



Bringing the Light of Dreams and Hopes

2006 KPS Sustainability Report

Report Overview

This Report highlights the efforts by KPS to achieve sustainable management in an economic, social and environmental perspective. KPS has developed this Report in a balanced and transparent manner to enable stakeholders to better understand the sustainable management of the company.

Purpose of Report _ This Report has been published to allow KPS to become a better company by collecting opinions from a wide range of stakeholders and transparently disclosing its activities and progress on the sustainable growth of both the company and society to its stakeholders.

Period of Report _ This Report covers the period from January 1 to December 31, 2006. Relevant activities and progress made in 2004 and 2005 are also mentioned in cases where past trend analysis is necessary, and in special cases, activities in 2007 have also been included.

Recent Reporting Year and GRI Compliance _ This is the first report published by KPS on corporate social responsibility in accordance with the "Sustainability Reporting Guidelines (G3)" of the Global Reporting Initiative (GRI).

Future Reports _ The next report is due to be published in 2009, detailing progress made in 2007 and 2008.

Scope of Report _ This Report covers the relevant activities and progress of the entire organization of the company - KPS head office, 34 field offices and 6 overseas sites.

Basis Data for Report _ The financial data is based on the 2006 audited financial statement and figures are stated in the Korean won.

External Assurance _ All the information contained in this Report has been verified by the Korea Foundation for Quality. The detailed results of the assurance are outlined in the third-party assurance statements (see pages 74 and 75).

Additional Information _ For more information on this Report, please contact us at:

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2006 KPS SUSTAINABILITY REPORT

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Incorporating the dream of sustainability into responsible growth

To our valuable partners around the world!

KPS was established in 1974 for the purpose of providing efficient maintenance and management of electric power facilities which are essential to national economic growth. Since then KPS has contributed to improving peoples' lives by making ongoing technological developments and nurturing talented human resources for more than 30 years. On behalf of KPS, it is a great pleasure for me to present our achievements in the sustainable growth of our company and society to our stakeholders through this year's sustainability management report.

Building upon our business philosophy of 'contributing to society by creating the best customer value', KPS is on its way to becoming a global-class corporation by providing high quality maintenance services for power plants with a capacity of 60 million kilowatts, transmission and transformer facilities and industrial plants. Internally, our main focus is on establishing an innovative management system that befits the status of a leading company.

In 2006, as part of our strategic approach to sustainability management, we developed a mid- to long-term strategic business plan called 'ACT KPS 2015' and proclaimed our determination to become 'the world's leading total plant service provider' with a target revenue of one trillion won by 2015. Our determination to meet these goals is underpinned by our core values: customer satisfaction, pursuit of innovation, focus on technology, talent fostering and global advance. KPS is also making every effort to improve its organizational environment by spreading a culture of voluntary social contribution and mutual growth between labor and management that is grounded upon sound corporate ethics and active corporate social responsibility.

As a result of these efforts, KPS has been honored with numerous awards given by outside organizations in recognition of its achievements. Refusing to remain content with the status quo, each and every member of our organization is striving to deliver concrete results in sustainability management. To this end, we have identified key issues: economic performance, customer satisfaction, creating opportunities amid market changes, securing technologies, developing new businesses, and enhancing employee competence.

We promise to faithfully fulfill the following commitments to achieve sustainable development in our society as 'the world's leading total plant service provider'.

First, we aim to become a company trusted by all our stakeholders through customer-oriented business management.

We will strive to realize 'zero malfunctions and operation suspensions' by bolstering preventive measures and effectively managing vulnerable facilities. Planned prevention maintenance will be optimized so that facilities can be used to their full extent. We will lay the groundwork for quality maintenance service by continuously acquiring the latest equipments and advanced maintenance technologies, such as forecasting and diagnosis maintenance. Our quality assurance system will be overhauled by strengthening onsite witness inspections to allow us to gain customer confidence in maintenance quality. Moreover KPS will take the leap forward to becoming a global total plant service corporation by providing customers with services beyond their expectations on the basis of differentiated maintenance technologies of high quality.

Second, we are committed to constantly enhancing technological strength that gives us global competitive edge.

In a bid to make inroads into the global market of power facility maintenance, we will work to obtain leading global maintenance technologies by continuously acquiring the latest equipments, and make full use of our workforce through the multi-functionality of engineers. We will also intensify training of supervisors in each field, secure specialized maintenance engineering technologies, and promptly acquire future core technologies featuring longer durability and improved efficiency. In partnerships with local manufacturers and top global corporations, we will build technological strength to penetrate into future blue oceans such as the generation, repair and R&D of core power facility components under the aim of becoming a global leader in the power facility maintenance industry.

Third, we will pursue human-oriented management by fostering core human resources.

With the view to develop global New Leaders who possess creativity and strong professionalism, we will develop the finest maintenance workforce there is by intensifying our internal training while also entrusting training to professional organizations, and conducting training for overseas producers. Our Mentor-Mentee program will be further enhanced to help create a corporate culture that puts individual competence and efforts above personal connections.

Fourth, we will constantly explore new growth engines that are environmentally viable.

In addition to the maintenance of power facilities, we will further our business areas to manufacturing of power facility components, engagement in renewable energies, construction and supervision of transmission lines and operation services, and thereby fulfill our role as a total plant service provider. Acutely aware of the importance of new renewable energy projects that are environmentally friendly, we will strive to become a business that gives due consideration to society and environment through an environmentally friendly approach to business management. In this context, plans to entrust training on core plants of renewable energies to producers are under review.

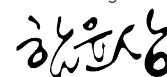
Fifth, we will faithfully fulfill our social responsibility through consideration of others and the act of sharing.

For businesses these days, social contribution is not an option but a necessity. Unlike in the past when social contribution was limited to the mere donation of business profits, we are determined to maximize our business value by building upon the concept of mutual growth and coexistence with society. We plan to conduct a variety of volunteering activities that reflect the local characteristics of each of our worksites located throughout the nation. Our maintenance technology, human resources and equipments will be utilized to specialize our social contribution activities.

KPS is committed to creating a better life and future for all. We promise our stakeholders to contribute to the sustainable development of society by achieving business growth, in its true sense, based on the responsibility to deliver economic, environmental and social value.

Thank you.

CEO Yoonsang Ham





History

Established in 1974 as a maintenance provider for electric power facilities, KPS has stand at the forefront of national and industrial development, focusing on power and industrial facilities and growing into a top global company in total plant services. KPS provides the public with a stable supply of quality power by leveraging its technologies and maintenance know-how while continuously striving to achieve technology independence and develop specialized technologies.

● Opening a new frontier of maintenance (1974-1983)

- Dec. 1974 Han-ah Industrial Management Co., Ltd. was established as the nation's first maintenance provider.
- Aug. 1977 Relaunched as a repair service provider dedicated to and owned by KEPCO
- Dec. 1981 Merged with Korea Heavy Industries and launched overseas business

● Specializing in maintenance (1984-1991)

- Apr. 1984 Established Korea Electric Power Operating Service Co., Ltd.(KEPOS)
- Mar. 1990 Opened technical training institute (hydro and thermal/ nuclear power)
- Mar. 1991 Introduced the Specialist Program
- Sep. 1991 Realized unified workplace

● Promoting technology to achieve business growth (1992-1994)

- Nov. 1992 Changed name to Korea Power Plant Service Co., Ltd.
- May. 1994 Established maintenance technology research center
- Nov. 1994 Autoregulation of measuring equipments authorized by inspection agency

● Leap into Korea's top electric power maintenance provider (1995-1998)


- May. 1995 Launched overseas business center
- Jun. 1995 Constructed GT Technology Service Center
- Apr. 1997 Established Nuclear Power Technology Service Center

● Quest to become a leading global engineering company (1999-2003)

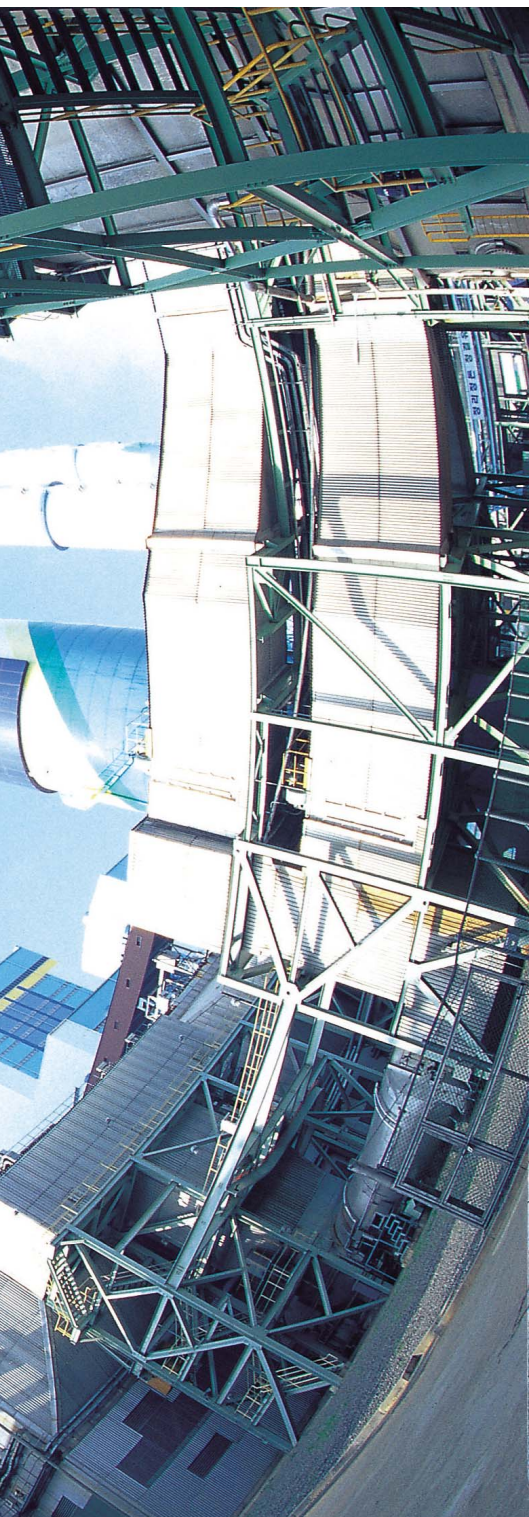
- Mar. 1999 Constructed and moved to Bundang office
- Sep. 2000 Internal certificate officially recognized
- Sep. 2000 First to acquire national laboratory accreditation
- Nov. 2003 KOSHA 18001 certified

● Achieving sustainable growth together with customers (2004-)

- Dec. 2004 Recognized as outstanding company in labor relations
- Jan. 2005 First commissioning service for private power plant (Gwangyang combined cycle power)
- Apr. 2005 Launched United Volunteering Group
- May 2005 Launched in-house new renewable energy venture
- Jan. 2007 Changed name to KPS



*Electricity has overriding importance in our lives,
standing at the center of social development.
KPS is always striving to help bring sustainable growth to our society.*



KPS is committed to becoming a global leader in total plant services.

Company Overview

GENERAL INFORMATION

Company Name

Korea Plant Service & Engineering Co., Ltd.

Head Office

196, Geumgok-dong, Bundang-gu, Seongnam, Gyeonggi-do, Korea

Headcount

4033 (As of Dec 31 2006)

Financial Highlights

(As of Dec 31, 2006, rounded off to the nearest 100 million won)

- Total assets: KRW 448.1bn
- Total liabilities: KRW 107.6bn
- Total shareholders' equity: KRW 340.5bn
- Sales: KRW 611.0bn
- Operating profit: KRW 75.4bn
- Net profit: KRW 61.9bn

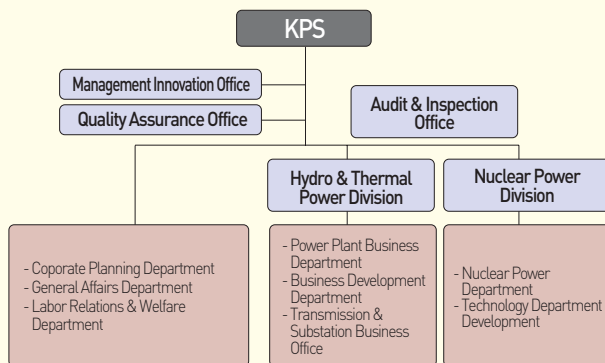
Company Overview

General Overview

KPS is one of the world's leading total plant service companies, providing maintenance services to electric power facilities and industrial facilities, of a combined capacity of 60 million kW, in hydro and thermal power, nuclear power, transmissions and transformers and special worksites. We have put in place a comprehensive maintenance system to repair core parts of power facilities in addition to a total system to attain complete independence in nuclear power maintenance technology. We also offer highly skilled maintenance services for various facilities through our R&D institute which encompasses core technologies.

Organizational Structure and Personnel

KPS consists of its head office, which has two divisions and nine departments, and 34 field offices spread throughout the country.



Business Area

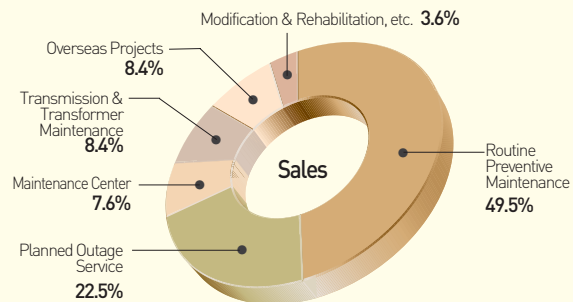
KPS was established for the purpose of contributing to the stable supply of electric power by delivering effective maintenance for electric power facilities. To this end, we are carrying out the following businesses and focusing on boosting business competitiveness and technological prowess through maintenance for domestic power plants and overseas operation and maintenance in the Philippines and India under the aim of evolving into a renowned global company.

Major Businesses

- **Hydro and Thermal Power** _ Maintenance for power plants and related facilities(Routine maintenance/Planned outage service/ Modification & Rehabilitation)
- **Nuclear power** _ Maintenance of power plants and related facilities (Routine maintenance/Planned outage service/ Modification & Rehabilitation)
- **Transmission and Transformer** _ Check and maintenance for transmission and transformer facilities
- **Maintenance center** _ Gas turbine component repair and safety assessments on nuclear reactors
- **New Renewable energy** _ Projects related to solar energy, etc.
- **Domestic and overseas businesses** _ Maintenance of electric power and industrial facilities at home and abroad
- **Research service** _ Research projects commissioned by outside organizations including the Ministry of Commerce, Energy and Industry

- ◇ Routine maintenance: Routine checks and maintenance during operation
- ◇ Planned outage service: Overhaul checks and maintenance during suspension
- ◇ Modification & Rehabilitation: Performance enhancement and maintenance of facilities

Breakdown of Sales (As of Dec. 31, 2006)



※ For more information on our business areas, please visit our website at www.kps.co.kr.

Major Affiliated Organizations

KPS is engaged in a wide array of activities, such as sharing information, adopting advanced management techniques and presenting legal opinions, by taking part in the following organizations.

:: Korea Electric Association (Acceded in 1984)

- KPS CEO Yoongsang Ham currently serves on the board of directors of the Korea Electric Association.
- Key activities include, among others, research and management of technical standards and relevant specifications under electricity business laws, and the development and management of the Korea Electric Power Industry Codes and Standards.

:: Korea Atomic Industrial Forum (Acceded in 1984)

- KPS CEO Yoongsang Ham currently sits on the board of directors of the Korea Atomic Industrial Forum.
- The Forum exchanges knowledge and information on nuclear power, providing basic data to ensure stability in nuclear power plant maintenance.

:: Korea Energy Foundation (Acceded in 1985)

- The Korea Energy Foundation was established under the aim of realizing basic rights to energy of the underprivileged and contributing to the alleviation of social polarization.
- The Foundation works to promote participation in energy welfare projects by assisting international cooperation programs through the energy network program, promoting collaboration in the private sector and facilitating exchanges between public and private corporations.

:: Korea Co-Generation Association (Acceded in 1996)

- The purpose of the Korea Co-Generation Association is to broaden the distribution of combined heat and power and integrated energy projects and help promote the system.
- By exchanging information on combined heat and power facilities, the Association works to increase new orders, expand new businesses and improve maintenance technologies.
- KPS publishes theses on power plant maintenance and attends seminars at least twice annually.

:: Korea District Heating Association (Acceded in 2004)

- KPS CEO Yoongsang Ham currently serves as the auditor of the Korea District Heating Association.
- The Association was established in a bid to realize the government's integrated energy policies aimed at energy conservation and environmental preservation.
- Information exchange with the Association and attendance in seminars are part of efforts to achieve the optimum maintenance of district heating facilities and the advancement of safety management.

:: BEST Forum : Business Ethics is the Source of Top performance (Acceded in 2006)

- The Forum is designed to broaden ethical management by acquiring best practices and promote a corporate culture based on ethical management.
- KPS takes part in monthly forums and workshops.

*Corporate social responsibility is the top priority for KPS.
Our business activities, aimed at creating value for our stakeholders,
are underpinned by corporate social responsibility,
economic prosperity and environmental soundness.*



Future
Promise



Bringing the light of dreams
and hopes, KPS is committed to
enhancing corporate value.

01

Sustainability Management System

Sustainability Management Strategy

Governance

Ethical Management

Risk Management

Stakeholder Communication

Sustainability Management Strategy

As well-stated in our corporate philosophy of 'contributing to society by creating the best customer value', KPS strives to promote business innovation and create customer value to enrich our society.

Business Philosophy

Our business philosophy is to contribute to society by creating the best customer value.

'Creating the best customer value' means to actively generate and deliver customer value by identifying their needs using advanced technologies and new solutions. 'Contributing to society' refers to providing the highest quality services through customer value and business innovation with a view to bringing wealth and prosperity to our society.

KPS Vision Framework



Core Values

Customer satisfaction, pursuit of innovation, focus on technology, talent fostering and global advance are the core values of KPS.

These core values serve as the moral compass and principles that guide our employees in fulfilling the KPS business philosophy. Customer satisfaction is placed at the top of our priorities in realizing our business philosophy. We seek to actively respond to changes in the business environment through innovative thinking and actions while continuing to acquire core technologies that enable us to stand at the forefront of the global market. We are strongly committed to nurturing global professionals with infinite passion and aim to attain the highest level in our business areas, human resources, technology developments and work processes.

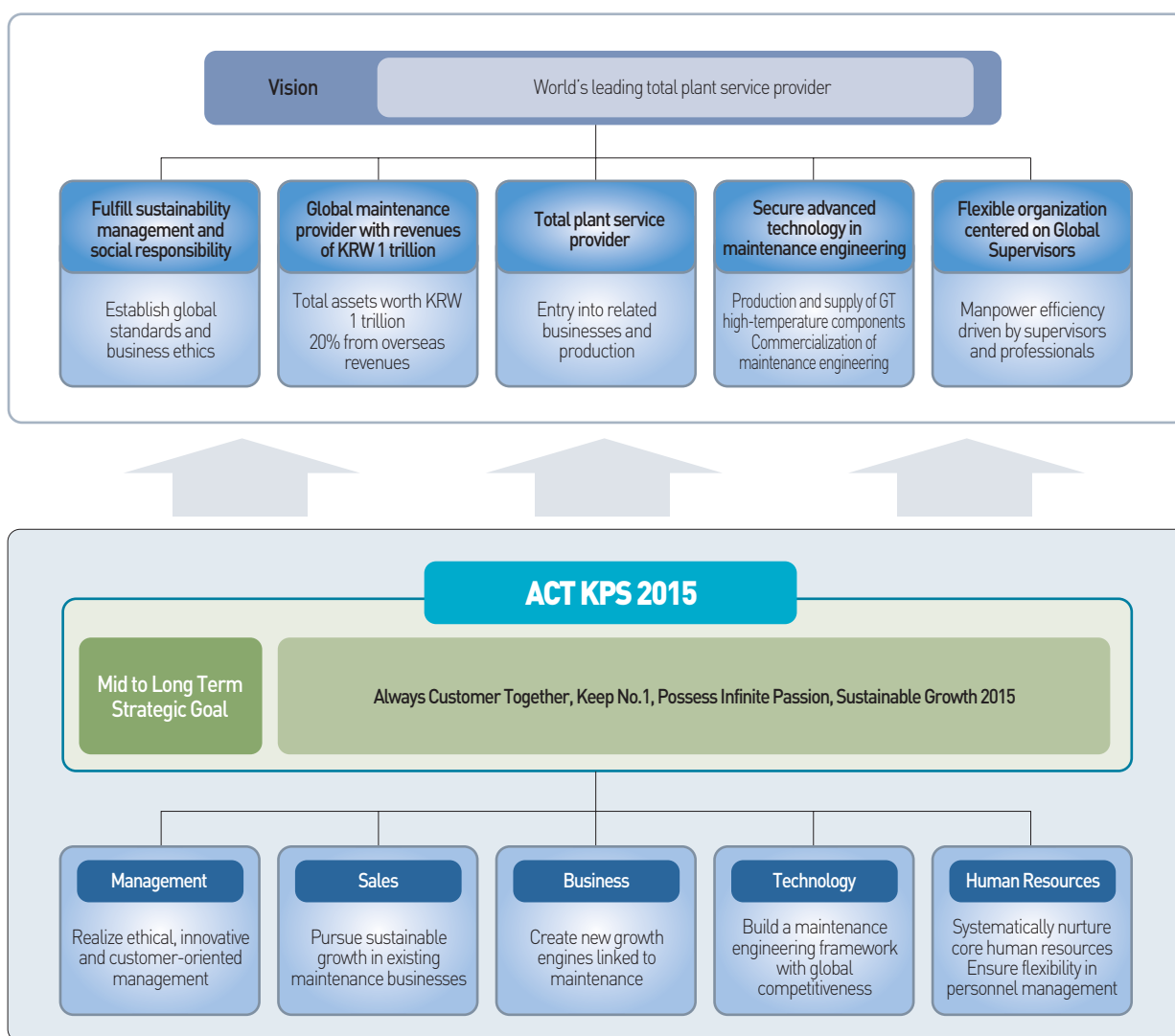
Vision

Our vision is to become the world's leading total plant service provider. In other words, we envision becoming a global leading company with core competencies in the fields of technology, brand, marketing and processes that are on par with top global maintenance providers. Being a global leader in total plant services also requires creating customer value by providing a wide range of services, including maintenance, operation, diagnosis and analysis of industrial plants such as electric power facilities.

Strategic Initiatives and Future Look in 2015

To fulfill the KPS vision, we have set forth the 'ACT KPS 2015', a set of mid to long term strategic goals, and 10 mid to long term strategic initiatives in five areas. Key initiatives and action plans have also been identified to help us effectively reach ACT KPS 2015 and thereby build a brighter future for KPS by 2015.

KPS Strategic Initiatives



Governance

KPS shares are wholly owned by KEPCO. We have established a board of directors charged with transparent decision making on critical business matters such as business objectives and annual business planning.

Board of Directors

The KPS board of directors consists of the CEO(chairman), 3 executive and 4 non-executive directors who decide on critical business agendas according to the Articles of Incorporation. Those agendas include business objectives, annual business planning, budget and settlements, and changes in major regulations and important assets.

Board of Directors Meeting

Year	No. of meetings	No. of agendas	Agendas					Reported agendas
			Passed	Amended	Deferred	Vetoed	Subtotal	
2004	5	20	16	0	0	0	16	4
2005	9	31	25	2	0	0	27	4
2006	6	32	21	3	0	0	24	8

Attendance rate

(Unit:%)

Category	2004	2005	2006
Average attendance of board of directors	94.2	95.2	85.7
Attendance by non-executive members	90.0	91.7	75.0

Board of Directors Election Process and Executive Pay

Executive directors are elected at the general shareholders meeting after being recommended by the Executive Director Recommendation Committee and obtaining approval from the board of directors while non-executive directors are elected at the general shareholders meeting in accordance to the criteria and procedures stipulated in the Articles of Incorporation. Executive pay is comprised of basic pay, incentives and retirement pay. The annual basic pay is set within the limit approved at the general shareholders meeting and incentives are given according to the business performance of the business contract made at the start of each year.

Board of Directors Profiles

Profile

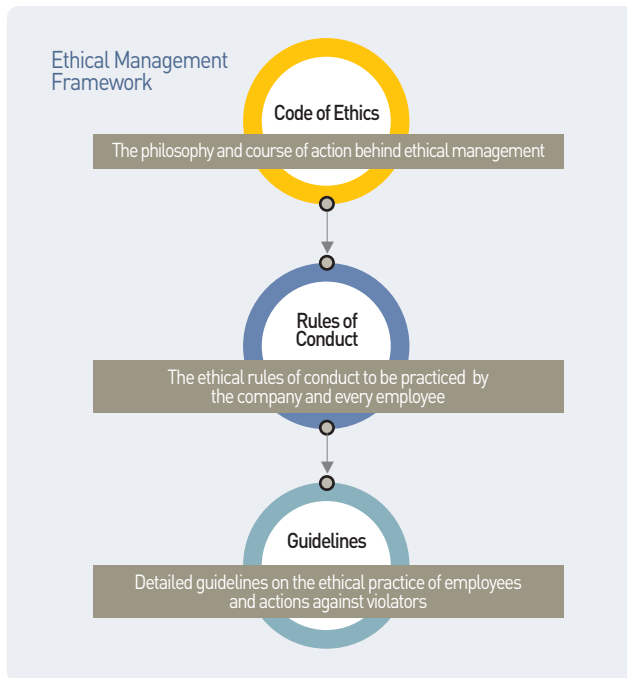
Title	Name/Educational Background/Current & Former Position	Term
CEO	Yoonsang Ham - M.A. in business administration at Hanyang University - Former General Manager of the Management Information Department at KEPCO	Apr. 29, 2005 ~ Apr. 28, 2008
Auditor (full-time)	Jongku Kim - M.A. in public administration at Yeonsei University Auditor - Formerly served on the board of directors of Korea Water Resources Corporation (K-Water)	Mar. 29, 2006 ~ Mar. 2009
Director (executive)	Jonghyun Kim - B.A. in mechanical engineering at Seoul National University of Technology - Senior Vice President of Hydro and Thermal Power Division, Former Senior Vice President of Seoincheon Combined Cycle Power Plant at Korea Western Power	May 30, 2005 ~ May 29, 2008
Director (executive)	Songsuk Chae - B.A. in electrical engineering at ChonBuk National University - Senior Vice President of Nuclear Power Division, Former General Manager of Quality Assurance Office at Korea Hydro & Nuclear Power	May 30, 2005 ~ May 29, 2008
Director (non-executive)	Hakdo Kim - Ph.D. in political economy at the University of Southern California - Director of Electric Power Industry Division at the Ministry of Commerce, Industry and Energy (MOCIE) Former General Manager of Energy Management at MOCIE	May 21, 2007 ~ May 20, 2010
Director (non-executive)	Jinshik Kim - B.A. in law at YeungNam University - Director of KEPCO Overseas Division, Former General Manager of Planning at KEPCO	May 21, 2007 ~ May 20, 2010
Director (non-executive)	Namho Baek - Konkuk University, Graduate School of Engineering - Senior Vice President of Power Generation Department at Korea South East Power(KOSEP), Former Director of KOSEP Power Plant Management Team	Nov. 21, 2006 ~ Nov. 20, 2009
Director (non-executive)	Duseok Seo - B.A. in nuclear engineering at Seoul National University - General Manager of Maintenance Planning at K-Water - Former Director of YongGwang 1 Power Plant at K-Water	May. 21, 2007 ~ May. 20, 2010

[As of Sep. 2007]

Ethical Management

KPS is faithfully fulfilling its role as a good corporate citizen by operating an ethical management organization and adhering to the ethical standards incorporated in our code of ethics, rules of conduct and ethical management guidelines.

Implementation Framework of Ethical Management



Ethical Management Organization

Ethical Management Committee _ Launched in 2003 at our head office, the Ethical Management Committee is responsible for deliberating and making decisions on key issues such as ethical management policies and system establishment.

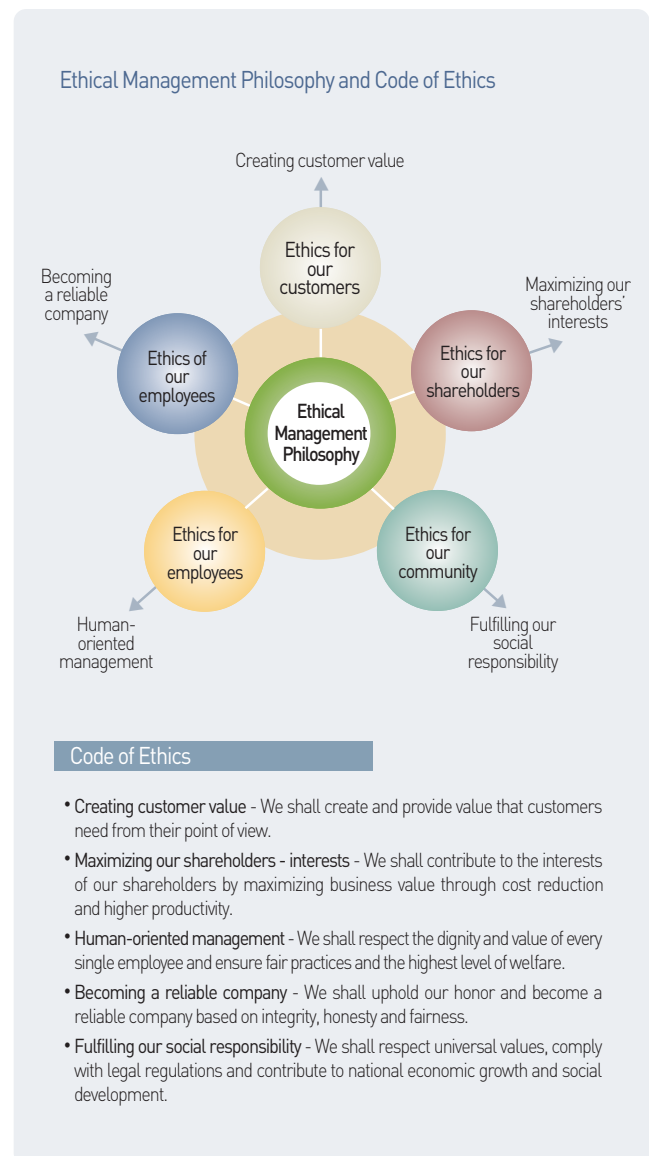
Ethical Management Secretariat _ Placed under the direct authority of the Ethical Management Committee, the Ethical Management Secretariat disseminates programs on the code of ethics and ethical management and is in charge of the practice of ethical management at our head and field offices.

Integrity Audit Team _ The Integrity Audit Team under the Audit Office handles matters regarding anti-corruption and integrity and operates a reporting center.

Business Innovation Office _ The main responsibilities of the Business Innovation Office include developing ethical management plans, running training programs, monitoring progress in field offices and developing and introducing new ethical management approaches.

Ethical Management Philosophy

The ethical management philosophy at KPS is divided into five areas according to our stakeholders: ethics for our customers; ethics for our shareholders; ethics for our employees; ethics of our employees; and ethics for our community. Our code of ethics defines the course of action to be taken in mind of our ethical management philosophy.



Major Initiatives for Ethical Management

Ethics Pledge by the CEO and Every Employee

'Our Promise for a Trustworthy Korea' and 'KPS Employee Commitment to Ethical Conduct' are signed by each and every one of our employees including the CEO himself, so as to ensure the practice of ethical management and transparency, and thereby reaffirm our commitment to transparent management.

Ethical Management Training

To improve ethical decision-making and provide better understanding of the concept and importance of ethical management, we conducted a four-week long training on ethical management in 2006 to entry-level managers and employees responsible for contracting.



[Ethical Management Website]

Ethical Management Index

An ethical management index, published on our intranet in real-time, has been developed to set forth the level of ethical management we expect from our employees. In addition, ethical indices are managed per field office to encourage better performance in ethical management.

Participation in the Global Compact

In September 2007, we joined the UN Global Compact in a bid to fulfill our social responsibility and contribute to efforts aimed at making ethical management a global standard.

Anti-Corruption Policy

Ethical management was introduced in 2003 in response to the rapid changes taking place in the business environment, namely, the OECD Convention on Combating Bribery and enforcement of anti-corruption laws. For ethical management to effectively take hold, we prohibit any practice that has the potential to undermine a healthy organizational culture-i.e. speculative behavior that goes against widely-accepted principles, formation of private groups, or sexual harassment at work. Not only are employees banned from accepting money or valuables while on duty, our code of ethics prohibits the abuse of authority, transactions using information related to work, and the personal use of assets. The provision or acceptance of money or other valuables by an employee or his/her spouse is also strictly prohibited along with the borrowing of money from a person associated with work. Our code of ethics also obligates the signing and enforcement of contracts based on integrity. In particular, we have broadened e-bidding services and improved payment methods to intensify our internal control system in order to nip any impropriety in the bud. In 2005, the integrity pledge program, which all executives and employees responsible for contracting or public services must undergo, was further developed into the 'Integrity Pact' program which extends the duty of integrity to our suppliers as well.

KPS employees are prohibited from offering money or valuables for the interest of the company. Together with our group subsidiaries and the Ministry of Commerce, Industry and Energy, we have carried out the Three Jeol (Relinquishment) campaign, a commitment not to accept meals, golf offers, money or valuables. Furthermore, illegal donations to any political party or politician are strictly prohibited. Employees are also not allowed to invest or take part in private transactions using information obtained on duty or to assist in such investments or transactions by providing such information to a third party.



[Business Innovation Workshop]

Risk Management

KPS holds senior management meetings, backed by an internal audit system and internal control system, to prevent overall risks and ensure reasonable decision-making.

Senior Management Meeting

Senior management meetings, a deliberating body for business decision-making, are designed to help prevent foreseeable risks in our key businesses and improve effective decision-making by the top management. The meeting consists of four members including the CEO, auditor and senior-vice presidents.

Internal Audit System

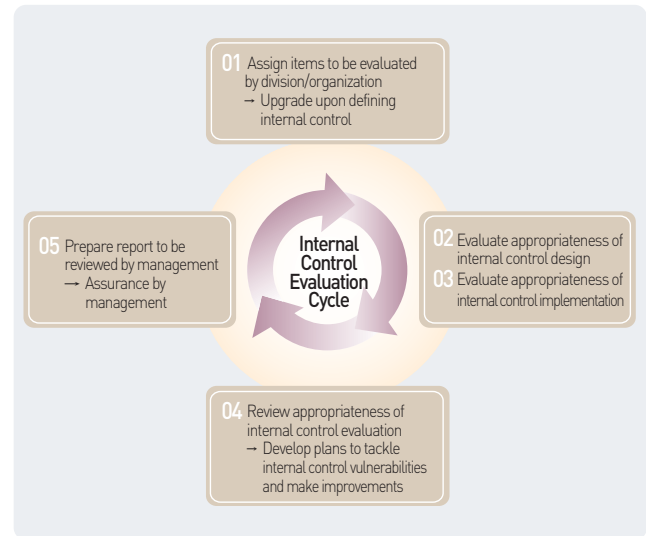
Our aspiration is to create a system audit that presents fundamental solutions through systematic and comprehensive evaluation and analysis on major policies, businesses and programs. This has prompted us to analyze the overall system in which a problem has occurred and identify its causes, instead of pinpointing the problems individually. Taking into account the three principles of system audit - 'strategic auditing through selection and concentration', 'performance-oriented auditing that is economic, efficient, effective' and 'innovative auditing for an active, creative culture' - we conduct auditing as a preventive measure, rather than a corrective one, to minimize risks and thereby attain our business goals. In 2006, an auditing information system was established to manage previous auditing results. Based on this system, we have conducted random monitoring on vulnerable areas. In an attempt to safeguard our assets(facilities, information, human resources, budget) against all sorts of factors (natural disasters, hacking, leakage, civil petitions, etc.) that may endanger normal business operations, we have done auditing on the operational status of our internal control system, procurement of facility tools, safety systems, and emergency response system.

Internal Control System

We have prepared a set of internal accounting regulations to ensure transparency and reliability. The operational status is reported to the board of directors and auditors semi-annually and disclosed in business reports.

Internal Accounting Control Evaluation System

An internal accounting control evaluation system has been put in place to allow us to actively cope with changes such as revisions of the Securities and Exchange Act and increasing social demand for accounting transparency. Since 2006, the computer evaluation system has been in operation to encourage voluntary improvements in internal control. We have also established a control system specifically for the early detection of vulnerabilities and prevention of major accidents.



Improvements

Our semi-annual evaluations have found vulnerabilities (39 of them in accounting guidelines, etc.) in the evaluation system which were later corrected. Discrepancies in financial statements and accounting irregularities (30 in total) were also prevented. User training on the internal accounting system and random visual training have also helped improve our evaluation capabilities.

Follow-Up Scheme

The findings of the evaluation on internal accounting control are reported to the board of directors and auditor. We will continue to improve the efficiency of evaluation design and management by modifying evaluations on organization and control activities while elevating the transparency of our accounting system to global standards with a view of enhancing the confidence of our stakeholders.

Security Control

We have developed a set of information security rules detailing the procedures and guidelines needed to effectively manage documents, materials and facilities. In order to implement the security policies for our information system, the introduction of Digital Rights Management(DRM) is currently under review.

Stakeholder Communication

KPS is undertaking a wide range of communication activities to reflect our stakeholders' opinions in business management and to increase their overall value.

Customers

Our customers are our future as well as our hope. Based on our customer-focused management and services, we have carried out many programs and activities, such as customer advisory councils and customer plazas, to address customer needs and improve services. Our customer satisfaction management system provides effective support to our customers. We are also making efforts to enhance customer satisfaction by capitalizing on the feedback obtained through our evaluation system, which includes customer satisfaction surveys, and conducting training aimed at building the CS capabilities of our employees.

Shareholders

We are committed to maximizing the interests of our shareholders through stable and sustainable business management. Business performance is reported at our shareholders' meetings which also provide an opportunity to gain an insight to our shareholders' opinions.

Maintaining a high credit rating and sound financial structure has helped us create a firm base of confidence among our shareholders. Through cost reduction and effective risk management, we are creating an image of a continuous business.

Government

As a public corporation responsible for the maintenance of power generators, we are working to fulfill our social responsibility and maintain a tight collaborative framework through active engagement in and acceptance of government policies.

By implementing government policies and pursuing public interests as a leading company in power maintenance, we are contributing to not only our business growth but to national development as well.

Small and Medium Enterprises

KPS is a company built upon public interests. Instead of focusing purely on our business growth, we seek mutual growth with small and medium enterprises (SMEs), as demonstrated in our SME support system and regular assistance system. In addition, we have selected key initiatives for SME support to provide the actual assistance in need for SME business success.

We are also enhancing our mutual growth strategies with SMEs by laying the foundation for business growth that is driven by the attainment of joint development paths and stable technologies through training assistance.



[Quality Assurance Seminar for SMEs]

Employees

The passion and dedication of our employees towards sustainable business growth is of utmost importance. Cultivating and supporting our employees - the strongest competitive edge for a company aspiring to become a top engineering firm - is on top of our list of priorities. In an effort to enhance employee satisfaction, a wide range of activities have been carried out, including a grievance handling system, various welfare programs, sharing of company information, motivation and support for self-development and creation of a stable working environment through sound labor relations.

Local Community

Local communities are an integral part of our business management, serving as both a supporter and communication channel of the company. By making our professional technologies available to local communities and pursuing environmental protection activities, our Hanmaeum Volunteer services are helping to build a positive image in our local communities. As part of our commitment to corporate social responsibility, we provide safeguards and support to people who are left behind, offer assistance to underprivileged groups and build relationships with the socially disadvantaged. Building a wide range of partnerships with NPOs, is our way of staying focused on the growth of our society.

Prioritizing Stakeholders

To prepare for this Report, all of the stakeholders surrounding our business environment were prioritized to identify those who most represent each group of stakeholders. They were later interviewed to uncover issues on the sustainable growth of KPS. These issues, together with the sustainability issues identified through the participation of the entire organization were analyzed and then reflected in the tables and contents of this Report.

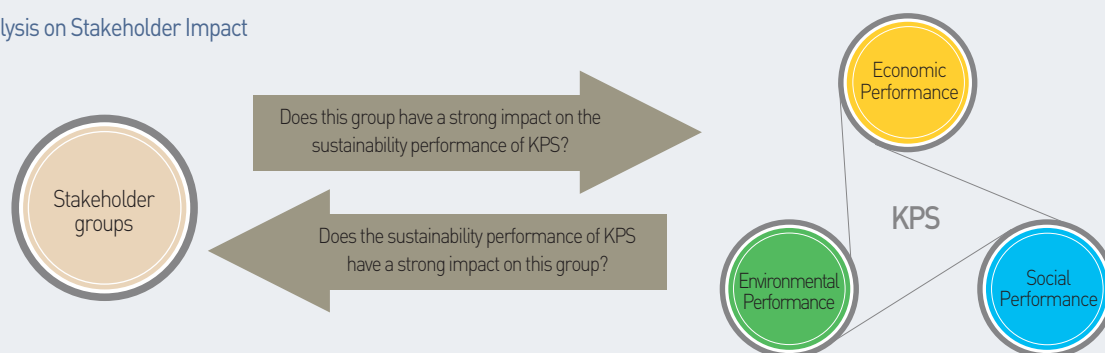
For the prioritization of the stakeholder groups, an analysis was done on which group most affects or is most affected by the environmental, social and financial performance of KPS. Potential impact on the future was also taken into account. This analysis was based on an employee survey in which responses were scored on a scale of one to five. The group with the highest score was given the highest priority.

Articles of the stakeholder interviews are available on the last page of each chapter.

Stakeholder Interview Process



Analysis on Stakeholder Impact



*The systematic management and technology innovation activities of KPS
have led to higher profitability and increased corporate value.
KPS will continue to build a sound foundation for growth
through ongoing innovation activities.*

Value
Creation



Driven by changes and innovation,
KPS continues to
deliver ongoing value.

02 Economy

Management Innovation

Technology Innovation

Business Performance and Goal

Profit Sharing

Customer

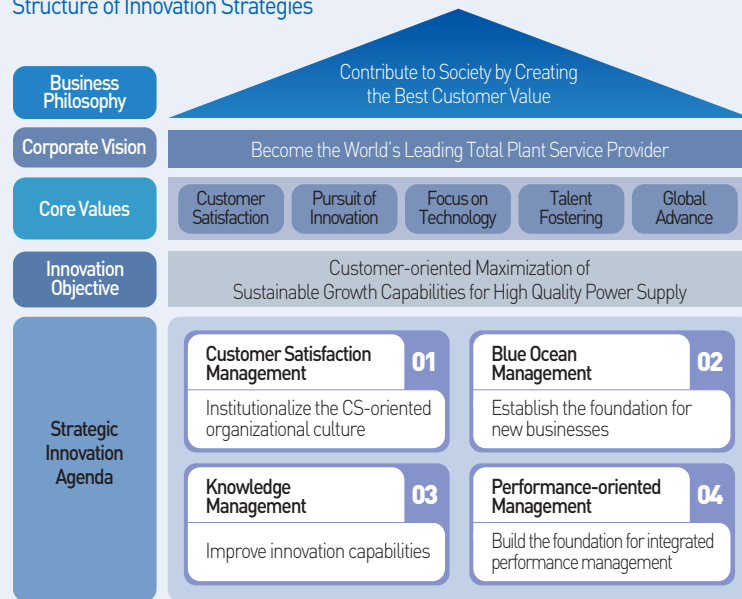
Management Innovation

To fulfill our philosophy of 'contributing to society by creating the best customer value' and vision of 'becoming the world's leading total plant service provider', KPS has implemented a roadmap and strategies of management innovation.

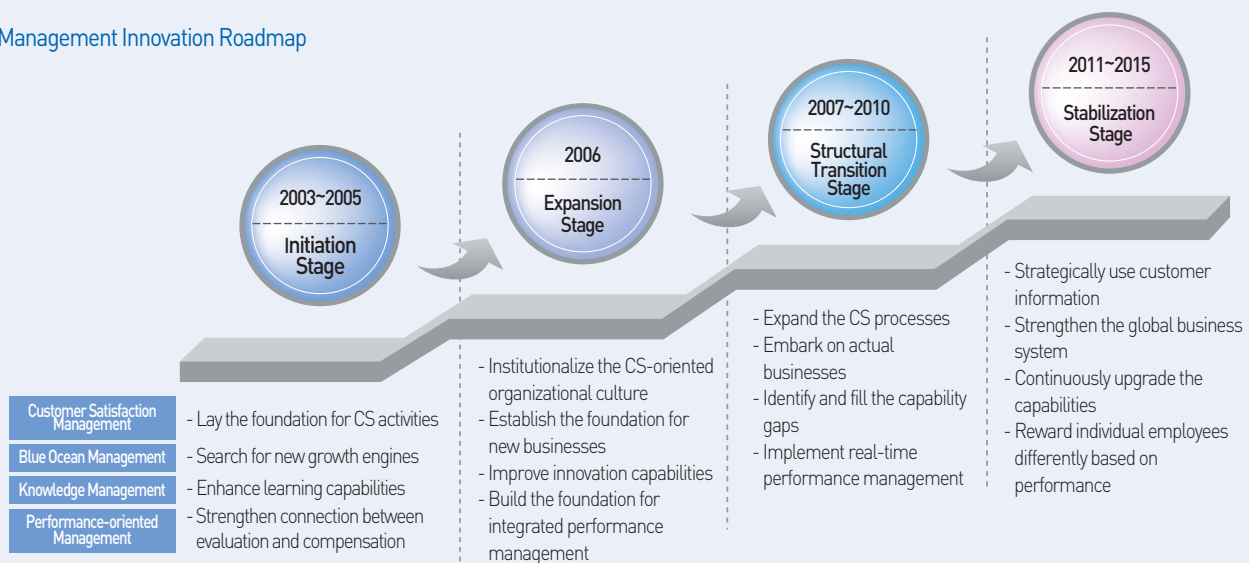
Management Innovation Strategies

To survive the growingly fierce global competition and introduce the sustainability management system by strengthening its competitiveness, KPS has adopted corporate values such as customer satisfaction, pursuit of innovation, focus on technology, talent fostering, and global advance. In line with these values, KPS is making utmost efforts to achieve tangible growth by bringing together the capabilities of all its employees. The ultimate goal of the management innovation campaign is to achieve customer-oriented maximization of sustainable growth capabilities for high quality power supply. This strategic objective is being pursued through in-phase efforts to complete targeted tasks in specific innovation areas. We at KPS encourage and promote organized and consistent implementation of the tasks and objectives. As part of such efforts to attain the innovation goals, we have adopted the innovation slogan "Hand-in-Hand(Engagement) Management", designed to encourage participation of each and every type of stakeholders.

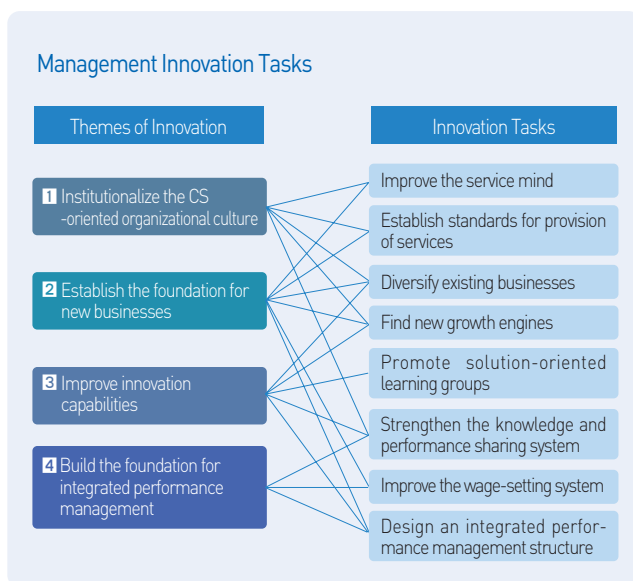
Structure of Innovation Strategies



Management Innovation Roadmap



Management Innovation Tasks



Customer Satisfaction Management - Institutionalize the CS-oriented organizational culture

Customer satisfaction management represents the very reason for which a company exists and the starting point of sustainability management. To provide the best possible services by establishing a CS-oriented organizational culture, KPS has adopted innovation tasks such as establishment of service provision standards, improving the service mind, and strengthening of the knowledge and performance sharing system. By successfully executing these tasks, KPS will lay the foundation for differentiated customer service, which we hope to integrate into our existing organizational culture.

Blue Ocean Management - Establish the foundation for new businesses.

In order to achieve sustainable growth and development, predicting changes in future business environment, spotting business opportunities, and finding new growth engines are as important as focusing on current business areas.

In that regards, for the purpose of laying the groundwork for new businesses, we at KPS are sparing no effort to grab new business opportunities, of which example can be designation as new innovations goals like the diversification of existing business and finding new growth

engines. As part of such efforts, we encourage our employees to present their opinions when they have ideas regarding business opportunities, particularly through the In-house Venture Program established in May 2005. The first strategic project that we adopted through the program was photovoltaic power generation. For diversification of the existing business portfolio, KPS is making attempts to enter the combined heat and power generation industry and the community energy system industry.

Knowledge Management - Improve innovation capabilities

As the paradigm of the entire power industry shifts, the business environment is also rapidly changing and becoming increasingly knowledge-and-information-based.

In particular, for a technology-driven service provider like KPS, whether or not to have a system to share knowledge and information among its employees is a crucial factor that decides the competitiveness. For this reason, KPS is systematically combining and integrating the knowledge and information that individual employees have and turning it into a form of company assets. By doing so, we can introduce a knowledge management system that will, in turn, boost our competitiveness. To this end, we designated as innovation goals introduction of solution-oriented learning groups and strengthening of knowledge and performance sharing system.

Performance-oriented Management - Building the foundation for integrated performance management

For a consistent and reasonable management of human resources, KPS integrated the BSC performance management system into its internal goal management and evaluation framework. We also adopted the productivity-based wage system by which we set the wage of each employee at an appropriate level based on his or her performance.

Hand-in-Hand(Engagement) Management

Under the innovation objective of customer-oriented maximization of sustainable growth capabilities for high quality power supply, KPS has introduced the slogan "Hand-in-Hand Management" and encouraged participation of stakeholders of every level.

Hand-in-Hand Management

Leave behind the outdated practices,
And close the old chapter.
With the passion of the rising sun,
Do not hesitate to innovate yourself.

Productivity Improvement

KPS boosts efficiency and productivity by identifying tasks and processes that yield low added value, and overhaul or scrap them. We are also waging a total innovation campaign to improve individual employees' innovation capacities through discussion-based learning. In 2006, our Change-Up 10·10·10% Initiative, where performance is monitored and managed real time, engaged as many as 2,336 employees of 17 task groups and 90 workout task force teams, completed 26 themes, invited 4,888 proposals, and helped save 855,718 man hours, of which the entire value is estimated at around KRW 13.5billion. KPS is committed to continuously pushing forward with this initiative and other productivity-improving campaigns.

Results of Change-Up 10·10·10% Initiative - General Figures

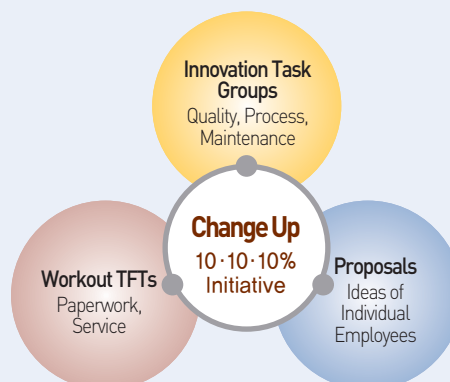
	Completed Themes	Proposals	Saved Man Hours	Generated Value (in KRW 1,000)
Task Groups	174	235	558,806	8,851,484
Workout TFTs	90	102	119,796	2,805,525
General Proposals	-	4,551	177,116	1,897,575
Total	264	4,888	855,718	13,55,584

	A (Gold Prize)	B (Silver Prize)	C (Bronze Prize)	D (Fourth Prize)	Total
Task Groups	36	21	21	96	174
Workout TFTs	11	25	25	29	90
Total	47	46	46	125	264

Results of Change-Up 10·10·10% Initiative - Proposals

Maintenance Service	Quality	Systems and Programs	Organizational Culture
2,788	238	197	52
Paperwork and Administrative Procedures	Safety and Environment	Others	Value of Tangible Benefits
271	951	401	KRW 1,897,575,000

Change-Up 10·10·10% Initiative



Introduction of Enterprise Resource Planning System

KPS is in the process of introducing the integrated information system that is, once in place, expected to dramatically improve the transparency, productivity, and efficiency through efficient and integrated management of all human, material, and knowledge resources. The new ERP system will be used for, among other purposes, laying the foundation for knowledge management and integrated performance management. KPS is committed to making continued efforts to boost transparency and efficiency of its work processes.



[Example of the New ERP Website]

Acknowledgement of KPS' Innovation Performance by Outside Authorities

Under its business philosophy of contributing to society by creating the best customer value, KPS has been pushing forward with various innovation efforts in a well-organized manner. Thanks to this continued commitment, KPS scored 93 in the Public Customer Satisfaction Index survey where agencies under the auspices of the Ministry of Commerce,

Industry, and Energy (MOCIE) were evaluated. KPS also received various awards and distinctions such as the National Service Award, Korea High Quality Corporation Certificate, Quality-Competitive Corporation Award (8 years in a row, unprecedented for a public corporation), National Customer Satisfaction Management Award(2 years in a row), National Innovation Management Award, the Korea Management Engineers' Society's Best Practice of Sustainability Management Award, etc. Many other businesses and organizations are following in the footsteps of KPS by benchmarking our practices.



①	②
③	④

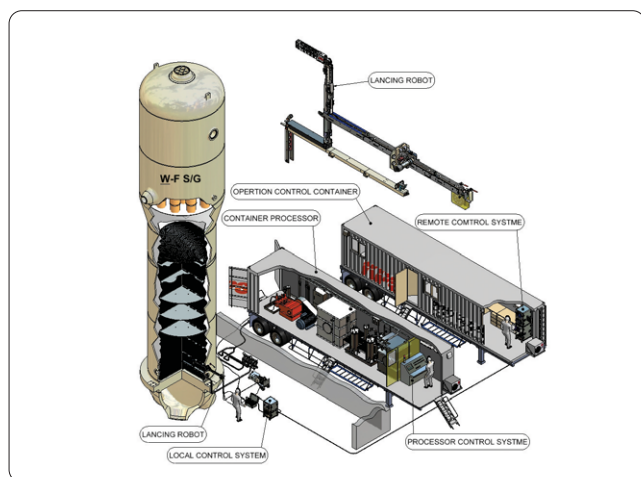
- ① 2006 National Customer Satisfaction Management Award, Top Prize for Customer Value Innovation (November 14, 2006)
- ② 2006 National Service Award (June 20, 2006)
- ③ 2005 Social Responsibility Management Award (October 20, 2005)
- ④ Quality-Competitive Corporation Award (8 years in a row, unprecedented for a public corporation, November 29, 2006)

Technology Innovation

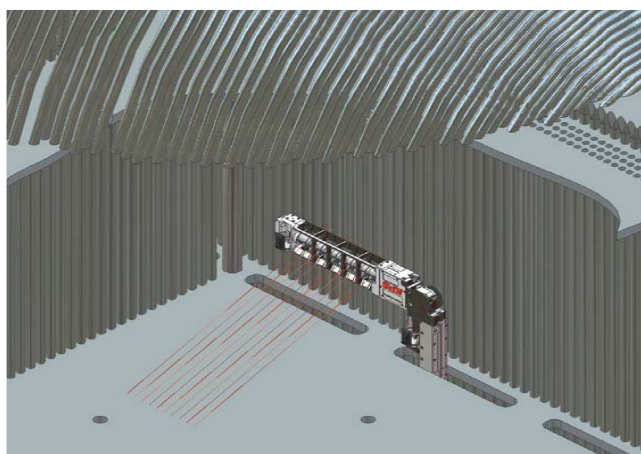
In accordance with its mid to long term development strategy of establishing a globally-competitive maintenance engineering system, KPS has formulated and actively implemented its mid to long term technology development plan.

Technologies Retained by KPS

KPS boasts a total of 69 specialized technologies including 34 technologies in maintenance, 22 in nuclear power, 6 in gas turbine, 4 in power transmission and transformer, and 4 in other areas. In line with its mid to long term technology development plan, KPS will execute 65 technology development tasks in 5 areas until 2014.



[KULAN Layout]



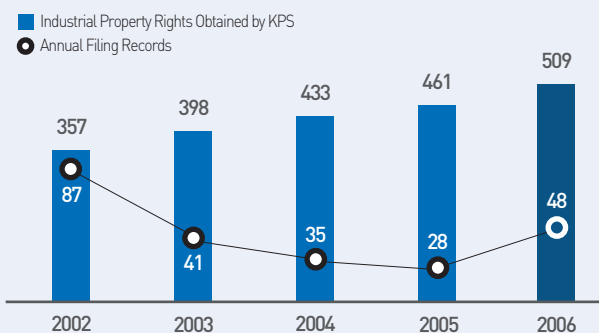
[Lancing Layout]

Industrial Property Rights(Parent, Utility Model)

With the liberalization of the maintenance market, Korean service providers are required to obtain and develop more technological assets. It is also necessary to improve their employees' R&D capacities, provide incentives to them, and strengthen technological competitiveness by obtaining industrial property rights. Based on such understanding, KPS has improved in its patent registration performance - filing the application for the first industrial property rights in 1993 and 3 international patents in 2006. Acknowledged for such efforts and performance, KPS was awarded the Presidential Commendation for Encouragement of Invention on the National Day of Invention last May.

Industrial Property Rights Annually Obtained and Applied for by KPS

[Unit: one patent item]



※ Patent and utility included



[Presidential Commendation for Encouragement of Invention, 42nd National Day of Invention]

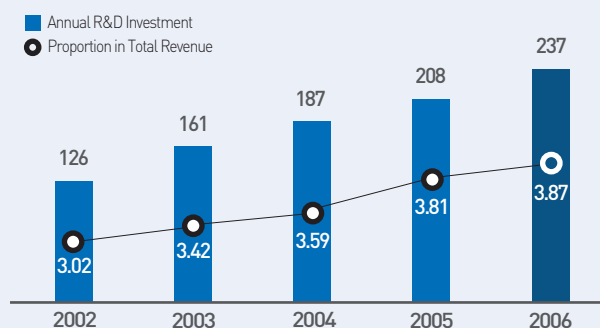
R&D Investment

In accordance with its mid to long term development strategy of establishing a globally-competitive maintenance engineering system, KPS has formulated and actively implemented its mid to long term technology development plan. As a result, it reaped great results in obtaining various maintenance engineering technologies. On the other hand, KPS intensively invested in building R&D infrastructure such as research facilities and purchasing lab equipments. The proportion of R&D investment as a share in the total revenue has been on the increase, recording 3.59% in 2004, 3.81% in 2005, and 3.87% in 2006. Regarding the R&D investment in new growth engines, we designated recycling of gas turbine components, development of next-generation nuclear power generation maintenance technologies, development of new renewable energy technologies, etc. as our mid to long term strategic tasks, where we are intensively investing resources and

manpower. Thanks to such strong efforts, we are securing advanced maintenance engineering technologies.

R&D Investment

(Unit: KRW 100 million, %)



- ① LVPS Coating system ② CNC Machining Center ③ CNC Laser Welding System
④ DVC-TBC Coating Robot ⑤ 3D Scanning Machine

Business Performance and Goals

In 2006, KPS recorded sales of KRW 611.0 billion, a 12.1% increase from the previous year. We have set mid to long term financial plans under the goal of becoming one of Korea's 200 largest companies by 2015 in terms of net income with sales of KRW 1 trillion.

Business Performance of 2006

The sales of KPS in 2006 were increased by 12.1% year-on-year to record KRW 611 billion. This was enabled by adding new and additional construction projects (Uljin Plant 6) and new renewable energy projects (including construction of solar photovoltaic power generation facility). Operating profit grew by 115.0% year-on-year to KRW 75.4 billion while ordinary income rose by 104.0% year-on-year to KRW 84.6 billion and net profit grew by 101.4% year-on-year to KRW 61.9 billion. Orders in newly built plants and efforts to improve sales activities and save expenses helped the growth of operating profits. The growth in ordinary income was thanks to added cash surplus deposit, increase in relevant interest profit and growth in miscellaneous gains from prepayment discount of workers compensation insurance premium.

Business performance in 2006

(Unit: KRW 100 million)

Year	2005	2006	Growth(%)
Sales	5,452	6,110	12.1
Net sales profit	586	1,049	78.9
Operating profit	351	754	115.0
Ordinary income	415	846	104.0
Net income	307	619	101.4

Performance in each business sector

Performance in each business sector

(Unit: KRW 100 million)

Year	2005	2006	Growth(%)
Hydro & thermal power	2,405	2,577	7.2
Nuclear power	1,734	2,196	26.6
Transmission & Transformer	492	519	5.3
Maintenance technology center	521	542	4.1
Other sectors	300	276	-8.0
Total	5,452	6,110	12.1

Among the business sectors, the hydro and thermal sector grew by 7.2% year-on-year to record sales of KRW 257.7 billion. The growth was driven by increase in maintenance orders in new routine maintenance projects (in pumped storage power stations in Yangyang, Cheongsong and South Jeju) and planned outage services as well as growth in new renewable energy project. The growth in the new renewable energy sector is

expected to record a continuous growth.

As for nuclear power, the sector grew as much as by 26.6% year-on-year to record KRW 219.6 billion of sales. This was thanks to increase in newly and additionally built plants (Uljin #6) and increased participation in instrument and control system service, overhaul maintenance orders as well as more maintenance projects including spent nuclear fuel storage facilities. Cost structure and cost of sales ratio was greatly improved thanks to the high growth.

The power transformation and transformer sector grew by 5.3% year-on-year to record sales of KRW 51.9 billion. The growth was led by increase in power lines that need repair and additional spacer damper inspection orders. The order in power transformer and transmission system construction, which are modification and rehabilitation work, was stalled in 2006 but is expected to recover growth in the future.

The maintenance technology center of KPS recorded a 4.1% growth year-on-year to stand at KRW 54.2 billion. Although growth in overseas power plant O&M was lower than expected, the sales are improving thanks to increased implementation of the GT (Gas Turbine) high temperature component regeneration project and GT Rotor maintenance project in South Incheon Combined Cycle Power Plant and expected to achieve stable growth in the future.

Other sectors shrunk by 8.0 % year-on-year to record sales of KRW 27.6 billion and showed disappointing growth. Although overseas offices, operations in Anyang and Bucheon, and technology services showed sound growth, the overseas offices led by the overseas project team saw their overall performance deteriorate due to delays in commercial operation in Vemagiri, India and fall in the exchange rate. However, the profit is expected to improve by aggressive overseas sales information exchange and enhanced joint effort in overseas business with power suppliers.



Summarized Balance Sheet

Balance sheet

(Unit: KRW 100 million)

Year			2005	2006	Growth (%)
Asset	Current asset		2,033	2,553	25.6
	Fixed asset		1,766	1,928	9.2
	Total		3,799	4,481	17.9
Liability and capital	Liability	Current liability	371	479	29.2
		Fixed liability	488	597	22.2
		Sub-total	859	1,076	25.2
	Capital	Capital stock	90	90	-
		Retained earnings	2,850	3,315	16.3
		Sub-total	2,940	3,405	15.8
	Total		3,799	4,481	17.9

As of late 2006, total asset of KPS stands at KRW 448.1 billion, a 17.9 % growth year-on-year. Current asset grew by KRW 52 billion to KRW 255.3 billion due to improved profit in cash, deposit and accrued income. Fixed asset increased by KRW 16.2 billion to KRW 192.8 billion driven by growth in company houses for employees and long-term loan.

Total liability stood at KRW 107.6 billion, recording a 25.5% growth on year. Current liabilities grew by KRW 10.8 billion from last year to stand at KRW 47.9 billion. Fixed liability rose by KRW 10.9 billion to KRW 59.7 billion year-on-year due to increase in provision for severance benefits.

Total asset of KPS stands at KRW 340.5 billion, increased by 15.8% from last year. Capital is unchanged at KRW 9 billion and retained earnings grew by KRW 46.5 billion to KRW 331.5 billion from growth in retained earnings before appropriations.

Investment

Investment

(Unit: KRW 100 million)

Year	2005	2006	Growth (%)
Investments	39	59	51.0
Tangible asset	210	305	45.2
Intangible asset	4	3	△ 15.5
Total	253	367	45.2

The total amount of investment in 2006 is KRW 36.7 billion, recording a 45.2% growth year-on-year. Investment asset grew by KRW 2 billion to KRW 5.9 billion from growth in equipment purchase. Tangible asset grew by KRW 9.5 billion to KRW 30.5 billion with acquisition of company house for employees. Intangible asset shrunk by KRW 0.1 billion to KRW 0.3 billion from acquisition of software program.

2007 Sales Goal

2007 Sales Goal

(Unit: KRW 100 million)

Goal for 2007		Growth (%)
Sales	6,500	
Cost of goods sold	5,701	COGS-to-sales ratio: 87.7 %
Gross margin	799	
Selling, general and administrative expenses	328	
Operating profit	471	Operating profit to net sales ratio: 7.2 %
Non-operating income	142	
Non-operating expense	59	
Pretax income	554	
Net income	402	Net income ratio: 6.2%

Sales target of KPS in 2007 was established based on growth in maintenance equipments driven by new and additional construction of power facilities in Korea as well as dynamics in overseas operations. Meanwhile, targets for major expenses including material cost, labor cost and other expenses were set to ensure sustainable profitability by reflecting sales operating profit goal (which is more than 7%) by reflecting the business environment and 2007 mid to long term financial plan.

Therefore, sales target in 2007 was set at KRW 650 billion, increased by 6.4% from KRW 611 billion in last year. Major factors behind the increase in year-on-year sales target include new projects in the hydro and thermal sector (including Yeongheung Thermal Plant 3 and 4, Dangjin Thermal Plant 7 and 8, Taean Plant 7 and 8), added units in planned outage services for nuclear power, increase in power transmission lines that need repair and expanded orders from strengthened sales effort.

Sales target of each business sector stands at KRW 263.9 billion for the hydro and thermal sector, KRW 276.4 billion for the nuclear power sector, KRW 48.9 billion for power transformation and transformer sector and KRW 60.8 billion from other sectors. In other words, the hydro and thermal sector will account for 40.6%, the nuclear power sector 42.5%, power transformation and transformer system 7.5 % and others sectors 9.4 % of the total sales.

KRW 627.2 billion that accounts for 96.5 % of total sales target comes from maintenance of domestic power facilities and the rest 3.5% or KRW 22.8 billion will come from overseas operations. Major domestic businesses include maintenance of power transformer and transmission facilities of KEPCO, sales from maintenance of five power suppliers including Korea Hydro and Nuclear Power and Korea Western Power. Overseas businesses focus mostly on operation and maintenance of power facilities of 13 nations around the world including India, Philippines, Australia, Indonesia, US and Japan.

The target for gross margin stands at KRW 79.9 billion (with COGS-to-sales ratio of 87.7%). Profit target for operating profit and net income is set at KRW 47.1 billion and KRW 40.2 billion, which account for 7.2% and 6.2% of total sales.



Mid to Long Term Financial Goal

Mid to Long Term Financial Goal

(Unit: KRW 100 million)

Year	2007	2009	2011	2013	2015
Sales	6,500	7,218	8,228	9,394	10,388
Operating profit	471	584	695	870	906
Net income	402	486	953	723	70
Net margin	6.2%	6.7%	11.6%	7.7%	7.5%

Note) 2007 statistics are based on budget plans for the year 2007.

From 2009 to 2015, the numbers are based on financial prospect defined in the mid to long term strategic management plan (ACT KPS 2015).

In September 2006, we established a mid to long term financial plan to become one of the 200 major corporations in Korea by achieving sales of KRW 1 trillion by 2015. Specifically, financial goals identify sales target of 2015 as KRW 1.388 trillion, increased by 59.8% while operation profit accomplishes a 92.4% growth to KRW 90.6 billion and net income grows by 94.0 % to KRW 78 billion.

The financial goal for sales reflected increased power facilities and power lines, plans to add private power plants and growth in overseas orders. As for expenses, factors including increased labor cost due to changes in cost and number of required staff in accordance with the principle of matching costs with revenues. Meanwhile, investment target was established considering planned large-sized investment plans including moving the headquarters to another area (in 2012) that would require purchase of land and construction and set as not to overburden the mid to long term budget management.

In order for KPS to achieve these financial goals, profitability and investment efficiency would consistently be improved while strategy to improve financial fundamental will be implemented. We will implement ambitious financial strategies to play a pioneering role as the leader of Korea's plant service market and to actively cope with changes in management environment at home and abroad.

In addition, KPS will ensure feasibility of its financial goal by reflecting the changing management conditions through annual revision and complementation of its mid to long term financial plans. The first round of revision is planned in the fourth quarter of 2007.

Profit Sharing

KPS pursues to enhance the value of various stakeholders including shareholders, the government, small and medium enterprises, customers, financial institutes and local communities through the distribution of its profit.

Labor Cost

Labor costs recorded KRW 282.7 billion in 2006 of which provision for severance benefits accounted for KRW 23.6 billion and the rest stands at KRW 259.1 billion.

Labor expenses

(Unit: KRW 100 million)

Year	2004	2005	2006
Wage	2,277	2,447	2,591
Severance benefits	227	232	236

Dividend

The total amount of dividend paid by KPS in 2006 is KRW 31.1 billion, a KRW 15.7 billion increase from KRW 15.4 billion of 2005. Dividend per share increased by 102% to KRW 1,728 in 2006.

Total dividend

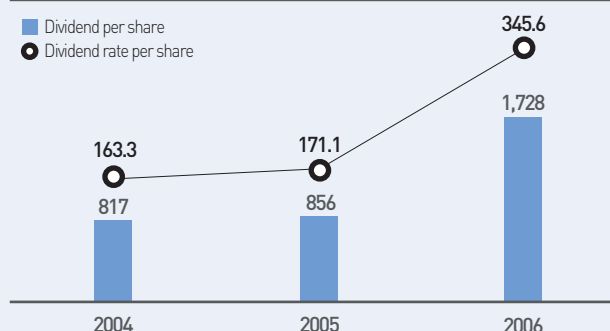
(Unit: KRW 100 million)

Year	2004	2005	2006
Total dividend	147	154	311

Dividend

(Unit: KRW, %)

- Dividend per share
- Dividend rate per share



Interest Cost

KPS has maintained management without loans since 2001. No interest costs were incurred in 2006 and interest revenues stood at KRW 8.3 billion, an increase of KRW 2.3 billion from KRW 6.0 billion in 2005.

Tax

KPS is contributing to the nation and the local community through payment of taxes. The total amount of payment in 2006 stood at KRW 68.3 billion of which KRW 64.0 billion was domestic tax, KRW 0.5 billion was tariff and KRW 3.8 billion paid as local tax. Corporate tax recorded in balance sheet was KRW 22.7 billion, showing a 111 % growth.

Status of Tax Payment

(Unit: KRW 100 million)

Year		2004	2005	2006
Domestic tax	Corporate tax	178	85	110
	VAT	318	339	385
	Withholding tax	116	135	145
	Sub-total	612	559	640
Tariff		6	4	5
Local tax		39	37	38
Total		657	600	683

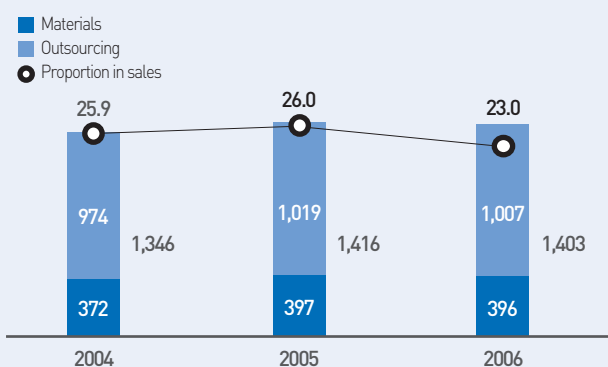


Purchase and Acquisition of Assets

KPS spent a total of KRW 140.3 billion in 2006 on purchasing material, outsourcing and other services, showing a slight fall from last year. This accounted for 23.0 % of total sales. Specifically, KRW 39.6 billion and KRW 100.7 billion were spent on purchasing material and outsourcing. In 2006, we acquired tangible assets including buildings, structures and intangible assets worth KRW 30.8 billion, spending 44% more compared to the previous year.

Purchase

(Unit: KRW 100 million)



Acquisition of assets

(Unit: KRW 100 million)

Year		2004	2005	2006
Tangible asset	Building, structure	28	20	124
	Equipment	156	190	181
	Sub-total	184	210	305
Intangible asset		4	4	3
Total		188	214	308

Donation

KPS donated a total of KRW 2.4 billion in 2006. This is a drop by KRW 1.5 billion caused by increase in KPS Employee Welfare Fund. Donations to charity groups were increased by 76% from the previous year.

Donation

(Unit: KRW 100 million)

Year	2004	2005	2006
Amount	28	39	24

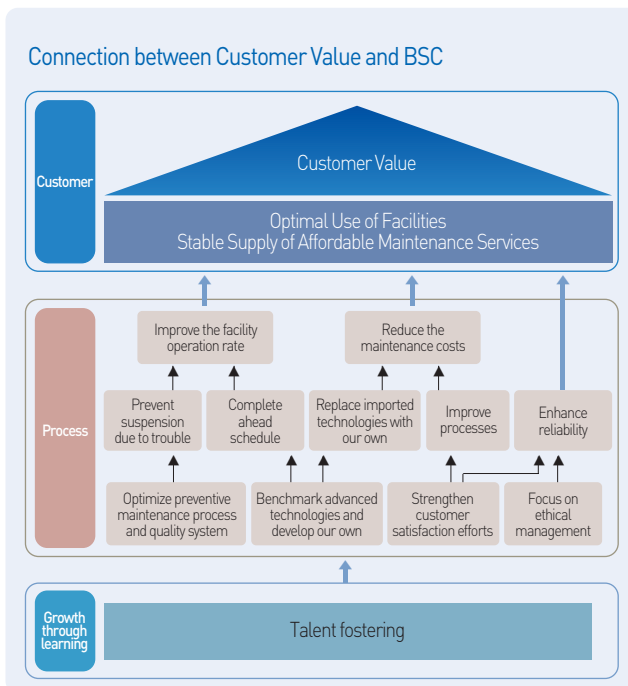


Customers

Under its business philosophy of creating the best customer value, KPS is pursuing its ideal of customer-oriented management through various mechanisms such as the Customer Charter, voice of customer (VOC), and the CRM system.

Creation of Customer Value

The two customer value targets that KPS tries to meet based on the existing quality management system are optimal use of facilities and stable supply of affordable maintenance services. In order to achieve these goals, we need to first improve the facility operation rate and reduce the maintenance costs.



Also, we need to improve overall processes related to management activities to boost customer confidence. To create maximum customer value, KPS links its customer value strategies to the BSC system and pursues the goals accordingly.

Customer Charter

The Customer Charter of KPS reflects our management activities designed to enhance customer satisfaction and our commitment to generation of greater customer value.

고객헌장

우리는 고객과 함께하여 고객의 정원과 서양에서 모든 역량을 발휘할 때 본래가치가 있음을 인식하여 **고객중심의 경영 전략**에 최선을 다하고자 한다.

- 첫째** 전력설비의 완벽한 수급을 위하여 안전성과 신뢰성을 극대화하여 전력의 안정적 공급에 가장 중요한 요소를 담당하여 적극 실현해 나가고자 한다.
- 둘째** 우리의 고객은 전력설비 및 산업설비를 보유한 국내 기업뿐만 아니라 해외한국산업 관련 기업까지 포함한 지구촌 곳곳의 고객을 의미한다.
- 셋째** 항상 고객의 입장에서 생각하고 감수하여 고객을 만족시키고 고객의 사명에 달하는 고객중심의 경영을 펼쳐나가기로 한다.

이제 다음과 같이 다짐하고 실천하여 새로운 21세기 선진기업으로 도약하고자 한다.

고객만족 실현을 위한 다짐

- 우리는 국가전략산업의 역군으로 고객만족을 기업철학의 최우선으로 삼는다.
- 우리는 항상 신속하고 정확한 서비스를 제공하도록 노력한다.
- 우리는 작은 소리도 크게 듣고 고객의 요구를 반드시 반영한다.
- 우리는 지속적인 기술개발과 품질혁신으로 고객만족 수준을 향상시킨다.
- 우리는 고객과의 약속을 철저히 지킨다.

KPS 한전KPS주식회사

In-Seok Kim/Samsung Petrochemical

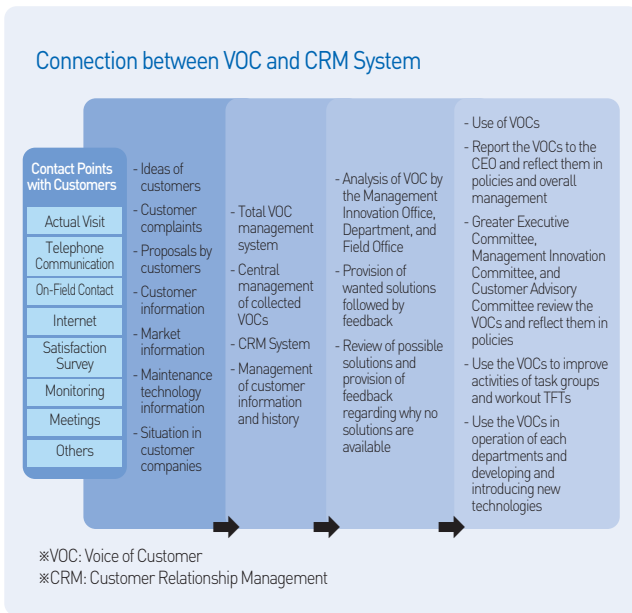
KPS on the road to the world's best maintenance service provider

I believe the true strength of KPS lies in the fact that it can provide not only facility maintenance by its employees with excellent expertise but also maintenance record management service, abnormality detection through vibration analysis, important facility maintenance of GT Technology Service center, and other crucial services needed for seamless and stable operation of facilities and successful maintenance. This will serve as a very big advantage in KPS' expansion of business in and out of the nation. In addition, I find each employee of KPS has great affection to and takes a great pride in their company, which only naturally leads to strong customer service. I am confident that KPS will some day become the best maintenance service provider not only in Korea but possibly in the world market as well.



Management of Voice of Customer (VOC)

KPS has developed and operated the customer information system to collect customer data systematically and use them for strategic purposes. The customer information system of KPS consists of the total VOC management system designed for integrated management of VOCs collected at various customer contact points and provision of one-stop services, and the CRM system that supports management and use of important customer information. The two systems are closely connected to each other in a manner that the nature of the business can be readily reflected.

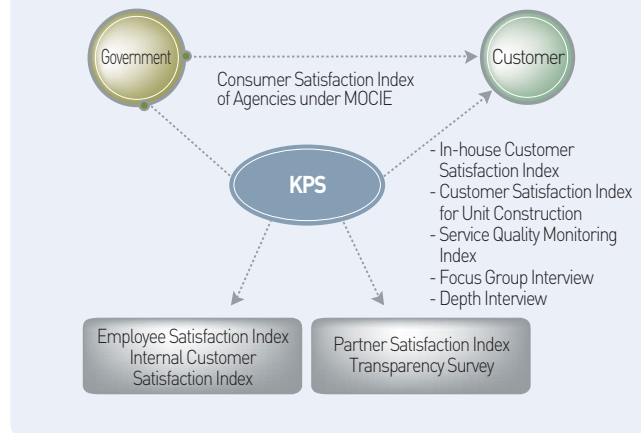


CRM System

KPS is operating the CRM System to systematically manage the database of customer information collected at various customer contact points and through diverse channels, and effectively support the customer satisfaction activities and overall management and sales.

The CRM System provides the list and demographic information of customers for individual customers and field offices. The system also contains past service records, preference of and specific information about customers, and VOC history for individual customers. KPS personnel in charge of customer innovation and contact persons of each customer company constantly update the CRM database.

Line of Customer Satisfaction Survey



CS-related Index and Monitoring

In an effort to identify what customers want, evaluate the performance of in-house and outside customer satisfaction activities, and find solutions to address the problems, KPS conducts customer satisfaction survey, employee satisfaction survey, service quality evaluation, in-house customer service evaluation, and contractor [partner] satisfaction survey each year and shares the findings among its employees. KPS also encourages competition among different groups subject to such evaluation by reflecting the findings in the in-house management performance evaluation.



[Website of Customer Plaza]

Best Service for Value Generation

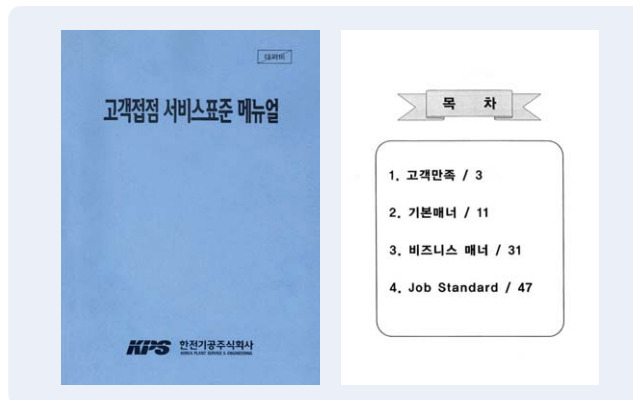
Condition-based Maintenance (CBM)

KPS focuses its efforts on optimization of power plant maintenance in order to create the maximum customer value and enhance the operation rate through an effective operation of power generation facilities. By establishing power generation maintenance standards, we provide maintenance services based on the condition of the facilities. Also, in an attempt to create more customer value and contribute to the development of the industry, we have shifted from the existing preventive/non-discriminating maintenance system to the prediction-based/selective maintenance system.

In line with the time-based maintenance system (TBM) and the condition-based maintenance system, we have trained our employees in core technologies needed for precise diagnosis of conditions of equipments and facilities to the point where some of them obtained internationally-acknowledged certificates. KPS has also introduced some of the most cutting-edge devices and equipments needed for the analysis of vibration, thermal image, and motor. KPS always upgrades the maintenance history and routine maintenance performance management programs.

Standards for Services Provided at Customer Contact Points

Since our field offices are scattered around the nation, we felt the need to develop standards for services provided at contact points with customers for the sake of consistency. The standards have been designed to cover codes of conduct, cautions, and required service levels, and tailored for each type of contact points and cycle of each customer, in areas such as



{ Standard Manual for Service Provided at Customer Contact Points }

hydro power, thermal power, nuclear energy, and power transmission and transformer. The standards also include possible measures and solutions for each type of complaint that can be raised on field.

Real-Name Quality Control System

KPS' real-name quality control system mandates specific persons to take the entire responsibility for maintenance of specific machines and guarantee the quality accordingly.

When maintenance of a certain machine begins to be implemented, the detail measures, period, and the person in charge of the maintenance are registered on the real-name quality control registry and a plate that bears the name of the person in charge is placed at the site of the maintenance work. In case customers find anything less than satisfactory regarding the maintenance work, they can immediately find the person in charge by simply looking at the name on the plate and ask for corrective measures. This system also ensures that the person in charge will take continued responsibility for providing quality services until the customers say that they are fully satisfied.

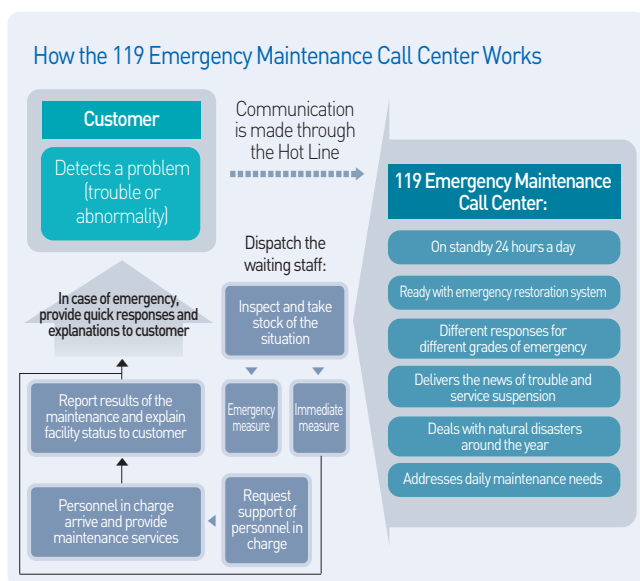
KPS 품질 · 안전 현황판			
공사 및 작업명	공사기간	회사명	안전가공(주) 동행사업소
공사기간	200 - - - - 200 - - - - (일간)	정비부서	정
감독원	부서	관리	직책
성명	성명	성명	성명
직업	직업	직업	직업
(직업번호)	정비(안전)내	용	안전관리사
			유무
			무
			공정률(안전)직업분리서
			Prod Tag 발행
			Yes
			공기(사물)기서
			Yes
			TBM 발행
			유형 · 위험 작업지시서 발행
			안전특기사항

"My Machine" System

"My Machine" System is about designating a person in charge for each machine so that the person will take the entire responsibility for maintaining the machine in the best possible state free of rust or oil/water leakage. The general purpose of this system is to improve operation and maintenance environment of main lines and facilities in power plants. The person in charge is required to inspect and clean up the machine twice a week to keep it clean and trouble free. In case of detecting any defect or abnormality in the machine, the person in charge should report it to the relevant department so that the department will come up with appropriate repair measures and solutions to improve the way the machine is operated in order to prevent further trouble.

119 Emergency Maintenance Call Center

For a stable operation of the power supply system, one of the back-born facilities of the nation, we have our field staff ready around the clock to provide quick response to emergency situations. KPS has solutions and measures ready for each grade of power emergency. Should an emergency situation take place, communication is quickly made to the staff in charge, who are trained to quickly address the issues.



TFVU Campaign

The Trouble-Free Value-Up (TFVU) Campaign captures the ultimate goal of our maintenance service. We aim to provide the most perfect maintenance service so that we will be able to prevent trouble as well as customer dissatisfaction (Trouble-Free). By doing so, we can create the maximum value for our customers and enhance our own value as well (Value-Up).

As part of such efforts, KPS has operated emergency restoration teams, made quick communication at the time of emergency, designated persons in charge for each facility, emphasized cleaning of the site after providing the maintenance service, improved frequently-trouble-making equipments or facilities, made sure that the results of maintenance are reported and, if necessary, followed up for additional service, and designated contact persons for each of our major customer companies. We adopt solutions and systems based on the idea of our employees and

each time when we do so, we consult with our customers for specific details of such arrangements. By doing so, KPS has been able to enhance the value created for itself and its customer companies.

Technological Cooperation Program

To secure the technologies that we need, KPS has built partnerships for technological cooperation with 4 advanced foreign manufacturers in 3 different areas such as Westinghouse for first-phase nuclear power and General Electric for gas turbine.



[Maintenance for Gas Turbine Rotors]

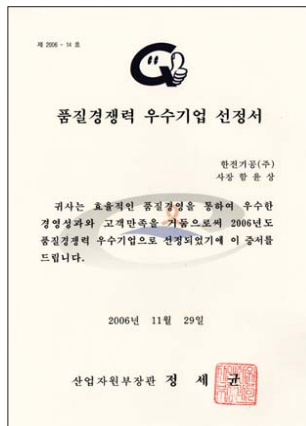
Technological Cooperation Programs

Area	Partner	Technology	Contract Period
First-phase Nuclear Power	Westinghouse	Repair robot for water chamber of steam generator (ROSA III)	May 1, 1994 ~ April 30, 2009 (15 yrs)
		Inspection technology for reactor vessel head penetration	December 12, 2002 ~ April 30, 2009 (7 yrs)
	Wesdyne	Inspection technology for reactor bottom nuclear detection penetration (BMI)	May 1, 2004 ~ April 30, 2009 (5 yrs)
Gas Turbine	General Electric	Gas turbine maintenance and component recycling technology	February 15, 1994 ~ November 30, 2011 (17 yrs)
Valve Maintenance	Crane Nuclear Inc. (CNI)	Valve maintenance technology	January 1, 2003 ~ December 30, 2009 (7 yrs)

Customer Satisfaction Performance

Recognition by Outside Authorities

The customer satisfaction activities of KPS have been highly recognized by outside authorities. To begin with, KPS received the government's National Quality Management Award. KPS was also awarded the Korea Standards Association's Top Prize for National Service for 2 consecutive years, where its CEO enjoyed the honor of being designated as the Best CEO of 2007. In 2005, KPS received the Korea High Quality Corporation Certificate from the MOCIE's Agency for Technology and Standards. Between 1999 and 2006, KPS won the Quality-Competitive Corporation Award for 8 years in a row, which is unprecedented for a public corporation.



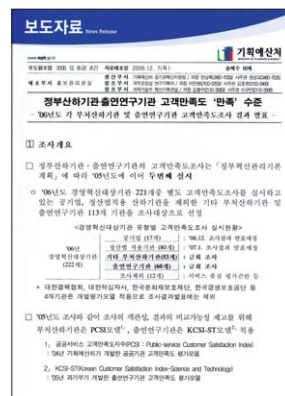
[Quality Competitiveness Award]
(November 29, 2006)



[Korea Service Award]
(June 20, 2006)

Government's PCSI Index

The MOCIE evaluates public corporations and organizations for their customer satisfaction activities and publishes the Public Customer Satisfaction Index (PCSI) every year. In 2005, KPS scored 83 out of total 100, and 93 in 2006. This shows that the various customer satisfaction activities of KPS are being highly recognized. In 2006, the score of KPS grew by 10 point from the previous year, becoming the only public corporation that scored over 90.



[Press Release for PCSI Index Survey]

Stakeholder Interview

Response to Structural Changes in Power Generation Market

KEPCO Management Strategy Team / Director Gwangseok Ahn

As competition grows fiercer, the service market opens up, and the growth of power demand slows down, the domestic power generation market is faced with new challenges and looming crises. In response, KEPCO (Korea Electric Power Corporation) has been trying to find new growth engines in order to survive as a sustainable company in the coming years. Also, we are making proactive efforts to spot new opportunities of overseas power generation business by strengthening internal capabilities through talent fostering and obtaining important technologies. Developing or securing environment-friendly sources of energy is another task that we focus on in order to address the upcoming regulations regarding greenhouse gas emissions.

As KEPCO makes its fair share of survival efforts, I believe KPS should also do its best to find new growth engines and strengthen its internal capabilities. In particular, there is the possibility of liberalization of the domestic power generation maintenance market, which may possibly lead to a rapid surge of the market share of foreign competitors if domestic players fail to boost their competitiveness. Therefore, I hope that KPS will make collective efforts with KEPCO in strengthening the internal capabilities and finding new growth engines so that the partnership will grow even more solid in the future. Especially, KPS is advised to proactively consider new standards of competitiveness such as the paradigm of sustainability management, so that the two partners will be able to help each other survive and prosper as they have.

Such newfound values may not immediately have a big influence on the market since the domestic power generation market is still undergoing a structural transition. Once Kyoto Protocol takes roots in 2 to 3 years from now, however, it will have a decisive impact on the Korean market. If we fail to successfully deal with the emerging market threats such as the fossil fuel sources at their peak and regulation of greenhouse gases, it will threaten the sustainability of not only the power generator whose business is based on the use of fossil fuel but also the contractor that provides maintenance services for existing power facilities.

Against this background, I believe KPS' designation of sustainability management as the core business value and its publication of this sustainability report together represent a very timely and welcome step of its management innovation initiative. I hope KPS will fully institutionalize the sustainability management system and help itself survive and prosper along with KEPCO in coming decades and centuries.

*As a member of society with rights and obligations,
companies must reflect corporate citizenship in their business activities.
KPS is strategically carrying out social contribution activities to dutifully fulfill
its social responsibility as a public corporation.*

Always
Together



Creating a caring society for all,
is what the KPS corporate
citizenship is all about.

03 Society

Social Contribution
Business Partners

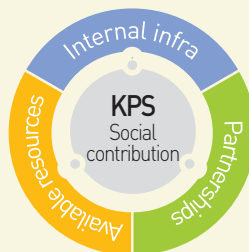
Social Contribution

KPS is actively taking part in social contribution activities to help those who are left behind in our society, thereby fulfilling its role as a good corporate citizen that contributes to the development of local communities.

Philosophy and Strategy

Going beyond our primary role of ensuring the stable supply of electric power through seamless maintenance of power facilities, we have engaged in many social contribution activities to fulfill our social responsibility as a public corporation. These activities are underpinned by our philosophy of 'Practicing Management of Sharing-Serving Our Society First'. Our social contribution activities first started in 1996 with the 'Labor and Management United' campaign which included efforts to help the disadvantaged, protect the environment, and support local collaboration projects. In 2005, the launch of a charitable fund and the United Volunteer Group at our field offices across the country laid the groundwork to build a more organized form of social contribution. As of 2007, there are 51 United Volunteer Groups (one at the head office and 50 at our field offices) that are working in different parts of our society to help make a difference.

Social Contribution Philosophy



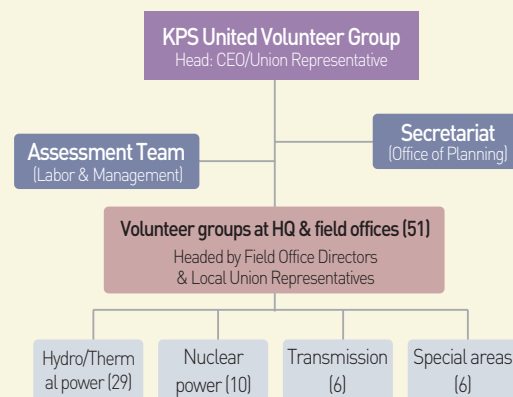
- 01 Build internal infrastructure to pursue social contribution activities**
Launch of United Volunteer Groups and a dedicated department
Matching grant/Angel fund raising, operation of a social contribution system
- 02 Use our available resources to the full**
Provide services society needs by efficiently utilizing our human and physical resources such as maintenance personnel, technologies and equipments
- 03 Broaden partnerships to generate synergy effect**
Promote mutual development with our stakeholders by dividing roles and improving interactive communication through collaboration with customers, NPOs, and local governments

United Volunteer Group

Organization of United Volunteer Group

Ever since the launch of the Labor and Management United campaign in July 1996, KPS has pushed forward a number of local collaboration and environmental projects as part of the campaign. In 2005, the United Volunteer Group was founded to pursue social contribution activities in a more organized manner.

Organizational Structure



Areas of Activities



Specialized Volunteering

KPS has designated volunteering activities that employ its technologies, equipments and personnel as the company's specialized project and has implemented the project accordingly.

| Maintenance & Production | We visit remote villages, senior citizens living alone, welfare facilities and community centers, that have limited access to specialized services, and participate in the Love Home Repair campaign to check or repair electric facilities and install new lighting. In 2006, around 484 employees volunteered in 79 separate occasions.



| Repair | Using our technological know-how in turbine and electric device maintenance, we provide mechanical repair as part of our volunteering activities. In 2006, 51 employees volunteered in repairing farming machines, home appliances for the disadvantaged, motors, pumps, and boilers for welfare facilities and senior citizens living alone.



| Post-Disaster Reconstruction | For areas hit by massive floods, our company vehicles, equipments and manpower were mobilized in an effort to install electricity safeguards, dismantle damaged facilities and provide recovery aid. In 2006, some 335 employees volunteered for 3,760 hours in Gangwon-do(Pyeongchang, Yongwol, Injae), Jeollanam-do(Shinan) and Gyeongsangbuk-do(Ulju). Furthermore we successfully raised a fund of KRW 20 million which was handed, along with other basic necessities, to people displaced by the flood.



Education & Culture

To provide teenagers with the opportunity to receive education and effective tutoring, we implement a wide array of educational and cultural activities and programs, such as scholarships, field trips to power plants, and the operation of the United Camp for teenagers.



Local Community

We have established sisterhood relations with local public volunteer centers, rural villages, schools, and welfare facilities that provide shelter to the elderly, the disabled and children, offering regular assistance and volunteering services to help promote development in local communities.



Environmental Protection

As a maintenance provider for electric power facilities, KPS actively engages in activities aimed at preserving the ocean, mountains and streams, including campaigns for preventing and extinguishing wildfires, and removing litter. At our transmission and transformer worksites, we help remove snares and traps, feed wild animals during the winter time, and make bird nests using left-over materials. We also work together with the local government wildlife protection team to release animals back into the wildlife. As a public corporation, we actively involve ourselves in new renewable energy projects and government projects for water resource protection and recycling of waste resources.



United Volunteer Group Support and Assessment

| Angel Fund and Matching Grant | In a bid to secure the necessary fund for our united volunteer activities, we established the Angel Fund and Matching Grant program in March 2005. Employees make a monthly donation to the Angel Fund (KRW 1000 per account) and then an amount equal to the proceeds is donated by the company (Matching Grant). In 2005 and 2006, 3,928 employees took part in the fund, raising KRW 750 million in total, of which KRW 640 million went to financial contributions, donation of supplies and material costs associated with volunteer activities.

| Intranet Social Contribution System | Launched in December 2006, the Social Contribution System is designed to allow fund management by volunteer group, management of social contribution performances, and information sharing on volunteer programs.



[Social Contribution System Website]

| Assessment and Rewards | The social contribution activities of our volunteer groups undergo annual assessments to identify and address issues. A Secretariat and Internal Assessment Team have been set up to identify outstanding programs among local volunteer groups and extend those programs to the entire company. Volunteer groups and employees with excellent performance are selected and rewarded to further encourage active participation in social contribution activities.

Social Contribution Encouragement Programs

| Mandatory Volunteering by New Recruits and Managers| In an effort to create an environment where new recruits willingly accept social contribution activities as part of the corporate culture and incite managers to lead by example, entry-level employees and junior and middle managers are obligated to fulfill at least 8 hours in group volunteer services. In 2006 and 2007, around 67 junior managers and 61 middle managers volunteered in 'Noah's Home', a housing facility for the elderly. Some 276 new recruits worked alongside disability-related organizations (Home of Peace, Changin Nursing Home, Gapyeong Village of Flowers, Somang Rehabilitation Center) and volunteered in areas damaged by floods in Pyeongchang.

| Extenuation for Social Services| This program is intended to reduce the level of disciplinary action against an employee if he has a proven record of volunteering in services deemed beneficial to society in an organization recognized by the company, central or local government for a set period outside normal working hours. After benchmarking the penal system of ordering social services and that of other companies, the program was introduced in April 2004 and later enforced in July following internal regulation revisions.

| Preferential Employment of Applicants with Volunteer Experience| When considering new hires for the second half of 2007, we plan to take volunteer experiences into account in order to broaden the social participation of not only our employees but prospective employees as well.

| Seolokdo Volunteer Group| Since 1985, the KPS Jeju volunteer group has joined local residents and religious organizations in helping the 650 or so leprosy patients living in Seolokdo. At the suggestion of employees during a CEO innovation forum in early 2007, we reviewed plans to make the Seolokdo volunteer service an annual event. As a result, the Seolokdo volunteer service is expected to take place after September 2007.

Lending of Resources

KPS offers company vehicles and equipments to help local residents in home maintenance and relocation. In addition, our company halls are open to the public for various purposes such as local product fairs,

charity and sports events, and cultural workshops.

Social Contribution Partnership

| Customers, Business Partners| In 2006, KPS joined hands with KEPCO, and initiated numerous activities such as wildfire prevention campaigns, charity events, and maintenance services for remote villages. Together with power generating companies like Seocheon Power, KPS participated in 25 volunteer events that included housing repairs, lighting for the Dongbaekjung octopus ocellatus event, farming tool repairs in rural villages, and installation of recreational facilities in schools.

| Partnership with the Love PC Sending Campaign| Since forming a partnership with the Love PC Sending campaign - sponsored by the Korea Association of Persons with Physical Disabilities - in August 2006, we have donated 335 personal computers and relevant equipments. Charged with the responsibility of gathering, training or delivering PCs, each partner has taken part in the PC distribution project for those who have been left behind by the digital divide.

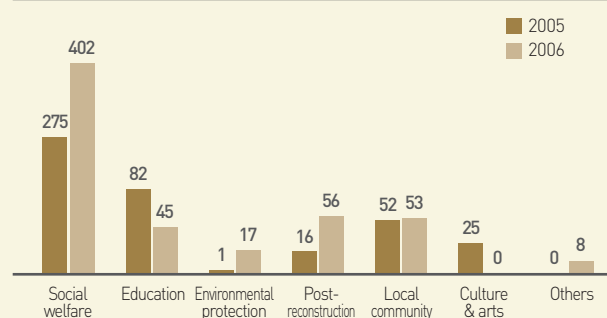
Donation of Funds and Supplies

[As of 2006]

Category	Donations made
• Donation to underprivileged children, single senior citizens living alone, disadvantaged teenagers, and welfare facilities	750 cases/ KRW 375,954,857
• Donation of books to remote villages and islands	547 books
• Donation of basic necessities and home appliances to the disadvantaged	114 cases/ KRW 92,312,203

Donation of Funds and Supplies

(Unit: KRW 1 million)



Business Partners

KPS provides a wide range of practical assistances to small and medium enterprises, such as technology transfer and sharing of achievements, to boost business competitiveness through win-win cooperation.

Fair Trade

We are taking steps to improve contract systems and stabilize e-Procurement in order to ensure transparency in the contracting process. Measures to provide better protection to whistleblowers have also been enforced to broaden ethical thinking. We also resort to professional research companies to increase response rates on integrity surveys and improve the impartiality of the data.

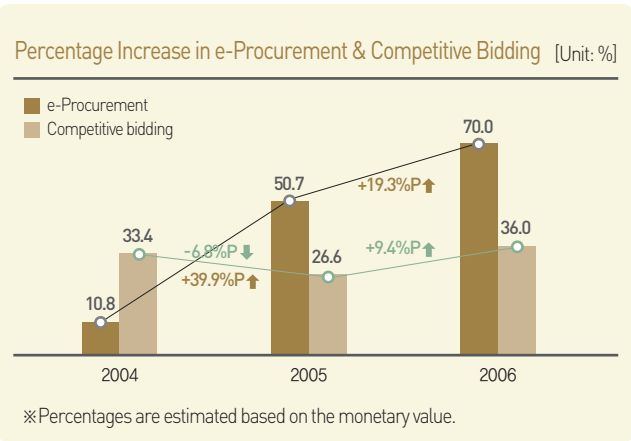


Efforts to Stabilize e-Procurement

As part of an effort to stabilize e-Procurement, bidding results are disclosed and messages are transmitted through our group e-Procurement system and company website while the contract is in progress. For better transparency, we have also made system improvements, such as revising guidelines for partner companies, to increase the percentage of e-Procurement and competitive bidding and minimize private contracts.

Contract System Improvement

In an attempt to increase transparency of our business process, we have established an interactive integrity agreement program, created an internal team dedicated to improving integrity in construction works or service transactions, simplified procurement related documents and processes, improved our material procurement management system and built an open channel for our business partners.



Simplified Procurement Process

The procurement process has been reduced from 6 (requisition to payment) to 4 phases.

The adoption of consolidated procurement plans (written plans to orders) has simplified the process.

- ※6 phases: Requisition - Planning - Price survey - Contract(Order) - Inspection - Payment
- ※4 phases: Requisition - (Consolidated Planning, Price survey, Contract(Order)) - Inspection - Payment

Open Channel for Business Partners

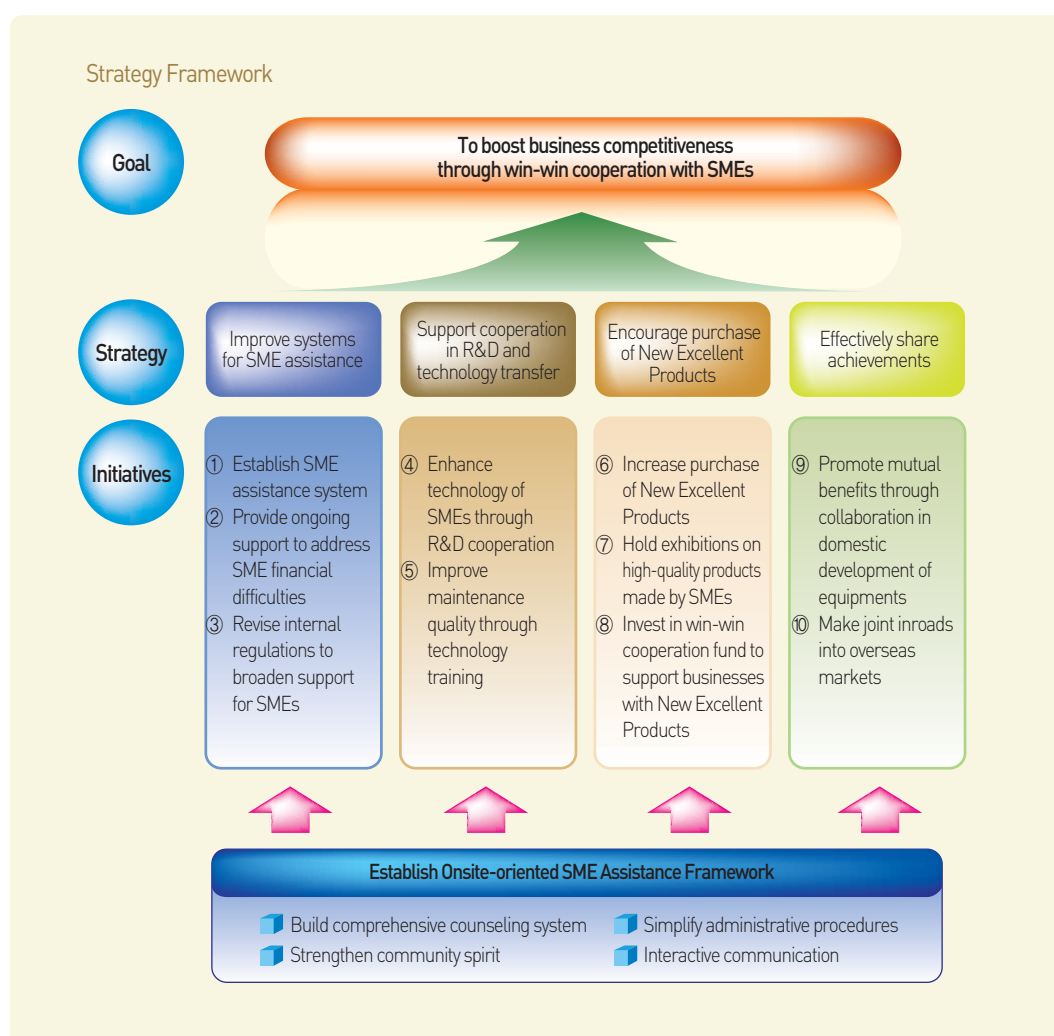
Open dialogue with business partners (visitors)
via the KPS website and SME website
Regular integrity surveys

Win-Win Cooperation

KPS has established an underlying framework for strengthening win-win cooperation with SMEs and is also conducting a wide range of practical assistance projects. These efforts are intended to address the problem of unbalanced growth prompted by the competitiveness gap between large corporations and SMEs. We especially make sure that payments on construction works are completed within the legal period (60 days) set forth in Article 13 of the Fair Transactions in Subcontracting Act. And our network loan program provides financial assistance to help stabilize SMEs.

SME Assistance Framework

To boost business competitiveness through win-win cooperation with SMEs, we have set out four major strategies: improving systems for SME assistance, supporting cooperation in R&D and technology transfer, encouraging purchase of New Excellent Products; and effectively sharing achievements

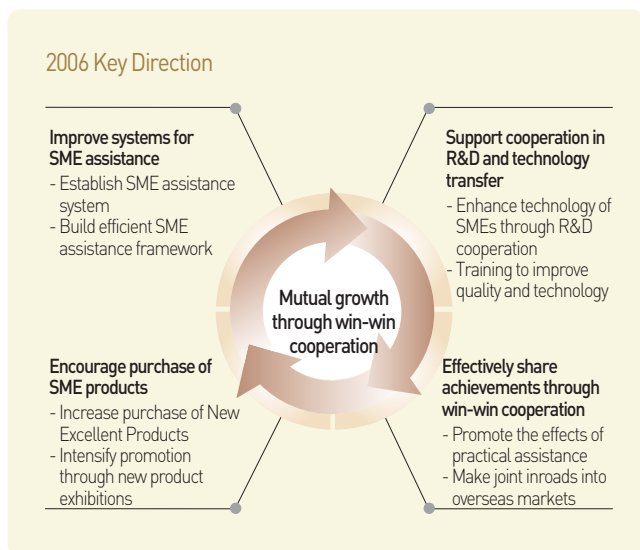


Annual Action Plans

We have developed and implemented annual action plans to boost our business competitiveness through assistance to SMEs. Prior to 2005, we focused on maintaining cooperation relationships through agenda-specific support and thus laid the groundwork for future assistance. In 2006, more practical assistance was provided to further intensify the groundwork for cooperation. And since 2007, we have continued to broaden customized-assistance to help our partner companies enhance their resiliency.

2006 Key Direction for Index Management

We have set our index management direction to seek further mutual growth by improving SME assistance systems, supporting cooperation in R&D and technology transfer, encouraging purchase of SME products and effectively sharing achievements.



2006 SME Assistance Performance and Achievements

KPS has increased the actual benefits of assistance by setting up an SME assistance system that includes SME assistance centers and websites. Our technological support and cooperation in R&D have contributed to stronger competitiveness and revenue rise of SMEs. A number of events were held to highlight SME products, for example, an introduction corner of New Excellent Products, and exhibitions displaying high-quality SME products. In total, we have purchased KRW 125.8 billion worth of SME products. Through the priority purchase of SME products and support for the development of domestic technologies, we have ultimately helped increase their revenues and technological strength.

Major SME Assistance Activities

Improvement of SME assistance system

- ◇ Established SME assistance system
 - SME survey to gather opinions (Jul 06)
 - SME assistance center (Sep 06)
 - SME assistance website (Oct 06)
 - Business-specific discussions with SMEs (Sep, Oct 06)
- ◇ Ongoing support to address financial difficulties
 - Continued operation of network loan
 - Continued operation of business purchase card system
 : 35,770 cases/ KRW 166,538 mil
- ◇ Revised internal regulations to boost SME assistance (Dec 06)

R&D cooperation and technology transfer

- ◇ Enhanced technology through ongoing cooperation in R&D: 17 cases/ KRW 2,640 mil
- ◇ Promoted maintenance quality through technology training
 - Extended maintenance training for outstanding SMEs: 2 courses, 11 companies, 55 trainees
 - Operated qualification program through maintenance training in nuclear power sites
 - 227 persons qualified in the past 3 years (28 persons in 2006)
- ◇ Quality assurance training for SMEs
 - Quality assurance seminars (46), training (22), door-to-door guidance (9)

Greater purchase of SME products

- ◇ Intensified promotional activities for SME products
 - 'New Excellent Product' corner available on our website
 - Expanded private contract standards on priority purchase of New Excellent Products
 - Held exhibitions on high-quality products made by SMEs (Jul 06)
- ◇ Purchase of SME products
 - KRW 125.8 bn (80% of total purchase amount)

Creation of best practices in SME assistance

- ◇ Created mutual profits through technology support
 - Supported development of domestic technologies in nuclear power facilities (Nov 06) - Enesco Co., Ltd., turbine generators
 - Purchased and supported development of earthing and short-circuiting equipments (Jul 06 to Mar 07) - Yoo shin Corporation, KRW 19,057,000
- ◇ Joint advancement to overseas market
 - Power facility maintenance (2006): 3 companies, 5 projects, US \$ 345,295
 - Joint bidding for transmission tower construction in Malaysia (Nov 06): Taeyang Industrial Co., Ltd.
- ◇ Signed agreement on supply of manpower for overseas power plant O&M (Sep 06): 4 companies

SME Assessment and Technology Transfer

In 2006, we provided KRW 53 million in technology and manpower assistance such as special equipments for testing and analysis and dispatch of skilled engineers to a small corporation that was developing turbine generators for nuclear power plants.

Customer Management Programs

| Sales Visits to Major Customers |

- To whom: Major companies expected to place construction orders
- How: Visits by sales representatives from our head office and field offices
- When: Every February to March
- Purpose: To identify customer needs and order volume for that year and promote specialized technologies

| Technical Service Team |

- Purpose: To increase reliability through strategies differentiated from our competitors
- Role: Increase reliability and utilize sales by using KPS specialized technologies to analyze problems in customer facilities free of charge
- Composition: Sales department + R&D Institute
- When: All-year-round

| Industrial Facility Technology Innovation Seminar |

- Purpose: To promote our specialized technologies and establish human network for sales purposes
- When: Every March (two days)
- Participants: Person in charge and manager from customer business

| KPS & KDHC Maintenance Workshop |

- Purpose: To share information on technologies and carry out discussions to identify and address problems
- When: Every April (two days)
- Participants: Staff and manager in charge of construction management from both sides

Stakeholder Interview

Business Partners and Technology Cooperation

Ace Electronics CEO Byeongjung Oh

In the wake of the UN Global Compact, initiated by former UN Secretary-General Kofi Annan, and the implementation of ISO 26000, an international standard on social responsibility, there has been an increasing demand for more socially conscious companies. In particular, the growing emphasis on cooperation and mutual growth with small and medium companies has prompted KEPCO to include SME assistance performance in the business evaluation of its subsidiaries.

The basic element of business growth, I believe, is the dedication of the company's employees with the CEO taking the lead. However, major stakeholders outside the company have also served as a stepping stone for business growth. And as the business environment gets more and more complicated and specialized, it is becoming evident that the innovation efforts of business partners to support the core technologies of the parent company are making a stronger impact.

In my view, KPS fully understands that relationships with its business partners are critical to its business growth. This is well demonstrated in the company's efforts to work with its partners to improve facility service-related technologies. Ace Electronics also has experience working with KPS to advance its technologies through a myriad of training opportunities including joint workshops. KPS also provided us with training programs for engineers of certain sectors. Exchange programs between engineers from both sides were also held, albeit sporadically.

As part of a new sustainability management that pursues financial profitability in mind of economic reliability, environmental soundness and social responsibility, stakeholder demands for more socially conscious companies are expected to grow stronger in the future. Hence, cooperation should be further strengthened under the goal of promoting mutual development. In particular, we need to build a tighter relationship to enhance the technology level required under the new sustainability management paradigm.

Only then will there be enough services to improve the sustainable competitiveness of power generating companies and drive the business value of both KPS and Ace Electronics.

KPS aims to contribute to the sustainable development of our society by developing renewable energies and reducing greenhouse gas emissions through eco-friendly management.

Sustainable Energy





Always keeping our next generation
and environment in mind,
KPS aspires to
become a green company.

04 Environment

Environment

Environmental Performance

Environmental Performance Support

New Renewable Energy

Environmental Performance

KPS is realizing environmentally friendly management by complying with regulations and developing annual environment improvement and action plans and policies that stress the environment and mutual growth with society.

Green Purchasing

KPS is an active advocate of eco-friendly products. In 2006, we purchased KRW 14.23 million worth of eco-friendly personal computers and related supplies and we plan to gradually increase our purchase volume of such products in the coming future.

Energy Conservation

With oil prices rocketing to record highs, we have taken steps to conserve energy to set a positive example and ultimately raise public awareness and participation. Office temperature is maintained above 26°C while unnecessary lights in the building are turned off. Employees are encouraged to wear lighter clothing during summer and comply with the 'No Driving Day' program. These measures have enabled us to save around 119,700kwh in energy consumption compared to 2005. Starting from 2007, we have implemented the odd/even number system in our elevators except for those for disabled people.



[No Driving Day sticker]

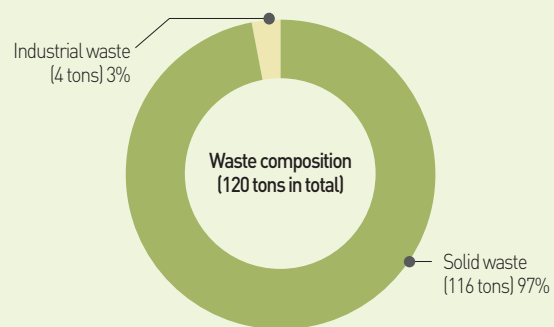


[Signs displaying odd/even numbered floors in service]

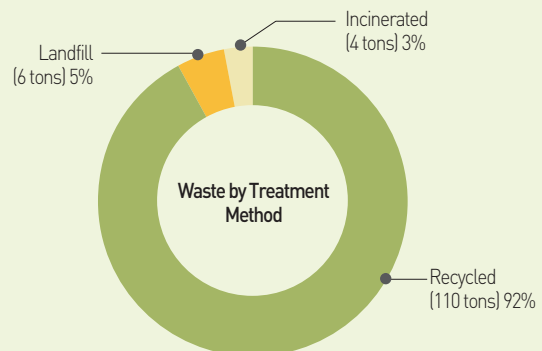
Waste

In 2006, KPS (head office) generated 120 tons of waste - of which 4 tons were industrial waste (3%) and 116 tons solid waste (97%). When classified according to the waste treatment method, 110 tons (92%) were recycled, 6 tons (5%) were landfill waste and 4 tons (3%) were incinerated. Industrial waste was entirely incinerated by court waste treatment companies. Landfill waste was processed by the gu-office and the remaining 110 tons were handed over to recycling companies. In 2006, not a single accident involving leakage of waste, oil or hazardous material occurred at KPS.

Waste Composition



Waste by Treatment Method



Environmental Performance Support

KPS supports the environmental performance of power plants through the maintenance of eco-friendly nuclear power plants and environmental facilities in coal- and oil-fired power plants.

Environmental Facility Maintenance for Power Plants

KPS provides maintenance for flue gas desulfurization in 10 coal-fired power plants and 6 oil-fired power plants in Korea. Desulfurization is designed to reduce the emission of sulfur dioxide resulting from thermal power stations that burn oil or coal which contains a huge amount of sulfur. Through the maintenance of these facilities, KPS is supporting the environmental performance of its customers.

In addition, government plans to heighten NOx emission standards from 350ppm in 2005 to 150ppm in 2007 have prompted power generation companies to rush and construct desulfurization facilities in large thermal power stations to reduce the exhaustion of nitrogenous compounds.

Support for Eco-friendly Nuclear Energy Supply

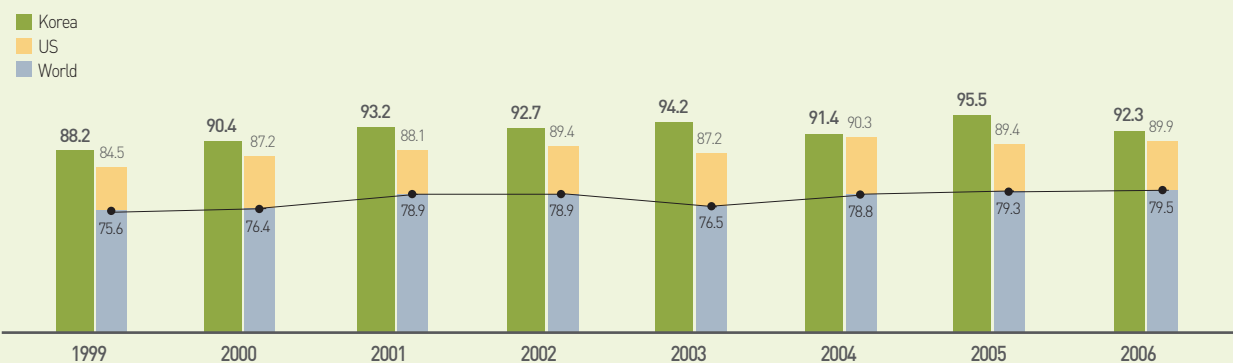
Consumption of nuclear power, a proven energy supply technology, has been on the rise in advanced countries partly due to tougher regulations on greenhouse gas emissions. In Korea, nuclear power facilities account for 27% (17,716MW) of all power facilities(65,514MW), but in terms of power generation, they take up 39% (148,749GWh) of total power generation (381,181GWh). For Korea, which is the 9th largest emitter of annual greenhouse gas emission, nuclear energy is playing an increasingly important role.

KPS is responsible for maintenance of every nuclear power plant in the country and our maintenance technology has a direct impact on the operation of those power plants. Thanks to ongoing improvements in maintenance technology and efforts to secure skilled maintenance personnel for each power facility, Korea's nuclear power plants are operated at a highly sophisticated level that is on par with advanced countries. This has, in turn, led to relatively lesser dependency on steam power stations (fossil fuel), thus contributing to the reduction of greenhouse gas emission.



Average consumption of nuclear energy

[Unit:%]



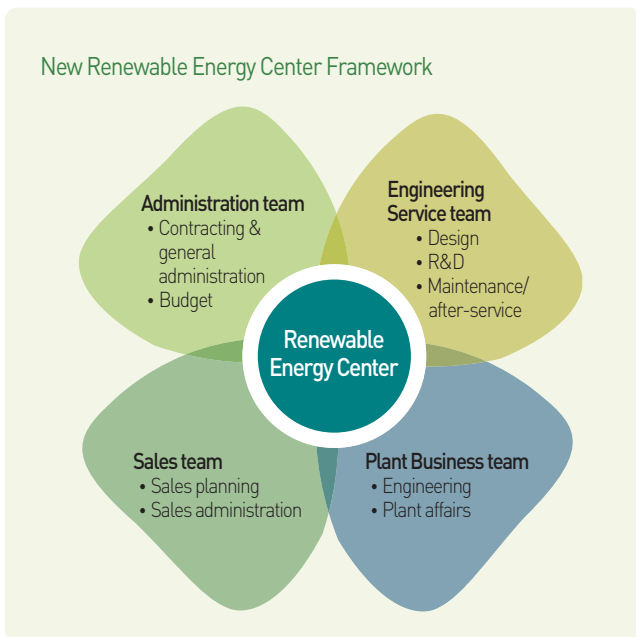
Source: US. 'Nucleonic Week & IAEA Power Reactor Information System' 2006.6

New Renewable Energy

KPS is determined to secure a prominent position in the nation's new renewable energy industry by achieving technology independence primarily in solar and wind power.

Definition of New Renewable Energy

The importance of new renewable energy is increasingly drawing attention as a solution to environmental issues such as dwindling fossil fuels and global warming. That is why the government needs to pursue active policies on a national level. New renewable energy refers to energy utilized and converted from existing fossil fuels or replenishable sources like sunlight, water, geothermal heat, rainfall and biomass. Article 2 of the Act on the Promotion of the Development and Use of New and Renewable Sources of Energy defines 11 new renewable energy areas including solar and wind power.

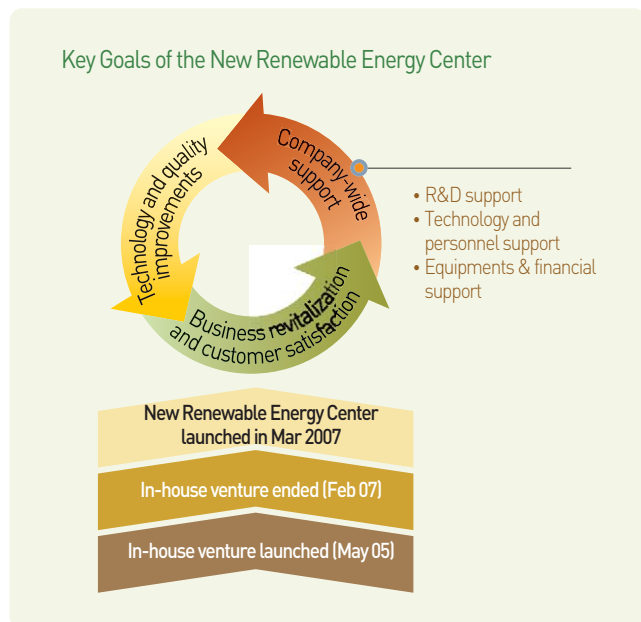


In-house Venture

After selecting new renewable energy business as its key in-house venture, KPS operated in-house ventures for 20 months starting from May 2005 to December 2006. During this period, we conducted 12 general supply projects and 70 housing supply projects, generating 3.91 billion won in sales.

Business Incubation

For more efficient business operations, we ended our company ventures and later inaugurated the New Renewable Energy Center, an official business organization, in March 2007. The New Renewable Energy Center aims to create a proper business scheme including organization and personnel and take on sales, business planning, design, maintenance and after-services. By doing so, we will be able to drive new growth engines and maximize sales and profits to become a leading company in the new renewable energy industry.



New Renewable Energy Business

KPS is currently conducting the MW level solar power EPC (design, procurement, engineering) project and providing maintenance services for large wind power facilities to pioneer the new renewable energy market in light of the huge growth potential of the new renewable energy business. Solar and wind power are the core new renewable energy sources. The government has already embarked on a plan to supply 100,000 units of solar powered housings, proving that the solar power industry still remains ahead of other renewable energies. Meanwhile the wind power industry has continuously supported system and technology development needed for wind power system configuration. Thus the new renewable energy business is expected to steadily grow in Korea.

KPS Technologies and Equipments

Building on technologies accumulated from numerous projects, KPS obtained a patent for 'solar power system and method for output regulation' in April 2007 and is currently working to secure the necessary equipments for project implementation such as system design programs and testing tools for power system protection.

Solar Power EPC Project

To gain a stronger foothold in the local new renewable energy market during the early stages of its supply, we are implementing the EPC project on MW-level massive solar power. A project taskforce has been in operation since April 2007 to review the overall issues related to the project including profitability, project site, and equity investments. We are also working to sign an MOU with local government organizations by 2007 as a means of securing cooperation channels in solar power facility construction.

Wind Power O&M

As of December 31 2005, 18 out of 130 wind power facilities in Korea are discarded. The central and local government have strongly requested for the participation of KPS to deal with this issue. In response, we are currently reviewing business plans and the feasibility of participating in the reconstruction of wind power facilities. We are also seeking technical cooperation with local and foreign companies to gain independence in wind power maintenance technology. In addition, KPS is widely expected to be named by the Ministry of Commerce, Industry and Energy as the exclusive A/S provider for wind power facilities. Therefore plans are underway to secure the proper personnel and support system to pioneer the local wind power market.

Material development R&D

We plan to launch a Parts R&D project in alliance with local universities by 2011 for product development, manufacturing and sales of renewable energies. By resorting to SMEs for the manufacturing of materials, this project is expected to create both tangible and intangible benefits such as SME assistance.

Sales Target

Our goal is to raise the sales of our solar power supply to existing electricity companies and local governments from KRW 5.69 billion in 2007 to KRW 25.7 billion by 2011. There are also plans to launch new businesses in solar power EPC and wind power O&M during the second half of 2007 with a sales target of KRW 18.8 billion by 2011.

Stakeholder Interview

Greenhouse Gas Regulations and New Opportunities

Korea Energy Management Corporation,
Director of New Renewable Energy Center, Sukyoon Yoon

Major power suppliers, whose development heavily depends on fossil fuels, cannot remain free from environmental issues. This is more evident in the growing demands for change from stakeholders including local communities and NGOs. Therefore it is important to pay particular attention to the emission level of major pollutants that are directly or indirectly related to energy sources, like dioxin, sulfur and nitrogen oxides, and to the handling methods. With CO₂ and other greenhouse gases taking the spotlight on the global stage, the business operations of power generation and related companies are gaining increasing attention.

In this regard, KPS, which is in charge of improving the facility efficiency of power generators, carries a heavier responsibility. Along with the rise of the sustainability management paradigm, facility efficiency measurements are shifting from an economic perspective to a more eco-efficiency perspective. Such changes place a greater importance on the technological strength of KPS. In retrospect, power generation companies were able to control pollutants and greenhouse gas emissions with more ease thanks to the support of service providers like KPS that have excellent technologies.

However, regulations on greenhouse gas emissions and air pollutants, particularly hazardous chemical materials, are expected to become more stringent in the coming future. That is why KPS needs to enhance its technological strength, improve its eco-friendliness and continuously reduce greenhouse gas emissions.

Moreover, the new regulations on greenhouse gas emissions should be taken as an opportunity for KPS to improve its business value. First, based on its technology and experience obtained from maintaining power facilities, it needs to actively pursue the energy diagnosis business. Next, it should focus on supplying facilities for eco-friendly power generators which has been in increasing demand due to tougher regulations on greenhouse gas emissions. By doing so, KPS can turn a business, or rather a humankind crisis into an opportunity and ultimately become a long-lasting reputable company.



*The capability of our employees is directly related to our business value.
KPS is making strides toward nurturing creative employees
who can lead the global market in the 21st century!*



Creative employees are the strength
behind our drive to
lead the global market

05 Employees

Human Resource Management

Labor-Management Harmony

Safety and Health

Welfare

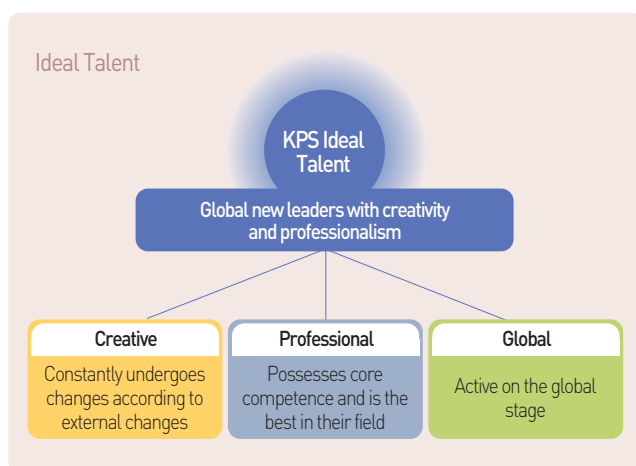
Human Resource Management

KPS is fostering 'global new leaders with creativity and professionalism' to lay the groundwork for sustainable growth. To this end, we are implementing competence and performance-based HR policies while offering various training programs and rewards.

Ideal Talent

In line with one of our core values of fostering talented employees, we have laid out our hiring requirements and human resource development direction. In addition, our employees are encouraged to voluntarily undergo self-development so that they can become skilled talents coherent to our ideal employee.

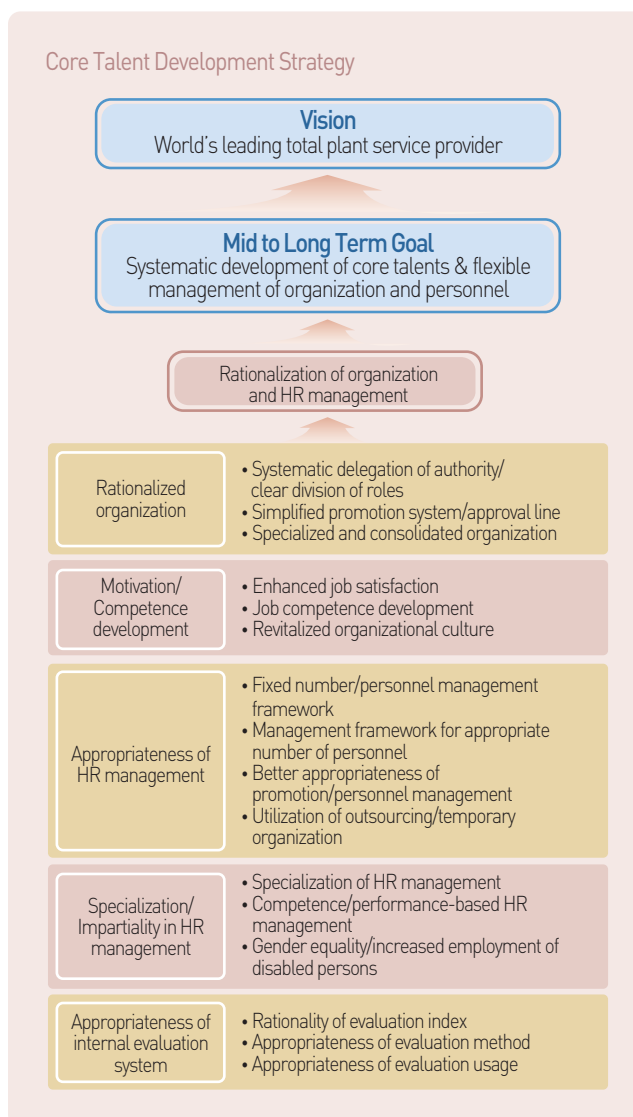
Our ideal talents are 'global new leaders with creativity and professionalism'. We require those who are creative, professional and global.



In addition to defining our ideal talent, we plan to establish a core talent development system with stronger linkage to the ACT KPS 2015, identify detailed competence models for our employees and set up CDP. To this end, a human resource system for fostering core talents is to be designed in 2007.

Strategy Framework Linked to Mid to Long Term Strategic Goals

Priority has been placed on achieving rationalized organizations, motivation and competence development, appropriateness of HR management, specialization and impartiality in HR management, and the appropriateness of internal evaluation system. By doing so, we are focusing on flexibly managing our organization and employees and systematically developing core talents in the mid and long run.



HR Principles

Motivating employees and fostering the right type of human resources require basic principles and standards in HR management. KPS is working to improve the reliability, rationality and the acceptance level of HR management by embedding 'competence and performance-based principles' and 'objectivity and impartiality principles'.

Competence and Performance-based HR System

Our job performance evaluation system can be divided into competence evaluation, which assesses individual competence, and performance evaluation, which gauges individual performance. The competence evaluation outcomes are reflected mainly in promotion and training whereas the outcomes of performance evaluation are taken into account when determining employee rewards or the annual pay of executives of grade 4 or higher. Competence and performance-based principles are realized through these evaluations, providing motivation for our employees and enabling them to reach their full potential from where they stand.

Objectivity and Impartiality-based HR System

The Promotion Review Committee was established in 2006 to address the problems of the seniority-based promotion system and help generate qualified individuals through multifaceted verification. To ensure objectivity and impartiality, the Committee consists of over 10 executives of grade 4 or higher who are prohibited from reviewing a candidate working in their respective department. The Promotion Review Committee has helped improve the problems in the seniority-based promotion system while the multifaceted verification process has brought objectivity and impartiality to promotion reviews.

For positions above the team-leader level at our head office, a job posting program for employees of grade 3 or higher and a recommendation program for employees of grade 4 or higher are being implemented in parallel to enhance the objectivity and impartiality in position management. These programs have allowed employees to take an active, leading role in fulfilling their job responsibilities while ensuring objectivity and impartiality through a competence-based HR management.

2006 Job Postings and Recommendations

Job Postings	No. of Applicants	No. of Recommendations
74	107	30

Efficient HR Management

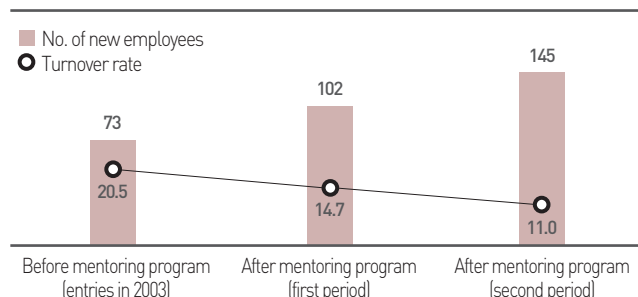
Mentoring Program for New Recruits

In a bid to help new recruits effectively adjust to their jobs and foster core talents needed to achieve our company vision and strategies, we have implemented a mentoring program since 2005. After completing a one-year internship, entry-level employees must undergo the mentoring program in addition to the ethical sponsor program which is designed to bolster job adjustment capabilities and skills to cope with ethical dilemmas. Each mentoring group is comprised of one junior mentor and 2 or 3 entry-level employees while one senior mentor is assigned to every 2 or 3 mentoring groups.

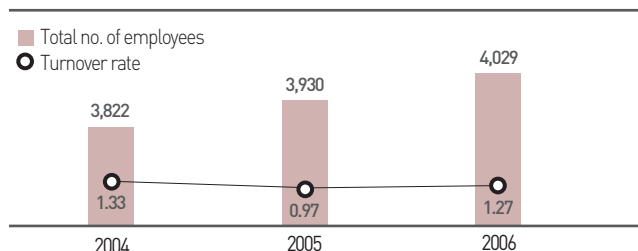
Mentoring Program Performance

Category		First Period	Second Period
No. of mentoring groups		37	60
Active period		'05. 05. 25 ~ '05. 12. 31	'06. 04. 01 ~ '07. 03. 31
Composition	Mentee	94 (entered in Oct 18, 2004)	137 (entered in Dec 26, 2005)
	Junior mentor	37	60
	Senior mentor	-	37

Turnover rate before and after mentoring program [Unit: person, %]



Turnover rate before and after mentoring program [Unit: person, %]



Employee Status

The number of new recruits has shown an increasing trend with the growth in our sales and businesses. In 2006, we hired 156 new employees, 11 more than a year earlier (145).

Our main business, power facility maintenance, requires certain qualifications and intensive physical labor, imposing a huge limitation on hiring. However, as part of our efforts to fulfill our social responsibility as a public corporation, we are increasing the employment of disabled persons and those with national merit achievements. In addition, through our employment quota system, we plan to broaden our scope of preferential hiring to include individuals from low income households or with experience in good deeds.

Employee Status

[Unit: person]

Category			2004	2005	2006
Executives			4	4	4
Regular employees	Employees	Office	246	256	266
		Engineering	3551	3649	3743
	Total		3797	3905	4009
	Special service employees		25	25	20
	Total		3822	3930	4029
Non-regular employees			1104	1173	1014
Total			4930	5107	5047

Note) 1. Executive: CEO, auditor, executive directors (General Manager of Hydro/Thermal Division, and Nuclear Power Division)

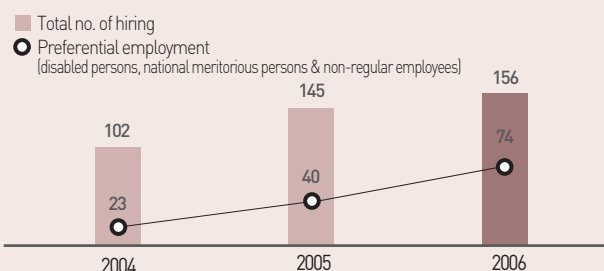
2. Employees: Grade 1 to 5 in public service (including those in overseas projects)

3. Special service employees: Special service (emergency planning, nurses, etc.) employees not included in public service

4. Non-regular employees: Employees under fixed-term contracts not included in public service

Employment Status

[Unit: person]



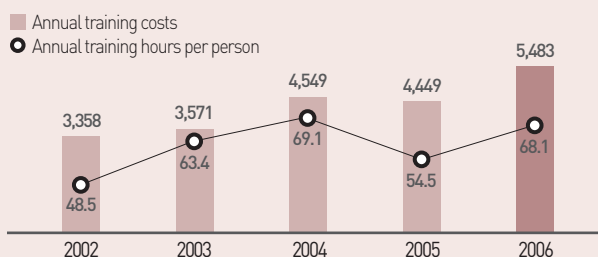
Talent Development Program

With our ideal talent defined as 'global new leaders with creativity and professionalism', we are striving to foster employees who are creative, professional and global.

To this end, we have been conducting optional telecommunication and cyber training to meet the various needs of individuals while also providing training aimed at boosting job competency, such as position-specific training, innovative and ethical management training, and CS and cultural training. The internal certificate program, sponsored by the Ministry of Labor, was introduced in an effort to produce sector-specific supervisors and engineers capable of performing multiple functions. As a result, KPS engineers have acquired 2.52 internal certificates on average. These efforts have enabled us to secure qualified engineers that only a global leader in maintenance technology can bring.

Training Performance

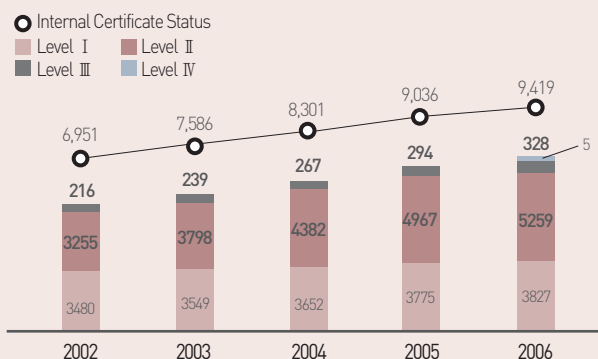
[Unit: KRW one million, hour]



Note) Average training hours per person in 2005 dropped temporarily due to higher demand of resources for business expansions.

Internal Certificates Acquired

[Unit: certificate]



Career Management Program

Introduced in September 2005, the KPS standard career path is divided into executive standard career path and employee career path based on the individual position, and standard career path for office employees and standard career path for engineers depending on the job responsibility. Unlike for office employees, the standard career path for engineers is further sorted into mechanic engineering and electric engineering based on the type of facility subject to maintenance.

The current career management program faces many difficulties over its actual application due to the lack of interconnection between career management and human resource development for creating ideal talents - one of the core values of the ACT KPS 2015, job responsibility, and training. To address this problem, we are currently developing an HR system that is aligned to the ERP system and includes a new definition of our ideal talent for 2007, job analysis, career development paths and training system. The new HR system is expected to redefine our talent development system.

Reward System

KPS hands out a wide array of rewards such as the KPS Employee award, suggestion award, achievement award, model employee award and excellence in training award. Among them, the highest honor of all is the KPS Employee award which annually selects and rewards one of the best engineers that represent our company. The suggestion award recognizes employees who make a significant contribution to improving productivity through their suggestions or ideas.

Reward benefits are given in the form of additional points for promotion, and higher percentages of incentives. These rewards are, however, classified into four levels from special to third according to the individual's achievement while the additional points and percentages vary depending on the reward level.

Major Rewards

[Unit: case]

Category	2004	2005	2006	Total
KPS Employee Award	5	5	3	13
Suggestion Award	5	7	42	54
Total	10	12	45	67

By motivating employees from training to job performance, these rewards provide opportunities for self-satisfaction and personal development from the employees' perspective while the company benefits from higher productivity as employees are encouraged to make greater efforts. In particular, the suggestion rewards have led to an increasing number of applications and registrations of industrial property rights, playing a major role in enhancing our technological strength.

Human Rights

Better Treatment for Non-Regular Employees

There has been a growing need to improve the treatment towards non-regular employees in order to instill a sense of ownership and boost their pride and responsibility towards the company.

Current Status of Non-Regular Employees

[As of Dec 31, 2006]

Category	Fixed-term	Leased	Total
No. of Employees	977	37	1014

Note) 1. Fixed-term workers: Employees who are directly hired by the company for a fixed-term
2. Leased workers: Employees who have been hired through an agency for a fixed-term

Faced with the enforcement of the Non-Regular Worker Protection Act in 2007 and tight budget constraints internally, providing job security to non-regular employees and improving the treatment towards them have become pressing issues. In response, we have launched a task force dedicated to matters regarding non-regular employees in 2007 to work out a reasonable solution.

Child Labor and Forced Labor

KPS strictly adheres to ILO conventions and local labor laws. To prevent human rights from being violated in child labor, we obligate minors under the age of 18 to present a written consent from either their parents or legal guardian before signing an employment contract to ensure a fair process as possible. We are making every effort to prevent child labor, forced labor or any other form of discrimination from taking place in our workplaces.

Labor-Management Harmony

KPS is taking concrete steps to build productive, forward-looking labor relations based on mutual growth through engagement, collaboration and better mutual understanding of labor and management issues.

Labor Relations

As the nation's leading corporation in electric power maintenance, KPS endeavors to improve productivity, enhance business value and ensure the stable supply of power through a sound relationship between labor and management.

A Forward-Looking, Mutual Growth-Based Labor Management Culture

Guaranteeing the Freedom of Association and Union Organization

We respect international and local labor laws including those on labor standards and unions as well as collective agreements with labor unions. In compliance with these labor laws, union members working in KPS are guaranteed the freedom of association and union organization. The KPS labor union, which is part of the Federation of Korean Trade Unions, has 3,329 members, or 82.4% of total employees as of December 2006. Every employee, except for executives and onsite directors, are eligible to join the union.

Youth Employment and Prohibition of Forced Labor

KPS employment regulations ban the hiring of teenagers under the age of 15 or secondary school students younger than 18. We comply with the

legal requirements of the local labor standards on forced labor and hence not a single violation has occurred in this regard.

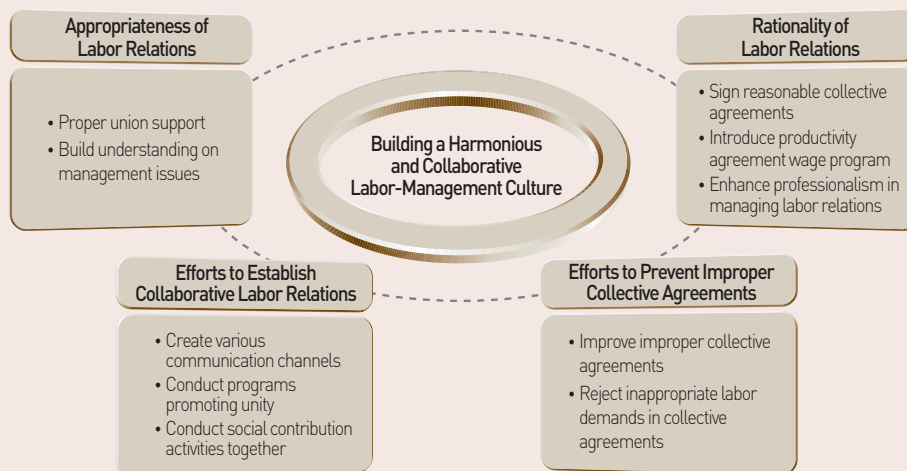
Joint Participation by Labor and Management

The Joint Labor and Management Committee shares and discusses pending issues on business management with a view to strengthen capabilities through productive labor relations. We are also seeking to build a common ground on how to streamline organization management to improve productivity.



[Anniversary of Labor Union Inauguration]

New Labor-Management Culture



Communication Channels for Labor and Management

Committee	Key Agendas
Collective bargaining	Discusses collective and wage agreements
Labor-Management Council	Addressing employee grievances, i.e. improved work environment, to stabilize labor relations
Welfare Fund Management Committee	Conducts fund projects to improve employee welfare
HR Committee	Addresses complaints and issues over HR

Building Labor-Management Culture of Mutual Growth through Effective Communication Channels

As part of our joint efforts to ensure stable labor relations and improve productivity, we have revitalized various communication channels to help build a common understanding on management issues between labor and management and allow a new labor-management culture underpinned by the principle of 'dialogue before action' to take root. Thanks to these efforts, a sense of unity backed by mutual understanding is spreading throughout the organization, contributing to the stabilization of our own unique type of collaborative labor-management culture.

2006 Communication Channel Revitalization Performance

Category	Occasions	Purpose
Management Agenda Informative Meetings	8	<ul style="list-style-type: none"> • Build common understanding on management issues • Share company information
Joint Training for Labor and Management Officials	1	<ul style="list-style-type: none"> • Promote unity among officials • Revitalize communication
Labor-Management Athletic Meeting	1	<ul style="list-style-type: none"> • Promote unity by encouraging recreational club activities
Labor-Management Task Force	8	<ul style="list-style-type: none"> • All-year-round task force for organizational improvement • Jointly address pending issues
Labor-Management Discussions by Field Office	164	<ul style="list-style-type: none"> • Lay groundwork for stable labor relations at field offices

Labor-Management InfoNet

An integrated information sharing system for labor and management has been established to create a communication channel that allows the company to attain competitiveness and growth and build a collaborative relationship based on mutual trust by sharing company information as well as the company's future vision and philosophy.

Social Contribution Activities Jointly Conducted by Labor and Management

To carry out social contribution activities in a more organized manner, we have launched the 'United Volunteering Group', an organization that lends a helping hand to the needy. As a permanent organization, the Unity Volunteering Group collects monthly funds voluntarily donated by employees. The company, in turn, donates the same amount of funds raised as part of the Matching Grant program. Through these efforts, both labor and management are leading the way in fulfilling corporate social responsibility.



Productivity Agreement Wage Program

The Productivity Agreement Wage program is a different type of approach to wage-setting that links performance to productivity and largely departs from the government's uniform approach to wage determination. It is widely hailed as a breakthrough system that deviates from the unproductive and exhaustive wage negotiations of the past and allows the average increase in wages to match that of productivity. KPS is the first public corporation to introduce this program which is expected to remain effective from 2006 to 2010.

Safety and Health

Safety and health have become a vital part of the KPS corporate culture through the strong determination of the CEO and we continue to conduct business activities under the aim of maintaining zero occupational accidents.

Safety Management

“There is a saying that just 1% of error can lead to a fatal accident. To eliminate this 1%, it is imperative to respect the basic safety rules.’

(CEO message, July 2007)

Safety and health are the fundamental responsibilities towards every employee in our workplaces as well as the essential component of business competitiveness. Our safety and health management procedures and job safety standards outline in detail matters regarding safety and health. They apply not only to KPS employees but to the employees of our business partners and daily workers at our worksites.

In workplaces with 100 or more employees, Occupational Safety and Health Committees meet on a quarterly basis to review overall matters regarding safety and health. The Committee, headed by the director of each field office, consists of 9 persons each representing labor and management. Regular Safety and Health Councils are also held between customers and contractors.



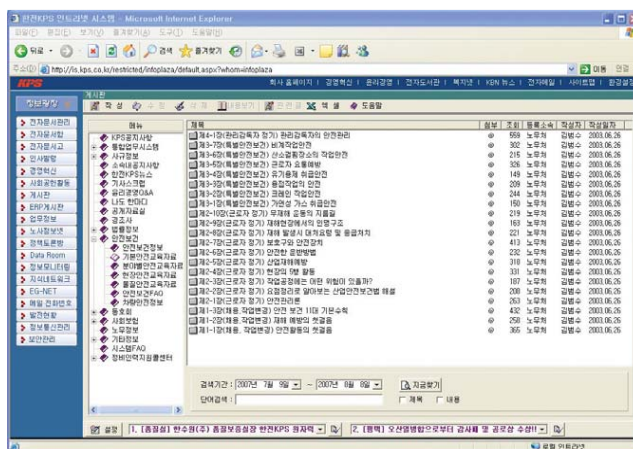
[Safety and health related event]

Safety and Health Management System

KPS is implementing a wide range of activities aimed at improving workplace safety including the adoption of the Korea Occupational Safety and Health agency (KOSA) 18801, a safety and health management system. Occupational risks are assessed at our workplaces to install safeguards, while regular monitoring is conducted to check whether safety activities are making progress according to plan.

One of our safety programs is the safety training we conduct for entry-level employees to senior executives. Other safety programs include disaster prevention activities like the Tool Box Meeting and the Pre Job Briefing, which are pre-job meetings on safety issues, and hazardous job order program, and flammable material permit program.

The KPS Safety and Disaster Management Team has put in place a safety and health system in the company intranet to carry out efficient safety activities and set up support systems in safety, health, and disaster recovery. In addition to providing information on basic safety, sector-specific safety, vehicle safety, and one page lessons, the system allows users to exchange various information. Users on the site can also have real-time access to safety training materials specifically related to their job at hand, helping to effectively ensure onsite safety.



[Safety Management System]

Furthermore, the system allows the efficient management of safety-related statistics and regularly provides prompt news on accidents through the company intranet, keeping every employee informed.

Meanwhile, we are also assisting partner companies in safety and health training and safety monitoring activities to improve the safety level of their businesses. In particular, we provide extensive support in the form of various safety equipments and on-site safety materials to assure active communication and information exchange with our partners.

If an accident occurs despite our efforts at safety management, we immediately launch an investigation. The findings are later registered in the company network and provided to our field offices to make sure that every employee remains informed of the incidents.

KPS uses a safety index to manage severity rates and the number of accidents. Severity rates indicate the loss in working days per 1000 hours and the human loss caused by an occupational accident. In accordance to safety and health regulations, the number of accidents refers to the number of cases where an employee was required to take at least four days on leave due to an accident at work. The safety index is managed on a quarterly basis and reported at the senior management meeting. The index results are also reflected in the internal business performance

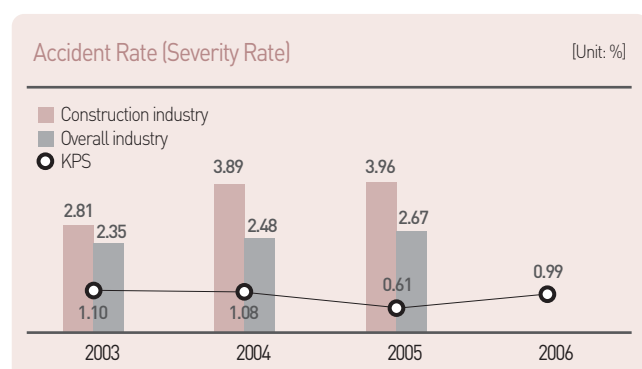
assessments.

Health Management

KPS has assigned health managers to 16 of our major workplaces around the country. We also operate health management centers to prevent health deterioration or occupational diseases. Health management for workplaces with more than 50 employees is entrusted to an outside agency.

Health Program

Annual health examinations are conducted for the sake of our employees. Pursuant to Article 3 (actions to be taken per examination result) of the company health regulations, employees with negative results are obligated to undergo medical treatment and are placed under special care, such as job transfer or reduced workload, in order to prevent exhaustion. Following the health examinations, we conduct regular education on anti-smoking and reduced alcohol use to encourage a healthier lifestyle among our employees. We are also working to change the perception on health management by promoting exercise and healthy diets through our company newsletters and broadcasting centers.



※ The severity rates of the overall industry and construction industry are based on the Ministry of Labor statistics. /Severity rates for 2006 have not yet been disclosed.



[Health examination]

We set aside one day every month to hold sports events designed to boost the physical strength of our employees and instill a collaborative spirit among them. We also run many welfare facilities including fitness centers and provide support to health-promoting recreational clubs.

Welfare

In an effort to create an enjoyable workplace, KPS is implementing a variety of welfare programs while operating a grievance handling system to improve productivity by addressing employee grievances.

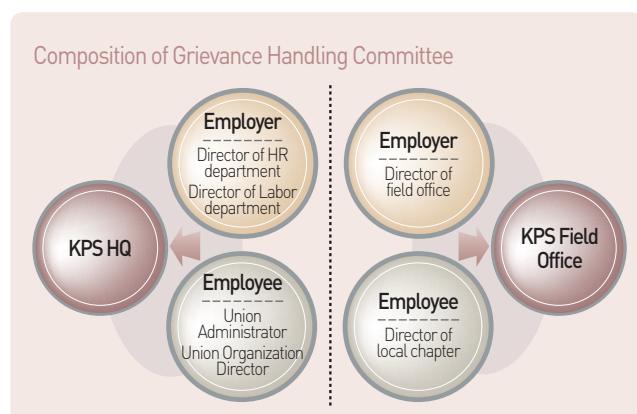
Welfare Services

Support for Second Life Design

Since 1996, the Second Life Support Program has provided employees nearing retirement with welfare support such as education on post-retirement design and adjustment periods for change management to help them better prepare for life after retirement.

Grievance Handling System

The grievance handling committee has been established to solve employee grievances based on the philosophy of harmony and mutual growth between labor and management in order to enable employees to focus on their job at hand and improve productivity. The head office committee consists of two members representing employees and two members representing the employer whereas the field office committees have one member representing employees and one member representing the employer.



Whenever an employee has a grievance, a report in which statements of the director of the field office and local chapter concerned are included, is forwarded to the head office. Upon receiving a report, the head office registers the grievance onto the KPS intranet system and makes sure that it is handled as promptly as possible. Employees can access the system to view the results in real time.

As of the end of 2005, there were around 204 grievance reports of which 129 were solved and 75 remained unsolved. The grievance reports largely involved health or disease treatment, support of one's parents, child education, job circulation, desire to relocate to one's hometown, education or self-development and long-distance couples.

Grievances Handled

[Unit: report]

Grievance Reports	Handled in 2005	Handled in 2006	Unhandled	Total
2003		1		1
2004	3	20	17	40
2005	9	53	12	74
2006		43	46	89
Total	12	117	75	204

Note) The above table is based on grievance reports submitted or handled after the grievance handling system was instituted (May 2, 2005).

Creating an Enjoyable Workplace

KPS is committed to creating an enjoyable workplace by meeting employee needs and maximizing job satisfaction through the identification of issues in welfare programs and implementation of welfare policies in which employee needs are reflected.

Optional Welfare Programs

After making improvements in our company welfare program which previously tilted towards job position and seniority, we introduced a set of optional welfare programs in January 2002. These programs are intended to meet employee needs and improve equity among welfare recipients, and thus increase welfare satisfaction. Employees have discretionary right to choose from a variety of welfare services according to their personal preferences within the welfare points allocated to each employee. The welfare card program was also instituted in January 2005 to allow employees to use their points at their own discretion so as to make the optional welfare programs easier to use.

Optional Welfare Program List

Item		
Mutual aid items	Basic Mutual Aid	Housing stabilization, tuition, company housing Long-term service, incentives, expenses for congratulations and condolences
	Optional Mutual Aid	Clothing (working clothes), resorts
Optional items	Medical examination (excluding cancer), company anniversary souvenirs, collective injury insurance, self-development/skills development, medical costs, cultural/recreational activities, gift certificates/supplies, transportation costs, insurance fees, back-packing overseas	

Employee Welfare Fund

In March 1992, we established the Employee Welfare Fund to which a portion (within 5% of profit before tax) of our business profits is contributed for livelihood security and welfare of our employees. The fund is designed to increase the actual income of our employees and instill a sense of community between labor and management while assuring employees lasting and independent welfare benefits.

Employee Satisfaction Survey

An employee satisfaction survey is conducted once a year, covering mid/long term visions, quality competitiveness, collaborative relationships, work implementation framework, technology improvements, and remuneration and welfare. Based on the feedback collected from the survey results, matters immediately enforceable are carried out by the responsible department using a one-stop handling system. Matters that require review or ongoing improvement are transferred to the Change-Up 10·10·10% program to address the fundamental cause of the problem.

The survey results on our mid to long term visions, quality competitiveness and job support, which are sorted out according to job position, age and field, are subject to in-depth analysis. Then we take the necessary actions to make improvements, which have resulted in an increasing trend in employee satisfaction.

Annual Employee Satisfaction

Year	2004	2005	2006	2007
Satisfaction level	65.1	66.9	70.1	73.1

Note) Based on a 100 point scale

Major Actions Taken

No.	Suggestions	Actions taken
1	Create detailed methods and conditions for innovation	Opened innovation support center Conducted onsite tailored analysis and outreach training
2	Establish system for O&M business	Revised Articles of Incorporation to expand business Actively carried out overseas businesses
3	Promotion and marketing to broaden business areas and enhance public trust	Published Technology Guide Book and 'Passion, Challenge & Hope' for local and international marketing
4	Improve welfare programs to boost morale	Developed 'New Welfare 2007' policies and conducted continuous welfare programs
5	Increase investment in fostering talents	Invested 3.88% of revenues in R&D (up 15% compared to a year earlier)

Stakeholder Interview

Sustainability and Innovation

KPS Business Innovation, Director Jinho Lee

The criteria for determining business competitiveness have changed throughout history. Up to the 1960s, it was all about price competitiveness and after the 1970s, non-price factors like quality, environment and social responsibility emerged as the key factors in determining business competitiveness. Recently, there have been growing demands for businesses to attain sustainability that combines these non-price factors with price competitiveness. We can witness this trend in the increasing use of sustainability by members of the financial community such as SAM Dow Jones and Goldman Sachs.

In a rapidly changing business environment, I realized that the only way for KPS to become a long-lasting reputable company is for it to actively take on the new challenges and turn them into new opportunities. However, it is important to remember that what sustainability management requires aren't new activities but ones that were overlooked under the traditional management paradigm. Doubling the efficiency of sustainability by injecting those elements in the management activities and decision making process of the senior management will lead to the sustainable competitiveness of KPS.

In addition, interconnecting the company-wide innovative activities with the core elements of sustainability will provide as a shortcut to improving competitiveness while minimizing exhaustion among its employees. Thus KPS perceives the demands for transparent governance, cash flow, environmental soundness, and a socially friendly corporate culture as a way of innovation and is working to effectively instill these elements in its corporate culture.

Furthermore, to ensure that these innovative activities are done systematically, knowledge management, customer satisfaction and ethical management all need to be embedded in the strategic framework of sustainability management. And this requires the broader thinking and cooperation of its employees.



Growth

KPS is pushing ahead into the global market under the aim of becoming 'the world's leading total plant service provider'. In addition, we are committed to carrying out eco-friendly projects and social contribution activities in the global market.



KPS has begun powerful strides
to become the best leading
global company.

06

Global Management

Overseas Expansion
Global Social Contribution

Overseas Expansion

By securing globally competitive management capabilities and technology, KPS is pursuing diverse overseas expansion in order to achieve sustainable growth.

Foundation for Global Growth

Based on our business philosophy of 'contributing to society by creating the best customer value,' and corporate vision of 'becoming the world's leading total plant service provider,' we are actively exploring overseas expansion. These efforts are aimed at overcoming limited corporate environment of the domestic power market through business diversification of creating new markets. The rise of KPS as a comprehensive plant service provider will also contribute to the development of Korea's plant industry which currently enjoys new opportunities in overseas business expansion.

In order to lay the foundation for growth as a global company, we stipulated investment to overseas public companies, service providers and foreign companies as our major project in the Articles of Incorporation. In addition, our mid to long term strategic management plan (ACT KPS 2015) was established under the goal of becoming a leader in the plant service industry by 2015.



In order to pursue aggressive overseas marketing, business development department devoted to the cause was established. The overseas sales and the overseas operation teams establish overseas sales strategy, conduct market research and analysis, create project proposal, sign contracts, manage construction projects and process of overseas project as well as carrying out customer satisfaction feedback activities. A team devoted to overseas power plant O&M is working to stably perform short-term projects including overhaul and to provide satisfactory services to foreign customers.

Overseas Project Strategy

In order to grow as a global total plant service provider, KPS has set the goals to achieving 8 percent of its sales through overseas project by 2015. To that end, KPS distinguished the global market by degree of open market, status of market participation, industry development stage and region. Differentiated expansion strategies targeting niche markets are carried out to meet the needs of each market.

Market Approach Strategy



| Motto of Market Approach: 'Customers Create Customers'|

Power facility is a basic industrial infrastructure that requires huge investment. When a company is selected to provide safe facilities and improve power generation efficiency, its technology stability and overall operation and construction capabilities are subject to assessment. Since the image of a company is determined by word of mouth within the industry, the best customer satisfaction leads to the best sales activities.

The success in the Indian market was based entirely on the trust of consumers towards KPS. The success of GMR diesel plant operation and management project in India which began in 1998 was replicated in Chanderiya thermoelectric power plant O&M and Vemagiri combined cycle power plant O&M. The best success cases can be found in captive power plants(CPP) of VEDANTA, India's global mining and smelting company, expansion of thermoelectric O&M project of HZL in Chanderiya and provision of technology consulting service to Korba Thermal Energy Plant O&M at BALCO.

Customer-oriented Sales Activity

Customer trust is a key factor in the power facility operation and maintenance industry since it is based on excellent technology and experience. Therefore, we are carrying out sales activities on the foremost front with customers.

To that end, we strengthened local sales efforts by the newly opened offices in India and Philippines as well as 21 local agents of 21 countries. Moreover, business cooperation agreement was signed with 17 companies of 10 nations to ensure strong business partnership.



[Copy of testimonial from a client]

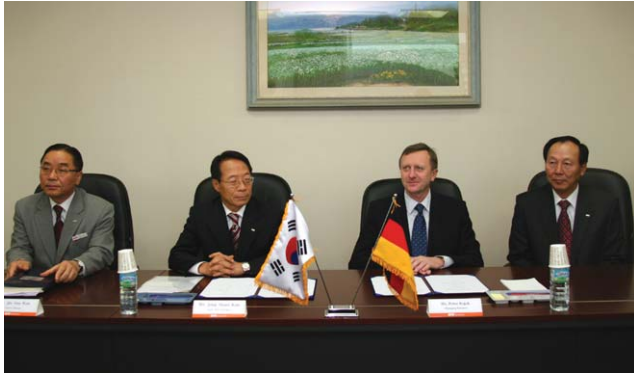
In addition, experts will be dispatched to each promising nation to study and analyze the market, create human network with potential customers and share information. We are actively pursuing "globalization based on localization" to understand the local culture and sentiment and expand businesses.

Joint Overseas Expansion among Power Providers

Under the recent trend, advanced nations are opening their markets to improve operation efficiency and let the market function to yield the best outcome. Developing countries are also boldly opening their market to effectively cope with their skyrocketing demand for power.

Considering the fact that demand for power is expected to slow after 2010 in Korea, this is the time to actively explore overseas market for sustainable growth. The government has invested in the development of local power industry for their technological independence and to help them grow as specialized companies in each industry. Therefore, partnership with Korean power suppliers to expand overseas together will be a good case of strategic partnership that could bring synergy effect.

The government and power suppliers are joining hands to effectively expand overseas together and have established and operated a private council on power industry, overseas project promotion committee and joint development council targeting overseas nuclear power market.



KPS participated in many successful projects including routine maintenance and overhaul of thermoelectric plant in Malaya Philippines (where KEPCO rebuilt and started operation of power plant), a long-term O/H construction project in combined cycle power plant of Vemagiri India (where KEPCO invested in shares and KOMIPO (Korea Midland Power Co., Ltd.)), O&M construction project in Vemagiri India (where KOSPO (Korea Southern Power Co., Ltd.) supported operation source of power plant), operation of diesel plant in Republic of the Marshall Islands (where KEWP (Korea East-West Power Co., Ltd) participated) and operation of plant in Cirebon Indonesia (where KOMIPO (Korea Midland Power Co., Ltd.) participated). A maintenance agreement with the plant in Egbin Nigeria (managed by KEPCO) was signed in August 2007.

Joint Overseas Expansion with Domestic Power Facility Construction and Manufacturing Companies

With the growth of plant installation industry and power facility manufacturing facility in Korea, leading Korean companies are making full-scale sales activities in the power facility construction and

manufacturing sector around the world and have succeeded in winning various contracts for building large-sized power plants. Commissioning service and stable facility operation not only guarantees successful construction but also is a crucial factor in winning future bids.

Major achievement in which KPS participated include O&M of GMR diesel plant in India (built by Hyundai Heavy Industries), provision of technological service to al Musayyib thermoelectric plant in Iraq (led by Hyundai Engineering), combined cycle power plant commissioning service in Fujairah, UAE (built by Doosan Heavy Industries and

Major plants where projects were implemented



Diesel plant in GMR, India (July 1998)



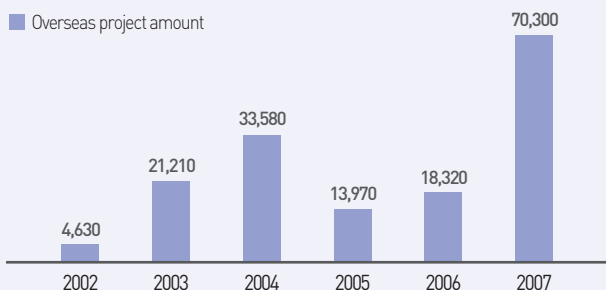
Combined cycle power plant in Ijan, Philippines (March 2002)



Thermoelectric plant in Chanderiya India (October 2004)

Trend of overseas project contracts

(Unit: KRW one million)



Note) The 2007 figure was collected as of August 20, 2007.

Construction), commissioning service of thermal boiler in Sintao Taiwan (installed by Doosan Heavy Industries and Construction) and commissioning service of a thermal boiler in Ironwood, U.S.

In addition, KPS has signed overseas project collaboration agreements with nine domestic companies including Hyundai Corporation, Korea Gas Technology Corporation for a mutually beneficial business expansion. By expanding opportunities to expand overseas with small and medium companies in Korea, KPS is also contributing to facilitate SME industry and their business expansion.

In the nuclear energy field, after participating with Westinghouse in the replacement of nuclear power fuels through engineer support in 1993, we have made ongoing efforts to expand our businesses overseas. At present, we provide core facility maintenance and inspection for nuclear power plants in eight different countries including the US, Japan and China. The Technical Assistance Agreement signed in 2006 with China's Guangdong Nuclear Power Joint Venture Company has made KPS the

maintenance provider of RCP seals for the Guangdong nuclear power plant, providing the foothold for KPS to enter into the Chinese nuclear power plant market.



[Signing of TAA in nuclear plant in Guangdong, China]

Status of overseas expansion



Global Social Contribution

Beyond mere compliance with local environmental regulations, KPS is doing its best towards an environmentally friendly business operation by building green zones in power plants and conducting social contribution activities to help the underprivileged.

In order for the company to grow into a world-class power plant operation and maintenance company and focus on its major business area, KPS is making best efforts for environmentally friendly business operations by operating the plants fit for observing local environmental regulations and building green zones in the power plants.

In addition, we are conducting social contribution activities tailored to the conditions of each nation. In case of the GMR site in India, staffs of KPS visit Thiruvalluvar Nagar, a slum town outside Chennai, India and donate medical supplies and other goods. In the Ilijan site in the Philippines, the company is sponsoring the local festival, 'Ilijan Fiesta,' to strengthen the bond with local residents around the plant. Moreover, auditor Kim Jong-gu of KPS is serving as the representative of Sharing Love with Asian Children. He has received a medal in the 800th anniversary of the Mongolian Dynasty for his efforts to facilitate exchange between Korea and Mongolia as well as Seoul and Ulaanbaatar and his achievements regarding NGO activities.



[Charity activities in Thiruvalluvar Nagar in Chennai India]



[Photo of auditor Kim Jong-gu receiving honorary medal on the 800th anniversary of the Mongolian dynasty]

Stakeholder Interview

Local Interview in India I am proud to work for KPS

Rambabu, KPS India

I am P.T.V. Rambabu, an Indian, working for the past 9 years with KPS, as Manager in Plant Eng. Team. We are proud to work with KPS.

KPS having very high level technical skills, knowledge, strict in documentation, very strong in commitments, hard work which made my mind to walk with KPS for long time.

KPS with strong human resource development giving excellent training programs, giving global living standards to employees making binding with KPS in future also. With KPS guidance, this world largest diesel based GMR power plant achieved 98% availability, 93% plant load factor less than 3% APC and less than 1.2gm/kwh of CLO consumption and saved millions of rupees to the owner. KPS very strong in environmental issues to save nature.

Today KPS very good in power plant managements and operation this GMR power plant world best. I am convinced KPS now becoming leading O&M company in power plant business in India and I am sure with this vision in future KPS will become global leaders in power plant operations & maintenance in the universe.

Appendix



Economic Index

[Stability]

By constantly retaining profit, KPS was operated without borrowed money from 2001. It is maintaining stable and sound financial state with current ratio of 532.5% and debt ratio of 31.6%.

Stability index (Three years)

Year	2004	2005	2006
Current ratio	298.3	547.9	532.5
Debt ratio	27.9	29.3	31.6
Borrowed money dependency	-	-	-
Interest coverage ratio	-	-	-

[Profitability]

Thanks to sales increase, ratio of operating profit to net sales in 2006 is recorded at 12.3% and ROA at 15.0% improved by 5.9%p and 6.6%p.

Profitability index (Three years)

Year	2004	2005	2006
Ratio of operating profit to net sales	6.8	6.4	12.3
Ratio of net income to net sales	5.6	5.6	10.1
ROA	8.4	8.4	15.0
ROE	10.7	10.7	19.5

[Growth]

We achieved remarkable growth in 2006 with sales improved by 12.1%. We will pursue growth and development by not only sustainable growth in existing business areas but also in overseas projects and in efforts towards securing new engine for growth.

Growth index (Three years)

Year	2004	2005	2006
Sales growth rate	10.5	4.7	12.1
Operating profit growth rate	-0.2	-0.4	115.0
Net asset growth rate	4.2	6.9	17.9

Glossary

Kyoto Protocol | Kyoto Protocol was adopted at the third General Assembly of the United Nations Framework Convention on Climate Change held in Kyoto Japan in 1997 and went into effect on February 16, 2005. According to the protocol, developed countries are mandated to set greenhouse gas emission reduction goals, set five-year plans to reduce the total amount of green house gas emitted by developed countries by 5.2 percent compared to the 1990 level.

CES: Community Energy Supply System

Climate Change Convention | Climate Change Convention was adopted in New York, US on May 9, 1992 and signed by more than 150 nations and the European Union in the Earth Summit held in Rio de Janeiro in the same year. The goal is to curb green house gas emission and stabilize the concentration of greenhouse gas at the atmosphere to a level that prevents artificial intervention.

Corporate citizen | Although it is an entity aimed at maximizing profit and revenue, a corporation plays a role beyond the pursuit of profit and must contribute to the society (especially the local community).

Network Loan | Through network loan, the selling company with the endorsement of purchasing company agrees on the maximum loan level with a financial institute. Then, the selling company makes the loan based on the contract made with the purchasing company and the purchasing company pays back through electronic method to the financial institute.

Matching Grant | When its employees and executives make donations to help the people in need, the company donates an additional amount equivalent to the total donation.

Blue Ocean | New business area where one can occupy the market first.

Combined heat and power generation system | Power generation method to use waste heat produced after power generation in heating local areas or in simultaneously generating and supplying power and heat used as heat source during manufacturing.

Greenhouse gas | Natural and anthropogenic gas that composes the atmosphere. Greenhouse gas absorbs and emits radiation in specific wave within the infrared radiation spectrum emitted from the earth surface, atmosphere and cloud. The greenhouse gas stipulated in Kyoto Protocol includes SF₆, HFCs and PFCs as well as carbon dioxide, nitrous oxide and methane.

CBM: Condition based maintenance

CDP: Career development path

DRM(Digital Rights Management) | System to encrypt various digital contents including text, graphic, digital video, digital music and computer program to enable access to customers that rightfully purchased the contents.

EPC(Engineering Procurement Construction) | A type of turnkey method where the contractor takes charge of purchasing the engineering method as well as construction.

ERP(Enterprise Resource Planning) | An integrated information system that effectively manages all human and material resources used in a corporate activity to ultimately strengthen corporate competitiveness.

GRI(Global Reporting Initiative) | An institute devoted to developing and promoting guidelines for creating sustainability reports applied worldwide. GRI was established in 1997 with the participation of various stakeholders including corporations, research centers, private groups and investment banks under CERES (Coalition for Environmentally Responsible Economies). GRI became an independent institution in 2002, and an official partner institute of the United Nation Environmental Program. It also maintains a partnership with the Global Compact.

ISO 26000 | Global standard on social responsibility scheduled to be enacted in late 2009.

KOSHA 19001 | Safety and health management system certification guideline developed by Korea Occupational Safety and Health Agency based on the BS8800 of British Occupational Health & Safety Management System and OHSAS 18001 of Europe.

MW: Mega Watt

NP0(Non-Profit Organization) | Various civic groups that voluntarily work in different sectors of the society.

O&M: Operation and maintenance | O/H: Overhaul

TBM: Time-based maintenance

TAA: Technical Assistance Agreement

UN Global Compact | A declaration of the United Nations pleading to global mega-companies to actively address various problems associated with globalization of the world economy. The UN Global Compact consists of ten principles in four areas - human right, labor, environment and corruption - regarding corporate transparency and social responsibility.

Assurance Report

on the KPS 2006 Sustainability Report

Introduction

KFQ was requested to verify the 2006 KPS Sustainability Report (hereinafter referred to as the "Report")

The responsibility of creating the Report lies in the management of KPS and the role of KFQ is to provide assurance opinions on the Report.

Independence

Other than providing a third-party assurance service, KFQ is not involved in the profit-making business activities of KPS. KFQ holds no biased opinion on any stakeholder of the company.

Criteria and Scope

In creating the Report, KFQ planned and applied the assurance system developed by KFQ based on the AA 1000 published by the Sustainability Reporting Guidelines (G3) of GRI and AccountAbility in 2003 a widely accepted standard throughout the world.

As for the verification scope, the efforts and achievements for sustainability management of KPS headquarters, 34 domestic operations and 6 overseas operations were subject to verification. Verification was performed under the principle of creating an important, complete and responsive report.

Procedure

The verification was designed to achieve a reasonable assurance that the information mentioned in the Report does not contain grave errors or inappropriate information. KFQ confirmed the credibility of content and data contained in the Report as well as internal process and system for report creation based on the following steps.

Document review

KFQ conducted analysis on gaps between the report and GRI guideline and performed benchmarking on major issues and achievements referred in the Report. In addition, field verification was designed to ensure accuracy of the data on achievement of sustainability management mentioned in the Report.

Field verification

Field verification was conducted in order to assess the accuracy of the information contained in the Report and the effectiveness of relevant information management system and/or report creation process. Based on the sampling principle under the consideration of the importance of information, the headquarters and operation in Bundang was subject to field verification.

Evidence on the activities and achievements regarding sustainability management mentioned in the report was collected through study on internal documents and interview with information managers. System and report creation process used to manage the information was also studied and analyzed.

Follow-up verification

KFQ has confirmed that errors and inappropriate information found through the above steps were appropriately corrected and reflected in the final Report. Gap analysis between the final version and GRI guideline was performed once more.

Considerations and Limitations

Verification on financial information shown in the report was performed by comparing it with the information on the 2006 Business Report qualified by relevant auditing procedures. For a complete understanding of the financial state of KPS, please refer to the KPS Business Report as of December 31, 2006, which had been audited.

Among the data described in the Report, only document confirmation was performed on 'information on overseas project achievement (on six operations).'

Conclusion

Through the verification activity, KFQ believes that it gained reasonable grounds to propose the following opinion.

1. KPS disclosed activities and achievements on sustainability management to ensure their credibility during the reporting period.
2. KPS performed appropriate process to identify and understand the achievement of sustainability management regarding organizational activity, product and service.
3. KPS operates the system to manage achievements regarding sustainability management and used appropriate process of report creation to cope with the expectation of stakeholders.

Area of Excellence

This Report is the first sustainable report of KPS that tried to propose the future vision of KPS in 2015 by laying out its mid to long term strategies and detail tasks.

In addition, KFQ confirmed the willingness of KPS to disclose its efforts and achievements of sustainability management without exaggeration in objective perspective.

Area of Improvement

KFQ recommends that KPS improves its GRO Application Level by continuously developing performance indicators in the context of sustainability and continue to study them based on the Sustainability Reporting Guidelines (G3) of GRI.

In addition, more various efforts and achievements in a wider range of areas should be conducted given the importance of the theme of the Report in the perspective of its stakeholders.

KFQ expects that the efforts made in the various areas will reap a greater benefit if KPS makes a more comprehensive understanding on its social responsibility and develops a sustainable strategy that more accurately describes relevant social and environmental issues.

KFQ recommends KPS to analyze the opinions received from stakeholder channels and more effectively utilize the findings as important basic information for KPS' sustainability management.

August 24, 2007-10-17

Representative: Jae-Ryong Kim



GRI Index

Indicator number	Content	Page	Level of reporting
Strategy and profile			
Profile			
1.1	Statement from the most senior decision-maker about the relevance of sustainability to the organization and its strategy.	2-3	●
1.2	Description of key impacts, risks, and opportunities.	2-3	●
Organizational profile			
2.1	Name of the organization	5	●
2.2	Primary brands, products, and/or services	6	●
2.3	Operational structure of the organization	6	●
2.4	Location of organization's head office/headquarters	C2, 5	●
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.	6, 69	●
2.6	Nature of ownership and legal form.	12	●
2.7	Markets served.	6	●
2.8	Scale of the reporting organization.	5, 56	●
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	79	●
2.10	Awards received in the reporting period.	23	●
Report parameter			
3.1	Reporting period.	C2	●
3.2	Date of most recent previous report.		N/A
3.3	Reporting cycle	C2	●
3.4	Contact point for questions regarding report or its content.	C2	●
3.5	Process for defining report content/decision making.	16-17	●
3.6	Scope of the report.	C2	●
3.7	Specific limitations on the scope or boundary of the report.	C2	●
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.	C2	●
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	20-28	●
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement.		N/A
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.		N/A
3.12	Table identifying the location of the Standard Disclosures in the report.	76-78	●
3.13	Policy and current practice on exterior verification on the report.	C2, 74-75	●
Governance, committee, participation			
4.1	Governance structure of the organization	12	●
4.2	Indication of whether the chair of the board of directors is also the CEO, his/her role within the management and reason for chairman's assignment.	12	●
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.	12	●
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	12	●
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives and the organization's performance.	12	●
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	12	●

● : disclosed ○ : partially disclosed ○ : not disclosed N/A: Not Applicable

Indicator number	Content	Page	Level of reporting
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.	12	●
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.	10-11	●
4.9	Procedures of identification and management of economic, environmental and social performance	12	○
4.10	Processes for evaluating the highest governance body's own performance.	12	●
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	15, 60-61	●
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	60	●
4.13	Memberships in associations and/or national/international advocacy organization.	7	●
4.14	List of stakeholder groups engaged by the organization.	16-17, 35, 45 51, 63, 70	●
4.15	Basis for identification and selection of stakeholders with whom to engage.	16-17	●
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	16-17	●
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.	16-17	●
Management approach and performance indicator			
Economy			
	Disclosure on management approach method.	18-19, 20, 24, 26, 29, 31	●
EC1	Direct economic value generated and distributed.	26-30, 72	●
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	49-51	●
EC3	Coverage of the organization's defined benefit plan obligations	29, 63	●
EC4	Significant financial assistance received from government.	79	●
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	79	●
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	79	●
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	38-41	○
Environment			
	Disclosure on management approach method.	46-47, 48-50	●
EN1	Materials used by weight or volume	79	●
EN2	Percentage of materials used that are recycled input materials.	79	●
EN3	Direct energy consumption by primary energy source.	○	
EN4	Indirect energy consumption by primary source.	○	
EN8	Total water withdrawal by source.	○	
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	79	●
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	79	●
EN16	Total direct and indirect greenhouse gas emissions by weight.	○	
EN17	Other relevant indirect greenhouse gas emissions by weight.	○	
EN19	Emissions of ozone-depleting substances by weight.	79	●
EN20	NOx, SOx, and other significant air emissions.	79	●
EN21	Total water discharge by quality and destination.	79	●
EN22	Total weight of waste by type and disposal method.	48	●

Indicator number	Content	Page	Level of reporting
EN23	Total number and volume of significant spills.	79	●
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	49-51	●
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	79	●
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	79	●
Society: labor and practice			
	Disclosure on management approach method.	52-54, 58, 60	●
LA1	Total workforce by employment type, employment contract, and region.	56	●
LA2	Total number and rate of employee turnover by age group, gender, and region.		○
LA4	Percentage of employees covered by collective bargaining agreements.	57	●
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	57-59	●
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	61	●
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	61	●
LA10	Average hours of training per year per employee by employee category.	56	●
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	56	◐
LA14	Ratio of basic salary of men to women by employee category.		○
Society: human rights			
	Disclosure on management approach method.	52-54, 58, 60	●
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	79	●
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.		●
HR4	Total number of incidents of discrimination and actions taken.	79	●
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.	58-59	●
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	57-58	●
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.	57-58	●
Society: society			
	Disclosure on management approach method.	8, 36-38, 42	●
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.		●
S02	Percentage and total number of business units analyzed for risks related to corruption.		●
S03	Percentage of employees trained in organization's anti-corruption policies and procedures.	14	●
S04	Actions taken in response to incidents of corruption.	14	●
S05	Public policy positions and participation in public policy development and lobbying.	7, 16, 23	●
S08	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.	79	●
Society: product responsibility			
	Management Approach	18-19, 52-53, 64-65	●
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.	33-34, 60-61	●
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	33-34	●
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.		●
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.	79	●

Scope of GRI G3 Guideline Application



Self-declaration of GRI G3 application.

The 2006 KPS Sustainability Report was created based on the G3 guidelines of the Global Reporting Initiative (GRI). GRI asks all reports registered in its website www.globalreporting.org to disclose the level of G3 guideline application.

In accordance with the requirement, KPS declares the assessment of its G3 application level as B+ since it implemented the quantitative and qualitative level specified in the GRI Application Levels Criterion.

Additional information of GRI index is not described in the KPS report.

Index number	Description
2.9, EC4, EN28, HR1, HR4, SO8, PR9	Relevant cases did not occur during report creation period.
3.2, 3.10, 3.11	This report is the first sustainability report of KPS.
EC6, EC7, EN1, EN2, EN19, EN20, EN21, EN23, EN27	Relevant cases did not occur in KPS.
EN11, EN12	KPS does not impact ecology protection area.
EN3, EN4, EN8, EN16, EN17, LA2, LA14, HR2 SO1, SO2, PR6	The information will be disclosed from the next report.

GRI Application Levels Table

Application level		C	C+	B	B+	A	A+
Standard disclosure	G3 Profile Disclosures	Report on: 1.1, 2.1-2.10, 3.1-3.8, 3.10-3.12, 4.1-4.4, 4.14-4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2, 3.9, 3.13, 4.5-4.13, 4.16-4.17	Report Externally Assured	Same as requirement for level B	Report Externally Assured
	G3 Management Approach Disclosure	Not required		Management Approach Disclosures for each indicator Category		Management Approach disclosed for each Indicator Category	
	G3 Performance Indicators & Sector Supplement Performance Indicators	Report on a minimum of 10 Performance Indicators, including at least one from each of: social, economic, and environment.		Report on a minimum of 20 Performance Indicators, at least one from each of: economic, environment, human rights, labor, society, product responsibility.		Respond on each core G3 and Sector Supplement indicator with due regard to the materiality Principle by either: a) reporting on the indicator or b) explaining the reason for its omission.	

Afterword

Innovation Management Team Chief Lee Jin-ho, Senior Director Generals Choi Neung-jun and Yun Hyeon-woong, Director Generals Song Min-ho, Gang Tae-sik, Choi Jun-hyeok, Shin Seong-ho, Jang Myeon-gi, Heo Ryang, Cho Gyu-gap, Kim Yeong-jin, Lim Haeng-gyu, Park Geun-ho, Cho Yeong-rae, Gu Gyo-woong, Kim Gap-sik and Byeon Rae0su and staffs Sohn Yeong-jin, Kim So-hyeon and Cho Gyeong-hwa participated in the process of developing this Report.

A task force was created which included members of the Innovation Management Team and each department of our head office to analyze the progress in each sector and create the report. The chief of each department reviewed the contents.



Voice of readers

Thank you for your interest in the "2006 KPS Sustainability Report." This is the first sustainability report published by KPS. Your opinion will be a valuable asset in improving the quality of our future sustainability reports. Please fill out the below questions and send via fax. Thank you.

To

Fax number: +82-031-710-4028
(KPS Innovation Management Team)

From

Name: _____ Gender: _____
Occupation: _____

1. Which group do you belong to?

- ☐ Shareholder ☐ Employee
☐ Small and medium enterprise
☐ NGOs ☐ Government and local government
☐ Academy ☐ Local community ☐ Etc ()

2. Which is your major area of interest? (Multiple answers allowed.)

- ☐ CEO Message
Sustainability Management System
☐ Sustainability management strategy ☐ Governance
☐ Ethical management ☐ Risk management
☐ Stakeholder communication
Economy
☐ Management innovation ☐ Technology innovation
☐ Business performance and goals
☐ Profit sharing ☐ Customer
Society
☐ Social contribution ☐ Business partners
Environment
☐ Environmental performance
☐ Environmental performance support ☐ New Renewable energy
Employee
☐ Human resource management
☐ Labor management Harmony
☐ Safety and Health ☐ Welfare
Global management
☐ Overseas expansion ☐ Global social contribution
☐ GRI Index/Application Level

3. What are the areas of improvement in the report? (Multiple answers allowed.)

- ☐ CEO Message
Sustainability Management System
☐ Sustainability management strategy
☐ Governance ☐ Ethical management
☐ Risk management ☐ Stakeholder communication
Economy
☐ Management innovation ☐ Technology innovation

- ☐ Business performance and goals
☐ Profit sharing ☐ Customers
Society
☐ Social contribution ☐ Business partners

- Environment**
☐ Environmental performance
☐ Environmental performance support ☐ New Renewable energy

- Employees**
☐ Human resource management
☐ Labor-management harmony
☐ Safety and health ☐ Welfare

- Global management**
☐ Overseas expansion ☐ Global social contribution
☐ GRI Index/Application Level
☐ Report format and design

4. Please grade how informative each part was.

- | | |
|----------------------------------|-----------------------------------|
| Sustainability management system | (Very Poor) 1 2 3 4 5 (Very Good) |
| Economy | (Very Poor) 1 2 3 4 5 (Very Good) |
| Society | (Very Poor) 1 2 3 4 5 (Very Good) |
| Environment | (Very Poor) 1 2 3 4 5 (Very Good) |
| Employee | (Very Poor) 1 2 3 4 5 (Very Good) |
| Global management | (Very Poor) 1 2 3 4 5 (Very Good) |
| Report format and design | (Very Poor) 1 2 3 4 5 (Very Good) |

5. What would be useful information that should be added to the report?

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.....

6. In which areas should KPS focus on to achieve sustainability management?

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7. If you have any other comments, please specify.

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2006 KPS Sustainability Report

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