

Independent Auditors' Report

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The Board of Directors and Shareholder

Korea National Oil Corporation

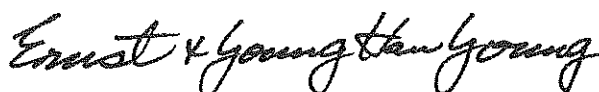
We have audited the accompanying balance sheet of Korea National Oil Corporation (the "Company") as of December 31, 2007, and the related statements of income, appropriation of retained earnings, changes in equity and cash flows for the year then ended, all expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company for the year ended December 31, 2006, presented for comparative purposes, were audited by KPMG Samjong whose report dated February 2, 2007, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Korea National Oil Corporation as of December 31, 2007, and the results of its operations, its changes in retained earnings and equity and its cash flows for the year then ended in conformity with accounting standards for government corporations, as established by the Ministry of Finance and Economy of the Republic of Korea.

We have also reviewed the translation of the 2007 and 2006 financial statements mentioned above into United States dollar amounts on the basis described in Note 2 to the accompanying financial statements. In our opinion, such statements have been properly translated on such basis.

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



KPMG Samjong Accounting Corp.
Seoul, Korea
February 6, 2008

This audit report is effective as of February 6, 2008, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

Balance Sheets

As of December 31, 2007 and 2006

ASSETS	Korean won in thousands		U.S. dollars (Note 2)	
	2007	2006	2007	2006
Current assets:				
Cash and cash equivalents (Note 11)	₩ 606,533,236	₩ 251,393,361	\$ 646,486,075	\$ 267,952,847
Short-term financial instruments	486,607,000	243,780,000	518,660,200	259,837,988
Trade accounts receivable (Note 11)	183,946,776	71,877,397	196,063,500	76,612,020
Short-term loans receivable (Note 11)	223,499,625	236,542,778	238,221,728	252,124,044
Other accounts receivable	55,231,520	51,445,376	58,869,665	54,834,125
Inventories (Note 3)	1,887,882,371	1,942,419,186	2,012,238,724	2,070,367,924
Commodity swap (Note 25)	-	3,719,330	-	3,964,325
Other current assets (Note 4)	126,529,471	132,529,220	134,864,071	141,259,028
Total current assets	3,570,229,999	2,933,706,648	3,805,403,963	3,126,952,301
Non-current assets:				
Available-for-sale securities (Note 5)	28,548,470	27,060,225	30,428,981	28,842,704
Equity method investments (Note 6)	1,591,790	1,419,628	1,696,643	1,513,140
Long-term loans receivable, less allowance for doubtful accounts of ₩6,116,996 thousand in 2007 (₩7,236,084 thousand in 2006) (Notes 11 and 12)	2,019,801,867	1,939,141,034	2,162,847,865	2,066,873,837
Long-term trade accounts receivable, less allowance for doubtful accounts of ₩9,588,739 thousand in 2007 (₩9,428,088 thousand in 2006) (Note 12)	52,087,513	52,922,548	55,518,560	56,408,599
Long-term guarantee deposits	4,148,640	2,578,696	4,421,914	2,748,557
Deferred income tax assets (Note 23)	15,837,143	7,242,434	16,880,349	7,719,499
Property and equipment, net (Note 8)	1,919,149,629	1,836,217,747	2,045,565,582	1,957,170,909
Intangible assets, net (Note 9)	1,788,461,760	1,616,105,794	1,906,269,196	1,722,560,002
Other non-current assets (Notes 7 and 10)	13,093,945	12,430,637	13,956,454	13,249,453
Total non-current assets	5,842,720,757	5,495,118,743	6,227,585,544	5,857,086,700
Total assets	₩ 9,412,950,756	₩ 8,428,825,391	\$ 10,032,989,507	\$ 8,984,039,001

Balance Sheets

As of December 31, 2007 and 2006

	Korean won in thousands		U.S. dollars (Note 2)	
	2007	2006	2007	2006
Current liabilities:				
Trade accounts payable	₩ 18,366,841	₩ 24,132,467	\$ 19,576,680	\$ 25,722,092
Other accounts payable (Note 11)	148,974,175	88,457,627	158,787,226	94,284,403
Withholdings	5,411,899	4,320,394	5,768,385	4,604,982
Accrued expenses	11,172,270	721,808	11,908,197	769,354
Income taxes payable (Note 23)	-	5,273,338	-	5,620,697
Current portion of long-term debt (Notes 11, 13 and 14)	323,966,974	353,408,567	345,306,943	376,687,878
Deferred income tax liabilities (Note 23)	2,883,905	4,107,583	3,073,870	4,378,153
Commodity swap (Note 25)	-	2,620,543	-	2,793,160
Other current liabilities	79,099,967	68,984,416	84,310,346	73,528,476
Total current liabilities	589,876,031	552,026,743	628,731,647	588,389,195
Non-current liabilities:				
Long-term borrowings denominated in Korean won (Note 13)	1,292,702,096	1,441,040,654	1,377,853,438	1,535,963,178
Long-term borrowings denominated in foreign currencies, less discount of ₩535,427 thousand in 2007 (₩819,524 thousand in 2006) (Note 11 and 13)	1,408,318,911	1,144,722,482	1,501,086,027	1,220,126,287
Long-term trade accounts payable, less discount of ₩7,729,977 thousand in 2007 (₩7,556,178 thousand in 2006) (Note 12)	47,102,084	47,686,373	50,204,737	50,827,513
Asset-backed securitization liabilities (Note 14)	94,066,508	131,969,594	100,262,746	140,662,539
Severance and retirement benefits, net of operational assets of ₩28,996,312 thousand in 2007 (₩19,923,863 thousand in 2006) (Note 15)	15,573,225	13,417,440	16,599,046	14,301,258
Provision for restoration costs (Note 16)	116,366,971	183,749,885	124,032,158	195,853,640
Other long-term liabilities	48,252,852	25,050,970	51,431,307	26,701,097
Total non-current liabilities	3,022,382,647	2,987,637,398	3,221,469,459	3,184,435,512
Total liabilities	3,612,258,678	3,539,664,141	3,850,201,106	3,772,824,707
Commitments and contingencies (Notes 24 and 25)				
Shareholder's equity:				
Capital stock (Note 17)	4,684,912,780	3,964,541,780	4,993,511,810	4,225,689,384
Capital surplus	24,954,221	24,954,221	26,597,976	26,597,976
Accumulated other comprehensive income (Notes 19 and 20)	(6,619,845)	(9,717,268)	(7,055,900)	(10,357,352)
Retained earnings (Note 18)	1,097,444,922	909,382,517	1,169,734,515	969,284,286
Total shareholder's equity	5,800,692,078	4,889,161,250	6,182,788,401	5,211,214,294
Total liabilities and shareholder's equity	₩ 9,412,950,756	₩ 8,428,825,391	\$ 10,032,989,507	\$ 8,984,039,001

Statements of Income

Years ended December 31, 2007 and 2006

	Korean won in thousands		U.S. dollars (Note 2)	
	2007	2006	2007	2006
Sales (Note 30)	₩ 1,095,001,756	₩ 918,133,143	\$ 1,167,130,416	\$ 978,611,323
Cost of sales (Notes 8 and 27)	656,161,321	543,575,287	699,383,203	579,381,035
Gross profit	438,840,435	374,557,856	467,747,213	399,230,288
Selling and administrative expenses (Notes 22, 27 and 28)	58,742,479	48,621,173	62,611,894	51,823,889
Operating income	380,097,956	325,936,683	405,135,319	347,406,399
Other income (expenses):				
Interest income	36,640,576	29,839,304	39,054,121	31,804,843
Interest expense	(14,626,495)	(15,567,421)	(15,589,954)	(16,592,860)
Equity in earnings of equity method investments (Note 6)	260,470	205,009	277,627	218,513
Impairment loss on available-for-sale securities (Note 5)	-	(4,371,153)	-	(4,659,084)
Gain on foreign currency translation, net	6,585,096	23,098,235	7,018,862	24,619,735
Gain (loss) on foreign currency transactions, net	805,138	(11,819,570)	858,173	(12,598,135)
Dividend income	20,000	10,000	21,317	10,659
Gain (loss) on disposal of property, plant and equipment, net	(45,521)	6,949,593	(48,520)	7,407,368
Gain from liabilities exempted (Note 12)	2,811,581	2,980,040	2,996,782	3,176,338
Other bad debt expenses (Note 12)	(3,403,946)	(3,658,549)	(3,628,167)	(3,899,541)
Donations (Note 28)	(14,350,735)	(13,460,823)	(15,296,030)	(14,347,498)
Refund of income taxes paid	-	1,132,846	-	1,207,467
Additional payment of income taxes	-	(592)	-	(631)
Impairment loss on oil interests	(4,536,135)	(44,444,263)	(4,834,934)	(47,371,843)
Gain on valuation of firm commitments, net (Note 25)	26,712,049	2,402,851	28,471,593	2,561,129
Gain (loss) on transactions of derivative instruments, net (Note 25)	(41,066,509)	1,289,903	(43,771,593)	1,374,870
Gain on valuation of derivative instruments, net (Note 25)	-	1,098,787	-	1,171,165
Gain on differences in customs duties	678,680	1,661,319	723,385	1,770,751
Loss on overseas mining areas - other, net	(464,572)	(12,864,735)	(495,174)	(13,712,146)
Others, net	(21,309,338)	(13,606,184)	(22,713,001)	(14,502,434)
	(25,289,661)	(49,125,403)	(26,955,513)	(52,361,334)
Income before income taxes	354,808,295	276,811,280	378,179,806	295,045,065
Provision for income taxes (Note 23)	148,112,543	91,602,653	157,868,837	97,636,595
Net income	₩ 206,695,752	₩ 185,208,627	\$ 220,310,969	\$ 197,408,470

Statements of Appropriations of Retained Earnings

Years ended December 31, 2007 and 2006

	Korean won in thousands		U.S. dollars (Note 2)	
	2007	2006	2007	2006
Retained earnings before appropriations:				
Unappropriated retained earnings				
carried forward from the prior year	₩ -	₩ -	\$ -	\$ -
Net income	206,695,752	185,208,627	220,310,969	197,408,470
	206,695,752	185,208,627	220,310,969	197,408,470
Appropriations:				
(2007-proposed, 2006-appropriated)				
Legal reserve	91,869,840	83,287,640	97,921,381	88,773,865
Other reserves	91,869,840	83,287,640	97,921,381	88,773,865
Cash dividends (Note 21)	22,956,072	18,633,347	24,468,207	19,860,740
	206,695,752	185,208,627	220,310,969	197,408,470
Unappropriated retained earnings				
to be carried forward to the next year	₩ -	₩ -	\$ -	\$ -

Statement of Changes in Equity

Year ended December 31, 2007

	Korean won in thousands				
	Capital stock	Capital surplus	Accumulated other comprehensive income	Retained earnings	Total
January 1, 2007	₩ 3,964,541,780	₩ 24,954,221	₩ (9,717,268)	₩ 909,382,517	₩ 4,889,161,250
Dividends	-	-	-	(18,633,347)	(18,633,347)
Increase in capital stock	720,371,000	-	-	-	720,371,000
Net income for the year	-	-	-	206,695,752	206,695,752
Gain on valuation of available-for-sale securities	-	-	1,186,967	-	1,186,967
Capital adjustment arising from equity method investments	-	-	11,592	-	11,592
Exchange differences on translation of foreign operations	-	-	1,898,864	-	1,898,864
December 31, 2007	₩ 4,684,912,780	₩ 24,954,221	₩ (6,619,845)	₩ 1,097,444,922	₩ 5,800,692,078

	U.S. dollars (Note 2)				
	Capital stock	Capital surplus	Accumulated other comprehensive income	Retained earnings	Total
January 1, 2007	\$ 4,225,689,384	\$ 26,597,976	\$ (10,357,352)	\$ 969,284,286	\$ 5,211,214,294
Dividends	-	-	-	(19,860,740)	(19,860,740)
Increase in capital stock	767,822,426	-	-	-	767,822,426
Net income for the year	-	-	-	220,310,969	220,310,969
Gain on valuation of available-for-sale securities	-	-	1,265,153	-	1,265,153
Capital adjustment arising from equity method investments	-	-	12,356	-	12,356
Exchange differences on translation of foreign operations	-	-	2,023,943	-	2,023,943
December 31, 2007	\$ 4,993,511,810	\$ 26,597,976	\$ (7,055,900)	\$ 1,169,734,515	\$ 6,182,788,401

Statements of Cash Flows

Years ended December 31, 2007 and 2006

	Korean won in thousands		U.S. dollars (Note 2)	
	2007	2006	2007	2006
Cash flows from operating activities:				
Net income	₩ 206,695,752	₩ 185,208,627	\$ 220,310,969	\$ 197,408,470
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	77,319,428	90,355,290	82,412,523	96,307,068
Amortization of intangible assets	120,466,793	86,087,439	128,402,039	91,758,089
Provision for severance and retirement benefits	12,383,010	7,096,435	13,198,689	7,563,882
Loss (gain) on disposal of property, plant equipment, net	45,521	(6,949,593)	48,520	(7,407,368)
Gain on foreign currency translation, net	(6,180,814)	(23,459,888)	(6,587,950)	(25,005,210)
Equity in earnings of equity method investments	(260,470)	(205,009)	(277,627)	(218,513)
Gain from liabilities exempted	(2,811,581)	(2,980,040)	(2,996,782)	(3,176,338)
Impairment loss on available-for-sale securities	-	4,371,153	-	4,659,084
Reversal of allowance for doubtful accounts	(867,602)	(1,059,504)	(924,752)	(1,129,294)
Other bad debt expenses	3,403,946	3,658,549	3,628,167	3,899,541
Interest income (including the amount recorded as sales)	(47,116,435)	(20,667,251)	(50,220,033)	(22,028,619)
Interest expense (including the amount recorded as cost of sales)	45,904,126	19,654,220	48,927,868	20,948,860
Impairment loss on oil interests	4,536,135	44,444,263	4,834,934	47,371,843
Gain on valuation of derivative instruments, net	-	(1,098,787)	-	(1,171,165)
Provision for restoration costs	3,907,937	3,401,931	4,165,356	3,626,019
Loss from inventory obsolescence	50,075	36,899	53,373	39,329
Loss on overseas mining areas - other	1,101,663	-	1,174,232	-
Others, net	-	(501,820)	-	(534,877)
Changes in operating assets and liabilities:				
Trade accounts receivable	(94,118,650)	24,747,757	(100,318,322)	26,377,912
Other accounts receivable	(3,731,502)	14,353,327	(3,977,299)	15,298,792
Short-term loans receivable	205,976,340	171,402,901	219,544,170	182,693,350
Inventories	54,486,740	(225,359,435)	58,075,826	(240,204,045)
Long-term loans receivable	(241,149,973)	(105,123,514)	(257,034,718)	(112,048,085)
Deferred income taxes	(10,268,616)	(26,884,690)	(10,945,018)	(28,655,606)
Other assets, net	10,152,803	(104,807,329)	10,821,575	(111,711,072)
Trade accounts payable	(20,201,755)	(902,125)	(21,532,461)	(961,549)
Other accounts payable	60,446,582	(23,923,002)	64,428,248	(25,498,830)
Withholdings	1,091,505	1,005,170	1,163,403	1,071,382
Income taxes payable	(5,273,338)	(34,885,102)	(5,620,697)	(37,183,012)
Current portion of long-term debt	(205,976,340)	(171,402,901)	(219,544,170)	(182,693,350)
Long-term borrowings denominated in Korean won	₩ 14,967,180	₩ 17,891,350	\$ 15,953,080	\$ 19,069,868

(Cont'd)

	Korean won in thousands		U.S. dollars (Note 2)	
	2007	2006	2007	2006
Long-term borrowings denominated in foreign currencies	₩ 226,182,793	₩ 87,232,164	\$ 241,081,638	\$ 92,978,218
Operational assets for pension plan	(8,628,526)	(3,407,014)	(9,196,894)	(3,631,436)
Deposit for severance and retirement benefits	1,185	(389,542)	1,263	(415,202)
Other liabilities, net	43,071,217	23,624,384	45,908,352	25,180,539
Payment of severance and retirement benefits	(1,599,884)	(1,070,855)	(1,705,270)	(1,141,393)
Total adjustments	25,427,761	(357,898,456)	27,102,706	(381,473,519)
Net cash provided by operating activities	444,005,245	29,494,458	473,252,232	31,437,282
Cash flows from investing activities:				
Decrease (increase) in short-term financial instruments, net	(242,827,000)	47,440,492	(258,822,213)	50,565,436
Proceeds from disposal of property, plant and equipment	143,881	9,714,220	153,358	10,354,104
Acquisition of property, plant and equipment	(159,675,881)	(204,192,620)	(170,193,862)	(217,642,955)
Proceeds from disposal of available-for-sale securities	148,950	-	158,762	-
Decrease in long-term advance payments on guarantees	-	3,297,229	-	3,514,421
Acquisition of intangible assets	(356,091,605)	(691,228,153)	(379,547,650)	(736,759,916)
Decrease (increase) in other assets	(2,293,446)	456,598	(2,444,516)	486,674
Net cash used in investing activities	(760,595,101)	(834,512,234)	(810,696,121)	(889,482,236)
Cash flows from financing activities:				
Repayments of long-term borrowings including current portion	(156,413,192)	(92,580,460)	(166,716,257)	(98,678,809)
Increase in long-term borrowings	126,430,270	114,554,531	134,758,335	122,100,331
Increase in asset-backed securitization liabilities	-	192,936,800	-	205,645,705
Proceeds from issuance of capital stock	720,371,000	475,989,000	767,822,426	507,342,784
Payment of dividends	(18,633,347)	(20,931,317)	(19,860,740)	(22,310,080)
Increase in other current liabilities	-	23,350,748	-	24,888,880
Repayment of short-term borrowings	-	(3,298,328)	-	(3,515,592)
Decrease in other non-current liabilities	(25,000)	-	(26,647)	-
Net cash provided by financing activities	671,729,731	690,020,974	715,977,117	735,473,219
Net increase (decrease) in cash and cash equivalents	355,139,875	(114,996,802)	378,533,228	(122,571,735)
Cash and cash equivalents at the beginning of the year	251,393,361	366,390,163	267,952,847	390,524,582
Cash and cash equivalents at the end of the year	₩ 606,533,236	₩ 251,393,361	\$ 646,486,075	\$ 267,952,847

Notes to Financial Statements

December 31, 2007 and 2006

I. Corporate information

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

The Company's head office is located in Anyang, Gyeonggi-do. The Company also has 9 petroleum stockpile offices, 3 construction offices, 2 overseas branches, 13 other overseas offices and 1 domestic office.

As of December 31, 2007 and 2006, the Company is wholly owned by the Korean government.

II. Summary of significant accounting policies

1. Basis of financial statements preparation

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with accounting standards for government corporation, as established by the Ministry of Finance and Economy, which include to the extent where applicable, accounting principles generally accepted in the Republic of Korea ("Korean GAAP"). Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. In the event of any differences in interpreting the financial statements or the independent accountants' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements.

Certain supplementary information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations and cash flows, is not presented in the accompanying financial statements.

2. Basis of translating financial statements

The accompanying financial statements are expressed in Korean won and, solely for the convenience of the reader, have been translated into United States dollars ("U.S. dollars") at the rate of ₩938.20 to US\$1, the year-end exchange rate on December 31, 2007. Such translation should not be construed as a representation that the Korean won amounts can actually be converted into U.S. dollars at the exchange rate used for purposes of such translation.

3. Adoption of new Statements of Korea Accounting Standards

The Korea Accounting Standards Board has issued new Statements of Korea Accounting Standards ("SKAS") to revise the existing Korea accounting standards with the intention to meet international practices and disclosure rules. The following new SKAS have become effective for accounting periods beginning on or after January 1, 2007:

- SKAS 11 Discontinuing Operations
- SKAS 21 Preparation and Presentation of Financial Statements
- SKAS 22 Share-based Payments
- SKAS 23 Earnings per Share

The Company has adopted these new standards in its financial statements for the year ended December 31, 2007. Adoption of these new standards did not have any material effect on the Company's financial statements, except for the effects of SKAS 21 as described below.

The adoption of SKAS 21 has resulted in the addition of a statement of changes in equity in the 2007 financial statements and reclassification of certain comparative amounts in the 2006 financial statements to conform with the 2007 presentation. These reclassifications have had no effect on the Company's net income and retained earnings as previously reported. A statement of changes in equity is not required to be presented for the comparative 2006 financial statements according to the transitional provision of SKAS 21 on application of retrospective application.

4. Revenue recognition

Revenue from the sales of crude oil is recognized upon when significant risk and rewards of ownership of oil have been transferred to the buyer, usually upon delivery thereof. Revenue from sales activities other than the sales of crude oil is recognized to the extent that when the Company's revenue earning processes have been substantially completed, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Company.

5. Cash equivalents

The Company considers short-term financial instruments with maturities of three months or less at the acquisition date to be cash equivalents.

6. Financial instruments

Short-term financial instruments are instruments handled by financial institutions which are held for short-term cash management purposes, maturing within one year. Such investments may include time deposits, installment savings deposits and restricted bank deposits.

7. Allowance for doubtful accounts

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

8. Inventories

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

When a decline in the value of an inventory indicates that its cost exceeds net realizable value, a valuation loss will be recognized to write the inventory down to its net realizable value, except for oil in reserve stock which is recorded at acquisition cost regardless of whether acquisition cost is lower than net realizable value in accordance with the Special Accounting Provisions of the Ministry of Finance and Economy.

9. Investments in securities

Investments in securities within the scope of SKAS 8 Investments in Securities are classified as either trading, held-to-maturity and available-for-sale securities, as appropriate, and are initially measured at cost, including incidental expenses, with cost being determined using the moving average method. The Company determines the classification of its investments after initial recognition, and, where allowed and appropriate, re-evaluates this designation at each financial year end.

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

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

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

Notes to Financial Statements

Trading securities are classified as current assets. Available-for-sale and held-to-maturity securities are classified as long-term investments, except that securities maturing within one year or are certain to be disposed of within one year from the balance sheet date are classified as short-term investments.

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

10. Equity method investments

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

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

11. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

Maintenance and repairs are expensed in the year in which they are incurred. Expenditures which enhance the value or extend the useful life of the related assets are capitalized.

Depreciation of property, plant and equipment is provided using the declining-balance method, except for buildings and structures for which the straight-line method is used, in accordance with accounting standards for government corporation, as established by the Ministry of Finance and Economy (Article 63, "Application of Corporate Income Tax Law") over the estimated useful life of the assets as follows:

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

When it is expected that the costs for dismantling and removing the facilities and restoring the site on which it was located to their original condition will be incurred at the end of the useful lives of the facilities, the present value of such restoration costs at the acquisition date are capitalized as additions to the cost of facilities and are accounted for as provision. The Company subsequently depreciates the restoration costs using the unit-of-production method over the useful lives of the related assets and the difference between estimated restoration costs and their present value will be charged to current operations by applying the effective interest rate method over the useful life of the facility.

12. Intangible assets

Intangible assets of the Company consist of research and development costs, oil interests and other intangible assets, which are stated at cost less accumulated amortization, as described below.

(1) Oil interests The Company has participated in the development of overseas natural resources either by entering into contracts for sharing the extracted products or by acquiring equity interests

in the related projects. The acquisition cost of the oil field is included in oil interest- production, oil interest-development or oil interest-exploration in the intangible assets.

Oil interests are amortized using the unit-of-production basis based upon the proved reserves of the pool in accordance with accounting standards for government corporation, as established by the Ministry of Finance and Economy (Article 63, "Application of Corporate Income Tax Law"). The proved reserves of oil interest - productions at acquisition are as follows:

Fields	Production	Reserves
Peru 8	1,251,179	15,836,880
Vietnam 15-1	3,328,658	27,075,000
Libyan NC174	2,939,293	28,567,000
East Sea-1 Gas	2,617,100	31,122,159
England Captain	2,809,803	19,300,086
Indonesia SES	2,009,541	28,942,881
Vietnam 11-2	3,322,362	67,790,310

(Unit: barrel)

For the projects proven to be unsuccessful upon evaluation, the principal amount invested in those projects is immediately recognized as loss on termination of exploration and the Company's obligations to repay the borrowings related to such unsuccessful projects are exempted in accordance with the Special Accounts for Energy and Resources ("SAER").

The financing charges, including interest expense incurred on borrowings for the development of overseas exploration, are accounted as a part of the acquisition cost.

The Company recognizes provision for costs of dismantling oil-producing facilities, including marine oil platforms and underwater pipes, etc. to the extent of the estimated costs of restoring the oil fields to their original conditions.

(2) Research and development costs Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities incurred in the development of new products or technologies is capitalized only when the Company can demonstrate that the costs can be clearly identified and the asset will generate future economic benefits. Amortization of the asset begins when development is completed and the asset is available for use, over the estimated useful life of 5 years. The expenditure capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads.

(3) Other intangible assets Other intangible assets, which are acquired by the Company, are stated at cost less accumulated amortization and impairment losses. Such intangible assets are amortized using the straight-line method, except for software for which the declining-balance method is used, over the estimated useful life of 5 or 20 years, based on the nature of the asset.

13. Capitalization of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized as the cost of those assets.

14. Impairment of assets

When the recoverable amount of an asset is less than its carrying amount due to obsolescence, physical damage or unexpected decline in the market value of the asset, the decline in value, if material, is deducted from the carrying amount and recognized as an asset impairment loss in the current year. In this regard, the Company recognized an impairment loss of oil interests amounting to ₩4,536,135 thousand and ₩44,444,263 thousand for the years ended December 31, 2007 and 2006, respectively.

Notes to Financial Statements

15. Government subsidy

Government subsidy, which is used for the acquisition of certain assets, is accounted for as a deduction from the acquisition cost of the acquired assets. Such subsidy amount is offset against the depreciation or amortization of the acquired assets during such assets' useful life. Government subsidy, which is required to be repaid, is recorded as a liability in the balance sheet. Government subsidy with no repayment obligation, which is used to purchase a designated asset or to develop a certain technology, is presented as a deduction of the related asset and is amortized against the depreciation or amortization expense of the related asset. Government subsidy, contributed to compensate for specific expenses, is offset against the related expenses as incurred.

The Company recognizes such subsidy amount as part of sales (service revenues) when the Company receives government subsidy to perform certain projects on behalf of the Korean government or to meet certain special regulations, or to be compensated for the price difference under the Korean government's control of contract prices.

16. Valuation of receivables (payables) at present value

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

When credit terms (e.g., principal, interest rate, payment period) of receivables from debtors experiencing financial difficulties (e.g., court receivership, debt restructuring, financial workout) are unfavorably changed from the perspective of the Company, such receivables are stated at present value and the difference between the carrying amount and present value of such receivables is charged to current operations.

17. Severance and retirement benefits

The Company introduced new pension plan, effective from the year of 2006. Under the Company's Retirement Benefits Regulation, consideration of service requirements under the new plan is effective from the date on which new pension plan is enacted, including the period of services prior to the effective date of new pension plan.

The Company introduced and applied retrospectively a defined benefit pension plan, under which each eligible employee receives a fixed amount of pension after retirement. The Company accrued, as the liability for retirement and severance benefits, lump-sum payments payable to employees who are currently in service, assuming that they left the Company as of the balance sheet date. All employees with a minimum of one year of service are eligible to participate and must elect to participate in the plan. Participants accrue estimated benefits based on actuarial assumptions measured on the balance sheet date at the discounted present value. Employees become vested in their benefits after completing five years of vesting service or reaching age 65, if earlier. In addition, the Company requires employees to purchase lump-sum pension product when they have selected to benefit from the pension under the policy of the defined benefit pension plan; as a consequence, the Company does not bear pension payment liability after retirement. Operational assets in the pension plan are reflected in the accompanying balance sheets as a reduction of the liability for retirement and severance benefits.

18. Foreign currency translation

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

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the appropriate exchange rates on the balance sheet date. The resulting unrealized foreign currency translation gains or losses are credited or charged to current operations. However, starting from 1995, monetary liabilities denominated in foreign currencies incurred in connection with the Company's loans for developing oil fields, whose repayment obligation is contingent upon the success of the project, are not translated into Korean won until the development turns out to be a success in accordance with the Special Accounting Provisions of the Ministry of Finance and Economy.

19. Translation of overseas financial statements stated in foreign currency

Financial statements of overseas business locations are maintained in the currencies of those countries in which they conduct their operations. In translating the foreign currency financial statements of these foreign business branches or offices into Korean won, assets and liabilities are translated at the current exchange rate on the balance sheet date and income and expenses are translated at the weighted-average exchange rate during the year. All resulting exchange differences are recognized as exchange differences on translation of foreign operations in the other comprehensive income account within stockholders' equity. In case of disposal, close-down or liquidation of a branch or office, the deferred cumulative amount recognized in stockholders' equity relating to that particular operation is recognized in profit or loss.

20. Derivatives financial instruments

Derivative financial instruments are presented as assets or liabilities valued principally at the fair value of the rights or obligations associated with the derivative contracts. The unrealized gain or loss from a derivative transaction with the purpose of hedging the exposure to changes in the fair value of a recognized asset or liability or unrecognized firm commitment is recognized in current operations. For a derivative instrument with the purpose of hedging the exposure to the variability of cash flows of a recognized asset or liability or a forecasted transaction, the hedge-effective portion of the derivative instrument's gain or loss is deferred as an other comprehensive income in equity. The ineffective portion of the gain or loss is charged or credited to current operations.

Derivative instruments that do not meet the criteria for hedge accounting, or contracts for which the Company has not elected hedge accounting are measured at fair value with unrealized gains or losses reported in current operations.

21. Provisions

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

22. Income taxes

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

Deferred income tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred income tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

23. Use of estimates

The preparation of financial statements in accordance with Korean GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Notes to Financial Statements

III. Inventories

Inventories as of December 31, 2007 and 2006 are as follows:

	Korean won in thousands		U.S. dollars	
	2007	2006	2007	2006
Merchandise	₩ -	₩ 74,499,315	\$ -	\$ 79,406,646
Finished goods	18,236,518	911,485	19,437,772	971,525
Raw materials	6,749,127	4,768,239	7,193,698	5,082,327
Oil in reserve stock	1,854,518,709	1,854,287,848	1,976,677,370	1,976,431,302
Supplies	8,378,017	7,952,299	8,929,884	8,476,124
	₩ 1,887,882,371	₩ 1,942,419,186	\$ 2,012,238,724	\$ 2,070,367,924

IV. Other current assets

Other current assets as of December 31, 2007 and 2006 are as follows:

	Korean won in thousands		U.S. dollars	
	2007	2006	2007	2006
Accrued income	₩ 2,221,522	₩ 2,334,563	\$ 2,367,855	\$ 2,488,343
Advance payments	56,206,955	82,283,211	59,909,353	87,703,273
Prepaid expenses	2,676,400	3,329,664	2,852,697	3,548,993
Other	65,424,594	44,581,782	69,734,166	47,518,419
	₩ 126,529,471	₩ 132,529,220	\$ 134,864,071	\$ 141,259,028

V. Available-for-sale securities

Available-for-sale securities as of December 31, 2007 consist of the following:

	Korean won in thousands						
	2007					Impairment loss	
	Ownership (%)	Acquisition cost	Fair value	Book value	Unrealized holding gain	UP to 2006	2007
Non marketable securities:							
Micronic Korea Co., Ltd.	16.70	₩ 775,000	₩ 378,853	₩ 378,853	₩ -	₩ 396,147	₩ -
Daehan Oil Pipeline corporation	3.69	8,298,000	9,935,195	9,935,195	1,637,195	-	-
PetroOnado S.A	5.64	22,754,525	18,234,422	18,234,422	-	4,371,153	-
		₩31,678,575	₩28,548,470	₩28,548,470	₩ 1,637,195	₩ 4,767,300	-

	U.S. dollars						
	2007					Impairment loss	
	Ownership (%)	Acquisition cost	Fair value	Book value	Unrealized holding gain	UP to 2006	2007
Non marketable securities:							
Micronic Korea Co., Ltd.	16.70	\$ 826,050	\$ 403,808	\$ 403,808	\$ -	\$ 422,242	\$ -
Daehan Oil Pipeline corporation	3.69	8,844,596	10,589,634	10,589,634	1,745,038	-	-
PetroOnado S.A	5.64	24,094,623	19,435,539	19,435,539	-	4,659,084	-
		\$ 33,765,269	\$ 30,428,981	\$ 30,428,981	\$ 1,745,038	\$ 5,081,326	\$ -

The fair value of the available-for-sale (non-marketable) equity securities such as Daehan Oil Pipeline Corporation are determined by reference to the amounts provided by NICE Pricing Services Inc., one of the independent appraisal institutes in Korea.

Among the above non-marketable equity securities, PetroOnado S.A. had been classified as an oil interest until the year end of 2005. However, on April, 2006, the government of Venezuela mandatorily ordered that each operating contract should be transferred to a joint venture company, Empresa Mixta and Mixed Co., so that non-marketable equity securities held by the Company (5.64%) were classified as available-for-sale securities from the beginning of 2006. In addition, the fair value of these non-marketable securities held by the Company is estimated at present value resulting from discounted future cash flows till 2026.

Available-for-sale securities as of December 31, 2006 consist of the following:

	Korean won in thousands						
	2006					Impairment loss	
	Ownership (%)	Acquisition cost	Fair value	Book value	Unrealized holding gain	UP to 2005	2006
Non marketable securities:							
Micronic Korea Co., Ltd.	16.70	₩ 775,000	₩ 378,853	₩ 378,853	₩ -	₩ 396,147	₩ -
Daehan Oil Pipeline corporation	3.69	8,298,000	8,298,000	8,298,000	-	-	-
PetroOnado S.A	5.64	22,754,525	18,383,372	18,383,372	-	-	4,371,153
		₩ 31,827,525	₩ 27,060,225	₩ 27,060,225	₩ -	₩ 396,147	₩ 4,371,153

Notes to Financial Statements

	U.S. dollars						
	2006					Impairment loss	
	Ownership (%)	Acquisition cost	Fair value	Book value	Unrealized holding gain	UP to 2005	2006
Non marketable securities:							
Micronic Korea Co., Ltd.	16.70	\$ 826,050	\$ 403,808	\$ 403,808	\$ -	\$ 422,242	\$ -
Daehan Oil Pipeline corporation	3.69	8,844,596	8,844,596	8,844,596	-	-	-
PetroOnado S.A	5.64	24,253,384	19,594,300	19,594,300	-	-	4,659,084
		\$ 33,924,030	\$ 28,842,704	\$ 28,842,704	\$ -	\$ 422,242	\$ 4,659,084

VI. Equity method investment

Investment in equity securities accounted for using the equity method as of December 31, 2007 is as follows:

investee	Korean won in thousands			
	Ownership(%)	Acquisition cost	Proportionate net asset value	Book value
KOL ^(*)	30.00	₩ 1,100,000	₩ 1,591,790	₩ 1,591,790

investee	U.S. dollars			
	Ownership(%)	Acquisition cost	Proportionate net asset value	Book value
KOL	30.00	\$ 1,172,458	\$ 1,696,643	\$ 1,696,643

(*) Korea Offshore Logistics Co., Ltd.

In addition, the beginning of 2006, the Company has applied the same method as used for direct invested oil interest to investments in overseas subsidiaries that had been accounted for using the equity method until the year end of 2005 (see Note 26).

The summary of financial position of the investee as of December 31, 2007 and 2006, and the results of their operations for the years then ended, is presented as follows:

2007

	Korean won in thousands			
investee	Total assets	Total liabilities	Sales	Net income
KOL	₩ 11,186,703	₩ 5,880,737	₩ 7,062,442	₩ 867,264

	U.S. dollars			
investee	Total assets	Total liabilities	Sales	Net income
KOL	\$ 11,923,580	\$ 6,268,106	\$ 7,527,651	\$ 924,391

2006

	Korean won in thousands			
investee	Total assets	Total liabilities	Sales	Net income
KOL	₩ 11,471,031	₩ 6,737,969	₩ 4,733,062	₩ 683,364

	U.S. dollars			
investee	Total assets	Total liabilities	Sales	Net income
KOL	\$ 12,226,637	\$ 7,181,805	\$ 5,044,833	\$ 728,378

The financial information of KOL as of December 31, 2007 and 2006, and for the years then ended are presented based on their unaudited financial statements.

In connection with the above unaudited financial statements, the Company has performed the following procedures to determine the reliability of such financial statements:

- The Company obtained the financial statements signed by the Chief Executive Officer and statutory auditors of the investee.
- The Company reviewed the financial statements to understand whether important transactions or events that may have material accounting implications or impacts, either publicly announced or otherwise known to the Company, were properly reflected in the financial statements.

Notes to Financial Statements

The details of changes in carrying amount of equity method investment for the year ended December 31, 2007 are as follows:

Korean won in thousands					
investee	Jan. 1, 2007	Equity in earnings of investee	Other comprehensive income	Dividends	Dec. 31, 2007
KOL	₩ 1,419,628	₩ 260,470	₩ 11,592	₩ (99,900)	₩ 1,591,790

U.S. dollars					
investee	Jan. 1, 2007	Equity in earnings of investee	Other comprehensive income	Dividends	Dec. 31, 2007
KOL	\$ 1,513,140	\$ 277,627	\$ 12,356	\$ (106,480)	\$ 1,696,643

The details of changes in carrying amount of equity method investment for the year ended December 31, 2006 are as follows:

Korean won in thousands					
investee	Jan. 1, 2006	Equity in earnings of investee	Other comprehensive income	Dividends	Dec. 31, 2006
KOL	₩ 1,314,519	₩ 205,009	₩ -	₩ (99,900)	₩ 1,419,628

U.S. dollars					
investee	Jan. 1, 2006	Equity in earnings of investee	Other comprehensive income	Dividends	Dec. 31, 2006
KOL	\$ 1,401,107	\$ 218,513	\$ -	\$ (106,480)	\$ 1,513,140

VII. Related party disclosures

No significant transactions with related parties, except for the equity method investment described in Note 6.

Outstanding balances with related parties as of December 31, 2007 and 2006 are as follows:

Relationship	Account	Korean won in thousands		U.S. dollars	
		2007	2006	2007	2006
Employees	Loans to employees	₩ 10,589,538	₩ 9,985,593	\$ 11,287,080	\$ 10,643,352

The guarantees that the Company has provided for the related parties as of December 31, 2007 and 2006 are as follows:

Related parties	Type of guaranty	2007	2006
CLJOC ^(*)	Payment guaranty	US\$ 5,420,000	US\$ 10,840,000

(*) CLJOC : Cuu Long Joint Operating Co. in Vietnam.

VIII. Property, plant and equipment

Details of property, plant and equipment as of December 31, 2007 are as follows:

	Korean won in thousands			U.S. dollars		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	₩ 194,921,625	₩ -	₩ 194,921,625	\$ 207,761,272	\$ -	\$ 207,761,272
Buildings	95,533,877	(17,676,761)	77,857,116	101,826,772	(18,841,144)	82,985,628
Structures	1,238,360,829	(277,078,059)	961,282,770	1,319,932,668	(295,329,417)	1,024,603,251
Machinery and equipment	348,501,954	(274,456,345)	74,045,609	371,458,062	(292,535,009)	78,923,053
Vehicles	2,092,708	(1,555,126)	537,582	2,230,556	(1,657,563)	572,993
Furniture and fixtures	27,340,451	(19,210,212)	8,130,239	29,141,389	(20,475,604)	8,665,785
Oil prospecting vessels	46,973,870	(37,665,977)	9,307,893	50,068,077	(40,147,066)	9,921,011
Construction in-progress	593,066,795	-	593,066,795	632,132,589	-	632,132,589
	₩ 2,546,792,109	₩ (627,642,480)	₩ 1,919,149,629	\$ 2,714,551,385	\$ (668,985,803)	\$ 2,045,565,582

Notes to Financial Statements

Details of property, plant and equipment as of December 31, 2006 are as follows:

	Korean won in thousands			U.S. dollars		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	₩ 194,814,809	₩ -	₩ 194,814,809	\$ 207,647,420	\$ -	\$ 207,647,420
Buildings	93,463,795	(15,432,094)	78,031,701	99,620,332	(16,448,619)	83,171,713
Structures	1,238,312,374	(234,858,186)	1,003,454,188	1,319,881,021	(250,328,486)	1,069,552,535
Machinery and equipment	346,998,184	(248,990,239)	98,007,945	369,855,237	(265,391,429)	104,463,808
Vehicles	2,080,430	(1,458,707)	621,723	2,217,469	(1,554,793)	662,676
Furniture and fixtures	22,689,687	(16,627,591)	6,062,096	24,184,275	(17,722,864)	6,461,411
Oil prospecting vessels	46,195,206	(35,025,355)	11,169,851	49,238,122	(37,332,504)	11,905,618
Construction in-progress	444,055,434	-	444,055,434	473,305,728	-	473,305,728
	₩ 2,388,609,919	₩ (552,392,172)	₩ 1,836,217,747	\$ 2,545,949,604	\$ (588,778,695)	\$ 1,957,170,909

Changes in the net book value of property and equipment for the year ended December 31, 2007 are as follows:

	Korean won in thousands					
	January 1, 2007	Additions	Disposals	Depreciation	Others	December 31, 2007
Land	₩ 194,814,809	₩ -	₩ (5,602)	₩ -	₩ 112,418	₩ 194,921,625
Buildings	78,031,701	2,170,814	(14,730)	(2,252,821)	(77,848)	77,857,116
Structures	1,003,454,188	125,301	(55,030)	(42,241,689)	-	- 961,282,770
Machinery and equipment	98,007,945	2,111,773	(39,577)	(26,033,467)	(1,065)	74,045,609
Vehicles	621,723	277,229	(2,936)	(358,434)	-	537,582
Furniture and fixtures	6,062,096	5,166,168	(72,861)	(3,792,395)	767,231	8,130,239
Oil prospecting vessels	11,169,851	778,664	-	(2,640,622)	-	9,307,893
Construction in-progress	444,055,434	149,045,932	-	-	(34,571)	593,066,795
	₩ 1,836,217,747	₩ 159,675,881	₩ (190,736)	₩ (77,319,428)	₩ 766,165	₩ 1,919,149,629

	U. S. dollars					
	January 1, 2007	Additions	Disposals	Depreciation	Others	December 31, 2007
Land	\$ 207,647,420	\$ -	\$ (5,971)	\$ -	\$ 119,823	\$ 207,761,272
Buildings	83,171,713	2,313,807	(15,700)	(2,401,216)	(82,976)	82,985,628
Structures	1,069,552,535	133,555	(58,655)	(45,024,184)	-	1,024,603,251

(Cont'd)

	U. S. dollars					
	2007					
	January 1, 2007	Additions	Disposals	Depreciation	Others	December 31, 2007
Machinery and equipment	104,463,808	2,250,877	(42,184)	(27,748,313)	(1,135)	78,923,053
Vehicles	662,676	295,490	(3,129)	(382,044)	-	572,993
Furniture and fixtures	6,461,411	5,506,469	(77,660)	(4,042,204)	817,769	8,665,785
Oil prospecting vessels	11,905,618	829,955	-	(2,814,562)	-	9,921,011
Construction in-progress	473,305,728	158,863,709	-	-	(36,848)	632,132,589
	\$1,957,170,909	\$ 170,193,862	\$ (203,299)	\$ (82,412,523)	\$ 816,633	\$2,045,565,582

Changes in the net book value of property and equipment for the year ended December 31, 2006 are as follows:

	Korean won in thousands					
	2006					
	January 1, 2006	Additions	Disposals	Depreciation	Others	December 31, 2006
Land	₩ 195,966,483	₩ 101	₩ (1,947,008)	₩ -	₩ 795,233	₩ 194,814,809
Buildings	76,022,378	3,214,897	(761,713)	(2,267,536)	1,823,675	78,031,701
Structures	939,219,906	466,853	(79,818)	(46,329,170)	110,176,417	1,003,454,188
Machinery and equipment	107,084,152	2,678,082	(1,424)	(35,076,454)	23,323,589	98,007,945
Vehicles	537,405	417,853	(2,697)	(330,838)	-	621,723
Furniture and fixtures	6,370,608	2,932,112	(97,328)	(3,182,438)	39,142	6,062,096
Oil prospecting vessels	4,960,939	8,115,907	-	(3,168,854)	1,261,859	11,169,851
Construction in-progress	395,283,521	186,366,815	-	-	(137,594,902)	444,055,434
	₩ 1,725,445,392	₩ 204,192,620	₩ (2,889,988)	₩ (90,355,290)	₩ (174,987)	₩ 1,836,217,747

	U. S. dollars					
	2006					
	January 1, 2006	Additions	Disposals	Depreciation	Others	December 31, 2006
Land	\$ 208,874,955	\$ 108	\$ (2,075,259)	\$ -	\$ 847,616	\$ 207,647,420
Buildings	81,030,034	3,426,665	(811,888)	(2,416,900)	1,943,802	83,171,713
Structures	1,001,087,088	497,605	(85,076)	(49,380,910)	117,433,828	1,069,552,535
Machinery and equipment	114,137,873	2,854,489	(1,518)	(37,386,969)	24,859,933	104,463,808
Vehicles	572,805	445,377	(2,875)	(352,631)	-	662,676
Furniture and fixtures	6,790,245	3,125,254	(103,739)	(3,392,069)	41,720	6,461,411
Oil prospecting vessels	5,287,720	8,650,508	-	(3,377,589)	1,344,979	11,905,618
Construction in-progress	421,321,169	198,642,949	-	-	(146,658,390)	473,305,728
	\$ 1,839,101,889	\$ 217,642,955	\$ (3,080,355)	\$ (96,307,068)	\$ (186,512)	\$ 1,957,170,909

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Inventories and property and equipment are insured against fire and other casualty losses to the extent of ₩7,815,233 thousand and ₩7,515,784 thousand as of December 31, 2007 and 2006, respectively.

The book value of the Company owned land and the value of land officially announced by the Korean government for tax and land policy purposes as of December 31, 2007 are as follows:

	Korean won in thousands		U. S. dollars	
	Book value	Publicly announced value	Book value	Publicly announced value
Anyang (Head office)	₩ 22,017,479	₩ 39,507,200	\$ 23,467,788	\$ 42,109,572
Ulsan Gas Production Terminal	6,024,294	10,645,770	6,421,119	11,347,016
Ulsan office (*)	13,367,433	109,466,472	14,247,957	116,677,118
Geoje office (*)	12,814,224	22,939,350	13,658,307	24,450,384
Yeosu office (*)	54,297,907	24,479,181	57,874,554	26,091,645
Seosan office	25,653,394	50,201,255	27,343,204	53,508,053
Pyeongtaek office	11,190,581	93,159,009	11,927,714	99,295,469
Yongin office (*)	20,493,750	24,413,825	21,843,690	26,021,984
Gokseong office	18,615,540	10,638,600	19,841,761	11,339,373
Donghae office	10,447,024	5,692,544	11,135,178	6,067,517
	₩ 194,921,626	₩ 391,143,206	\$ 207,761,272	\$ 416,908,131

(*) Some portion of land is classified as roads, rivers, etc., of which the Korean government does not officially announce values. For those assets, unannounced value for certain offices (Ulsan office - ₩213,319 thousand, Geoje office - ₩64,147 thousand, Yeosu office - ₩16,448,724 thousand, Yongin office - ₩2,675 thousand) is not included therein.

IX. Intangible assets

Intangible assets as of December 31, 2007 and 2006 consist of the following:

	Korean won in thousands		U.S. dollars	
	2007	2006	2007	2006
Oil interests:				
Exploration	₩ 536,753,068	₩ 397,982,322	\$ 572,109,430	\$ 424,197,742
Development	313,546,124	291,063,388	334,199,663	310,235,971
Production	930,465,646	920,711,573	991,756,178	981,359,596
	1,780,764,838	1,609,757,283	1,898,065,271	1,715,793,309
Other intangible assets	7,696,922	6,348,511	8,203,925	6,766,693
	₩1,788,461,760	₩1,616,105,794	\$1,906,269,196	\$1,722,560,002

Changes in the net book value of oil interests for the years ended December 31, 2007 and 2006 are as follows:

	Korean won in thousands					
	2007			2006		
	Oil interest - exploration	Oil interest - development	Oil interest - production	Oil interest - exploration	Oil interest - development	Oil interest - production
January 1,	₩ 397,982,322	₩ 291,063,388	₩ 920,711,573	₩ 172,528,628	₩ 82,862,466	₩ 413,581,383
Increases	143,306,881	22,482,736	185,507,290	202,750,796	446,767,759	99,603,908
Decreases	-	-	-	-	-	-
Amortization	-	-	(117,785,338)	-	-	(80,559,312)
Impairment loss	(4,536,135)	-	-	(44,444,263)	-	-
Other changes	-	-	(57,967,879)	67,147,161	(238,566,837)	488,085,594
December 31,	₩ 536,753,068	₩ 313,546,124	₩ 930,465,646	₩ 397,982,322	₩ 291,063,388	₩ 920,711,573

	U.S dollars					
	2007			2006		
	Oil interest - exploration	Oil interest - development	Oil interest - production	Oil interest - exploration	Oil interest - development	Oil interest - production
January 1,	\$ 424,197,742	\$ 310,235,971	\$ 981,359,596	\$ 183,893,230	\$ 88,320,684	\$ 440,824,326
Increases	152,746,622	23,963,692	197,726,807	216,106,156	476,196,716	106,164,899
Decreases	-	-	-	-	-	-
Amortization	-	-	(125,543,954)	-	-	(85,865,820)
Impairment loss	(4,834,934)	-	-	(47,371,843)	-	-
Other changes	-	-	(61,786,271)	71,570,199	(254,281,429)	520,236,191
December 31,	\$ 572,109,430	\$ 334,199,663	\$ 991,756,178	\$ 424,197,742	\$ 310,235,971	\$ 981,359,596

Changes in the net book value of other intangible assets except for oil interests for the year ended December 31, 2007 are as follows:

	Korean won in thousands					
	Jan. 1, 2007	Increase	Decrease	Amortization	Other changes	Dec. 31, 2007
Development costs	₩ 3,866,944	₩ 4,412,115	₩ -	₩ (1,289,853)	₩ (1,765,231)	₩ 5,223,975
Industrial property rights	5,568	-	-	(3,461)	-	2,107
Others	2,475,999	382,581	-	(1,388,140)	1,000,400	2,470,840
	₩ 6,348,511	₩ 4,794,696	₩ -	₩ (2,681,454)	₩ (764,831)	₩ 7,696,922

Notes to Financial Statements

	U.S. dollars					
	Jan. 1, 2007	Increase	Decrease	Amortization	Other changes	Dec. 31, 2007
Development costs	\$ 4,121,663	\$ 4,702,745	\$ -	\$ (1,374,817)	\$ (1,881,508)	\$ 5,568,083
Industrial property rights	5,935	-	-	(3,689)	-	2,246
Others	2,639,095	407,782	-	(1,479,578)	1,066,297	2,633,596
	\$ 6,766,693	\$ 5,110,527	\$ -	\$ (2,858,084)	\$ (815,211)	\$ 8,203,925

Changes in the net book value of other intangible assets except for oil interests for the year ended December 31, 2006 are as follows:

	Korean won in thousands					
	Jan. 1, 2006	Increase	Decrease	Amortization	Other changes	Dec. 31, 2006
Development costs	₩ 3,049,117	₩ 1,780,403	₩ (243,636)	₩ (718,940)	₩ -	₩ 3,866,944
Industrial property rights	9,030	-	-	(3,462)	-	5,568
Others	2,280,764	1,267,626	(81,402)	(1,165,976)	174,987	2,475,999
	₩ 5,338,911	₩ 3,048,029	₩ (325,038)	₩ (1,888,378)	₩ 174,987	₩ 6,348,511

	U.S. dollars					
	Jan. 1, 2006	Increase	Decrease	Amortization	Other changes	Dec. 31, 2006
Development costs	\$ 3,249,965	\$ 1,897,680	\$ (259,685)	\$ (766,297)	\$ -	\$ 4,121,663
Industrial property rights	9,625	-	-	(3,690)	-	5,935
Others	2,431,000	1,351,125	(86,764)	(1,242,780)	186,514	2,639,095
	\$ 5,690,590	\$ 3,248,805	\$ (346,449)	\$ (2,012,767)	\$ 186,514	\$ 6,766,693

X. Other non-current assets

Other non-current assets as of December 31, 2007 and 2006 are as follows:

	Korean won in thousands		U.S. dollars	
	2007	2006	2007	2006
Loans to employees (See Note 7)	₩ 10,399,761	₩ 9,939,115	\$ 11,084,802	\$ 10,593,812
Others	2,694,184	2,491,522	2,871,652	2,655,641
	₩ 13,093,945	₩ 12,430,637	\$ 13,956,454	\$ 13,249,453

XI. Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies as of December 31, 2007 and 2006 are as follows:

	2007		2006	
	Foreign currencies	Korean won equivalent (in thousands)	Foreign currencies	Korean won equivalent (in thousands)
Assets:				
Cash and cash equivalents	US\$ 50,664,315	₩ 47,533,260	US\$ 65,414,100	₩ 60,808,947
	CAD 476,210	455,691	CAD 291,046	233,178
Trade accounts receivable	US\$ 153,172,024	143,705,993	US\$ 18,200,033	16,918,751
Short-term and long-term loans receivable	US\$ 812,940,649	762,700,917	US\$ 577,815,797	537,137,565
Advance payments	US\$ 61,757,657	57,941,033	US\$ 70,346,260	65,393,883
	AUD 573,373	471,800	AUD 950,310	883,408
Other accounts receivable	US\$ 32,915,790	30,881,594	US\$ -	-
	US\$ 1,111,450,435	₩ 1,043,690,288	US\$ 731,776,190	₩ 681,375,732
	AUD 573,373		CAD 291,046	
	CAD 476,210		AUD 950,310	
Liabilities:				
Other accounts payable	US\$ 111,365,598	₩ 104,483,204	US\$ 2,003,066	₩ 1,862,050
	GBP 161,057	301,837		
	EUR 534,535	738,332		
	SGD 1,149,623	746,037		
	AUD 303,891	250,057		
	CAD 57,960	55,463		
Current portion of long-term borrowings	US\$ 83,620,260	78,452,527	US\$ 94,391,319	87,746,163
Long-term borrowings (*)	US\$ 292,409,157	274,338,271	US\$ 816,399,599	758,925,075
	US\$ 487,395,015	₩ 459,365,728	US\$ 912,793,984	₩ 848,533,288
	GBP 161,057			
	EUR 534,535			
	SGD 1,149,623			
	AUD 303,891			
	CAD 57,960			

(*) Monetary liabilities denominated in foreign currencies in relation to the Company's loans for developing oil fields, which the repayment of those loans is contingently liable subject to the success of the development project, are not translated into Korean won until such time when the development of oil fields turns out to be a success (see Note 2).

Notes to Financial Statements

XII. Valuation of receivables and payables at present value

Present value and related discounts on short-term and long-term receivables and payables as of December 31, 2007 are as follows:

	Interest rate (%)	Maturity	Korean won in thousands		
			Nominal amount	Present value	Present value discount
Short-term and long-term foreign currencies denominated loans	5 ~ 7	2008 ~ 2012	₩ 3,663,984	₩ (3,185,341)	₩ 478,643
Short-term and long-term foreign currencies denominated borrowings	4 ~ 6	2008 ~ 2012	3,663,984	(3,128,557)	535,427
Long-term trade accounts receivable	Rate varies on a quarterly basis	2009 ~ 2012	61,676,252	(52,810,220)	8,866,032
Long-term trade accounts payable	Rate varies on a quarterly basis	2009 ~ 2012	54,832,061	(47,680,144)	7,151,917
Monetary accounts receivable	Rate varies on a quarterly basis	2008	16,204,162	(15,481,455)	722,707
Monetary accounts payable	Rate varies on a quarterly basis	2008	14,436,129	(13,858,068)	578,061

	Interest rate (%)	Maturity	U.S. dollars		
			Nominal amount	Present value	Present value discount
Short-term and long-term foreign currencies denominated loans	5 ~ 7	2008 ~ 2012	\$ 3,905,334	\$ (3,395,162)	\$ 510,172
Short-term and long-term foreign currencies denominated borrowings	4 ~ 6	2008 ~ 2012	3,905,334	(3,334,638)	570,696
Long-term trade accounts receivable	Rate varies on a quarterly basis	2009 ~ 2012	65,738,917	(56,288,872)	9,450,045
Long-term trade accounts payable	Rate varies on a quarterly basis	2009 ~ 2012	58,443,894	(50,820,874)	7,623,020
Monetary accounts receivable	Rate varies on a quarterly basis	2008	17,271,543	(16,501,231)	770,312
Monetary accounts payable	Rate varies on a quarterly basis	2008	15,387,049	(14,770,910)	616,139

A collection for the loans receivable from SK Incheon Oil Co., Ltd. (formerly "Inchon Oil Refinery Co., Ltd."), which the Company borrowed from SAER under the policy of the Ministry of Commerce, Industry and Energy ("MCIE"), was rescheduled from 2001 to 2005 to from 2005 to 2012 according to the composition approval from the court on March 25, 2003. In addition, the repayment schedule for the Company's borrowings from the SAER was adjusted accordingly.

When Daehan Oil Pipeline Co., Ltd. ("DOPCO"), previously a government-owned company, was privatized, the Company provided a loan to DOPCO through the borrowings from the SAER under the policy of the MCIE. The original collection schedule of 2002, 2003, 2004, 2005, 2006 and 2007 for the loans receivables from DOPCO was extended to 2007, 2008, 2009, 2010, 2011 and 2012, respectively, and the interest rate was also adjusted. Further, the collection schedule for the Company's borrowings from the SAER was changed accordingly. As a result, the Company recorded other bad debt expense and gain on exemption of debt of ₩3,403,946 thousand and ₩2,811,581 thousand, respectively, for the year ended December 31, 2007 (₩3,658,549 thousand and ₩2,980,040 thousand, respectively, for the year ended December 31, 2006).

XIII. Long-term borrowings

Long-term borrowings of the Company as of December 31, 2007 and 2006 are as follows:

i) Long-term borrowings denominated in Korean won

Lenders	Annual interest rate	Korean won in thousands	
		2007	2006
SAER	3.50% ~ 4.75%	₩ 1,486,527,794	₩ 1,645,735,852
Less: current portion		(193,825,698)	(204,695,198)
		₩ 1,292,702,096	₩ 1,441,040,654

ii) Long-term borrowings denominated in foreign currencies

Lenders	Annual interest rate	Korean won in thousands	
		2007	2006
SAER for loan to 3rd party:			
Borrowings for exploration and production (**)	3.00%	₩ 615,580,604	₩ 399,155,016
Borrowings for general operations (*)	2.00% ~ 5.00%	147,063,129	137,925,890
Less: current portion		(29,484,149)	(31,801,102)
		733,159,584	505,279,804
SAER for KNOC:			
Borrowings for exploration and production (**)	3.00%	518,935,462	386,616,931
Borrowings for general operations (*)	3.00%	195,407,470	272,904,597
Less: current portion		(38,648,178)	(55,945,061)
		675,694,754	603,576,467

(Cont'd)

Notes to Financial Statements

Lenders	Annual interest rate	Korean won in thousands	
		2007	2006
BNP PARIBAS Bank:			
Borrowings for general operations (*)	6M Libor + 0.55%	₩ 10,320,200	₩ 10,225,600
Less: current portion		(10,320,200)	-
		-	10,225,600
BNP PARIBAS Bank:			
Borrowings for general operations (*)	Libor + 0.17%	-	26,460,134
Less: current portion		-	-
		-	26,460,134
		1,408,854,338	1,145,542,005
Less: present value discounts		(535,427)	(819,523)
		₩ 1,408,318,911	₩ 1,144,722,482

i) Long-term borrowings denominated in Korean won

Lenders	Annual interest rate	U.S dollars	
		2007	2006
SAER	3.50%~ 4.75%	\$ 1,584,446,593	\$ 1,754,141,816
Less: current portion		(206,593,155)	(218,178,638)
		\$ 1,377,853,438	\$ 1,535,963,178

ii) Long-term borrowings denominated in foreign currencies

Lenders	Annual interest rate	U.S dollars	
		2007	2006
SAER for loan to 3rd party:			
Borrowings for exploration and production (**)	3.00%	\$ 656,129,402	\$ 425,447,683
Borrowings for general operations (*)	2.00% ~ 5.00%	156,750,297	147,011,181
Less: current portion		(31,426,294)	(33,895,867)
		781,453,405	538,562,997

(Cont'd)

		U.S dollars	
Lenders	Annual interest rate	2007	2006
SAER for KNOC:			
Borrowings for exploration and production (**)	3.00%	553,118,164	412,083,704
Borrowings for general operations (*)	3.00%	208,279,120	290,881,046
Less: current portion		(41,193,966)	(59,630,208)
		720,203,318	643,334,542
BNP PARIBAS Bank:			
Borrowings for general operations (*)	6M Libor + 0.55%	\$ 11,000,000	\$ 10,899,169
Less: current portion		(11,000,000)	-
		-	10,899,169
BNP PARIBAS Bank:			
Borrowings for general operations (*)	Libor + 0.17%	-	28,203,086
Less: current portion		-	-
		-	28,203,086
		1,501,656,723	1,220,999,793
Less: present value discounts		(570,696)	(873,506)
		\$ 1,501,086,027	\$ 1,220,126,287

(*) The Company's long-term borrowings denominated in foreign currencies for general operations are to be repaid in installments.

(**) The principal amount of these borrowings is to be repaid on an installment basis subject to the successful start-up of commercial oil production. The Company's obligation to repay the principal amount will be waived when the exploration is proven to be unsuccessful and withdrawn without any commercial production in accordance with the MCIE's applicable standards (No. 2001-27) on loans.

A summary of the repayment schedules of long-term borrowings as of December 31, 2007 is as follows:

Year	Korean won in thousands		
	Korean won denominated borrowings	Foreign currency denominated borrowings	Total
2008	₩ 193,825,698	₩ 78,452,527	₩ 272,278,225
2009	208,139,051	71,713,295	279,852,346
2010	213,242,505	62,102,937	275,345,442
2011	173,772,360	56,487,077	230,259,437
2012 and thereafter	697,548,180	84,034,963	781,583,143
	₩ 1,486,527,794	₩ 352,790,799	₩ 1,839,318,593

Notes to Financial Statements

Year	U.S dollars		
	Korean won denominated borrowings	Foreign currency denominated borrowings	Total
2008	\$ 206,593,155	\$ 83,620,260	\$ 290,213,414
2009	221,849,340	76,437,108	298,286,448
2010	227,288,963	66,193,708	293,482,671
2011	185,218,887	60,207,927	245,426,814
2012 and thereafter	743,496,248	89,570,414	833,066,663
	\$ 1,584,446,593	\$ 376,029,417	\$ 1,960,476,010

The principal amount of certain borrowings as described above is to be repaid on an installment basis subject to the successful start-up of commercial oil production. As such, the repayment schedule of such borrowings can not be reasonably determined and therefore not included in the annual repayment plan of long-term borrowings.

XIV. Asset-backed securitization liabilities

During the year 2006, the Company entered into a contract for transferring future trade receivables from Vietnam 15-1 oil interest to be generated for coming five years to an overseas resources investment company under the Overseas Resources Development Business Act. The Company has recorded the asset-backed securitization liabilities of each settlement period.

		Korean won in thousands		U.S dollars	
		2007	2006	2007	2006
Vietnam 15-1	Asset backed				
	securitization liabilities	₩ 145,755,257	₩ 192,936,800	\$ 155,356,275	\$ 205,645,705
	Less: Current portion	(51,688,749)	(60,967,206)	(55,093,529)	(64,983,166)
		₩ 94,066,508	₩ 131,969,594	\$ 100,262,746	\$ 140,662,539

XV. Severance and retirement benefits

Changes in net carrying amount of severance and retirement benefits for the years ended December 31, 2007 and 2006 are as follows:

	Korean won in thousands		U.S. dollars	
	2007	2006	2007	2006
As of January 1	₩ 33,786,411	₩ 27,760,831	\$ 36,011,949	\$ 29,589,460
Provision during the year	12,383,010	7,096,435	13,198,689	7,563,882
Payments during the year	(1,599,884)	(1,070,855)	(1,705,270)	(1,141,393)
	44,569,537	33,786,411	47,505,368	36,011,949

(Cont'd)

	Korean won in thousands		U.S. dollars	
	2007	2006	2007	2006
Less:				
Operational assets				
for pension plan	(28,996,312)	(19,923,863)	(30,906,322)	(21,236,263)
Insurance deposits	-	(445,108)	-	(474,428)
As of December 31	₩ 15,573,225	₩ 13,417,440	\$ 16,599,046	\$ 14,301,258

Under the defined benefit plan as described in Note 2, the Company partly funded at 60% of severance and retirement benefit liabilities as of the balance sheet date and the funds contributed are managed by the Samsung Life Insurance Co., Ltd. and others, the plan's administrators appointed by the Company. The Company accounts for the funds contributed as a deduction from the severance and retirement benefit liability, of which details as of December 31, 2007 and 2006 are as follows:

	Korean won in thousands		U.S. dollars	
	2007	2006	2007	2006
Cash and cash equivalents	₩ -	₩ 19,923,863	\$ -	\$ 21,236,263
Short-term and long-term				
financial instruments	24,537,333	-	26,153,627	-
Securities	4,047,569	-	4,314,186	-
Loans	68,929	-	73,469	-
Others	342,481	-	365,040	-
	₩ 28,996,312	₩ 19,923,863	\$ 30,906,322	\$ 21,236,263

XVI. Provision for restoration costs

The Company accounts for the present value of restoration costs relating to oil fields, structures, and machinery and equipment as provision (See Note 2). As of December 31, 2007, the Company's provision for restoration costs for Peru 8 and Donghae-1 amounts to ₩3,311,581 thousand and ₩79,159,666 thousand, respectively. In addition, for Vietnam 15-1, Vietnam 11-2, and England Captain, the Company's provision for restoration costs amounts to ₩4,876,721 thousand, ₩10,233,036 thousand, and ₩18,785,967 thousand, respectively.

Changes in provision for restoration costs during 2007 and 2006 are as follows:

	Korean won in thousands		U.S. dollars	
	2007	2006	2007	2006
January 1,	₩ 183,749,885	₩ 75,775,004	\$ 195,853,640	\$ 80,766,365
Provision	5,009,601	6,215,731	5,339,588	6,625,167
Adjustments	(72,392,515)	101,759,150	(77,161,069)	108,462,108
December 31,	₩ 116,366,971	₩ 183,749,885	\$ 124,032,158	\$ 195,853,640

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XVII. Capital stock and capital surplus

The changes in capital stock during the year ended December 31, 2007 are as follows:

	Korean won in thousands	U.S. dollars
As of January 1, 2007	₩3,964,541,780	\$ 4,225,689,384
Increases during 2007:		
March 20 (Increase for stockpiling petroleum)	24,180,000	25,772,756
March 28 (Increase for stockpiling petroleum)	85,000,000	90,599,019
April 24 (Increase for stockpiling petroleum)	34,522,000	36,795,992
June 29 (Increase for stockpiling petroleum)	130,096,000	138,665,530
June 29 (Increase for exploring and developing oil field)	97,218,000	103,621,829
December 28 (Increase for stockpiling petroleum)	91,873,000	97,924,750
December 28 (Increase for exploring and developing oil field)	257,482,000	274,442,550
	720,371,000	767,822,426
As of December 31, 2007	₩4,684,912,780	\$ 4,993,511,810

The changes in capital stock during the year ended December 31, 2006 are as follows:

	Korean won in thousands	U.S. dollars
As of January 1, 2006	₩3,488,552,780	\$ 3,718,346,600
Increases during 2007:		
March 7 (Increase for stockpiling petroleum)	21,263,000	22,663,611
March 13 (Increase for stockpiling petroleum)	41,053,000	43,757,195
April 7 (Increase for stockpiling petroleum)	14,191,000	15,125,773
June 23 (Increase for stockpiling petroleum)	28,383,000	30,252,611
June 29 (Increase for stockpiling petroleum)	66,429,000	70,804,732
July 11 (Increase for stockpiling petroleum)	12,445,000	13,264,762
August 10 (Increase for exploring and developing oil field)	60,000,000	63,952,249
August 31 (Increase for exploring and developing oil field)	60,000,000	63,952,249
September 28 (Increase for stockpiling petroleum)	24,500,000	26,113,835
October 18 (Increase for stockpiling petroleum)	47,116,000	50,219,569
November 20 (Increase for stockpiling petroleum)	40,504,000	43,172,032
December 19 (Increase for exploring and developing oil field)	15,605,000	16,632,914
December 19 (Increase for stockpiling petroleum)	44,500,000	47,031,252
	475,989,000	507,342,784
As of December 31, 2006	₩3,964,541,780	\$ 4,225,689,384

1. Capital surplus

Capital surplus may not be utilized for cash dividend, but may be used to offset a future deficit, if any, or may be transferred to capital stock.

XVIII. Retained earnings

Retained earnings of the Company as of December 31, 2007 and 2006 are as follows:

	Korean won in thousands		U.S. dollars	
	2007	2006	2007	2006
Legal reserve	₩ 446,096,396	₩362,808,756	\$ 475,481,130	\$ 386,707,265
Reserve for business expansion	444,652,774	361,365,134	473,942,416	385,168,551
Unappropriated retained earnings	206,695,752	185,208,627	220,310,969	197,408,470
	₩1,097,444,922	₩909,382,517	\$1,169,734,515	\$ 969,284,286

1. Legal reserve

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

2. Reserve for business expansion

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

XIX. Accumulated other comprehensive income

Details of accumulated other comprehensive income of the Company as of December 31, 2007 and 2006 are as follows:

	Korean won in thousands		U.S. dollars	
	2007	2006	2007	2006
Gain on valuation of available-for-sale securities (Note 5)	₩ 1,186,967	₩ -	\$ 1,265,153	\$ -
Capital adjustment arising from equity method investment (Note 6)	11,592	-	12,356	-
Exchange differences on translation of foreign operations	(7,818,404)	(9,717,268)	(8,333,409)	(10,357,352)
	₩(6,619,845)	₩(9,717,268)	\$ (7,055,900)	\$ (10,357,352)

Notes to Financial Statements

XX. Comprehensive income

The details of comprehensive income for the year ended December 31, 2007 are as follows:

	Korean won in thousands	U.S. dollars
Net income	₩ 206,695,752	\$ 220,310,969
Other comprehensive income:		
Gain on valuation of available-for-sale securities, less tax effect of ₩450,229 thousand (\$479,885)	1,186,967	1,265,153
Capital adjustment arising from equity method investment	11,592	12,356
Exchange differences on translation of foreign operations	1,898,864	2,023,943
	3,097,423	3,301,452
Comprehensive income	₩ 209,793,175	\$ 223,612,421

XXI. Dividends

The dividend payout ratio for the years ended December 31, 2007 and 2006 are as follows:

	Korean won in thousands		U.S. dollars	
	2007	2006	2007	2006
Cash dividends (A)	₩ 22,956,072	₩ 18,633,347	\$ 24,468,207	\$ 19,860,740
Net income (B)	206,695,752	185,208,627	220,310,969	197,408,470
Dividend payout ratio (A/B)	11.11%	10.06%	11.11%	10.06%

XXII. Selling and administrative expenses

Details of selling and administrative expenses for the years ended December 31, 2007 and 2006 are as follows:

	Korean won in thousands		U.S. dollars	
	2007	2006	2007	2006
Salaries	₩ 28,610,800	₩ 23,746,378	\$ 30,495,417	\$ 25,310,572
Provision for severance and retirement benefits	5,389,222	4,019,875	5,744,215	4,284,668
Other employee benefits	1,821,492	1,786,741	1,941,475	1,904,435
Travel	997,724	921,048	1,063,445	981,719
Books and other prints	231,802	218,724	247,071	233,131
Clothing	104,286	91,714	111,156	97,755
Entertainment	109,979	108,669	117,224	115,827
Advertising	775,123	934,007	826,181	995,531
Supplies	280,466	305,925	298,940	326,077
Communications	236,826	283,592	252,426	302,272
Utilities	373,078	344,148	397,653	366,817
Maintenance	869,614	838,577	926,897	893,815
Commissions and fees	3,854,390	3,281,822	4,108,282	3,497,998
Insurance	25,560	34,769	27,244	37,059
Depreciation	2,680,313	2,165,967	2,856,867	2,308,641
Amortization	2,508,034	1,701,845	2,673,240	1,813,947
Taxes and public dues	2,490,771	2,038,794	2,654,840	2,173,091
Vehicle maintenance	644,357	614,610	686,801	655,095
Training	1,758,175	1,358,052	1,873,987	1,447,508
Rewards	85,593	113,164	91,231	120,618
Registry and legal fees	684,057	103,849	729,116	110,690
Association	76,690	80,761	81,742	86,080
Rent	73,666	163,713	78,518	174,497
Research	4,785	5,355	5,100	5,708
Bad debt expense	-	174,235	-	185,712
Development expense	3,378,702	2,567,605	3,601,260	2,736,736
Miscellaneous	676,974	617,234	721,566	657,890
	₩ 58,742,479	₩ 48,621,173	\$ 62,611,894	\$ 51,823,889

Notes to Financial Statements

XXIII. Income taxes

The Company is subject to corporate income taxes, including resident surtax, at the aggregate rates of 14.3% on taxable income up to ₩100,000 thousand and 27.5% on taxable income in excess of ₩100,000 thousand.

The major components of provision for income taxes for the years ended December 31, 2007 and 2006 are as follows:

	Korean won in thousands	
	2007	2006
Current income taxes (*)	₩ 158,381,159	₩ 94,827,045
Deferred income taxes arising from		
tax effect of temporary differences	(9,818,387)	(3,224,392)
Current and deferred income taxes recognized directly to equity	(450,229)	-
Provision for income taxes	₩ 148,112,543	₩ 91,602,653

	U.S dollars	
	2007	2006
Current income taxes (*)	\$ 168,813,855	\$ 101,073,380
Deferred income taxes arising from		
tax effect of temporary differences	(10,465,132)	(3,436,785)
Current and deferred income taxes recognized directly to equity	(479,886)	-
Provision for income taxes	\$ 157,868,837	\$ 97,636,595

(*) Current income taxes for the year of 2007 include additional income taxes paid or tax refunds arising from tax filing of prior year's tax reconciliation.

Reconciliations of income before income taxes for financial reporting purposes and taxable income for corporate income tax reporting purposes for the years ended December 31, 2007 and 2006 are summarized as follows:

	Korean won in thousands		U.S. dollars	
	2007	2006	2007	2006
Income before income taxes per statements of income	₩ 354,808,295	₩ 276,811,280	\$ 378,179,806	\$ 295,045,065
Non-temporary differences:				
Entertainment expense	25,484	26,612	27,163	28,365
Gain on valuation of available-for-sale securities	1,637,195	-	1,745,038	-
Capital adjustment arising from overseas oil interest	1,785,075	-	1,902,659	-
Tax refund	-	(1,132,846)	-	(1,207,467)
Provision for income taxes (KCCL; overseas mining area)	(57,394,394)	-	(61,175,010)	-
Others, net	865,417	6,703,967	922,424	7,145,562
	(53,081,223)	5,597,733	(56,577,726)	5,966,460
Temporary differences:				
Accrued income	2,334,563	1,796,504	2,488,343	1,914,841
Severance and retirement benefits	9,094,776	3,954,177	9,693,856	4,214,642
Oil interest - production	79,647,055	(78,870,577)	84,893,472	(84,065,846)
Present value discounts	110,297	(96,025)	117,562	(102,350)
Impairment loss on oil interests	(917,720)	(35,556,754)	(978,171)	(37,898,906)
Provision for restoration cost	(68,657,254)	90,463,254	(73,179,763)	96,422,142
Capitalized interest	(1,092,896)	(1,061,820)	(1,164,886)	(1,131,763)
Profit from overseas oil interest	(27,104,395)	(73,907,323)	(28,889,784)	(78,775,659)
Others, net	2,742,355	97,187,558	2,922,996	103,589,382
	(3,843,219)	3,908,994	(4,096,375)	4,166,483
Taxable income for corporate income tax reporting purposes	₩ 297,883,853	₩ 286,318,007	\$ 317,505,705	\$ 305,178,008

Notes to Financial Statements

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax reporting purposes. Significant changes in cumulative temporary differences and deferred income tax assets and liabilities for the years ended December 31, 2007 and 2006 are as follows:

2007

	Korean won in thousands						
	Jan. 1, 2007	Adjustment (*1)	Net Increase (Decrease)	Dec. 31, 2007	Deferred income tax assets (liabilities)	Current	Non-current
Accrued income	₩(2,841,636)	₩ 507,073	₩ 113,041	₩(2,221,522)	₩ (610,919)	₩ (610,919)	₩ -
Severance & retirement benefits	20,271,847	-	8,698,353	28,970,200	7,966,805	-	7,966,805
Deposit for severance & retirement benefits	(20,271,847)	-	(8,698,353)	(28,970,200)	(7,966,805)	-	(7,966,805)
Profit from overseas oil interest	(73,764,989)	36,518,696	(27,104,395)	(64,350,688)	(17,696,439)	-	(17,696,439)
Impairment loss on available-for-sale securities	6,037,300	-	-	6,037,300	1,660,257	-	1,660,257
Equity in earning of equity method investments (KOL)	(309,628)	-	(160,570)	(470,198)	(129,304)	-	(129,304)
Depreciation	8,987,939	-	(216,918)	8,771,021	2,412,031	-	2,412,031
Amortization	6,560,397	(45,560)	-	6,514,837	1,791,580	-	1,791,580
Capitalized interest	10,242,177	(449)	(1,092,896)	9,148,832	2,515,929	-	2,515,929
Present value discount	(8,375,702)	-	110,297	(8,265,405)	(2,272,986)	(2,272,986)	-
Oil interest - production	(139,591,691)	25,624	79,647,055	(59,919,012)	(16,477,728)	-	(16,477,728)
Provision for restoration cost	166,238,258	-	(68,657,254)	97,581,004	26,834,776	-	26,834,776
Gain on valuation of derivatives	(3,719,330)	-	3,719,330	-	-	-	-
Impairment loss on oil interests	38,925,002	1,769,502	(917,720)	39,776,784	10,938,616	-	10,938,616
Depreciation - Peru (*2)	(13,306,684)	-	(505,307)	(13,811,991)	(3,798,298)	-	(3,798,298)
Restoration cost - Peru (*2)	1,649,243	-	(11,705)	1,637,538	450,323	-	450,323
Capital adjustment arising from equity method investment (KOL)	-	-	(11,592)	(11,592)	-	-	-
Equity in earning of equity method investments	-	(142,334)	-	(142,334)	(39,142)	-	(39,142)
Compensation receivable	-	703,283	-	703,283	193,403	-	193,403
Capital adjustment arising from overseas oil interest	7,432,487	(7,432,487)	-	-	-	-	-
Capital adjustment arising from equity method investment	(12,914,999)	-	(1,785,075)	(14,700,074)	-	-	-
Gain on valuation of available-for-sale securities	-	-	(1,637,195)	(1,637,195)	(450,229)	-	(450,229)
Others	15,728,569	(2,128,813)	14,150,673	27,750,429	7,631,368	-	7,631,368
	₩ 6,976,713	₩29,774,535	₩(4,360,231)	₩32,391,017	₩12,953,238	₩(2,883,905)	₩15,837,143

2007

	U.S dollars						
	Jan. 1, 2007	Adjustment (*1)	Net Increase (Decrease)	Dec. 31, 2007	Deferred income tax assets (liabilities)	Current	Non-current
Accrued income	\$ (3,028,817)	\$ 540,474	\$ 120,488	\$ (2,367,855)	\$ (651,161)	\$ (651,161)	\$ -
Severance & retirement benefits	21,607,170	-	9,271,320	30,878,490	8,491,585	-	8,491,585
Deposit for severance & retirement benefits	(21,607,170)	-	(9,271,320)	(30,878,490)	(8,491,585)	-	(8,491,585)
Profit from overseas oil interest	(78,623,949)	38,924,212	(28,889,784)	(68,589,521)	(18,862,118)	-	(18,862,118)
Impairment loss on available-for-sale securities	6,434,981	-	-	6,434,981	1,769,619	-	1,769,619
Equity in earning of equity method investments (KOL)	(330,023)	-	(171,147)	(501,170)	(137,821)	-	(137,821)
Depreciation	9,579,982	-	(231,207)	9,348,775	2,570,913	-	2,570,913
Amortization	6,992,536	(48,561)	-	6,943,975	1,909,593	-	1,909,593
Capitalized interest	10,916,838	(479)	(1,164,886)	9,751,473	2,681,655	-	2,681,655
Present value discount	(8,927,416)	-	117,562	(8,809,854)	(2,422,709)	(2,422,709)	-
Oil interest - production	(148,786,710)	27,312	84,893,472	(63,865,926)	(17,563,129)	-	(17,563,129)
Provision for restoration cost	177,188,508	-	(73,179,764)	104,008,744	28,602,405	-	28,602,405
Gain on valuation of derivatives	(3,964,325)	-	3,964,325	-	-	-	-
Impairment loss on oil interests	41,489,024	1,886,061	(978,171)	42,396,914	11,659,152	-	11,659,152
Depreciation - Peru (*2)	(14,183,206)	-	(538,592)	(14,721,798)	(4,048,495)	-	(4,048,495)
Restoration cost - Peru (*2)	1,757,880	-	(12,476)	1,745,404	479,986	-	479,986
Capital adjustment arising from equity method investment (KOL)	-	-	(12,356)	(12,356)	-	-	-
Equity in earning of equity method investments	-	(151,710)	-	(151,710)	(41,720)	-	(41,720)
Compensation receivable	-	749,609	-	749,609	206,143	-	206,143
Capital adjustment arising from overseas oil interest	7,922,071	(7,922,071)	-	-	-	-	-
Capital adjustment arising from equity method investment	(13,765,721)	-	(1,902,659)	(15,668,380)	-	-	-
Gain on valuation of available-for-sale securities	-	-	(1,745,038)	(1,745,038)	(479,886)	-	(479,886)
Others	16,764,622	(2,269,040)	15,082,790	29,578,372	8,134,052	-	8,134,052
	\$ 7,436,275	\$ 31,735,807	\$ (4,647,443)	\$ 34,524,639	\$13,806,479	\$ (3,073,870)	\$ 16,880,349

(*1) This item was adjusted directly to the Company's final tax return filed in March of 2007.

(*2) Deferred Income tax assets and liabilities arising from these temporary differences are calculated based on the expected income tax rate of 30.0%, the tax rate that will be in effect when such temporary differences are expected to reverse.

Notes to Financial Statements

2006

Korean won in thousands						
	Jan. 1, 2006	Net Increase (Decrease)	Dec. 31, 2006	Deferred income tax assets (liabilities)	Current	Non-current
Accrued income	₩ (1,796,504)	₩ (1,045,132)	₩ (2,841,636)	₩ (781,450)	₩ (781,450)	₩ -
Severance & retirement benefits	16,656,499	3,615,348	20,271,847	5,574,758	-	5,574,758
Deposit for severance & retirement benefits	(16,572,415)	(3,699,432)	(20,271,847)	(5,574,758)	-	(5,574,758)
Profit from overseas oil interest	-	(73,764,989)	(73,764,989)	(20,285,372)	-	(20,285,372)
Capital adjustment arising from overseas oil interest	-	(5,482,512)	(5,482,512)	-	-	-
Impairment loss on available-for-sale securities	1,666,147	4,371,153	6,037,300	1,660,257	-	1,660,257
Equity in earning of equity method investments (KOL)	(30,758,452)	30,448,824	(309,628)	(85,148)	-	(85,148)
Equity in loss of equity method investments	74,245	(74,245)	-	-	-	-
Capital adjustment arising from equity method investment	(6,087,215)	6,087,215	-	-	-	-
Depreciation	9,080,785	(92,846)	8,987,939	2,471,683	-	2,471,683
Amortization	6,978,858	(418,461)	6,560,397	1,804,109	-	1,804,109
Capitalized interest	10,243,278	(1,101)	10,242,177	2,816,599	-	2,816,599
Present value discount	(8,279,677)	(96,025)	(8,375,702)	(2,303,318)	(2,303,318)	-
Oil interest - production	(60,721,114)	(78,870,577)	(139,591,691)	(38,387,715)	-	(38,387,715)
Provision for restoration cost	75,775,004	90,463,254	166,238,258	45,715,521	-	45,715,521
Gain on valuation of derivatives	3,986,155	(7,705,485)	(3,719,330)	(1,022,815)	(1,022,815)	-
Loss on swap transactions	(11,291,728)	11,291,728	-	-	-	-
Impairment loss on oil interests	5,295,607	33,629,395	38,925,002	10,704,375	-	10,704,375
Depreciation - Peru (*)	(12,806,009)	(500,675)	(13,306,684)	(3,992,005)	-	(3,992,005)
Restoration cost - Peru (*)	1,660,841	(11,598)	1,649,243	494,773	-	494,773
Others	11,570,316	4,158,253	15,728,569	4,325,357	-	4,325,357
	₩ (5,325,379)	₩ 12,302,092	₩ 6,976,713	₩ 3,134,851	₩ (4,107,583)	₩ 7,242,434

2006

	U.S dollars					
	Jan. 1, 2006	Net Increase (Decrease)	Dec. 31, 2006	Deferred income tax assets (liabilities)	Current	Non-current
Accrued income	\$ (1,914,841)	\$ (1,113,976)	\$ (3,028,817)	\$ (832,925)	\$ (832,925)	\$ -
Severance & retirement benefits	17,753,676	3,853,494	21,607,170	5,941,972	-	5,941,972
Deposit for severance & retirement benefits	(17,664,054)	(3,943,116)	(21,607,170)	(5,941,972)	-	(5,941,972)
Profit from overseas oil interest	-	(78,623,949)	(78,623,949)	(21,621,586)	-	(21,621,586)
Capital adjustment arising from overseas oil interest	-	(5,843,650)	(5,843,650)	-	-	-
Impairment loss on available-for-sale securities	1,775,897	4,659,084	6,434,981	1,769,619	-	1,769,619
Equity in earning of equity method investments	(32,784,536)	32,454,513	(330,023)	(90,757)	-	(90,757)
Equity in loss of equity method investments	79,136	(79,136)	-	-	-	-
Capital adjustment arising from equity method investment	(6,488,185)	6,488,185	-	-	-	-
Depreciation	9,678,944	(98,962)	9,579,982	2,634,495	-	2,634,495
Amortization	7,438,561	(446,025)	6,992,536	1,922,947	-	1,922,947
Capitalized interest	10,918,011	(1,173)	10,916,838	3,002,131	-	3,002,131
Present value discount	(8,825,066)	(102,351)	(8,927,417)	(2,455,039)	(2,455,039)	-
Oil interest - production	(64,720,863)	(84,065,846)	(148,786,709)	(40,916,345)	-	(40,916,345)
Provision for restoration cost	80,766,365	96,422,143	177,188,508	48,726,840	-	48,726,840
Gain on valuation of derivatives	4,248,726	(8,213,051)	(3,964,325)	(1,090,189)	(1,090,189)	-
Loss on transaction of derivative instruments	(12,035,523)	12,035,523	-	-	-	-
Impairment loss on oil interests	5,644,433	35,844,591	41,489,024	11,409,481	-	11,409,481
Depreciation - Peru (*)	(13,649,551)	(533,655)	(14,183,206)	(4,254,962)	-	(4,254,962)
Restoration cost - Peru (*)	1,770,242	(12,362)	1,757,880	527,364	-	527,364
Others	12,332,462	4,432,160	16,764,622	4,610,272	-	4,610,272
	\$ (5,676,166)	\$ 13,112,441	\$ 7,436,275	\$ 3,341,346	\$ (4,378,153)	\$ 7,719,499

(*) Deferred income tax assets and liabilities arising from these temporary differences are calculated based on the expected income tax rate of 30.0%, the tax rate that will be in effect when such temporary differences are expected to reverse.

Notes to Financial Statements

The temporary differences for which the Company has not recognized deferred income tax assets (liabilities) as of December 31, 2007 are as follows:

	Korean won in thousands	U.S dollars
Deductible temporary difference:		
Exchange differences on translation of foreign operations	₩ 7,818,404	\$ 8,333,409
Taxable temporary difference:		
Capital adjustment arising from equity method investment (KOL)	11,592	12,356
Unused tax credit:		
Tax credit for foreign taxes paid	34,107,359	36,354,039

The effective income tax rates for the years ended December 31, 2007 and 2006 are as follows:

	Korean won in thousands		U.S. dollars	
	2007	2006	2007	2006
Provision for income taxes	₩ 148,112,543	₩ 91,602,653	\$ 157,868,837	\$ 97,636,595
Income before income taxes	354,808,295	276,811,280	378,179,806	295,045,065
Effective income tax rate	₩ 41.70%	₩ 33.09%	\$ 41.70%	\$ 33.09%

XXIV. Commitments and contingencies

The Company is a defendant to a lawsuit filed by Woori Bank claiming ₩60,964,809 thousand for alleged fraudulent practice. Pursuant to the judgment of the first court on December 8, 2006, the Company won this lawsuit. However, Woori Bank appealed and accordingly this is still in pending with the Seoul High Court and the outcome of this lawsuit can not be presently determined as of December 31, 2007.

In addition to the above lawsuit, as of December 31, 2007, the Company is a defendant for 4 pending lawsuits with total claims amounting to approximately ₩1,754,620 thousand and the Company raised 1 pending lawsuit amounting to ₩554,502 thousand. The outcomes of these pending lawsuits and their impacts on the Company's financial statements can not presently be determined as of December 31, 2007.

The Company is provided with guarantees totaling \$497,011,514 by BNP PARIBAS Bank, Korea Development Bank, and SCB for the purpose of purchasing oil interests, exploration of OPL 321/323 and others as of December 31, 2007.

In November 2007, the consortium led by the Company including SK Energy Co., Ltd. entered into an agreement for exploration and production in a Bazian oilfield, located in Iraq, with the Kurdistan regional government, according to the local Kurdish oil exploration laws. In relation to this agreement, in January 2008, the Company and other participating companies were notified by the Iraqi federal government insisting that such agreement without obtaining proper approval from the federal government would be invalid. Subsequently, the Company has been in litigation regarding the legitimate basis of its notification and the result from the conflict between the Company and Iraqi federal government can not be presently forecasted.

XXV. Derivative financial instruments

Gains and losses in relation to the oil swap contracts for the years ended December 31, 2007 and 2006 are summarized as follows:

	Korean won in thousands		U.S. dollars	
	2007	2006	2007	2006
Loss on transactions of oil option	₩ -	₩ (959,347)	\$ -	\$ (1,022,540)
Gain on transactions of oil swap	4,115,120	14,424,303	4,386,187	15,374,444
Loss on transactions of oil swap	(45,181,629)	(17,080,273)	(48,157,780)	(18,205,364)
Gain on valuation of oil swap	-	3,719,329	-	3,964,324
Loss on valuation of oil swap	-	(2,620,542)	-	(2,793,159)
Gain on transaction of forward contracts	-	5,461,120	-	5,820,848
Loss on transaction of forward contracts	-	(555,900)	-	(592,518)
Gain on valuation of firm commitments	26,712,049	4,286,850	28,471,593	4,569,229
Loss on valuation of firm commitments	-	(1,883,999)	-	(2,008,100)
	₩ (14,354,460)	₩ 4,791,541	\$ (15,300,000)	\$ 5,107,164

In December 2006, the Company entered into oil swap contracts to pay at a fixed price and to receive at a floating price in order to hedge the risk of changes in the fair value resulted from fluctuations in the oil prices in respect of the unrecognized firm commitments to purchase 1.3 million barrels of Ural crude oil on January 31, 2007. In this regard, the Company designated this hedging relationship as fair value hedge accounting on firm commitments from December 2006. The subsequent changes in the fair value of the firm commitments which are attributable to the hedged risk have been recognized as an asset with corresponding valuation gains of ₩6,687,070 thousand and ₩2,620,542 thousand for the years ended December 31, 2007 and 2006, respectively. In addition, the same amounts have been recorded as transaction (or valuation) losses of oil swap for the years ended December 31, 2007 and 2006.

Details of the oil swap contracts as described above are presented as follows:

Counterparty	Fixed price (pay)	Floating price (Receive)	Quantity (Barrels)	Maturity
J Aron	USD60.00 per barrel	The average quotation for the Dubai crude oil during Jan. 2007	0.3 million	Jan. 31, 2007
J Aron	USD59.64 per barrel	The average quotation for the Dubai crude oil during Jan. 2007	0.3 million	Jan. 31, 2007
Morgan Stanley Capital Group Inc.	USD60.00 per barrel	The average quotation for the Dubai crude oil during Jan. 2007	0.4 million	Jan. 31, 2007
Morgan Stanley Capital Group Inc.	USD57.45 per barrel	The average quotation for the Dubai crude oil during Jan. 2007	0.3 million	Jan. 31, 2007

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The Company entered into another oil swap contracts to pay at a floating price and to receive at a fixed price in order to hedge the exposure to variability in cash flows from future forecasted sales, which were in pursuit of the revenue using Contango market conditions, for 1.5 million barrels of the Ural crude oil. In relation to these oil swap contracts that did not qualified for cash flow hedge accounting due to uncertainty of occurrence of related forecasted sales as recognition of anticipated sales has been delayed several times to rollover such swap contracts into the same kind of contracts to the current year, the Company recorded transaction gains of W4,115,120 thousand and losses of W18,469,580 thousand as other income and expenses, respectively, for the year ended December 31, 2007. Simultaneously, in 2007, sales were increased by W14,354,460 thousand equivalent to the amount of net transaction losses on such oil swap transactions, because the hedge accounting was not applied. In 2006, transaction gain and loss recognized arising from these oil swap contracts amounted to W12,540,304 thousand and W15,413,235 thousand and recorded as other income and expenses, respectively, for the year ended December 31, 2006.

Details of the oil swap contracts as described above are presented as follows:

Counterparty	Fixed price	Floating price	Quantity (Barrels)	Maturity
Morgan Stanley Capital Group Inc.	USD59.90 per barrel	The average quotation for the Dubai crude oil during Jan. 2007	0.4 million	Jan. 31, 2007
Vitol Asia Pte Ltd. Morgan Stanley Capital Group Inc.	USD59.72 per barrel USD59.65 per barrel	The average quotation for the Dubai crude oil during Jan. 2007 Dubai crude oil during Jan. 2007	0.4 million 0.3 million	Jan. 31, 2007 Jan. 31, 2007
Morgan Stanley Capital Group Inc.	USD59.70 per barrel	The average quotation for the Dubai crude oil during Jan. 2007	0.2 million	Jan. 31, 2007
Morgan Stanley Capital Group Inc.	USD57.25 per barrel	The average quotation for the Dubai crude oil during Jan. 2007	0.3 million	Jan. 31, 2007
Morgan Stanley Capital Group Inc.	USD64.46 per barrel	The average quotation for the Dubai crude oil during Dec. 2007	0.3 million	Dec. 31, 2007
Morgan Stanley Capital Group Inc.	USD64.51 per barrel	The average quotation for the Dubai crude oil during Dec. 2007	0.2 million	Dec. 31, 2007
Morgan Stanley Capital Group Inc.	USD62.28 per barrel	The average quotation for the Dubai crude oil during Dec. 2007	0.3 million	Dec. 31, 2007
J Aron.	USD65.03 per barrel	The average quotation for the Dubai crude oil during Dec. 2007	0.3 million	Dec. 31, 2007
Vitol Asia Pte Ltd.	USD64.70 per barrel	The average quotation for the Dubai crude oil during Dec. 2007	0.4 million	Dec. 31, 2007
Masefield Pte Ltd.	USD72.21 per barrel	The average quotation for the Dubai crude oil during Dec. 2007	0.3 million	Dec. 31, 2007
BNP PARIBAS	USD71.60 per barrel	The average quotation for the Dubai crude oil during Dec. 2007	0.15 million	Dec. 31, 2007
Morgan Stanley Capital Group Inc.	USD71.50 per barrel	The average quotation for the Dubai crude oil during Dec. 2007	0.15 million	Dec. 31, 2007
Morgan Stanley Capital Group Inc.	USD72.80 per barrel	The average quotation for the Dubai crude oil during Dec. 2007	0.3 million	Dec. 31, 2007

(Cont'd)

Counterparty	Fixed price	Floating price	Quantity (Barrels)	Maturity
		The average quotation for the		
BNP PARIBAS	USD72.59 per barrel	Dubai crude oil during Dec. 2007	0.3 million	Dec. 31, 2007
Morgan Stanley		The average quotation for the		
Capital Group Inc.	USD72.70 per barrel	Dubai crude oil during Dec. 2007	0.15 million	Dec. 31, 2007
		The average quotation for the		
Masefield Pte Ltd.	USD72.00 per barrel	Dubai crude oil during Dec. 2007	0.15 million	Dec. 31, 2007

The Company entered into oil swap contracts in September 2007 to pay at floating price and to receive at a fixed price in order to hedge the risk of changes in fair value resulted from oil price fluctuations in respect of the unrecognized firm commitments to sell 1.5 million barrels of the Ural crude oil in November 2007. In this regard, as the Company has designated this hedging relationship as fair value hedge accounting on firm commitments, the subsequent changes in the fair value of the firm commitment attributable to the hedged risk have been recognized as an asset with corresponding valuation gain of ¥20,024,978 thousand for the year ended December 31, 2007. In addition, the same amount was recorded as transaction loss of oil swap for the year then ended.

Details of the oil swap contracts as described above are presented as follows:

Counterparty	Fixed price (pay)	Floating price (Receive)	Quantity (Barrels)	Maturity
		The average quotation for the		
Masefield Pte Ltd.	USD72.44 per barrel	Dubai crude oil during Nov. 2007	0.3 million	Nov. 30, 2007
		The average quotation for the		
BNP PARIBAS	USD71.78 per barrel	Dubai crude oil during Nov. 2007	0.15 million	Nov. 30, 2007
Morgan Stanley		The average quotation for the		
Capital Group Inc.	USD71.68 per barrel	Dubai crude oil during Nov. 2007	0.15 million	Nov. 30, 2007
Morgan Stanley		The average quotation for the		
Capital Group Inc.	USD73.01 per barrel	Dubai crude oil during Nov. 2007	0.3 million	Nov. 30, 2007
		The average quotation for the		
BNP PARIBAS	USD72.80 per barrel	Dubai crude oil during Jan. 2007	0.3 million	Nov. 30, 2007
Morgan Stanley		The average quotation for the		
Capital Group Inc.	USD72.91 per barrel	Dubai crude oil during Jan. 2007	0.15 million	Nov. 30, 2007
		The average quotation for the		
Masefield Pte Ltd.	USD72.21 per barrel	Dubai crude oil during Jan. 2007	0.15 million	Nov. 30, 2007

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XXVI. Accounting change

With respect to the Company's investments in oil-interests, the Company changed its accounting to capitalize either to oil-interests in the intangible assets or other appropriate accounts, instead of accounting to equity method investments, starting from January 1, 2006, in accordance with the 'An Agenda - No. 00044' of the Korean Financial Supervisory Service. This change has no effect on the Company's net income and retained earnings as previously reported, except for changes among sales, costs of sales, non-operating income and expenses during the inter-period. The effect of such changes for 2006, 2005 and 2004 are summarized as follows:

Korean won in thousands						
Accounts	FY 2006		FY 2005		FY 2004	
	Before	After	Before	After	Before	After
Sales	₩ 956,790,687	₩1,123,743,570	₩ 796,811,726	₩ 975,621,767	₩ 334,863,664	₩ 464,831,887
Cost of sales	503,954,826	626,881,536	528,018,628	659,994,688	258,486,100	375,291,302
Selling expenses	46,816,356	46,816,356	34,701,111	34,701,111	28,682,226	28,282,226
Non-operating income	125,923,995	89,081,910	172,064,587	142,251,118	215,850,857	208,072,896
Non-operating expenses	116,523,928	123,708,016	79,426,534	96,447,046	137,967,029	143,352,087
Income before income taxes	415,419,572	415,419,572	326,730,040	326,730,040	125,579,166	125,579,166

U.S dollars						
Accounts	FY 2006		FY 2005		FY 2004	
	Before	After	Before	After	Before	After
Sales	\$1,019,815,271	\$1,197,765,476	\$ 849,298,365	\$1,039,886,769	\$ 356,921,407	\$ 497,450,743
Cost of sales	537,150,742	668,174,735	562,799,646	703,469,077	275,512,790	400,012,046
Selling expenses	49,900,188	49,900,188	36,986,902	36,986,902	30,571,548	30,571,548
Non-operating income	134,218,711	94,949,808	183,398,622	151,621,615	230,069,129	221,778,828
Non-operating expenses	124,199,454	131,856,764	84,658,425	102,800,092	147,055,030	152,794,808
Income before income taxes	442,783,598	442,783,598	348,252,014	348,252,014	133,851,168	133,851,168

XXVII. Value added information

The accounts and amounts which are required to be disclosed in connection with the calculation of the value added of the Company's operations for the years ended December 31, 2007 and 2006 are as follows:

	Korean won in thousands		U.S. dollars	
	2007	2006	2007	2006
Salaries	₩ 69,260,055	₩ 55,321,744	\$ 73,822,271	\$ 58,965,832
Severance and retirement benefits	11,256,575	6,642,365	11,998,055	7,079,903
Employee benefits	5,001,960	4,254,619	5,331,443	4,534,874
Rental expense	1,090,032	1,267,967	1,161,833	1,351,489
Depreciation	77,223,341	90,204,441	82,310,106	96,146,281
Amortization	122,377,628	94,014,806	130,438,742	100,207,638
Taxes and dues	10,307,036	9,561,892	10,985,969	10,191,742

XXVIII. Employee welfare, contributions to society and human resources development

For employee welfare, the Company maintains a refectory, an infirmary, athletic facilities, a scholarship fund, workmen's accident compensation insurance, medical insurance, and so forth. The amounts of welfare spent for the years ended December 31, 2007 and 2006 were ₩5,207,595 thousand and ₩4,669,215 thousand, respectively.

The Company donated ₩14,350,735 thousand and ₩13,460,823 thousand to the internal labor welfare fund and others for the years ended December 31, 2007 and 2006, respectively.

Expenditures incurred for development of specialization in human resources during the years ended December 31, 2007 and 2006 amounted to ₩2,412,353 thousand and ₩1,705,010 thousand, respectively.

XIX. Environmental consideration

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

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

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XXX. Segment information

The Company is organized into the following major business segments, and sales by such business segment for the years ended December 31, 2007 and 2006 are as follows:

	Korean won in thousands		U.S. dollars	
	2007	2006	2007	2006
Oil resource development	₩ 835,447,813	₩ 680,475,004	\$ 890,479,443	\$ 725,298,448
Stockpiling of oil	92,631,179	73,102,183	98,732,870	77,917,483
Financing	127,028,373	139,730,051	135,395,836	148,934,184
Ship charter and other	39,894,391	24,825,905	42,522,267	26,461,208
	₩1,095,001,756	₩ 918,133,143	\$1,167,130,416	\$ 978,611,323

XXXI. Approval of financial statements

The accompanying financial statements for the year ended December 31, 2007 will be approved at the board of directors' meeting to be held on February 20, 2008.