

KDHC

Happy Life!

Happy Energy!

Korea District Heating Corp.
2009 Sustainability Report



About this Report

GRI G3 Guidelines Application Level

This report has been prepared in fulfillment of all of the requirements for the A+ rating of the GRI G3 Guidelines application level. The third party has been verified that of this report conforms to the "A+" rating of the G3 Guidelines application level.

Report Features

The third sustainability report of KDHC covers the economic, social, and environmental performances. To ensure the reliability of this report, third party verification has been conducted. The result of the third party verification is enclosed in the Appendix. Published in Korean and English, this report can be downloaded from the website of KDHC.

Reporting Guideline

This report has been prepared based on the GRI (Global Reporting Initiative) G3 Guidelines and Best Guidelines. It satisfies the requirements for the A+ rating of the GRI G3 Guidelines application level, with the GRI Report A+ logos affixed at the bottom of the report.



Scope and Period of Report

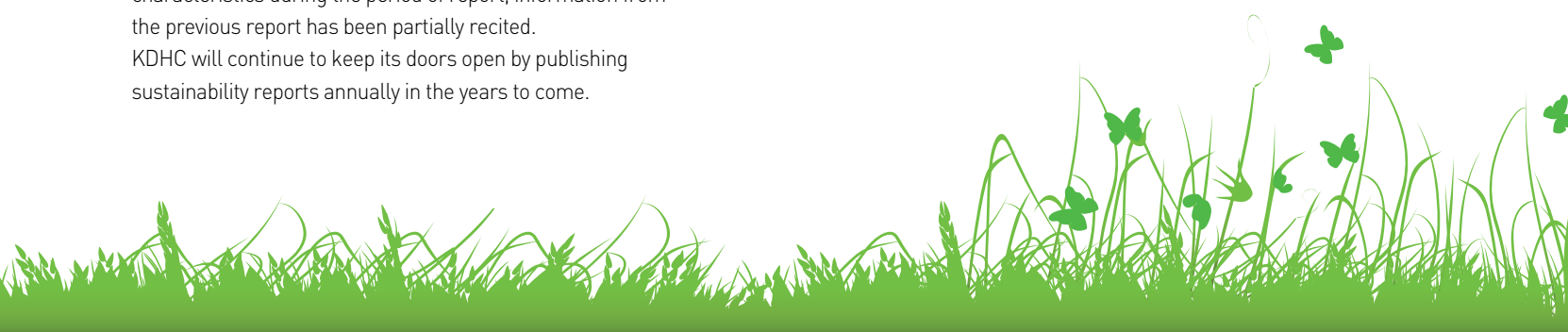
This report introduces performances from January 2008 to December 2009, to be viewed in the order of time. If significant, or when a performance report is required, the contents of 2010 have also been included. In this report, the Korean Won (₩) was used as the currency. As for measuring units, ton, TOE, m², m³, cm³, g, inch, MWh, etc., were used. Other units have been marked in conjunction with figures. The sustainable management performances listed in this report have been based on the performances of the head office as well as branch offices and plants nationwide. Note, however, that some of the activities of overseas projects have also been included. For items without significant changes in terms of project characteristics during the period of report, information from the previous report has been partially recited. KDHC will continue to keep its doors open by publishing sustainability reports annually in the years to come.



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*We shall endeavor to be a
warm, clean company.*

Chung, Seung-II
CEO, Korea District Heating Corp.



CEO Message

Korea District Heating Corp. recognizes the importance of not only economic but also environmental and social achievements in realizing sustainable growth. Therefore, KDHC promotes balanced achievements in each field.

Ceaseless endeavor for customer satisfaction

Since the introduction of the enterprise-level CS management, KDHC with its customer-centric open management has been ceaselessly endeavoring toward customer satisfaction by providing customer satisfaction services until the day when all customers are happy. We believe that customer satisfaction -- as a core element in all management activities -- is an essential source of competitive power in sustainable management. Accordingly, we have set as our mission to "impress customers beyond satisfying them"; therefore, we are exerting our best effort toward customer-centric management. To strengthen our relationship with customers, we listen to their voices through online and offline channels and actively reflect them on our policies. Through direct and personal service, we are conducting activities for our customers. KDHC is conducting its own customer satisfaction survey on a regular basis. In 2009, it was rated excellent in customer satisfaction by the government and awarded accordingly. In addition, KDHC is the first among public enterprises to have been selected for 5 consecutive years as the grand prize winner at the Customer Satisfaction Management Awards; it was also given the honor and prestige of having its name listed in the Hall of Fame. In the days ahead, KDHC shall endeavor to protect the rights and interests of customers. Through customer satisfaction, KDHC shall advance as an energy company of sustainable growth together with customers.

Open mind, open management

KDHC is providing equal education and promotion opportunities to all employees according to their abilities and qualifications. To protect the rights and interests of our employees as well as enhance their social and economic positions and respond to their various needs, we offer selective welfare and various educational programs so that a happy, exciting workplace may be created. In addition, we are improving employees' satisfaction by activating communication through the labor-management committee, open discussion room, and hotline channels. Through such continuous efforts, KDHC is creating a more energetic "energy world" by establishing a partnership with its employees. As mid- to long-term plans for sustainable growth, we are promoting projects to develop key business areas into global standard, accelerate future businesses, incubate new ones, maintain the profit rates of infrastructure businesses, and optimize the global strategic bases. These projects are expected to increase values for KDHC and its stakeholders and share such values through win-win partnership in keeping with KDHC's sustainable management strategies.

Transparent, respected public enterprise

KDHC is operating a management process system for social sustainability: customer satisfaction management, contribution to local communities, and transparent · ethical management. Recognizing stakeholders as our partners in joint growth, we are searching for ways of mutual advancement. To deliver safer and cleaner energy to customers, KDHC is maintaining cooperative relationships with partners. In addition, by introducing the e-contract system and strict qualification criteria, we have increased transparency in selecting our partners. Furthermore, to eradicate

unfair transactions, KDHC is implementing the "integrity contract system." As a result, KDHC was ranked no. 1 in the ethical management status survey and selected as an outstanding company in the public enterprise integrity assessment. As such, KDHC is being recognized for its corporate value in a number of fields.

Culture of practicing love and sharing

KDHC is genuinely practicing love and sharing for local communities to fulfill its social responsibilities and roles as a public enterprise. We are making various efforts to support the socially neglected as well as to protect the environment and narrow the gap between rural and urban areas by offering educational and cultural support. To alleviate the burdens carried by people in the low-income class, KDHC has minimized the factors leading to the increase in heat rates by comprehensively lowering the costs. In addition, we are actively practicing energy welfare by waiving the entire amount of the basic heat rates for the low-income class living in social welfare facilities and leased housing. With the "Sharing Happiness Team" and "ARIUM" as the center of its efforts toward social contribution activities, KDHC is leading the culture of sharing love with neighbors. Furthermore, KDHC is promoting voluntary activities to educate elementary school students in closed-mine villages.

Sustainable growth via environment-friendly management

In line with the government's low carbon, green growth policy, KDHC is endeavoring to realize environment-friendly management. In 1996, we obtained the environmental management mark for the first time among public enterprises and consequently implemented the enterprise-level environmental management system. For the systematic control of the environmental management system, we are pursuing the environmental goals we have established. KDHC is paying particular attention to air, water, and soil quality management to minimize impacts on the environment. In addition, by establishing greenhouse gas reduction plans to prevent global warming and securing the system for minimizing environmental impacts, KDHC is taking active initiatives in responding to the requirements of UNFCCC. At the same time, KDHC has designated the new and renewable energy business as its new growth engine. Accordingly, we are going all-out in making investments in energy diversification by using new and renewable energy sources such as heat from waste incineration, landfill gas, solar energy, woodchip, heat pump, RDF, IGCC, and water from sewage treatment.

In the future, KDHC shall promote the diversification of its business fields such as expansion of the local heating · cooling business, new technology development, electric power business, and new and renewable energy business. As a result, we shall supply local heating to 2 million customers nationwide by 2015 and advance as a "world-class general energy company" producing KRW 2500 billion in sales. Furthermore, as a public enterprise, KDHC shall fulfill its social responsibilities. We shall continuously endeavor to become a clean energy company that is loved and trusted by the nation and the deliverer of happiness and warmth to customers.



Four Seasons of
Happy Energy

Hope, happiness, trust, and love
These are the names of energy in KDHC.

KDHC is realizing the value of sustainable growth
for the happiness of customers.

Your support and encouragement
are the energy for KDHC,
the Best Environment-friendly Energy Company.



KOREA DISTRICT HEATING CORP.

KDHC Sustainable Highlights

Promoting business overseas

KDHC participated in the project of local heating and water supply facility implementation (Mar. 2008 ~ Oct. 2009) in Ulaanbaatar, Mongolia. We successfully fulfilled our role as project management company, supervising the project of replacing the local heating machine room facilities in 44 areas and disseminating advanced technologies. Currently, KDHC is actively promoting new public development support projects to improve the heat supply system in Khorezm, Uzbekistan and to install the heating and hot water supply system in Barunurt, Mongolia.



Customer communication

KDHC is making efforts to listen to the voices of customers and to reflect them on its policies. Customers can express their opinions through online and offline channels including the customer service centers. We started operating the IT-based integrated VOC (voice of customer) operation system in 2009. In 2010, we are planning to operate online branches one by one. Thanks to efforts to improve VOC such as regular VOC inspection system and reflection of VOC fulfillment rates on management assessment, KDHC has been able to improve the daily customer response rate from 93.8% in 2008 to 99.6% in 2009.

Increased transparency in contracts

To increase the transparency of contracts with external suppliers, KDHC has been operating the "integrity contract system" since June 2004. In particular, we have revised the integrity contract system in November 2008; as a result, we have newly established a clause that prevents contract conclusion without the submission of the integrity contract fulfillment agreement. Our employees are also required to write pledges, i.e., that they will not receive the gift of money or other articles. On the other hand, KDHC is operating the internal report system. We have also opened a cyber report center in our website in an effort to eradicate unfair transactions. In September 2009, KDHC established the "criteria for contract operations with foreign companies." Therefore, it is endeavoring to conclude contracts with foreign companies based on clear guidelines.

New and renewable energy business

KDHC is pursuing the new and renewable energy business using woodchip, RDF (refuse derived fuel), heat from waste incineration, and LFG (landfill gas). Since 2009, we have been securing forest byproducts (approx. 3,000 tons/year) such as wood damaged by pine wilt disease to develop woodchip fuels. In addition, we have concluded an MOU for the recycling of forest tree wastes (approx. 3,000 tons/year) with Gyeongsangbuk-do Development Corp. Furthermore, KDHC is promoting the RDF fuel production project using domestic wastes through joint efforts with the local governments of Daegu City, Chungcheong Province, and Gwangju City. Our goal is to replace 12.1% of the total energy supply with new and renewable energy by 2022.



Family-friendly management

KDHC is operating diverse maternity protection programs to address the problem of low birth rate and to ease the burden of child rearing expenses. Since 2007, KDHC has been operating a number of support policies and programs such as childcare facility operation (49 infants and toddlers), childbirth encouragement fund, vacation and leave programs to encourage childbirth, operation of maternity protection rest area, etc.

In 2009, we increased the period of childcare leave to 3 years. This period is recognized as part of career so that our employees are not placed at a disadvantage when using their childcare leaves.

ARIUM: residence for the elderly

While conducting voluntary service activities to repair houses and deliver briquettes to low-income households in Seongnam, KDHC's "Share Happiness Team" decided to promote the establishment of "ARIUM" as a means of providing fundamental support and help to the elderly living by themselves. With financial support from the Kumho Asiana Group, ARIUM was built as a 6-story building on the city land of Seongnam in Seongnam-dong in February 2009. The Share Happiness Team visits ARIUM monthly and carries out voluntary service activities customized to the elderly, such as cleaning, making Kimchi, and giving billiards lessons.

Enterprise-level ethical management practice system

KDHC is promoting ethical management in keeping with the sustainable management strategies established in 2007. In addition, KDHC has executed the enterprise-level ethical management tasks for each of the 37 divisions in 2008 and 36 divisions in 2009. Furthermore, we are operating the IT-based ethical management system. In October 2008, KDHC started the E&S (ethics & sustainability) decision-making system to assess the fulfillment of corporate ethics, environmental responsibilities, and social responsibilities in the process of examining important documents. As a result, the assessment of 603 cases was completed by 2009. KDHC is spreading the ethical paradigm in all areas of its operation.

Responding to climate changes

KDHC is expanding the use of clean energy. In particular, we have reduced the use of bunker C oil and low sulfur oil whose air pollutants emission is relatively high and increased the use of liquefied natural gas (LNG) and landfill gas (LFG) as clean fuels. As a result, the rate of using LNG was increased from 38% in 2007 to as high as 78% in 2009. In addition, to respond actively to environmental policies, KDHC is administering emission control in accordance with the total air pollution load management system in the metropolitan regions. Our Daegu and Cheongju offices have also installed denitrification facilities. Furthermore, in preparation for the post-Kyoto era, KDHC actively participated in 3 CDM (clean development mechanism) projects including the installation of photovoltaic power generation facilities in Jeungdo, Sinan and consequently secured CER (certified emission reduction). The CDM and K-CDM projects record greenhouse gas reduction of 162,000 ton/year as of 2009.

Introduction

Energy of hope enjoyed by all

Through sustainable growth, KDHC shall advance as a company that gives the best satisfaction and value to its stakeholders - customers, stockholders, employees, local communities, environments, and government.



Philosophy of Korea District Heating Corp.

The philosophy of KDHC fuels its will to become a national company that is devoted to realizing the highest customer satisfaction. KDHC is pursuing creative thinking to challenge the future by developing new technologies and building extensive knowledge. In addition, through harmony between labor and management based on a sense of responsibility as well as the rational thinking of our members, we at KDHC shall achieve unity as a whole. KDHC shall advance as a future-oriented energy company that creates new energy, filled with the passion of every one of our employees.

Certifications and Awards

- 2007. 01** No. 1 affiliate of the Ministry of Commerce, Industry, and Energy during the government's customer satisfaction assessment in 2006
- 2007. 05** Head office and 12 branches collectively certified by Korea Service Quality Excellence (SQ) (first among public enterprises)
- 2007. 06** Won the Minister of Commerce, Industry, and Energy Award at the 2007 National Environmental Management Awards
- 2007. 07** Received plaque of appreciation from the Minister of Patriots and Veterans Affairs
- 2007. 10** Received citation from the Minister of Commerce, Industry, and Energy during the 2007 Service Quality Innovation Promotion Contest
- 2007. 11** Won the Customer Satisfaction Management Award for 4 consecutive years at the 2007/09 Korea Management Awards
- 2007. 11** Selected as outstanding public enterprise for 4 consecutive years at the Ethical Management Awards (presented by the Ministry of Commerce, Industry, and Energy and Korea Chamber of Commerce/organized by the Institute for Industrial Policy Studies)
- 2008. 08** Won certificate of excellence at the Small and Medium Business Contest
- 2008. 11** Won top prize for 5 consecutive years at the Customer Satisfaction Management Awards
- 2009. 11** Selected as outstanding public enterprise for 5 consecutive years at the Ethical Management Awards
- 2009. 11** Elevated to the Hall of Fame at the Customer Satisfaction Management Awards
- 2009. 11** Selected as outstanding public enterprise for 6 consecutive years at the Sustainable Management Awards
- 2009. 12** Received citation from the Prime Minister for labor-management cooperation
- 2009. 12** Won top prize at the 17th Safety Management Awards (building sector)



Company Overview

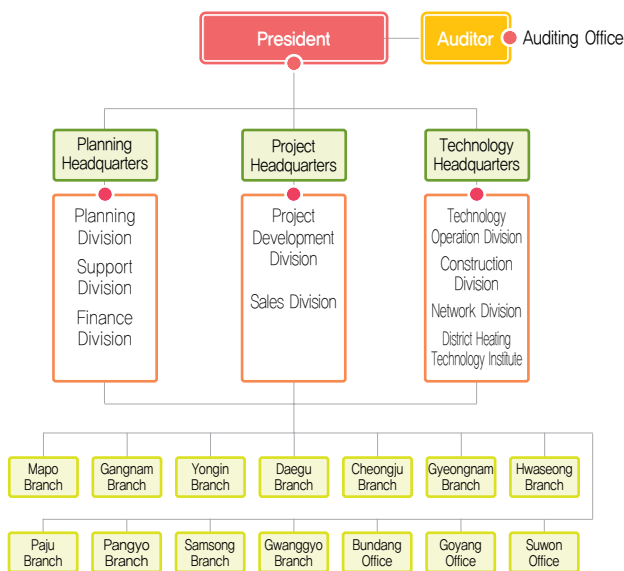
After the 1st and the 2nd oil shocks in the 1970s, the importance of saving energy was further emphasized. In addition, the expansion of the integrated energy system became necessary to handle the environmental issues related to global warming. Against such backdrop, Korea District Heating Corp., was established in November 1985 for the purposes of saving energy, reducing environmental pollution, and increasing the convenience of people's lives through the efficient implementation of integrated energy projects.

Organization

KDHC consists of 3 headquarters, 10 divisions, 11 branches, and 3 offices. The organization system has been established to satisfy customers' need for "economical, high-quality local heating."

Organization

(as of Mar. 2010)



● KDHC Head Office



General Information

(as of Dec. 2009)

President	Jeong Seung-il (took office on August 27, 2008)
Established on	November 1, 1985
Legal Ground	Article 29 of the Integrated Energy Supply Act
Legal Duties	<ul style="list-style-type: none"> · Integrated energy production, transport, and distribution · Installation and operation of integrated energy supply facilities · New and renewable energy business · R&D, investment, and overseas projects in relation to the above
Employee Count	1,132
Assets	KRW 2,902.7 trillion
Capital	KRW 43.4 billion
Sales	KRW 1,248.2 trillion
Head Office	186 Bundang-dong, Bundang-gu, Seongnam-si, Gyeonggi-do

History

Since its establishment, KDHC has been continuously growing through business diversification and advancement by providing electric power, cooling, and district heating services. In addition to external growth, KDHC has been faithfully fulfilling its social responsibilities and environmental responsibilities as a public enterprise.

1985. 11 Korea District Heating Corp. established

1987. 11 Commenced heat supply to Yeoido, Dongbuichon-dong, Banpo District

1992. 05 Converted into public enterprise pursuant to the Integrated Energy Supply Act

1993. 09 Completed construction of district heating supply facilities for new towns in metropolitan regions

1980

1990

Subsidiaries

As of the end of 2009, KDHC invests in a total of 5 companies including Korea District Heating Engineering Co., Ltd., which was established in 1991 to build expertise in heat supply facilities. In 2009, KDHC sold 3 investees such as Ansan Urban Development in keeping with the government's advancement policy.

● Incheon Total Energy Company



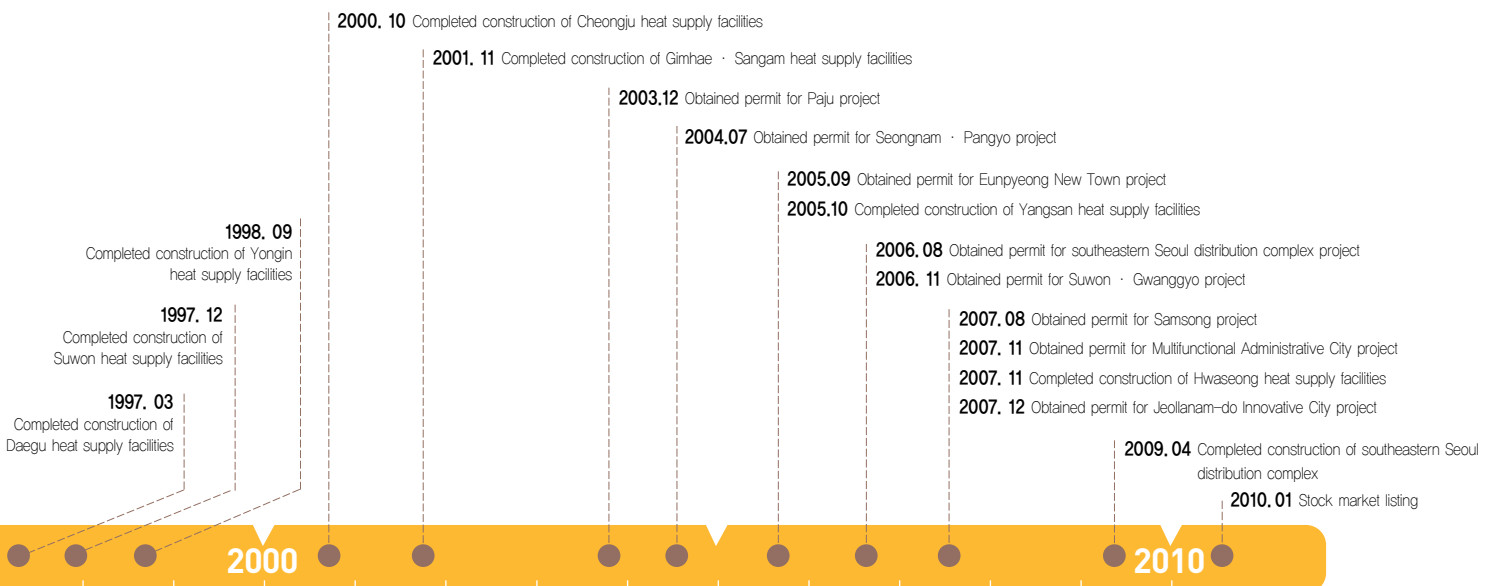
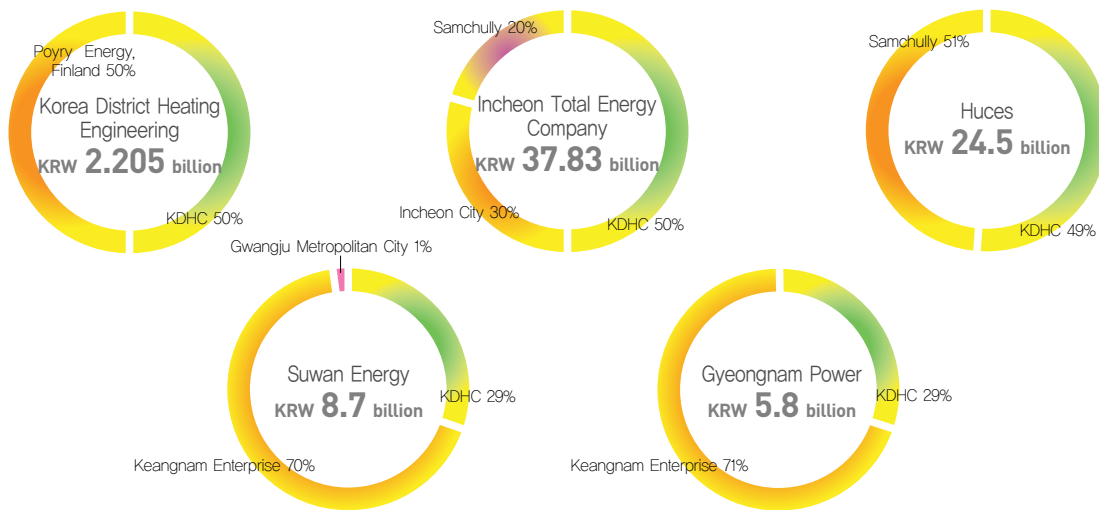
● Ceremony for Transfer of Stocks with Ansan Urban Development



▼ Main Businesses of subsidiaries

- **Korea District Heating Engineering**
District cooling/ heating facility design and supervision
- **Incheon Total Energy Company**
Integrated energy supply to Songdo New Town
- **Huces**
Integrated energy supply to Homaesil (Suwon) and Hyangnam (Hwaseong) district
- **Suwan Energy**
Integrated energy supply to Suwan (Gwangju) · Hanam district
- **Gyeongnam Power**
Integrated energy supply to Sasong district (Yangsan)

▼ Investment Status (Investment by KDHC)



Understanding the Integrated Energy Business

The integrated energy business involves collectively supplying a large number of consumers in residential, commercial, or industrial areas with energy produced by intensive energy production facilities such as cogeneration plants, peak load boilers, and resource recycling facilities. This is an advanced energy supply system that is outstanding in terms of energy saving and environment pollution reduction effects.

● District Cooling · Heating Business

Energy for heating, water heating, and cooling is supplied to various buildings such as houses and commercial buildings located in a district (large-scale residential district). As of the end of 2009, KDHC, through 13 branches nationwide, is providing district heating service to 1.09 million households and 1,853 buildings. In particular, KDHC is supplying district cooling service to 321 buildings including the World Cup Stadium in Sangam-dong. As of the end of 2009, 23 service providers are supplying district heating to 1.87 million households nationwide (distribution rate: 13%). KDHC's market share is approximately 59%.

● Electric Power Business

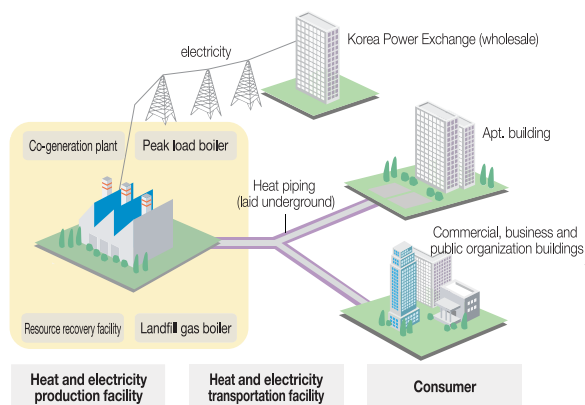
The electric power produced by cogeneration is sold. As of the end of 2009, the power produced in Daegu, Suwon, Cheongju, Hwaseong, and Seoul (Gangnam) is sold to Korea Power Exchange (wholesale). In the Southeastern Seoul Distribution Complex and Garak Raemian Apt. complex, power is directly sold

to consumers of the corresponding districts (community energy supply). KDHC forecasts a gradual expansion of the power business in the future, taking into account the construction of large-scale combined heat and power plants (CHP) in Paju, Pangyo, Samsong, and Gwanggyo.

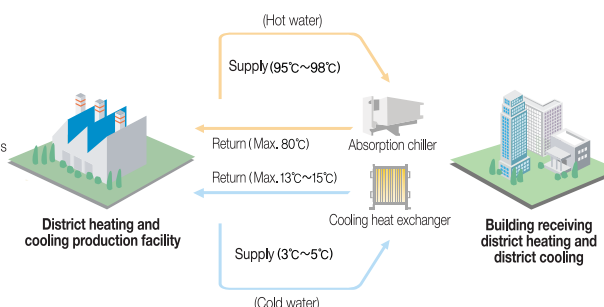
● New and Renewable Energy Business

In July 2005, KDHC concluded a Renewable Portfolio Agreement (RPA) with the Ministry of Commerce, Industry, and Energy (currently known as the Ministry of Knowledge Economy). Since then, KDHC has been expanding investments in the new and renewable energy fields such as photovoltaic power generation, solar heat, and biomass. As of the end of 2009, 16.1% of heat generation (1.6%p increase compared to 2008) and approx. 23% of power generation (0.05%p increase compared to 2008) are substituted with new and renewable energy such as heat from waste incineration, landfill gas, solar energy, and waste recycling.

▼ Concept of Integrated Energy



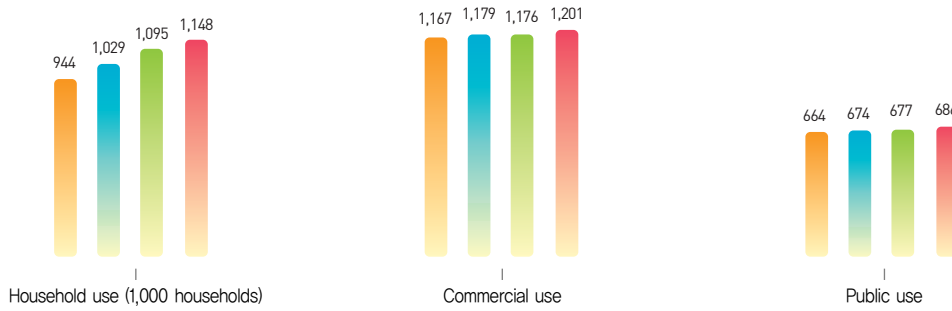
▼ Concept of District Cooling



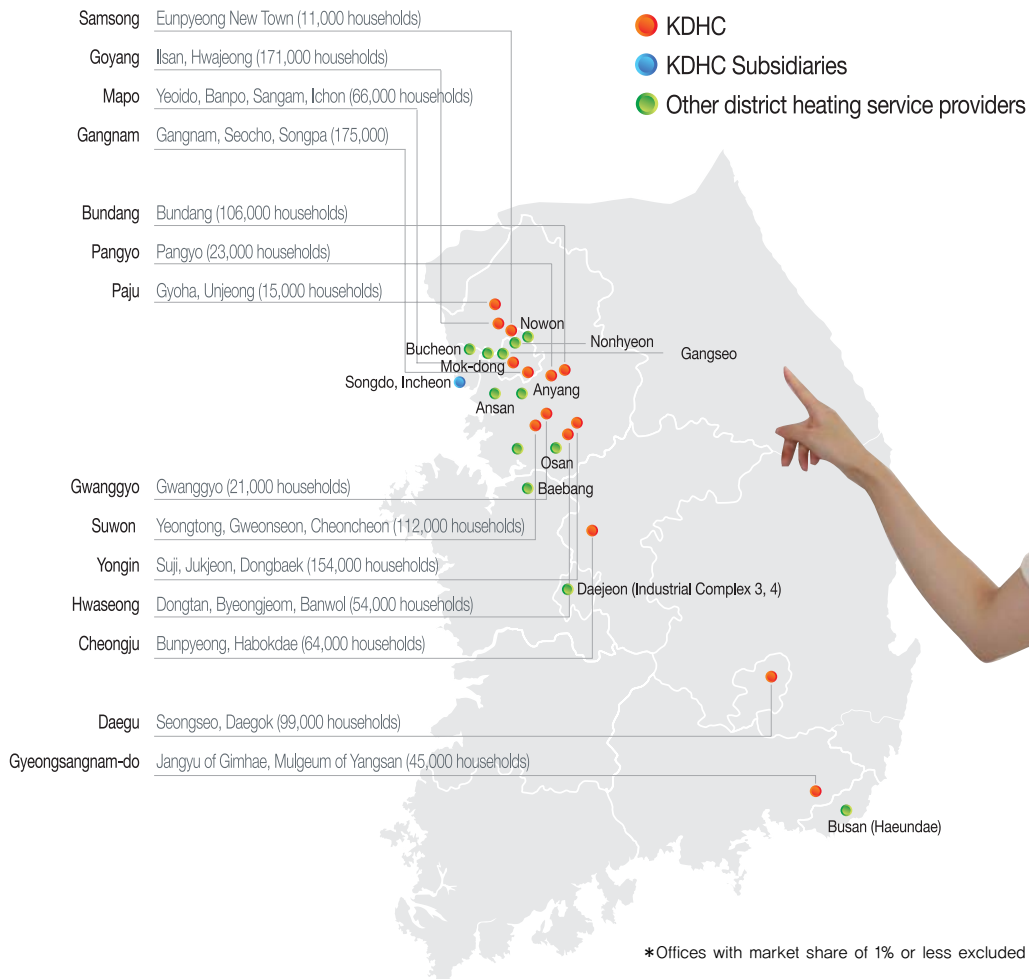
▼ Supply by KDHC

● 2007 ● 2008 ● 2009 ● Goal: 2010

Supply Rates



▼ District Heating Distribution



Corporate Governance

Under the founding philosophy of saving energy, reducing environmental pollution, and increasing the convenience of people's lives through the more efficient execution of integrated energy projects, the corporate governance of KDHC has also been aimed at protecting and supporting public interest.

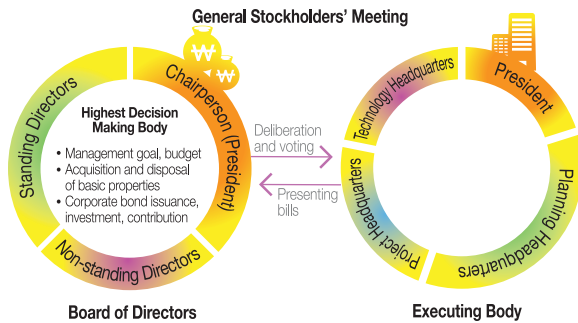
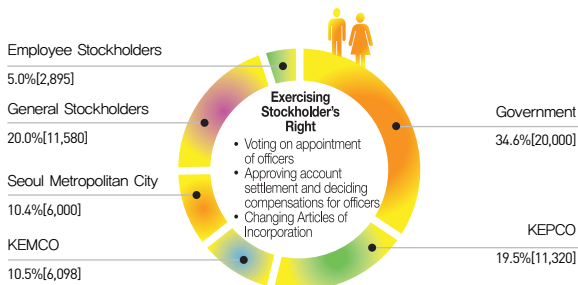
● Stockholders

As of December 31, 2009, the capital of KDHC is KRW 43.419 billion. Our stockholders include the government, Korea Electric Power Corp. (KEPCO), Korea Energy Management Corp. (KEMCO), and Seoul Metropolitan City. The stockholders and stockholding rates are the same as of the end of 2008.

▼ Investment Amounts and Stockholder Governance after the Stock Market Listing

After the stock market listing in Jan. 2010

Auditor (internal control) (unit: KRW 1 million, %)



Stockholders exercise voting rights through stockholders' meetings in relation to the change of the company's articles of association, resolution on the appointment and dismissal of officers and approval on account settlements, etc.

● Stock Market Listing

In keeping with the government's advancement policy, KDHC listed stocks in the stock market as of January 29, 2010. As a result of the stock market listing, KDHC's stockholders are the government, KEPCO, KEMCO, Seoul Metropolitan City, employee stockholders, and general stockholders. Likewise, KDHC's capital increased to KRW 57.894 billion.

● Board of Directors

With the exception of authorities of general stockholders' meeting and auditor, the BOD serves as the highest decision-making body for the company's operation. Pursuant to the provisions stipulated in laws, ordinances, and articles of association, KDHC exercises voting rights on management goals, budget, and corporate bond issuance. The BOD consists of 4 standing directors including the president and 5 non-standing directors.

KDHC has ensured transparency of management and rational decision making by making sure non-standing directors make up the majority of the BOD. Furthermore, to secure a BOD with high expertise, KDHC -- pursuant to the Act on the Management of Public Institutions -- strengthened transparency and objectivity in appointing the president and non-standing directors by carrying out related procedures based on recommendations by the Officer Recommendation Committee consisting of external experts and through a resolution by the government's Public Organization Operation Council, etc. In 2009, a total of 14 BOD meetings were held, during which a total of 85 cases and reports were processed. Compensation for the president, auditor, and standing directors consists of the basic wage, bonus, and retirement allowance. The

▼ Risk Control Activities

Classification	Risk	Cause	Control Activities
Internal Risk	Risk of declining HR competitiveness	Lowered efficiency due to HR management and organization segmentation	Introducing 360-degree assessment system, increasing the employee training hours
	Risk of information loss	Hacking due to IT advancement	Putting up firewalls, strengthening information security inspection
	Risk of physical and HR loss	Fire, damage to facilities	Strengthening the safety management training, operating firefighting facilities, purchasing insurance policies
	Liquidity risk	Increase in new investments, increase in borrowing cost	Building and operating a financial computing system, operating an internal accounting management system
External Risk	Risk of loss due to law suits	Conflicting interests in promoting projects	Employing internal lawyers and legal advisers, operating regulations on handling law suits
	Risk of declining business competitiveness	Advancement of small-scale CHP plants	Strengthening capabilities, e.g., by establishing a new project promotion team

compensation amount is determined at the general stockholders' meeting after a resolution by the BOD. In addition, standing directors are provided with bonuses whose amounts differ according to the results of the management assessment. For non-standing directors, the results of the performance assessment are reflected when determining the status of reappointment.

● **Executing Body**

In relation to matters forwarded by the BOD, operations are carried out by the president and three headquarters. In particular, matters requiring important decision-making processes are coordinated in advance by collecting employees' opinions and through management meeting. Based on the execution procedures, KDHC maintains consistency, unification, and harmony among various divisions. In addition, KDHC enables the

▼ **BOD Candidates' Reviewing Criteria**

Classification	Criteria
Candidate for President	<ol style="list-style-type: none"> 1. Abilities to propose and fulfill vision 2. Abilities to manage organizations and enterprises 3. Knowledge and understanding in business management · economy and energy-related fields 4. Abilities to realize harmony between entrepreneurial · public interests 5. Personality and integrity as CEO
Candidate for Standing Director	<ol style="list-style-type: none"> 1. Professional knowledge and experiences in the integrated energy industry 2. Innovative mind to handle the rapidly changing management environments 3. Leadership and abilities to promote overseas operations 4. Exemplary qualities and integrity as manager
Candidate for Non-standing Director	<ol style="list-style-type: none"> 1. Understanding in all fields of the energy industry 2. Professional knowledge and capabilities in business management and economy 3. Will to enhance management transparency and efficiency 4. Sense of responsibility and morality

▼ **BOD Operation Status**

Classification	2007	2008	2009
Meetings Held	12	13	14
Agendas	51	63	85
Non-standing Director Attendance Rate	94.4	100	97.5

efficient and prompt promotion of operations concerning a number of divisions.

● **Auditor**

Operating the internal audit system of KDHC, the auditor has the obligation to attend a general stockholders' meeting and state an opinion as to whether the bills and documents to be presented by directors are in violation of laws and ordinances or company's articles of association. In addition, in case an act by a director is expected to be in violation of laws, the auditor must report it to the BOD and consequently prevent moral hazard. Furthermore, according to audit plans, a general audit is administered at least once a year. If deemed necessary, special audits are administered.

● **Committee**

KDHC has an Open Public Enterprise Committee, an Ethical Management Committee, an Environmental Management Committee, and a Fuel Adjustment Mechanism Verification Committee. Each committee performs various roles to improve the major particulars and systems required for the sustainable growth of KDHC. Activities by the committees are participated in by non-standing directors and representatives of stakeholders to enhance the transparency of operation.

*For the roles of each committee, refer to p18 of the 2008 Sustainability Report.

● General Stockholders' Meeting



● BOD Meeting



● Open Public Enterprise Committee



Sustainable Management Strategies and Promotion Status

The sustainable management organization of KDHC consists of three areas: value-creating management, environment-friendly management, and socially responsible management.



Philosophy and Vision


We create a world of happy energy

The Best Environment-friendly Energy Company

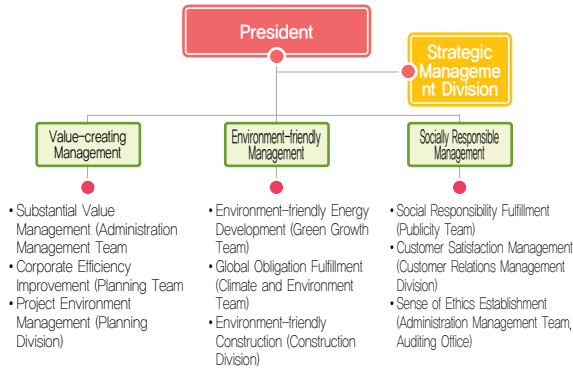


Management Goal

Sales: KRW **2500** billion / Greenhouse Gas Reduction: **30%** ROIC **5%**

<p>Three Strategic Directions</p>	<p>Value Growth</p> 			<p>Cost Leadership</p>
<p>9 Promotion Strategies</p>	<p>Project development centering on profitability</p>	<p>Service differentiation</p>	<p>Strengthening core competencies</p>	<p>Securing economical energy sources</p>
<p>25 Promotion Tasks</p>	<ul style="list-style-type: none"> - To expand the development of demands in the existing districts - To establish new project risk management plans - To strengthen the investment management system 	<ul style="list-style-type: none"> - To strengthen user facility management - To enhance customer satisfaction service 	<ul style="list-style-type: none"> - To strengthen new project R&D - To develop human resources for the future - To improve the operation process 	<ul style="list-style-type: none"> - To diversify fuel purchase sources - To secure new and renewable energy sources stably - To increase negotiation capacities with existing water sources
<p>Major Results</p>	<ul style="list-style-type: none"> - To use the nearby network infrastructures actively - To improve management profit & loss by activating incineration water heat (approx. KRW 5.9 billion/year) - To implement national projects flexibly (Sejong City, Innovative City) - To maximize energy through project diversification (electric power, new & renewable, cooling) 	<ul style="list-style-type: none"> - To operate specialized service teams such as Eco Heating Doctor and Eco Service Team - To improve VOC-based processes and services - To be the first public enterprise to enter the CS Hall of Fame - To install and operate CS training programs 	<ul style="list-style-type: none"> - To strengthen the basis of the electric power business and to realize efficient power sale - To implement the basis of district cooling and to expand its distribution - To strengthen capabilities for overseas business and to implement the promotion basis - To implement the internal COP and to conduct customized training per field 	<ul style="list-style-type: none"> - To reduce cost by improving the fuel procurement structure - To improve various systems and to reflect them on policymaking - To reduce cost by building technologies and increasing competencies - To continue efforts to discover new fuels (DME, wood chip)
<p>Future Tasks</p>	<ul style="list-style-type: none"> - To enhance the efficiency of energy use by actively making use of the existing networks - To secure low-cost heat sources in accordance with the government's waste-to-energy policy 	<ul style="list-style-type: none"> - To advance the VOC-based service improvement system - To improve the customer-oriented system - To perform as a leader befitting its position as a company listed in the CS Hall of Fame 	<ul style="list-style-type: none"> - To review the perspectives of green growth in preparation for the commencement of the full-scale improvement of the electric power market system - To secure optimal operation cases of district heating in apartment buildings - To develop professional HR extensively to solve the problem of insufficient human resources for overseas business 	<ul style="list-style-type: none"> - To improve the energy procurement system by discovering new fuels - To utilize the know-how in securing CER

▼ Organization for Sustainable Management Promotion



Society-friendly

Optimizing Construction Investment	Implementing an Efficient Operation System	Clean & Green Up	Operating a Socially Responsible Management System	Establishing a Friendly Political Environment
<ul style="list-style-type: none"> - To promote the maximum investment system - To improve the construction management system 	<ul style="list-style-type: none"> - To improve the efficiency of heat supply facilities - To prepare measures for handling old heat transportation facilities - To establish the heat electricity integrated operation system 	<ul style="list-style-type: none"> - To establish greenhouse gas reduction plans - To prepare the system for minimizing environmental impacts - To handle the UNFCCC system effectively 	<ul style="list-style-type: none"> - To lead the advancement of public enterprises - To expand practical social contribution activities - To strengthen cooperation with small and medium businesses 	<ul style="list-style-type: none"> - To implement the policy formation network - To prepare the cooperation system for system improvement - To strengthen the publicity of initiative policies
<ul style="list-style-type: none"> - To expand facilities at the right time by constructing heat production facilities and heat transporting pipes (construction investment cost reduction by approx. 7 billion through operation process improvement) - To lower cost by implementing economical and environment-friendly facilities (approx. KRW 8.1 billion) - To implement the quality management system 	<ul style="list-style-type: none"> - To expand the operation of networks in metropolitan regions - To expand the use of waste incineration heat by improving facilities (production cost reduction by KRW 5.3 billion a year) - To establish basic maintenance plans and to continue feedback on result analysis 	<ul style="list-style-type: none"> - To develop new and renewable energy for link with the integrated energy business and to promote related businesses (RFD, woodchip) - To prepare the basis for practicing carbon reduction activities (estimating and verifying the greenhouse gas emission) - To manage emissions strictly according to the total air pollution load management system in the metropolitan regions 	<ul style="list-style-type: none"> - To complete stock market listing and to sell off investment equities in 3 subsidiaries - To enhance the efficiency of operation by streamlining the organization and downsizing regular staff - To carry out job creation actively in public fields - To strengthen the transparency of contact operations by activating the e-bidding system 	<ul style="list-style-type: none"> - To invest in research activities for activating the integrated energy industry - To organize the integrated energy policy forum - To organize the integrated energy policy seminar - To operate the integrated energy info-net
<ul style="list-style-type: none"> - To discover projects to which new technologies and techniques can be applied - To prepare for the quality management system follow-up assessment 	<ul style="list-style-type: none"> - To establish optimal plans of operating the new combined thermal power generation plant - To implement the heat electricity integrated operation system 	<ul style="list-style-type: none"> - R&D to secure new and renewable energy technologies - To prepare measures for promoting carbon reduction activities and for increasing the public's interest - To forward the emission reserve to the following year 	<ul style="list-style-type: none"> - To operate the fair disclosure system - To strengthen the core competencies of the organization and human resources 	<ul style="list-style-type: none"> - To activate the integrated energy industry continuously

*Time of Key Performances : Promoted in 2008 ~ 2009, Promoted in 2009

Conversation with Stakeholders

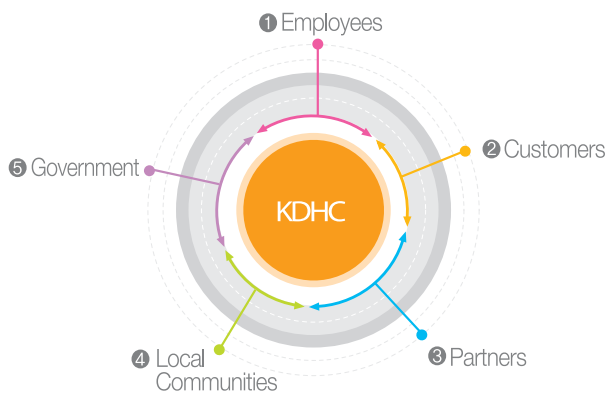
KDHC is strengthening communication activities with stakeholders as part of listening attentively to the various opinions of its stakeholders and to reflect them on its management activities. Having identified diverse stakeholders through participation processes, KDHC has selected the major stakeholders. KDHC is listening to their requirements and opinions and is consequently endeavoring to realize the continuous improvement of participation processes on which their needs can be reflected.

Questionnaire Survey on Stakeholders

KDHC has conducted a questionnaire survey among stakeholders to collect opinions actively from employees, customers, partners, and local communities as well as the government. The contents of the survey deal with key issues per stakeholder, sustainable management, corporate image, and conditions for sustainability. A large number of responses from employees were about the limitations in district heating and about new project development. The HD system was cited as an area of weakness. In addition, employees strongly clamored for an HR arrangement considering employees' aptitudes and occupational competencies. As for customers' survey results, KDHC's business fields and governance structure were assessed favorably. The appropriateness of

heating rates was assessed to be low, however. Although KDHC is receiving favorable responses from the local communities for its continuous efforts toward service activities and communication, the government and local communities gave low ratings to KDHC's information disclosure to stakeholders and governance structure. The improvement of the public tender process was proposed in this survey to consider the quality-related items in addition to price when selecting partners (suppliers). As a whole, KDHC's partners rated KDHC's business fields and fairness of partner selection favorably.

▼ Communication with Stakeholders



① Employees	Labor-management Committee
	Daily communication system
	Management meeting
	Labor-management workshop
② Customers	Labor-management negotiation seminar
	Eco Service Team listening to VOC
	Open Public Enterprise Committee
③ Partners	Customer Satisfaction Committee per branch
	Customer satisfaction survey
④ Local Communities	Meetings with partners
	Partner satisfaction survey
⑤ Government	Share Happiness Team
	1 company, 1 village sisterhood relationship
	Proposing policies and deliberating on current issues
	Management performance report

Expert Interviews

To draw out the sustainable management tasks and issues, KDHC interviewed related experts for the in-depth collection and analysis of the opinions of stakeholders.

Economy

(Associate Manager ooo of Korea Environment Corp.)

KDHC is a company with countless innovative accomplishments such as employing improvement ideas and operating a science education program for management advancement. In particular, the project of using wood damaged by pine wilt disease is regarded as an example of responding to climate changes using new and renewable energy. Nowadays, there is increased participation by the private sector in the district heating business. Therefore, measures for securing and maintaining a superior position in the market competition are necessary. The changes must be handled appropriately through ceaseless innovation and self-reflection. As such, KDHC must strive to venture into new business fields that conform to its policies or serve as the strengths of the corporation.



KDHC

With the private sector's participation in the integrated energy market, KDHC is improving its constitution as an organization fit to compete against them. In the meantime, by executing projects abandoned by the private sector, we are maintaining our function as a public organization. Furthermore, we are strengthening our position as the market leader by offering education to other businesses. For new market expansion, KDHC is accumulating experiences through ODA projects. In addition, we are actively promoting plans for package-type overseas projects in connection with technological and resource developments by making full use of the strength of the integrated energy system.

Environment

(Professor ooo of the Univ. of Seoul)

District heating is an environment-friendly business that effectively reduces greenhouse gas emission caused by individual heating. The expansion of district heating is one way of responding to climate changes. KDHC has been making greater investments in a number of facilities to improve the environment. Since the district heating business is centralized in metropolitan regions, however, there is a need to increase the investment in pollution prevention facilities so that high air quality can be maintained. In addition, considering the reduction of pollutants or greenhouse gas, expanding the use of natural fuels is necessary. Furthermore, the continuous supplementation of environmental experts is required to expand the scope of the district heating business and to handle climate changes in the future.



KDHC

KDHC has established internal control criteria that are stricter than the environmental criteria. In addition, we are continuously expanding investments in the protection of our environment. For the improvement of air quality in the metropolitan regions, KDHC has introduced the unused new and renewable energy such as heat from waste incineration and sewage treatment. In addition, we have additionally installed LNG fuel conversion and denitrification facilities. Furthermore, by increasing LNG use in new facilities, we have improved the rate of LNG use from 38% in 2007 up to 68% in 2009. Based on its mid- to long-term management strategy (Happy Energy 2015), KDHC is operating expert training programs for the creation of a new environment-friendly market.

Society

(Branch Head ooo of Good Neighbors)

Good Neighbors is a child protection specialist located in Seongnam, Gyeonggi-do. Since 2001, employees of KDHC have been voluntarily participating in the activities. For social contribution activities, businesses are required to create an atmosphere that encourages continuous participation by their employees, to support employees in practicing the virtue of sharing, and to provide incentives to the participating employees. In addition, the needs of the local communities must be identified through regular communication. Instead of a single-directional support strategy from the company, a feedback system for problems must be operated through interactive communication.



KDHC

Recognizing that we can be respected by fulfilling our social responsibilities as a public enterprise, we at KDHC are conducting social contribution activities for our local communities and customers. KDHC's 「Share Happiness Team」 and 「Stepping Stones」 the voluntary service teams participated in by employees to share warmth and love with neighbors in need, are carrying out activities to support the neglected, to protect the environment, and to provide educational support according to the characteristics of each community. The activities are funded by members' donations and 1:1 matching grant from KDHC. KDHC is conducting customized service activities by personally visiting the support targets in connection with local communities, residents, and related organizations.

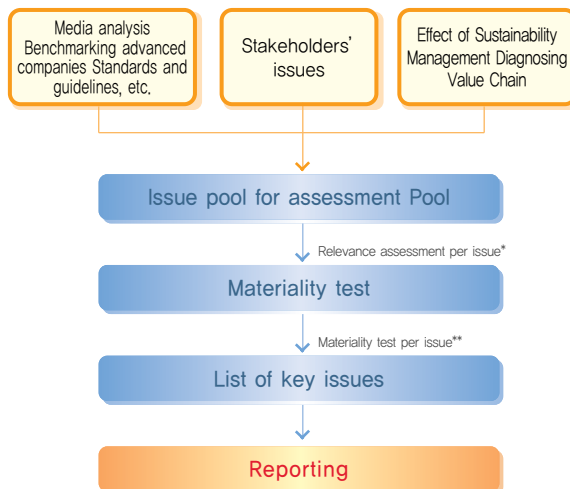
Sustainable Management Issues

In practicing sustainable management, KDHC identifies various issues of the stakeholders and consequently reflects them on its management strategies. In the 2009 Sustainability Report in particular, KDHC has reflected the ISO/DIS 26000 Social Responsibility Standards on the key issue assessment process and consequently derived the sustainable management issues.

To identify sustainable management issues, KDHC has carried out media analysis, benchmarking of advanced companies, analysis of sustainability standards and guidelines, questionnaire survey on stakeholders, and interviewing of internal and external experts during the report period. Afterward, we have conducted relevance and significance assessment to prioritize the issues collected through various routes. We assessed the relevance in terms of the direct short-term impact on the financial results, relevance to the management strategies, status of handling other companies in the industry, behaviors and interest of stakeholders, social norm, and sustainability context. As for significance, we assessed it on the basis of the concern of stakeholders as well as the impact of KDHC's decision-making activities. We then established a list of core issues. For the derived core issues, we conducted internal review. After a report to the management, the final issues were confirmed.

The sustainability report contains our activities on 52 issues as confirmed through the significance assessment process. In particular, the report extensively dealt with 10 major issues.

▼ Significance Assessment Process



*AccountAbility : Relevance(5-part Materiality Test), ISO 26000: Relevance

**AccountAbility, ISO 26000 : Significance

KDHC's Plans to Handle the Major Issues

● Economic Issues

KDHC has selected new business development and new market entry as significant economic issues in the 2009 Sustainability Report. Although the debt ratio has slightly increased due to the increase in facility investment for new business development and new market entry, we expect the debt ratio to fall and profitability to improve once the investment is completed in 2012. In relation to new business issues, we are promoting the overseas business based on the advantages of the integrated energy system. As for new market entry, we are strengthening the bases for district heating and electric power business. As customer satisfaction activities, KDHC is operating specialized service teams such as Eco Heating Doctor and Eco Service Team. In addition, KDHC has installed educational programs to enhance CS expertise.

● Environmental Issues

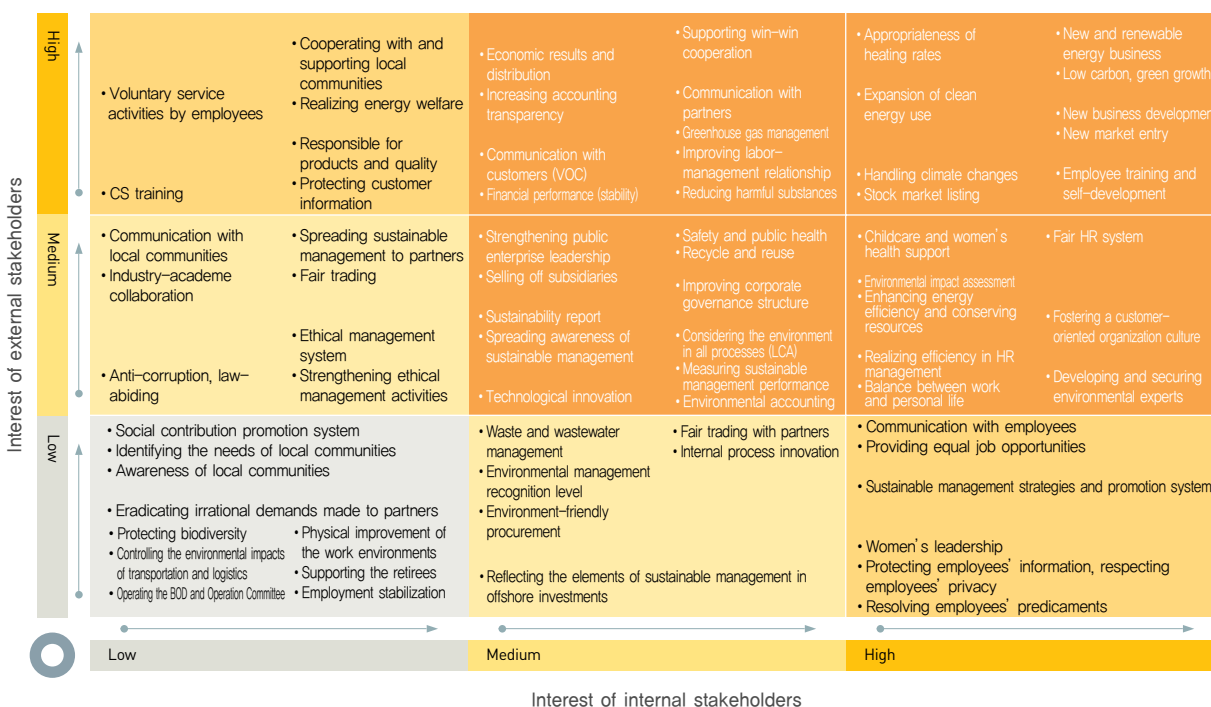
To respond to climate changes, KDHC is participating in the Clean Development Mechanism (CDM) project and carbon neutral program. We implemented the greenhouse gas inventory in 2006 as the first public enterprise to do so and consequently received official verification on the greenhouse gas emissions. Since then, we have been controlling the greenhouse gas emissions each year. KDHC is expanding the use of new and renewable energy such as waste incineration heat, solar heat,

LFG, and woodchip for heat supply. In the future, KDHC is planning to promote the use of RDF, wind power, fuel cell, and biogas. In this report, we have selected "low carbon, green growth," new and renewable energy business, expansion of clean energy use, and climate change handling as the major issues.

● Social Issues

The appropriateness of heating rates has been identified as a significant issue by all stakeholders. To reflect it, we have selected it as a special issue in this report. To stabilize heating rates, KDHC is promoting cost reduction through fuel supply structure improvement and cost reduction via technological advancement and enhancement of competencies as well as discovery of new fuels. For employee training and self-development, we are operating expert development programs according to our mid- to long-term management strategies. For the HR system, KDHC has secured transparency in its HR management operation by focusing on the capabilities and performances of individual employees. In relation to childcare and women's issues, KDHC has taken the initiative and improved the leave system. In addition, we have installed a maternity protection rest area as well as childcare facilities within the company. Furthermore, in handling issues related to partners, we are spreading the concept of sustainable management by increasing the transparency of contract operation through the activation of the e-bidding system, establishing the qualification examination criteria, operating the integrity contract system, supporting the R&D cost, and introducing the financial support system.

▼ Significance Assessment Chart



Thrift Energy for Our Family

District heating is economical with its low heating rates. The service can be used at the time and temperature level desired by the customer. The heating charge is imposed according to the amount of heating used. In addition, district heating is cheaper than other heating methods by approximately 16%, thanks to the use of networks and low-price energy sources such as waste incineration heat. Therefore, district heating is contributing to economical living with every use.

Effects of the Integrated Energy Business

● Outstanding Energy Saving Effect

The integrated energy business increases the efficiency of using energy by approximately 30% compared to general power generation methods through combined cycle power generation.

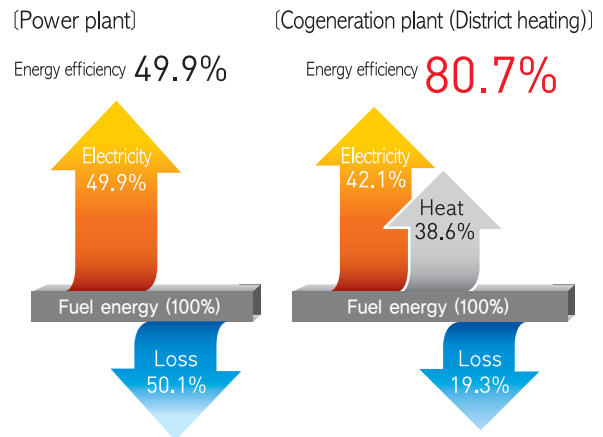
● Environment-friendly Advanced Energy

KDHC has reduced air pollutants such as SO_x, NO_x and dust and greenhouse gas emission by 39% and 45%, respectively, in 2009 through energy saving at the source and by installing state-of-the-art pollution prevention facilities. In particular, district heating, which supplies cooling by using hot water, has the effect of lowering the peak power load in summer. Moreover, district heating is environment-friendly since it does not use substances to destroy the ozone layer such as Freon gas, etc.

● Convenient, Pleasant Energy

District heating does not require the installation of individual boilers in each household and complex. Therefore, it is safe and clean. Furthermore, district heating maintains a consistent indoor temperature 24 hours a day for pleasant, convenient living.

▼ Energy Saving per Heating Method



▼ Energy Saving per Heating Method

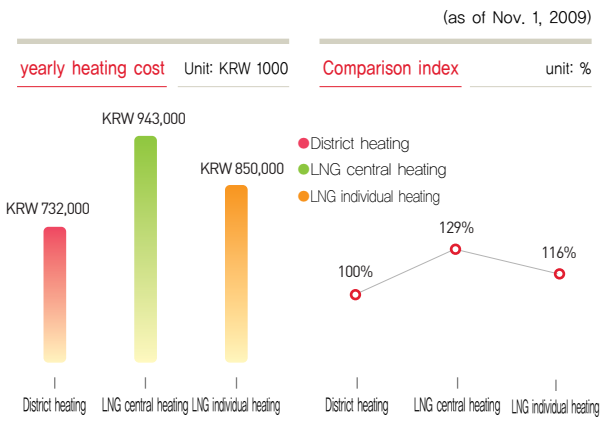
(as of Dec. 31, 2009)

Classification	District Heating	Individual Heating	Effects of District Heating
Energy Amount of Use (1,000 TOE)	2,953	3,936	983 ↓ (25%)
Air Pollution Substance Emission (ton)	SO _x	3,469	2,804
	NO _x	7,850	1,614
	Dust	231	136
	Total	6,996	11,550
Greenhouse Gas (1,000 tons)	CO ₂	11,899	5,343 ↓ (45%)

*Including combined cycle plants in Bundang (Ilsan and thermal plant in Seoul)



▼ Comparison of Rates per Heating Method



Rate Estimation

Heat rates are estimated per household, commercial, and public use by considering the competitiveness against other heating methods and characteristics of users (demand flexibility, quantity of demand). Fixed expenses such as depreciation expense, repair maintenance cost, labor cost, investment return, and other expenses are calculated as the basic rate according to the prescribed criteria regardless of the amount of use. The remaining cost that is not covered by the basic rate (total cost-depreciation

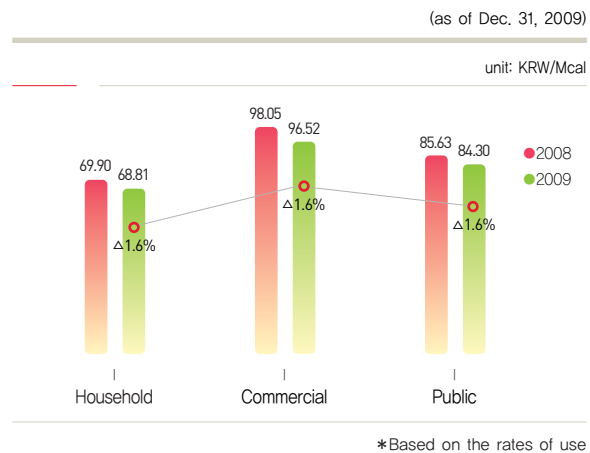
expense) is then calculated as the rate of use. When heat rates are adjusted, the status of observing related laws and supply regulations is checked by KEMCO and Korea Energy Economics Institute as well as an accounting firm and a consumers' group. Afterward, the accuracy of estimation data is verified. In addition, KDHC has frozen the fixed cost since the first announcement in 1999 to ensure stability in people's living.

In 2009, most energy prices increased compared to the previous year. In particular, the increase in fuel price was caused by the increase in the cost of heat reception (power generation plant, incinerator) and in fuel cost for our own production facilities (city gas and LSWR, etc.). KDHC maintains low rates by making diverse efforts toward management improvement, such as maximizing economical operation through pipelines that connect the metropolitan regions, increasing the amount of water source heat from waste incineration by increasing the areas of incineration plants, expanding the low-price heat sources using new and renewable energy such as landfill gas, sewage heat, and woodchip, strengthening the economical linked operation, and striving for reasonable cost reduction. This way, KDHC is endeavoring to give back the economic benefits to customers.

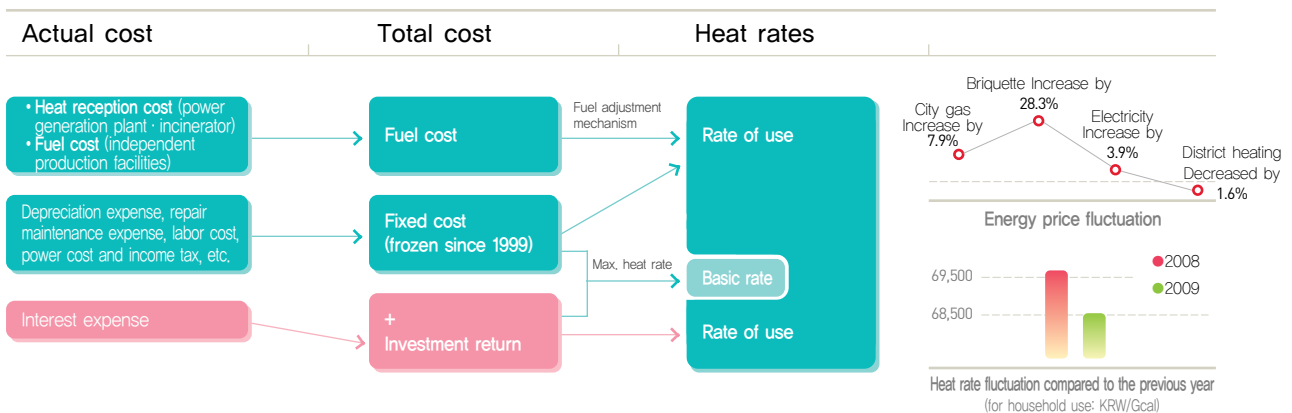
▼ Cost Reduction by Management Improvement (KRW 8 billion ↓)

Classification	Management Improvement Result	Cost reduction (KRW 100 million)
Construction cost	Improving the denitrification facilities of gas turbines in the southeastern zone, etc. 7 cases	37
Variable cost	Maximizing heat reception in linked branches, etc. 5 cases	42
Expenses	Integrated management of communication facilities, etc. 6 cases	1

▼ District Heating Rates



▼ Energy Price Fluctuation



Economy

Korea's growth energy

As the sustainable growth engine of Korea, KDHC will challenge the future as the Best Environment-friendly Energy Company.



Mission and Strategic Tasks

Under the mission of value management to expand and distribute integrated energy, KDHC is promoting the expanded growth of the integrated energy business, investment in R&D, overseas market entry with the integrated energy business, and ethical management as strategic tasks.

Key Issues

● Economic Results and Distribution

KDHC is practicing sustainable management through the activities of redistributing back to society the values created by corporate activities. In addition, KDHC is enhancing operation transparency by disclosing financial information. This issue concerns our key businesses to create economic values.

● New Market Entry

Based on the achievement of the ODA project in Mongolia, KDHC is actively developing overseas projects using the strengths and advantages of the integrated energy system.

● New Business Development

The scales of the electric power business and district cooling market are rapidly expanding. As such, KDHC is preparing measures for increasing competitiveness in the two fields.

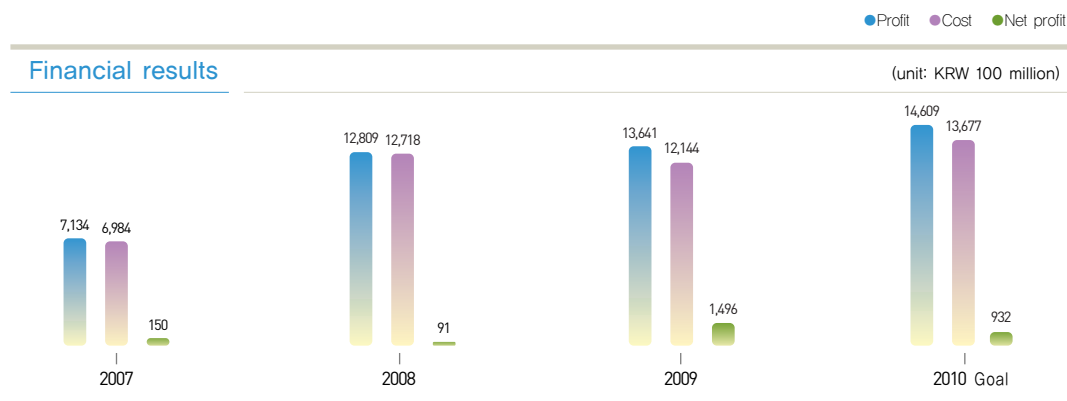
● Technological Innovation

KDHC has implemented the basis of R&D to accumulate and occupy core technologies. It is also securing intellectual property rights and pursuing R&D based on the principles of selection and concentration.

● Ethical Management

By operating STEP, KDHC has laid down the groundwork for increased operation transparency and sustainable advancement.

Major Achievements



Management Performances

In 2009, KDHC has recorded current net profit of KRW 149.6 billion and economic value creation in the scale of KRW. 1364.1 billion through the integrated energy business. The created values are being reinvested in R&D and education for the expansion and distribution of the integrated energy business. In addition, the generated profits are being redistributed to our stakeholders including local communities, government, local governments, stockholders, and partners and as interest to creditors.

▼ Distribution of created values



With the completion of the medium- to large-scale CHP plant in Hwaseong in 2008, KDHC's sales increased dramatically compared to the previous year. In 2009, the rapid fall in the international oil price resulted in the decrease in materials cost; this in turn translated into the improvement of net profit. Furthermore, our net profit has increased significantly in accordance with the selling subsidiaries and increase in the sales cost based on the fuel adjustment mechanism.

▼ Financial Statement (summary)

(unit: KRW 100 million)

Classification	2007	2008	2009	2010 Goal
Current assets	5,072	6,395	5,195	7,931
Noncurrent assets	14,913	17,434	23,832	28,962
Total assets	19,985	23,829	29,027	36,893
Current liabilities	1,800	4,658	6,038	7,828
Noncurrent liabilities	10,993	12,012	14,291	18,195
Total liabilities	12,793	16,670	20,329	26,023
Capital	434	434	434	579
Capital surplus	-	-	-	1,051
Other comprehensive profit & loss	-	△119	△67	△28
Earned surplus	6,758	6,844	8,331	9,267
Total capital	7,192	7,159	8,698	10,870
Total liabilities and capital	19,985	23,829	29,027	36,893
Sales	6,862	11,899	12,482	13,739
Operating profit	333	446	1,707	1,593
Gross profit	151	93	1,942	1,119
Current net profit	150	91	1,496	932

Three Years and Comparison Indices

● Financial Stability

Due to the increase in facility investment in keeping with the continuous business expansion in recent years, the debt ratio and dependence on borrowings are on a slight increase. Once the large-scale facility investment is completed by 2012, however, our debt ratio, etc., will be improved.

● Profitability

Despite fluctuations according to the trend in the international oil price, KDHC, through continuous effort toward cost reduction and management efficiency, is recording an overall increase in sales and profit to asset ratio.

● Growth and Activity

The net assets have increased significantly due to the increase in facility investment according to the business expansion. Similarly, our sales are increasing at a remarkable rate.



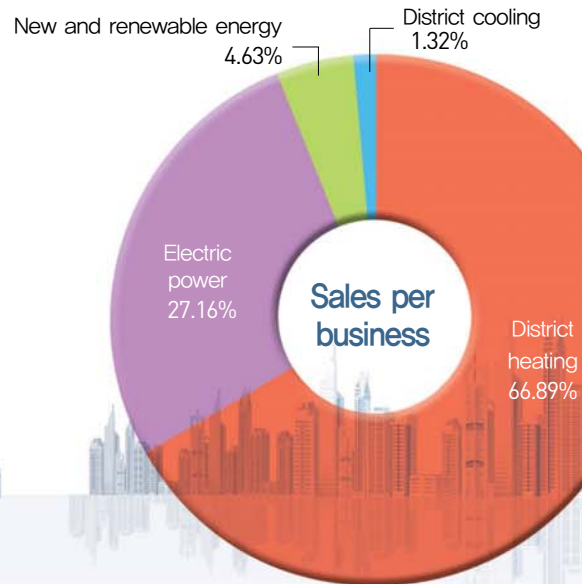
▼ Four Years and Comparison Indices

Classification		2007	2008	2009	2010 Goal	2008 Industry average
Stability	Current ratio	281.7%	137.3%	86.0%	153.5%	95.0%
	Debt ratio	177.9%	232.8%	233.7%	239.4%	77.1%
	Dependence on borrowings	55.4%	60.6%	60.7%	60.4%	25.2%
	Interest compensation vs. operating profits	0.88	0.88	2.77	2.25	-2.22
Profitability	Return on sales	2.2%	0.8%	12.0%	6.8%	-4.9%
	Return on assets	0.8%	0.4%	5.7%	2.8%	-2.5%
	Return on equity	2.1%	1.3%	18.9%	9.5%	-4.3%
	Return on operating sales	4.8%	3.7%	13.7%	11.6%	-4.3%
Growth and activity	Sales increase rate	11.9%	73.4%	4.9%	10.1%	16.3%
	Turnover of net worth	1.0	1.7	1.6	1.4	0.9
	Net asset increase rate	14.2%	19.2%	21.8%	27.1%	4.3%
	Total asset turnover ratio	0.4	0.5	0.5	0.4	0.5

*Debt Ratio: Financial index indicating the percentage of equity to borrowed capital

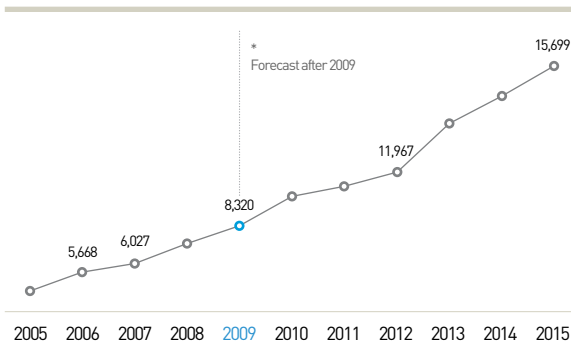
*Dependence on Borrowing: Financial index indicating the percentage of borrowings to total assets

Growth Energy for KDHC



▼ District heating sales result and forecast

(unit: KRW 100 million)

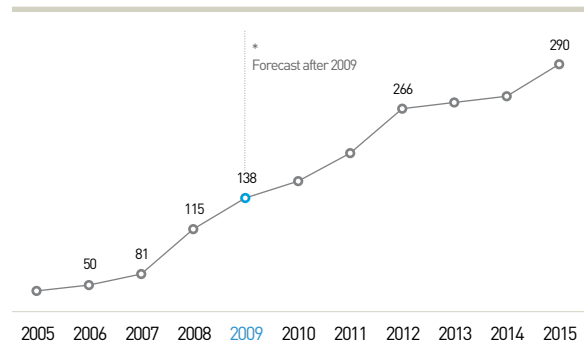


● District heating business

As of the end of 2009, district heating is supplied to 1.87 million households or approximately 13% of households receiving the heating service nationwide. Through the 13 branches, KDHC is supplying district heating to 1.09 million households or approximately 59%. We will be actively creating new demands guided by our goal of supplying to 2 million households by 2015. For the stable supply of district heating, KDHC has been continuously promoting heat piping implementation. Heat pipes installed throughout the country extend to 3,030km (2 rows×1,515 km, supply · collection pipes). Long enough to cover the distance to and from Busan three times, this length represents 59% of the heat pipes installed in Korea. In particular, KDHC is increasing the efficiency and stability of heat supply by expanding the heat pipes connecting the metropolitan regions based on the 99km×2 rows from Paju to Hwaseong. Accordingly, we are contributing to the expansion of heat supply areas in the metropolitan regions. In addition, KDHC is making efforts toward stable and economical heat supply by developing new technologies · securing core technologies in the fields of heat piping, improving techniques, and ensuring efficient maintenance operations.

▼ District cooling sales result and forecast

(unit: KRW 100 million)



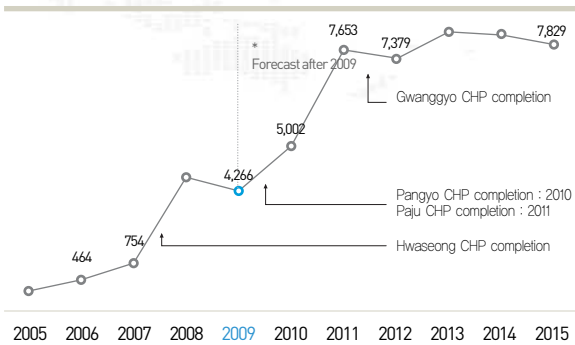
● District cooling business

As the environment-friendly cooling system that uses waste incineration heat and residual heat of co-generation, district cooling has the effect of lowering the peak power load during the summer season. Since commercial production commenced in 1993, KDHC has been supplying district cooling using hot water to 321 buildings as of the end of 2009; thus achieving the result of replacing power plant construction (in the scale of KRW 38.9 billion during 2009). In addition, KDHC introduced to Sangam DMC, Southeastern Distribution Complex, and KINTEX the economical vertical supply system using the residual heat of power generation and cool thermal storage during nighttime. By developing the double-layered absorption-chiller with enhanced user efficiency, KDHC is promoting distribution to general households including apt. buildings. For district cooling distribution, we are actively promoting technological development and system improvement. Accordingly, we seek to increase sales from cooling to make it account for 10% of the sales from the heating service.



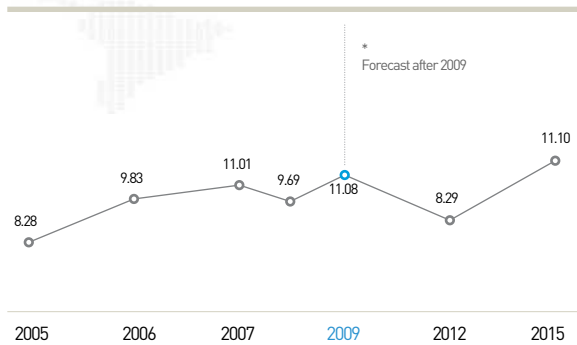
▼ Electric power sales results and forecast

(unit: KRW 100 million)



▼ New and renewable energy distribution results and forecast

(unit: %)



● Electric Power Business

Since the commencement of electric power sale (approx. 85,000MWh) in 1997 through the Daegu branch, KDHC has increased the scale of the electric power business by approximately 37-fold to 3.123 million MWh in 2009 or in only 12 years. Currently, power production is being carried out in our Daegu, Suwon, Cheongju, Gangnam, and Hwaseong branches. In the future, we plan to increase electric power production by building medium- to large-scale co-generation facilities in Paju, Pangyo, Gwanggyo, and Samsung. By 2011 when the medium- to large-scale co-generation facilities that have been under development since 2009 will have been completed, we expect sales from our electric power business to increase by 35% annually to make up approximately 44% of our overall sales.

● New and Renewable Energy Business

KDHC is actively responding to the introduction of RPS (renewable portfolio standard), which is scheduled to be put into effect in 2012. In addition, we are successfully handling the changes in the energy environment such as the risk of global warming and instability in fossil fuel supply. On the other hand, to realize low carbon, green growth, KDHC is undergoing active developments and projects concerning a variety of new and renewable energy resources. As of 2009, we are operating and promoting new and renewable energy businesses using waste incineration heat, solar power, solar heat, LFG (landfill gas), woodchip, and RDF (refuse derived fuel). We plan to promote this business in the areas of wind power generation, fuel cell, and biogas. KDHC has set the goal of replacing 12.1% of the overall energy supply with new and renewable energy by 2022.

New Market Entry

● Overseas Business Promotion Status

By exporting the expertise and technological power related to new and renewable energy and integrated energy (district heating, district cooling, electric power) built over the last 20 years, KDHC is actively promoting opportunities for overseas market entry to discover new sustainable growth engines for the future and to overcome the limitations in the domestic business fields, which are gradually nearing the saturated state.

KDHC has participated as PMC (project management consultant) for district heating facility replacement or engineer training in the ODA (official development assistance) projects organized by the Korea International Cooperation Agency (KOICA) for developing countries such as Mongolia and Uzbekistan. Accordingly, we have transferred related technologies and know-how and accumulated experiences in the overseas business; thus securing the foundation for overseas market entry.

In particular, in the "District heating and water supply facility improvement project" (Mar. 2008-Oct. 2009) in Ulaanbaatar, Mongolia, KDHC successfully fulfilled the role of PMC by exercising strict management of the operation to replace 44 district heating machine room facilities and handing over advanced district heating technologies. For this, KDHC received a plaque of appreciation and a prize for meritorious service from the Mongolian government. With our reliability increasing as a result, we were able to secure additional ODA projects (heat

- Plaque of appreciation from the Mongolian government



- Inviting Mongolian engineers for training



supply system improvement project in Khorezm, Uzbekistan and heating and hot water supply system implementation project in Barunurt, Mongolia) and to contribute to the entry into related markets by Korean companies. Furthermore, KDHC has helped enhance national prestige by responding to the overseas aid strengthening policy such as joining Korea's DAC (development assistance committee) in November 2009. We shall accumulate greater experiences through ODA projects in the future. In addition, we shall actively search for ways of joint entry with other companies in package-type overseas projects in connection with resource development using the advantages of the integrated energy system.

- Before and after the project implementation



(Before)



(After)





Advancing as a Composite Energy Company

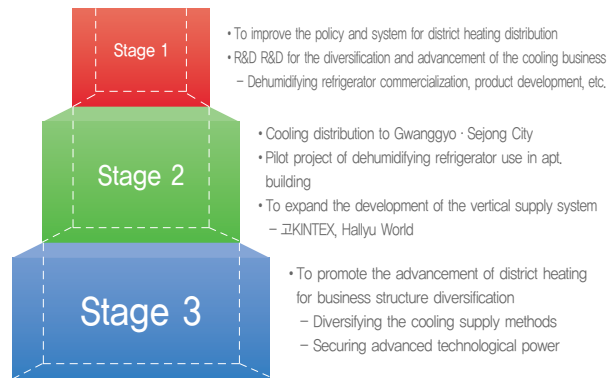
● Strengthening the basis of the electric power business

KDHC is strengthening the basis for efficient electric power production and sale in the electric power market wherein the amount of power trade and selling price are increasing rapidly. We have realized profit increase (2009: approx. KRW 3.1 billion) by applying the strategic bidding plans per season and situation. In addition, KDHC completed the short- and long-term prediction system based on daily market price predictions as the first among power generation companies in Korea to do so. Since we have completed the full-scale renewal of the electric power trading support system in relation to strategic bidding and error prevention, we are preventing losses by erroneous bidding, etc. KDHC has agreed to the comprehensive trade quantity agreement between power plants and consequently to high-pressure gas supply and has secured flexibility in the fuels used [cost reduction of KRW 7.7 billion a year]. As a result, KDHC secured efficient and economical fuel establishment plans. With the commencement of the zonal electricity business to supply heat and electricity directly within the set area using cogeneration plants, KDHC is improving related systems. In addition, we are promoting the increase in economic efficiency by establishing optimal operation models for new plants and optimal operation plans for existing ones. KDHC has completed

▼ Mid-to long-term goals for the electric power business

Classification		Present (2009)	Goal (2015)
Total sales (KRW 100 million)		6,862	21,348 (3.1 times)
District heating business type		Relying on heat reception from small- to medium-scale CHP and power plants	Operating medium- to large-scale CHP linked to the network of the metropolitan regions
Electric power trading	Facility scale	161MW	1,501MW
	Sales (Percentage)	754 (11%)	6,793 (32%)
Zonal electricity	Facility scale	1MW	153MW
	Sales (Percentage)	0.5 (0%)	1,036 (5%)

▼ Cooling business promotion plans per stage



the installation of the zonal electricity sale system in March 2009 and implemented the distribution automation system and emergency handling system to prevent computing accidents within plants.

● Implementing the basis of local cooling

Korea has seen limitations in cooling demand due to seasonal factors and economic conditions. This in turn led to difficulties in district cooling distribution. Nowadays, however, cooling demand is continuously increasing due to the effects of economic growth and climate change. In line with this trend, KDHC endeavored for the technological development and improvement of distribution conditions. After developing the 2-layer absorption-type refrigerator with 2.6 times the efficiency of energy use, KDHC came up with a dehumidifying refrigerator for household use in 2009. Currently, KDHC is preparing to test the new development. To enhance customers' acceptance, we are also making efforts to improve related laws and energy use in buildings. KDHC forecasts a drastic change in the cooling market in 2-3 years' time.

Ethical Management

● Ethical Management Criteria

KDHC is operating a code of ethics to suggest the basis for ethical judgment and specific criteria for conduct. We are implementing the "ethics self-diagnosis system" in Q&A format to examine the status of understanding the code of conduct through the company's Intranet once a week so that employees' sense of ethics and integrity may be enhanced.

Code of Ethics	Date of Establishment	Contents
Ethics Charter	2003. 6. 2	Basic policies of ethical management
Ethical Rules	2003. 6. 2	Direction of practicing the ethics charter
Code of Conduct	2003. 6. 2	Basis of judging values and specific criteria for conduct
Code of Conduct Operation Guidelines	2006. 4. 18	Detailed operation criteria for code of conduct
Officers' Integrity Contract Regulations	2007. 12. 27	Regulations on the responsibilities of officers in case of violation of the obligation of integrity
Regulations on the Protection of Public Interest, Whistleblowing, and Compensation	2005. 9. 30	Prescribing the methods and procedures for reporting corruptions
Criteria for Conduct for Contract with Foreign Companies	2009. 9. 15	Criteria for ethics for contract with foreign companies

● Ethical Management Activities

STEP(system for total ethics management performance)

KDHC is promoting strategic ethical management pursuant to the sustainable management strategies established in 2007. By operating STEP (system for total ethics management performance), we have successfully completed the ethical management tasks for each of the 37 fields and 36 fields in 2008 and 2009, respectively. In addition, to strengthen employees' ethical capabilities, KDHC conducted ethics and anti-corruption training for 882 and 582 employees in 2008 and 2009, respectively.

UN Global Compact Activities

Since joining the UN Global Compact in 2007, KDHC has been endeavoring to observe and spread the 10 principles of UNGC. To disclose the results, KDHC registered the COP (communication on progress) report in the UNGC website in December 2008 and December 2009.

Strengthening Ethical Management

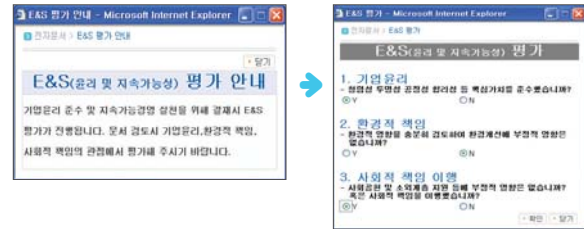
Since March 2008, KDHC has been operating the "management ethical message" system through which officers draw up and spread ethical messages each month. With this, KDHC

strengthened the top management for the institutionalization of an ethical corporate culture. In addition, KDHC has been operating the officer integrity contract system.

Establishing and Operating the IT-based Ethical Management System

In October 2008, KDHC started implementing the E&S (ethics and sustainability) decision-making system to assess the status of fulfilling corporate ethics, environmental responsibilities, and social responsibilities in the document approval process. With this system, a total of 603 cases were assessed until 2009. As such, KDHC is spreading the ethical paradigm in all areas of work.

● E&S system popup for electronic approval



Spreading Ethical Management

To strengthen the ethical management network and spread ethical management to partner companies, KDHC is organizing and conducting ethical training for the employees of partner companies and sustainable win-win workshop. On New Year's Day and Chuseok, we send out CEO's integrity letters to partners. Moreover, we returned 11 presents to partner companies to lead the establishment of a wholesome trading culture. In addition, KDHC awarded 5 employees (1 in 2008, 4 in 2009) for meritorious services in the establishment of ethical management. Furthermore, KDHC is operating the integrity contract system, expanding the e-procurement system, and assessing the ethical qualities for employees' promotion.

Observing Laws and Agreements

KDHC is strictly observing the Labor Standards Act, labor-related laws, ordinances and company rules, and contents of the ILO agreement. As such, there has never been a violation of laws in relation to child labor and forced labor. In the mean time, KDHC, based on the code of ethics, prohibits illegal donations or provision of fund to cover the expenses to political parties, politicians, and electric candidates.

R&D

● Activating R&D to operate infrastructures

KDHC has operated the R&D infrastructures to secure core technologies. In addition, we are securing intellectual property rights and R&D achievements based on the principles of selection and concentration. To perform R&D activities continuously for the expansion and distribution of integrated energy, KDHC is investing 1% of its sales in R&D. Beginning 2010, we are gradually increasing the percentage of independent and joint research. For projects completed from research, the feasibility of practical application is reviewed. At present, 14 out of the 27 target cases have been reviewed. In 2010, KDHC organized a contest for research projects targeting all employees and fieldwork divisions. As a result, a research project was presented before the R&D Committee and was finally confirmed.

▼ Result of Reviewing Practical Application Feasibility in 2009

Plan	Result	Practical application completed			
		Application	On-the-job improvement	Follow-up research	Subtotal
27 cases	First half	4	5	2	11
	Second half	3	–	–	3
	Total	7	5	2	14

To secure intellectual property rights, KDHC is reviewing whether the research outcomes are subject to the registration of intellectual property right. After the review, patent application is requested according to the possibility of registration. After correcting the specifications for patent application according to the request for opinion submission by the Korean Intellectual Property Office, intellectual property rights are acquired as intangible assets.

Patent Application (2009)	(Application completed) 1 : Combined stationary unit for turbine
	(Application in progress) 4 : Integrated piping system for apt. and residential buildings Development of condensing boiler for co-generation Ice slurry supply system with mixing tank Biogas harmful substance reduction fuel mixing system

▼ Intellectual Property Rights (as of Dec. 31, 2009)

(unit : case)

Classification	Previously Held	Application in Progress	Total
Patent	21	5	26
International patent	–	3	3
Utility model registration	3	0	3
Copyright	105	3	108
Trademark	14	–	14
Total	143	11	154

● R&D Roadmap Implementation

In 2009, KDHC implemented the roadmap and established R&D plans for integrated energy technology improvement. The 3-step mid- to long-term R&D plans that pursue research centering on field operations, secure independent research capabilities, and promote efficient research execution shall adhere to the roadmap when selecting research projects per each year.

▼ Organization: Technology Research Center



Environment

Green energy of our nature

The environment is the top priority for the sustainable future of our planet. KDHC is protecting the environment, the future assets, With new and renewable energy and clean energy.



Mission and Strategic Tasks

Guided by the goal of implementing the advanced environmental management system, KDHC shall contribute to realizing low carbon, green growth by actively undertaking the new and renewable energy business, minimizing the environmental impacts, and responding to UNFCCC.

Key Issues

● New and Renewable Energy Business

KDHC is promoting the new and renewable energy business using woodchip, RDF, waste incineration heat, and LFG. By 2022, we aim to replace 12.1% of the total energy supply with new and renewable energy.

● Response to Climate Change

To secure CER in preparation for the post-Kyoto era, KDHC is actively participating in CDM and K-CDM projects. We are practicing emission load management in accordance with the total air pollution load management system. Our Daegu and Cheonju offices have been equipped with denitrification facilities.

● Practicing Green Growth for Low Carbon Society

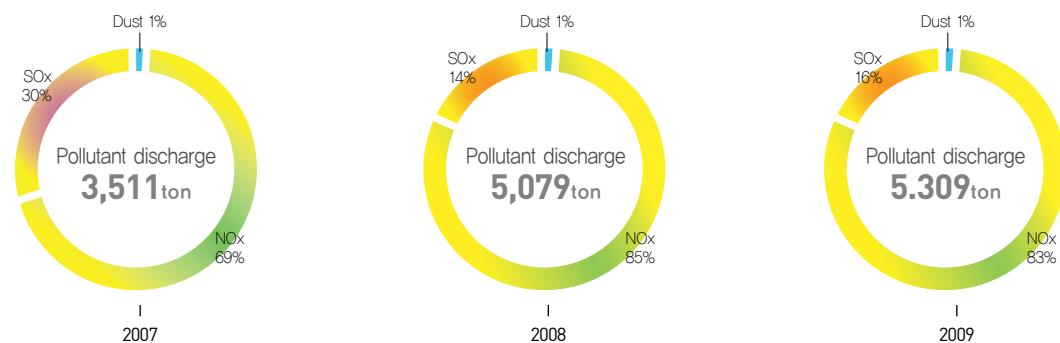
In 2006, KDHC implemented the greenhouse gas inventory as the first among public enterprises to do so. In addition, we are actively participating in efforts to reduce greenhouse gas.

Major Achievements

▼ Energy Use and Production

Classification		Unit	2007	2008	2009
Electric power consumption	Self-consumption	MWh	82,655	157,641	152,751
	Electricity reception from KEPCO	MWh	132,727	140,334	157,038
	Total	MWh	215,382	297,975	309,789
Electricity production		MWh	820,798	3,358,802	3,258,153
Heat energy production		1,000 Gcal	10,602	11,201	11,593

▼ Air Pollutant Discharge



Low Carbon, Green Growth System

KDHC is continuously promoting and expanding the advanced environmental management system to realize low carbon, green growth. Our organization has been structured for the efficient delivery of environmental management guidelines and systems as well as for systematic enterprise-level environmental management through close cooperation between the Climate and Environment Team of the head office's Technology Headquarters and environmental divisions of each branch.

Environmental Management System (ISO 14001)

To realize the vision of "promoting the environment-friendly energy business to secure the future growth engine," KDHC has been operating the certified environmental management system (ISO 14001) since 2009 in the head office and 10 branches. While conducting internal environmental review each year according to the ISO 14001 standard, we receive follow-up management and renewal reviews by external organizations. In addition, for the successful operation of the environmental management system, KDHC is internally conducting environmental impact assessment once every three years -- even though it is not subject to the mandatory environmental impact assessment -- to assess the direct and indirect impacts on the environment of the various activities carried out within our business premises. As a result of our efforts, there has never been any violation of the environment-related laws or fine imposition.

▼ Goal and Strategies

Vision	The Best Environment-friendly Energy Company		
Goal	Environment-friendly and preventive environmental management		
Strategies	To introduce the advanced environmental management system	To minimize environmental impact	To handle UNFCCC through business diversification
Tasks	<ul style="list-style-type: none"> · To expand the environmental management system continuously · To promote environmental cost accounting · To expand green procurement · To conduct environmental training continuously 	<ul style="list-style-type: none"> · To minimize the environmental pollutant discharge · To operate strict internal control criteria · To introduce the water recycling system · To expand resource recycling 	<ul style="list-style-type: none"> · To distribute district cooling and heating · To expand the new and renewable energy business · To participate in the greenhouse gas reduction business registration · To participate in the CDM (clean development mechanism) project

Operating Environment-friendly Facilities

To respond actively to the government's green growth policy, KDHC has introduced environment-friendly, high-efficiency facilities to enhance its competitiveness. First, we increased economic efficiency by turning unused energies into resources through the application of the heat pump to the cooling water system. In the past, the main cooling water system used low-temperature water; hence the low efficiency. Note, however, that the application of the heat pump enabled high-temperature water use and consequently high-efficiency operation. This translated into additional heat production by 16,000Gcal a year. Second, we are promoting the development of condensing boiler for co-generation to recover potential heat by condensing the vapors contained in the boiler exhaust gas using the recovered water in district heating. Third, we are saving on the cost of water for co-generation by introducing the wastewater recycling system. Finally, for the construction of a green & clean heat transportation pipeline, we are increasing the use of the green pipe for supply and return through a single line. Compared to general pipes, the green pipe reduces CO₂ by 26%, NO_x by 21%, and SO_x by 43%; thus contributing to the reduction of environmentally harmful substances.

Environmental Accounting

Environmental accounting is a standardized procedure for estimating the cost and benefit of minimizing the environmental impact; this is a way of delivering reliable environmental information to the stakeholders. KDHC is practicing environmental accounting for transparent environmental management. To control environment-related expenses more efficiently, KDHC is calculating the environmental cost annually based on the environmental

accounting management guidelines.

As the basis of estimation, the environmental cost accounting guidelines of the Ministry of Environment are applied. Consisting of environmental cost, follow-up management activities include the maintenance cost of environmental facilities (depreciation and operation), prevention activities, the environmental management and R&D cost, stakeholder activities, the external operation and publicity cost, and handling laws and regulations, the environmental surcharge.

▼ Environmental Accounting Cost

(unit: KRW million)

Classification	2007	2008	2009
Follow-up management activities	7,975	8,788	8,880
Prevention activities	7,018	12,046	10,299
Stakeholder activities	4,676	3,124	2,765
Cost of handling laws and regulations	29	40	53
Total	19,698	23,998	21,997

Diverse Environmental Education Program

To respond promptly to new environmental issues and laws and to obtain environmental expertise of high standard, KDHC is providing diverse educational programs to environmental officers and employees. To strengthen competencies in the environmental fields, we are conducting practical training on a regular basis. For fields requiring specialized skills and knowledge, we are arranging consigned training by external organizations. In addition, through training, we are providing opportunities to share facility operation know-how between the head office and branches. In 2009, we offered a new and renewable energy expert training course to

▼ Environmental Education

External Education

- KEMCO
 - Training and developing greenhouse gas field experts (corporate inventory field expert training)
 - Supplementary training for greenhouse gas reduction performance verification experts
- MK Business News
 - Carbon management strategy expert course
- Various seminars such as the regular forum of the National Society of CDM Research
- Korean Standards Association
 - ISO 14001 internal examiner and certification reviewer development course
- Korea Power Learning Institute
 - Combustion management practice class, power generation water treatment practice class
 - Water quality management practice class, air quality control practice class

Internal training

- To improve practical abilities in environmental management
- Seminar for officers handling the total air pollution load management system in the metropolitan regions
- Training to improve occupational competencies in the environmental fields

increase the competencies of employees in the new and renewable energy fields. In addition, we organized a seminar by inviting experts in the field, such as RPS. Through training sessions and seminars held in and outside the company in relation to climate change, we are promoting information exchange and improving the qualities of the handling staff.

▼ Environmental Goal and Promotion Results

Environmental Goal	Detailed Goal	Unit	2007	2008	2009
Continuous expansion and distribution of district cooling and heating	Promoting heat supply expansion	1,000 households	944	1,025	1,095
	Separate disposal of domestic wastes	kg/person · day	115.1	112.7	114.6
Reduction of domestic wastes	Minimizing food waste generation	g/person · day	19.5	19.8	20.0
	Promoting the installation of chrome yellow reduction facilities in Hwasong Branch	-	Basic design	Installation completed	-
Minimizing pollutant discharge	Installing denitrification facilities in the Daegu and Cheongju Branches	-	-	Basic design	Installation completed
	Installing wastewater recycling facilities	-	-	Reviewed	Feasibility study
	Greenhouse gas reduction, promoting CDM	-	2 registered	4 in progress	1 registered
	Purchasing computer items with high energy consumption efficiency	-	Purchased	Purchased	Purchased
Encouraging energy saving by users	Guide to rational heat use methods	명	795	874	743
Increasing the environmental awareness of all employees	Conducting environmental education	회	2	2	2
Enhancing the environmental image	Environment-friendly publicity activities	회	222	285	257
	Introducing energy-saving methods and environment-friendly businesses	명	1,000	621	2,043
Purchasing environment-friendly products	Encouraging environment-friendly product supply	백만원	921	341	1,137

Response to Climate Changes

Under the climate change response vision of “realizing a world of happy energy through low carbon, green growth,” KDHC is carrying out diverse activities to minimize greenhouse gas emission.

Implementing the Greenhouse Gas Emission Estimation System

In line with international standards, KDHC has implemented the greenhouse gas emission estimation system, secured its reliability and objectivity through third-party verification, and consequently secured the basis for substantial greenhouse gas reduction activities. Greenhouse gas information including greenhouse gas emissions is listed in KDHC’s website.

▼ Greenhouse Gas Emission Status



Establishing the Greenhouse Gas Reduction Roadmap

In preparation for the risks of climate change according to the mandatory greenhouse gas reduction, KDHC organized a climate and environment TFT in November 2008 and established composite plans to handle climate changes. In addition, based on the previously implemented greenhouse gas emission estimation system, KDHC has completed the establishment of the greenhouse gas reduction roadmap by analyzing the greenhouse gas reduction potentials following the introduction of greenhouse gas reduction technologies and policies.

Greenhouse Gas Reduction Activities

To prevent global warming, KDHC is continuously promoting the energy efficiency improvement business through co-generation and new and renewable energy business using solar power (heat), biomass, and landfill gas. KDHC has registered 3 each of the K-CDM and CDM businesses.

▼ Composite Plans to Handle Climate Change

Field	5 tasks	25 practical tasks
Low carbon	Base implementation	① Preparing measures to handle the government’s climate change policies ② Implementing the greenhouse gas emission control system ③ Disclosing greenhouse gas emission info. ④ Implementing the operation process for low carbon, green growth ⑤ Establishing carbon asset management strategies and advancing the cap & trade system
	Greenhouse gas reduction	① Assessing the potential greenhouse gas reduction amount ② Setting the sustainable voluntary reduction goal ③ Diversifying fuels for low carbon, green growth ④ Actively promoting the CDM business ⑤ Introducing the cap & trade system within the company ⑥ Reducing greenhouse gas emission by demand control
Green growth	Expansion of the 6 R&D fields	① Developing new and renewable energy technologies, practical application of the developed technologies ② Advancing the technology of using fossil fuels ③ Developing energy efficiency improvement technologies, practical application of the developed technologies ④ Developing technologies to expand and distribute district heating ⑤ Securing CO2 collection and storage technologies ⑥ Developing hydrogen and fuel cell application technologies
	Expansion of the 5 businesses	① Advancing the district heating business ② Implementing the basis for the district heating business ③ Promoting the expansion of the new and renewable energy business ④ Implementing the basis for overseas market entry ⑤ Discovering overseas CDM businesses
	Education and publicity	① Implementing counter-strategies for policy connection (government/academe/business, etc.) ② Developing climate change handling, cap & trade, and CDM experts ③ Publicizing the low-carbon image of district heating (activating the carbon neutral program, international publicity, children’s charter education) ④ Enhancing the low-carbon awareness of all employees and encouraging the practice of energy saving (pursuing the tentatively dubbed “Stop CO2” campaign)

Environment-friendly Management

For air pollutant control, KDHC is installing and operating the stack TMS to measure pollutant discharge on a real-time basis. The discharged pollutants are measured, and the data are sent to the head office and Korea Environment Corporation for monitoring. In addition, to reduce air pollutants discharged from power plants, KDHC is operating low NOx burners, flue gas denitrification facilities, electric dust collectors, and flue gas desulfurization facilities. In preparation for the enforcement of the Clean Air Conservation Act wherein the allowable level of air pollutant discharge will become stricter, KDHC has installed denitrification facilities in the Daegu and Cheongju Branches. KDHC assures the prevention of soil contamination due to oil leak from fuel storage facilities. A total of 7 branches including the Bundang Branch are equipped with low sulfur oil, bunker C oil, and light oil tanks. Thanks to continuous safety check, we have yet to experience an incident caused by fuel leak. In the mean time, the wastewater generated in the courses of heat · electricity production, deionized · soft water production, and denitrification facility operation is appropriately treated at wastewater treatment plants using physical and chemical methods. Waste with safe water quality is then discharged.

Environment-friendly and Preventive Environmental Management

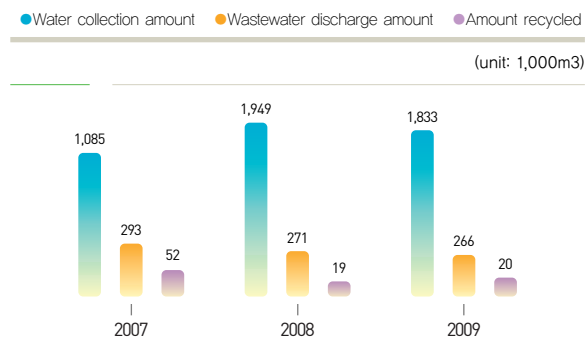
Laws concerning water quality such as the Water Quality and Ecosystem Conservation Act are strengthened. In addition, the combined cycle plant in Hwaseong has been completed. Therefore, the need for strict system water quality control is raised. KDHC installed the general chemical laboratory in 2009. In addition, KDHC obtained KOLAS certification in the water quality analysis category as the first among public enterprises to do so. By operating our own test laboratory, we have secured the testing and analysis capacities. Moreover, it produced the effect of lowering the analysis cost and period. KDHC is recycling water resources to respond actively to regulations and to prevent the discharge of water pollutants. In particular, we are planning to install a sewage discharge water recycling facility in our Yongin Branch. In the future, we shall further expand the resource saving and recycling businesses.

As part of our preventive environmental management activities, we are estimating the effects of energy saving and environmental improvement produced by district heating compared to individual heating. The amount of energy saving in 2009 was 983,000 TOE (25%). We also recorded greenhouse gas reduction of 5,343,000 tons (45%).

▼ Water Quality

Item	Branch	Unit	Allowable Discharge Level	Internal Control Criteria
COD	Gangnam, Cheongju, Hwaseong, Yangsan	mg/ l	130	20
	Suwon, Yongin	mg/ l	90	20
	Daegu	mg/ l	40	20
SS	Gangnam, Cheongju, Hwaseong, Yangsan	mg/ l	120	20
	Suwon, Yongin	mg/ l	80	20
	Daegu	mg/ l	30	20
pH	All branches	-	5.8~8.6	6.5~8.0
N-Hexane	All branches	mg/ l	5	1.5
T-N	All branches	mg/ l	60	40
T-P	All branches	mg/ l	8	6

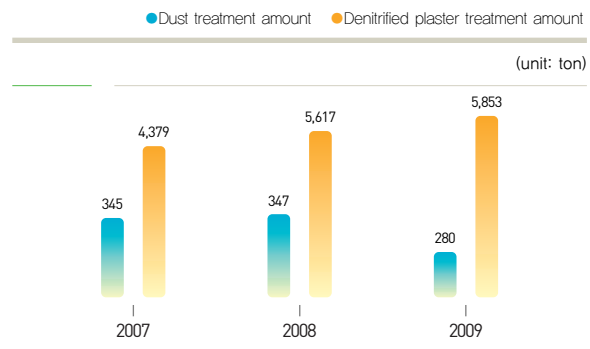
▼ Water Resource Management



Recycling Wastes and Byproducts

The wastes generated by KDHC are dust produced after heavy oil combustion and sludge generated in the process of wastewater treatment as well as waste oil, waste insulator, and waste synthetic resin generated in the process of facility repair. KDHC is appropriately treating these wastes according to the Wastes Control Act. In particular, dust and plaster as the byproducts of denitrification are recycled from the entire quantities; thus contributing to resource saving. The 280 tons of dust generated by all of our branches in 2009 is being recycled as supplementary fuel in cement manufacturing. The entire quantity of denitrified plaster is also used as ingredient for cement.

▼ Waste Treatment and Recycling



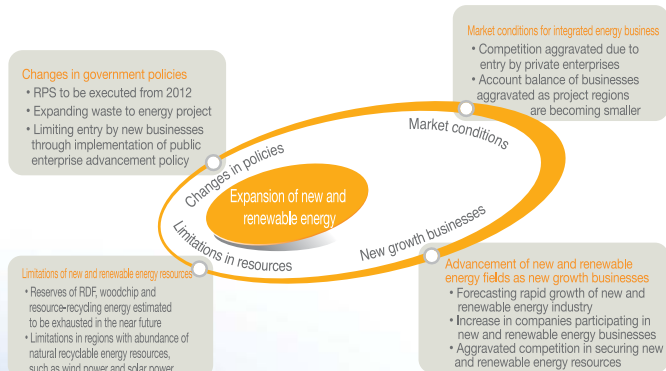
New and Renewable Energy

Guided by the goal of expanding the distribution rate of new and renewable energy out of the total energy production, KDHC produced 2.33% of electricity and 16.11% of heat from new and renewable energy in 2009. This is tantamount to replacing 202,940 TOE of petroleum import and is equivalent to 616,870 tons of CO2 reduction per year. By 2022, KDHC will increase the percentage of new and renewable energy out of the total energy production to 12.10%.

New and Renewable Energy Strategies

The new and renewable energy promotion strategies center on the active response to the government's green growth policy, expansion and distribution of new and renewable energy, continuous development of new and renewable energy sources that can be linked to integrated energy, and R&D for business promotion. In particular, for the expansion of new and renewable energy, KDHC has set priorities in securing energy resources; therefore, it is endeavoring to secure competitive power through specialized resource development. Waste incineration heat and LFG are new and renewable energy sources that are cheaper in terms of production cost than LNG. RDF and woodchip are economically efficient, and they can be linked to the integrated energy business. Wind power and marine energy as means of RPS fulfillment are low in electricity production cost. Fuel cell and solar power have high growth potentials according to the technology levels.

▼ New and Renewable Energy Business Environment



Government's Green Growth Policy

Actively responding to the government's new and renewable energy expansion policy, KDHC is contributing to green growth by expanding the new and renewable energy distribution. By faithfully fulfilling the government's 1st RPA (Renewable Portfolio Agreement, 2006~2008), KDHC became the only RPA organization to achieve the target investment. In addition, by investing approximately KRW 131.8 billion through participation in the 2nd RPA (2009~2011), KDHC shall produce approximately 9.37% of the overall energy production as new and renewable energy. In preparation for the RPS (Renewable Portfolio Standard) to be put into effect in 2012, KDHC has established basic new and renewable energy plans and organized the Green Growth Committee to discover new and renewable energy businesses.

▼ Green Growth Committee



Integrated Energy Business Using New and Renewable Energy

The integrated energy business using new and renewable energy as promoted by KDHC focuses on the expansion and distribution



of both integrated energy and new and renewable energy; therefore, it is in line with the government's energy policy. In 2009, we have additionally secured waste incineration heat from the Cheongju, Pangyo, and Eunpyeong incineration plants. In addition, a woodchip new and renewable energy facility will be completed in November 2010 in Daegu. As such, the percentage of using new and renewable energy is being expanded continuously. In June 2009, KDHC has completed the sewage heat recycled energy facility in Yongin and developed the unused energy of sewage treatment water as energy for heating. As a result, 2% of the district heating energy in Yongin City comes from sewage heat energy.

In relation to the waste to energy project in Daegu, KDHC is devising ways of diversifying the project promotion methods by developing the private investment business model as the first among public energy enterprises to do so. Following the closing of the Seongseo Incineration Plant, which accounted for 18.22% of heat production in the Daegu Branch, KDHC is participating in the project to secure alternative heat source using the BTO (build-transfer-operate) method. In 2009, the feasibilities of the BTO project model and RDF co-generation facility were reviewed. Afterward, by forming a consortium with POSCO, etc., KDHC concluded an agreement for the joint promotion of the BTO project. In addition, for precision analysis and risk control for the BTO project, KDHC received consulting from external experts and from an accounting firm.

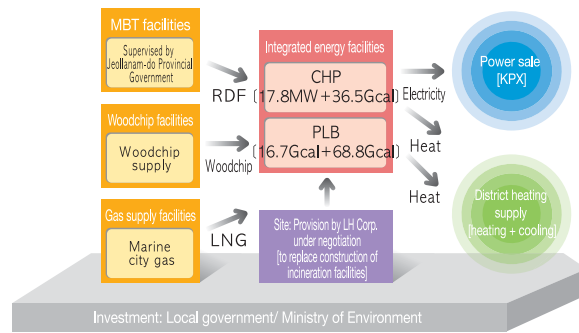
Discovering and Expanding the New and Renewable Energy Business

Participating in the government's waste to energy project, KDHC is using 600 tons/day of domestic wastes generated in the 6 areas of Gwangju and Jeollanam-do as energy sources. In addition, we are promoting the domestic waste to energy project in Daegu and the happy city RDF project. To make woodchip fuels, we secured 11,500 tons of woodchips in 2009 through collaboration with Gyeongsangbukdo Development Corporation. By establishing annual plans of woodchip use, KDHC will utilize 123,000 tons of woodchips per year after 2013. For the biogas business, we have concluded an MOU in May 2010 with the Nanji Water Recycling Center, and we shall complete the facility in 2011. In terms of the wind power business, we have concluded an agreement with Jeollanam-do in 2009 for cooperation in investment in the 5GW wind power project. To expand solar power generation, we shall install photovoltaic power generation facilities in our branches in 2010 and start operating the facilities in 2011. For the fuel cell business, we are planning to secure project sites where the price of LNG supply is low.

KDHC is improving related systems for the expansion of the new and renewable energy business. First, in relation to the RDF business in Gwangju, we have proposed the RDF quality criteria

and consequently enhanced the efficiency and economic value of the RDF power plant. In addition, we have consulted related organizations such as the Ministry of Environment on the ways of using waste wood for successful woodchip procurement. In 2008, KDHC improved the restrictions on RDF use in areas where the use of clean fuel is mandatory.

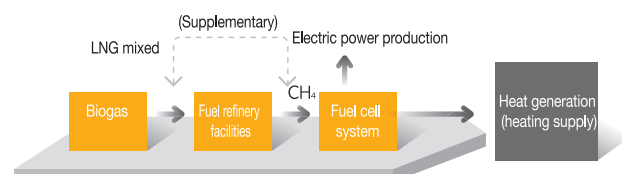
▼ Energy Supply Plan to Gwangju Innovative City



R&D for New and Renewable Energy

In accordance with the increase in production cost due to the rise in oil price, fuel diversification and procurement of energy sources by discovering new and renewable energy sources have become important issues. As such, KDHC is attempting to improve the applicability and economic efficiency of integrated energy by securing the technological basis of the new and renewable energy business. At the same time, we shall implement the mid- to long-term technological roadmap for systematic new and renewable energy R&D and invest a total of KRW 53.1 billion until 2017 in 5 of the new energy (fuel cell, IGCC) and recycled energy (waste, bio, solar heat) fields. Our major achievements in 2009 were the development of and patent application for the fuel cell system using biogas. With this, we have secured economic efficiency as well as the basis for our business promotion. To respond to RPS and fuel diversification, KDHC is discovering unused new and renewable energy sources and reviewing applicability. Integrated gasification combined cycle (IGCC) involves a number of heat exchanges to discard waste heat during the gasification process. Therefore, this technology maximizes the efficiency of district heating. In addition, we have analyzed the possibility of creating fuel out of the wastes generated during bio fuel production using agar-agar. Currently, KDHC is analyzing the possibility of using waste heat generated from landfills in the metropolitan regions and promoting the development of related technologies.

▼ Biogas Fuel Cell System



Stakeholder

Happy energy of our society : Employees

Employees are the future of KDHC.

KDHC shall practice sustainable management
by creating a happy workplace of
harmonious balance between work and personal life.

Based on a relationship of trust,
KDHC is securing the foundation for sustainable growth.



Mission and Strategic Tasks

Guided by the goal of maximizing the value of the company through the optimal use of human resources, KDHC is accomplishing strategic tasks such as developing world-class human resources, practicing HR management centering on abilities and performances, and supporting diverse welfare systems.

Key Issues

● Childcare and Women's Health

KDHC is operating the maternity protection leave system, maternity protection rest area, and childcare facilities it has implemented.

● Fairness of the HR System

For education and promotion, all employees are given equal and fair opportunities according to their competencies and qualifications. KDHC has reestablished the reward criteria according to achievements and contributions. In addition, the directions of HR assessment system improvement have been established.

● Balance Between Work and Personal Life

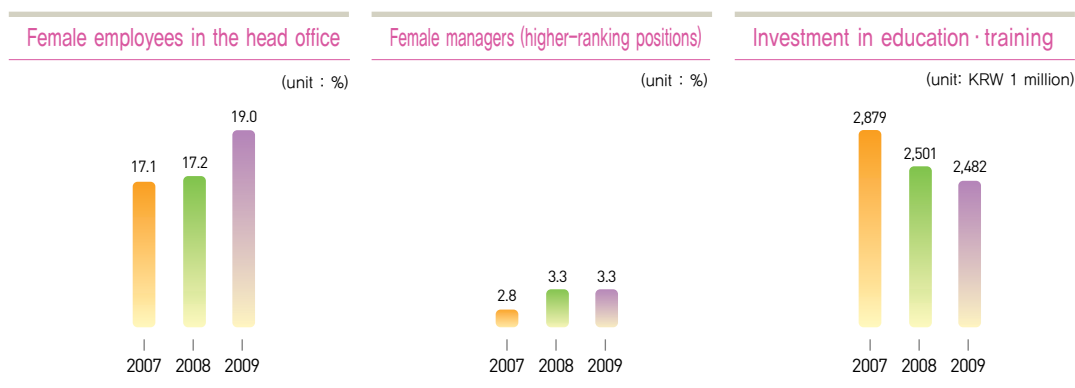
KDHC is operating a variety of welfare programs for stable living, healthy living, and family-friendly welfare support. The focus is on improving the quality of life by offering employees a selective worker welfare system, a health improvement program, etc.

● Employee Training and Self-development

KDHC has established strategies to draw out and develop core competencies in accordance with the mid- to long-term management strategy (Happy Energy 2015) in response to the changes in the management conditions. Based on these strategies, KDHC is operating expert development programs.

Major Achievements

▼ Percentages of Female Employees · Female Managers in KDHC and Investment in Education · Training



Securing Human Resources

As of the end of 2009, a total of 1,132 employees including 5 officers are working in KDHC. Of them, 1,127 are full-time employees (99.6%), and 5 are irregular staff (0.4%). In terms of gender, 1,021 are male (90.2%). To achieve balance in human resources, KDHC is gradually increasing the number of female employees. The turnover rate in KDHC is very low at 0.53%. The average length of continuous service is 10 years and 1 month.

Recruitment Based on Social Equity

KDHC is continuously carrying out recruitment based on social equity, which has brought about a significant change in the employment market of Korea. For the first time in Korea, KDHC proactively pursued employment based on social equity targeting the injured for the righteous cause and their families, society leaders, low-income class, people from rural villages, disabled, patriots, and veterans. By simultaneously carrying out general recruitment and recruitment based on social equity, KDHC not only prevents repeated applications but also secures fairness in the recruitment process. As such, KDHC is fulfilling its social responsibilities as a public enterprise.

▼ Status of Recruitment Based on Social Equity

Classification	Recruitment based on Social Equity			General Recruitment and Recruitment of Experts		
	2006	2007	2009	2006	2007	2009
Recruited Count	55	34	16	53	37	33

Securing Outstanding and Qualified Human Resources

In line with the directions of mid- to long-term development, KDHC establishes core and expert HR recruitment and development plans and endeavors to secure outstanding specialists. In particular, to solidify its competitive position as a company specializing in integrated energy, KDHC focuses on securing experts in the fields of electric power, cooling, new and renewable energy, overseas market entry, R&D, and environment. To secure outstanding and qualified human

resources, KDHC strengthens the personality · aptitude test, improves the written examination process, and carries out interview screening such as in-depth interview and interview by external experts. As a result of our efforts, we have further increased the fairness and efficiency of the recruitment process. In recruiting human resources, KDHC is endeavoring to provide equal opportunities to all people. We abolished the recruitment conditions of academic background in 2004, age in 2005, and language test results in 2006. In addition, we are operating the target recruitment system for women, people from local areas, and science · engineering students. At the same time, KDHC is giving preferential treatments to engineers, PhD holders, and people holding certifications.

▼ Employee and Officer Composition

(unit: persons)

Classification		2007	2008	2009	
Employment	Officer Count	5	5	5	
	Employee Count	1,099	1,091	1,127	
	Total Employee and Officer Count	1,104	1,096	1,132	
	Gender	Male	995	989	1,021
		Female	109	107	111
	Employment Type	Full-time	1,099	1,091	1,127
		Irregular	5	5	5
	Per Job Group	General	55	59	57
		Clerical	249	242	240
		Technical	786	778	820
Average Term of Continuous Service		10.7year	11.1year	10.1year	
Recruitment	Recruited Count	71	-	49	
Turnover	Turnover Rate	0.45%	0.46%	0.53%	

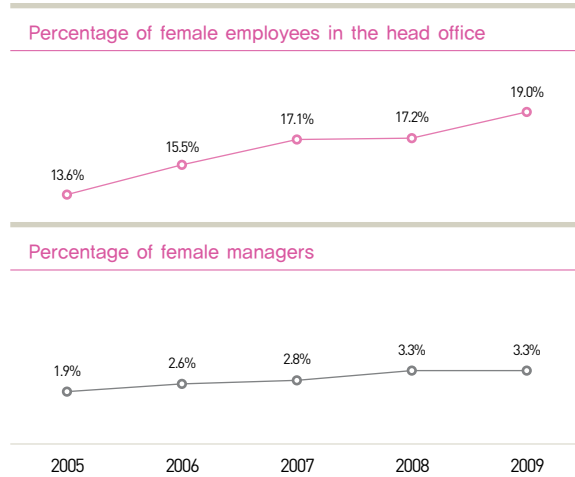
Gender Equality Support System

To promote gender equality, maternity protection, and environment for achieving balance between work and personal life, KDHC is implementing and operating various supporting systems. In other words, we are gradually increasing the appointment of female employees to key divisions and promotion of women to higher-ranking positions. KDHC has proactively improved the maternity protection leave system and operated the maternity protection rest area and childcare facilities. In recognition of its efforts, KDHC was awarded a prize by the Minister of Gender Equality and Family in July 2009.

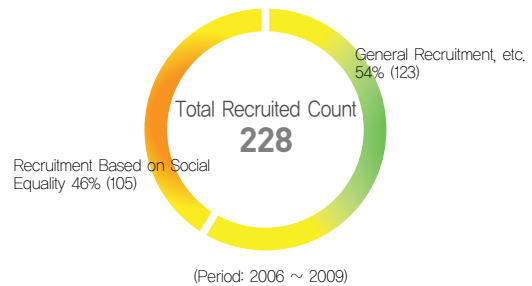
Resolving Youth Unemployment and Operating the ECO Service Team

To resolve the social problem of youth unemployment and to support job seekers from the low-income group, KDHC recruits youth interns aside from organizing the ECO Service Team. In 2009, we recruited 80 interns, which is twice the number prescribed by the government. For the ECO Service Team, we have recruited 50 people per stage and assigned them to the user and customer contact service fields. In 2009, the ECO Service Team was operated with 48 people from the local communities. As such, the ECO Service Team is contributing to the creation of jobs for the local communities. As the first public enterprise to do so, KDHC funds job creation activities with employees' voluntary wage return and reduction of expenses through labor-management agreement, based on which KDHC proposed a model for job creation with substantial effects.

▼ Assigning Women to Key Divisions and Increasing the Promotion of Women to Higher-ranking Positions



▼ Status of Recruitment Based on Social Equality



Employees' Self-development

KDHC endeavors to develop specialists capable of leading and responding to changes in the management conditions, such as the aggravated competition over the integrated energy business and changes in the business structures. As such, KDHC is operating expert development programs by establishing strategies to draw out and develop core competencies in accordance with its mid- to long-term management strategy of "Happy Energy 2015."

Developing Experts

KDHC develops and operates expert development programs per stage and field centering on the 10 core competencies in 9 fields. In particular, KDHC is providing educational programs to obtain new technologies and knowledge and to apply them to its businesses for the effective handling of UNFCCC, stable operation of medium- to large-scale electric power businesses, and strategic promotion of the new and renewable energy business.

▼ 10 Core Competencies in 9 Fields

Strategic Tasks of Management	Fields	10 Core Competencies
Strategic business system implementation	Business development	1. New business promotion competencies (business feasibility analysis)
	Electric power	2. Efficient electric power trading competencies
Environment-friendly new market implementation	Environment	3. UNFCCC handling competencies
	Business development	4. Competencies for the new and renewable energy business and cooling business
Core technology system implementation	Electric power	5. Technological competencies for power plant design, construction, and maintenance
	Heat piping	6. Competencies for piping technology advancement
	Heat source management	7. Competencies for the economical operation of heat source facilities
Creative customer satisfaction	Customer satisfaction	8. Customer handling and technological support competencies
Progressive organization culture	Administration	9. Competencies for the effective management of human resources (leadership)
Global management system	management	10. Business administration analysis and management competencies

● Internal consultant training



● Level-up training



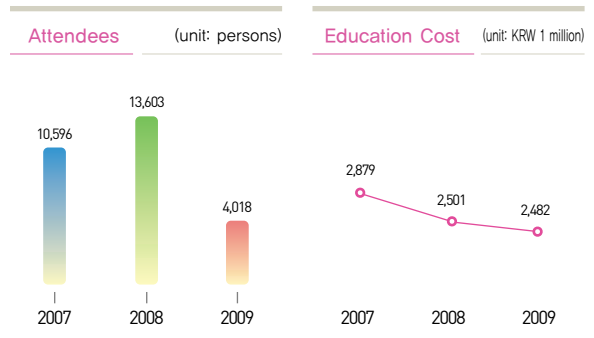
▼ Education Contents and Persons to Complete Education Courses

(unit: persons)

Classification	Contents	Attendants	
		2008	2009
Occupational Basics	Mandatory course for employees consisting of position level education and occupational basics training	814	595
Performance Improvement	Business administration, finance, sales, business development, energy engineering, machine, electricity, control, construction, environment, heat piping, customer facility, R&D, electric power trading, quality control and power plant operation (repair, etc.)	8,099	6,207
Advanced Performance Improvement	Programs to develop experts per field, programs to develop future leaders	39	44
General Competencies	IT, change innovation, customer satisfaction, ethical management and labor-management relationship, etc.	4,651	4,172
Total		13,603	11,018

*2009 : Promoting qualitative improvement by organizing educational programs to develop experts per field based on core competencies

▼ 3-year Education Investments



HR System Based on Fairness

KDHC is extensively operating the multi-source feedback system to strengthen the HR management system centering on competencies and performances. As a result, KDHC has secured transparency and objectivity in HR management through multi-dimensional verification. In addition, KDHC has established an HR culture wherein fair assessment is carried out according to individuals' competencies and performances.

To strengthen the performance-based HR culture according to the team system, KDHC is organizing an open competition for position to separate between class and position. In 2006, the scope of this system was expanded to include all positions including team heads and higher. The open competition for position enabled performance-based operation. In March 2010, KDHC was selected as an outstanding case at the "Public Organization Advancement Workshop" organized by the government.

Fair HR System Operation

Observing the code of ethics, KDHC is providing equal and fair opportunities in education and promotion to all employees and officers according to their competencies and qualifications. We fairly assess and compensate for the accomplishments of employees. Discrimination in evaluation for promotion against gender, age, religion, academic background, and physical disabilities is strictly prohibited. In particular, KDHC has increased the promotion evaluation criteria for core practical personnel (class 4 manager) to enhance the professional abilities of personnel handling practical affairs. In addition, KDHC has reestablished the compensation criteria according to meritorious services and

contributions. Furthermore, KDHC has set the direction of improving the HR evaluation system and enhanced efficiency and equality in HR management through flexible HR management on a regular basis. The initial salary for university graduates in 2009 was KRW 29.02 million; this is similar to the KRW 31.38 million average initial salary of large enterprises in Korea. By applying the uniform wage system, KDHC treats all employees equally without gender discrimination.

Wage Peak System

As the first of the subsidiaries of the Ministry of Commerce, Industry, and Energy (currently known as the Ministry of Knowledge Economy), KDHC introduced the wage peak system in June 2006. Based on this system, KDHC can ensure employment stability and make use of the accumulated experiences. In addition, this system is producing the desired job creation effect.



▼ Operation Status of Open Competition for Position

Classification	2006	2007	2008	2009
Target Positions	114	119	140	127 (Decrease in positions according to merger and abolition)
Operation Criteria	Classifying positions based on relative influence, such as management performance and vision realization, difficulty, and workload	Classifying positions by adding the workload of external organizations and importance of cooperative relationship	Appointing executive-level officers to non-duty positions (team member), executing downward appointment	Increasing appointment by selection and continuously executing the non-duty appointment of executive-level officers

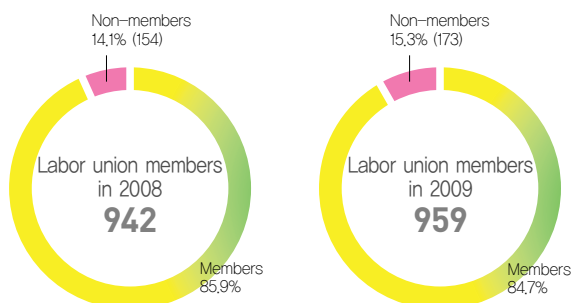
Harmonious Labor-Management Relationship

KDHC is handling labor-management relations by prioritizing legitimacy and lawfulness based on “labor-management relations with philosophy.” In particular, we are deliberating on the key issues of disputes on a regular basis to prevent unnecessary labor-management conflict. For field workers, we are operating the daily labor-management communication system at least once a week to monitor conflicts and issues in labor-management relations. As such, KDHC is endeavoring to maintain cooperative labor-management relations.

Labor Union

According to the three labor rights prescribed by the Constitution as well as the laws on labor union and labor relationship and provisions of group agreement subscription, KDHC is ensuring free union activities by members. The labor union was launched on May 24, 1993 to promote the improvement of economic position of employees such as maintenance and improvement of labor conditions. KDHC employs the union shop system wherein all employees including those in the position of associate managers and below with the exception of HR, labor affairs, and audit office staff. As of the end of 2009, a total of 959 employees are serving as union members. The rate of union members is 84.7%. The KDHC labor union is a member of higher-ranking organizations such as the “Democratic Workers’ Solidarity and Federation of Public Services and Transportation Workers’ Unions.” The labor union organization consists of 14 branches including the branch in the head office. The organizations that operate the labor union are the general assembly, board of representatives, operation committee, standing executive committee, and accounting audit.

▼ Labor Union Members



▼ Major Achievements through Labor-Management Agreement

Wage return and job sharing	Labor and management voluntarily returned wages (1~10%, KRW 600 million) and cut down expenses to raise the fund needed to employ job seekers from the low-income group.
Presenting an exemplary case of labor-management relations to represent public enterprises	Workshop for public organizations in the second half of the year organized by the Ministry of Strategy and Finance
Received prize from the government as an outstanding organization in harmonious labor-management relations	Group award by the Prime Minister organized by the Ministry of Labor

Advancing Labor-Management Relations

The labor and management of KDHC have used diverse communication channels to improve the unreasonable habitual practices and collective agreement provisions through labor-management cooperation and by observing the government guidelines. As a result, a legitimate, rational collective agreement was concluded at an earlier phase (Sept. 30, 2009). Accordingly, the labor and management have concluded wage agreements without negotiations for 3 consecutive years since 2007. Although not subject to essential services maintenance, KDHC -- as the first among public enterprises to do so -- concluded the agreement for essential services maintenance. Therefore, it has been providing stable heat supply service to the nation without the suspension of operation due to actions taken in a labor dispute. In particular, to overcome the risks of national economy and to fulfill the company's social responsibilities, all employees and officers of KDHC participated in the wage return through the labor-management agreement; the fund raised in this process was used in recruiting people from the low-income group. Furthermore, according to the government advancement plans, KDHC streamlined the organization into 2 headquarters and 2 divisions with 123 staff through a labor-management agreement. At the same time, KDHC succeeded in

improving the habitual practices in labor-management relations as well as a total of 16 collective agreement provisions concerning HR management and management rights. In recognition of such efforts, KDHC was cited as an outstanding organization in harmonious labor-management relations by the government.

Cooperative Labor-Management Relations

For employees' complaints and difficulties, KDHC is operating an ethical channel hotline for direct communication with the CEO. To help employees express their opinions freely, KDHC is organizing "Open Talk Time" with the president. In addition, we are activating communication between the management and labor union by regularly organizing talks with the chairperson of the labor union.

In the meantime, KDHC is broadcasting management presentations and monthly management meetings by implementing the internal Internet TV system. Furthermore, we have been providing education on human rights and sexual harassment prevention to 1,096 persons in 2008 and 1,083 persons in 2009. In other words, KDHC is establishing various channels and a space of education to handle the predicaments of employees sincerely and to respond actively to their interests.

By transparently sharing management information with employees, KDHC is solidifying the win-win partnership between labor and management.

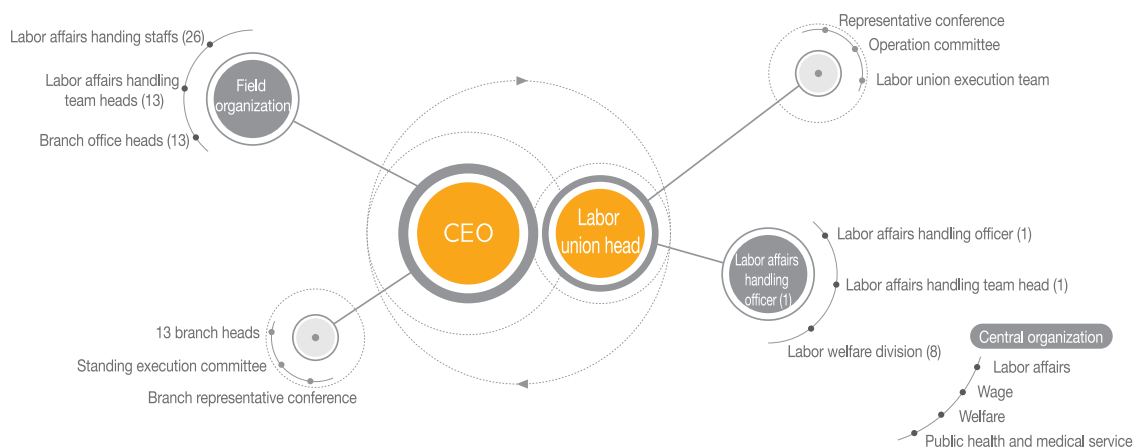
Handling Employees' Predicaments

Understanding that labor-management conflicts stem from individual conflicts, KDHC has been shifting the focus from group mechanism to issues of individual conflicts. Currently, we are identifying the causes of conflicts and difficulties through personalized service, devising solutions, and consequently enhancing the level of satisfaction in handling employees' predicaments each year.

● Management Joint Workshop



▼ Communication Network Organization



▼ Labor-Management Conversation Channels

Channel	Between the president and the chairperson of the union	HOT-LINE	Open Talks Time	Full-time communication system	Labor-management business administration talk	Labor-management cooperation talk	Labor-management joint seminar	Labor-management conference	Labor-management workshop	Labor-management development TF operation conference	Management efficiency TF conference
Organization Count	As required	As required	Bimonthly	Weekly	Yearly (14 branches)	Yearly (14 branches)	Yearly (14 branches)	4 times	2 times	monthly	4 times

Family-friendly Management

KDHC is operating diverse maternity protection programs to resolve the issue of low birth rate and to ease the burden of child rearing. Since 2007, KDHC has been continuously operating a variety of support policies such as operation of childcare facilities, provision of childbirth subsidy, operation of maternity leave system, and installation of a maternity protection rest area. In 2009, KDHC improved the maternity leave system in 2009 and increased the period of childcare leave to 3 years. The term of leave is acknowledged as part of the career period so that anyone taking childcare leave shall not be placed at a disadvantage.

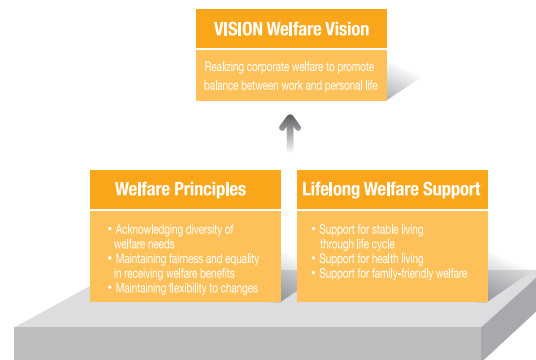
Welfare System

To realize corporate welfare that promotes balance between work and personal life, KDHC is operating a variety of welfare programs aimed at providing living support in each phase of the life course, support for healthy living, and family-friendly welfare service. In addition, we conduct a welfare satisfaction survey annually. Based on employees' diverse welfare needs, we increased welfare programs that focus on improving the quality of living such as selective workers' welfare system, childcare facilities, and health improvement program. In 2009, welfare needs per age group were reflected on our welfare satisfaction survey. As a result, the life course management welfare system was prepared alongside increasing the equality in receiving the benefits of the welfare service.

To ensure stability in life after retirement, KDHC manages retirement grants in the severance and retirement benefits account. In 2009, the allowance for severance and retirement benefits was pegged at KRW 17.3 billion. This is USD 32 of the annual labor cost, which is KRW 54.8 billion. For more systematic and stabler management of retirement grants, KDHC has purchased retirement insurance policies from 8 insurance companies. For conversion into retirement pension in 2010,

KDHC has organized labor-management joint TF and presentation for employees to form a consensus among them.

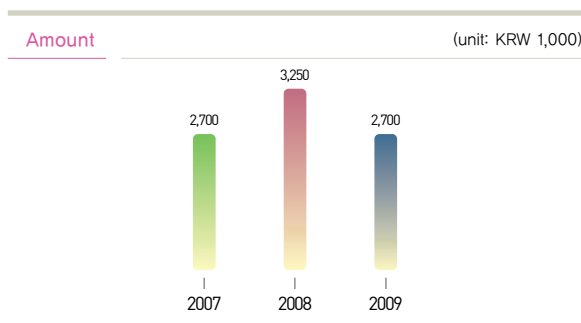
▼ Life Course Management Welfare System



▼ Welfare System in 2009

Classification	Details
Living stability	Loan for living stability
	Fund for children's educational expenses
	Group accident insurance and fund for medical expenses
Housing stability	Loan for housing fund
	Company house rental
Supporting leisure activities	Recreational facilities (condominium)
	Supporting hobby club operation
Family-friendly	Childcare facilities
	Family culture experience event
	Maternity protection rest area
Health management	Customized medical check
	Management program for persons with doctors' opinions
	Detailed physical strength measurement and exercise guidance by professionals
	Employee assistance program

▼ Welfare Cost per Employee per Year



Disaster and Safety Management

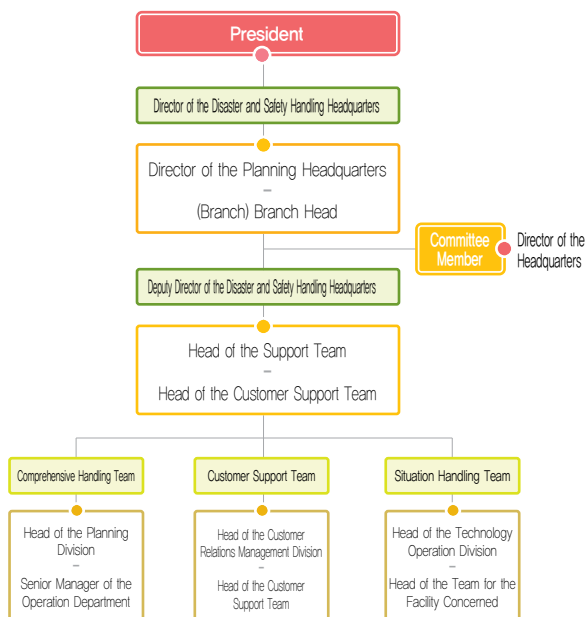


Implementing the Public Health and Safety System

Given the growing importance of safety, safety awareness is increasingly required due to the expansion of our scale. Accordingly, KDHC implemented the basis for advanced safety control activities. At the same time, we are conducting occupational training to improve the practical abilities of safety managers and enhance the safety awareness of employees and external personnel who are related to our operations. KDHC conducted safety training for 594 hours in 2008 and 536 hours in 2009. The training was also carried out for external personnel for

276 hours and 283 hours in 2008 and 2009, respectively. KDHC is realizing an accident-free workplace by carrying out safety control activities including the operation of safety talks and Safety Committee as well as the organization of events for safety check days and mock training in case of facility breakdown. To date, 5 branches including the one in Gyengsangnam-do recorded 2,100 accident-free days. In addition, 3 branches including the Mapo Branch posted 4,200 accident-free days. With the exception of a minor accident in 2005, KDHC did not experience any safety-related accident causing injuries and deaths from 2004 to 2009.

▼ Disaster and Safety Handling Headquarters



Industrial Safety and Public Health Committee

KDHC has been operating the Industrial Safety and Public Health Committee since 2006. This committee deliberates on matters concerning the establishment of industrial accident prevention plans and improvement of health of employees. In 2008, KDHC introduced the Employee Assistance Program (EAP) for the stress management of workers on shift. In 2009, we carried out detailed physical strength measurement and exercise guidance program by professionals for the purpose of reducing physical stress and preventing industrial accidents that cause cerebral and cardiovascular diseases. In the future, KDHC shall continue to operate health improvement programs to increase the health of employees and to establish a healthy organization culture.

Stakeholder

Happy energy of our society : Customers

To become a company that is continuously loved and trusted by customers, KDHC is realizing a management system that focuses on customers' happiness. KDHC shall realize customer values with outstanding quality and service.



Mission and Strategic Tasks

For the mission of customer satisfaction, KDHC as an eco-energy planner works toward becoming a company that designs and plans energy for customers' happy living. As a CS strategy, KDHC shall realize the No. 1 service and management system centering on customers' happiness. In addition, KDHC shall develop its internal staff as eco planners and machine room operators as eco consultants.

Key Issues

● Communicating with Customers (VOC: Voice of Customer)

To activate customer relations, KDHC is conducting VOC checks on a regular basis and operating diverse VOC channels. In addition, we are sharing VOC with all employees and producing feedback on VOC. KDHC is also operating a customer proposal system to reflect customers' opinions actively on its management for service improvement.

● Protecting Customer Information

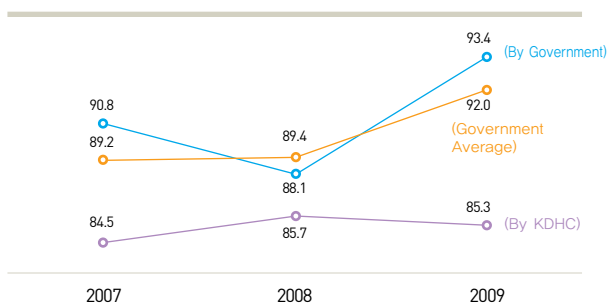
KDHC does not disclose to a third party any customer information obtained in relation to its operations. For the safe protection of customer information, we are operating the information security system including the intrusion prevention system.

● Fostering a Customer-oriented Organization Culture

To enhance service quality and customers' satisfaction, KDHC is promoting a customer-oriented mindset and developing the expertise and customer handling abilities of machine room operators. Customer participation bodies such as Open Public Enterprise Committee and Open CS Promotion Committee are also in place. In 2009, approximately 340 customers participated in our service improvement activities.

Major Achievements

▼ Result of Customer Satisfaction Survey Organized by the Government



Classification		2007	2008	2009
By Government	Average of Target Organizations	89.2	89.4	92.0
	KDHC	90.8	88.1	93.4
Independent	Customer Satisfaction Survey	84.5	85.7	85.3

Communicating with Customers

At KDHC, all employees and officers including the CEO listen to customers' voices and endeavor to reflect them on its policies. Customers can express their opinions and make suggestions anytime through online channels (Report Center, Customer Satisfaction Center) as well as through the Open Public Enterprise Committee and customer service centers in our workplaces. The received opinions are reflected on our management activities. In 2009, KDHC implemented the IT-based integrated VOC operation system. By promoting the implementation of a call center in 2010 and an online cyber branch in 2011, KDHC shall endeavor to have strategically managed customer and market information contribute to improving customer satisfaction.

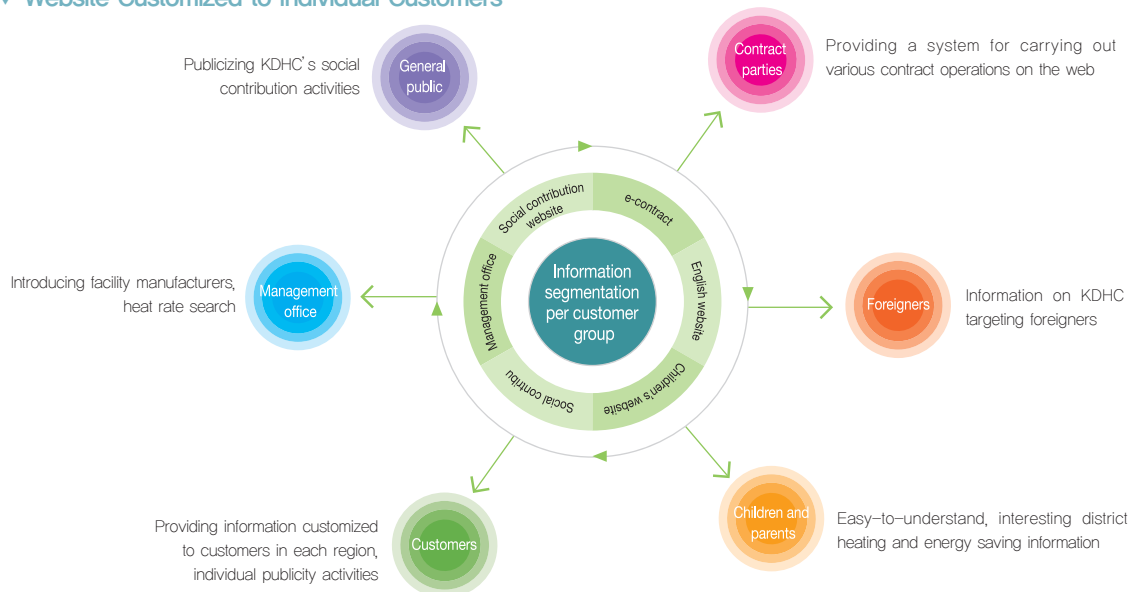
Activating Customer Relations

To strengthen communication with customers, KDHC is promptly and actively handling VOC (voice of customer). For this, we are conducting VOC checks on a regular basis and reflecting the VOC fulfillment rate on our management assessment. In addition, important VOC is shared with all employees, and feedback on the VOC is produced. The VOC fulfillment performance is checked quarterly. The results are posted in our website twice a year as feedback for our customers. As a result of its efforts, KDHC improved the rate of same-day customer consultation fulfillment from 93.8% in 2008 to 99.6% in 2009.

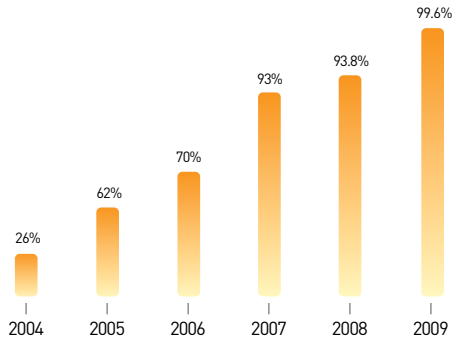
KDHC is operating the customer proposal system to reflect customers' opinions on service improvement actively on its

management activities. To activate proposals, we have shortened the processing period from 1 month to less than 15 days. Since 2008, KDHC has been organizing the annual customer proposal festival in addition to the system encouraging proposals at all times. As a result, the customer proposal count drastically increased from 50 in 2007 to 246 and 330 in 2008 and 2009, respectively. KDHC also operates a Customer Satisfaction Center consisting of customer consulting, customer proposal, and cyber report center in the website to respond to inquiries and proposals as well as receive complaints and reports of corruptions. For customers' convenience, KDHC provides the SMS service and email answering service. In addition, we give real-time feedback on the progress and completion of VOC handling.

▼ Website Customized to Individual Customers



VOC Response Rate



Providing Diverse Information in Support of Happy Energy Living

KDHC is operating websites customized to individual customers to facilitate information access and effective use by customers. These websites provide customized information to target users and consequently enhance the level of satisfaction with information use. In addition, to enhance management transparency and objectivity, KDHC is disclosing management information such as sales, financial, and general information through its own website and the integrated disclosure system of public organizations. We add new disclosure items each year. In 2009, we disclosed 60 items through our website, increasing by 12 compared to the previous year. Through the integrated disclosure system, 38 items were disclosed. This represented an additional 10 items compared to the previous year. KDHC has also implemented the disclosure monitoring system to ensure promptness, immediacy, and accuracy of information. The real-name information handling system enables customers to inquire with the handling staff concerned for detailed information. In addition, to support customers' use of district cooling and heating service, KDHC provides heat rate information, rate simulator for rate prediction, and methods of efficient heating service use in 3D format. The website of

the control office provides various data on technological information to increase the abilities of efficient customer facility management.

Protecting Customer Information

KDHC neither uses the customer information obtained through its website or in relation to heat use nor provides it to a third party (unless consent is given by the customer). For the safe protection of customer information, we have implemented an information security system including the intrusion prevention system. KDHC has included a clause on customer information protection in its heat supply regulations and internal information security management regulations. Information management regulations prescribe the protection of personal information and prohibition on information access and leak. The heat supply regulations reinforce customer information security. Each employee is given differentiated information access authorities. The first Tuesday of each month is our "Information Security Check Day." After inspection, we promptly improve on any and all weaknesses found. Thanks to strict customer information security management, no complaints have ever been raised in relation to any violation of consumer privacy.

In addition, KDHC is carrying out public service advertising to provide information on the methods of saving energy and the correct methods of using the heating service. KDHC strictly observes the regulations of autonomous advertising review. As such, it has never violated any of the advertising-and marketing-related laws and regulations.



Customer Satisfaction Strategies

Pursuing the philosophy to “Create a Happy Energy World,” KDHC has set the ultimate goal of management as “customer.” Toward this end, we intend to become an energy company that designs and plans human-friendly and environment-friendly energy. The basis of our customer satisfaction management is the delivery of happiness to our customers, environment, and entire human race through energy.

VOC Status in KDHC

● Online VOC Operation

The highest count of VOCs received online for 3 years from 2007 to 2009 dealt with customer facility/quality and heat rates/construction charges. Considering the rates per VOC type and frequency, KDHC is endeavoring to improve the FAQ (frequently asked questions) to resolve the repetitively occurring VOC and to standardize service by producing “District Heating from 1 to 100,” the customer handling manual focusing on case studies. To handle complaints concerning the heat rates, KDHC has introduced the maximum rate adjustment system to enhance customers’ acceptance of heat rates; it is also operating the system of notifying customers of the heat rates in advance.

● Offline VOC Operation

In addition to ordinary offline channels such as education, Mobile Heating Doctor, and talks with customers, KDHC is making efforts to listen to customers’ voices by strengthening the customer consultation organization wherein the customers participate directly. To collect opinions on rates, service improvement, and policies, KDHC is operating the Open Public Enterprise Committee and Open CS Promotion Committee in each branch. In addition, to support and monitor customer satisfaction activities, KDHC is conducting a questionnaire survey on customers, organizing a customer proposal festival, and investigating customers’ needs for the district heating user’s manual.

▼ VOC Handling Cases

VOC I would like customers to participate directly in the rate adjustment process so that customers’ acceptance of the heat rates will increase.

Improvement Before the application of the adjusted heat rates, we inform our customers of the details. In December 2009, we improved the system to enable direct participation by customers’ representatives together with accountants, energy specialists, and citizens’ groups in the Fuel Adjustment Mechanism Verification Committee.

VOC It is difficult for housewives to use district heating because it involves handling the valve or temperature controller. I would like to learn the methods of using it more conveniently.

Improvement We have published and distributed to customers 443,167 copies of a customized manual containing photos of the heating facilities installed in households. Likewise, easy-to-understand instructions on using district heating in 3D format are available in our website, Internet blog, and control office.

VOC for the Socially Disadvantaged
As a public enterprise, I would like KDHC to reduce heating rates further for the socially disadvantaged.

Improvement Since February 2006, we have been operating the energy welfare system to waive the entire basic rates for social welfare facilities and leased apartments measuring 60m² or less. In 2009, we further expanded the scope of the heat rate reduction system to include the disabled, war veterans, and second highest class. Upon application, KRW 5.5 billion in heat rates will be supported for as many as approximately 150,000 households.

aVOC for Machine Room Operators
We need regular training to operate the district heating system efficiently. Please set up an education system that provides training at all times in addition to the group technical training.

Improvement We have included education on the basic theory of district heating in the cyber technical training course. The education is provided quarterly. In effect, we have implemented a regular learning system.

Fostering a Customer-oriented Organization Culture

To improve the quality of service provided to the final consumer and to enhance customer satisfaction, KDHC is providing various forms of support for the development of customer handling abilities and improvement of expertise among machine room operators while promoting a customer-oriented mindset among its internal employees. There are a number of customer participation bodies such as the Open Public Enterprise Committee and Open CS Promotion Committee. As of 2009, approximately 340 customers nationwide participate in the advisory team to inquire about and monitor KDHC's service improvement.

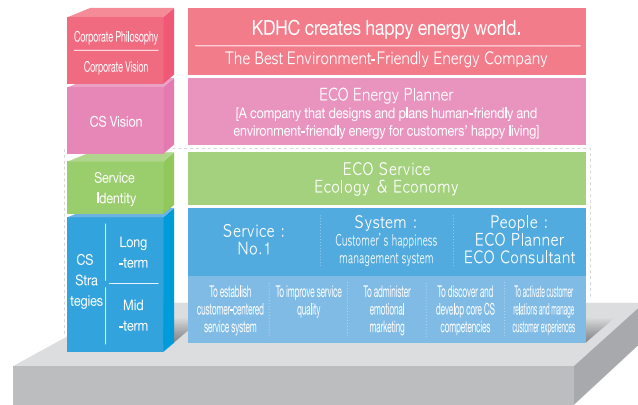
Customer Service Charter

▼ Result of the Customer Satisfaction Survey

Classification		2007	2008	2009
By Government	Target Organizations	25	24	23
	Average of Target Organizations	89.2	89.4	92.0
	KDHC	90.8	88.1	93.4
Independent	Customer Satisfaction Survey	84.5	85.7	85.3

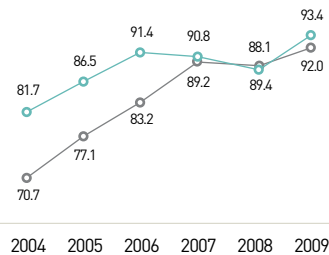
In 1999, KDHC established the Service Charter. In December 2005, it was amended to Customer Service Charter dealing with the improvement of quality, service, and quality of customers' living. In December 2008, KDHC again amended it to the ECO Customer Service Charter by reflecting the ECO (economy, ecology) service as the core values and upgrading the core service standards. To fulfill the customer service declaration, we have established the detailed service fulfillment standards. The results are checked quarterly to reflect the areas requiring improvement on our management activities as much as possible. The related information is disclosed through our website twice a year.

▼ Customer Satisfaction Vision and Strategies



▼ Results of the Customer Satisfaction Survey

● KDHC ● Average of Surveyed Organizations



Customer Safety

Prioritizing customers' safety, KDHC endeavors toward safe, stable heat supply. Based on enterprise-level safety control basic plans, we have installed a disaster control center and carried out strict preventive inspection and repair of facilities. In addition, we are promoting various safety control activities such as accident-free campaign and extensive safety control activities during the vulnerable period. As a result of our efforts toward customers' safety, there has never been any complaint filed in relation to safety and public health or any instance of violating related laws and regulations.

A group of people holding hands in a circle against a blue sky, with a man in a suit smiling in the foreground.

Stakeholder

Happy energy of our society
: Partners

KDHC will continue to grow based on a cooperative relationship with its business partners. With KDHC, the possibilities and hopes for tomorrow become greater.

Mission and Strategic Tasks

With the implementation of a win-win cooperative system through transparent and fair trade as its mission, KDHC is promoting the fair bidding system and continuous growth with partners by supporting the growth of small-scale partners as one of its strategic tasks.

Key Issues

● Fair Trade

Contracts with partners are carried out through the electronic contract system. KDHC is operating the eligibility examination criteria to identify the wholesomeness of suppliers. In addition, we are realizing fair trade and transparent contract operation based on the system of integrity contract fulfillment pledge.

● Communication with Partners

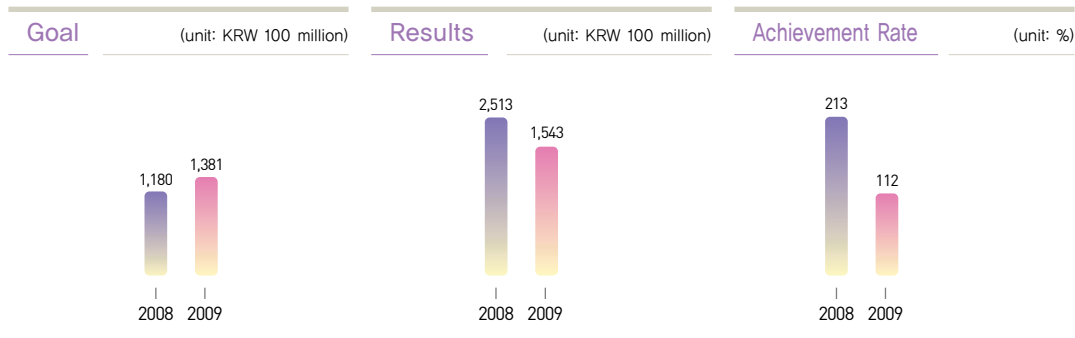
Each year, KDHC organizes talks with partners to strengthen partnerships through communication. To collect VOC from partners and carry out improvement activities, KDHC is operating the responsible management happy call by branch heads on a regular basis. In addition, we conduct a satisfaction survey on our operation processes.

● Supporting Win-Win Cooperation

KDHC is pursuing win-win cooperation with its partners by carrying out various projects such as the expansion of purchase of products of small-scale manufacturers, research subsidy, overseas marketing support, financial support, and performance sharing system.

Major Achievements

▼ E-procurement Goal and Results



Supporting the Growth of Partners

The key businesses of KDHC in 2009 were those related to production, transportation, and distribution of integrated energy as well as the electricity business. By creating economic value equivalent to KRW 1364.1 billion, we have realized current net profit of KRW 149.6 billion. The value created is invested in R&D and training for and distribution of the integrated energy business. In addition, it is distributed to stakeholders including local community contribution activities, government, stockholders, and partners and as interest to creditors.

Partner Management System

KDHC is protecting the rights and interests of partners by reflecting the provisions of the Framework Act on the Construction Industry and the Fair Transactions in Subcontracting Act. In addition, we are endeavoring to secure construction quality by promoting the protection and development of small-scale construction companies. Pursuant to the Fair Transactions in Subcontracting Act, the contracted parties must faithfully fulfill the contents of the submitted subcontracting management plans. Otherwise, immediate correction is required as stipulated in related regulations for partner protection.

Expanding the Purchase of Products of Small-scale Manufacturers and Supporting the Research Fund

KDHC is endeavoring to expand the purchase of technologies and products of small-scale companies by specifying the “preferential purchase of technological development products of small businesses” as a special contract condition. In 2009, we purchased a total of 16 items including switchboard hoist for

KRW 6.7 billion. We are planning to expand the scope of purchase further. In the meantime, to enhance the reliability of the district heating business, KDHC is supporting small and medium businesses with research fund to accelerate technological development. In addition, KDHC is protecting and developing small construction companies by directly placing orders for heat piping installation projects at the estimated cost of less than KRW 5 billion to small-scale construction companies. KDHC shall gradually increase the scope of small business protection and encourage participation by a greater number of companies in the future.

● New Product Development Project Under the Condition of Purchase

To support stable growth and technological development of small- and medium-scale businesses, KDHC is implementing the “new product development project under the condition of purchase” and “R&D cost support product.” Through these projects, KDHC is supporting small businesses in their technological development for new products and outsourced items. In addition, by purchasing the developed products within the prescribed period of time, KDHC is contributing to the acceleration of technological innovation of small businesses and reduction in expenditures in foreign currencies.

▼ Small Business R&D Support Project and Effects

Classification	Project and Task	Participating Companies	Effects
2004	Double-insulation pipe for supply and collection	4	Saving approx. KRW 690 million
2007	Flexible absorber for curved parts of heat piping	1	Saving on construction · maintenance cost, contributing to the increased lifespan of heat piping
	Air plug for field insulation part of heat piping	1	
2008	Development of turbine stationary unit	1	Import substitution effect of KRW 12 billion

● R&D Cost Support Project

By establishing the “small and medium business support execution guidelines,” KDHC, in addition to the government’s support¹⁾, is supporting software developers and companies dealing with district heating and maintaining an R&D division or an auxiliary research institute as well as personnel planning to start a business in the district heating fields and holding new technologies such as intellectual property right with fund of less than KRW 200 million within 75% of the total research cost. At present, KDHC is jointly developing a commercial-level dehumidifying refrigerator product for apt. buildings with partners. We expect the successful completion of the project to realize the effects of energy saving and environmental impact. In addition, as a means of supporting stable sales routes in relation to projects completed by small and medium businesses, KDHC is carrying out the preferential purchasing of products for 2 years after the successful completion of the projects.

● Overseas Marketing Support Project

KDHC is supporting small and medium businesses manufacturing parts and instruments for district heating with overseas marketing activities. With fund of up to KRW 5 million provided per company, KDHC expects this support project to enhance the overseas marketing abilities of small and medium businesses and increase national competitiveness.

Classification	Contents	Supporting Cost	Effects
2008	Supporting exhibit at the “Germany District Heating Fair” in Bremen, Germany	KRW 5 million	Serving as a bridge for overseas market entry by partners and contributing to the enhancement of their international competitiveness
2009	Supporting exhibit at the “ENTECH 2009 – International Environment and Energy Technology Exhibit” in Vietnam	KRW 2.5 million	

● Financial Support to Partners

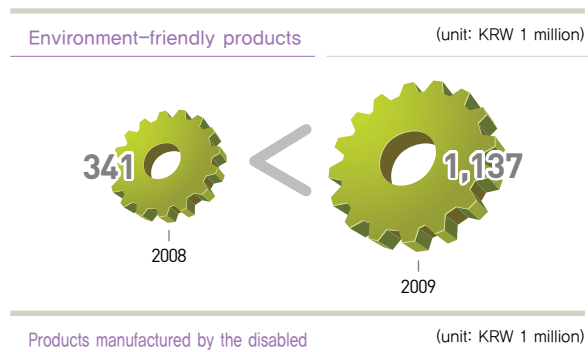
Based on the business tieup with banks in September 2006, KDHC is operating the financial support system to loan operation fund without collateral to its partner companies according to their credit ratings. This program enabled financial support to the small and medium businesses working with KDHC. Without the additional burden of financing, KDHC can support the fund required by its partners and consequently secure items stably. Through financial support provided in the scale of KRW 11 billion to a total of 11 companies since 2007, KDHC has been enabling partners to carry out stable management activities. We shall actively publicize the financial support system to our existing and new partners and further expand the financial support in the future.

● Performance Sharing System

KDHC and its partners have been jointly promoting innovation activities. As a result, we started operating the “performance sharing system” in 2007 to share the results of cost reduction, quality improvement, and new product development. Through the agreement to allow the execution of the patent for the wireless communication heat piping monitoring system, KDHC is imposing royalty amounting to 3% of new product sales. In addition, our partners are creating new sales by manufacturing products using the execution right. Over the period of 2 years, KDHC imposed royalty of KRW 99 million. KDHC shall further enhance the win-win cooperative relations with small and medium businesses by expanding the execution of the performance sharing system.

Purchasing Activities for the Environment and Society

KDHC is actively promoting the environment-friendly and socially contributing purchasing activities. The rates of purchasing the environment-friendly products manufactured by small and medium businesses and products manufactured by the disabled in 2009 were pegged at 63.7% and 41.7%, respectively.



1) The government is providing support of up to KRW 500 million within 75% of the technological development cost to small and medium businesses pursuing new product development projects under the condition of purchase.



Transparent and Fair Management

For transparent and fair trading, KDHC is actively practicing transparent management from bidding to follow-up management. Through this, KDHC is growing into a reliable, trusted company.

KDHC's partners are largely divided into three categories: heat production and maintenance (management of heat supply facilities, raw material and facility supply, and construction operation. KDHC's partner counts in 2008 and 2009 were 636 and 639, respectively. In terms of contract amount per contract type, KRW 718.1 billion was recorded for construction, KRW 52.9 billion, for service, and KRW 209.1 billion, for purchase in 2008. KRW 371 billion for construction, KRW 60.7 billion for service, and KRW 113.3 billion for purchase were posted in 2009. The amounts of trading with small and medium businesses in 2008 and 2009 were KRW 182.8 billion and KRW 220.7 billion, respectively, making up 30.4% and 30.7%, respectively. Through its small and medium business support policy, KDHC shall gradually increase the percentage of trading with small and medium businesses.

Fair Trade

The relationship between KDHC and partners is based on transparent contract. All processes of the contract are carried out fairly by the electronic contract system. In other words, KDHC is building a relationship with partners based on reliability and trust.

Implementing the Electronic Contract System

To expand the basis of e-commerce, KDHC is actively participating in the government's G2B advancement project and e-Biz activation project. In 2009, KDHC improved and upgraded the electronic contract system through the electronic contract system advancement promotion project. As a result, KDHC enabled its partners to use the electronic contract system more conveniently and stably. For one, the electronic contract system was improved to enable electronic bidding for double-insulation pipe, which had previously been carried out as on-site bidding.

Eligibility Examination Criteria

KDHC is operating the eligibility examination criteria it has prepared in the fields of construction, service, and purchase to determine the wholesomeness of bidding companies, establish the basis for high-quality heat supply, and take part in spreading the corporate culture of social contribution activities. Eligibility examination criteria have been established based on the

▼ Partner Count and Results

Year	2008			2009		
Number of Partner	636			639		
Classification	Case	Amount (KRW 100 million)	Percentage Based on Amount	Case	Amount (KRW 100 million)	Percentage Based on Amount
Construction	273	7,181	73.3%	294	3,710	68.1%
Service	339	529	5.4%	291	607	11.1%
Purchase	512	2,091	21.3%	564	1,133	20.8%
Total	1,124	9,801	100%	1,149	5,450	100%

accounting regulations of the Ministry of Strategy and Finance and by reflecting the detailed rules of the eligibility examination of the Public Procurement Service. In addition, the key assessment areas are construction abilities, technological competencies, management status, and credit standing. In assessing the credit standing, we are giving additional points to companies that are outstanding in social contribution activities such as in terms of female employment and supporting businesses run by female owners, employment of the disabled, and new recruitment and to those selected as "excellent company in new labor-management culture" as selected by the Ministry of Labor. On the other hand, points are deducted for companies subject to administrative measures due to any violation of the Wastes Control Act.

Integrity Contract System

The code of ethics of KDHC prescribes the prohibition of giving and receiving money and other articles between partners and employees. In November 2008, we prepared special notes for integrity contract bidding and consequently established a clause prohibiting bidding and contract conclusion without the submission of the integrity contract fulfillment pledge. The contract handling staff of KDHC are also required to draw up written pledges not to receive gifts of money and other articles. As such, KDHC is endeavoring to fulfill the integrity contract system. KDHC has introduced "Hotline," the internal reporting system, and "HelpLine," the counseling channel. By opening the Cyber Report Center in its website, KDHC is endeavoring to prevent unfair transaction activities. In addition, we have drawn up "special notes for integrity contract bidding" and "integrity contract fulfillment pledge" in English so as to execute the integrity contract when dealing with foreign companies. In September 2009, KDHC established the "criteria for contract operations with foreign companies" and consequently ensured

▼ Partner Satisfaction Survey (out of 10 points)

	2008	2009
Partner satisfaction survey	9.32	9.46

● Talks with Partners



that contract operations with foreign companies are carried out based on clearer guidelines and criteria.

Communication with Partners

KDHC is organizing talks with partners annually to strengthen partnerships through communication. Agendas derived by the talks are preferentially handled whenever applicable and reflected on our management policies. In 2009, a total of 6 talks were organized, and 16 agendas were raised in relation to the reflection of price fluctuation due to the increase in the prices of raw materials. KDHC has deliberated on and made adjustments for issues of reflecting price fluctuation and payment before delivery. For specialized VOC collection and improvement activities with partners, KDHC carries out responsible management happy call by branch heads on a regular basis to investigate partners' satisfaction with its operation processes.

To practice ethical management with partners, KDHC is operating the Cyber Report Center (all-year round) and clean call survey (twice a year). In addition, we are sending out the CEO's integrity letter and organizing training sessions on UNGS's 10 principles. In 2009, KDHC held 6 talks and ethical management trainings attended by 57 people from partners.

Partner Satisfaction Survey

In 2009, KDHC's partner satisfaction survey point increased by 0.14 compared to the previous year. In the non-metric category, we garnered points for having no experience in corruption. The insufficiency in convenience of lodging complaints was pointed out as a weakness, however. In 2009, KDHC improved the system including the corruption impact assessment. In the future, the survey results shall be shared throughout the company, and the routes of lodging complaints shall be checked. This way, KDHC shall continuously endeavor to improve partner satisfaction.



Stakeholder

Happy energy of our society :
Local communities

KDHC hopes for a sustainable future of coexistence with the local communities.

Prioritizing the achievement of consensus and successful communication, KDHC shall create values for our society.



Mission and Strategic Tasks

KDHC's vision of social contribution is to create a world of happy energy together with the local communities. Our mission is to be keenly aware of our social responsibilities and to practice the management of sharing to create a society where everyone is happy.

Key Issues

● Realizing of Energy Welfare

KDHC is stably supplying high-quality, economical energy with huge effects of energy saving and air quality environment protection. In addition, KDHC is realizing energy welfare by reducing the heat rates for the neglected and supporting the cost of heating during wintertime.

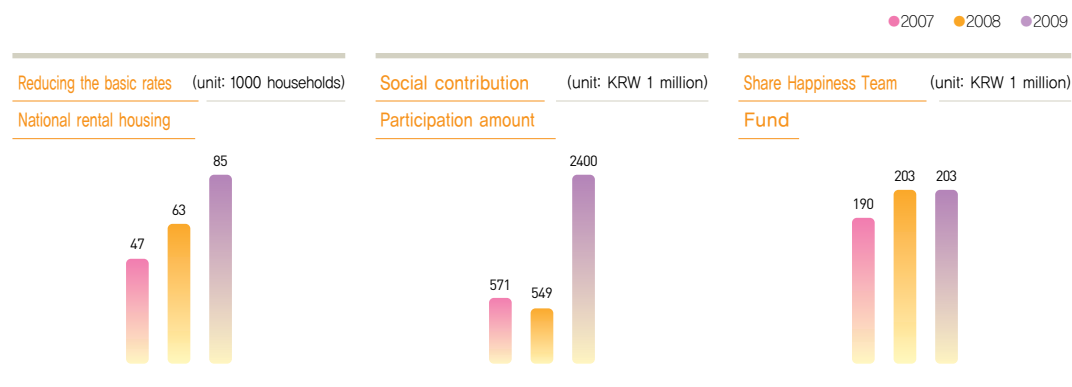
● Cooperating with and Supporting Local Communities

Through continuous support to the socially neglected in and outside its business areas, KDHC is addressing the social gaps in education, culture, and employment. In addition, we are carrying out various supporting activities to improve fundamentally the quality of living for the socially neglected by assisting them in achieving economic and social independence.

● Voluntary Service Activities by Employees

As a voluntary service team based on the voluntary participation of our employees, the "Share Happiness Team" is performing in the areas of environmental protection, educational support, and support for the socially neglected according to the characteristics of the local communities.

Major Achievements



Management of Sharing for Local Communities

Cognizant of the fact that the ultimate goal of “a world of happy energy” is to create a world where everyone is happy, KDHC’s employees and officers have been ceaselessly making efforts to practice the substantial management of sharing. KDHC is continuously promoting the realization of energy welfare, provision of social support to narrow the gaps between social classes and between rural and urban communities in terms of culture, education, and employment rate, ethical management alongside service activities voluntarily participated in by employees and officers, and achievement of environment-friendly management.

Social Contribution Activities in the Local Communities

Recognizing the important of social responsibilities as a public enterprise, KDHC has been maintaining an ideal relationship with the local communities through social contribution activities. In particular, our social contribution activities were further activated following the establishment of strategies and systems for the effective promotion of social contribution activities in 2006.

Social Contribution Promotion Strategies

KDHC is pursuing social contribution in three areas: business activities, local communities, and voluntary service activities.

1. Business Activities: Realizing energy welfare

KDHC believes that social contribution activities are aimed at stably supplying high-quality, economical energy with huge effects of energy saving and air quality improvement and faithfully fulfilling the objective of its establishment. Based on this, we are continuously expanding our social contribution activities. In addition, we are endeavoring to realize energy welfare by reducing the heat rates for the low-income glass and to support

▼ Social Contribution Vision and Mission

Classification	Details
Vision	“We create a happy energy world together with the local communities.”
Mission	Employees and officers of KDHC keenly recognize the social responsibilities of KDHC as a public enterprise and consequently practice the management of sharing to create a society where everyone is happy.
Slogan	“Joy of sharing, world of warmth”



● 2009 Heating Cost Support Campaign Application Web Board



● Donating Energy Welfare Fund

the heating cost during wintertime.

Since February 2006, KDHC has been waiving the basic heat rates for social welfare facilities and rental housing (permanent rental housing included) measuring less than 60m². In 2008, KDHC waived heat rates of approximately KRW 1.6 billion for 63,000 households in rental apartments and approximately KRW 160 million for 31 social welfare facilities. In 2009, heat rates of KRW 1.8 billion were waived for 85,000 households in rental apartments and KRW 98 million, for 31 social welfare facilities. In 2010, KDHC expanded the scope of heat rate reduction to include war veterans, basic welfare recipients, disabled (class 1 ~ 3), and households with 3 or more children. In addition, KDHC is part of the “Heating Cost Support” campaign in conjunction with MBC’s radio program titled “Age of Women.” Listeners of this program send in stories of people suffering difficulties with the heating cost, and KDHC then selects stories from the “Age of Women” web board. After investigation and assessment, KDHC provides the fund for heating cost to the social welfare facilities families in need. In 2008, KDHC provided KRW 150 million in support to 72 social welfare facilities and 62 households. In 2009, KRW 100 million was provided to support the heating cost in 30 welfare facilities and 41 households.

2. Local Communities: Cooperating with and supporting local communities

KDHC is addressing the gaps in education, culture, and employment by continuously supporting the socially neglected in and outside its business areas. In particular, KDHC is endeavoring to improve fundamentally the quality of living for the socially neglected by assisting them in achieving economic and social independence.

Supporting HR Development in Closed Mine Villages

Having interest in children in the neglected regions, KDHC concluded an agreement for HR development support project operation in March 2006 with Yemi Elementary School in Yemi-ri, Sindong-eup, Jeongseon-gun of Gangwon-do to improve the inferior educational environments. Big cities are filled with private English education institutes for elementary school students. Likewise, there is a boom in studying abroad. Note, however, that students of Yemi Elementary School, which is located in a remote village -- hardly enjoy the benefits of foreign language education.

Focusing on improving the education environments, KDHC invited native English instructors to offer conversation classes twice a week after school. The students took in the knowledge just like dry sponge absorbing moisture. To measure the results of English education over a year, KDHC has been organizing the annual English speech contest, with the students continuously displaying remarkable improvements. After five years of English study, the students are now stably settling down and showing improvements in their English competencies. These students are also performing superbly, winning prizes in various English speech contests. The press took notice of these students from a small village school as they competed neck-and-neck with the students from big cities. This visible result was made possible by the strong support from the "Yemi Guardian Angel," a voluntary service team of KDHC's employees serving as mentors and supporters of the students of Yemi Elementary School.

At the same time, KDHC is organizing city culture experience programs for the 3rd-6th graders of Yemi Elementary School once a year to narrow the cultural gap between urban and rural communities. Touring through Seoul, students experience the urban (traditional culture and enjoy cultural performances for 3 days. In 2008, the students visited Aerospace Museum, enjoyed a musical performance, and had a day of great fun at a theme park. In 2009, the students

visited the wetland in Ganghwa-do to experience the mysteries of wetland and the precious value of nature.

ARIUM : a Third Sector Development Welfare Facility for the Elderly

ARIUM began from the spirit of sharing. The "Share Happiness Team," a voluntary service team of KDHC's employees, carried out voluntary service activities in Seongnam during winter seasons for low-income class households by replacing wall papers, delivering briquettes, and repairing boilers. This was the beginning of "ARIUM." While delivering briquettes to old people who had difficulties in moving, the team members noticed that the homes with their torn wallpapers and the cold wind seeping in through the cracks of the old windows were sheer torture for the elderly with their weak joints during winter. Although they immediately began discussing measures to repair the homes of the elderly, a social service worker explained to them that the landlords would increase the rent once the homes were repaired; thus eventually driving the old people without money from their homes. As a way to find a more fundamental solution to securing comfortable space for the elderly, the team came up with the idea of "ARIUM." To complete the project effectively within the limited budget, KDHC found the answer in the third sector development system. For this project, KDHC concluded a social contribution agreement with Seongnam City, a local government, and Kumho Asiana Group, a private enterprise, in October 2007.

Tenants began moving in at ARIUM in April 2009. A total of 19 people became the residents. ARIUM has a number of environment-friendly motifs in line with the concept of KDHC, an energy company. It was designed considering stability and convenience of the elderly. All spaces in all levels have natural lighting. Moreover, a solar heat facility was installed on the rooftop to supply hot water, and a ventilation system based on waste heat recovery was installed to minimize heat loss. In effect, ARIUM is an environment-friendly residential welfare facility established under the concept of passive house. Levels 3 ~ 6 consist of individual rooms for 19 residents. Level 2 is an open hall for the elderly from the local areas. In Level 1, Maman Bakery is operated to create jobs for the elderly. KDHC's Share Happiness Team visits ARIUM monthly to provide continuous services to the residents. ARIUM is a social contribution of a new type; KDHC hopes that this will spread to other companies and serve as a social contribution model throughout the country.



● World Association for Art of Exchange Organization
Participated in and won prizes at the "Students English Speech Contest"



● Sharing Kimchi of Love



● Delivering briquettes for the elderly living alone



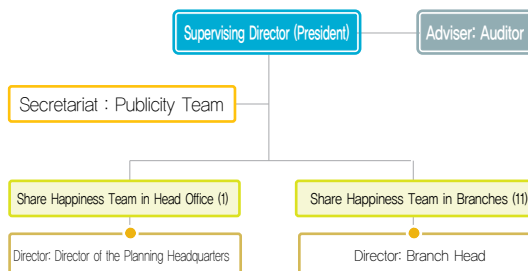
1 Company, 1 Village Sisterhood Relationship for Harmonious Coexistence between Urban and Rural Regions

With the population centralized in big cities, the decrease and aging of population in rural regions have resulted in a cultural gap between the urban and rural areas. To address the cultural gap, and to activate the economy in farming villages, KDHC has concluded the 1 company, 1 village sisterhood relationship with Sinheung 2-ri of Namwon-eup, Jeju-do (Nov. 2005) and Jeungdo-myeon of Sinan-gun, Jeollanam-do (Jul. 2007). Each year, KDHC engages in the campaign to encourage the purchase of Korean agricultural products. In 2008 and 2009, residents of Sinheung 2-ri visited KDHC and sold local specialties such as tangerines grown outdoors and Hallabong to the employees. For its part, to take part in publicizing "Camellia Village" as the symbolic brand of Sinheung 2-ri and to participate in the CO2 offsetting project as part of the government's carbon neutral program, KDHC promoted the project to build a camellia forest along the roadsides in Sinheung 2-ri. For this project, KDHC purchased and planted camellia trees in a 1:1 matching grant method. Messages of hope written by KDHC's employees were attached to each of the trees planted. In 2008 and 2009, KDHC planted 522 and 500 camellia trees to secure CER of 58 tons and 56 tons, respectively. As such, KDHC is endeavoring to realize harmonious relations between the urban and rural areas by promoting projects considering the characteristics of the sister villages.

Donations and Sponsorship

In addition, KDHC supports the socially neglected and social welfare facilities in the areas of head office and branches during the holiday seasons to fulfill its social responsibilities as a public enterprise. KDHC is also supporting patients in hospices or elderly with difficulties in movement by allowing them to enjoy outings. Furthermore, we make donations and send relief goods during disasters and provide regular support to study rooms established for the children of needy families.

▼ Share Happiness Team



▼ Key Activities of the Share Happiness Team in the Head Office and Branches

Classification	Details
Head Office	Participating in Habitat-building house of love activities, delivering briquettes and items for winter to needy neighbors in Seongnam-si, regular voluntary service activities in ARUM (welfare residential facility for the elderly without families)
Goyang Branch	Cleaning and working in the House of Angels, organizing birthday parties, donating living items
Gangnam Branch	Delivering donations, rice, and living items to the disabled and elderly without families
Bundang Branch	Bathing service for the elderly without families, scholarship to children of the second highest class
Suwon Branch	Donating funds for living expenses and study materials to students of needy families
Yongin Branch	Making and delivering side dishes to a welfare center for the disabled
Daegu Branch	Sponsoring birthday parties in a dementia center, supporting elementary school students with funds for the school lunch program
Cheongju Branch	Supporting the youth from the low-income class with funds for learning materials, cleaning the welfare center for the disabled
Gyeongnam Branch	"Ddasomi" music concert in a welfare facility for the disabled, providing service activities
Hwaseong Branch	Donating living items to the low-income class, supporting elementary school students with funds for the school lunch program, delivering lunch
Mapo Branch	Free meal service (Restaurant of Love), 1 company, 1 river event, free medical check and birthday parties for the elderly

3. Voluntary Service Activities: Voluntary participation by employees and officers

In December 2004, KDHC founded the "Hanan Share Happiness Team," a voluntary service team based on the voluntary participation of employees and officers. The service team is performing in the areas of support for the socially neglected, environmental protection, and educational support. "Share Happiness Account" consists of the members' wage deductions and donations by KDHC in a 1:1 matching grant method. In 2008 and 2009, KRW 230 million in fund was raised annually. As a voluntary service community of KDHC, "Stepping Stone" was organized independently by KDHC's employees. With sponsorship from 150 people, this community has approximately 20 members doing voluntary service activities. "Stepping Stone" supports victims of child violence by subsidizing their educational expenses. The members also visit the children for learning guidance. Furthermore, "Stepping Stone" operates an English class for children of Philippine families and helps children and parents of multicultural families.

Members of the "Yemi Guardian Angel" perform as mentors for the children of Yemi Elementary School with which KDHC has concluded the HR development support project operation agreement. The members help these children, who do not enjoy educational benefits such as educational guidance, program development, and improvement of educational environments. The "Yemi Guardian Angel" consisting of "Yes, I Can," a team of native English instructors, science learning team, "CC Team" as an urban culture experience team, and "Share IT" team is a great team of support for the children of Yemi Elementary School.

Interview with Teacher Jang Hye-rim of Yemi Elementary School

"The children were most excited about the wetland experience. This is something we cannot experience in Jeongseon. We learned about the organisms that live in the wetland before we came here. To experience them here in reality, even I was able to learn new things. It was a very meaningful time. Each year, our children look forward to June so much when they can come to this cultural experience. Many of them are not well off. Thus, an opportunity like this is all the more precious and special to them."

July 2009

"KDHC Add Sharing," the "District Heating" house journal



● Yemi Elementary School Cultural Experience
(Wetland Experience)

Interview with Principal Sohn Eui-gon of Bongyang Elementary School

"This is the third English camp. Our children have improved their English skills considerably. Not only the children, but their parents are also very much interested in the English camp. We are always thankful to KDHC for their support. For the school, we are also benefiting from the English camp very much. I hope the children will gain confidence in English by attending the English camp and produce greater results in the future."

August 2009

"KDHC Add Sharing," the "District Heating" house journal



● Bongyang Elementary School Summer English Camp



● ARIUM Residents



Interview with an ARIUM Resident

Dressed neatly in a suit, Mr. Ji Bong-yul in room 601 is 85 years old. Mr. Ji is a man of surprisingly youthful spirit. "I had to go through a time of loneliness and difficulties for over 50 years, living by myself without a home. But now, I can read the newspaper and take a nap in this clean, comfortable house. I sometimes take a stroll around the village. It is a beautiful and happy home for us, isn't it? We had no hope, just counting the days until we die. But this place gave us new hope. I finally have hope in my life at the age of 85. I feel as though I am cured of all sicknesses. Now, I have a home, and my life begins today. I would like to thank the people who have given me such hope and courage. Thank you."

June 2009

"KDHC Add Sharing," the "District Heating" house journal

30 (금) 11:00 시청 제1회의실

안산시개발(주) 주식양수도계약 체결식

안산시... 천리 · 안산상공회의소... 스시엄



Stakeholder

Happy energy of our society: Government

KDHC aspires to be a respected company that shares good values with the people of Korea.

Fulfilling responsibilities as a corporate citizen and enhancing management efficiency and objective reliability, KDHC shall continuously advance into the future.

Mission and Strategic Tasks

Guided by the goal of aggressively and proactively promoting advancement and management efficiency, KDHC is responding to the government's policy by pursuing the tasks of selling off its equities and those of its subsidiaries, achieving efficiency in organization management, adjusting the wages of employees and officers, and promoting enterprise-level cost reduction.

Key Issues

● Stock Market Listing

As per the government's advancement policy, KDHC listed 25% of the stocks issued in the KRX securities market in January 2010 using the method of invitation of the public to new stocks within the range of maintaining 51% of public equity. Therefore, by maintaining 54.1% of public equity (government and KDPCO) with only a fluctuation in the equity rate, the stock market listing did not cause any fluctuation in the public interest of KDHC and the interest and rights of the residents.

● Selling off Subsidiaries

This was a stock sale of invested companies pursuant to the government's public organization advancement policy. By expanding the private sector's market participation, a substantial competition system for the integrated energy business was established. In addition, KDHC achieved management efficiency by spreading the private management techniques and improvement of financial structure through the reestablishment and optimization of the investment structure.

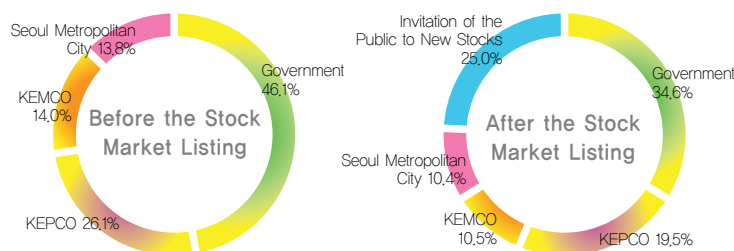
● Efficiency of Organization and HR Management

According to the government's 4th public organization advancement plan, KDHC performed organization diagnosis together with the government and cut down on the use of organization and human resources to estimate the appropriate HR for new businesses and increase the efficiency of organization management.

● Leadership of Public Enterprise

With the integrated energy business entering the phase of growth, the basis of political support is gradually shrinking. To respond actively to the rapidly changing management conditions and the government's political direction, KDHC is establishing and operating the 10-year mid- to long-term management plans every three years according to its internal rules. Through the strategic execution of management plans, KDHC is ceaselessly endeavoring to create new growth engines of the future that will ensure growth, public interest, and profitability.

Major Achievements



KDHC Advancement Plans

According to the government's 3rd public organization advancement plan (Oct. 10, 2008), KDHC listed 25% of the total stocks issued (2,895,000 stocks) in the KRX securities market using the method of invitation of the public to new stocks within the range of maintaining 51% of the public equity rate (Jan. 29, 2010). At the time of listing, the competition in public subscription was 127.3:1, which was very high. In addition, KRW 2.50 trillion was deposited as subscription payment alone, indicating the market's high assessment of expectation of KDHC. Therefore, with the exception of fluctuation in the equity rate, there was no fluctuation whatsoever in the public interest and the interest and rights of residents since the public equity (government and KEPCO) was kept at the 54.1% level.

● KDHC IPO Presentation



● Stock Market Listing Ceremony



▼ Stock Market Listing Promotion

- Government's announcement of the 3rd public organization advancement plans (Oct. 10, 2008)
- Resolution to promote stock market listing using the method of invitation of the public to new stocks [BOD, May 28, 2009]
- Application for [KRX, Nov. 13, 2009] and approval for [Nov. 23, 2009] the preliminary review for stock market listing
- Submission [Financial Services Commission, Nov. 23, 2009] and acceptance [Dec. 9, 2009] of the securities report
- IR presentation to local governments (Oct. 22 ~ 30, 2009)
- IR presentation to institutional investors [Jan. 8 ~ 13, 2010]
- Subscription by institutional and general investors [Jan. 20 ~ 22, 2010]
- * General subscription competition 127.3 : 1 (Deposits for subscription: Approx. KRW 2.50 trillion)
- Submission of new stock market listing application [Jan. 25, 2010] and trade commencement [Jan. 29, 2010]

Selling off Subsidiaries

As part of the government's public organization advancement plans, KDHC promoted the equity selloff of invested companies together with the stock market listing. KDHC experienced numerous difficulties in the course of promoting equity selloff due to the stakeholders' objections with regard to employment instability and damage to public interest. Through conversation and cooperation, however, KDHC successfully completed the procedures under the conditions of realizing mutual benefits. The subsidiary selloff led to the expansion of market participation by the private sector, and this enabled us to establish the system for substantial competition in the integrated energy business. In addition, the equity selloff brought about positive effects for us in

▼ KDHC Equity Structure before and after the Stock Market Listing

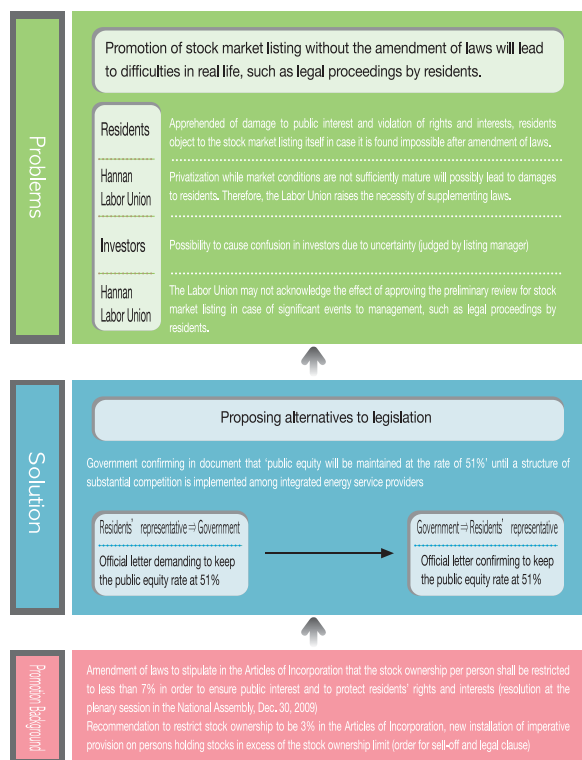
Classification	Before Listing		After Listing	
	Stock Count	Rate (%)	Stock Count	Rate (%)
Government	4,000,000	46.1	4,000,000	34.6
KEPCO	2,264,068	26.1	2,264,068	19.5
KEMCO	1,219,676	14.0	1,219,676	10.5
Seoul Metropolitan City	1,200,000	13.8	1,200,000	10.4
Invitation of the Public to New Stocks	-	-	2,895,000	25.0
Total No. of Stocks Issued	8,683,744	100.0	11,578,744	100.0

terms of realizing management efficiency according to the expansion of private management techniques and improving operation efficiency, such as the improvement of financial structure through the reestablishment and optimization of investment structure.

Communication with Stakeholders

KDHC's advancement process began amid apprehension and objections by stakeholders because it was mistakenly perceived as a stage toward privatization, one that will result in the increase in heat rates and damage to residents' rights and interests. As such, KDHC organized a number of presentations and talks with the stakeholders to inform them of the necessity of stock market listing and to obtain their consent. In addition, by receiving the government's definite promise on maintaining the public equity to 51% or higher and legislating the restriction on stockholding by the same person, KDHC was able to complete the stock market listing successfully with the consent of all stakeholders.

▼ Persuading the Stakeholders Objecting to the Stock Market Listing



▼ Expected Benefits of Stock Market Listing

- Improving the financial structure and reducing the financial cost due to capital expansion
- Possibility of using new investments due to stable fund supply through the stock market
- Preventing infringement on the residents' rights and interests by securing 51% of public equity

Efficiency of Organization and HR Management

According to the government's 4th public organization advancement plan (Dec. 2008), KDHC restructured the organization into a system of 2 headquarters, 2 divisions, and 1 branch and reduced the staff count by 123. The reduced personnel were transferred to the new business fields in Paju and Pangyo. In addition, KDHC, together with the government, performed organization diagnosis (Oct. 2009~Jan. 2010) to increase operation efficiency and estimate the appropriate personnel for the new business fields. According to the results of the diagnosis, the organization was further reduced to 1 headquarters, 1 branch, and 79 staff. On the other hand, 2 branches (Samsong and Gwanggyo) were installed, and 288 staff were increased in the new business fields.

▼ Organization and HR Management Efficiency

Quota	2008	2009 (Advancement) ^a	2010 (Organization Diagnosis) ^b	Fluctuation (b-a)
Basic Organization	1,057	934	855	▲79
New Business	59	59	347	288
Total	1,116	993	1,202	209

▼ Economic Effects of Management Advancement

(unit: KRW 1 million)

Classification	Reduction Amount
Wage return by all employees and officers to overcome the economic crisis	617
Reasonable holiday and leave system (put into effect in 2010)	1,635
Change of the prescribed monthly working hours (184h/month 209h/month)	633
Substituting overtime work with off-duty	489
Change of bonus payment standards	165
Total	3,539

Management Efficiency Through Compensation Adjustment

In line with the government's political direction, KDHC has been making all-out efforts to fulfill its social responsibilities as a public enterprise to increase the transparency of the compensation system and to overcome the economic crisis through rational wage and welfare system operation. To overcome the economic crisis in particular, all employees and officers voluntarily returned wages to raise a fund with which jobs were created for the socially neglected (ECO Service Team). In addition, KDHC decreased the duty-off days by improving the holiday and leave system, reduced the overtime work payment by simplifying the prescribed monthly working hours, which serve as the basis of overtime work payment, and substituting overtime work with off-duty hours and lowered the labor cost by improving the bonus payment standards and increasing the depth of gradation. Through these efforts, KDHC achieved the result of saving approximately KRW 3.5 billion in labor cost.

Leadership of Public Enterprise

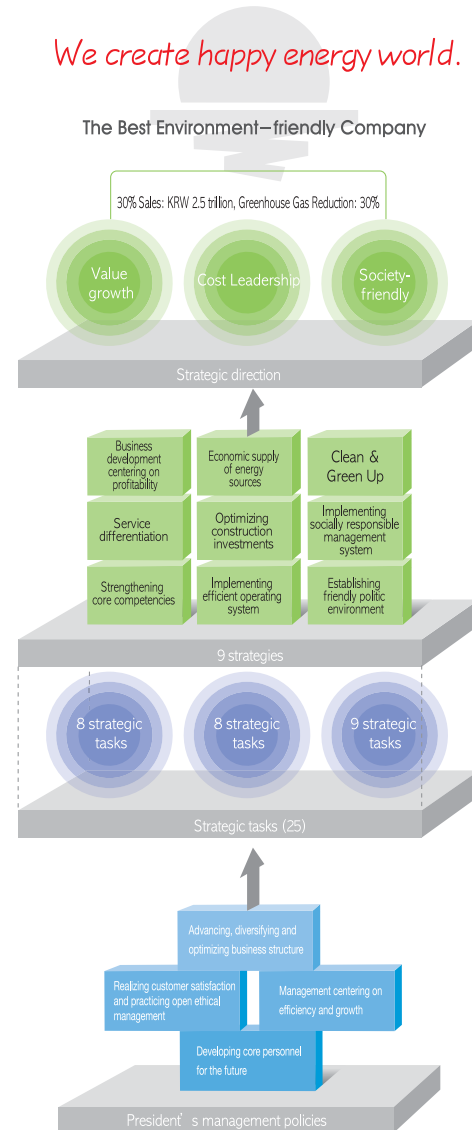
As of the end of 2009, 23 companies are supplying the integrated energy service to 1.87 million households in apt. buildings. The distribution rate is approx. 13% compared to the total housing count (14,388,000). As such, the integrated energy business is about to enter the stage of growth. Accordingly, the competition is becoming fiercer as power generation subsidiaries, city gas companies, and construction companies actively participate in the integrated energy business.

Government's Political Direction

Although the government is continuously pursuing the integrated energy expansion and distribution policies to increase national energy efficiency and to respond to the UNFCCC, the basis of political support is gradually shrinking as the integrated energy business enters a phase of growth. Accordingly, the burden of cost is expected to increase due to the alleviation of the integrated energy zone designation system and annulment of the electric power industry infrastructure fund support for co-generation plants. In addition, for competition requirements, KDHC's participation in new businesses will be limited, and private participation will be encouraged. This will lead to KDHC's market share shrinking to a certain degree. Nonetheless, KDHC plans to promote substantial business expansion in case it is beneficial to the national economy for KDHC to promote businesses in areas where there are no participants or participants falling out by the wayside. In the meantime, KDHC's district heating activation to lower the peak power load during the summer season and new and renewable energy expansion and distribution policy to reduce greenhouse gas emission will be yet another opportunity of advancement.

● Response by KDHC

To handle promptly the rapidly changing management conditions and to respond actively to the government's political directions, KDHC is establishing and operating the 10-year mid- to long-term management plans every three years according to its internal rules. Our mid- to long-term management plans consist of management objectives, strategic directions, 9 strategies, and 25 strategic tasks under the corporate philosophy and vision based on the execution of the president's management policies. Through the strategic execution of the plans, KDHC is ceaselessly endeavoring to create new growth engines of the future that will ensure growth, public interest and profitability.



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Third Party Assurance Statement

To the Management of the KDHC(Korea District Heating Corp) 2009 Sustainability Report:

Upon request of KDHC, the Institute for Industrial Policy Studies as a "third party assurance provider" (hereinafter referred to as the "Assurance Provider") presents the following third party assurance statement on the 2009 Sustainability Management Report of KDHC (hereinafter referred to as the "Report").

Accountability and Objective

KDHC is held accountable for all information and claims contained in the Report including sustainability management goal setting, performance management, data collection and report preparation. The objective of this assurance statement is to check whether the Report is free of material misstatement or bias and whether the data collection systems used are robust, and to offer advice on improving the quality of the Report through identifying sustainable management issues and reviewing its reporting process.

Independence

The Assurance Provider has no relations with KDHC regarding any of its for-profit operations and activities. In addition, the Assurance Provider has carried out its assurance process with independence and autonomy as it was not involved in the preparation of the Report except for offering comments in the process.

Criteria for Assurance

The Assurance Provider assessed the Report against the following guidelines:

- 1) AA1000 Assurance Standard (2008)¹
- 2) BEST Guideline²
- 3) Global Reporting Initiative(GRI) G3 Sustainability Reporting Guidelines³

Type and Level of Assurance

The Assurance Provider conducted assurance process for the Report in accordance with Type 1 and Moderate Level of AA1000AS (2008).

- The Assurance Provider evaluated the reliability of the data compiled in the Report for Type 1 assurance, and assessed publicly disclosed information, reporting system and performance management process based on the three core

principles of AA1000AS (2008), namely Inclusivity, Materiality and Responsiveness. However, this assurance engagement does not provide the evaluation of the credibility of the offered data.

- The Assurance Provider pursued moderate assurance where sufficient evidence has been obtained and limited sampling has been conducted at each performance sector to support its statement such that the risk of its conclusion being in error is reduced but not reduced to very low but not zero.

Scope and Methodology

The Assurance Provider evaluated (1) the Inclusivity, Materiality and Responsiveness of the Report and (2) the extent of KDHC's adherence to the BEST/GRI Sustainability Reporting Guidelines through the process outlined below:

- Evaluating the sources of publicly disclosed information and internal parties involved
- Verifying the performance data collection systems and processes for each function
- Conducting interviews with each functional manager
- Completing on-site due diligence focusing on the head office
- Ensuring the financial data in the Report and KDHC's audited financial reports correspond
- Evaluating the Report for the extent of adherence to the BEST/GRI Guidelines

Limitations

- Verifying the data and inquiries into each functional manager and information collection manager
- Conducting on-site due diligence in the head office
- Conducting assurance engagement based on data and publicly available information only during the current reporting period
- Evaluation of the reliability of the performance data being excluded

1. AA1000AS (Assurance Standard): This is the sustainability report verification standard developed in 1999 by AccountAbility, a non-profit organization on social responsibility management located in the UK, to increase the performance and responsibility of the organization concerned and to enhance the quality of social (ethical accounting, auditing, and reporting). The version amended in 2008 is applied beginning 2010.

2. BEST Guidelines (BEST Sustainable Management Guidelines): These guidelines for preparation and verification of sustainability report were produced in 2006 by the Business Ethics and Sustainability Management for Top Performance jointly with the Ministry of Knowledge Economy, IPS, and Korea Chamber of Commerce to spread the sustainability report among businesses in Korea. The BEST Guidelines consist of 5 reporting levels.

3. GRI G3 Guidelines: These are the sustainability report preparation guidelines established in 1997 jointly by the Coalition for Environmentally Responsible Economies (CERES), an international environmental association, and the UN Environment Program (UNEP). The third revised edition, G3, was released in October 2006.

Conclusions

The Assurance Provider did not find the Report to contain any material misstatements or bias on the basis of the scope, methodology and criteria described above. All material findings of the Assurance Provider are provided herein, and detailed findings and recommendations have been submitted to the management of KDHC.

Q [Inclusivity] Are there appropriate strategies and processes in place for KDHC’s stakeholder engagement with its sustainable growth?

A The Assurance Provider verified efforts by the KDHC to collect stakeholder views and reflect them in its management activities by putting an adequate stakeholder participation process in place designed to engage key stakeholders as defined by the company. The Assurance Provider was highly impressed to see that the company has structured its Report around stakeholder requirements and interests as identified through regular channels of communication specific to each of the stakeholder groups, while providing an in-depth report on those issues as well as the current status of the company’s response. Going forward, however, it is the Auditor’s recommendation that the KDHC put broader company-wide strategies and processes in place to further strengthen its stakeholder engagement, while building a more systematic process of feedback and dialogue between the various business departments collecting the various stakeholder comments and the sustainability management initiatives group so that those engagement findings can be reflected in shaping the company’s sustainability management strategies.

Q [Materiality] Does the Report cover economic, social and environmental issues of the greatest importance to KDHC and its stakeholders?

A The Assurance Provider believes the Report to contain information and data of material importance to the KDHC and its stakeholders. The Assurance Provider took note of work by the KDHC to identify sustainability issues of material interest to both its internal and external stakeholders by undertaking analysis of media reports, benchmarking best practice companies, analysis of sustainability standards and guidelines, stakeholder surveys, expert interviews, etc. The Assurance Provider took particular note of the KDHC’s concrete commitment to incorporate key issues identified to be of material stakeholder interest into its management activities, with the Report outlining the company’s intended response to the various issues by dimension. However, as the section on materiality was not broken down into respective stakeholders, it was difficult to assess which set of requirements or issues pertained to which stakeholder group. In the future, The Assurance Provider suggests that the KDHC provide a breakdown of the material issues and the company response not only by sustainability dimension but also by stakeholder as well, in the interest of providing a fuller account of its stakeholder engagement findings and outcomes in its future sustainability management reports.

Q [Responsiveness] Does the Report address the demand and interest of the stakeholders in an appropriate manner?

A The Assurance Provider found the KDHC to be aware of the importance of stakeholder communications, and confirmed efforts by the company to collect stakeholder views by developing diverse channels of communication. The company has carried out key stakeholder questionnaires and satisfaction surveys, while providing enhanced coverage of its communication findings in the Report, accompanied by the company’s response and outcomes, as well as stakeholder satisfaction toward the company’s response. In the future, however, The Assurance Provider recommends setting more segmented targets and strategies for each of the specific dimensions and issues so that the Report can offer a concrete collection of responses that can satisfy the demands of its internal and external stakeholders alike.

[Application Level of the GRI Standard]

It has been confirmed that the Report meets the requirements for Application Level of “A+.”

[Fulfillment Relative to the BEST Guidelines]

In view of the level of reporting rigor and intensity of information provided, the Report meets 94.5% of the reporting requirements for a Level 4 Report among Levels 1 to 5.

Trend of the KDHC Sustainability Management Report Fulfillment

Reporting Year	2007	2008	2010
Publications	1st	2nd	3rd
Level	Level 3	Level 4	Level 4
Fulfillment	96.7%	92.6%	94.5%

* Review result has been converted based on five level fulfillment.

Recommendations

Relative to the prior year's report, The Assurance Provider found the KDHC's "2009 Sustainability Report" to be highly commendable on the following counts. 1) The KDHC acted on the Auditor's recommendation to provide more coverage on key stakeholder views as assessed through various communication channels as well as the company's response through case study examples; 2) provided an easy-to-understand snapshot view of its major achievements during the reporting period by presenting a separate section on 2009 sustainability highlights; and 3) offered a detailed account of the company's response for each of the key dimension-specific issues allowing readers an inside look into the company's efforts toward sustainability management.

We recommend the following factors to be considered for the future publications:

- Establish a system for the integrated management of data from each of the three economic, social, and environmental dimensions, to support on-going management of performance data through regular assessments and management of performance relative to targets.
- Adopt a system whereupon the management team has immediate actionable access to issues of high stakeholder interest and risk that can be reflected into actual management strategies rather than merely being reported upon to the Board of Directors.
- Provide case studies of current practices and actual application for system implementations as well as improvements rather than merely listing outcomes or providing a summary outline to present KDHC's activities and performance more objectively.
- Produce accurate and comparable performance data to satisfy stakeholders' right to be informed.
- Strengthen reporting on negative as well as positive outcomes in the interest of objectivity and credibility.
- For repetitive Report items, present summary outlines alongside links to websites containing full reported content.

Competence of IPS as an Assurance Provider

Established in 1993, the Institute for Industrial Policy Studies (IPS) has accumulated broad expertise in the areas of ethics management, corporate social responsibility and sustainable management since 2002, and serves as a third party assurance provider for the sustainability reports published by local companies. IPS has conducted the assurance engagement upon request of KDHC, and assembled a team of assurance practitioners who are professors at Korea's top universities or professionals with extensive experience in sustainability management after majoring in business management, accounting or environmental science.



July 5, 2010
 President **Yun-Cheol Lee,**
 The Institute for Industrial Policy Studies



Glossary

Accountability

As a company conducting survey and consulting on corporate responsibility (CR), Accountability established AA1000, the sustainability report verification standard.

ARIUM

This name was selected following a naming contest in 2008. As abbreviation of the Korean words meaning "our beautiful and happy home," ARIUM means a space or a nest in English.

CDM (Clean Development Mechanism)

With this system, the results of the greenhouse gas reduction achieved by advanced nations through greenhouse gas reduction projects with capital and technological investments in developing countries can be used in the reduction goals of advanced nations. CDM is managed by the UN CDM Executive Board.

GRI (Global Reporting Initiative)

GRI was founded by CERES in 1997 for the purpose of developing a sustainability report standard that is used widely all over the world. The activities of this research institute are funded by the United Nations Foundation. GRI released the third edition of the GRI Guidelines in October 2006.

IGCC (Integrated Gasification Combined Cycle)

Unlike the conventional thermal power generation using coal, IGCC produces electric power through the "integrated cycle" that consists of "gasification" of coal and processes in gas turbine and steam turbine.

ISO 26000

This is an international standard for social responsibility. The objective of ISO 26000 is to contribute to the sustainable development of organizations of all forms by providing them with guidelines on the concept, terminologies, background and trend, characteristics, principles and practices, and key subjects and issues related to social responsibility as well as the execution and promotion of social responsibility integration, identification and participation of stakeholders, and obligations and performances of social responsibility divisions.

K-CDM

This national registration system registers and manages the greenhouse gas reductions achieved by greenhouse gas reduction projects. It is executed by the Ministry of Knowledge Economy to provide compensation for reduction achievements and to encourage voluntary greenhouse gas reduction.

KOLAS (Korea Laboratory Accreditation Scheme)

System of verifying the analysis facilities compliant with international standards in Korea and consequently having their analysis capacities acknowledged by the government (Korean Agency for Technology and Standards)

ODA (Official Development Assistance)

Loan provided by public organizations including the central and local governments in the form of donation and grant to developing countries or international organizations with the main purpose of promoting economic development and welfare enhancement in developing countries

RDF (Refuse-Derived Fuels)

This is solid fuel created by breaking down domestic wastes (general wastes) such as food waste, paper, and plastic and mixing them with lime. Similar to coal, RDF produces heat of approximately 5000kcal per 1kg.

RPA (Renewable Portfolio Agreement)

This is a voluntary new and renewable energy supply agreement between a public energy company and the government. Through the 1st RPA (2006 ~ 2008) and the 2nd RPA (2009 ~ 2011), the expansion of investments to the new and renewable energy business is promoted to implement the new and renewable energy infrastructures.

RPS (Renewable Portfolio Standard)

This system obligates power generation businesses to supply the prescribed percentage of total power generation with new and renewable energy. The government plans to increase RPS from approximately 2% in 2012 to 10% by 2022.

TMS (Tele-Monitoring System)

Full-time monitoring system that measures the air pollutant concentrations with automatic measuring devices and transmits the data to the environmental control center for management

UN Global Compact (UNGC)

UN Global Compact proposes a framework wherein the corporate strategies in the areas of human rights, labor, environment, and anti-corruption can be combined with the 10 principles of Global Compact. As the world's largest voluntary corporate citizens' initiative with thousands of members from over 100 countries, UNGC has the foremost goal of proposing and developing the social rationality of enterprises and global market.

LFG (Landfill Gas)

Organic substances from wastes in a domestic waste landfill are broken down to produce landfill gas. LFG is used to generate electricity or heat by using methane gas. Otherwise, it is used as alternative fuel for LNG.

Flue Gas Denitrification · Desulfurization Facility

Facilities to reduce the NOx and SOx generated by discharging facilities

CHP (Combined Heat and Power plant)

Power generation method of simultaneously producing and supplying electricity and heat by using waste heat from electricity generation as heat source for district heating or process

Sludge

Sediments generated in the process of sewage treatment or water purification

Incubation

Protection and development

Low NOx Burner

A device to reduce the generation of NOx -- an air pollutant -- by controlling oxygen concentration and flame temperature in the incineration area

Peak Load

Maximum load during the prescribed period -- such as day, month, or year -- or load including the period before and after the prescribed period; the peak load generation time differs according to season, load type, weather conditions, etc.

1:1 Matching Grant

A company donating an amount for sponsorship to match the amount donated by employees and offers on a regular basis

Response to the ISO 26000

■ Overview of ISO 26000

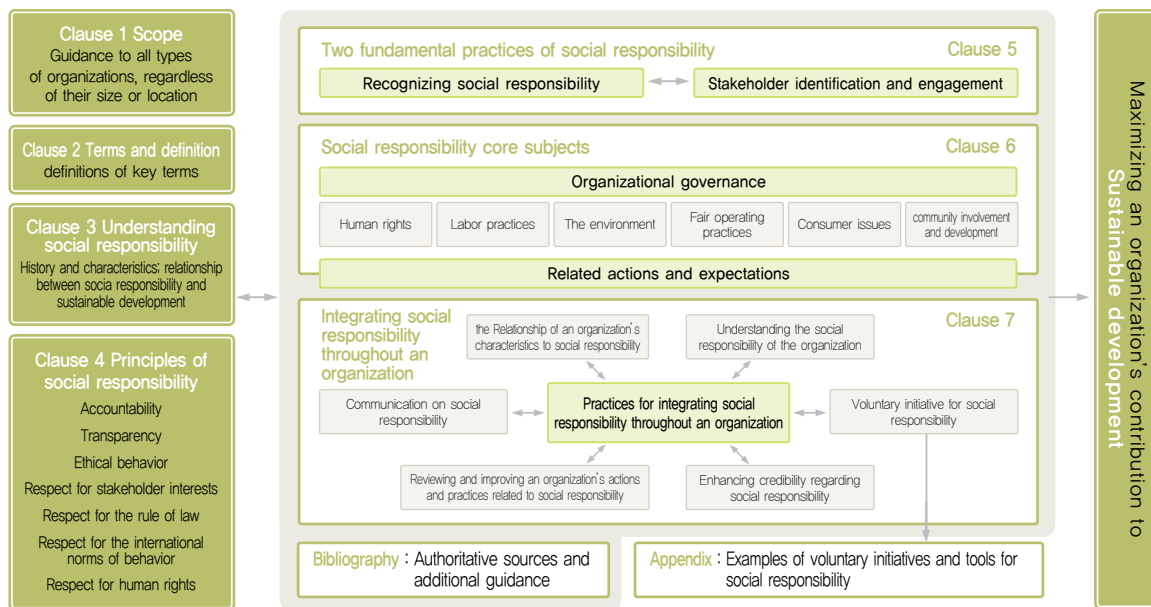
ISO 26000 (Guidance on Social Responsibility) was decided as standard development by ISO (International Organization for Standardization) in 2004 in accordance with the need for a new paradigm for resolving issues in international society -- such as poverty and inequality caused by globalization -- in handling the environmental risks resulting from economic growth and development and for the sustainable existence and prosperity of the human race. This international standard on social responsibility developed for a period of 5 years from the 1st WG meeting in March 2005 to the 8th in May 2010 is scheduled for release at the end of this year.

This international standard was prepared by the representative experts of stakeholders in the 6 areas of consumers, government, industry, labor, NGO, and other service · support · research and others to provides the guidance on the underlying principles of social responsibility, the core subjects and issues pertaining to social responsibility and on ways to integrate into the organization. In other words, ISO 26000 is intended to assist organizations in contributing sustainable development and applies to all types of organizations regardless of their size or location.

ISO 26000 is not a management system standard subject to third party certification, but a guidance. It is intended to encourage them voluntary to go beyond legal compliance, respect for stakeholder and continuous improvement process. Note, however, that this standard recommends the fulfillment of social responsibility not only by the organization itself but also within the sphere of the organization's influence. Therefore, ISO 26000 is to be used widely as partner registration management standard by global enterprises intending to satisfy the high expectations of stakeholders or as an assessment, monitoring standard by consumers and NGOs.

Accordingly, in actively responding to the publication of ISO 26000, KDHC is advised to identify the impacts on society and environment by the company's decisions and activities and to secure competitiveness and sustainability through the identification of stakeholders and establishment of the social responsibility management system.

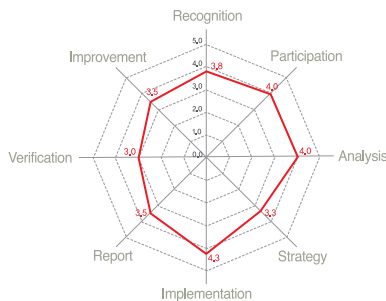
▼ ISO 26000



■ Assessment of ISO 26000 Fulfillment Level of KDHC

The Korean Standards Association assessed the social responsibility management system of KDHC by dividing the process of social responsibility fulfillment into 8 stages pursuant to the ISO 26000/DIS (Draft international standard) and the performance levels for each of the 7 core subjects.

▼ Status of social responsibility management system diagnosis



▼ Status of social responsibility performance



KDHC is executing the social responsibility management system implementation strategies it has established, guided by the vision of becoming the Best Environment-friendly Energy Company. Recognizing its social responsibilities, KDHC has operated various channels of communication with stakeholders to reduce the negative impacts on the society and environment. Through these channels, KDHC is identifying key issues. In addition, KDHC is endeavoring to make use of the core competencies and resources while considering the expectations and interests of society.

To enhance transparency and satisfy accountability, KDHC should further strengthen the process of implementing the relationship of reliability with stakeholders. In other words, KDHC should improve its activities and operating practices by reflecting stakeholders' opinions in the decision-making process and structure. In addition, KDHC is advised to establish a system through which it can enhance performance by strategically executing activities promoting the social responsibilities of other organizations not only within the company but also within the range of its influence.

July 5, 2010
 Chairman **Choi Gap-hong**,
 Korean Standards Association

최갑홍



As a knowledge service provider carrying out standard distribution, studies on standardization, and supporting standardization activities as well as investigation, research, development, promotion, guidance, education, and certification of business administration management techniques, the Korean Standards Association (KSA) is a domestic and international ISO 26000 secretary corporation. As a representative of Korea, KSA proactively participated in the process of ISO 26000 development. In addition, with support from the Korean Agency for Technology and Standards, KSA is currently operating the SR Standardization Forum it has founded. KSA is an organization specializing in the expansion of ISO 26000 in Korea and presentation of execution plans.

GRI Index

● Reported ● Partially reported ○ Not reported ◇ Not applicable (N/A)

GRI Index	Index No.	Description	Satisfaction	Corresponding Page	Related BEST
Overview					
Vision and Strategy	1. 1	Statement from the most senior decision-maker of the organization.	●	2~3	A_1
	1. 2	Description of key impacts, risks, and opportunities.	●	14	A_2
Organization Profile	2. 1	Name of the organization.	●	10	A_3
	2. 2	Primary brands, products, and/or services.	●	12~13	A_4
	2. 3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	●	10~11	A_5
	2. 4	Location of organization's headquarters.	●	10	A_7
	2. 5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	◇	-	A_7
	2. 6	Nature of ownership and legal form.	●	14	A_8
	2. 7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	●	12~13	A_9
	2. 8	Scale of the reporting organization, including: * Number of employees; * Net sales (for private sector organizations) or net revenues (for public sector organizations);	●	10, 14	A_10
	2. 9	Significant changes during the reporting period regarding size, structure, or ownership.	●	14	B_8
	2. 10	Awards received in the reporting period.	●	9	CO8
Report Parameters	3. 1	Reporting period for information provided.	●	1	B_3
	3. 2	Date of most recent previous report (if any).	●	1	-
	3. 3	Reporting cycle (annual, biennial, etc.)	●	1	B_6
	3. 4	Contact point for questions regarding the report or its contents.	●	1	B_9
	3. 5	Process for defining report content.	●	18~21	B_4
	3. 6	Boundary of the report.	●	1	B-1
	3. 7	State any specific limitations on the scope or boundary of the report.	●	1	B-2
	3. 8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	●	11	A_6
	3. 9	Data measurement techniques and the bases of calculations.	●	1	-
	3. 10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement.	●	1	-
	3. 11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	●	1	B_5
	3. 12	Table identifying the location of the Standard Disclosures in the report.	●	Appendix	B_10
	3. 13	Policy and current practice with regard to seeking external assurance for the report.	●	1	B_7
Governance, Commitments and Engagement	4. 1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	●	14	GR1
	4. 2	Indicate whether the Chair of the highest governance body is also an executive officer.	●	14	GR1 GR3
	4. 3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	●	14	GR2
	4. 4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	●	14	GR12
	4. 5	Linkage between compensation for members of the highest governance body, senior managers, and executives, and the organization's performance.	●	14	GR7
	4. 6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	●	14~15	GR13
	4. 7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics.	●	14~15	GR4
	4. 8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	●	32, 57	-
	4. 9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance.	●	15	GR5
	4. 10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	○	-	GR6
	4. 11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	●	14	GR11
	4. 12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	●	32, 57	GR10
	4. 13	Memberships in associations and/or national/international advocacy organizations.	●	Appendix	A_11
	4. 14	List of stakeholder groups engaged by the organization.	●	18~21	C_1
	4. 15	Basis for identification and selection of stakeholders with whom to engage.	●	18	C_2
	4. 16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	●	18~21	C_1
	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.	●	18~21	C_2

● Reported ● Partially reported ○ Not reported ◇ Not applicable (N/A)

GRI Index	Index No.	Description	Satisfaction	Corresponding Page	Related BEST
Economic					
	EC	Disclosure on Management Approach	●	25	
Economic Performance	EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	●	26~27	EC1
	EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	●	28~29	EC2
	EC3	Coverage of the organization's defined benefit plan obligations.	●	50	EC3
	EC4	Significant financial assistance received from government.	○	-	EC5
Market Presence	EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	●	47	EM4
	EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	◇	-	EC4
	EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	●	45	EC4
Indirect Economic Impacts	EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	●	66, 67	EC6
	EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	●	65	EC7
Environmental					
	EN	Disclosure on Management Approach	●	35	
Materials	EN1	Materials used by weight or volume.	●	35	EV10
	EN2	Percentage of materials used that are recycled input materials.	●	39	EV11
Energy	EN3	Direct energy consumption by primary energy source.	●	35	EV7
	EN4	Indirect energy consumption by primary source.	●	35	EV8
	EN5	Energy saved due to conservation and efficiency improvements.	●	35, 39	EV5
	EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	●	39~41	EV5
	EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	●	35~37	EV5
Water	EN8	Total water withdrawal by source.	●	39	EV25
	EN9	Water sources significantly affected by withdrawal of water.	●	39	EV9
	EN10	Percentage and total volume of water recycled and reused.	●	39	EV20
Bio diversity	EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	◇	-	EV18
	EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	◇	-	EV22
	EN13	Habitats protected or restored.	◇	-	EV22
	EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	◇	-	EV26
	EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	◇	-	EV27
Emissions, Effluents, and Waste	EN16	Total direct and indirect greenhouse gas emissions by weight.	●	35, 38	EV6
	EN17	Other relevant indirect greenhouse gas emissions by weight.	●	35	EV26
	EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	●	38~39	EV28
	EN19	Emissions of ozone-depleting substances by weight.	●	35	EV12
	EN20	NOx, SOx, and other significant air emissions by type and weight.	●	35	EV13
	EN21	Total water discharge by quality and destination.	●	39	EV4
	EN22	Total weight of waste by type and disposal method.	●	35~39	EV14
	EN23	Total number and volume of significant spills.	●	39	EV15
	EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	●	39~41	EV17
	EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	●	39	EV16
Product and Services	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	●	36~37	EV21
	EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	●	39	EV29
Compliance	EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	●	39	EV19
Transport	EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	●	36~37	EV23
Overall	EN30	Total environmental protection expenditures and investments by type.	●	37	EV24

● Reported ● Partially reported ○ Not reported ◇ Not applicable (N/A)

GRI Index	Index No.	Description	Satisfaction	Corresponding Page	Related BEST
Social-Labor Practices and Decent Work					
	LA	Disclosure on Management Approach	●	43	
Employment	LA1	Total workforce by employment type, employment contract, and region.	●	44	EM1
	LA2	Total number and rate of employee turnover by age group, gender, and region.	●	44	EM5
	LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	●	50	EM20
Labor/ Management Relations	LA4	Percentage of employees covered by collective bargaining agreements.	●	48	EM12
	LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	●	48~49	EM13
	LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	●	50~51	EM14
Occupational Health and Safety	LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	●	51	EM19
	LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	●	50~51	EM18
	LA9	Health and safety topics covered in formal agreements with trade unions.	●	51	EM15
Training and Education	LA10	Average hours of training per year per employee by employee category.	●	46	EM27
	LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	●	44, 46	EM28
	LA12	Percentage of employees receiving regular performance and career development reviews.	●	46	EM29
Diversity and Equal Opportunity	LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	●	44~45	EM2
	LA14	Ratio of basic salary of men to women by employee category.	●	47	EM3
Social-Human Rights					
	HR	Disclosure on Management Approach	●	43	
Procurement Practices	HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	●	62~63	PN2
	HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	○	-	PN2
	HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	●	32, 46	EM30
	HR4	Total number of incidents of discrimination and actions taken.	●	45, 47	EM7
Freedom of Association and Collective Bargaining	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.	●	48~49	EM8
Child Labor	HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	●	44~45	EM9
Forced and Compulsory Labor	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.	●	44~45	EM10
Security Practices	HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	○	-	EM31
Indigenous Rights	HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	◇	-	CO2
Social-Society					
	SO	Disclosure on Management Approach	●	65	
Community	SO1	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	●	66~69	CO2
Corruption	SO2	Percentage and total number of business units analyzed for risks related to corruption.	●	32	CO5
	SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.	●	32	CO5
Public Policy	SO4	Actions taken in response to incidents of corruption.	●	32	CO5
	SO5	Public policy positions and participation in public policy development and lobbying.	●	32, 73	CO6
Competition Inhibition	SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	●	32	CO7
Anti-Competitive Behavior	SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	◇	-	CS3
Compliance	SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	●	55, 57	CO9

● Reported ● Partially reported ○ Not reported ◇ Not applicable (N/A)

GRI Index	Index No.	Description	Satisfaction	Corresponding Page	Related BEST
Social-Product Responsibility					
	PR	Disclosure on Management Approach	●	53	
Customer Health and Safety	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.	●	54	CS4
	PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	●	57	CS11
Product and Service Labeling	PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	●	56~57	CS5
	PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	●	55	CS12
	PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	●	55, 57	CS9
Marketing Communication	PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	●	55	CS13
	PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	●	55	CS14
Customer Privacy	PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	●	55	CS15
	PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	●	55	CS15

Index No.	Expatriation
GRI Index Expatriation	
4.10	At present, the economic, social, and environmental performances of the highest-level governance structure are not being assessed. The related process will be prepared in the future.
EC4	There were no subsidies and supports from the government in both 2008 and 2009.
EC6	There are no preferential purchasing policies in specific areas since the qualifications for bidding are provided equally through the electronic disclosure system.
EN11~EN15, HR9	KDHC's businesses begin after the selection of housing development zones or large-scale residential sites by Land & Housing Corporation. Therefore, these indices are not applicable since construction is carried out after handling by the building site developer.
HR2	Partners are assessed based on the eligibility examination criteria. Note, however, that there are no instances of assessing partners in relation to human rights.
HR8	Security personnel are sent by security service providers and are not directly managed in terms of the status of receiving human rights education.
SO7	KDHC is a public enterprise founded for the special purpose of expanding and distributing the supply of integrated energy; therefore, the criteria for competition and monopoly are not applicable.

Membership Status

국내가입단체

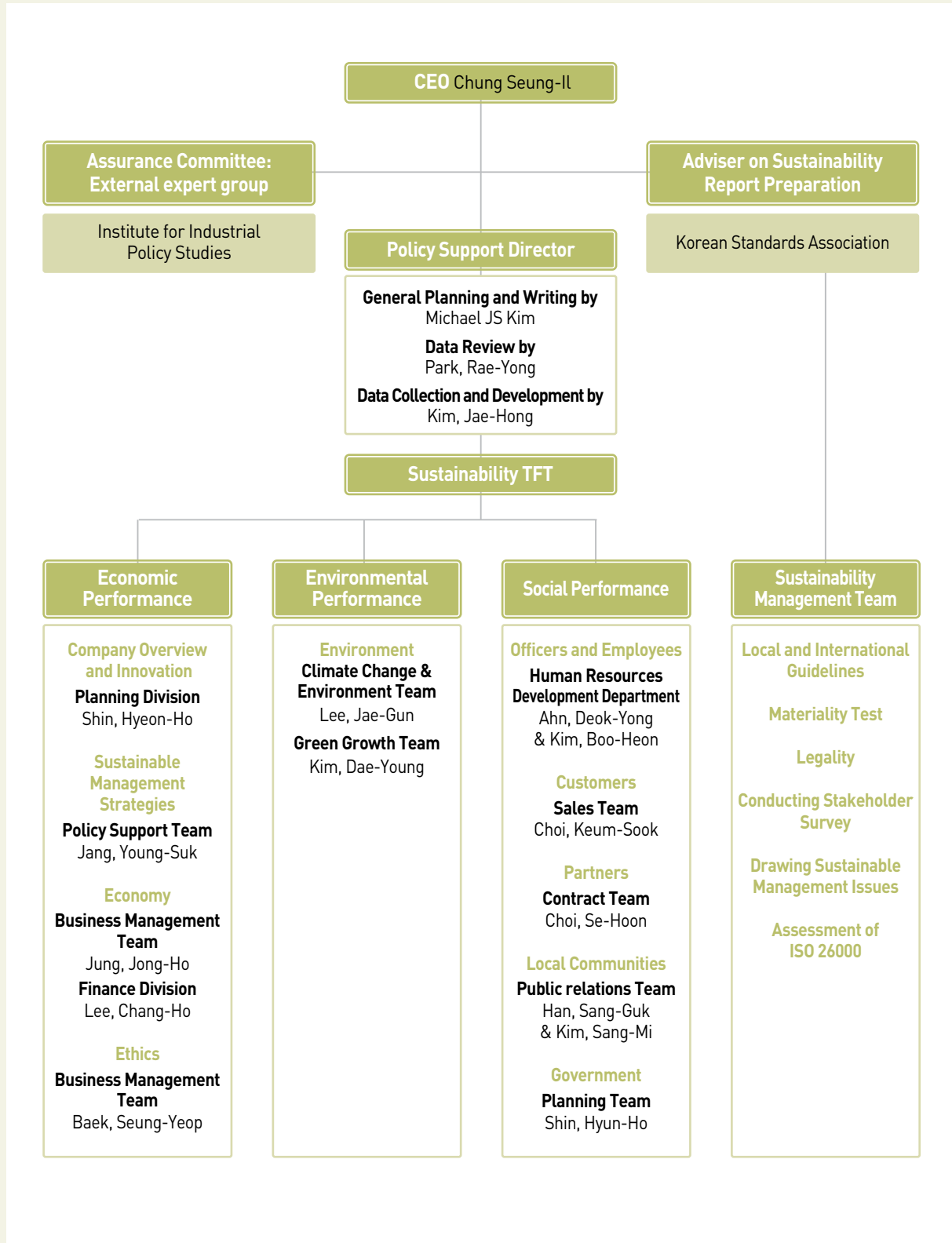
- Korean Resource Economics Association
- Korea District Cooling and Heating Association
- Business Ethics and Sustainability Management for Top Performance
- Business Ethics CEO Forum
- Global Compact Network Korea
- Energy & Mineral Resources Development Association of Korea
- Korea DME Association
- Korea Power Exchange
- Korean Institute of Electrical Engineers
- CS Leaders Club
- Korea Environmental Preservation Association
- Korea Federation for Environmental Movements
- Korean Society of Environmental Engineers
- Korea Society of Energy & Climate Change
- Korea Construction Engineers Association

- Korea Electrical Engineers Association
- Korean Council of the International Institute of Refrigeration
- Society of Air-conditioning and Refrigerating Engineers of Korea
- Korean Society for New and Renewable Energy
- Korea Management Association
- Korea Personnel Improvement Association
- Management Accounting Association of Korea
- Korean Accounting Association
- Korea Fair Competition Federation
- Korea International Trade Association
- Korea Plant Industries Association
- Institute of Internal Auditors
- Korea Industrial Safety Association
- Korea Fire Safety Association

Overseas Organizations

- WEC(World Energy Council)
- IDEA(International District Energy Association)
- FFI(Fernwarme Forschungs Institute)
- Euro Heat & Power
- IEA-DHC

About the Sustainable Management TFT



From the Readers

Survey on KDHC's 2009 Sustainability Report

We at KDHC listen to and collect the valuable opinions of diverse stakeholders including our readers to improve the quality of the sustainability report in the future.

Q1. To which of the following categories do you belong?

- Employee and officer
 Stockholder
 General investor
 Business partner
 Government officer
 Social organization(NGO)
 Sustainable management expert
 Media
 Academe
 Others _____

Q2. Which of the following information do you need in the KDHC Sustainability Report?

- Company info.
 Investment info.
 Overall information on sustainable management
 Information on financial results
 Information on environmental management
 Information on social responsibility management
 Information on employment status and work environment
 Information on customer management
 Information on harmonious relations with partners
 Communication with stakeholders

Q3. How much do you agree with the following?

	Very much so	Yes	So-so	No	Not very much so
• The terminologies used are clear and easily understood.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• This report provides sufficient and beneficial information on key issues.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• The contents of this report are reliable.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• The design is good and helpful in understanding the contents of the report.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q4. Which of the following areas need additional information?

- Company overview
 Sustainable management
 Ethical management
 Innovative management
 Economy
 Environment
 Customers
 Employees and Officers
 Partners
 Local Communities

Q5. We would appreciate receiving your valuable comments for our future reference (in the areas of economy/social contribution/environment/internal customer satisfaction).

- Which was the most impressive part in this report? _____
 • Which parts need more improvement? _____
 • Which are the beneficial contents that can serve as reference? _____
 • How satisfied are you with this report?
 Very much satisfied
 Satisfied
 So-so
 Dissatisfied
 Very much dissatisfied

Q6. Please state freely any other opinion you may have about the KDHC Sustainability Report.

Please send your opinions through **FAX [031-709-5058]**. Thank you for your cooperation.



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