartments and institutions that contain a significant number of low-income earners or the physically-challenged.

Vision and strategies

Vision

Korea's Most Environmentally Friendly Energy Company

Mission

Fulfill social responsibilities and practice the management of sharing to create a happier society for all

Strategies and Tasks

Expand supply of stable, high-quality, and economical energy

- Achieve vision for sustainable management
- Distribute to 2 million households across the country

Form mutually beneficial relations with communities near business sites

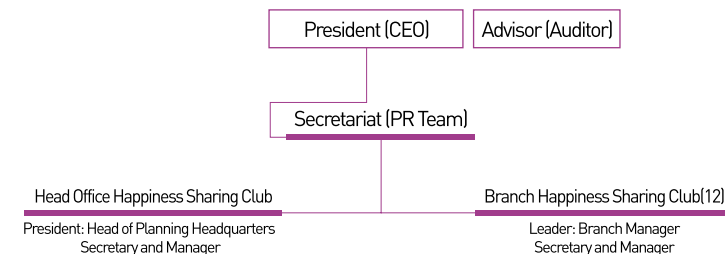
- Guarantee heating for low-income earners living close to business sites
- Promote support for education and heating in low-income areas
- Promote social equity-based employment program

Carry out employee-led volunteer community service activities to support the underprivileged

- Encourage employees' volunteer activities and establish relevant systems
- Support growth of companywide plans--including Happiness Sharing Club

In an effort to fulfill our responsibilities towards communities, we have developed three core strategies: increase energy supply, form positive relationships with communities, and provide community service activities through the voluntary participation of employees.

Organization



We have established Happiness Sharing Clubs at our head office and 12 branches; they are led by their respective presidents and a secretariat, but are ultimately the responsibility of the head of the Planning Division and branch managers. They provide support to the underprivileged and strive to improve their quality of life through educational, environmental, and cultural support activities.

Sharing Our Love and Care

COMMUNITIES



46,000

Number of households receiving heat subsidies and exemptions for energy support



12,110.4

Total number of volunteer service hours in 2006



2

Number of children from Yemi Elementary School who won prizes at the National Children's English Speech Contest

Management of Sharing for Communities

KDHC is practicing the management of sharing to fulfill its responsibilities towards the communities in which it operates. This includes support for low-income earners and seniors living alone and activities to narrow the gaps between urban and rural communities.

Sharing and Growing with Communities

KDHC started to establish structures and systems for its social contribution activities in 2004. In order to create a happier and warmer world with our communities, we listen to their voices and reflect their opinions in our operations.

We make people's lives more convenient by dealing as expeditiously as possible with the needs and wants of their communities. Community-based petitions are handled by the Auditing Office, while other seminal issues are reviewed by our top management and then taken up by the appropriate division.

Energy support

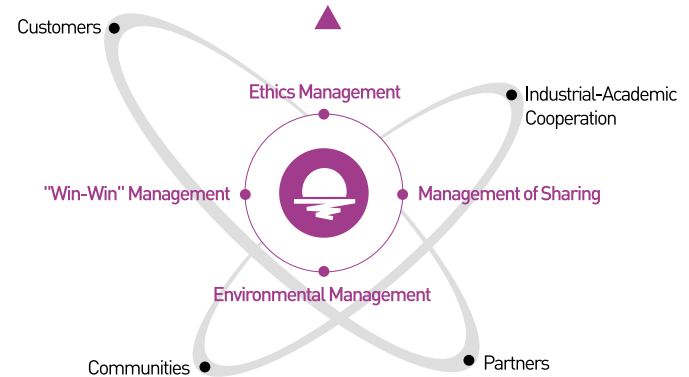
Delivering warmth to every corner of the country | KDHC is committed to expanding the supply of stable and high-quality energy. As part of this, we have systematized our heating charge subsidy programs to better fulfill our social obligations as a public enterprise. We are also extending our level of support for heat charges in rental apartments and facilities that are predominantly occupied by low-income earners or the physically-challenged. In 2006, for example, we exempted all basic charges (totaling about KRW 0.94 billion) for about 46,000 households living in rental apartments. A similar program applying to 31 institutions in which the extremely needy reside resulted in exemptions worth approximately KRW 0.1 billion. We also joined forces with an MBC radio show to subsidize cold-weather heating expenses through a campaign called "Heating Expenses of Love."

Management of sharing happiness and joy

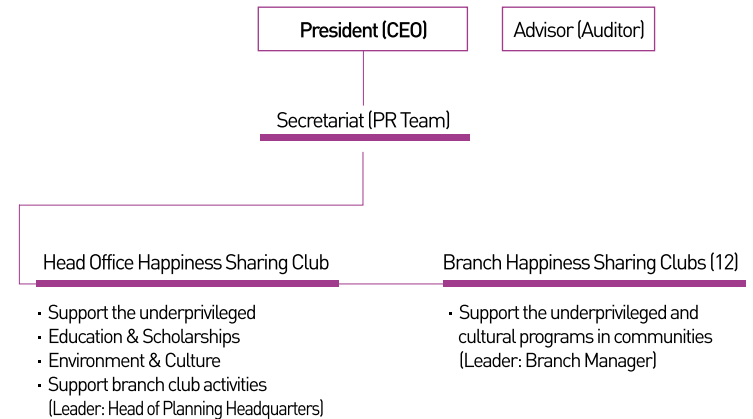
Happiness sharing club | This organization was begun by KDHC employees in November 2004 as part of our social contributions programming. In 2006, 446 active members and 822 donors took part in its activities. The frequency and hours of volunteer service per employee have both been steadily increasing since 2004, to 11.6 hours and 2.2 times per annum at the present time. We support these activities by designating the last Wednesday of every month as "volunteer day."

Social contribution activities

Building a happier world by improving corporate values



Organization of Happiness sharing club



Our Happiness Sharing Club members participate in volunteer services and also make donations to the "Happiness Sharing Funds." These funds are then doubled through a "matching grant" program in which the company provides equals the amount raised by its employees. These activities have resulted in an expansion of our employees' participation in community involvement projects and forwarded the creation of a corporate culture of caring and sharing. We are dedicated to sharing with our communities, with a focus on support for the underprivileged, educational and culture, and the protection of the environment.

Sponsoring and donating | We also help the underprivileged. Some of these activities include assisting starving children and neighbors in need, supporting areas impacted by the construction of new and renewable energy facilities, providing relief funds for flood victims, and talent cultivation programs.

Major activities and results in 2006

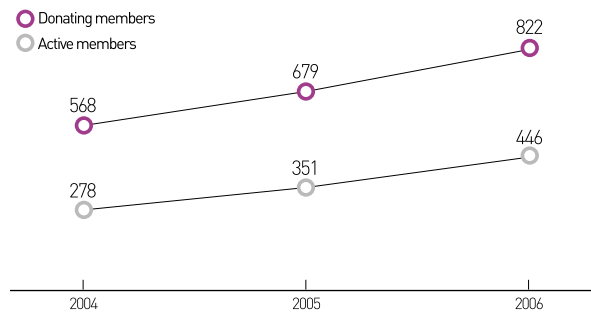
	Support for the underprivileged	Educational and cultural support	Support for environmental protection
	198 occasions	9 occasions	7 occasions
	KRW 120.1 million	KRW 22.1 million	-
Details	<ul style="list-style-type: none"> · Visiting homes of children in sisterhood relationships · Keeping company with seniors living alone · Delivering boxed lunches to the physically-challenged · Supporting heating expenses for low-income earners · Preparing kimchi for the winter, delivering briquettes, etc. 	<ul style="list-style-type: none"> · Coaching the children of low income earners · Assisting with scholarships and school uniforms · Supporting teaching materials and school expenses · One company-one village partnership 	<ul style="list-style-type: none"> · Park and river environmental clean-up campaigns · Land cleanup campaign · Preservation of Daecheoing Valley · Bulgwang River environmental cleanup



Filial duty event for seniors living alone | Helping at an outing of the differently-abled | Environmental conservation activities

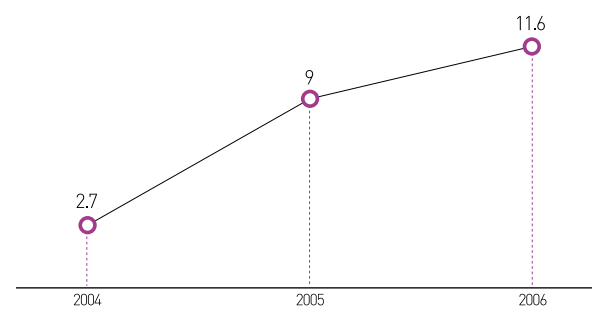
Members of Happiness sharing club

(Unit: Persons)



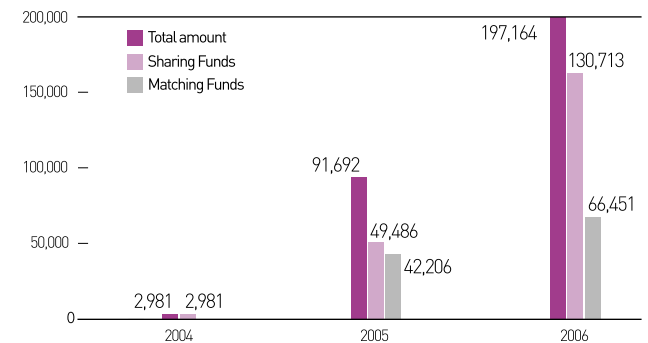
Average volunteer service hours per employee

(Unit: Hours)



Happiness sharing funds

(Unit: Thousands of KRW)





<"Yes, I Can!" English Class>
 <"Yes, I Can!" English Speaking Contest>
 <Science Lab>
 <English Camp>
 <Experiencing City Life>
 <PC Support of Love>



Talent cultivation through the Yemi Guardian Angel Club

Company-wide support for Yemi elementary school students |

KDHC has operated the Yemi Guardian Angel Club since December 2005 to bridge the educational gap between urban and rural communities and as a talent cultivation program to support villages with abandoned mines through education. Its specific activities include educational, cultural and PC support for Yemi Elementary School students. Beginning from March 2006, we have been offering English classes by native English speakers on a biweekly basis, targeting all the students of Yemi Elementary School. Some of these students are slated to participate in the National English Speaking Contest in February 2007. In addition, the Yemi Guardian Angel Club is operating a variety of programs, such as science labs, English camps, and city visits, and has donated 100 PCs to improve these students' informatization capabilities.

Support for neighborhoods of power plants | This project targets residents of villages and towns within 5 km from our power plants. It aims to facilitate the development of power resources by increasing their understanding of the electric power business. We are currently carrying out promotional and PR projects around the Daegu, Suwon, Cheongju, and Hwaseong power plants. Some of these activities include support for school meal facilities, educational equipment, materials and scholarships, study tours of power plants, and events for residents.

Support for the neighborhoods of power plants (Unit: Thousands of KRW)

Local	2004	2005	2006
Daegu	25,003	28,000	30,000
Suwon	25,005	28,000	30,000
Cheongju	25,000	28,000	30,000
Hwaseong	-	-	195,996

Seeking the development of regional culture

One branch-one culture support | KDHC operates regional contribution projects that match the unique characteristics of its 12 branches. By offering regional cultural events, such as “one company-one culture” activities for regional heating customers, we are inspiring pride and increasing customer satisfaction.

Opening convenience facilities to residents | We have opened our facilities, including swimming pools, table tennis rooms, and auditoriums, free of charge since the early 1990s. We also open our parking facilities to the public on weekends and holidays.

Partnerships with rural communities | We support farming and fishing villages through “one company-one village” partnerships involving exchanges, cooperation, and “Win-Win” developments between urban and rural communities. Through the “32 companies-32 villages” joint agreement for sisterhood relations organized by the Seoul Metropolitan Government in November 2005, we signed a “one company-one village” agreement with Sinheung 2-ri, Jeju. We have also been operating a campaign to purchase domestically-grown agricultural products. In addition, we support building more facilities for the aged and provide computers to improve residents’ communicative abilities.

Volunteer service by teenagers | We have been operating an “adolescent volunteer service” program since July 2006. Its ultimate goal is to teach good character and promote closer bonds with KDHC, and it also gives teenagers opportunities for volunteer service related to energy savings and environmental protection. Through training programs and tours of our facilities, we help these young people develop good energy usage habits and provide them with opportunities to help the less fortunate. About 20,000 youngsters participated in these activities in 2006.

“One branch-one culture” activities in 2006

Branch Name	Details
Jungang Branch	Children’s song contest
Bundang Branch	Events to experience farm life
Gangnam Branch	Herb farm visit
Goyang Branch	Magic show for children
Daegu Branch	Free Internet education
Suwon Branch	Music concert
Cheongju Branch	Free swimming lessons
Yongin Branch	Energy savings and environmental protection poster contest for children
Sangam Branch	Healthy life classes (yoga) targeting housewives
Gimhae Branch	“Starry Night” Film Festival
Yangsan Branch	Visit to Upo Neup (swamp) for children
Hwaseong Branch	Hwaseong Song Festival

We are committed to energy support that everyone can enjoy

Sharing a Beautiful World with Our Communities

Recognizing that “companies and society coexist,” we are deploying social contribution activities seeking benefits for both KDHC and its communities. We will expand the stable supply of high-quality, economical energy, continue supporting neighborhoods near our business sites, and practice volunteer service for the underprivileged. Through these activities, we will continue to grow with our communities.



DMA Disclosure on Management Approach



Expansion of regional cooling and new and renewable energy services

Expansion of clean energy usage to improve air quality

Expansion of environmental management system to reduce environmental impacts

* The higher the number, the more important the issue

Performance report on core issues

KDHC has determined three core issues to be of paramount importance to the environment.

Expansion of regional cooling and new and renewable energy services:

KDHC is committed to minimizing environmental impacts by using more new and renewable energy sources for its regional heating service and through an increased reliance on solar heating systems, solar photovoltaic power generation, and biomass combined heat and power plants (CHPs). In 2006, we built a solar photovoltaic power plant and a facility to utilize landfill gases (LFG) in Daegu and installed a solar heating system in Bundang.

Expansion of clean energy usage to improve air quality: KDHC is increasing its use of clean energy sources, such as LNG and unutilized energy, as materials for heat supply. In addition, we are continuously developing new technologies and equipment to minimize our environmental impacts.

Expansion of environmental management system to reduce environmental impacts:

KDHC has been minimizing the level of its environmental impacts through the use of an environmental management system that it began using in 1995.

Vision and strategies

Vision

Korea's Most Environmentally Friendly Energy Company

Mission

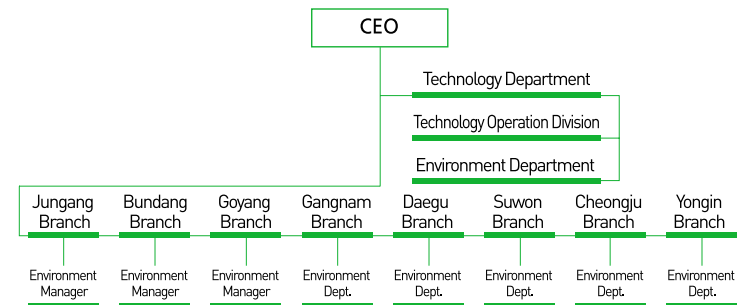
Establish environmentally friendly management system

Strategies and Tasks

- Introduce advanced environmental management system
 - Expand scope of environmental management system
 - Pursue the whole course of evaluations
 - Increase "green" purchasing
- Minimize environmental impacts
 - Augment level of environmental education and training
 - Minimize emissions of environmental pollutants
 - Operate internal control guidelines
 - Begin use of discharged waste water recycling system
 - Expand resources recycling
- Adhere to UN FCCC recommendations through business diversification
 - Continue to adhere to conventions
 - Conduct research in relation to UN FCCC
 - Expand new and renewable energy service
 - Participate in clean development mechanism (CDM) project

Because of the increasing importance of the environment, all governments and societies are demanding that businesses reduce their emissions of environmental pollutants through the more efficient use of energy. In order to cope with this situation and fulfill its responsibilities towards the environment, KDHC has developed an environmental mission, along with three strategies and 12 tasks.

Organization



We have also developed an organization that is exclusively charged with environmental management to practice environmentally friendly management. It operates in linkage with the Environment Department at head office and environment managers and departments at each branch to ensure that our environmental management guidelines and systems are delivered efficiently and effectively.

Environmentally Friendly Energy

ENVIRONMENT



33,207 tons

Reductions in greenhouse gases through reduction projects



69%

Ratio of heat energy production using waste heat to total amount produced

Environmentally Friendly Management

KDHC has formulated a series of environmental policies to carry out environmentally friendly management. We have developed guidelines for the observance of environmental laws and regulations as well as in-house controls, and strive to minimize our emissions of pollutants. Since 2005, we have been publishing environmental reports to inform the Korean government, local governments, and our stakeholders about our efforts towards environmentally friendly management.

Advanced Environmental Management System

Continuous expansion of environmental management system

KDHC works hard to translate its environmentally friendly management policies into action. For example, we were the first public enterprise to participate in the initial model certification process for the ISO 14001 environmental management system, which was organized by the Ministry of Commerce, Industry, and Energy's National Industrial Technology Institute (now the Korean Agency for Technology and Standards) in February 1995. In December 1996, we obtained an ISO 14001 from an external certification agency, and operate it at our head office and eight branches. We have also established eight environmental goals and 16 detailed objectives, all of which are based on our environmental policies and mid- to long-term strategies. In addition, we have developed manuals on and procedures for environmental management and its associated body of laws and regulations. This aids us in implementing environment-related activities, such as establishing annual training plans and biannual emergency drills.



Environmental Policies

KDHC is a public enterprise that was founded under the Integrated Energy Business Act to save energy, improve the environment, and better people's lives through the efficient provision of district cooling and heating services. All our employees are committed to the following environmental policies:

- Improve the environment and save energy through the continuous expansion of district cooling and heating services
- Minimize emissions of pollutants by identifying environmental impacts from all processes, services, and activities
- Observe all environmental laws and regulations and develop and carry out strict in-house guidelines to adhere to their demands
- Supply customers with clean and safe heat and top-quality service
- Evaluate environmental performance regularly and disclose results to internal and external stakeholders upon request

Delivering on these policies requires the voluntary participation of all our employees. We are committed to becoming Korea's most trusted energy company and preserving the environment.

August 1, 2005

Kim, Young Nam President & CEO



Blue skies must be created starting today.

Our institutional business management program includes environmental accounting, environmental performance evaluations, environmental impacts evaluations, the enactment of guidelines for environmental management, the encouragement of environmentally friendly product purchasing, and continuous training in environmental issues. Our in-house guidelines for air and water quality control are stricter than those required by the Clean Air Conservation Act and the Water Quality Conservation Act. In addition, we recycle all the wastes and byproducts generated by heat production processes.

Environmental accounting and environmental performance evaluations

KDHC carries out environmental accounting¹⁷⁾ and environmental performance evaluations¹⁸⁾ to satisfy the increasing demands of its stakeholders for information regarding environmental and transparent management. From August 2005 to March 2006, we participated in a model environmental management project organized by the Ministry of the Environment to increase the use of environmental accounting and environmental performance evaluations and supplement existing guidelines. In addition, we calculate our environment-related expenses in accordance with the 2006 Environmental Accounting Guidelines promulgated by the Ministry of the Environment.

In-house environmental inspection and environmental impacts evaluation

We carry out annual in-house environmental and post-management inspections based on the ISO 14001. This is done to minimize environmental risks by evaluating our environmental management system and the appropriateness of our environmental management processes.

Environmental goals and results

Environmental Goals	Detailed objectives	Unit	2005	2006	2007
			Results	Results	Goals
Expand distribution of district cooling and heating	Expand heat supply	Households	825,000	877,000	928,000
	Develop new businesses	Households	36,000	21,000	198,000
	Promote new and renewable energy businesses	-	3 businesses promoted	5 businesses promoted	3 businesses promoted
Reduce generation and discharge of living wastes	Collect domestic wastes separately	kg/person · day	115.4	117.9	120
	Minimize generation of food wastes	kg/person · day	25	21	20
Minimize emissions of pollutants	Establish total pollutant emissions system	-	-	Completed (May 8)	Established measures Completed
	Consider environmental impacts and harmfulness when using chemicals	-	-	Completed (Aug. 28)	-
	Seek methods to minimize volume of waste water	-	-	Under research	Being pursued
	Purchase high-efficiency computer supplies	-	-	Purchases of KRW 0.49 billion	Purchases of KRW 0.5 billion
Observe in-house control guidelines	Properly manage guidelines for in-house control	-	Observed guidelines	Observed guidelines	Observed guidelines
Encourage users to save energy	Provide guidelines on heat usage methods	Persons	712	729	710
Strengthen environmental management	Assess post-inspections	Items	1	1	1
	Publish environmental report	-	Published (June)	Published (June)	Published
Add to environmental awareness among employees	Carry out environmental education and training	Occasions	2	2	2
Improve image	Deploy environmentally friendly PR	Occasions	200	502	160
	Use energy-saving methods and enter into environmentally friendly businesses	Persons	1,265	1,510	1,000

Environmental accounting expenses

[Unit: Millions of KRW]

		2004	2005	2006
Environmental costs	Post-management activities ¹⁹⁾	6,331	6,144	6,850
	Preventative activities	4,545	5,519	6,968
	Stakeholder activities ²⁰⁾	1,668	2,737	2,995
	Countermeasures and recovery	105	36	49
	Total	12,649	14,436	16,862
Environmental benefits ²¹⁾	Environmental profits	28	37	39
	Cost savings	-	-	318
	Sub-total	28	37	357

[Note] Cost reduction expenses of environmental benefits have been calculated beginning with 2006 results

17) Environmental accounting: A standardized procedure to calculate costs and benefits generated by minimizing environmental impacts. Used as an instrument to deliver reliable environmental information to stakeholders.

18) Environmental performance evaluation: A means of evaluating past and current environmental performances by selecting standards and applying them to management and PR activities.

19) Post management activities include expenses (e.g., depreciation and operational) for the maintenance of environmental facilities. Preventive activities include environmental management and R&D.

20) Stakeholder activities include external activities and PR expenses. Legal expenses include environmental charges.

21) Environmental benefits refer to profits generated from the sale of desulfurization plasters and cost reductions from recycling waste water and energy savings.

Environmental inspection

	Details
ISO 14001 post-management inspections	<ul style="list-style-type: none"> Recommend reflecting greenhouse gas volumes in environmental goals Recommend concretizing environmental goals in numeric values and measuring them Examine results of recommendations from previous year Check education content
ISO 14001 in-house environmental inspections	<ul style="list-style-type: none"> Check waste management conditions Check education content
Internal evaluations of environmental performance	<ul style="list-style-type: none"> Inspect air, water, and environmental management conditions
Inspection by external organization	<ul style="list-style-type: none"> Assess 28 environmental management areas at all branches

Environmentally friendly purchasing results (Unit: Thousands of KRW)

Year	Total purchasing amount (A)		Environmentally friendly products (B)		Percentage (% B/A)	
	Volume	Amount	Volume	Amount	Volume	Amount
2004	43,100	546,250	22,406	127,813	51.99	23.40
2005	18,925	668,724	7,598	207,220	40.15	30.99
2006	17,522	901,777	5,389	721,423	30.76	80.00

Participants in environmental training in 2006 (Unit: Persons)

	No. of participants		
	2004	2005	2006
Internal education	734	712	792
External education	30	28	34
Total	764	740	826

Once every three years, KDHC carries out environmental impact evaluations to assess the direct and indirect environmental influences caused by its operations. Thanks to these efforts, we have not needed to correct or improve on any of our operations following either an environmental inspection or an environmental impact evaluation.

Green purchasing

We are committed to the purchase of environmentally friendly products, and have developed a manual regarding our processes for doing so. It states that we will give priority to environmentally friendly products when placing orders through contracts. We offer training to our contract managers regarding these requirements twice a year.

This information is contained in our contract management procedures so that all suppliers of environmentally friendly products can participate in our biddings. We also add points to our screening criteria for environmentally friendly certificates and are working towards consolidating all our "green" purchases. As a result, our purchases of environmentally friendly products are rising significantly.

Education and training in environmental issues

KDHC carries out a broad array of educational programs to raise environmental awareness among its environmental managers, internal employees, communities, and customers. We hold regular business education sessions to strengthen the capabilities of our environmental managers, and offer extra training by outside professional organizations. In addition, we conduct technological and environmental training targeting the managers of user facilities and offer advice on better heat usage through facilities safety checks and technical guidance.

Minimizing Environmental Impacts

Atmospheric control

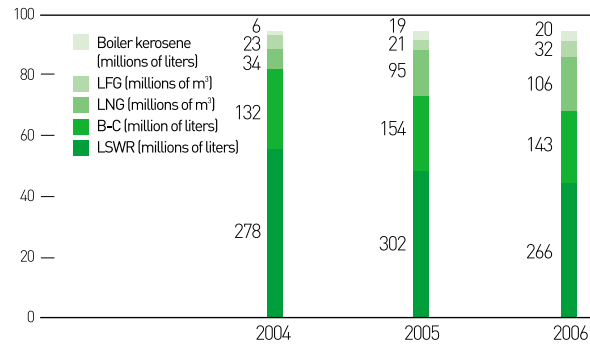
Expand clean energy usage | Although energy usage volumes are increasing due to increases in the distribution of district cooling and heating, we have managed to reduce the volume of Low Sulfur Waxy Residue (LSWR) and expand the use of clean fuels. Our usage of LSWR has been reduced to 47% in 2006 from about 58% in 2004, while that of clean fuels rose to 24.4% in 2006 from 12.0% in 2004.

Power consumption at KDHC consists of electricity used for heat supply and electricity consumed by the company itself. We minimize our volume of pollutants by using electric power that does not discharge air pollutants. We also strive to expand the production and use of renewable energy. We expanded the usage volume of LFG. It used to only be produced and used at the Sangam branch, but in 2006 we also started to utilize it at the Daegu branch. In addition, we will work to prevent atmospheric pollution through continuous R&D and by gradually increasing our ratio of clean energy usage.

Air pollutants control | KDHC has installed a Tele-Monitoring system (TMS)²²⁾ that measures the volume of emissions of pollutants in “real-time” at its branches in Bundang, Goyang, Gangnam, Daegu, Suwon, Cheongju, and Yongin. All pollutants that have been discharged into the air from CHPs and peak load boilers are measured, with the results being transferred to the Environmental Management Corporation and our head office. We operate a variety of facilities to reduce the volume of air pollutants, including low NOx burners²³⁾, selective catalytic reduction (SCR)²⁴⁾, electrostatic precipitators²⁵⁾, and desulfurization plants²⁶⁾. In addition, our in-house control guidelines are stricter than the government’s own environmental standards.

Each of our branches is tasked with minimizing its volume of emissions of environmental pollutants. For example, the Gangnam branch is improving the atmospheric environment by replacing LSWR with clean fuel LNG, resulting in CO₂ reductions of 35,000 tons annually. Meanwhile, the Suwon branch is expected to reduce its production of nitrogen oxides (NOx) by about 100.0 tons on an annualized basis by installing additional SCR.

Fuel usage

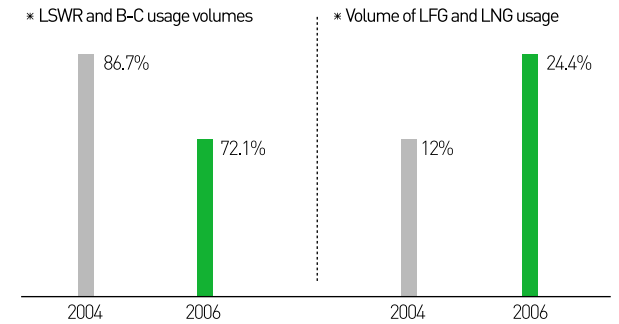


Power usage and production

		2004	2005	2006
Power usage	In-house consumption	MWh 64,816	71,713	67,932
	Delivery to KEPCO	MWh 118,478	131,359	125,849
	Total	MWh 183,294	203,072	193,781
Production volume	Heat	Gcal 9,483,681	10,928,732	10,336,210
	Electricity	MWh 512,238	545,356	532,244
	Total	Gcal 9,924,206	11,397,738	10,823,940

* Heat production includes cold water production
 ** Total production (Gcal): Heat production (Gcal) + Electricity production (MWh) x 0.86

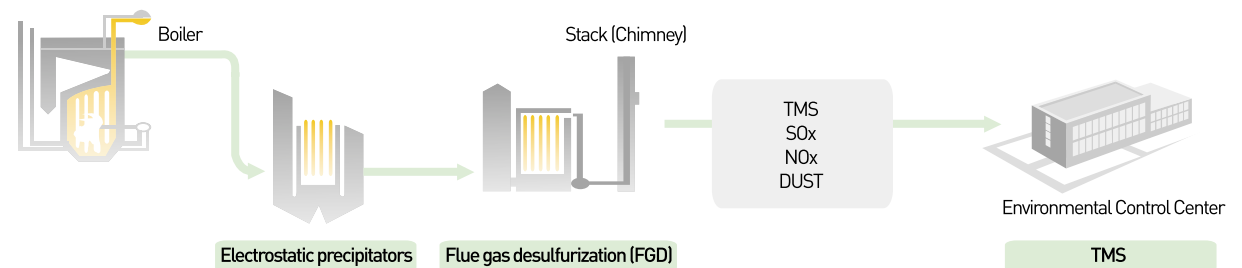
Reduction in heavy oil use Growth in clean fuel energy use



Volume of emissions of air pollutants from energy production

		2004	2005	2006
Energy production (1,000 Gcal)		9,924	11,398	10,824
Emissions (tons)	SOx	1,583	1,771	1,585
	NOx	3,292	3,634	3,371
	Dust	48	59	55
	Total	4,923	5,464	5,011

Air pollutants control system



22) TMS (Tele-Monitoring system): A surveillance system that automatically monitors the volume of emissions of pollutants and transfers this information to the environment control center for further management.

23) Low NOx Burner: An apparatus that reduces the generation of NOx by adjusting the concentration of oxygen and the temperature of the flame

24) SCR (selective catalyst reducer): A facility that reduces the level of nitrogen oxide (NOx) in combustion gases

25) Electrostatic precipitator: A device that reduces the volume of dust generated from exhaust facilities

26) Desulfurization plant: A facility that reduces the amount of SOx generated from exhaust facilities

Soil management

KDHC carefully manages its facilities and installations to prevent soil contamination caused by oil leakages from its fuel storage facilities. According to the Soil Environment Conservation Act, LSWR, B-C, and gasoline tanks are all classified as facilities that could potentially cause soil contamination. Because of this, seven of our branches that are equipped with these tank facilities are inspected for their soil contamination levels by outside authorities every other year. We have never had an accident caused by fuel leakages since the launch of these inspections.

Water quality control

Management of water pollutants | Waste water is generated during water quality control operations for boilers, pure and soft water production, and the operation of desulfurization plants. We operate waste water treatment plants and facilities to treat this, using both physical and chemical methods. They are located at the Gangnam, Daegu, Suwon, Cheongju, Yongin, Yangsan, Hwaseong, and Gimhae branches, while other branches are looked after by local governments or KEPCO plants. The constantly rising importance of environmental issues has resulted in the passage of a number of water environment-related laws and regulations, including the Water Quality Conservation Act and special laws covering three major rivers. KDHC is committed to the recycling of its water resources to prevent or lower its volume of emissions of water pollutants and adhere to these regulations. Our total volume of such recycled water resources has been increasing every year, to 32,781m³ in 2005 and 76,684m³ in 2006. One of the steps we have taken is to utilize water emitted from boilers at the Bundang Combined Cycle Power Plant (a power generation subsidiary of KEPCO) as circulating water for our district heating. Discharged water there is used to cool our boilers.

Efforts towards the optimized utilization of water resources | The volume of service water usage has been on the rise due to the expansion of our businesses. This means that the volume of waste water is also increasing. In 2004, we developed a program to optimize our service water systems by reusing our water resources. To do this, we recycle water from our boilers and cooling towers and water that has been discharged during the waste water treatment process by boiler CBD (continuous blowdown) (27) as cooling water. At our new businesses in Paju, Pangyo, and other places, we plan to reduce the generation of waste water by introducing pure water production facilities, such as reverse osmosis (RO) and electro dialysis (ED).

Water resources management

(Unit: 1,000 m³)

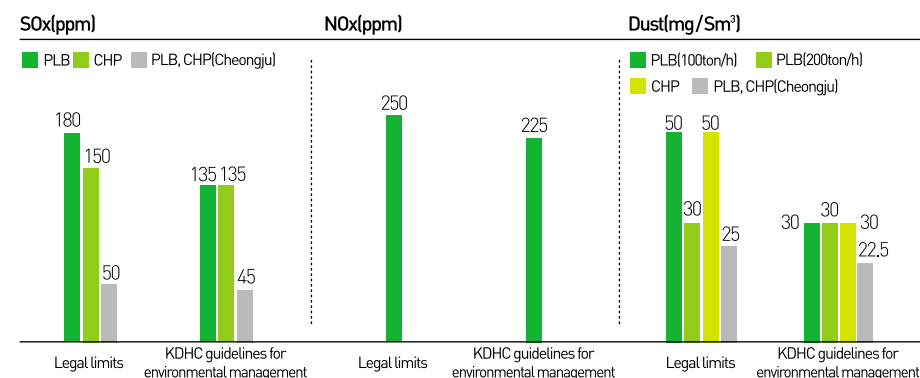
	2004	2005	2006	Total
Service water intake	697	774	836	2,307
Waste water treatment	210	226	222	658
Recycle	-	33	77	110

Guidelines for environmental management

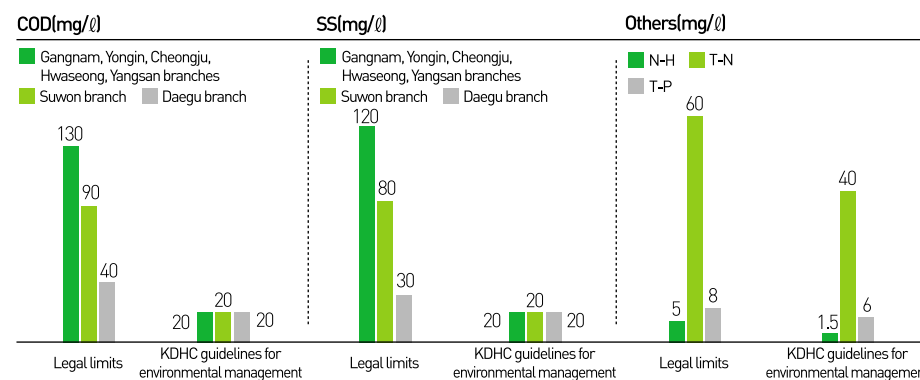
Institution of KDHC environmental management guidelines | In order to minimize our volume of emissions of environmental pollutants, KDHC has established a series of in-house guidelines for pollutants control that are stricter than those contained in the Clean Air Conservation Act and the Water Quality Conservation Act. These help us to forward our commitment to improving the environment and also reduce the number of environmentally-related civil petitions.

Legal limits and KDHC guidelines for environmental management

Atmosphere



Water quality



27) CBD[continuous blow down]: A safe facility operation method that involves discharging a certain volume of circulating water. This prevents accidents that can occur due to sediments being generated from circulating water inside a boiler.

Environmentally friendly designing | KDHC has introduced a series of state-of-the-art engineering methods and designs to minimize noise and vibrations and the generation of air pollutants during the construction of new power plant facilities. Our design guidelines, which are even stricter than those required by the Clean Air Conservation Act and the Water Quality Conservation Act, reduce the level of noise and vibrations during construction by applying vibration and noise control methodologies. We also use environmentally friendly materials.

In 2006, we required our NOx emission limits generated during the construction of power plants in Paju and Pangyo to be within a range of 20~25 ppm, significantly lower than the 50 ppm allowed by the Clean Air Conservation Act and the Water Quality Conservation Act.

Reusing wastes and byproducts

Wastes generated by KDHC include dust that is created after the combustion of heavy oil, sludge²⁸⁾ that comes from waste water treatment processes, and waste oil, waste heat insulating materials, and waste synthetic resins that are produced during facility repairs and maintenance. We treat these wastes according to the requirements of the Wastes Control Act. For example, plasters that are byproducts of dust and desulfurization plants are completely recycled. In 2006, 564 tons of dust that had been generated at our branches was recovered and reused as auxiliary fuel for cement manufacturing. Desulfurization plasters are similarly recycled.

Adhering to UN FCCC Recommendations through Business Diversification

Expansion of district cooling supply

The volume of electric cooling is increasing as a result of increasing global warming. KDHC reduces its maximum load during the summer by simultaneously producing electricity and heat through the expansion of the district cooling supply. We are also heightening the efficiency of our CHPs by supplying cooling using district heating heat. Our district cooling uses water as a refrigerant instead of greenhouse gases (such as CFCs). This improves the atmospheric environment by protecting the ozone layer.

New and renewable energy

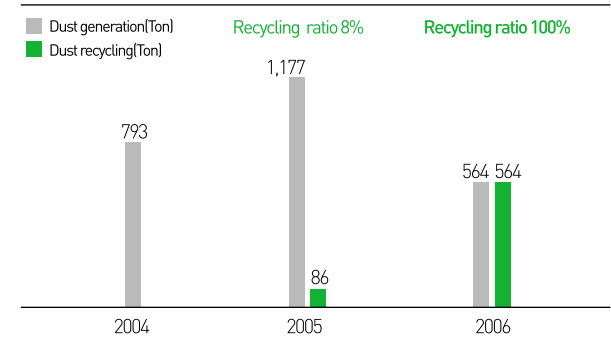
New and renewable energy business | KDHC is entering into a variety of new and renewable businesses, including solar heat systems, solar photovoltaic power generation, and biomass CHPs. In 2006, we invested KRW 20.0 billion in the Daegu Solar Photovoltaic Power Plant and landfill gas utilization facilities. In addition, we worked with the government to install solar heat systems at our Bundang branch, which is the nation's largest district heating supply facility.

Solar heat systems are slated to start supplying heat during 2007, and the Sinan solar photovoltaic power generation project, scheduled for operation in 2007, should generate a crude oil import substitution effect of about 400 TOE and CO2 reductions of 1,200 TC (29) on an annualized basis.

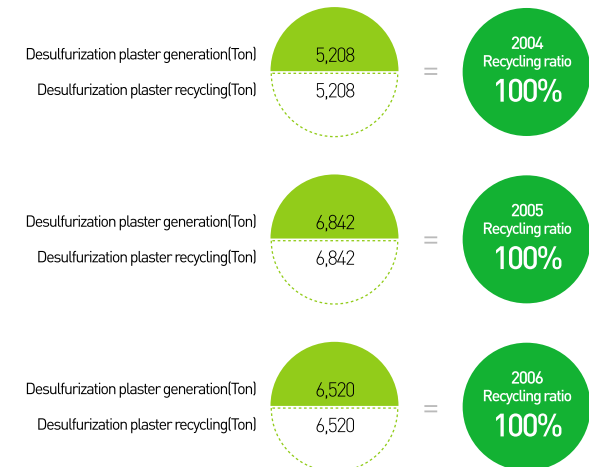
28) Sludge: Sediment generated from sewage treatment or water purification processes.

29) TC (Tons of Carbon): A measurement unit for greenhouse gas volumes

Dust generation and recycling



Desulfurization plaster generation and recycling



Efforts towards greenhouse gas reductions

Greenhouse gas emissions | KDHC uses a variety of fuel types to produce heat. Greenhouse gases are generated while burning them.

Using unutilized heat to reduce greenhouse gases | Some of KDHC's sources of district heating include waste heat (i.e., heat from steam condensers) that is generated during electricity production at power plants and CHPs and incineration heat and landfill gases that have been generated while burning garbage. Making up 69.0% of total heat production, these can replace fossil fuels and thereby contribute to reducing the overall volume of exhaust gases.

Participation in greenhouse gas reduction projects | The greenhouse gas reduction project is a national registration system to manage the volume of greenhouse gas reductions. Sponsored by the Ministry of Commerce, Industry, and Energy, it compensates for and encourages voluntary CO₂ reductions. So far, KDHC has registered two projects. They are operated by our Yongin and Bundang branches, recovering heat that has been discharged from waste incineration facilities owned by the local government for use in district heating. Through these projects, the two branches expect to achieve reductions of 7,503 tons and 25,704 tons of greenhouse gases, respectively, on an annualized basis.

Participation in CDM

KDHC is engaged in a CDM³⁰⁾ business as part of its program for adhering to global recommendations announced by the UN FCCC in 2005. Our environmentally friendly fuel conversion project has been approved by the UN CDM's Executive Committee, and the utilization of LFG is also slated for approval.

The LNG fuel conversion project operated by the Gangnam branch improves the atmospheric environment by replacing LSWR boilers with LNG ones. Boasting a reduction effect of 35,000 tons of greenhouse gases, it received government approval in July 2006. A similar LFG utilization program by the Daegu branch, which is slated to be approved in 2007, will utilize LFG from the Bangcheonni landfill in Daegu, leading to a reduction of 5 million tons of greenhouse gases on an annualized basis.

Greenhouse gas (CO₂) emissions

[Unit: Tons of CO₂]

	2004	2005	2006
Total	1,704,175	2,010,424	1,864,207



30) CDM (Clean Development Mechanism): A program developed by the UN CDM that allows advanced industrialized countries to conduct greenhouse gas reduction projects and/or purchase credits from developing countries to achieve their own reduction targets

Environmentally Friendly Activities

PR for environmentally friendly businesses and practicing energy savings

KDHC provides information on its environmentally friendly businesses and offers training in energy savings. These activities include TV and billboard advertisements, corporate newsletters, and printed PR materials. We also encourage energy savings by telling our customers about energy saving methods during our inspection visits.

We have also organized an energy savings promotion committee to operate heat supply facilities and provide leadership in energy savings. For example, we have put energy conservation into practice at work by saving power for office equipment and dimming our lights. Other efforts include a “no driving one day a week” program, car pools, commuter buses, and purchasing hybrid vehicles for business use.

Environment-related activities

	No. of events and participants		
	2004	2005	2006
PR on environmentally friendly businesses	165	200	502
Education in energy savings	-	1,265 persons	1,510 persons

Environmental conservation with communities

KDHC is engaging in a “one branch-one river improvement” campaign to care for the local environment and preserve sensitive ecosystems. In addition, we translate our care for the environment into community-based action through environmental cleanup activities near our branches and in at-risk areas.

Leading Environmentally Friendly Energy Company

KDHC is committed to “environment-first” management. We will supply clean energy by preserving and safeguarding the environment through continuous air, water, and soil management. In addition, we will grow into an energy company that takes the lead in the “love your earth” campaign.



Regional environmental cleanup activities

Appendix

- Third Party Assurance Statement
- GRI Index
- Major Awards
- Memberships in Associations and Organizations
- Survey of Readers' Opinions



Third Party's Assurance Statement

To the Management of the Korea District Heating Corp. Sustainability Report 2007

The Institute for Industrial Policy Studies¹⁾ (The Auditor) was engaged by the Korea District Heating Corp. (KDHC) to review information specified in its 2007 Sustainability Management Report (The Report) to provide independent third-party assurance on its contents. KDHC is responsible for the collection and presentation of all information within The Report as well as the maintenance of the underlying data collection system and internal controls. The key objective of our review is to provide independent assurance that all statements and data cited in The Report are free of material misstatement or bias and that the data collection systems used are robust. On the basis of the above, The Auditor presents the following third-party statement of assurance.

Context and Scope

In its 2007 Sustainability Management Report, KDHC describes efforts and progress made toward sustainability management as well as its plans for the future. The Auditor's review examined the following.

Reasonable assurance on whether

- The financial data specified under "Economy" is properly derived from KDHC's audited Annual Reports for 2006

Limited assurance on whether

- The data specified under "KDHC and Sustainability", "Ethics and Innovation Management", "Customers", "Executive Management and Employees", "Suppliers", "Local Community", and "Environment" of The Report are stated adequately and in full and are free of material misstatement or bias.
- * Reasonable assurance constitutes a higher level of assurance than limited.

Independence

The Auditor was not involved in the preparation of any part of The Report, and with the exception of this work has no other affiliation with KDHC that might compromise our independence or autonomy or place The Auditor under KDHC influence, therefore ruling out any possible conflicts of interest. The Auditor has no relationship with KDHC regarding any of its for-profit operations and activities.

Criteria

The Auditor reviewed whether The Report was written in accordance with the following reporting guidelines (1) The Global Reporting Initiative's (GRI) G3 Sustainability Reporting Guidelines Version 3.0. (2) The AA1000 Assurance Standard's (AA1000 AS)* three core principles of Materiality, Completeness and Responsiveness; and (3) The local BSR Guidelines (B.E.S.T Sustainability Reporting Guidelines)** for sustainability management.

*AA1000 AS is an assurance standard for social and sustainable reporting developed by the U.K.-based Institute of Social and Ethical Account Ability in November 1999. A nonprofit organization that promotes corporate social responsibility, business ethics and responsible business practices, Account Ability aims to improve the quality of social and ethical accounting, auditing and reporting through the AA1000 AS.

**The BSR Guideline (B.E.S.T Sustainability Reporting Guideline) was jointly developed by the Ministry of Commerce, Industry, and Energy (MOCIE), the Korea Chamber of Commerce and Industry (KCCI), and the Institute for Industrial Policy Studies (IPS) and provides for five levels of reporting rigor (Level 1 ~ 5).

Work Undertaken and Scope

The Auditor reviewed the Materiality, Completeness, and Responsiveness of The Report through the process outlined below

- A review of media reports relating to KDHC
- A review of information contained in The Report as well as the underlying data collection system (validation of internal sustainability-related organizations, systems, and activities)
- Data sampling and assessment of high-risk areas to support intensive review of key statements in The Report, internal policies, documentation, and information system
- Interviews with managers and staff in charge of sustainability reporting, as well as persons responsible for The Report's source information
- Interviews with senior executive management responsible for sustainability management
- A reconciliation of financial information stated in The Report against the audited Annual Report



Conclusions

On the basis of the above we provide the following conclusions. The Auditor did not find The Report to contain any material misstatements or bias. All material findings of The Auditor are included herein, and detailed review findings and follow-up recommendations have been submitted to the management of KDHC.

Materiality: Does The Report cover economic, social and environmental issues of the greatest importance to KDHC?

The Auditor does not believe that KDHC has omitted or excluded any information of the greatest importance to itself. We noted an even representation of key factors crucial to achieving balance in sustainability management – i.e. the economy, customers, executive management and employees, suppliers, ethics management, innovation management etc. However, The Auditor recommends making continuous use of its new stakeholder surveys, so that they become established as a major tool for communication between KDHC and its stakeholders.

Completeness: How reliable is the information and data stated in The Report, and is the underlying information and data collection system complete and robust?

The Auditor took note that KDHC has been systematically implementing ethics management, innovation management, customer satisfaction management, Win-Win management with suppliers, and environmental management by putting in place an underlying operating system for sustainability management that includes a Management Innovation Committee, Open Public Corporation Committee, Ethics Management Committee, and CS Committee. We confirmed that KDHC has adopted a VOC (Voice of the Customer) management system and an internal accounting management system to improve the reliability of financial information. The Auditor also affirmed KDHC's commitment to transparent and fair trade by introducing an electronic contracting system as well as supplier satisfaction surveys. In terms of the environmental dimension, KDHC has implemented an environment management system designed to identify and measure relevant environmental data, while pursuing green purchasing practices. However, The Auditor recommends revamping KDHC's overall system for managing its social contribution activities to better support continuous social contribution performance.

Responsiveness: How well does The Report address information of importance to KDHC stakeholders?

The Auditor determined that KDHC has been making efforts to communicate with its stakeholders through numerous surveys targeting executive management and employees, suppliers, and customers, while working to identify sustainability management issues of the greatest importance to its stakeholders. The Auditor does suggest, that in its next report, KDHC present in further detail how much progress has been made against stated targets to its stakeholders.

- Relative to BSR Guidelines, in view of the level of reporting rigor and intensity of information provided, The Auditor finds The Report to fulfill 96.7% of the reporting requirements necessary to qualify for a Level 3 Report [from among Level 1 ~ 5].
- Relative to the GRI Guidelines, The Report meets the content and quality requirements of GRI G3 Application Level A+.

Issues for Future Consideration

As the first sustainability report by KDHC, the Report is highly significant in that it encompasses the company's commitment and drive toward sustainability management during the previous years as well as its outcome. In future publications, in the interest of continued qualitative improvements in sustainability management performance and reporting, the Auditor recommends the following.

- Strengthen adherence levels to GRI and BSR reporting guidelines, and increase the proportion of quantitative information to be included in The Report.
- In next year's report, focus on presenting detailed information on key activities for the said reporting period, while reducing general and less material content already covered in the previous report.
- Although key issues and targets for each dimension were found to be detailed, there is insufficient information regarding how KDHC actually puts findings from its stakeholder surveys to actual use. In the future, we advise that KDHC reports how findings from stakeholder surveys and focus group interviews are utilized toward achieving targets set out for each dimension.

Based upon the above review and recommendations, The Auditor suggests that KDHC establish a more systematic program of sustainability management and reporting, and continue to follow up with ongoing improvements going forward.

December 28, 2007

Dong-Sung Cho

Director, Center for Sustainability Management, IPS
Professor, College of Business Administration, Seoul National University



1) The Institute for Industrial Policy Studies (IPS)
Established in 1993, the Institute for Industrial Policy Studies has accumulated broad expertise in the area of sustainability management since 2002. "The Auditor" is composed of six individuals (Dong-Sung Cho, Seok-Young Lee, Sung-Pil Park, Keun-tae Han, Hee-Jung Kim, Ji-yeon Ahn) - professors at Korea's top universities or expert practitioners with professional accreditation and extensive experience in sustainability management based on majors in business management, accounting, environmental science etc.

GRI Index

- : Reported
- ◐ : Partly reported
- : Not reported
- ◇ : Not Available(N/A)

GRI Index	GRI Content	Extent of Reporting	Page No.	BSR Indicators
Vision and Strategy				
1.1	Statement from the most senior decision-maker of the organization.	●	7, 36	A_1
1.2	Description of key impacts, risks, and opportunities.	●	17, 40, 46	A_2
Organizational Profile				
2.1	Name of the organization.	●	10, 11	A_3
2.2	Primary brands, products, and/or services.	●	13	A_4
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	●	11, 12	A_5
2.4	Location of organization's headquarters.	●	10	A_7
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	●	14	A_7
2.6	Nature of ownership and legal form.	●	15	A_8
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	●	13, 14	A_9
2.8	Scale of the reporting organization, including: * Number of employees; * Net sales (for private sector organizations) or net revenues (for public sector organizations);	●	10	A_10
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	●	10-12, 15	B_8
2.10	Awards received in the reporting period.	●	95	C08
Report Parameters				
3.1	Reporting period for information provided.	●	2	B_3
3.2	Date of most recent previous report (if any).	◇	-	B_8
3.3	Reporting cycle (annual, biennial, etc.)	●	2	B_6
3.4	Contact point for questions regarding the report or its contents.	●	96	B_9
3.5	Process for defining report content.	●	21	B_4
3.6	Boundary of the report.	●	2	B_7
3.7	State any specific limitations on the scope or boundary of the report .	●	2	B_2
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	●	12	A_6
3.9	Data measurement techniques and the bases of calculations.	●	2	-
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement.	◇	-	-
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	◇	-	B_5
3.12	Table identifying the location of the Standard Disclosures in the report.	●	91-94	B_10
3.13	Policy and current practice with regard to seeking external assurance for the report.	●	2, 89, 90	B_7
Governance, Commitments and Engagement				
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	●	15, 16, 17	GR1
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	●	16	GR1, GR3
4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	●	16	GR2
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	◐	15, 16, 62	GR12
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives, and the organization's performance.	●	16, 38, 39, 61	GR7
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	●	15, 16	GR13
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics.	●	16	GR4
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	●	30, 35, 52, 80, 84	-
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance.	●	17	GR5
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	◐	16	GR6
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	●	17, 62, 84	GR11
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	●	35, 86	GR10
4.13	Memberships in associations and/or national/international advocacy organizations.	●	95	A_11
4.14	List of stakeholder groups engaged by the organization.	●	21	C_1, C_2
4.15	Basis for identification and selection of stakeholders with whom to engage.	●	21	C_1



GRI Index

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- ◐ : Partly reported
- : Not reported
- ◇ : Not Available(N/A)

GRI Index	GRI Content	Extent of Reporting	Page No.	BSR Indicators
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	●	21	C_2
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	●	21	C_3
Economic				
EC-Disclosure on Management Approach			42	
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	●	5, 44, 61	EC1
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	●	40, 46, 47, 85, 86	EC2
EC3	Coverage of the organization's defined benefit plan obligations.	●	63	EC3
EC4	Significant financial assistance received from government.	●	49	EC5
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	●	61	EM4
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	◇	N/A	EC4
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	◐	59	EC4
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	●	75, 76, 77	EC6
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	●	59, 68, 74, 75	EC7
Environmental				
EN-Disclosure on Management Approach			78	
EN1	Materials used by weight or volume.	●	83	EV10
EN2	Percentage of materials used that are recycled input materials.	●	84, 85	EV11
EN3	Direct energy consumption by primary energy source.	●	83	EV7
EN4	Indirect energy consumption by primary source.	●	83	EV8
EN5	Energy saved due to conservation and efficiency improvements.	●	14	EV5
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	●	46, 82, 84, 86	EV5
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	◐	87	EV5, EV25
EN8	Total water withdrawal by source.	●	84	EV9
EN9	Water sources significantly affected by withdrawal of water.	◐	84	EV20
EN10	Percentage and total volume of water recycled and reused.	●	84	EV18
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	◇	N/A	EV22
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	◇	N/A	EV22, EV26
EN13	Habitats protected or restored.	◇	N/A	EV27
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	◇	N/A	EV6, EV26
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	◇	N/A	EV28
EN16	Total direct and indirect greenhouse gas emissions by weight.	●	86	EV12
EN17	Other relevant indirect greenhouse gas emissions by weight.	●	86	EV13
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	●	86	EV4
EN19	Emissions of ozone-depleting substances by weight.	●	14, 85	EV14
EN20	NOx, SOx, and other significant air emissions by type and weight.	●	83	EV15
EN21	Total water discharge by quality and destination.	●	84	EV17
EN22	Total weight of waste by type and disposal method.	●	84, 85	EV16
EN23	Total number and volume of significant spills.	●	84	EV21
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	◐	85	EV29
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	◐	84	EV19
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	●	40, 84	EV23
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	◐	85	EV24
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	●	82	EV31

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GRI Index	GRI Content	Extent of Reporting	Page No.	BSR Indicators
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	●	82-85	EV30
EN30	Total environmental protection expenditures and investments by type.	◐	81, 82	EV1
Social-Labor Practices and Decent Work				
LA-Disclosure on Management Approach				
LA1	Total workforce by employment type, employment contract, and region.	●	56	EM1
LA2	Total number and rate of employee turnover by age group, gender, and region.	●	58-59	EM5
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	●	63, 64	EM20
LA4	Percentage of employees covered by collective bargaining agreements.	●	61, 65	EM12
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	●	62	EM13
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	●	65	EM14
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	●	65	EM19
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	●	65	EM18
LA9	Health and safety topics covered in formal agreements with trade unions.	●	61, 65	EM15
LA10	Average hours of training per year per employee by employee category.	●	34, 35, 60	EM27
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	●	60-61	EM28
LA12	Percentage of employees receiving regular performance and career development reviews.	◐	41, 61	EM29
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	●	58-59	EM2
LA14	Ratio of basic salary of men to women by employee category.	●	61	EM3
Social-Human Rights				
HR-Disclosure on Management Approach				
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	○	-	PN2
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	◐	68	PN3
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	◐	60	EM30
HR4	Total number of incidents of discrimination and actions taken.	●	59	EM7
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	●	61	EM9
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	●	35	EM9
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor.	●	35	EM10
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	◐	60	EM31
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	◇	N/A	C02
Social-Society				
S0-Disclosure on Management Approach				
S01	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	●	74-77	C02
S02	Percentage and total number of business units analyzed for risks related to corruption.	●	33, 69, 71	C05
S03	Percentage of employees trained in organization's anti-corruption policies and procedures.	●	34	C05
S04	Actions taken in response to incidents of corruption.	●	33, 69	C05
S05	Public policy positions and participation in public policy development and lobbying.	◐	35	C06
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	◐	35	C07
S07	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	◇	N/A	CS3
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	●	35	C09



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GRI Index	GRI Content	Extent of Reporting	Page No.	BSR Indicators
Social-Product Responsibility				
PR-Disclosure on Management Approach				
			50	
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	●	39, 55	CS4
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	◐	55	CS11
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	◐	13, 53-54	CS5
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	◐	53-54	CS12
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	●	5, 39, 53, 54	CS9
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	●	53-54	CS13
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	●	53-54	CS14
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	●	53	CS15
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	●	53	CS12

Not Available

GRI	BSR	Reason for not reporting
EC6	EC4 EV22	We have electronic contract system which offers same qualification on bidding, thus we do not have any policy for locally-based supplier.
EN11, EN12 EN13, EN14 EN15	EV22, EV26 EV27 EV6, EV26	Due to the nature of business, housing development project starts after assessment including biodiversity. Thus we do not affect protected areas.
HR9	EV28 CO2	
S07	CS3	Due to the nature of public sector, there are no non-monetary sanctions.

Not Reported

GRI	BSR	Reason for not reporting
HR1	PN2	There is no investment agreements, but if it happens, we will mention about human rights clauses on the agreement.



MAJOR AWARDS IN 2006

2006

- March 2006 : Selected as “best ethics management company” (in the public enterprise category) in 2006 ethics management survey for third consecutive year
Organized by the Ministry of Commerce, Industry and Energy and the Institute for Industrial Policy Studies (IPS)
- May 2006 : Received grand prize at the 2006 ISSMA (in the environmental management category)
Organized by the Korean Standards Association
- June 2006 : Selected as the best organization in 2005 management results evaluations (in the financial earnings category) for second consecutive year
Organized by the Ministry of Planning and Budget
- June 2006 : Received prize for excellence at the 1st Sustainable Management Awards (in the environmental management category)
Organized by Korean Research Institute for Measurement and Assessment
- September 2006 : Selected as “Good Company for New Management-Employees Culture in 2006”
Organized by Gyeongin Regional Ministry of Republic of Korea
- November 2006 : Received the “2006 15th CS Management Award” for fourth consecutive year
Organized by KMAC
- December 2006 : Awarded the highest grade credit rating, “AAA,” from the Korean Investors
Service for third consecutive year
- December 2006 : Received grand prize at the 2006 Korea Management Awards (in the ethics management category)
Organized by KMAC
- December 2006 : Received appreciation plaque from the Minister of Health and Welfare for social equity-based employment program

MEMBERSHIPS IN ASSOCIATIONS AND ORGANIZATIONS

DOMESTIC

- Public Corporations’ Council for the Korean Pact on Anti-Corruption and Transparency
- Korea Society of Energy and Climate Change
- Korea Industrial Safety Association
- Society of Air Conditioning and Refrigerating Engineers of Korea
- Korean Institute of Electrical Engineers
- Korean Society of Environmental Engineers
- Consumers Korea
- New and Renewable Energy Policy Forum
- BEST Forum and BEST CEO Club
- Center for Sustainability Management
- Korea Customer Satisfaction Management Association
- Korean Society of Public Enterprise
- Korea Fair Competition Federation
- Korean Society of Corporate Research
- Korea International Trade Association
- Korea Fire Safety Association
- Korea New & Renewable Energy Association
- Korea Energy Association
- Korea Cogeneration Association (KCGA)
- Korea Personnel Improvement Association

- Korea Electric Engineers Association
- Korea Association for Policy Analysis
- Korea District Heating Association
- Korea Institute of Plant Engineering & Construction
- Korea Environmental Preservation Association
- Korean Federation for Environmental Movement
- Korea Energy Economics Institute (KEEI) Energy Forum

OVERSEAS

- Fernwärme-Forschungs Institut
- International Energy Agency (IEA) District Heating & Cooling
- Euroheat & Power
- IDEA



Additional data and information on this report is available on our homepage and through divisions in charge.

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We want to listen to your valuable opinions.



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Survey of Readers' Opinions

KDHC wishes to hear from as many of its stakeholders as possible to produce better sustainability reports in the future.

> Which of the following do you belong to?

- Employee Shareholder Investor Business Partner Government Employee
- Social Group (including NGOs) Specialist in Sustainability Management
- Media Academic Community Other _____

> What are you seeking in the report?

- Company Introduction Investor Information Overall Sustainability Management
- Economic Performance Environmental Performance Social Responsibility Performance
- Employment and Work Environment Customer Satisfaction Management
- Cooperation with Business Partners Communications with Stakeholders

> Please check to show how much you agree with the following:

	Very Much	Yes	Moderately Agree	Disagree	Totally Disagree
Clearly written and easily understandable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Provides sufficient and useful information on important issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Useful and reliable content	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Well-designed and helpful for understanding its contents	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

> Which part, if any of the report should be added to?

- Company Introduction & Sustainability Management Economic Performance
- Environmental Performance Social Performance Internal Customer Satisfaction

> Please give us feedback on the following (Section: Economy, Society, Environment, Customer Satisfaction, etc)

1. What part(s) did you find the most impressive? (_____)
2. What part, if any, of the report should be added to? (_____)
3. What part(s) did you find most useful? (_____)
4. What is your overall level of satisfaction with the report?
 Very satisfactory Satisfactory Average Unsatisfactory Very unsatisfactory

> Any other comments?

* Thank you for your cooperation.

Please fax your opinions to 82-31-701-6865.

Economy | **Park Chang Ho** Manager
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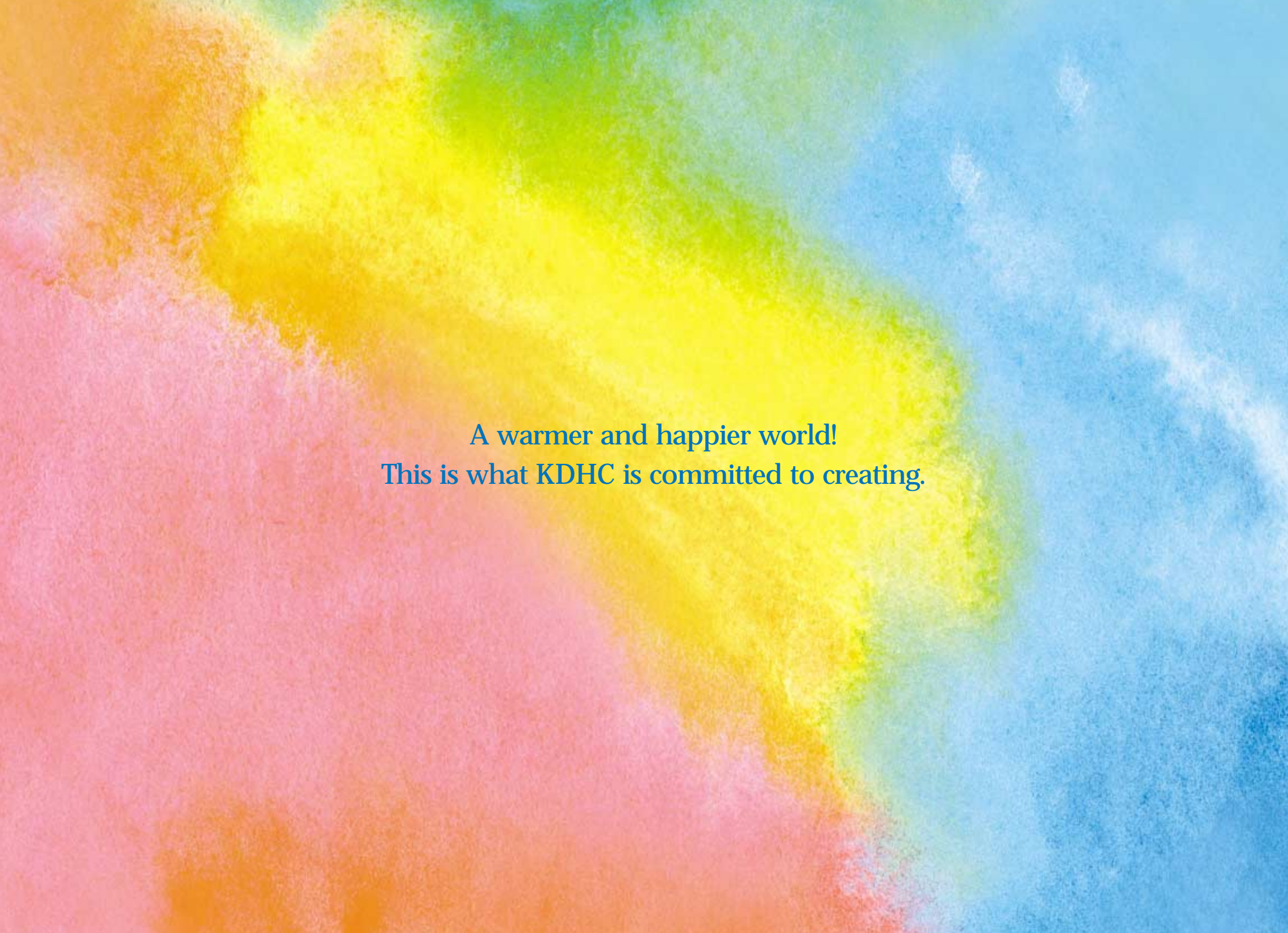
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A warmer and happier world!
This is what KDHC is committed to creating.



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