

# Creating Value Beyond Energy

KNOC ANNUAL REPORT 2012



Happiness for the People



Entrance into Shale Gas Business



Economic Revival of Korea



Discover Oil at the Hawler Block in Iraq



Participate in Oil Development Projects in UAE

Shared Growth with Suppliers



World's 95th Oil Producing Country

Happiness for the People

Acquisition of Ankor E&P Holdings of the US

**Creating Value Beyond Energy**

Produce oil and gas of 12,000 barrels a day at Donghae-1 field  
Economical Gas Stations and Opinet for the Convenience of People

Discover Oil at the Hawler Block in Iraq Shared Growth with Suppliers

**Participate in Oil Development Projects in UAE**

Economic Revival of Korea Mutual Prosperity Integrity Happiness

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Acquisition of Dana Petroleum of the UK

Mutual Prosperity

**Integrity**

Economical Gas Stations and Opinet for the Convenience of People

Happiness for the People

Entrance into Shale Gas Business

Sustainable Development

Acquisition of Savia Peru

Economic Revival of Korea

Creating Value beyond Energy

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**Enhancing Energy Security**

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Capability & Organic Growth

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Integrity Happiness for the Korean People

Discover Oil at the Hawler Block in Iraq

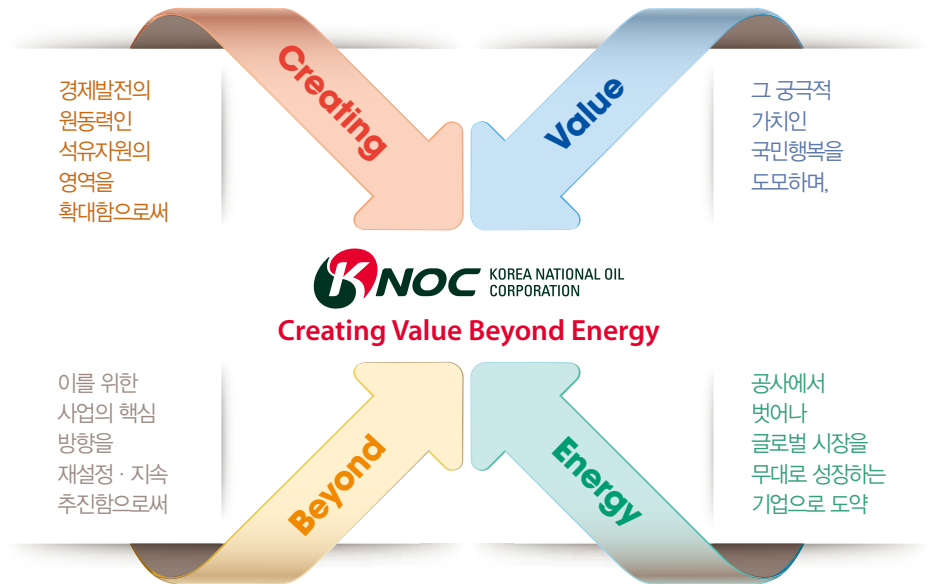
Economic Revival of Korea Mutual Prosperity



## CORPORATE VALUE

KNOC aims to not only fulfill its duty as a public corporation but also become one of global top 50 oil companies. to this end, we established new vision, slogan and management principles, and strive to achieve them.

### VISION



### SLOGAN



### 4 CORE VALUES



Challenge



Professionalism

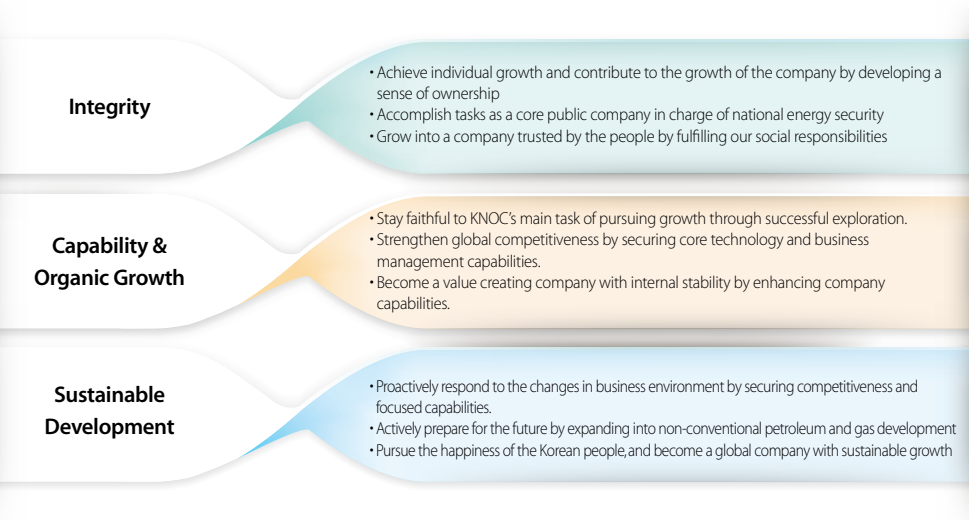


Respect



Contribution

### BUSINESS PRINCIPLES





# Communicating and growing together with the people

Leading the national energy security, KNOC is committed to growing together with the people by not only contributing to stable energy supply through proactive E&P and oil stockpiling businesses but also fulfilling its social responsibility and roles with a sense of duty as a public corporation.

## Oil Developments at home and abroad to lead efforts to secure energy independence

Under the mission of "Provision of hope and comfort for the people through stable oil supply," KNOC strives to secure oil resources at home and abroad for the energy independence of Korea.

## Oil Stockpiling: the foundation of energy security

KNOC has secured about 130 million barrels of oil in 9 stockpiling bases nationwide to stabilize oil supply and prices through the timely support of stockpiled oil and stockpiling facilities in case of emergencies in oil supply and demand in Korea.

## Opinet to help people find low-priced gas stations

With about 120 thousand daily users and more than 1 million application downloads, Opinet, the world's first gas station information system, helps people reduce fuel costs by providing the prices of gasoline, diesel, and LPG of about 15,000 domestic gas and LPG stations in real time.

## Development of unconventional energy resources

KNOC is opening a new horizon of energy future in Korea by accelerating the development of unconventional energy resources such as shale gas, regarded as the next-generation energy.

## Sharing love through social contribution

With a strong sense of responsibility as a public corporation, KNOC is carrying out company-wide, systematic social contribution activities considering its business features and social needs.

## Shared growth with suppliers

KNOC is implementing various policies for shared growth with suppliers, such as providing suppliers with more opportunity to participate in KNOC's major projects, supporting technical know-how, and purchasing more SME products.

## Economical Gas Station to reduce fuel costs

The Economical Gas Station is helping improve the lives of the people by providing high-quality petroleum products at relatively low prices. Through the expansion of Economical Gas Stations, KNOC will take the lead in creating a fair competition environment in the domestic oil industry and stabilizing oil prices.

By securing oil resources stably, KNOC is committed to promoting the happiness for the people and laying the foundation for sustainable growth on the global stage.

# CORPORATE PROFILE

As a state-owned oil company established in 1979 for the purpose of ensuring stability in domestic oil demand and supply, Korea National Oil Corporation (KNOC) has pioneered the future of Korea's energy industry by engaging in the exploration and production of domestic and overseas oil resources, oil stockpiling, improvement of oil distribution structure, and oil information service.

Since the declaration of the strategic goal of GREAT KNOC in 2008, KNOC has succeeded in acquiring promising overseas oil companies including Ankor E&P Holdings of the US, Savia Peru of Peru, KNOC Caspian LLP of Kazakhstan, Harvest Operations Corp. of Canada, Dana Petroleum plc. of the UK, and Altius Petroleum Int. B.V. of Kazakhstan. The efficient operation of the existing oil fields as well as such successful M&As increased our oil reserves and production volume considerably.

Besides the quantitative growth, we are holding our own against global competitors through qualitative growth by focusing on the systematic development of technological capability, advanced management system, and development of human resources to evolve into a global player.

By promoting the happiness for the people by securing stable oil resources and growing further on the global stage, KNOC will shape a better tomorrow with unquenchable thirst for challenge and ingenuity and serve as a reliable buttress for the national economy.

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## MESSAGE FROM THE CEO

**“We promise to be a true global player that shares happiness with the people by creating value beyond energy.”**

Dear fellow stakeholder and partners,  
We deeply appreciate your trust and support for KNOC.

### Business performance in 2012

In 2012, we continued to make progress in worldwide business expansion and established the base for our sustainable and qualitative growth driver to the future.

We produced 240 thousand barrels of oil equivalent per day in 2012, increased by 10% from 2011, with main contributions from Medway fields of Dana Netherlands, and Su Tu Trang field in Vietnam.

In exploration, KNOC signed a contract to develop three undeveloped fields in Abu Dhabi with production expected in coming years. In December, development of Dana's Western Isles project in the North Sea was approved. The project will develop two discovered oil fields, and is expected to produce more than 40,000 barrels of oil equivalent per day when it comes onstream in 2015. On our way to increase access to North American shale reserves and to build technical capacity to implement shale projects, KNOC jointly acquired EP Energy which has large positions in North American shales.

In domestic market, KNOC, as a state owned company, has promoted price competition among local suppliers by providing local gas stations with price competitive products in line with the government's vision, "Happiness for the People."

During 2012, we gave more focus on enrichment of the substance than on enlargement of the size. We revised mid to long term financial management plan in accordance with the strategic priorities, sold non-core assets to generate cash flow for further investment in more prospective assets, and raised funds from Korea National Pension Service to diversify financial resource thereby sharing our business performance with the people.

**Creating value beyond energy and Contributing to the happiness for the people.**

KNOC, as a socially responsible and ethical company, is growing together and in communication with the people. We strive to find the

best possible way to maximize the benefits for the people. And also we contribute to the local community and society by fulfilling our social responsibilities based on our code of ethics. As a result, KNOC has ranked high in annual sustainability evaluation for last 6 years, in recognition of its transparent business culture and dedication to the social contribution.

Social contribution has become one of the essential parts of our sustainable management, creating an atmosphere of trust and sharing in communities where KNOC operates. In HSE, our highly focused HSE management has led us to the accident-zero record during last 12 years at our domestic oil stockpiling sites.

### Global E&P company based on the substantial growth

KNOC continues to ensure substantial growth along with its growth in business. Although the business environment will be still challenging in coming years, we will respond the external challenges by securing internal stability. We will continue to drive our growth by focusing on exploration, establishing well integrated global management system, and building technical capability.

Looking ahead to 2013, KNOC will strive for enriching the people's lives through completing its social roles and responsibilities, and will create value beyond the energy.

Once again, I express my sincere gratitude and appreciation to our stakeholder and partners.

President & CEO

# EXECUTIVE OFFICERS

With a new vision and management principles,KNOC will be committed to enhancing the happiness for the people that is ultimate value of the company.



**Ryu Gap-Young** Auditor

We will build a management infrastructure meeting that of global oil majors by improving transparency, fairness,and rationality.



**Im Hong-Geun** Senior Executive Vice President

KNOC will be a role model for national corporations that is beloved by all people through dedicatedly contributing to the development of the corporation and national economy.



**Song Byung-Jin**

Executive Vice President for Strategy & Planning Group

Our global integration management system will root and detailed action plans for the sophistication of our capability will be also promoted.



**Kim Joong-Hyun**

Executive Vice President for Administration Group

Based on cooperative labor-management relationship, we will reinforce our competitiveness and fulfill social responsibility as a national oil corporation.



**Synn Eu-Gene**

Executive Vice President for Exploration Group

By focusing on strengthening exploration capability,we will succeed in discovering impact oils.



**Jeong Chang-Seok**

Executive Vice President for Production

We will lay the foundation for the 2<sup>nd</sup> takeoff by maximizing the value of development and production assets that we have.



**Park Jae-Ik**

Executive Vice President for Petroleum Stockpile Group

We will devote ourselves to leading the business with the pride that we are the world's best and a sense of ownership.



**Robert David Elliot**

HR Advisor/Head of KPA Center

I will contribute to advancing the level of works by forming and vitalizing a matrix organization that allows managerial resources to be efficient.



## MANAGEMENT PRINCIPLE

# Integrity

### Integrity

With a sense of responsibility as a pivotal public corporation dedicated to leading national energy security, KNOC is committed to securing oil resources stably at home and abroad. In addition, we endeavor to grow as a reliable public corporation contributing to the convenience of people's lives by providing Economical Gas Stations and oil information services to help people save on fuel costs. By completing its mission with a sense of ownership and sincerely fulfilling its social responsibilities, KNOC will grow into a global company pioneering the future of Korea's energy industry.





# Capability & Organic Growth

## Capability & Organic Growth

Based on remarkable growth achieved over the last 4 years, KNOC pursues balanced substantial growth both in size and quality to develop technologies and corporate management and enhance corporate value. Toward this end, we strive to develop systematic technology capabilities and increase the exploration success rate centered on large-scale exploration blocks to perform our duty as an oil specialist enterprise. Likewise, we are endeavoring to establish an advanced management system and develop human resources to reinforce our global competitiveness. Through these efforts, KNOC will become a national oil corporation that achieves substantial growth in quality and size.





# Sustainable Development

## Sustainable Development

The most important things for KNOC's development are to respond preemptively to the changes in the external environment and lay the foundation for sustainable growth. Toward this end, we are not only exerting efforts to maximize our capability in existing businesses but also actively preparing for the future by expanding to non-conventional energy sectors such as shale gas, oil sand, and shale oil. KNOC will take the initiative in the economic revival of Korea and promoting the happiness for the people by evolving into a global oil company.



Eagle Ford in the U.S.





# Review Of Operations 2012

KNOC has pioneered the national energy security, helping Korea secure the 95<sup>th</sup> oil-producing country based on its proprietary technologies. Amidst the fierce competition to secure natural resources, KNOC will emerge as a leading oil company that creates value beyond energy by continuously securing future growth engines and pursuing solid corporate management.



## KNOC, a global energy pioneer that opens up the future through qualitative advancement

In 2012, KNOC achieved remarkable feats such as expanding oil reserves through successful explorations and efficient operation of production blocks, expanding to non-conventional oil and gas development market, participating in oil development projects in the UAE, and securing the world's best construction and operation capabilities of oil stockpiling bases. Thanks to such efforts, KNOC recorded sales of KRW 10.55 trillion (US\$9.4 billion) and operating profit of KRW 788.4 billion (US\$699.7 million) in 2012.

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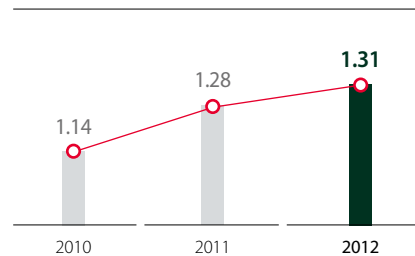


# Exploration & Production

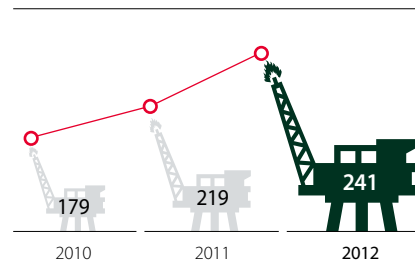
Exploration & Production (As of February 2013)

**226** projects in **24** countries

● Reserves (unit: billion barrels)



🏗️ Daily Production Volume (unit: thousand barrels)



Dana Egypt

## Leading energy self-sufficiency in Korea

For stable oil supply in Korea, KNOC is actively participating in 226 prospective overseas E&P projects in 24 countries as of February 2013. In particular, we have expanded our business scope by acquiring 6 overseas oil companies (Ankor E&P Holdings of the US, Savia Peru S.A. of Peru, KNOC Caspian LLP of Kazakhstan, Harvest Operations Corp. of Canada, Dana Petroleum plc. of the UK, and Altius Petroleum Int. B.V. of Kazakhstan) as well as 9 assets; thus improving our ranking from around 90th to 72nd place in the global oil industry.

In addition, KNOC consolidated the foundation for future growth by participating in the development of 3 blocks in the UAE, one of the flourishing markets in oil development, in March 2012. This project is under exploration and is expected to produce up to 43 thousand barrels a day after commencing production in 2017.

## Improving operational efficiency and succeeding in developing additional structures

KNOC holds the rights to develop and operate 95 blocks in and outside Korea as of the end of February 2013; 23 of these blocks are jointly

operated. Actively engaging in the direct operation of blocks beyond merely holding stakes, we have been striving for the expansion of oil production through efficient operation and successful PMI of overseas subsidiaries.

As a result, the total production volume increased from 72 million barrels in 2011 to 81 million barrels in 2012, thanks to the successful development of 9 additional structures in Block 15-1 in Vietnam and Dana-owned blocks of the UK.

In particular, Dana Petroleum obtained approval from the UK government for the development of the Western Isles Block with more than 45 million barrels of reserves amounting to US\$ 1.6 billion; this is expected to bring an additional 40 thousand barrels a day to KNOC by 2015.

## Promoting non-conventional oil and gas development

To secure future growth engines, KNOC has been proactively acquiring assets to develop shale gas, recognized as the next-generation energy. The acquisition of the US's EP Energy, which specializes in shale gas development, allowed us to acquire advanced technologies and operation techniques in this field easily as well as secure 180 million barrels of reserves and 27 thousand barrels in daily production. This project, together with the Black Gold (oil sand) and Eagle Ford (shale oil) projects, will contribute to opening up a new era for Korea's future energy leadership.

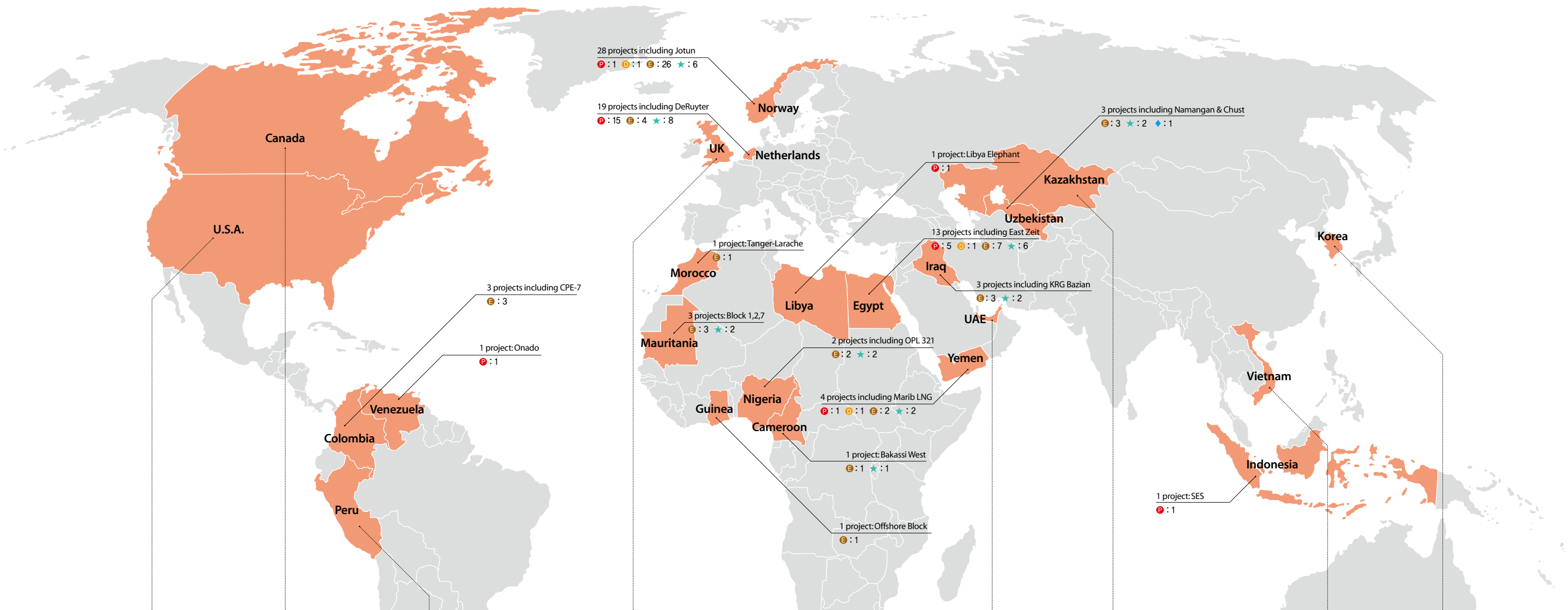


Kurd Oil Field in Iraq



KNOC's OVERSEAS E&P PROJECTS 226 Projects in 24 Countries (As of February 2013)

E&P PROJECTS P : Production:94 D : Development:9 E : Exploration: 123 ★ : Operation:95 ◆ : Co-Operation:23



**USA**  
Ankor E&P Holdings, Anadarko, etc  
• Acquired Ankor E&P Holdings (Mar. 2008)  
• Acquired equity of shale oil assets from Anadarko (23.7%)  
• Acquired core shale gas assets of EP Energy  
• Produce 65.4 thousand BOE a day

P : 5 D : 1 E : 10 ★ : 2 ◆ : 4

**Canada**  
Harvest Operations Corp., etc  
• Secured a base to enter North America and oil sand business by acquiring Harvest Operations Corp. in Dec. 2009  
• Produce about 60 thousand BOE a day

P : 27 D : 1 E : 1 ★ : 28

**Peru**  
Savia Peru S.A., etc  
• Jointly acquired Savia Peru S.A. with Ecopetrol, state-run oil company in Colombia, in Feb. 2009  
• Operate 11 oil blocks representing 75% of Peru's offshore blocks  
• Produce 13.5 thousand BOE a day

P : 2 E : 11 ◆ : 11

**UK**  
Dana Petroleum plc., etc  
• Acquired Dana Petroleum plc. that had development, production and exploration blocks in 9 countries in 2010  
• Produce 58.8 thousand BOE a day

P : 27 D : 2 E : 39 ★ : 24

**UAE**  
Oil Field Development Projects  
• Signed a main contract to develop 3 oil fields in Mar. 2012 and under exploration  
• Plan to commence the production in 2017 and expect maximum 43 thousand barrels a day

E : 3 ◆ : 3

**Kazakhstan**  
KNOC Caspian LLP, Altius Petroleum Int. B.V., etc  
• Acquired KNOC Caspian, a mid-sized oil company of Kazakhstan, in 2009  
• Acquired Altius in Mar. 2011  
• Produce 13.0 thousand barrels a day from 6 blocks including the ADA block

P : 4 D : 2 E : 3 ★ : 7 ◆ : 2

**Vietnam**  
15-1 Block, 11-2 Block, etc  
• 15-1 Block  
• Discovered by KNOC's independent technologies  
• Commenced oil production in 2003, and produce 48 thousand BOE a day  
• 11-2 Block  
• Commenced oil production in Dec. 2006  
• Produce 37.8 thousand BOE a day

P : 2 ★ : 1 ◆ : 1

**Korea**  
Donghae-1 Gas Field  
• Domestic continental shelf exploration  
• Produce 12 thousand BOE a day

P : 1 E : 1 ★ : 2



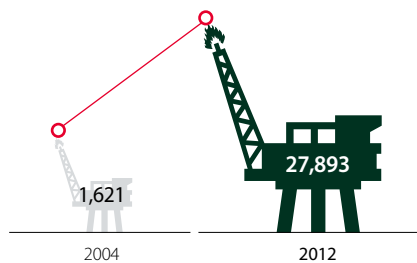
# Domestic Continental Shelf Exploration

Exploration & Production (As of February 2013)

Natural Gas **50,000** thousand ft<sup>3</sup>

Crude Oil **1,000** barrels

Annual Production Volume of Donghae-1 Gas Field  
(unit: thousand barrels)



Onshore Oil and Gas Treatment Facilities of Donghae-1 Gas Field

## Pioneering oil and gas development

To realize the goal of energy self-sufficiency, KNOC has been consistently striving to explore and develop continental shelves in Korea since its foundation. As a result, we developed the Donghae-1 Gas Field with high-quality natural gas layer having 186.2 billion cubic feet of expected reserves in July 1998, catapulting Korea to the 95th spot in the list of the world's oil-producing countries and serving as an opportunity to demonstrate our technological prowess to the world.

Currently, the average daily production in the Donghae-1 Gas Field reaches 50 million ft<sup>3</sup> of natural gas and 1,000 barrels of crude oil. Natural gas produced in the Donghae-1 Gas Field boasts of heat high enough to be utilized without additional processing, and it is supplied nationwide after being treated through offshore and onshore facilities to satisfy the standards in Korea. In addition, the Donghae-1 Gas Field produces ultra-light crude oil called condensate. This colorless, transparent, clean fuel is expensive compared to other oil types, producing almost zero air pollutants.

## Facilitating the Development of Domestic Continental Shelves

To carry out the exploration and development of the domestic continental shelf in a

systematic, effective manner, KNOC established the "Medium- and Long-term Plan for the Exploration of the Continental Shelf in Korea (2008 ~ 2017)." Under the plan, we are not only performing explorations in potential regions to hold oil and gas reserves but are also accelerating in the deep seas oil exploration and gas hydrates development, which are currently drawing global attention.

For the deep sea exploration of the Block 8, the concession contract was awarded to KNOC and Woodside, the Australia's largest independent oil and gas company in 2007. The Joint Venture have drilled an exploration well, Jujak-1 in a water depth of about 1,800m in May 2012 and now are under the post well evaluation to review the additional prospectivity of this area.

In addition, we are now evaluating the hydrocarbon potential in the southern part of the Block 6-1 by interpreting 3D seismic data which was acquired by joint exploration with Daewoo International Corporation. We are under the prospect evaluation.

KNOC has been striving to create favorable conditions for the resumption of exploration on the Joint Development Zone between Korea and Japan (JDZ) and the South Yellow Sea Basin. KNOC held the 2012 annual meeting with Japanese private companies to strengthen cooperative relations in the JDZ. KNOC also attended 2012 joint study meeting with CNOOC (China National Offshore Oil Corporation) to discuss technical issue in the South Yellow Sea Basin.



Production Facilities of Donghae-1 Gas Field

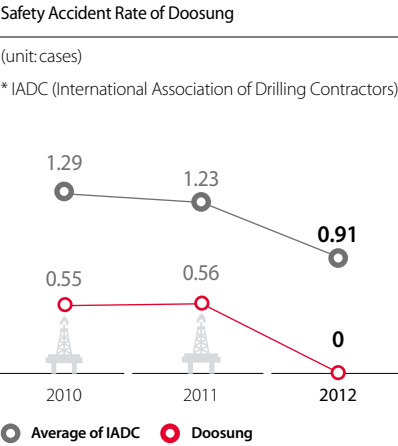




# Offshore Rig Operations

Drilling Performance (As of March 2013)

A total of **110** wells



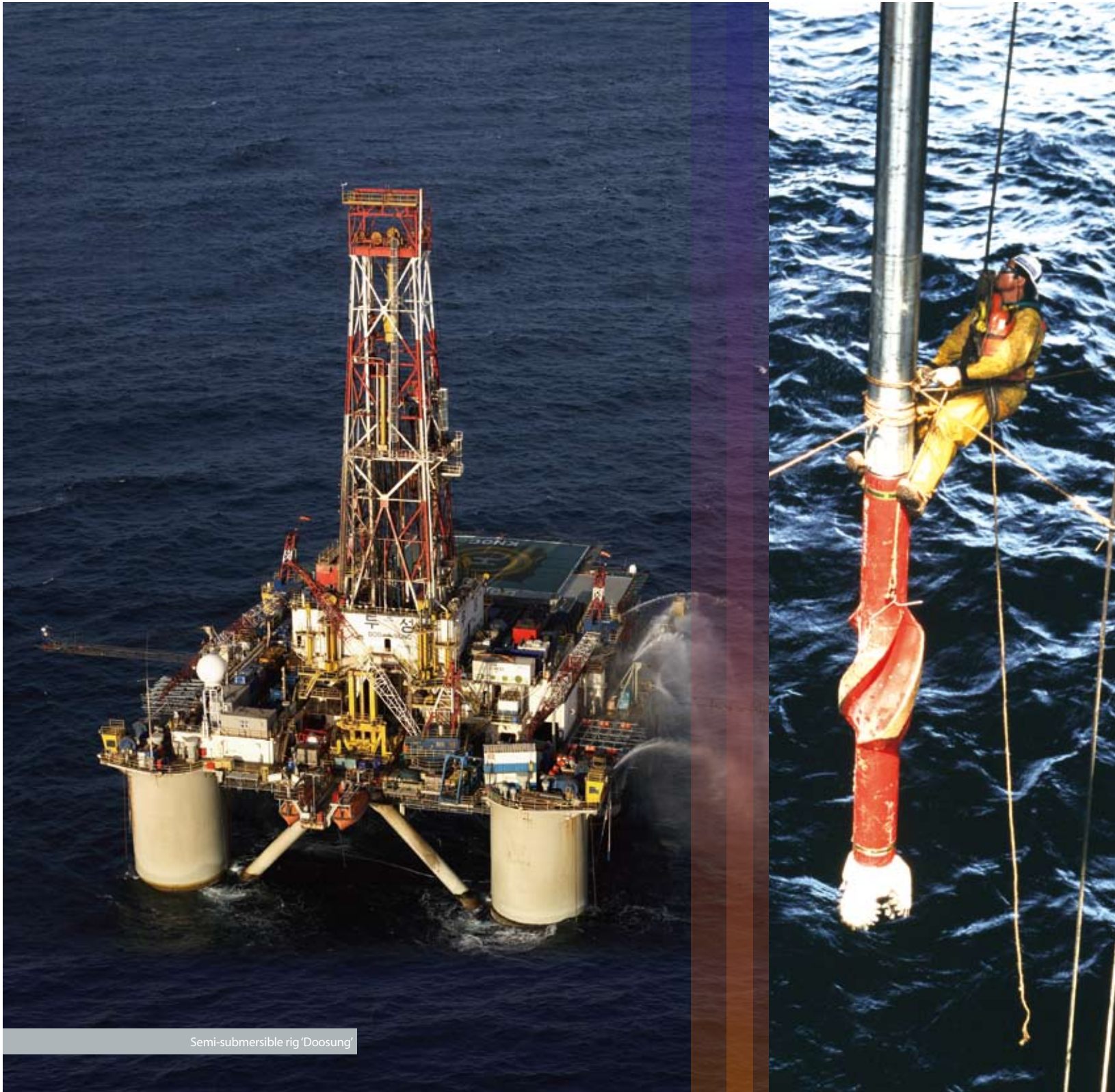
Drilling Worksite

## Enhancing the global competitiveness of “Doo Sung”

Built in 1984, Korea’s only semi-submersible rig, “Doo Sung,” has successfully drilled a total of 110 wells as of March 2013 not only in Korea but also in Alaska, China, Vietnam, Malaysia, Indonesia, and Russia. Doo Sung has acquired ISM, ISO 9001 certifications in 1988 and ISPS certification in 2004 by establishing a safety management system that meets the global standards. Based on this competitiveness, we have been actively responding to increasing customers’ demands for safety and conducting HSEQ (Health, Safety, Environment, and Quality) activities. As a result, Doo Sung recorded accident-free operation for five consecutive years and less than 50% average international accident rate under the IADC (International Association of Drilling Contractors) standard in December 2012. Its capability for maintaining occupational safety and excellence in operation was widely recognized again in the global rig market.

## Securing long-term contracts for operation

In 2012, KNOC focused on the successful operation of Doo Sung in Myanmar, stable sales creation, and improvement of safety and performance. In particular, thanks to our customized strategies targeting the Far East and South East Asia markets, we won 2-year long-term contracts from 2013 to 2014 with Gazprom of Russia and Shell of Malaysia for the first time in the operation of Doo Sung. This contract ensured the full operation of Doo Sung for the next two years and recordable sales volume of US\$ 160 million for the same period. Considering an average semi-submersible rig utilization rate of 75% and an average rig utilization rate of 50~60% in South-East Asia, which is the core market for Doo sung, and the average rig dayrate in East Asia, this contract is equivalent to the operation volume for more than three years. Moreover, the life of Doo Sung was extended to up to 15 years through the maintenance of its body during idle time; gradual equipment maintenance was promoted to create continual profits and enhance marketing competitiveness. In addition, KNOC endeavored to secure competitiveness on a par with that of global major rig operators by establishing risk management based safety system (HSE Case) to identify and prevent risk factors in each part of the rig in advance and tightening regular safety training and hazard observation system.




Semi-submersible rig 'Doosung'

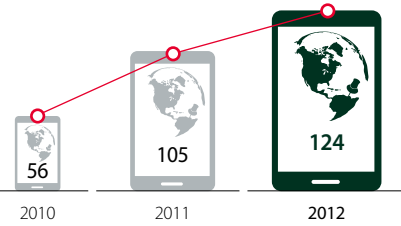


# Oil Information Service

Number of Opinet Users in 2012

About **45,000,000** persons

 Number of Daily Opinet Users  
(unit: thousand persons)



Opinet that allows users to find out low-priced gas stations

### Providing rapid and accurate oil information

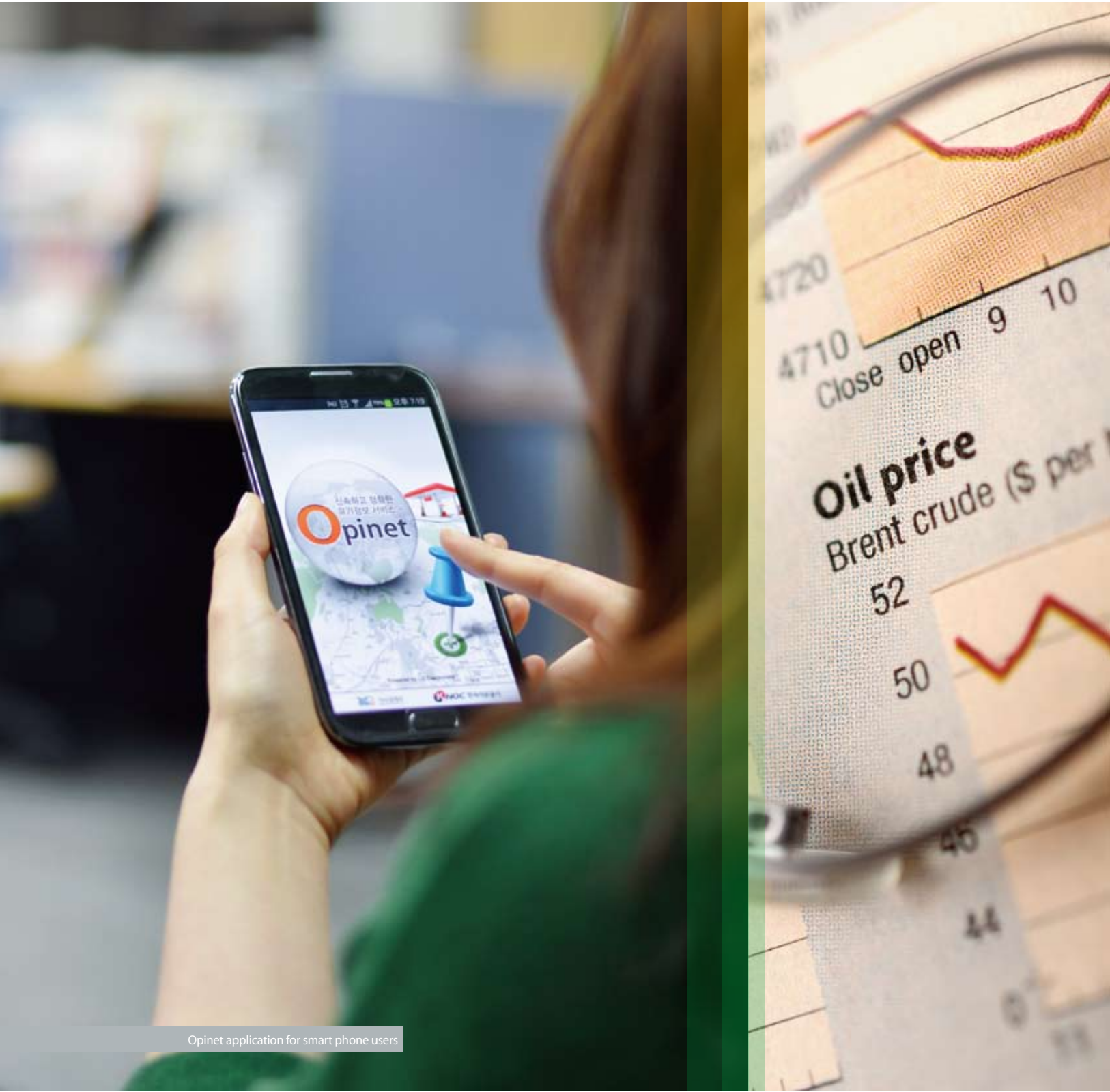
KNOC collects, analyzes, and evaluates a variety of oil information covering not only global oil market conditions but also domestic supply and demand ranging from crude oil import, product manufacturing, and consumption to prices. Such database is compiled systematically and swiftly provided to all areas through the Internet and application-based oil information service network (Petronet, [www.petronet.co.kr](http://www.petronet.co.kr)). In particular, Opinet, introduced in 2008, is the world's first comprehensive gas station information system that collects and provides the prices of gasoline, diesel, and LPG of more than 15,000 gas stations nationwide in real time. It is contributing to the improvement of the distribution structure and promotion of fair competition in the domestic oil market.

### Advancing oil information service

In 2012, the internal and external oil market conditions changed dramatically with a lot of uncertainties. In particular, demand for public information increased sharply as stability and transparency of the domestic oil market were sought.

To satisfy such demands, KNOC provided customized, interactive oil information services that can be utilized anytime, anywhere through the Internet, smart phone, and GPS system; thus resulting in a dramatic improvement in customer satisfaction.

In particular, the Opinet service has been upgraded by introducing new contents such as the short-term oil price forecast, open price of LPG, and improved map service. We also strove to vitalize the Opinet service through the naming contest and PR activities. Thanks to such efforts, the number of daily users of Opinet in 2012 increased by about 20% year on year to 124 thousand, and the number of application downloads exceeded 1 million cases. We also won the grand prize in the public service category of the "Mobile Brand Awards 2012" held by Maeil Business Newspaper. Meanwhile, KNOC has exerted efforts to cultivate experts in each sector to enhance the capability to analyze the oil market and core information services. We established a mid- to long-term development plan for the oil information service sector under the goal of developing our oil information center into a global think-tank. Based on this plan, KNOC will not only respond efficiently to global oil market changes and uncertainties but also suggest the direction of development of the domestic oil industry.



Opinet application for smart phone users



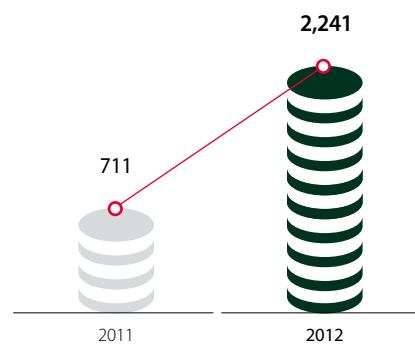
# Research & Development

Investments in R&D Activities (2013)

KRW **30.3** billion

Profits from Technology Supports of GTRC

(unit: thousand US\$)



R&D Activities Focused on 6 Strategic Technologies

## Securing world-class oil development technologies

As a critical factor in business competitiveness, differentiated technology determines the future of a company. Toward this end, KNOC has been establishing and implementing systematic and comprehensive measures to secure oil development technologies at the global level.

In 2010, we scouted a foreign executive member from a major oil company and laid the foundation for securing world-class technologies by dispatching our technical experts to the "KNOC Global Technology & Research Center (GTRC)" in Calgary, Canada to cooperate with foreign technical specialists. GTRC is also participating in technical reviews on our large-scale projects in Kazakhstan, Peru, and Iraq, etc.

Also, we have continued to invest significantly in securing human resources and enhancing infrastructure for E&P business. KNOC's own research organization E&P Technology Institute is committed to creating synergy in the area of technology research as well as improving exploration success rate by conducting technical assessment on E&P projects that are promoted by the corporation.

Meanwhile, KNOC has focused on securing advanced E&P technologies by tapping the capability of the technical specialists of overseas subsidiaries such as Dana, HOC, and Ankor. In

2012, a total of 114 experts of the headquarters were dispatched to overseas subsidiaries and advanced companies to seize an opportunity to acquire state-of-the-art technologies. In addition, specialized IT services started by building an integrated information management system. The Global Knowledge Management System (GCoP) was also established to share know-how and technology information between employees in the headquarters and those in overseas subsidiaries.

## Focusing on proactively executing core tasks to secure new growth engines

In 2012, KNOC executed core tasks for the advancement of business capabilities and development of independent technologies.

We diagnosed the level of our technologies in four areas related to the E&P project including geological features and geophysics and identified the items to be supplemented in the six strategic technologies:

- basin analysis on promising area
- subsurface imaging
- reservoir simulation
- enhanced oil recovery
- unconventional energy development
- drilling and well completion

As a result, KNOC has conducted 17 state-run researches and 7 internal studies including those related to the non-conventional oil and gas industry in 2012. In addition, we applied for patents on 20 technologies and completed the registration of 6 technologies.



Enhancing independent technological capabilities through continuous R&D

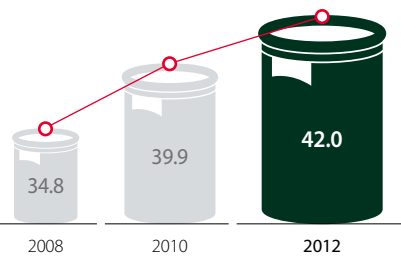


# Oil Stockpile

Oil Stockpile Amount (As of March 2013)

130 million barrels  
(oil stockpile rate: 90%)

International Joint Stockpiling  
(unit: million barrels)



Underground Oil Stockpiling Base

Improving competitiveness in oil stockpiling

Since its establishment in 1979, KNOC has been engaging in the oil stockpile business to promote the energy security of Korea. As of March 2013, we hold 130 million barrels of oil stock including the amount from the international joint-stockpile business in stockpiling facilities with total capacity of 146 million barrels in nine regions including Ulsan, Geosje, and Yeosu. To balance domestic supply and demand and reinforce the capability to respond to oil shocks, we plan to execute the 3rd Government Plan on Oil Stockpiling with the goal of reserving 141 million barrels by 2013. Moreover, KNOC has enhanced its competitiveness in the oil stockpiling business by shifting from static operation with promoting oil security as the top priority in the past to dynamic stockpiling that focuses on both oil security and economic feasibility. Therefore, we currently manage stockpiled assets within the range that does not deviate from the original purpose of the business. The trading volume that utilizes stockpiled assets in 2012 increased 172% year on year to 87.25 million barrels, with the international joint stockpiling reaching a record-high of 42 million barrels thanks to proactive marketing activities despite

the unfavorable market conditions. Backed by such achievements, profit in the oil stockpiling business amounted to KRW 158.3 billion, up 8% compared to the previous year. In addition, KNOC contributed to the stabilization of oil supply and prices in 2012 by providing stockpiling facilities and 32 million barrels of stockpiled oil to the domestic market.

Globalization of the stockpiling business

In November 2012, KNOC concluded a contract for the strategic international joint stockpiling business for 6 million barrels of crude oil with ADNOC, a national oil corporation of UAE, in Abu Dhabi. This contract made Korea the priority in purchasing the contracted volume in case of an oil crisis and sought to mitigate the financial burden for direct oil stockpiling. In addition, we concluded an MOU for cooperation in oil stockpiling with Petro Vietnam, a national oil corporation of Vietnam, in March 2012. This contract included the transfer of KNOC's O&M technologies for Korean-type oil stockpiling bases, which laid the foundation for exporting KNOC's proprietary technology to the global market. Meanwhile, KNOC has continuously promoted an oil hub project of Northeast Asia -- wherein commercial oil storage facilities are constructed in Yeosu and Ulsan -- since 2008. As a result, the tank terminal in Yeosu was completed as scheduled, and it started commercial operation in April 1, 2013. For Ulsan, KNOC is exerting efforts to create favorable internal and external conditions for success by attracting more investment and through deregulation.





# Economical Gas Stations

Plan to Expand the Number of Economical Gas Stations

**1,300** gas stations by 2015

Number of Economical Gas Stations (As of March 2013)

**896** gas stations



Associated Credit Cards to Promote Economical Gas Stations

## Contributing to improving the lives of people

The Economical Gas Station was introduced to ease the financial burden of people in several ways to foster sound competition in the domestic distribution market and stabilize oil prices. By forming a team dedicated to petroleum distribution in October 2011, KNOC accelerated the business by encouraging the participation of Korean oil refiners, securing infrastructure including storage facilities and adopting support measures for participants including a rational pricing method. As a result, the first Economical Gas Station was opened in December 2011.

To expand the Economical Gas Stations, KNOC has proactively conducted the following promotion activities: holding seminars in five major cities of Korea in January 2012, issuing associated credit cards, supporting funds for the participants, and promoting PR activities nationwide.

Consequently, the number of Economical Gas Stations nationwide reached 896 as of March 2013; it became the 5th pole gas station after only a year of operation in the market, which

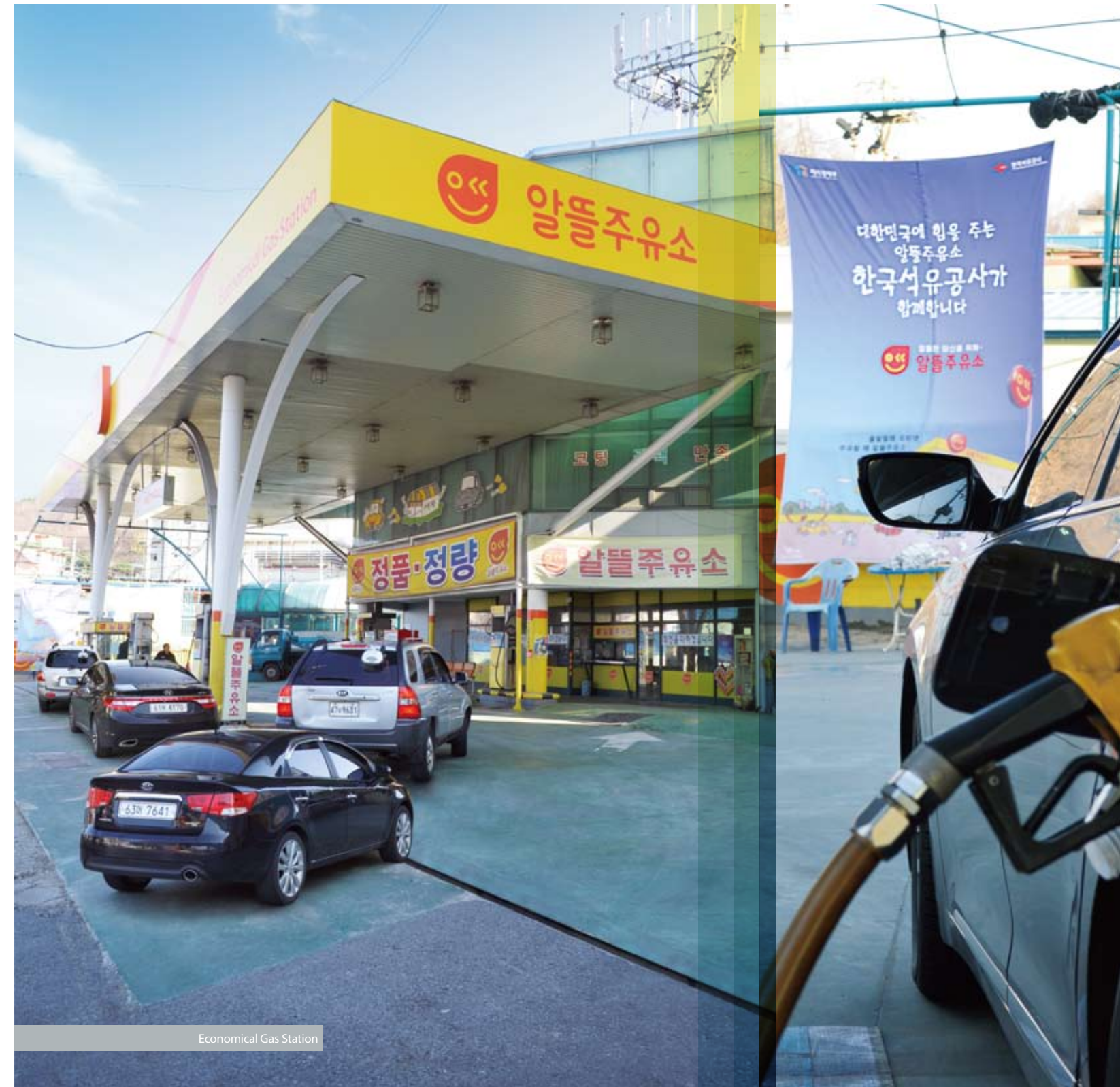
had been dominated by Korea's major four refineries (SK Energy, GS Caltex, S-Oil, and Hyundai Oil Bank) for several decades. KNOC will continue to work to win people's trust by expanding the Economical Gas Stations, building a transparent operation system, and strengthening quality control.

## Stabilizing oil prices and improving the oil distribution structure

The introduction of Economical Gas Stations unleashed changes in the domestic oil distribution channel by triggering fair competition in the market which had been dominated by four major oil refineries.

In particular, Economical Gas Stations are supplied with affordable products secured through the joint procurement of oil and remaining capacity of stockpiling facilities of KNOC. It also allows gas station operators to veer away from competition focusing on additional services, thereby curbing the increase of oil prices in nearby gas stations. As a result, the Economical Gas Station has come up with the new paradigm of cost-reducing gas stations equipped with price competitiveness that provides guaranteed products and delivered direct benefits to consumers.

In addition, KNOC has led the paradigm shift in the oil distribution market by adopting transparent oil price information systems such as the registration of standard prices. Such efforts enabled Economical Gas Stations to cut down oil prices by KRW 46 per liter compared to the national average and curtail the increase of oil prices in nearby gas stations.



Economical Gas Station



# Sustainable Growth

To create value beyond energy, KNOC is committed to fulfilling its social responsibility and role by upholding business ethics and promoting social contribution as well as engaging in oil resource development. Through these efforts, the Corporation will promote the happiness for the Korean people and grow sustainably in the global stage.



## Realizing a transparent, affluent energy future

As a state-owned oil company dedicated to national energy security, KNOC is implementing various activities for sustainable growth ranging from the introduction of an advanced ethical management system meeting the global standard to the fulfillment of corporate social responsibility through company-wide social contribution activities, shared growth with suppliers, environment-friendly management, and family-friendly management.

The Corporation will continue to enhance competitiveness and serve as a global corporate citizen by promoting sustainability management; thus creating value beyond energy.

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# Business Ethics



**KNOC strives to become a trustworthy company by entrenching ethical management meeting the global standards. Based on the strong commitment of the CEO to ethical management, we are taking the initiative in establishing a transparent, fair corporate culture and fulfilling social responsibilities.**



## Ethical management system

KNOC has operated the Ethical Management Committee, which deliberates on and resolves major issues on business ethics; each department and the overseas branches of the corporation nominate officers dedicated to business ethics. In addition, we have been improving ethics regulations and related systems to exercise ethical management meeting the global standards.

Moreover, we introduced more systems for advanced business ethics such as the Great Way in 2009, a direct communication channel with the CEO, expansion of compensation coverage for public report in 2010, transparency-oriented ombudsman system in 2011, and solicitation declaration system in 2012. Meanwhile, ethics programs for executives include pledge of anti-corruption and transparency, compulsory education on integrity, and disclosure of the details of corporate card use through our website.

## Education on ethics and risk management

KNOC has offered customized ethics education programs to target groups every year including cyber education for all employees, code of conduct education for new employees, education on integrity for the management level, and ethical management workshop for officers dedicated to the business ethics of each department.

To manage ethical risks in overseas offices, KNOC established counseling channels through SNS; it has been conducting ethics education consistently for employees who will work at the overseas offices prior to their dispatch and until their return to Korea.

In particular, our auditor has visited all overseas offices to provide special lectures on integrity and ethical management since 2011. The department dedicated to ethical management also visited the Kazakhstan and Vietnam offices to give training on local ethics-related regulations including the anti-bribery act.

Thanks to these efforts, KNOC garnered the highest rating (AAA) in the Corporate Sustainability Management Evaluation -- held by the Ministry of Knowledge Economy (currently Ministry of Trade, Industry & Energy) -- for 6 consecutive years.



Pledge of anti-corruption and transparency



Global ethical risk management



Customized ethics education for target groups



# Risk Management

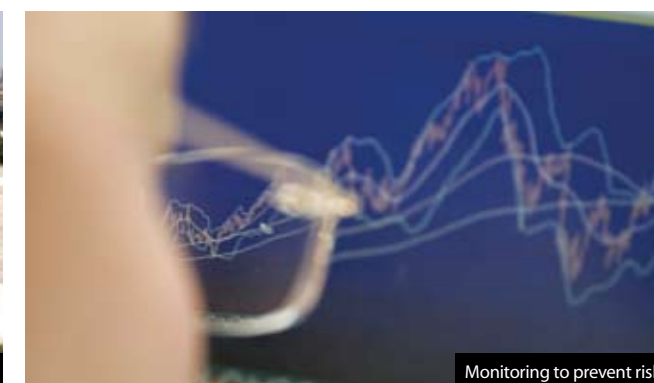
Through the Enterprise Risk Management (ERM) system, KNOC monitors key risk factors in terms of finance, strategy, and operation at all times to respond to risks preemptively.

## Efforts to secure sound financial structure

KNOC measures the value-at-risk and earning-at-risk depending on the fluctuation of market risk factors (exchange rate, interest rate, and oil prices) and calculates the volatility of the equity level for monthly base. The results are utilized in managing its financial soundness indices. To cope with the increased borrowings after the 'Great KNOC' strategy, KNOC has established a comprehensive asset-debt management system for coordinating debt management with asset management. In addition, it has set up a mid- to long-term plan to maintain financial stability and improve financial structures from a long-term perspective. We manage short-term liquidity by calculating the proper amount in hand stochastically using historical volatility.

## Strategic and operational risk management

In terms of strategic risk management, we frequently compare the performance of key indices such as oil production, oil reserves, revenue, and operating profit with our target as well as estimate the annual performance result and risk-adjusted performance measurement. This is aimed at promptly establishing and implementing countermeasures upon the detection of risk signals such as failure to attain the annual target. In terms of operation risk management, we register key HSE-related indices by incorporating key indices including fatal accidents, lost time incident frequency rate, oil spill, fire, and residual oil to our risk management system. These indices are monitored and managed regularly to prevent risks.





# Social Contribution

KNOG is committed to leading the culture of sharing and coexistence. Toward this end, we have been carrying out various corporate social responsibility activities including support to the underprivileged, contribution to the local community, and support to the academic and cultural fields. Our global operations are also conducting systematic social contribution activities worldwide.

Kimchi-making event

## Social contribution strategies

Guided by the vision of "Creating Value beyond Energy," KNOG is carrying out company-wide social contribution activities that reflect its characteristics and social needs. Our social contribution activities are conducted based on 4 strategic tasks: enhancing support to the underprivileged, increasing participation in local community development, promoting global social contribution, and cultivating experts specializing in the energy industry. KNOG will continue to build a culture of sharing through the advancement of CSR activities.

## Major social contribution activities

In 2012, we improved heating and other living conditions for low-income families and provided lunch money for starving children under the Sunshine project, forged sisterhood relations with the local children's center under the Happy Together project, helped marriage immigrants visit their mother country or invite multicultural families under the KNOG Family project, and provided scholarships to schools and sponsored arts performances and events under the Hopeful Energy project.

## Promoting global social contribution activities

To facilitate our social contribution activities on the global stage, KNOG established an independent volunteering group, collaborating with 13 overseas offices and local social contribution foundations including the Savia Peru Association. Based on this strategy, we have conducted a variety of social contribution activities tailored to the characteristics of each region: construction of a library in a local school in Vietnam; construction of educational facilities for residents in 9 areas in Piura, Peru; disaster rehabilitation in the Gulf of Mexico; education on resource recycling in Egypt; support for youth sports in the UK; improvement of vulnerable facilities in Yemen and Vietnam; and aid to Koryo People (ethnic Koreans who have moved to Russia and independent states of Central Asia and become local residents) in Kazakhstan, etc.



Delivering briquettes to the neighbors in need



Awarding scholarships to teenagers



Events for the multicultural families from Vietnam



# Environmental Management

KNOC is committed to creating a pleasant, healthy workplace environment while pursuing environment-friendly business management. We continuously improve the HSEQ management system; at the same time, all of our worksites at home and abroad strive to meet the environmental objectives.



## Establishment of environmental management system

To ensure a clean and safe workplace environment, KNOC has been operating the quality and environmental management system (ISO 9001 and ISO 14001) established for all sites; it also acquired KOSHA 18001 certification for the stockpiling sites. In addition, the offshore rig operation business has been managing the ISO 9001 and ISM/ ISPS Code for rig safety and security. Based on such efforts and systematic, consistent HSEQ management, KNOC promotes safe, environment-friendly E&P and stockpiling businesses which meet the level of global oil majors. In June 2012, we held the "KNOC HSE Conference" participated in by HSE leaders of domestic and overseas worksites, through which all participants were able to understand further the corporate HSE management system and share the operational know-how of each business site.

## Operation of environment-friendly stockpiling bases

We have consistently expanded our environment investment to improve major facilities and equipment and minimize pollutants. To operate the oil stockpile business in an environment-friendly way, we have minimized pollutant discharge by installing a stench control facility in the water treatment systems and promoted activities to reduce greenhouse gas emissions. Moreover, KNOC has focused efforts on preventing environmental accidents and realized 12 consecutive accident-free years in 9 stockpiling bases in 2012.



Oil stockpiling base

## Securing the foundation for green growth

KNOC has been developing the carbon capture and storage technology (CCS) and the gas-to-liquid technology (GTL) as one of the R&D tasks for realizing the national vision of Korea and identifying new growth engines of the company. Through our strategic tasks such as green growth R&D projects and GHG emissions target management scheme on the public sector, we are leading the way in building the foundation for green growth. Specifically, we vitalize internal and external infrastructure for responding to climate change, reduce greenhouse gas emissions, improve energy efficiency, and develop photovoltaic power.



Worksite in Peru



2012 KNOC HSE Conference



# Family-friendly Management

We strive to make KNOC a great place to work in by helping employees strike a balance between work and family life. Toward this end, we promote family-friendly management that contributes to boosting business performance and improving the quality of life for all employees.

## Efforts to establish family-friendly management

KNOC is striving to establish an advanced corporate culture that places importance on both workplace and family, cognizant of the fact that family-friendly management is essential for the development of a company. Through the establishment and improvement of family-friendly management, KNOC creates sustainable values while contributing to the betterment of its employees.

To build and improve the family-friendly culture, we actively collect employee opinions through various channels such as labor-management meetings and female discussion meetings and benchmark best practices of private and public corporations that are recognized for maintaining balance between work and family.

## Vitalization of family-friendly welfare system

KNOC is creating a flexible working environment through the flexible working hour system to give time for personal development, Early-Home Day every Wednesday and Friday, and promotion of use of 2-week leave, etc. Moreover, to reinforce maternal protection, the regulations on break and leave of absence for pregnant women and mothers were revised in 2011, and an in-house childcare facility was installed in the headquarters to support childbirth and child-rearing among working mothers. In 2012, a total of 14 female employees availed themselves of the maternity leave. In addition, KNOC is practicing a comprehensive family-friendly management through family invitation events as well as provision of additional welfare benefits for multi-child families.

Thanks to the steadfast practice of such programs, KNOC was certified as a family-friendly corporation in December 2012 by the Ministry of Gender Equality and Family.



Certification of a family-friendly corporation in 2012



Together with family

# Shared Growth with Suppliers

KNOC pursues shared growth with suppliers by implementing fair transactions and supporting the improvement of SMEs' competitiveness.

## Vision and strategy for shared growth

KNOC established a vision and a strategy for shared growth with suppliers to respond positively to the government's policy and support SMEs as partners in its E&P and stockpiling businesses. Such includes 3 strategic directions (enhancement of suppliers' competitiveness, expansion of fair transactions, and establishment of foundation to implement shared growth) and 7 strategic tasks (more support for technology development, support for pioneering their sales routes at home and abroad, expansion of performance sharing, procurement of SMEs' products, enhancement of subcontract management system, instillation of shared growth culture, and consolidation of shared growth promotion system). Based on such directions and tasks, we are implementing diverse activities to grow together with suppliers.

## Providing more opportunities and support to SMEs

In 2012, a total of 56,973 jobs have been created as a result of our efforts toward shared growth. KNOC has given extra points to SMEs participating in the bid of its projects and started to place separate orders by business type to support SMEs. We have also expanded outsourcing, established

partnerships with private companies, and made strategic investments. Meanwhile, KNOC concluded a performance sharing contract with eMainTec, a SME, during the facility management system sophistication project for Doo Sung (our drilling rig) and transferred its technique and information on the operation and maintenance of a drilling rig.

## Purchasing SMEs' products

To expand the purchase of products from small and medium enterprises, KNOC included the purchase of SME products as a new indicator in the internal performance evaluation list.

Monthly purchase outcome is collected, with the quarterly purchase status in each department reviewed to reflect the outcome actively on the purchase performance evaluation. Moreover, product purchase from female-owned social enterprises is extensively promoted for the realization of fair society and shared growth.



Proclamation of the vision for shared growth with suppliers



Conclusion of a contract to share performances with eMainTec



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## Management's Discussion & Analysis

### Overview

KNOC was established in March 1979 not only to supply oil stably but also to contribute to the development of the national economy by efficiently carrying out businesses for the exploration and production of oil resources, oil stockpiling, and improvement of oil distribution structure. The entire equity is held by Korean government.

As Korea's only public oil company, KNOC has proactively participated in overseas oil exploration and production projects to secure energy resources around the world and supply oil stably. In particular, since the "Great KNOC 3020" strategy was mapped out in 2008, KNOC has conducted aggressive M&A activities around the world. As a result, we succeeded in acquiring Ankor E&P Holdings of the US, Savia Peru S.A. of Peru, Harvest Operations Corp. of Canada, KNOC Caspian LLP. of Kazakhstan, Dana Petroleum plc. of the UK, and shale oil equities of Anadarko and shale gas assets of EP Energy of the US; thus upgrading our status on the global stage. KNOC is preparing for another leap forward with focus on securing more oil resources by enhancing the exploration success rate,

diversifying the E&P business portfolio, and creating synergy in the global business. It also strives to fulfill its responsibility as a public corporation by promoting the northeast oil hub project, advancing oil information services, and contributing to the stability of oil prices through the operation of Economical Gas Stations.

KNOC has 10 domestic and 12 overseas branches and offices as of the end of 2012. Participating in 226 promising overseas projects in 24 countries, KNOC produces 241 thousand b/d on the average and secures reserves of 1.31 billion barrels of oil equivalent.

### Financial Statement Standards and Important Accounting Policies

KNOC has adopted K-IFRS in preparation for its consolidated financial statements for the period beginning January 1, 2011. Therefore, financial figures in this report were prepared based on the consolidated financial statements of KNOC and its subsidiaries. The Corporation's consolidated subsidiaries as of December 31, 2012 and 2011 are as follows:

Subsidiary Name	Major Business	Location	Ownership (%)
Harvest Operations Corporation and its subsidiaries <sup>1)</sup>	E&P	Canada	100
Dana Petroleum plc. and its subsidiaries <sup>2)</sup>	E&P	UK	100
KNOC Kaz B.V.	Holding Company	Netherlands	100
KNOC White Hill B.V.	Holding Company	Netherlands	85
KNOC Caspian LLP	E&P	Kazakhstan	85
KNOC Black Hill Ltd. <sup>3)</sup>	Holding Company	Canada	95
Altius Holdings Inc. <sup>3)</sup>	E&P	Kazakhstan	95
ANKOR E&P Holdings Corporation	E&P	US	100
KNOC Eagle Ford Corporation <sup>4)</sup>	E&P	US	100
KNOC Sumatra Ltd.	E&P	Indonesia	100
KNOC NEMONE	E&P	Indonesia	100
KNOC NEMTWO	E&P	Indonesia	100
KNOC Yemen Ltd.	E&P	Yemen	60
KNOC EP Corporation <sup>5)</sup>	E&P	US	100
KNOC Exploracao e Producao de Petro do Brasil Ltda	E&P	Brazil	100

1) KNOC Canada Ltd., which is a wholly-owned subsidiary of the Company, acquired 100% ownership interest in Harvest Energy Trust located in Canada in December 2009. On May 1, 2010, KNOC Canada and Harvest Energy Trust were merged into one entity named Harvest Operations Corp.

2) In October 2010, the Corporation acquired 100% ownership interest in Dana Petroleum plc (Dana) which has exploratory, developing and producing oil wells in the United Kingdom, the Netherlands, Norway, Egypt and other countries.

3) In March 2011, the Corporation acquired 95% of ownership interest in Altius Holdings Inc. located in Kazakhstan through KNOC Black Hill Ltd.

4) In March 2011, the Corporation established KNOC Eagle Ford Corporation (Eagle Ford) as a wholly-owned subsidiary, and Eagle Ford acquired some interests in upstream and midstream businesses of Anadarko E&P Company LP located in the United States.

5) KNOC EFE Co was founded in May 2012, and it acquired 15.5% shares of EPE Acquisition LLC who had acquired 100% ownership of US-based EP Energy LLC in May 2012.



Management’s Discussion & Analysis

Results of Operations

Consolidated sales of KNOC in 2012 were pegged at KRW 10.55 trillion, up 17.9% or KRW 1.61 trillion compared to the previous year driven by the reinforced E&P technological capabilities, improved operational stability in production fields, active PMI (Post-Merger Integration) activities for acquired overseas assets, and efficient use of stockpile bases.

Cost of sales increased 26.4% year on year to KRW 9.29 trillion due to the rise in depreciation costs and inventories. Consequently, our gross profit decreased 21.0% to KRW 1.27 trillion in 2012 compared to the previous year. Sales and administrative expenses also rose 2.8% year on year, due mainly to the increases in personnel expenditure and sales promotion costs for business expansion and amortization on tangible assets.

Our consolidated operating profit in 2012 was KRW 788.4 billion, down 30.7% or KRW 349.0 billion compared to the previous year. Operating margin was 7.5%. We posted net loss of KRW 904.0 billion in 2012, due mainly to impairment losses on assets of Harvest Operations Corporation and failures in explorations.

(KRW in millions)	2012	2011
Sales	10,553,953	8,948,378
Cost of sales	9,288,646	7,346,979
(Ratio of sales cost)	88.00%	82.10%
Gross profit	1,265,306	1,601,399
(Gross profit margin)	12.00%	17.90%
Operating profit	788,444	1,137,397
(Operating profit margin)	7.50%	12.70%
Net profit	-904,031	-152,752
(Net profit margin)	-8.60%	-1.70%

(KRW in millions)	2012	2011
Exploration & Production	10,263,714	8,393,218
Oil Stockpile	192,503	408,340
Financing	3,441	4,059
Rig Operation	15,155	55,291
Others	79,140	87,470
Total Sales	10,553,953	8,948,378

Sales of KNOC are broken down into E&P (exploration, development, and selling of domestic and overseas oil resources), stockpiling (trading of crude oil and oil products, lease or selling of stored assets, management of oil stockpiling facilities), financing (financing for corporations engaged in energy and resources-related businesses), rig operation (drill ship chartering), and other businesses. The respective shares of consolidated sales by business in 2012 were 97.2% for E&P, 1.8% for oil stockpiling, 0.1% for rig operation, and 0.9% for others. More details are as follows:

Sales in oil exploration and production increased 22.3% to KRW 10.26 trillion in 2012 compared to the previous year; this was attributable to the expansion of oil and gas sales volume from 61 million barrels to 63 million barrels driven by strong oil prices.

The oil stockpiling business recorded KRW 192.2 billion in sales, a 52.9% decrease compared to the previous year caused by unfavorable global oil market conditions. Sales in rig operations also decreased 72.6% year on year to KRW 15.2 billion, due mainly to the unilateral rescission of contracts by the Sakhalin project owner.

Financial Status

As of the end of 2012, KNOC’s consolidated total assets stood at KRW 28.72 trillion, a 9.0% decrease compared to the previous year attributable mainly to impairment losses of KRW 608.4 billion on downstream assets of Harvest Operations Corporation and depreciations of overseas exploration and production assets. Total liabilities at the end of 2012 stood at KRW 17.98 trillion, down 13.5% year on year due to the decrease by KRW1.51 trillion in trade account payables and other payables incurred by the settlement of

payables on Eagle Ford shares and SOC projects in Iraq. Capital stock rose 8.6% year on year to KRW 9.74 trillion, driven by the Korean government’s additional investments in the oil stockpile and E&P projects. Total shareholders’ equity was KRW 10.73 trillion, and shareholders’ equity to total assets reached 37.4%. Debt to equity at the end of 2012 was pegged at 167.5%.

(KRW in millions)	2012	2011
Current assets	2,465,153	3,610,186
Non-current assets	26,252,696	27,957,216
Total assets	28,717,849	31,567,402
Current liabilities	3,788,497	5,490,320
Non-current liabilities	14,194,625	15,309,637
Total liabilities	17,983,122	20,799,957
Capital stock	9,736,915	8,965,196
Retained earnings	201,543	1,106,034
Other components of equity	134,395	632,286
Non-controlling interests	661,873	63,928
Total shareholders’ equity	10,734,726	10,767,444



Independent auditors’ report



To the Board of Directors and Owner  
Korea National Oil Corporation

We have audited the accompanying consolidated financial statements of Korea National Oil Corporation (the “Company”) and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, all expressed in Korea won. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above expressed in Korean won present fairly, in all material respects, the financial position of Korea National Oil Corporation and its subsidiaries as of December 31, 2012, and 2011, and the results of its financial performance and cash flows for the years then ended in accordance with Korea International Financial Reporting Standards (KIFRS).

As described in Note 2 to the accompanying consolidated financial statements, United States dollar amounts presented as a comparison to the accompanying consolidated financial statements expressed in Korean won are solely for the convenience of the reader and are the same as the amounts of the financial statements of the Group prepared in the Company’s functional currency.

As mentioned in the preceding paragraph, we have conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea which may vary among countries. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are knowledgeable about Korean auditing standards and their application in practice.

February 28, 2013

*Ernst & Young*

This audit report is effective as of February 28, 2013, the independent auditors’ report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors’ report date to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

Consolidated statements  
of financial position

As at December 31, 2012 and 2011

Korea National Oil Corporation and its subsidiaries		(Korean won in millions and US dollars in thousands)		
	Korean won		US dollars	
	2012	2011	2012	2011
Assets				
Current assets:				
Cash and cash equivalents	592,278	1,223,064	552,963	1,060,491
Current financial assets	354,055	147,539	330,552	127,928
Trade and other receivables	1,003,867	1,501,090	937,230	1,301,561
Inventories	235,076	543,120	219,471	470,927
Current income tax assets	21,609	148	20,175	128
Current non-financial assets	258,268	195,225	241,124	169,276
	2,465,153	3,610,186	2,301,515	3,130,311
Non-current assets:				
Non-current financial assets	1,087,815	511,682	1,015,605	443,668
Long-term trade and other receivables	88,897	81,504	82,996	70,670
Property, plant and equipment	14,863,395	16,161,155	13,876,758	14,012,967
Goodwill	1,467,973	1,383,872	1,370,528	1,199,924
Intangible assets other than goodwill	4,422,318	5,289,899	4,128,763	4,586,750
Investments in associates and joint ventures	934,793	993,735	872,741	861,645
Deferred tax assets	236,537	208,386	220,836	180,686
Non-current non-financial assets	3,150,968	3,326,984	2,941,806	2,884,751
	26,252,696	27,957,216	24,510,033	24,241,061
Total assets	28,717,849	31,567,402	26,811,548	27,371,372



Consolidated statements  
of financial position

As at December 31, 2012 and 2011

Korea National Oil Corporation and its subsidiaries		(Korean won in millions and US dollars in thousands)			
	Korean won		US dollars		
	2012	2011	2012	2011	
Liabilities and equity					
Current liabilities:					
Trade and other payables	1,704,067	2,930,568	1,590,950	2,541,029	
Current financial liabilities	1,743,593	2,013,480	1,627,852	1,745,842	
Current income tax liabilities	60,366	227,917	56,359	197,622	
Current non-financial liabilities	113,055	75,121	105,550	65,136	
Current provisions	167,417	243,234	156,304	210,902	
	3,788,498	5,490,320	3,537,015	4,760,531	
Non-current liabilities					
Long-term trade and other payables	167,459	657,389	156,343	570,007	
Non-current financial liabilities	9,493,771	9,955,549	8,863,571	8,632,228	
Defined benefit liability	39,573	32,490	36,946	28,171	
Deferred tax liabilities	1,984,803	2,341,328	1,853,051	2,030,112	
Non-current provisions	2,509,019	2,322,882	2,342,470	2,014,117	
	14,194,625	15,309,637	13,252,381	13,274,635	
Total liabilities	17,983,122	20,799,957	16,789,396	18,035,166	
Equity attributable to the owner of the parent:					
Issued capital	9,736,915	8,965,196	9,095,847	8,418,807	
Retained earnings	201,543	1,106,034	118,102	945,271	
Other components of equity	134,395	632,286	190,265	(83,305)	
	10,072,853	10,703,516	9,404,214	9,280,773	
Non-controlling interests	661,873	63,929	617,938	55,433	
Total equity	10,734,727	10,767,444	10,022,152	9,336,206	
Total liabilities and equity	28,717,849	31,567,402	26,811,548	27,371,372	

Consolidated statements  
of comprehensive income

For the years ended December 31, 2012 and 2011

Korea National Oil Corporation and its subsidiaries		(Korean won in millions and US dollars in thousands)			
	Korean won		US dollars		
	2012	2011	2012	2011	
<b>Revenue</b>	<b>10,553,953</b>	<b>8,948,378</b>	<b>9,365,640</b>	<b>8,075,352</b>	
Cost of sales	(9,288,646)	(7,346,979)	(8,242,800)	(6,630,189)	
<b>Gross profit</b>	<b>1,265,306</b>	<b>1,601,399</b>	<b>1,122,840</b>	<b>1,445,163</b>	
Selling and administrative expenses	(476,862)	(464,002)	(423,170)	(418,733)	
<b>Operating profit</b>	<b>788,444</b>	<b>1,137,397</b>	<b>699,670</b>	<b>1,026,430</b>	
Other income	176,028	191,511	156,208	172,827	
Other expenses	(153,312)	(148,801)	(136,050)	(134,283)	
Other income (loss), net	(1,068,866)	(195,062)	(948,518)	(176,031)	
Finance income	180,239	257,921	159,945	232,758	
Finance costs	(632,152)	(711,312)	(560,975)	(641,914)	
Gain (loss) on investments in associates and joint ventures, net	11,723	(31,890)	10,403	(28,779)	
<b>Profit (loss) before income tax</b>	<b>(697,895)</b>	<b>499,765</b>	<b>(619,317)</b>	<b>451,008</b>	
Income tax expense	(206,136)	(652,517)	(182,926)	(588,857)	
<b>Loss for the year</b>	<b>(904,031)</b>	<b>(152,752)</b>	<b>(802,243)</b>	<b>(137,849)</b>	
Attributable to:	(920,989)	(128,308)	(817,291)	(115,790)	
The owner of the parent	16,958	(24,444)	15,048	(22,059)	
Non-controlling interests	(904,031)	(152,752)	(802,243)	(137,849)	
<b>Other comprehensive income:</b>					
Net gain on available-for-sale financial investments	7,896	11,970	7,007	10,802	
Net gain (loss) on cash flow hedge accounting	(18,245)	6,612	(16,190)	5,966	
Equity adjustments in equity method	(7,892)	(602)	17,515	(543)	
Actuarial loss on defined benefit plans	(11,131)	(13,322)	(9,877)	(12,023)	
Exchange differences on translation of foreign operations	(518,573)	(51,365)	262,584	(187,344)	
	(547,944)	(46,708)	261,039	(183,142)	
<b>Total comprehensive income for the year, net of tax</b>	<b>(1,451,976)</b>	<b>(199,460)</b>	<b>(541,204)</b>	<b>(320,991)</b>	
Attributable to:					
The owner of the parent	(1,430,010)	(204,431)	(553,599)	(324,655)	
Non-controlling interests	(21,965)	4,971	12,395	3,664	
	(1,451,976)	(199,460)	(541,204)	(320,991)	



Consolidated statements of changes in equity

For the years ended December 31, 2012 and 2011

Korea National Oil Corporation and its subsidiaries		(Korean won in millions and US dollars in thousands)				
	Issued capital	Retained earnings	Other components of equity	Equity attributable to the owner of the parent	Non-controlling interests	Total Equity
As at January 1, 2011	8,130,196	1,281,489	695,087	10,106,771	58,957	10,165,728
Loss for the year	-	(128,308)	-	(128,308)	(24,444)	(152,752)
Actuarial loss on defined benefit plans	-	(13,322)	-	(13,322)	-	(13,322)
Equity adjustments in equity method	-	-	(602)	(602)	-	(602)
Net gain on available-for-sale financial investments	-	-	11,970	11,970	-	11,970
Net gain on cash flow hedge accounting	-	-	6,612	6,612	-	6,612
Exchange differences on translation of foreign operations	-	-	(80,780)	(80,780)	29,415	(51,365)
Total comprehensive income for the period, net of tax	-	(141,631)	(62,801)	(204,431)	4,971	-
Issue of share capital	835,000	-	-	835,000	-	835,000
Dividends	-	(33,824)	-	(33,824)	-	(33,824)
As at December 31, 2011	8,965,196	1,106,034	632,286	10,703,516	63,929	10,767,444
US dollars	8,418,807	945,271	(83,305)	9,280,773	55,433	9,336,206
As at January 1, 2012	8,965,196	1,106,034	632,286	10,703,516	63,929	10,767,444
Loss for the year	-	(920,989)	-	(920,989)	16,958	(904,031)
Actuarial loss on defined benefit plans	-	(11,131)	-	(11,131)	-	(11,131)
Equity adjustments in equity method	-	-	(7,892)	(7,892)	-	(7,892)
Net gain on available-for-sale financial investments	-	-	7,896	7,896	-	7,896
Net loss on cash flow hedge accounting	-	-	(18,245)	(18,245)	-	(18,245)
Exchange differences on translation of foreign operations	-	-	(479,650)	(479,650)	(38,923)	(518,573)
Total comprehensive income for the period, net of tax	-	(932,120)	(497,890)	(1,430,010)	(21,965)	(1,451,976)
Retained earnings adjustments in equity method	-	27,629	-	27,629	-	27,629
Issue of share capital	771,719	-	-	771,719	-	771,719
Disposal of investments in subsidiaries	-	-	-	-	619,910	619,910
As at December 31, 2012	9,736,915	201,543	134,395	10,072,853	661,873	10,734,727
US dollars	9,095,847	118,102	190,265	9,404,214	617,938	10,022,152

Consolidated statements of cash flows

For the years ended December 31, 2012 and 2011

Korea National Oil Corporation and its subsidiaries		(Korean won in millions and US dollars in thousands)			
		Korean won		US dollars	
		2012	2011	2012	2011
Cash flows from operating activities:					
Loss for the year		(904,031)	(152,752)	(802,243)	(137,849)
Non-cash adjustment to reconcile loss for the year to net cash flows					
Income tax expense		206,136	652,517	182,926	588,856
Finance income		(92,348)	(95,594)	(81,950)	(86,267)
Finance costs		506,891	352,984	449,818	318,546
Depreciation of property, plant and equipment		2,259,976	1,952,114	2,005,516	1,761,661
Amortization of intangible assets		119,371	69,614	105,930	62,822
Impairment loss on property, plant and equipment		659,628	16,145	585,358	14,570
Impairment loss on intangible assets other than goodwill		465,438	162,156	413,032	146,336
Share of loss (profit) in associates and joint ventures, net		(11,723)	31,890	(10,403)	28,779
Defined benefit liability		10,044	9,241	8,913	8,339
Other income		(154,254)	(91,522)	(136,886)	(82,593)
Other expenses		127,560	143,059	113,197	129,102
Others, net		(41,041)	1,270	(36,420)	1,146
Total adjustments		4,055,677	3,203,874	3,599,031	2,891,297
Changes in operating assets and liabilities:					
Inventories		283,095	(381,896)	251,221	(344,637)
Trade and other receivables		1,144,925	(545,901)	1,016,014	(492,641)
Other receivables relating to operating activitie		(136,301)	(154,497)	(120,954)	(139,424)
Trade and other payables		(444,970)	895,395	(394,869)	808,038
Other payables relating to operating activitie		(440,910)	203,020	(391,266)	183,213
Payment of defined benefit liabilit		(11,709)	(13,983)	(10,390)	(12,618)
Provisions		182,113	238,533	161,608	215,261
Dividend received		1,292	20	1,146	18
Interest paid		(532,664)	(407,403)	(472,689)	(367,656)
Interest received		16,552	50,486	14,688	45,560
Income tax paid		(625,332)	(513,194)	(554,924)	(463,126)
Net cash flows from operating activities		2,587,738	2,421,703	2,296,373	2,185,436

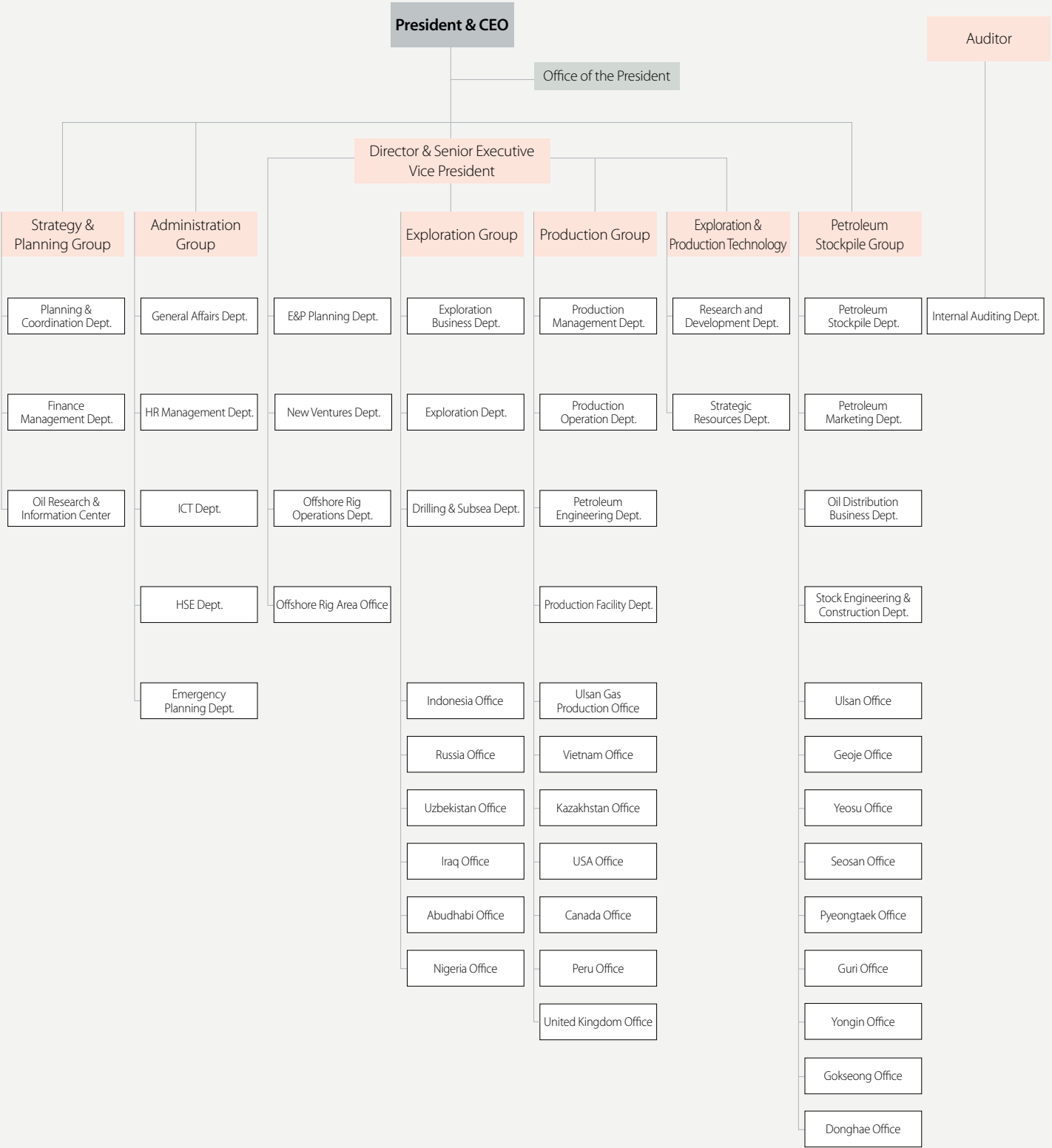


Consolidated statements  
of cash flows

For the years ended December 31, 2012 and 2011


Korea National Oil Corporation and its subsidiaries		(Korean won in millions and US dollars in thousands)			
	Korean won		US dollars		
	2012	2011	2012	2011	
Cash flows from investing activities:					
Acquisition of a subsidiary	-	(570,208)	-	(514,577)	
Proceeds from disposal of investments in associates and joint ventures	18	-	16	-	
Acquisition of investments in associates and joint ventures	(1)	(90,946)	(1)	(82,073)	
Proceeds from disposal of property, plant and equipment	123,472	50,266	109,569	45,362	
Acquisition of property, plant and equipment	(2,074,020)	(3,815,634)	(1,840,498)	(3,443,371)	
Proceeds from disposal of intangible asset other than goodwill	803	-	713	-	
Acquisition of intangible assets other than goodwill	(1,014,806)	(1,970,787)	(900,545)	(1,778,512)	
Proceeds from disposal of short-term trading financial assets	67,095	-	59,540	-	
Acquisition of available-for-sale financial assets	(508,494)	(23,250)	(451,241)	(20,981)	
Increase in long-term and short-term financial assets, net	(338,968)	(22,218)	(300,803)	(20,050)	
Decrease (increase) in loans, net	(84,795)	67,711	(75,248)	61,105	
Decrease in guarantee deposits, net	6,752	-	5,992	-	
Settlement of derivatives	-	(17,113)	-	(15,443)	
Net cash flows used in investing activities	(3,822,946)	(6,392,178)	(3,392,506)	(5,768,540)	
Cash flows from financing activities:					
Proceeds from increase in issued capital	771,719,000	835,000,000	677,040	753,535	
Repayment of short-term borrowings, net	(1,220,707,816)	(1,114,540,720)	(1,083,263)	(1,005,803)	
Repayment of current portion of long-term liabilities	(696,932,637)	(194,892,347)	(618,462)	(175,878)	
Proceeds from (repayment of) long-term borrowings, net	(76,150,234)	429,491,781	(67,576)	387,589	
Increase in bonds payables, net	1,266,100,254	3,701,633,705	1,123,545	3,340,493	
Dividends paid	-	(33,824,054)	-	(30,524)	
Change in equity in subsidiaries without loss of control	619,909,617	-	550,111	-	
Net cash flows from financing activities	663,938,184	3,622,868,365	581,395	3,269,412	
Decrease in cash and cash equivalents before net effect of foreign exchange difference	(571,270,123)	(347,606,555)	(514,738)	(313,692)	
Net effect of foreign exchange differences in cash and cash equivalents	(59,515,777)	17,688,579	7,210	10,602	
Decrease in cash and cash equivalents	(630,785,900)	(329,917,976)	(507,528)	(303,090)	
Cash and cash equivalents at January 1	1,223,064,068	1,552,982,044	1,060,491	1,363,581	
Cash and cash equivalents at December 31	592,278,168	1,223,064,068	552,963	1,060,491	

ORGANIZATION CHART (as of March 2013)





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