

The Board of Directors and Owner
Korea National Oil Corporation

We have audited the accompanying statements of financial position of Korea National Oil Corporation (the "Company") as of December 31, 2009 and 2008, and the related statements of income, appropriations of retained earnings, changes in equity and cash flows for the years 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 audits.

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

In our opinion, the financial statements referred to above expressed in Korean won present fairly, in all material respects, the financial position of Korea National Oil Corporation as of December 31, 2009 and 2008, and the results of its operations, its changes in retained earnings and equity and its cash flows for the years then ended in conformity with accounting principles for government-controlled corporations, as issued by the Ministry of Strategy and Finance of the Republic of Korea.

We have also reviewed the translation of the accompanying 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 principles for government-controlled corporations in the Republic of Korea and are not intended to present the financial position, results of operations, changes in retained earnings and equity 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 principles for Korean government-controlled corporations and Korean auditing standards and their application in practice.

February 18, 2010

This audit report is effective as of February 18, 2010, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

Statements of financial position

Korea National Oil Corporation

(Korean won and US dollars in thousands)

	Korean won		US dollars ^(Note 2)	
	2009	2008	2009	2008
Assets				
Current assets:				
Cash and cash equivalents ^(Note 16)	₩ 957,621,213	₩ 1,696,119,237	\$ 820,162	\$ 1,452,654
Short-term financial instruments	317,237,500	150,100,000	271,700	128,554
Trade accounts receivable, net of allowance for doubtful account of ₩2,929,051 in 2009 and ₩14,521,243 in 2008 ^(Notes 14, 16 and 17)	428,738,492	164,009,730	367,196	140,467
Short-term loans ^(Notes 8, 16 and 17)	244,031,189	264,184,278	209,002	226,263
Other accounts receivable, net of allowance for doubtful account of ₩911,902 in 2009 and nil in 2008 ^(Note 16)	73,527,328	100,335,463	62,973	85,933
Inventories ^(Notes 4 and 9)	2,728,620,518	2,512,668,134	2,336,948	2,151,994
Derivative assets ^(Note 20)	32,299,861	184,761,024	27,663	158,240
Deferred income tax assets ^(Note 26)	—	33,965,761	—	29,090
Other current assets ^(Notes 5 and 16)	101,059,822	76,706,823	86,556	65,702
Total current assets	4,883,135,923	5,182,850,450	4,182,200	4,438,897
Non-current assets:				
Long-term financial instruments	2,000,000	—	1,713	—
Available-for-sale securities ^(Note 6)	46,979,032	45,022,277	40,236	38,559
Equity method investments ^(Notes 7 and 19)	3,894,539,006	15,884,660	3,335,508	13,604
Long-term loans, net of allowance for doubtful accounts of ₩12,842,072 in 2009 and ₩14,080,055 in 2008 ^(Notes 16 and 17)	2,227,913,704	2,211,631,429	1,908,114	1,894,169
Loans to affiliates, net ^(Notes 8 and 19)	359,493,208	321,098,861	307,891	275,008
Property, plant and equipment, net ^(Note 9)	1,966,057,920	1,966,275,747	1,683,845	1,684,032
Intangible assets ^(Notes 10 and 19)	3,602,867,995	3,189,608,322	3,085,704	2,731,765
Long-term trade accounts receivable, net of allowance for doubtful account of ₩6,070,544 in 2009 and ₩10,378,841 in 2008 ^(Note 17)	51,394,709	51,089,171	44,017	43,756
Long-term guarantee deposits	2,954,942	3,878,179	2,531	3,321
Deferred income tax assets ^(Note 26)	18,656,485	—	15,978	—
Long-term other accounts receivable, net of allowance for doubtful of ₩10,236,380 in 2009 and nil in 2008	11,151,058	—	9,550	—
Other non-current assets ^(Notes 8, 11 and 15)	47,427,006	34,723,414	40,619	29,739
Total non-current assets	12,231,435,065	7,839,212,060	10,475,707	6,713,953
Total assets	₩ 17,114,570,988	₩ 13,022,062,510	\$ 14,657,907	\$ 11,152,850

See accompanying notes.

Korea National Oil Corporation

(Korean won and US dollars in thousands)

	Korean won		US dollars ^(Note 2)	
	2009	2008	2009	2008
Liabilities and equity				
Current liabilities:				
Trade accounts payable, less present value discount of ₩2,379,266 in 2009 and nil in 2008 ^(Note 17)	₩ 12,914,186	₩ 18,523,568	\$ 11,060	\$ 15,865
Short-term borrowings ^(Notes 12 and 16)	1,499,939,499	565,875,000	1,284,635	484,648
Other accounts payable ^(Notes 16 and 19)	328,022,856	470,928,383	280,938	403,330
Withholdings	11,449,319	11,377,790	9,806	9,745
Accrued expenses	44,047,082	3,218,085	37,724	2,756
Income taxes payable	26,638	1,205	23	1
Current portion of long-term borrowings and ABS liabilities, less present value discount of ₩499,827 in 2009 and nil in 2008 ^(Notes 13, 14, 16 and 17)	345,164,594	662,163,003	295,619	567,115
Firm commitment liabilities ^(Note 20)	5,978,112	—	5,120	—
Derivative liabilities ^(Note 20)	16,579,031	119,481,363	14,199	102,331
Deferred income tax liabilities ^(Note 26)	83,295,350	—	71,339	—
Others	117,940,739	92,041,373	101,011	78,833
Total current liabilities	2,465,357,406	1,943,609,770	2,111,474	1,664,624
Non-current liabilities:				
Bonds payable ^(Notes 13 and 16)	1,818,101,382	—	1,557,127	—
Long-term borrowings denominated in Korean won ^(Note 13)	981,017,381	1,109,221,155	840,200	950,001
Long-term borrowings denominated in foreign currencies ^(Notes 13, 16 and 17)	2,704,187,864	1,978,329,639	2,316,022	1,694,356
Long-term trade accounts payable, less present value discount of ₩4,946,523 in 2009 and ₩8,494,651 in 2008 ^(Note 17)	46,668,499	46,519,462	39,970	39,842
Severance and retirement benefits ^(Note 15)	—	10,201,118	—	8,737
Provision for restoration costs ^(Note 18)	247,373,779	186,869,963	211,865	160,046
Asset-backed securitization ("ABS") liabilities ^(Note 14)	20,847,554	50,454,439	17,855	43,212
Derivative liabilities ^(Note 20)	12,084,285	—	10,350	—
Deferred income tax liabilities ^(Note 26)	—	116,955,170	—	100,167
Other long-term liabilities ^(Notes 7, 16 and 19)	396,958,758	63,752,679	339,979	54,601
Total non-current liabilities	6,227,239,502	3,562,303,625	5,333,368	3,050,962
Total liabilities	8,692,596,908	5,505,913,395	7,444,842	4,715,586
Equity:				
Paid-in-capital ^(Note 21)	6,649,416,780	5,914,814,780	5,694,944	5,065,789
Capital surplus	24,954,221	24,954,221	21,372	21,372
Accumulated other comprehensive income ^(Notes 2 and 23)	156,467,255	382,398,278	134,008	327,508
Retained earnings ^(Note 22)	1,591,135,824	1,193,981,836	1,362,741	1,022,595
Total equity	8,421,974,080	7,516,149,115	7,213,065	6,437,264
Total liabilities and equity	₩ 17,114,570,988	₩ 13,022,062,510	\$ 14,657,907	\$ 11,152,850

See accompanying notes.

Statements of income

For the years ended December 31, 2009 and 2008

Korea National Oil Corporation

(Korean won and US dollars in thousands)

	Korean won		US dollars ^(Note 2)	
	2009	2008	2009	2008
Sales ^(Note 32)	₩ 1,800,051,781	₩ 1,747,479,508	\$ 1,541,668	\$ 1,496,642
Cost of sales ^(Note 29)	1,162,471,936	1,065,778,253	995,608	912,794
Gross profit	637,579,845	681,701,255	546,060	583,848
Selling and administrative expenses ^(Notes 28, 29 and 31)	75,462,842	78,574,679	64,631	67,296
Operating income	562,117,003	603,126,576	481,429	516,552
Other income (expenses):				
Interest income	75,318,421	59,231,898	64,507	50,730
Interest expense on borrowings and bonds	(120,846,796)	(32,629,953)	(103,500)	(27,946)
Interest expense on ABS liabilities	(18,772,575)	(36,967,282)	(16,078)	(31,661)
Gain (loss) on foreign currency transactions, net	(118,716,777)	837,437	(101,676)	717
Gain (loss) on foreign currency translation, net	324,101,873	(139,386,124)	277,580	(119,378)
Equity in earnings (loss) of equity method investments, net ^(Note 7)	(36,582,647)	2,011,781	(31,331)	1,723
Loss on disposal of equity method investments, net	(676,130)	—	(579)	—
Gain (loss) on disposal of property, plant and equipment, net	(37,831)	130,359	(32)	112
Gain on disposal of intangible assets	3,643,003	26,531,703	3,120	22,723
Reversal of allowance for doubtful account	8,220,714	539,326	7,041	462
Gain from liabilities exempted ^(Note 17)	1,364,335	3,021,375	1,168	2,588
Loss on settlement of derivative instruments, net	(8,912,807)	(591,500)	(7,633)	(507)
Loss on valuation of derivative instruments, net ^(Note 20)	(6,106,173)	(113,379,973)	(5,230)	(97,105)
Gain on valuation of firm commitments, net ^(Note 20)	6,106,173	113,379,973	5,230	97,105
Other bad debt expense ^(Notes 8 and 17)	(27,573,753)	(130,319,139)	(23,616)	(111,613)
Dues on income from oil fields	(23,546,567)	(14,291,232)	(20,167)	(12,240)
Provision for restoration costs ^(Note 18)	(11,959,781)	(7,995,287)	(10,243)	(6,848)
Impairment loss on oil interests ^(Notes 2 and 10)	(24,651,977)	(5,697,421)	(21,113)	(4,880)
Donation ^(Note 31)	(4,178,002)	(536,130)	(3,578)	(459)
Non-operating income from overseas oil fields, net	72,524,099	28,830,876	62,114	24,692
Prior period error corrections ^(Note 25)	(9,742,167)	—	(8,344)	—
Others, net	7,851,850	15,710,522	6,723	13,456
	86,826,485	(231,568,791)	74,363	(198,329)
Income before income taxes	648,943,488	371,557,785	555,792	318,223
Provision for income taxes ^(Note 26)	226,651,536	171,365,044	194,117	146,767
Net income	₩ 422,291,952	₩ 200,192,741	\$ 361,675	\$ 171,456

See accompanying notes.

Statements of appropriations of retained earnings

For the years ended December 31, 2009 and 2008

Korea National Oil Corporation

(Korean won and US dollars in thousands)

	Korean won		US dollars ^(Note 2)	
	2009	2008	2009	2008
Retained earnings before appropriations:				
Unappropriated retained earnings				
(undisposed accumulated deficit)				
carried forward from the prior period	₩ -	₩ (80,699,755)	\$ -	\$ (69,116)
Net income	422,291,952	200,192,741	361,675	171,456
	422,291,952	119,492,986	361,675	102,340
Appropriations (2009-proposed):				
Legal reserve ^(Note 22)	177,366,939	47,177,511	151,907	40,406
Reserve for business expansion ^(Note 22)	177,366,939	47,177,511	151,907	40,406
Cash dividends ^(Note 27)	67,558,074	25,137,964	57,861	21,528
	422,291,952	119,492,986	361,675	102,340
Unappropriated retained earnings to be carried forward to the next year	₩ -	₩ -	\$ -	\$ -

See accompanying notes.

Statements of changes in equity

For the years ended December 31, 2009 and 2008

Korea National Oil Corporation

(Korean won and US dollars in thousands)

	Paid-in-capital	Capital surplus	Accumulated other comprehensive income	Retained earnings	Total equity
As of January 1, 2008	₩ 4,684,912,780	₩ 24,954,221	₩ (6,399,417)	₩ 1,016,745,167	₩ 5,720,212,751
Dividends	—	—	—	(22,956,072)	(22,956,072)
Addition to paid-in-capital	1,229,902,000	—	—	—	1,229,902,000
Net income for the year	—	—	—	200,192,741	200,192,741
Foreign currency translation adjustments	—	—	252,915,888	—	252,915,888
Loss on valuation of available-for-sale securities	—	—	(980,890)	—	(980,890)
Equity adjustments arising from equity method investments	—	—	991,257	—	991,257
Gain on valuation of derivative investments	—	—	135,871,440	—	135,871,440
As of December 31, 2008	₩ 5,914,814,780	₩ 24,954,221	₩ 382,398,278	₩ 1,193,981,836	₩ 7,516,149,115
US dollars (Note 2)	\$ 5,065,789	\$ 21,372	\$ 327,508	\$ 1,022,595	\$ 6,437,264
As of January 1, 2009	₩ 5,914,814,780	₩ 24,954,221	₩ 382,398,278	₩ 1,193,981,836	₩ 7,516,149,115
Dividends	—	—	—	(25,137,964)	(25,137,964)
Addition to paid-in-capital	734,602,000	—	—	—	734,602,000
Net income for the year	—	—	—	422,291,952	422,291,952
Gain on valuation of available-for-sale securities	—	—	1,952,482	—	1,952,482
Equity adjustments arising from equity method investments	—	—	(25,009,200)	—	(25,009,200)
Foreign currency translation adjustments	—	—	(70,410,283)	—	(70,410,283)
Loss on valuation of derivative investments	—	—	(132,464,022)	—	(132,464,022)
As of December 31, 2009	₩ 6,649,416,780	₩ 24,954,221	₩ 156,467,255	₩ 1,591,135,824	₩ 8,421,974,080
US dollars (Note 2)	\$ 5,694,944	\$ 21,372	\$ 134,008	\$ 1,362,741	\$ 7,213,065

See accompanying notes.

Statements of cash flows

For the years ended December 31, 2009 and 2008

Korea National Oil Corporation

(Korean won and US dollars in thousands)

	Korean won		US dollars ^(Note 2)	
	2009	2008	2009	2008
Cash flows from operating activities:				
Net income	₩ 422,291,952	₩ 200,192,741	\$ 361,675	\$ 171,456
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Provision for severance and retirement benefits	1,208,316	9,702,334	1,035	8,309
Depreciation	124,817,450	91,040,456	106,901	77,972
Amortization of intangible assets	334,190,395	199,058,737	286,220	170,485
Interest income	(21,614,239)	(24,940,353)	(18,512)	(21,360)
Interest expense	26,043,335	35,869,554	22,305	30,721
Loss (gain) on foreign currency translation, net	(325,365,415)	139,356,203	(278,662)	119,352
Equity in loss (earnings) of equity method investments, net	36,582,647	(2,011,781)	31,331	(1,723)
Loss on disposal of equity method investments	676,130	—	579	—
Loss (gain) on disposal of property, plant and equipment, net	37,831	(130,359)	32	(112)
Gain on disposal of intangible assets	(3,643,003)	(26,531,703)	(3,120)	(22,723)
Reversal of allowance for doubtful accounts	(8,220,714)	(539,326)	(7,041)	(462)
Gain from liabilities exempted	(1,364,335)	(3,021,375)	(1,168)	(2,588)
Loss on valuation of derivative instruments, net	6,106,173	113,379,973	5,230	97,105
Gain on valuation of firm commitments, net	(6,106,173)	(113,379,973)	(5,230)	(97,105)
Provision for restoration costs	11,959,781	7,995,287	10,243	6,848
Other bad debt expense	27,573,753	130,319,139	23,616	111,613
Impairment loss on oil interests	24,651,977	5,697,421	21,113	4,880
Prior period error corrections	9,742,167	—	8,344	—
Others, net	(3,525,926)	203,385	(3,019)	174
Changes in operating assets and liabilities:				
Trade accounts and notes receivable	(243,283,733)	28,743,555	(208,362)	24,618
Short-term loans	252,658,820	223,309,847	216,392	191,255
Other accounts receivable	27,084,424	(41,584,847)	23,197	(35,616)
Inventories	(215,973,021)	(511,468,074)	(184,972)	(438,051)
Long-term loans	(274,405,827)	(200,060,362)	(235,017)	(171,343)
Long-term other accounts receivable	1,188,191	—	1,018	—
Deferred income taxes	49,660,919	56,790,330	42,532	48,639
Other assets, net	(23,062,200)	(11,453,508)	(19,752)	(9,809)
Foreign currency translation adjustments	(99,590,517)	252,915,888	(85,295)	216,612
Trade accounts payable	(18,530,149)	(13,413,475)	(15,870)	(11,488)
Other accounts payable	(306,194,737)	241,222,600	(262,243)	206,597
Withholdings	71,529	5,985,891	61	5,127
Accrued expenses	40,828,998	(7,954,185)	34,968	(6,812)
Income taxes payable	25,433	1,205	22	1
Current portion of long-term borrowings	(252,658,820)	(223,309,847)	(216,392)	(191,255)
Long-term borrowings denominated in Korean won	86,023,050	24,575,330	73,675	21,048
Long-term borrowings denominated in foreign currencies	188,459,421	175,485,032	161,408	150,295

See accompanying notes.

Statements of cash flows

For the years ended December 31, 2009 and 2008

Korea National Oil Corporation

(Korean won and US dollars in thousands)

	Korean won		US dollars ^(Note 2)	
	2009	2008	2009	2008
Payment of severance and retirement benefits	(1,569,184)	(4,703,733)	(1,344)	(4,029)
Operational assets for pension plan	(7,192,983)	(10,370,708)	(6,160)	(8,882)
Derivative assets	(113,379,973)	(1,700,881)	(97,105)	(1,457)
Other liabilities, net	24,647,073	27,874,131	21,109	23,873
Total adjustments	(651,443,136)	572,951,808	(557,933)	490,709
Net cash provided by (used in) operating activities	₩ (229,151,184)	₩ 773,144,549	\$ (196,258)	\$ 662,165
Cash flows from investing activities:				
Decrease (increase) in short-term financial instruments	₩ (167,137,500)	₩ 336,507,000	\$ (143,146)	\$ 288,204
Increase in long-term financial instruments	(2,000,000)	—	(1,713)	—
Proceeds from disposal of available-for-sale securities	—	17,267,871	—	14,789
Proceeds from disposal of equity method investments	1,322,400	—	1,132	—
Increase in loans to affiliates, net	(53,018,297)	(186,490,415)	(45,408)	(159,721)
Increase in short-term loans, net	—	(11,321,989)	—	(9,697)
Decrease in long-term guarantee deposits, net	923,237	270,460	791	232
Proceeds from disposal of property, plant and equipment	438,529	367,105	375	314
Proceeds from disposal of intangible assets	4,154,885	35,287,948	3,558	30,223
Acquisition of available-for-sale securities	(30,789)	(5,477,343)	(26)	(4,691)
Acquisition of equity method investments	(3,823,592,442)	(1,140,294)	(3,274,745)	(977)
Acquisition of property, plant and equipment	(136,759,201)	(140,481,509)	(117,128)	(120,316)
Acquisition of intangible assets	(304,916,274)	(1,790,708,797)	(261,148)	(1,533,666)
Others, net	(1,782,257)	(1,670,313)	(1,526)	(1,431)
Net cash used in investing activities	(4,482,397,709)	(1,747,590,276)	(3,838,984)	(1,496,737)
Cash flows from financing activities:				
Proceeds from short-term borrowings	1,508,336,270	607,161,497	1,291,826	520,008
Repayment of short-term borrowings	(502,066,080)	—	(429,998)	—
Proceeds from issuance of bonds payable	1,966,148,449	—	1,683,923	—
Proceeds from addition to paid-in-capital	734,602,000	1,229,902,000	629,156	1,053,359
Repayment of current portion of long-term borrowings and ABS liabilities	(409,504,183)	(90,336,927)	(350,723)	(77,370)
Proceeds from long-term borrowings	816,350,415	361,314,861	699,169	309,451
Repayment of long-term borrowings	(115,678,038)	(21,053,631)	(99,073)	(18,032)
Payment of dividends to owner	(25,137,964)	(22,956,072)	(21,530)	(19,661)
Net cash provided by in financing activities	3,973,050,869	2,064,031,728	3,402,750	1,767,756
Net increase (decrease) in cash and cash equivalents	(738,498,024)	1,089,586,001	(632,492)	933,184
Cash and cash equivalents at the beginning of the period ^(Note 33)	1,696,119,237	606,533,236	1,452,654	519,470
Cash and cash equivalents at the end of the period ^(Note 33)	₩ 957,621,213	₩ 1,696,119,237	\$ 820,162	\$ 1,452,654

See accompanying notes.

1. Corporate information

Korea National Oil Corporation (the "Company") was incorporated on March 3, 1979 to engage in the development of oil fields, distribution 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 in Korea. The Company also has 9 petroleum stockpile offices, 1 domestic gas field management office, 13 overseas offices in Vietnam and other countries and 22 overseas affiliated entities in the US and other countries.

As of December 31, 2009 and 2008, the Company is wholly owned by the Korean government.

2. Summary of significant accounting policies

Basis of financial statement preparation

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with accounting principles for government-controlled corporations, as issued by the Ministry of Strategy and Finance ("MSF"). The accounting standards for government-controlled corporations requires the accounting principles generally accepted in the Republic of Korea to be applied where there is no specific guidance under accounting standards for government-controlled corporations. 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 auditors' 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.

The financial statements of the Company have been prepared in accordance with accounting standards for government-controlled corporations and Statements of Korea Accounting Standards ("SKAS") 1 to 23. The summary of significant accounting policies used for the preparation of the financial statements are as follows:

Financial statements translation

The accompanying financial statements are expressed in Korean won and, solely for the convenience of the readers, have been translated into United States dollars at the rate of ₩1,167.60 to US\$1, the year end exchange rate on December 31, 2009. Such translation should not be construed as a representation that the Korean won amounts can actually be converted into United States dollars at the exchange rate used for the purposes of such translation.

Adoption of revised SKAS and Korean Financial Accounting Standards ("KFAS") Interpretation

The Company has adopted the revised SKAS 5 Amendments – *Property, Plant and Equipment* and the revised KFAS Interpretation 53-70 Amendments – *Accounting for Derivatives* for the current year. The adoption of these revised standards did not have material effect on the Company's financial statements.

Revenue recognition

Revenue from the sale of petroleum is recognized when significant risks and rewards of ownership of the petroleum have been transferred to the buyer, usually upon delivery thereof. Revenue from sales activities other than petroleum is recognized when the Company's earnings process has 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.

Cash equivalents

Highly liquid deposits and marketable securities with original maturities of three months or less, and which have no significant risk of loss in value by interest rate fluctuations, are considered as cash equivalents.

Financial instruments

Financial instruments, such as time deposits and restricted bank deposits, which are traded by financial institutions and are held for short-term cash management purposes or which will mature within one year, are accounted for as short-term financial instruments. Financial instruments other than cash equivalents and short-term financial instruments are recorded as long-term financial instruments.

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.

Inventories

Inventories are stated at the lower of cost or net realizable value, with cost being determined using the moving-average method. A 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 inventory indicates that its cost exceeds net realizable value or replacement costs, a valuation loss will be recognized to write the inventory down to its net realizable value, except for oil stockpile inventory, 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 MSF.

Investments in securities

Investments in securities within the scope of SKAS 8 *Investments in Securities* are classified as either trading, held-to-maturity or 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 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 rate 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 statement of financial position date. Non-marketable equity securities 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.

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 that are certain to be disposed of within one or that are certain to be disposed of within one year from the statement of financial position 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 the statement of income.

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 statement of financial position. If the Company's share of losses of the investee equals or exceeds its interest in the investee, it suspends 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.

At the date of acquisition, the excess of the cost of the investment over the Company's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill which is amortized over its useful life of within 20 years using the straight-line method. Conversely, negative goodwill represents the excess of the Company's share in the net fair value of the investee's identifiable assets and liabilities over the cost of the investment. Negative goodwill is recorded to the extent of the fair value of acquired non-monetary assets and recognized as income using the straight-line method over the remaining weighted-average useful life of those acquired non-monetary assets. The amount of negative goodwill in excess of the fair value of acquired non-monetary assets is recognized as income immediately.

The Company's share in the investee's unrealized profits and losses resulting from transactions between the Company and its investee is eliminated to the extent of the interest in the investee.

Investments in entities engaging in oil field activities

For investment in an entity engaging in exploring, developing and producing oil fields, which the Company has substantial control over the investee and the significant risks and rewards from the operations of the investee, the Company accounts for its proportionate share of assets, liabilities, profits and expenses of the investee directly within the corresponding line items on its financial statements based on percentage ownership. Otherwise, the Company accounts for its interest either as an equity method investment or available-for-sale investment, as appropriate.

In translating the financial statements of foreign investees into Korean won, assets and liabilities are translated at the exchange rate on the statement of financial position date and income and expenses are translated at the weighted-average exchange rate for the period. All resulting exchange differences are recognized as foreign currency translation adjustments in other comprehensive income within equity.

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.

Property, plant and equipment used for oil production wells are depreciated using the unit-of-production method. Depreciation of other property, plant and equipment is provided using the declining-balance method, except for buildings and structures for which the straight-line method is used, over the estimated useful lives of the assets as follows:

	Years
Buildings	20, 40
Structures	20, 40
Machinery and equipment	5
Vehicles	5
Furniture and fixtures	5
Oil prospecting vessels	12

When there is a legal or contractual obligation for dismantling and removing facilities and restoring sites on which they are located to their original condition at the end of the useful lives of the facilities, the present value of the estimated future restoration costs are capitalized at the acquisition date as additions to the cost of facilities and are accounted for as a provision. The Company subsequently depreciates the restoration costs using the unit-of-production method and the difference between estimated restoration costs and their present value is charged to current operations by applying the effective-interest-rate method over the useful lives of the facilities.

Intangible assets

Intangible assets of the Company consist of oil wells, development costs and other intangible assets, which are stated at cost less accumulated amortization and impairment losses.

(i) Oil exploratory, development and production wells

The Company engages in the development of overseas natural resources either by entering into contracts for sharing the extracted natural resources or by acquiring interests in the related projects. The acquisition cost of the interests in oil fields is included in oil interests in exploration, development or production in intangible assets.

- (1) Oil exploratory wells consist of geomorphic and geophysical investigation costs, and excavation costs on promising structures for exploratory drilling. When proved successful, the cost is reclassified to oil development wells.
- (2) Oil development wells consist of costs for oil field valuation, construction of production facility and offshore rig operation by using information obtained through exploration step. The cost is reclassified to oil production wells upon the commercial production of petroleum.
- (3) Oil production wells consist of operation costs for improving productivity, oil reservoir management for prediction of oil output and production optimization, and increasing the return rate of crude oil.

The costs of production wells are amortized using the unit-of-production method in accordance with accounting principles for government-controlled corporations established by the Ministry of Strategy and Finance. For exploratory wells proven to be unsuccessful upon evaluation, the investments in such wells are immediately charged to current operations and the Company is exempt from its obligation to repay the borrowings associated with the unsuccessful exploratory wells in accordance with the Special Accounts for Energy and Resources ("SAER") and a gain from liabilities exempted is recognized. No gains from liabilities exempted were recognized for unsuccessful wells during the years ended December 31, 2009 and 2008.

(ii) Other intangible assets

Development costs in intangible assets are amortized using the straight-line method. Amortization of the asset begins when development is completed and the asset is available for use, over the estimated useful lives of 5 years. The amortization expense is recognized as part of manufacturing costs or selling and administrative expenses.

Other intangible assets other than oil wells and development costs are amortized using the straight-line method, except for software for which the declining-balance method is used, over the estimated useful lives of the assets as follows:

	Years
Patents	5
Other intangible assets	5, 20

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. The Company recognized an impairment loss on oil interests amounting to ₩24,651,977 thousand and ₩5,697,421 thousand for the years ended December 31, 2009 and 2008, respectively.

Subsequently, if the recoverable amount of the asset exceeds its carrying amount which has been impaired, the carrying amount is increased to the lower of the carrying amount that would have been determined, net of amortization or depreciation had no impairment loss been recognized for the asset in prior periods, or its recoverable amount.

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 statement of financial position. 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 depreciation or amortization expense of the related asset. Government subsidy, contributed to compensate for specific expenses is, offset against the related expenses as incurred.

Employee retirement benefits

In accordance with the Employee Retirement Benefit Security Act ("ERBSA") and the Company's employee benefits policy, the Company allowed its employees to make a transition to a defined benefit pension plan ("DB Plan") introduced from 2006 or a defined contribution pension plan ("DC plan") introduced from 2008, together with the traditional severance and retirement benefits plan.

Prior to the introduction of DB Plan and DC plan, the Company was obliged to pay all employees a severance payment which required no external funding under the traditional severance and retirement benefits plan. For employees who chose the DB plan, the accumulated severance and retirement benefits under the previous severance and retirement benefits plan were transferred to the DB plan at the effective date of the DB plan at the option of its employees.

Under the DB Plan, the provision for retirement benefits is determined based on the final salary equal in value at retirement to at least one month's final salary for every year of service by an employee. The DB plan is funded by the Company and the plan's assets are managed by the plan's administrator. The liability for DB plan is presented net of the plan's assets at the end of the reporting period.

Under the DC Plan, the Company pays a fixed monthly contribution of at least 1/12th of an employee's annual salary for each year of service to a separately administered fund. Contributions to the DC Plan are recognized as an expense in the statement of income as incurred.

Provisions and contingent liabilities

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and 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.

A contingent liability is disclosed, but not recognized when it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Income taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from 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 statement of financial position. 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.

Valuation of receivables or payables at present value

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

When credit terms (e.g., principal, interest rate, payment period) of receivables or payables between debtors or creditors experiencing financial difficulties (e.g., court receivership, debt restructuring, financial workout) are unfavorably changed from the perspective of the Company, such receivables or payables are stated at present value calculated by discounting the future cash flows in accordance with the modified terms of the restructured receivables or payables by using the effective-interest-rate method from the origination date and the difference between the carrying amount and present value of such receivables or payables is charged or credited to the statement of income.

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 statement of financial position date. The resulting unrealized foreign currency translation gains or losses are credited or charged to current operations. Non-monetary items that are re-measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. However, monetary liabilities denominated in foreign currencies in connection with the Company's loan to an investee engaging in developing an oil field, whose repayment obligation is contingent upon the success of the project, is translated into Korean won using the exchange rate on the date of the initial transaction until the development is proven to be successful.

Translation of foreign operations financial statements

Financial statements of foreign entities and foreign equity method investees (collectively "foreign operations") are maintained in the currencies of the countries in which they conduct their operations. In translating the foreign operations financial statements into Korean won, assets and liabilities are translated at the year-end exchange rate at the date of the statement of financial position and income and expenses are translated at the weighted-average exchange rate during the year. All resulting exchange differences are recognized as foreign currency translation adjustments in other comprehensive income within equity.

On disposal, close down or dissolution of a foreign operation, the cumulative amount of the exchange differences recognized other comprehensive income relating to that particular operation is reclassified from equity to the statement of income. As of December 31, 2009 and 2008, gain from foreign currency translation adjustments recognized in accumulated other comprehensive income amounted to ₩174,687,201 thousand and ₩245,097,484 thousand, respectively.

Derivative financial instruments and firm commitments

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 net income. 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 other comprehensive income in equity. The ineffective portion of the gain or loss is charged or credited to net income. 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 net income.

Significant judgments and accounting estimates

The preparation of financial statements in accordance with Korean GAAP requires management to make judgments, 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.

3. The impact of adoption of Korea International Financial Reporting Standards ("K-IFRS")

The Company's implementation plan and status for K-IFRS

The Company is scheduled to apply K-IFRS for the first time in the financial period beginning January 1, 2011. The Company's primary activities in connection with its K-IFRS implementation include establishment of a task force team ("TFT") to oversee and manage the implementation process of K-IFRS, assessment of its preliminary impact of K-IFRS and development of accounting information system. Additionally, the Company has planned to provide trainings its employees to develop K-IFRS-trained resources within the Company and the plan and status of K-IFRS Implementation are periodically reported to management.

The specifics of the Company's plan and status for the implementation of K-IFRS are as follows:

Major activities	Implementation plan	Status
Analysis of effects of accounting differences	Appointment of an external advisor and analysis of the differences between K-IFRS and Korean GAAP	Commenced from 2009 and is scheduled to complete in 2010
Training programs for the employees	Basic training of K-IFRS and specific training on the analysis of the impact of individual standards	Scheduled in 2010
Establishment of accounting policies	Documentation and establishment of accounting policies considering elective accounting treatments	Scheduled in 2010
Development of accounting information system	Development of accounting information system capable of generating K-IFRS financial information	Scheduled in 2010

Major accounting differences between K-IFRS and Korean GAAP

The table below describes the major accounting policy changes that are expected to give rise to a significant impact on the Company's financial statements for its first K-IFRS reporting period in 2011. The areas mentioned above are not exhaustive, and additional areas may be identified in the future as a result of further assessment.

Subject	Company's current accounting policy	K-IFRS
Classification of oil stockpile	Classified as inventory	Classified as non-current asset
Useful life and depreciation method of property, plant and equipment	Determination of useful life according to tax law and accounting practice in Korea based on the declining balance method	Determination of useful life based on the expected term of usage and the expected pattern of consumption of the assets being used
Deemed cost for land	Cost method	Fair value as of the date of transition (as of January 1, 2010)
Consolidated financial statements and separate financial statements	Individual non-consolidated financial statements are primary and no requirement for preparation of separate financial statements	Consolidated financial statements are primary, and the preparation of separate financial statements requires compliance with the standard
Accumulating compensated absences for annual leave	No specific guidance	Recognized when the employees render services which increase their entitlement to future annual leave
Defined benefit obligation	The provision for severance and retirement benefits is determined based on the amount that would be payable assuming all employees were to terminate their employment as of the reporting date	The defined benefit obligation is recognized as the present value of the expected retirement benefit which is calculated using actuarial assumptions including discount rate according to the Projected Unit Credit Method
Goodwill	Amortized using the straight-line method over the estimated useful life within 20 years	No amortization and annual impairment test is required
Membership	Presented as a non-current asset	Presented as an intangible asset with an indefinite useful life
Measurement of loans and receivables	Initially and subsequently measured at cost	Recognized at fair value on the date of initial recognition and subsequently measured using amortized cost method
Business combination	Purchase accounting method except pooling of interest method for business combination under common control	Purchase accounting method (exemption of the retrospective application for business combination before first-time adoption is allowed)
Functional currency	N/A	US dollar is identified as a functional currency and Korean won is identified as a presentation currency

4. Inventories

Inventories as of December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009		2008	
Goods	₩	55,000,955	₩	–
Finished goods		12,533,007		9,226,160
Raw materials		6,052,867		11,520,753
Oil stockpile		2,646,769,862		2,485,069,961
Supplies		8,263,827		6,851,260
	₩	2,728,620,518	₩	2,512,668,134

5. Other current assets

Other current assets as of December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009		2008	
Accrued income	₩	3,687,008	₩	5,478,170
Advance payments		34,196,152		28,567,258
Prepaid expenses		4,053,430		4,340,485
Other		59,123,232		38,320,910
	₩	101,059,822	₩	76,706,823

6. Available-for-sale securities

Available-for-sale equity securities as of December 31, 2009 and 2008 consist of the following (Korean won in thousands):

	2009						Impairment loss	
	Ownership %	Acquisition cost	Fair value	Book value	Unrealized gain	Prior to 2009	2009	
Non-marketable securities:								
Micronic Korea Co., Ltd. ⁽¹⁾	16.70	₩ 775,000	₩ –	₩ 378,853	₩ –	₩ 396,147	₩ –	
Daehan Oil Pipeline Corportion ⁽²⁾	3.69	8,298,000	11,065,383	11,065,383	2,767,383	–	–	
Petronado S.A. ⁽¹⁾	5.64	14,344,292	–	14,344,292	–	–	–	
Yemen LNG Company Ltd. ⁽¹⁾	1.06	21,190,504	–	21,190,504	–	–	–	
		₩ 44,607,796	₩ 11,065,383	₩ 46,979,032	₩ 2,767,383	₩ 396,147	₩ –	

		2008					Impairment loss		
	Ownership %	Acquisition cost		Fair value	Book value	Unrealized gain	Prior to 2009	2008	
Non-marketable securities:									
Micronic Korea Co., Ltd. ⁽¹⁾	16.70	₩	775,000	₩	–	₩	378,853	₩	–
Daehan Oil Pipeline Corporation ⁽²⁾	3.69		8,298,000		9,139,417		9,139,417		841,417
Petronado S.A. ⁽¹⁾	5.64		14,320,482		–		14,320,482		–
Yemen LNG Company Ltd. ⁽¹⁾	1.06		21,183,525		–		21,183,525		–
		₩	44,577,007	₩	9,139,417	₩	45,022,277	₩	841,417
								₩	396,147
								₩	–

⁽¹⁾ These equity investments are measured at cost less any impairment loss since their fair value cannot be reliably determined.

⁽²⁾ The fair value of this equity investment was determined by reference to the amount provided by NICE Pricing Services Inc., which is an independent appraiser in Korea.

7. Equity method investments

Investments in equity securities accounted for using the equity method as of December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009			
	Ownership %	Acquisition cost	Proportionate net asset value	Book value
KNOC Samsung Lantian Oil Development Co., Ltd.	44	₩ 5,858,010	₩ 5,458,739	₩ 5,458,739
Oiltanking KNOC Yeosu	29	2,335,950	776,793	776,793
Dolphin Property Limited	75	58,026	929,852	58,026
Kernhem B.V.	37	8,978,069		8,978,069
ADA OIL LLP ⁽¹⁾	13	21,420,610	5,011,222	21,420,610
KNOC Bazian Limited	38	35	55,474	35
KNOC Inam Limited	40	37	(8,869)	37
KNOC Kamchatka Petroleum Limited	55	1,120	(1,208,409)	1,120
Fosco B.V.	33	7,315	(59,511)	7,315
KC Karpovsky B.V.	35	8,534	(678,348)	8,534
KNOC Nigerian West Oil Company Limited	75	57,284	(18,689,130)	57,284
KNOC Nigerian East Oil Company Limited	75	57,284	(20,756,545)	57,284
KNOC Aral Ltd.	51	49	121,087	49
Korea Kamchatka Co., Ltd.	50	6,736,364	4,738,284	6,736,364
KC Kazakh B.V.	35	232,674	227,739	232,674
KNOC Ferghana Ltd.	50	777	605	777
Harvest Energy Trust ⁽²⁾	100	2,676,978,802	2,283,592,888	2,676,978,802
Offshore International Group Inc. ⁽³⁾	50	821,223,644	185,172,505	754,366,677
KNOC Kaz B.V. ⁽⁴⁾	100	419,399,817	421,642,736	419,399,817
		₩ 3,963,354,401	₩ 2,867,488,286	₩ 3,894,539,006

⁽¹⁾ As ADA OIL LLP is an affiliate of Kernhem B.V., equity method for ADA OIL LLP was applied considering the indirect ownership interest held by Kernhem B.V.

(2) The Company wholly acquired ownership interest of Harvest Energy Trust ("Harvest") in Canada on December 23, 2009 and applied December 31, 2009 as the deemed acquisition date which is nearest to the statement of financial position date for recording the investment. Harvest operates the oil divisions of upstream and downstream in Canada. The divisions of upstream are located in Alberta, British Colombia and Saskatchewan, Canada and a division of downstream is located in Newfoundland in Canada.

(3) In February 2009, the Company jointly acquired Offshore International Group Inc. ("OIG") for US\$900 million (KNOC's share: US\$450 million) with Ecopetrol S.A. which is a Colombian government-owned company. The Company and Ecopetrol S.A. individually have a 50% of ownership interest in OIG. OIG mainly owns Petro-Tech Peruana S.A. which is located in Peru and has one oil producing well and ten exploratory wells.

In accordance with the purchase contract for OIG's ownership interest, if the international average oil price per barrel for the following 2 years since the contract date exceeds if US\$60 but less than US\$70, the Company and Ecopetrol S.A. should individually pay US\$ 100million for the combined amount of US\$ 200million. If the international average oil price per barrel for the following 2 years since the contract date exceeds US\$70, the Company and Ecopetrol S.A. should individually pay US\$ 150million, for the combined amount of US\$300 million.

As the Company believes that the international average oil price per barrel for the following 2 years will range between US\$60 and US\$70, the Company accounted for the additional US\$100 million (equivalent to ₩125,644 million) as an acquisition cost and other long-term liabilities as of December 31, 2009.

(4) On December 28, 2009, the Company acquired the 85% of ownership interest of Sumbe JSC ("Sumbe") in Kazakhstan through KNOC Kaz B.V. and applied December 31, 2009 as the deemed acquisition date for recording the investment. Sumbe has one oil exploration well and one development well in Kazakhstan.

	2008				
	Ownership %	Acquisition cost	Proportionate net asset value	Book value	
KNOC Samsung Lantian Oil Development Co., Ltd.	44	₩ 5,858,010	₩ 5,783,804	₩ 5,783,804	
Oiltanking KNOC Yeosu	29	1,094,750	1,094,750	1,094,750	
Dolphin Property Limited	75	58,026	58,026	58,026	
Kernhem B.V.	30	6,491	6,491	6,491	
KNOC Bazian Limited	38	35	35	35	
KNOC Inam Limited	40	37	37	37	
KNOC Kamchatka Petroleum Limited	55	1,120	1,120	1,120	
Fosco B.V.	33	7,315	7,315	7,315	
KC Karpovsky B.V.	35	8,534	8,534	8,534	
KNOC Nigerian West Oil Company Limited	75	57,284	57,284	57,284	
KNOC Nigerian East Oil Company Limited	75	57,284	57,284	57,284	
KNOC Aral Ltd.	51	49	49	49	
Korea Kamchatka Co., Ltd.	50	6,736,364	6,736,364	6,736,364	
KC Kazakh B.V.	35	232,674	232,674	232,674	
Offshore International Group Inc.	30	1,100,000	1,840,893	1,840,893	
		₩ 15,217,973	₩ 15,884,660	₩ 15,884,660	

The details of changes in carrying amount of equity method investments for the years ended December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009					Dec. 31, 2009
	Jan. 1, 2009	Acquisition (disposals)	Earnings (loss) of investee	Equity adjustments		
KNOC Samsung Lantian Oil Development Co., Ltd.	₩ 5,783,803	₩ -	₩ 92,100	₩ (417,164)	₩	5,458,739
Oiltanking KNOC Yeosu	1,094,750	1,241,200	(1,559,157)	-		776,793
Dolphin Property Limited	58,026	-	-	-		58,026
Kemhem B.V.	6,491	8,971,578	-	-		8,978,069
ADA OIL LLP	-	21,420,610	-	-		21,420,610
KNOC Bazian Limited	35	-	-	-		35
KNOC Inam Limited	37	-	-	-		37
KNOC Kamchatka Petroleum Limited	1,120	-	-	-		1,120
Fosco B.V.	7,315	-	-	-		7,315
KC Karpovsky B.V.	8,534	-	-	-		8,534
KNOC Nigerian West Oil Company Limited	57,284	-	-	-		57,284
KNOC Nigerian East Oil Company Limited	57,284	-	-	-		57,284
KNOC Aral Ltd.	49	-	-	-		49
Korea Kamchatka Co., Ltd.	6,736,364	-	-	-		6,736,364
KC Kazakh B.V.	232,674	-	-	-		232,674
Korea Offshore Logistics Co., Ltd.	1,840,894	(1,998,530)	157,636	-		-
KNOC Ferghana Ltd.	-	777	-	-		777
Harvest Energy Trust	-	2,676,978,802	-	-		2,676,978,802
Offshore International Group Inc.	-	821,223,644	(35,273,226)	(31,583,741)		754,366,677
KNOC Kaz B.V.	-	419,399,817	-	-		419,399,817
	₩ 15,884,660	₩ 3,947,237,898	₩ (36,582,647)	₩ (32,000,905)	₩	3,894,539,006

	2008					Dec. 31, 2008
	Jan. 1, 2008	Acquisition (disposals)	Earnings (loss) of investee	Equity adjustments		
KNOC Samsung Lantian Oil Development Co., Ltd.	₩ 2,701,471	₩ 145,444	₩ 1,651,185	₩ 1,285,703	₩	5,783,803
Oiltanking KNOC Yeosu	—	1,094,750	—	—		1,094,750
Dolphin Property Limited	58,026	—	—	—		58,026
Kernhem B.V.	6,491	—	—	—		6,491
KNOC Bazian Limited	35	—	—	—		35
KNOC Inam Limited	37	—	—	—		37
KNOC Kamchatka Petroleum Limited	1,120	—	—	—		1,120
Fosco B.V.	7,315	—	—	—		7,315
KC Karpovsky B.V.	8,534	—	—	—		8,534
KNOC Nigerian West Oil Company Limited	57,284	—	—	—		57,284
KNOC Nigerian East Oil Company Limited	57,284	—	—	—		57,284
KNOC Aral Ltd.	49	—	—	—		49
Korea Kamchatka Co., Ltd.	6,736,364	—	—	—		6,736,364
KC Kazakh B.V.	232,674	—	—	—		232,674
Korea Offshore Logistics Co., Ltd.	1,591,790	(99,900)	360,596	(11,592)		1,840,894
	₩ 11,458,474	₩ 1,140,294	₩ 2,011,781	₩ 1,274,111	₩	15,884,660

The changes in carrying amount of goodwill for the year ended December 31, 2009 is as follows (Korean won in thousands):

	2009				Dec. 31, 2009
	Jan. 1, 2009	Additions	Amortization		
Harvest Energy Trust	₩ —	₩ 393,385,914	₩ —	₩	393,385,914
Offshore International Group Inc.	—	618,459,799	(49,265,627)		569,194,172
Kernhem B.V.	—	7,816,895	—		7,816,895
ADA OIL LLP	—	16,409,388	—		16,409,388
	₩ —	₩ 1,036,071,996	₩ (49,265,627)	₩	986,806,369

The summary of financial position of the investees as of December 31, 2009 and 2008 and their results of operations for the years ended December 31, 2009 and 2008 are presented as follows (Korean won in thousands):

	2009			
	Total assets	Total liabilities	Sales	Net income (loss)
KNOC Samsung Lantian Oil Development Co., Ltd.	₩ 26,043,812	₩ 13,637,588	₩ 4,551,607	₩ 209,317
Oil tanking KNOC Yeosu	2,967,456	288,859	—	(5,184,129)
Dolphin Property Limited	9,476,734	8,236,931	—	1,257,146
Kernhem B.V.	132,799,508	129,632,957	—	(80,873)
ADA OIL LLP	139,024,134	98,934,359	—	11,531
KNOC Bazian Limited	94,282,373	94,136,388	—	159,461
KNOC Inam Limited	69,006,339	69,028,512	—	963
KNOC Kamchatka Petroleum Limited	93,378,539	95,575,647	—	834
Fosco B.V.	39,981,517	40,161,853	—	20,095
KC Karpovsky B.V.	55,442,764	57,380,900	—	—
KNOC Nigerian West Oil Company Limited	160,041,059	184,959,899	—	—
KNOC Nigerian East Oil Company Limited	263,030,966	290,706,359	—	—
KNOC Aral Ltd.	21,891,105	21,653,680	—	257,553
Korea Kamchatka Co., Ltd.	297,355,146	287,878,579	—	915
KC Kazakh B.V.	119,407,847	118,757,165	—	2,914
KNOC Ferghana Ltd.	5,121,599	5,120,349	—	46
KC Kaz B.V. ⁽¹⁾	421,668,026	25,290	—	—
Offshore International Group Inc. ⁽²⁾	496,125,348	125,780,338	239,513,220	27,984,802
Harvest Energy Trust ⁽¹⁾	4,801,004,624	2,517,411,736	—	—

⁽¹⁾ Operating results are not presented as the deemed acquisition date was December 31, 2009.

⁽²⁾ Sales and net income are presented for the period after March 31, 2009, the deemed acquisition date.

As audited financial statements were not available at the date of the Company's audited financial statements, the Company performed certain procedures including obtaining unaudited financial statements of the investees signed by the investee's management to assess the reliability of such unaudited financial statements.

	2008			
	Total assets	Total liabilities	Sales	Net income (loss)
KNOC Samsung Lantian Oil Development Co., Ltd.	₩ 24,524,677	₩ 11,379,669	₩ 11,906,765	₩ 5,350,332
Oiltanking KNOC Yeosu	3,646,667	63,942	—	(192,275)
Dolphin Property Limited	9,676,413	8,440,340	—	998,988
Kernhem B.V.	67,422,768	67,438,436	—	234
KNOC Bazian Limited	90,991,951	60,934,838	—	30,015
KNOC Inam Limited	74,420,702	74,343,400	—	35,307
KNOC Kamchatka Petroleum Limited	92,083,830	94,002,380	—	343
Fosco B.V.	35,159,614	35,125,751	—	1,739
KC Karpovsky B.V.	30,239,525	41,968,636	—	—
KNOC Nigerian West Oil Company Limited	172,121,750	189,130,158	—	(6,579)
KNOC Nigerian East Oil Company Limited	283,300,708	302,210,930	—	3,994
KNOC Aral Ltd.	16,826,720	16,825,341	—	1,074
Korea Kamchatka Co., Ltd.	316,673,298	302,776,356	—	5,161
KC Kazakh B.V.	13,103,151	12,108,468	—	—
Korea Offshore Logistics Co., Ltd.	11,724,087	5,587,776	10,031,474	1,201,986

8. Related party disclosures

The major related parties of the Company and nature of their relationship with the Company are as follows:

Relationship	Company name
Affiliates	KNOC Samsung Lantian Oil Development Co., Ltd. ("KSLOC") Oiltanking KNOC Yeosu ("OKYG"), Dolphin Property Limited, Kernhem B.V., KNOC Bazian Limited, KNOC Inam Limited, KNOC Kamchatka Petroleum Limited, Fosco B.V., KC Karpovsky B.V., KNOC Nigerian West Oil Company Limited, KNOC Nigerian East Oil Company Limited, KNOC Aral Ltd., Korea Kamchatka Co. Limited, KC Kazakh B.V., KNOC Ferghana Ltd., Harvest Energy Trust, Offshore International Group Inc., KNOC Kaz B.V.

The outstanding balances with related parties as of December 31, 2009 and 2008 are as follows (Korean won in thousands):

	Account	2009	2008
KNOC Samsung Lantian Oil Development Co., Ltd.	Loans to affiliates	₩ 3,978,593	₩ 4,284,560
Dolphin Property Limited	Loans to affiliates	4,696,973	4,696,973
Kernhem B.V.	Loans to affiliates	47,470,362	34,295,277
KNOC Bazian Limited	Loans to affiliates	27,254,296	21,398,281
KNOC Inam Limited	Loans to affiliates	22,984,985	22,984,985
	Valuation allowance	(12,256,693)	(12,256,693)
KNOC Kamchatka Petroleum Limited	Loans to affiliates	46,172,355	41,254,900
	Valuation allowance	(14,026,117)	–
Fosco B.V.	Loans to affiliates	20,649,180	17,989,239
	Valuation allowance	(9,103,518)	–
KC Karpovsky B.V.	Loans to affiliates	15,691,929	12,935,427
KNOC Nigerian West Oil Company Limited	Loans to affiliates	50,523,384	46,844,901
	Valuation allowance	(7,355,501)	(7,355,501)
KNOC Nigerian East Oil Company Limited	Loans to affiliates	56,133,002	52,450,790
	Valuation allowance	(6,845,150)	(6,845,150)
KNOC Aral Ltd.	Loans to affiliates	10,551,277	6,922,388
Korea Kamchatka Co. Limited	Loans to affiliates	121,270,622	118,760,285
	Valuation allowance	(79,618,805)	(77,108,467)
KC Kazakh B.V.	Loans to affiliates	45,795,619	39,846,666
ADA OIL LLP	Loans to affiliates	13,031,452	–
KNOC Ferghana Ltd.	Loans to affiliates	2,494,983	–
	Total loans to affiliates	₩ 488,698,992	₩ 424,664,672
	Total valuation allowance	₩ (129,205,784)	₩ (103,565,811)

The Company charged ₩25,639,973 thousand of other bad debt expense for the loans to affiliates in 2009 (₩103,565,811 thousand in 2008).

The outstanding balances with related parties other than those entities accounted for using the equity method as of December 31, 2009 and 2008 are as follows (Korean won in thousands):

Related parties	Account	2009	2008
Employees	Short-term loans	₩ 86,724	₩ 203,469
	Other non-current assets		
	(Long-term loans)	13,955,383	12,056,381
		₩ 14,042,107	₩ 12,259,850

9. Property, plant and equipment

Details of property, plant and equipment as of December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009		
	Cost	Accumulated depreciation ⁽¹⁾	Net book value
Land	₩ 211,941,376	₩ –	₩ 211,941,376
Buildings	100,554,233	(22,432,116)	78,122,117
Structures	1,711,984,855	(399,423,570)	1,312,561,285
Machinery and equipment	452,001,248	(351,482,068)	100,519,180
Vehicles	2,535,350	(1,826,310)	709,040
Furniture and fixtures	32,819,168	(26,053,667)	6,765,501
Oil prospecting vessels	51,863,953	(42,979,706)	8,884,247
Construction-in-progress	246,555,174	–	246,555,174
	₩ 2,810,255,357	₩ (844,197,437)	₩ 1,966,057,920

	2008		
	Cost	Accumulated depreciation	Net book value
Land	₩ 201,222,320	₩ –	₩ 201,222,320
Buildings	94,089,850	(20,000,123)	74,089,727
Structures	1,643,302,766	(318,909,864)	1,324,594,902
Machinery and equipment	396,625,601	(306,793,086)	89,832,515
Vehicles	2,154,042	(1,653,445)	500,597
Furniture and fixtures	30,306,151	(23,071,530)	7,234,621
Oil prospecting vessels	50,305,316	(40,459,271)	9,846,045
Construction-in-progress	258,955,020	–	258,955,020
	₩ 2,676,961,066	₩ (710,685,319)	₩ 1,966,275,747

⁽¹⁾ Accumulated depreciation of structures as of December 31, 2009 included customers' contribution to construction of structures amounting to ₩11,683,217 thousand.

Changes in the net book value of property, plant and equipment for the years ended December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009					
	Jan. 1, 2009	Increase	Decrease	Depreciation	Transfer	Dec. 31, 2009
Land	₩ 201,222,320	₩ –	₩ (337,462)	₩ –	₩ 11,056,518	₩ 211,941,376
Buildings	74,089,727	566,521	(134,140)	(2,477,713)	6,077,722	78,122,117
Structures	1,324,594,902	3,844,831	(11,683,217)	(69,032,489)	64,837,258	1,312,561,285
Machinery and equipment	89,832,515	1,926,418	(4)	(46,463,507)	55,223,758	100,519,180
Vehicles	500,597	559,902	(18)	(449,567)	98,126	709,040
Furniture and fixtures	7,234,621	3,409,356	(4,737)	(3,873,739)	–	6,765,501
Oil prospecting vessels	9,846,045	1,249,669	–	(2,520,435)	308,968	8,884,247
Construction-in-progress	258,955,020	125,502,504	–	–	(137,602,350)	246,555,174
	₩ 1,966,275,747	₩ 136,759,201	₩ (12,159,578)	₩ (124,817,450)	₩ –	₩ 1,966,057,920

	2008					
	Jan. 1, 2008	Increase	Decrease	Depreciation	Others	Dec. 31, 2008
Land	₩ 194,921,625	₩ –	₩ (135,722)	₩ –	₩ 6,436,417	₩ 201,222,320
Buildings	72,952,119	6,552	(95,099)	(2,355,726)	3,581,881	74,089,727
Structures	963,230,425	49,779,935	(193)	(43,578,337)	355,163,072	1,324,594,902
Machinery and equipment	74,924,762	2,650,370	(2)	(37,986,833)	50,244,218	89,832,515
Vehicles	537,582	269,454	(4,587)	(301,852)	–	500,597
Furniture and fixtures	8,130,239	3,066,863	(1,264)	(4,024,414)	63,197	7,234,621
Oil prospecting vessels	9,307,893	2,210,416	–	(2,793,294)	1,121,030	9,846,045
Construction-in-progress	593,066,795	82,497,919	–	–	(416,609,694)	258,955,020
	₩ 1,917,071,440	₩ 140,481,509	₩ (236,867)	₩ (91,040,456)	₩ 121	₩ 1,966,275,747

The value of the Company's land, as determined by the Government of the Republic of Korea for tax administration purposes, was ₩347,373,097 thousand and ₩400,075,064 thousand as of December 31, 2009 and 2008, respectively.

Insurance coverage under major insurance policies carried by the Company as of December 31, 2009 is as follows (Korean won in thousands):

Description	Insured asset/risk	Amounts	Insurance company
Center fire and others	Buildings, machinery and equipment	₩ 18,764,348	Dongbu Insurance Co., Ltd. and others
Property all risks	Buildings, structures, machinery, suppliers and oil stockpile	14,482,379,098	LIG Insurance Co., Ltd. and others
Terrorism	Facilities on land and sea (except for seabed)	1,706,972,444	Samsung Fire & Marine Insurance Co., Ltd. and others
Buoy	Buoy and pipelines	39,692,915	Dongbu Insurance Co., Ltd. and others
Drillship at all risks	Drillship (shipbody and equipment)	317,351,500	Dongbu Insurance Co., Ltd. and others
Donghae-1 gas fields	Machinery and fixtures	450,971,907	Hyundai Marine & Fire Insurance Co., Ltd. and others
Directors' professional indemnity insurance	Directors' and executive officers' liability	50,000,000	Samsung Fire & Marine Insurance Co., Ltd. and others

10. Intangible assets

Details of intangible assets as of December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009	2008
Oil interests:		
Exploration	₩ 1,148,834,758	₩ 644,800,121
Development	343,744,358	318,634,813
Production	2,104,290,550	2,220,668,956
	3,596,869,666	3,184,103,890
Other intangible assets	5,998,329	5,504,432
	₩ 3,602,867,995	₩ 3,189,608,322

Changes in the net book value of oil interests for the years ended December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009						
	Jan. 1, 2009	Increase	Decrease	Amortization	Impairment loss	Other changes ⁽¹⁾	Dec. 31, 2009
Oil interests in exploration	₩ 644,800,121	₩ 529,190,215	₩ (503,601)	₩ -	₩ (24,651,977)	₩ -	₩ 1,148,834,758
Oil interests in development	318,634,813	25,109,545	-	-	-	-	343,744,358
Oil interests in production	2,220,668,956	168,382,491	-	(331,149,067)	-	46,388,170	2,104,290,550
	₩ 3,184,103,890	₩ 722,682,251	₩ (503,601)	₩ (331,149,067)	₩ (24,651,977)	₩ 46,388,170	₩ 3,596,869,666

		2008							
		Jan. 1, 2008	Increase	Decrease	Amortization	Impairment loss	Other changes ⁽¹⁾	Dec. 31, 2008	
Oil interests in exploration	₩	331,131,648	₩ 327,618,835	₩ (8,252,941)	₩	–	₩ (5,697,421)	₩	644,800,121
Oil interests in development		274,643,093	43,991,720	–	–	–	–		318,634,813
Oil interests in production		919,665,234	1,417,936,885	(503,304)	(195,704,891)	–	79,275,032		2,220,668,956
	₩	1,525,439,975	₩ 1,789,547,440	₩ (8,756,245)	₩ (195,704,891)	₩ (5,697,421)	₩ 79,275,032	₩	3,184,103,890

⁽¹⁾ Other changes represent increase or decrease in provision for restoration costs.

Changes in the net book value of other intangible assets for the years ended December 31, 2009 and 2008 are as follows (Korean won in thousands):

		2009						
		Jan. 1, 2009	Increase	Decrease	Amortization		Dec. 31, 2009	
Industrial property rights	₩	376	₩ –	₩ –	₩ –	₩	376	
Development costs		3,058,746	1,252,328	–	(1,677,841)		2,633,233	
Others		2,445,310	2,291,178	(8,281)	(1,363,487)		3,364,720	
	₩	5,504,432	₩ 3,543,506	₩ (8,281)	₩ (3,041,328)	₩	5,998,329	

		2008						
		Jan. 1, 2008	Increase	Decrease	Amortization		Dec. 31, 2008	
Industrial property rights	₩	2,107	₩ –	₩ –	₩ (1,731)	₩	376	
Development costs		5,223,975	160,272	–	(2,325,501)		3,058,746	
Others		2,470,840	1,001,084	–	(1,026,614)		2,445,310	
	₩	7,696,922	₩ 1,161,356	₩ –	₩ (3,353,846)	₩	5,504,432	

11. Other non-current assets

Other non-current assets as of December 31, 2009 and 2008 are as follows (Korean won in thousands):

		2009		2008	
Loans to employees (see Note 8)	₩	13,955,383	₩	12,056,381	
Defined benefits plan assets (see Note 15)		11,105		–	
Others		33,460,518		22,667,033	
	₩	47,427,006	₩	34,723,414	

12. Short-term borrowings

Short-term borrowings as of December 31, 2009 and 2008 are as follows (Korean won in thousands):

Lender	Description	Interest rate (%)	2009		2008	
			US dollars	Korean won in thousands	US dollars	Korean won in thousands
BNP Paribas bank	General operations	3M LIBOR+1.1	\$ 250,000,000	₩ 291,900,000	\$ 250,000,000	₩ 314,375,000
"	"	7M LIBOR+2.4	200,000,000	233,520,000	200,000,000	251,500,000
ABN AMRO	"	6M LIBOR+0.9	107,418,063	125,421,331	-	-
BTMU	"	6M LIBOR+0.9	200,000,000	233,520,000	-	-
DBS	"	6M LIBOR+0.9	100,000,000	116,760,000	-	-
Mizuho	"	6M LIBOR+0.9	100,000,000	116,760,000	-	-
ING	"	6M LIBOR+0.9	50,000,000	58,380,000	-	-
Masefield	Trading of oil stockpile	11M Libor + 2.5	58,025,293	67,750,332	-	-
Deutsche Bank	"	9M Libor + 2.1	36,575,431	42,705,473	-	-
"	"	3M Libor + 1.4	52,850,402	61,708,130	-	-
Vitol	"	1M Libor + 3.0	44,119,761	51,514,233	-	-
Korea Development Bank	General operations	4.16	-	50,000,000	-	-
ShinHan Bank	"	4.16	-	50,000,000	-	-
			\$ 198,988,950	₩ 1,499,939,499	\$ 450,000,000	₩ 565,875,000

13. Bonds payable and long-term borrowings

Bonds payable as of December 31, 2009 and 2008 are as follows (Korean won in thousands):

Lender	Issuance date	Maturity date	Annual interest rate	2009	2008
Foreign currency debentures	Feb. 4, 2009	Feb. 4, 2012	6M Libor+3.5%	₩ 256,872,000	₩ -
"	Jun. 24, 2009	Feb. 4, 2012	3M Libor+3.4%	315,252,000	-
"	Jul. 30, 2009	Jul. 30, 2014	5.4%	1,167,600,000	-
Local currency debentures	Jun. 25, 2009	Jun. 25, 2014	5.2%	100,000,000	-
				1,839,724,000	-
Less: discount on bonds payable				(21,622,618)	-
				₩ 1,818,101,382	₩ -

Long-term borrowings denominated in Korean won as of December 31, 2009 and 2008 are as follows (Korean won in thousands):

Lender	Annual interest rate	2009	2008
SAER for petroleum business	3.5%~4.0%	₩ 1,195,244,205	₩ 1,317,277,426
Less: current portion		(214,226,824)	(208,056,271)
		₩ 981,017,381	₩ 1,109,221,155

Long-term borrowings denominated in foreign currencies as of December 31, 2009 and 2008 are as follows (Korean won in thousands):

Lender	Annual interest rate	2009		2008	
		US dollars	Korean won in equivalent	US dollars	Korean won in equivalent
SAER for loan to 3rd party:					
Borrowings for exploration and production	2.0% ^(*)	\$ 953,278,038	₩ 1,184,541,595	\$ 797,949,344	₩ 1,003,421,300
Borrowings for general operations	2.0% ~ 5.5%	89,854,779	104,914,440	125,324,003	157,594,934
Less: current portion		(25,451,902)	(29,717,641)	(35,469,224)	(44,602,549)
		1,017,680,915	1,259,738,394	887,804,123	1,116,413,685
SAER for KNOC:					
Borrowings for exploration and production	2.0% ^(*)	716,785,496	786,378,299	644,221,203	703,714,832
Borrowings for general operations	2.25% ~ 3.25%	126,117,270	147,254,525	167,085,154	210,109,581
Less: current portion		(49,261,794)	(57,518,071)	(40,967,884)	(51,517,114)
		793,640,972	876,114,753	770,338,473	862,307,299
Korea Development Bank:					
Borrowings for general operations	3M Libor+4.25%	250,000,000	291,900,000	250,000,000	314,375,000
Less: current portion		—	—	(250,000,000)	(314,375,000)
		250,000,000	291,900,000	—	—
Societe Generale:					
Borrowings for general operations	6M Libor+2.5%	50,000,000	58,380,000	—	—
Less: current portion		(12,500,000)	(14,595,000)	—	—
		37,500,000	43,785,000	—	—
Bank of Communications Co., Ltd.:					
Borrowings for general operations	3M Libor+3.5%	200,000,000	233,520,000		
Less: current portion		—	—	—	—
		200,000,000	233,520,000	—	—
		\$ 2,298,821,887	2,705,058,147	\$ 1,658,142,596	1,978,720,984
Less: present value discount			(870,283)		(391,345)
			₩ 2,704,187,864		₩ 1,978,329,639

- (*) The principal amount of these borrowings is to be repaid on an installment basis dependent on the successful commercial production of oil. The Company's obligation to repay the principal amount will be exempted if the exploration is proven to be unsuccessful and withdrawn without any commercial production in accordance with the policy of the MSF (No. 2009-315) on loans.

A summary of the repayment schedule of bonds payable and long-term borrowings as of December 31, 2009 is as follows (Korean won in thousands):

Year	Bonds payable	Korean won denominated borrowings	Foreign currency denominated borrowings (SAER)	Foreign currency denominated borrowings (bank)	Total
2010	₩ -	₩ 214,226,824	₩ 87,235,712	₩ 14,595,000	₩ 316,057,536
2011	-	184,385,051	70,298,765	306,495,000	561,178,816
2012	572,124,000	160,956,680	18,898,918	14,595,000	766,574,598
2013	-	150,421,890	26,006,575	14,595,000	191,023,755
2014 and thereafter	1,267,600,000	485,253,760	49,728,995	233,520,000	2,036,102,755
	₩ 1,839,724,000	₩ 1,195,244,205	₩ 252,168,965	₩ 583,800,000	₩ 3,870,937,170

Borrowings of ₩1,970,919,894 thousand that are dependent on the successful commercial production of oil as described above are not included in the above repayment schedule of long-term borrowings.

14. Asset-backed securitization ("ABS") liabilities

During 2006, the Company entered into a contract to borrow money in exchange for transferring future trade receivables from Vietnam 15-1 oil interests to be generated for the next five years with an overseas resources investment company under the Overseas Resources Development Business Act. ABS liabilities as of December 31, 2009 and 2008 are as follows (Korean won in thousands):

Description	2009	2008
Vietnam 15-1		
ABS liabilities	₩ 50,454,439	₩ 94,066,508
Less: current portion	(29,606,885)	(43,612,069)
	₩ 20,847,554	₩ 50,454,439

15. Severance and retirement benefits

Changes in net carrying amount of the liability for severance and retirement benefits for the years ended December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009	2008
As of January 1,	₩ 49,568,138	₩ 44,569,537
Provision during the year	1,208,316	9,702,334
Payments during the year	(1,569,184)	(4,703,733)
	49,207,270	49,568,138
Less: defined benefit plan assets	(49,207,270)	(39,367,020)
As of December 31,	₩ -	₩ 10,201,118

Details of the funded plan assets under the DB plan as of December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009		2008	
Short-term and long-term				
financial instruments	₩	18,103,306	₩	32,558,671
Investment securities		20,240,742		5,406,290
Loans		506,122		618,119
Others		10,368,205		783,940
	₩	49,218,375	₩	39,367,020

The DB plan is partially funded by the Company (100% funded in 2009 and 79% funded in 2008) and the plan's assets are managed by Samsung Life Insurance Co., Ltd. and Kyobo Life Insurance Co., Ltd.

16. Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies as of December 31, 2009 and 2008 are as follows:

	2009				2008			
	Foreign currencies		Korean won equivalent (in thousands)		Foreign currencies		Korean won equivalent (in thousands)	
Assets:								
Short-term and long-term	US\$	1,043,132,817	₩	1,289,456,036	US\$	923,334,297	₩	1,161,092,878
loans ⁽¹⁾	US\$	291,550,452		340,414,308	US\$	74,257,854		93,404,333
Trade accounts receivable	US\$	49,764,847		58,105,435	US\$	18,165,440		22,843,041
Other accounts receivable	CAD	63,189		69,950	–	–		–
Other current assets	US\$	27,211,332		31,771,951	US\$	18,119,137		22,784,815
	AUD	573,373		792,659	AUD	573,373		498,835
Cash and cash equivalents	US\$	55,235,674		64,493,173	US\$	85,561,228		107,593,244
	CAD	469,482,001		519,711,881	CAD	478,770		497,112
	SGD	24,757		20,580	SGD	8,670		7,591
	PEN	–		–	PEN	4,268,798		1,709,013
Total assets	US\$	1,466,895,122	₩	2,304,835,973	US\$	1,119,437,956	₩	1,410,430,862
	AUD	573,373			AUD	573,373		
	CAS	469,545,190			CAS	478,770		
	SGD	24,757			SGD	8,670		
	PEN	–			PEN	4,268,798		
Liabilities:								
Short-term borrowings	US\$	1,198,988,950	₩	1,399,939,499	US\$	450,000,000	₩	565,875,000
Current portion of long-term borrowings	US\$	87,213,696		101,830,711	US\$	326,437,108		410,494,663
Long-term borrowings ⁽¹⁾	US\$	2,298,821,887		2,705,058,147	US\$	1,658,142,596		1,978,720,984
Bonds payable	US\$	1,490,000,000		1,739,724,000	US\$	–		–
Other accounts payable	US\$	217,889,607		254,419,581	US\$	336,109,028		422,657,103
	GBP	196,395		368,777	GBP	35,247		64,248

	2009			2008		
	Foreign currencies		Korean won equivalent (in thousands)	Foreign currencies		Korean won equivalent (in thousands)
Other long-term liabilities	EUR	79,677	133,401	EUR	—	—
	SGD	148,965	123,830	SGD	1,314,382	1,150,741
	CAD	731,241	809,476	CAD	1,968,538	2,043,953
	US\$	216,042,518	252,251,244	US\$	—	—
Total liabilities	US\$	5,508,966,658	₩ 6,454,658,666	US\$	2,770,688,732	₩ 3,381,006,692
	GBP	196,395		GBP	35,347	
	EUR	79,677		EUR	—	
	SGD	148,965		SGD	1,314,382	
	CAD	731,241		CAD	1,968,538	

(*) Translation gains (losses) on loans and borrowings denominated in foreign currencies associated with exploratory oil fields are not recognized until the development of oil fields is proven to be successful (see Note 2).

17. Valuation of receivables and payables at present value

The present value and related discounts on short-term and long-term receivables and payables arising from long-term installment transactions or with unfavorable credit terms as of December 31, 2009 and 2008 are as follows (Korean won in thousands):

2009						
	Company	Interest rate (%)	Maturity	Nominal amount	Present value	Present value discount
Short-term and long-term loans denominated in foreign currencies	SK Energy Co., Ltd.	5 ~ 7	2010 ~ 2012	₩ 1,365,660	₩ 1,227,153	₩ (138,507)
Long-term borrowings, including current portion, denominated in foreign currencies	SK Energy Co., Ltd.	4 ~ 6	2010 ~ 2012	1,365,660	1,209,566	(156,094)
Long-term trade accounts receivable	DOPCO	Floating rates reset quarterly	2011 ~ 2012	57,465,253	51,394,709	(6,070,544)
Long-term trade accounts payable	DOPCO	Floating rates reset quarterly	2011 ~ 2012	51,615,022	46,668,499	(4,946,523)
Trade accounts receivable	DOPCO	Floating rates reset quarterly	2010	13,493,016	10,563,965	(2,929,051)
Trade accounts payable	DOPCO	Floating rates reset quarterly	2010	11,741,867	9,362,601	(2,379,266)

	2008					
	Company	Interest rate (%)	Maturity	Nominal amount	Present value	Present value discount
Short-term and long-term loans denominated in foreign currencies	SK Energy Co., Ltd.	5.5 ~ 7	2009 ~ 2012	₩ 3,190,884	₩ 2,840,733	₩ (350,151)
Long-term borrowings, including current portion, denominated in foreign currencies	SK Energy Co., Ltd.	4 ~ 6	2009 ~ 2012	3,190,884	2,799,538	(391,346)
Long-term trade accounts receivable	DOPCO	Floating rates reset quarterly	2010 ~ 2012	61,468,012	54,208,205	(10,378,841)
Long-term trade accounts payable	DOPCO	Floating rates reset quarterly	2010 ~ 2012	55,014,112	49,052,657	(8,494,651)
Trade accounts receivable	DOPCO	Floating rates reset quarterly	2009	15,343,060	15,343,060	—
Trade accounts payable	DOPCO	Floating rates reset quarterly	2009	13,570,202	13,570,202	—

The collection schedule of loans to SK Incheon Oil Co., Ltd., for which the Company borrowed from the SAER under the policy of the MSF and made the loans, was rescheduled from the period 2001 to 2005 to the period 2005 to 2012 as a result of the court receivership order delivered on March 25, 2003. As such, the repayment schedule for the Company's borrowings from the SAER was rescheduled accordingly. SK Incheon Oil Co., Ltd. was merged with SK Energy Co., Ltd. on February 1, 2008.

Since Daehan Oil Pipeline Co., Ltd. ("DOPCO"), previously a government-controlled corporation, was privatized, and the Company provided a loan to DOPCO through borrowings from the SAER under the policy of the MSF. In 2002, the original collection schedule for the period 2002 to 2007 was rescheduled to the period 2007 to 2012. The repayment schedule for the Company's borrowings from the SAER was also rescheduled accordingly. As a result, the Company accounted for bad debt expense of ₩1,739,788 thousand and ₩3,601,207 thousand for the years ended December 31, 2009 and 2008, respectively. Further, the Company recorded gains from liabilities exempted of ₩1,364,335 thousand and ₩3,021,375 thousand for the years ended December 31, 2009 and 2008, respectively.

18. Provision for restoration costs

The Company accounts for the present value of restoration costs relating to structures, and machinery and equipment of oil fields of oil fields as a provision for liability (see Note 2). As of December 31, 2009, the Company's provision for restoration costs for the Peru 8 and Donghae-1 properties amounted to ₩4,671,420 thousand and ₩85,339,415 thousand, respectively. For the Vietnam 15-1, Vietnam 11-2, England Captain and Taylor properties, the Company's provision for restoration costs amounted to ₩10,421,700 thousand, ₩14,167,740 thousand, ₩76,969,848 thousand and ₩58,506,100 thousand, respectively, as of December 31, 2009.

Changes in the net carrying amount of the provision for restoration costs during 2009 and 2008 are as follows (Korean won in thousands):

	2009		2008	
As of January 1,	₩	188,874,347	₩	116,366,971
Provision during the year		11,959,781		8,216,485
Adjustments during the year ⁽¹⁾		49,242,095		64,290,891
As of December 31,		250,076,223		188,874,347
Less: deposits for restoration costs		(2,702,444)		(2,004,384)
	₩	247,369,779	₩	186,869,963

⁽¹⁾ Adjustments include changes in estimated restoration costs and additional obligations assumed from acquisitions of oil fields.

19. Commitments and contingencies

(i) As of December 31, 2009, the Company is a defendant in three pending lawsuits with total claims amounting to ₩6,932,113 thousand and a plaintiff in one pending lawsuit against the three individuals amounting to ₩554,502 thousand. The outcomes of these pending lawsuits and their impact on the Company's financial statements cannot presently be determined as of December 31, 2009.

(ii) The Company has obtained guarantees of US\$598,178,180 in total from BNP Paribas Bank and Standard Chartered Bank, the Export-Import Bank of Korea and of ₩1,252,639 thousand from Seoul Guarantee Insurance Company associated with purchase of oil interests, exploration of OPL 321/323 oil fields, borrowing agreement with Generale Societe for acquiring OIG and restoration of Donghae-1 gas fields as of December 31, 2009.

(iii) As of December 31, 2009, the Company has guarantees provided by non-related parties for the Company's obligations and indebtedness as follows (Korean won in thousands, US dollars):

Guarantee received from	Guaranteed amount	Description of guarantee
BNP Paribas	US\$ 248,178,180	Guarantee for exploration of OPL 321/323 oil fields
Standard Chartered Bank	US\$ 300,000,000	"
The Export-Import Bank of Korea	US\$ 50,000,000	Borrowing agreement with Generale Societe for acquiring OIG
Seoul Guarantee Insurance Co., Ltd.	₩ 1,252,639	Restoration of Donghae-1 gas fields

(iv) As of December 31, 2009, the Company has provided the following guarantee as follows (US dollars in thousands):

Guarantee provided to	Guaranteed amount	Description of guarantee
Yemen LNG Company Ltd.	US\$ \$32,831	Guarantee for project financing for Maribe LNG wells

(v) In November 2007, a consortium led by the Company and SK Energy Co., Ltd. entered into an agreement for exploration and production in Bazian oil fields, located in Iraq, with the Kurdistan regional government, in accordance with the local Kurdish oil exploration laws. In January 2008, the Company and other participating companies were notified by the Iraqi federal government that such agreement, without obtaining proper approval from the federal government, would be invalid. The oil interests in exploration of ₩27,254,331 thousand are accounted for as an equity method investment and loan to an affiliate as of December 31, 2009. The Company was advised by legal consultants in England and in Iraq that there is no legal basis on the above alleging nullity of the agreement.

In return for acquiring the rights of eight oil exploratory wells from the Kurdistan regional government, the Company paid US\$0.2 billion of signing bonus and is committed to provide US\$1.9 billion of Social Overhead Capital ("SOC") construction. As of December 31, 2009, the Company recognized the assets and liabilities in the amount of US\$0.4 billion associated with the SOC constructions ordered firmly by the Kurdistan regional government and the remaining US\$1.5 billion of SOC constructions were not recognized as their timing of expenditures could not be reasonably estimated. With respect to the signing bonus paid and SOC related asset, the Company accounted for ₩763,800,072 thousand as oil interests in exploration, and the corresponding SOC related liability of ₩163,289,210 thousand as other accounts payable and ₩230,742,018 thousand as other long-term liabilities as of December 31, 2009.

20. Derivative financial instruments

Commodity swaps

The Company entered into commodity swaps to hedge the exposure to changes in the fair value and the variability in future cash flows of petroleum inventories. Details of the contracts as of December 31, 2009 are presented as follows (Korean won in thousands, BBL: Barrels):

Objective	Counter-party	Due date	Sell or buy	Quantity (BBL)	Contract price	Fair value	Valuation gain (loss)
Fair value hedge	Morgan Stanley and others	2010.1.31	Buy	1,000,000	₩ 85,071,336	₩ 91,049,448	₩ 5,978,112
Cash flow hedge	Morgan Stanley and others	2010.12.31	Sell	1,790,000	157,165,382	172,759,731	(15,594,349)
Cash flow hedge	Morgan Stanley and others	2010.12.31	Sell	790,000	65,602,042	66,586,724	(984,682)

In connection with valuation gain on petroleum commodity swaps designated as a fair value hedge instrument, the Company recognized a loss from the corresponding firm commitment equal to such gain.

Zero-cost collar option

The Company purchased a zero-cost collar option to hedge the exposure to variability in future cash flows of oil to be produced in the Taylor properties located in the United States. Details of the contracts as of December 31, 2009 are presented as follows (Korean won in thousands):

Objective	Counter-party	Due date	Sell or buy	Quantity (BBL)	Contract price	Fair value	Valuation gain (loss)
Cash flow hedge	Morgan Stanley and others	2010.1.31	Sell	2,300,000	₩ 241,693,200	₩ 215,371,451	₩ 26,321,749

(*) Gain on valuation from the options above consists of an intrinsic value component of ₩21,074,304 thousand and a time value component of ₩5,247,445 thousand as of December 31, 2009.

Currency forward contracts

The Company entered into currency forward contracts to hedge the exposure to change in fair value due to foreign exchange rates on bonds payable denominated in foreign currency. Details of the contracts as of December 31, 2009 are presented as follows (Korean won in thousands, US dollars):

Objective	Counter-party	Due date	Sell or buy	Notional amount in (US\$)	Notional amount in (KRW)	Fair value	Valuation loss
Fair value hedge	DBS and others	2012.2.6/2012.6.22	Buy	490,000,000	₩ 600,161,310	₩ 588,077,025	₩ (12,084,285)

21. Paid-in-capital

The Company's paid-in capital is invested solely by the Korean government in accordance with the Korean Oil Corporation Act and the authorized paid-in capital is ₩10 trillion as of December 31, 2009.

The changes in paid-in capital during the years ended December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009
As of January 1, 2009	₩ 5,914,814,780
Increases during 2009:	
February 26 (contributed for oil stockpiling business)	40,000,000
March 19 (contributed for oil stockpiling business)	30,000,000
March 23 (contributed for exploring and developing oil fields)	100,000,000
April 9 (contributed for oil stockpiling business)	40,000,000
April 29 (contributed for exploring and developing oil fields)	110,000,000
May 25 (contributed for oil stockpiling business)	20,000,000
June 12 (contributed for oil stockpiling business)	35,000,000
June 23 (contributed for exploring and developing oil fields)	110,000,000
August 28 (contributed for exploring and developing oil fields)	50,000,000
September 22 (contributed for oil stockpiling business)	20,000,000
September 25 (contributed for exploring and developing oil fields)	45,000,000
October 26 (contributed for oil stockpiling business)	40,202,000
November 6 (contributed for exploring and developing oil fields)	40,000,000
November 30 (contributed for exploring and developing oil fields)	40,000,000
December 24 (contributed for exploring and developing oil fields)	14,400,000
	<u>734,602,000</u>
As of December 31, 2009	₩ 6,649,416,780
	2008
As of January 1, 2008	₩ 4,684,912,780
Increases during 2008:	
February 15 (contributed for oil stockpiling business)	45,000,000
February 19 (contributed for oil stockpiling business)	100,000,000
June 30 (contributed for oil stockpiling business)	112,032,000
August 6 (contributed for oil stockpiling business)	33,338,000
August 6 (contributed for exploring and developing oil fields)	64,700,000
September 5 (contributed for oil stockpiling business)	25,000,000
September 29 (contributed for exploring and developing oil fields)	200,000,000
November 3 (contributed for exploring and developing oil fields)	600,000,000
November 14 (contributed for oil stockpiling business)	14,762,000
December 18 (contributed for oil stockpiling business)	35,070,000
	<u>1,229,902,000</u>
As of December 31, 2008	₩ 5,914,814,780

22. Retained earnings

Retained earnings of the Company as of December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009	2008
Appropriated retained earnings:		
Legal reserve	₩ 585,143,747	₩ 537,966,236
Reserve for business expansion	583,700,125	536,522,614
	1,168,843,872	1,074,488,850
Unappropriated retained earnings	422,291,952	119,492,986
	₩ 1,591,135,824	₩ 1,193,981,836

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 an accumulated deficit with net income for the current year. The legal reserve may be transferred to the paid-in capital.

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 a reserve for business expansion until the reserve equals paid-in capital after having appropriated for the legal reserve. This reserve may be used to offset an accumulated deficit.

23. Accumulated other comprehensive income

Details of accumulated other comprehensive income (loss) of the Company as of December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009	2008
Gain on valuation of available-for-sale securities ^(Note 6)	₩ 2,158,559	₩ 206,077
Capital adjustment arising from equity method investments ^(Note 7)	(23,785,922)	1,223,278
Foreign currency translation adjustments ^(Note 2)	174,687,201	245,097,484
Gain on valuation of derivative instruments ^(Note 20)	3,407,417	135,871,439
	₩ 156,467,255	₩ 382,398,278

24. Comprehensive income

The details of comprehensive income for the years ended December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009	2008
Net income	₩ 422,291,952	₩ 200,192,741
Other comprehensive income (loss):		
Gain (loss) on valuation of available-for-sale securities, less tax effect of ₩26,516 thousand in 2009 and ₩(185,811) thousand in 2008	1,952,482	(980,890)
Equity adjustment arising from equity method investments, less tax effect of ₩(6,991,705) thousand in 2009 and ₩282,854 thousand in 2008	(25,009,200)	991,257
Foreign currency translation adjustments, less tax effect of ₩(24,088,608) thousand in 2009 and ₩63,200,828 thousand in 2008	(70,410,283)	252,915,888
Gain (loss) on valuation of derivative instruments, less tax effect of ₩(39,999,457) thousand in 2009 and ₩41,087,313 thousand in 2008	(132,464,022)	135,871,440
	(225,931,023)	388,797,695
Comprehensive income	₩ 196,360,929	₩ 588,990,436

25. Loss on prior period error corrections

The Company accounted for the loss on prior period errors correction associated with understated amortization prior to 2009 in Elephant oil well in Libya as non-operating loss in 2009.

26. Income taxes

For the financial year ended December 31, 2009, the Company is subject to corporate income taxes, including resident surtax, at the aggregate rates of 12.1% (12.1% in 2008) on taxable income up to ₩200 million and 24.2% (27.5% in 2008) on taxable income in excess of ₩200 million.

The components of the provision for income taxes for the years ended December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009	2008
Current income taxes	₩ 173,895,794	₩ 177,775,542
Deferred income taxes arising from tax effect of temporary differences	(18,350,544)	98,345,610
Deferred income taxes recognized directly to equity	71,106,286	(104,756,108)
Provision for income taxes	₩ 226,651,536	₩ 171,365,044

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, 2009 and 2008 are as follows (Korean won in thousands):

	2009					
	Jan. 1, 2009	Net changes	Dec. 31, 2009	Deferred income tax assets (liabilities)	Current	Non-current
Accrued income	₩ (5,478,170)	₩ 1,791,162	₩ (3,687,008)	₩ (892,256)	₩ (892,256)	₩ -
Gain on foreign currency Translation	139,356,202	(463,456,720)	(324,100,518)	(78,432,325)	(78,432,325)	-
Allowance for doubtful Accounts	-	121,448,463	121,448,463	26,718,662	-	26,718,662
Severance & retirement benefits	28,970,199	8,320,933	37,291,132	8,204,049	-	8,204,049
Deposits for severance & retirement benefits	(28,970,199)	(8,320,933)	(37,291,132)	(8,204,049)	-	(8,204,049)
Impairment loss on available-for-sale securities	6,037,299	-	6,037,299	1,328,206	-	1,328,206
Equity in earnings from overseas oil interests (KNOC USA)	(38,296,702)	(59,756,535)	(98,053,237)	(21,571,712)	-	(21,571,712)
Capital adjustment from overseas oil interests (KNOC USA)	(219,532,310)	105,214,559	(114,317,751)	(25,149,905)	-	(25,149,905)
Equity in earnings from overseas oil interests (KCCL)	(149,262,360)	(18,320,354)	(167,582,714)	(36,868,197)	-	(36,868,197)
Dividend from overseas oil interests (KCCL)	-	26,272,184	26,272,184	5,779,880	-	5,779,880
Capital adjustment from overseas oil interests (KCCL)	(67,744,181)	4,279,115	(63,465,066)	(13,962,315)	-	(13,962,315)
Equity in loss of equity method investments	(2,527,523)	37,415,418	34,887,895	7,675,337	-	7,675,337
Capital adjustment arising from equity method investments	(1,285,704)	31,780,476	30,494,772	6,708,850	-	6,708,850
Depreciation	8,771,020	52,340,194	61,111,214	13,444,468	-	13,444,468
Amortization	3,985,024	2,064,381	6,049,405	1,330,869	-	1,330,869
Present value discount	(8,885,995)	1,491,462	(7,394,533)	(1,789,477)	(1,789,477)	-
Oil interests in production	(62,849,200)	(7,076,037)	(69,925,237)	(15,383,552)	-	(15,383,552)
Provision for restoration costs	110,493,062	6,710,129	117,203,191	25,784,702	-	25,784,702
Impairment loss on oil interests	45,474,205	24,636,396	70,110,601	15,424,332	-	15,424,332
Depreciation - Peru	(10,917,709)	10,917,709	-	-	-	-
Restoration costs - Peru	642,345	(642,345)	-	-	-	-
Available-for-sale securities	(841,417)	(1,925,966)	(2,767,383)	(608,824)	-	(608,824)
Gain on valuation of derivatives (capital adjustment)	(176,958,753)	172,463,479	(4,495,274)	(1,087,856)	(1,087,856)	-
Loss on valuation of derivatives	113,379,973	(107,273,800)	6,106,173	1,211,840	(1,446,703)	2,658,543
Gain on valuation of firm commitments	(306,330,564)	300,224,391	(6,106,173)	(1,211,840)	1,446,703	(2,658,543)
Others	85,985,571	36,794,668	122,780,239	26,912,248	(1,093,436)	28,005,684
Total	₩ (536,785,887)	₩ 277,382,429	₩ (259,393,458)	₩ (64,638,865)	₩ (63,295,350)	₩ 18,656,485
Tax rates	24.2%, 22%		24.2%, 22%			
Deferred income tax liabilities, net	₩ (82,989,409)		₩ (64,638,865)			

	2008					
	Jan. 1, 2008	Net changes	Dec. 31, 2008	Deferred income tax assets (liabilities)	Current	Non-current
Accrued income	₩ (2,221,522)	₩ (3,256,648)	₩ (5,478,170)	₩ (1,325,717)	₩ (1,325,717)	₩ -
Gain on foreign currency Translation	-	139,356,202	139,356,202	33,724,201	33,724,201	-
Severance & retirement benefits	28,970,199	-	28,970,199	6,373,444	-	6,373,444
Deposits for severance & retirement benefits	(28,970,199)	-	(28,970,199)	(6,373,444)	-	(6,373,444)
Impairment loss on available-for-sale securities	6,037,299	-	6,037,299	1,328,206	-	1,328,206
Equity in earnings from overseas oil interests (KNOC USA)	-	(38,296,702)	(38,296,702)	(8,425,274)	-	(8,425,274)
Capital adjustment from overseas oil interests (KNOC USA)	-	(219,532,310)	(219,532,310)	(48,297,108)	-	(48,297,108)
Equity in earnings from overseas oil interests (KCCL)	(64,350,688)	(84,911,672)	(149,262,360)	-	-	-
Capital adjustment from overseas oil interests (KCCL)	(14,700,074)	(53,044,107)	(67,744,181)	(14,903,720)	-	(14,903,720)
Equity in loss of equity method investments	(612,532)	(1,914,991)	(2,527,523)	(556,055)	-	(556,055)
Capital adjustment arising from equity method investments	(11,592)	(1,274,112)	(1,285,704)	(282,855)	-	(282,855)
Depreciation	8,771,020	-	8,771,020	1,929,624	-	1,929,624
Amortization	6,514,837	(2,529,813)	3,985,024	876,705	-	876,705
Present value discount	(8,265,404)	(620,591)	(8,885,995)	(2,150,411)	(2,150,411)	-
Oil interests in production	(59,919,012)	(2,930,188)	(62,849,200)	(13,826,824)	-	(13,826,824)
Provision for restoration costs	97,581,004	12,912,058	110,493,062	24,308,474	-	24,308,474
Impairment loss on oil interests	39,776,784	5,697,421	45,474,205	10,004,325	-	10,004,325
Depreciation - Peru ^(*)	(13,811,991)	2,894,282	(10,917,709)	(3,275,313)	-	(3,275,313)
Restoration costs - Peru ^(*)	1,637,538	(995,193)	642,345	192,703	-	192,703
Available-for-sale securities	(1,637,195)	795,778	(841,417)	(185,112)	-	(185,112)
Gain on valuation of derivatives (capital adjustment)	-	(176,958,753)	(176,958,753)	(41,087,313)	(23,720,265)	(17,367,048)
Loss on valuation of derivatives	-	113,379,973	113,379,973	27,437,953	27,437,953	-
Gain on valuation of firm commitments	-	(306,330,564)	(306,330,564)	(67,392,724)	-	(67,392,724)
Others ^(*)	48,525,106	37,460,465	85,985,571	18,916,826	-	18,916,826
Total	₩ 43,313,578	₩ (580,099,465)	₩ (536,785,887)	₩ (82,989,409)	₩ 33,965,761	₩ (116,955,170)
Tax rates	27.5%		24.2%, 22%			
Deferred income tax assets (liabilities), net	₩ 15,356,201			₩ (82,989,409)		

^(*) Deferred income tax assets and liabilities arising from these temporary differences in Peru as of December 31, 2008 are calculated based on the expected local marginal income tax rate of 30.0%.

^(*) The effect of change in accounting policy prior to 2008 was adjusted as of January 1, 2008.

A reconciliation of the provision for income taxes applicable to income before income taxes at the Korea statutory tax rate to the provision for income taxes at the effective income tax rate of the Company is as follows (Korean won in thousands):

	2009	2008
Income before income taxes	₩ 648,943,488	₩ 371,557,785
Tax at the statutory income tax rate (2009: 24.2%, 2008: 27.5%)	157,020,124	102,178,391
Adjustments:		
Expenses not deductible for tax purposes (2009: ₩46,494,486, 2008: ₩176,958,753)	11,251,666	48,663,657
Income not subject to tax purposes (2009: ₩28,791, 2008: ₩99,613,899)	(6,967)	(27,393,822)
Recognition of previously unrecognized deferred income tax	32,837,719	—
Income taxes difference from overseas investees	33,146,565	83,943,698
Others	(7,597,571)	(36,026,880)
Provision for income taxes at the effective income tax rate of 34.93% (2008: 46.12%)	₩ 226,651,536	₩ 171,365,044

27. Dividends

The dividend rates for the years ended December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009	2008
Cash dividends (A)	₩ 67,558,074	₩ 25,137,964
Paid-in capital (B)	₩ 6,649,416,780	₩ 5,914,814,780
Dividend rate (A/B)	1.016%	0.425%

The dividend payout ratios for the years ended December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009	2008
Cash dividends (A)	₩ 67,558,074	₩ 25,137,964
Net income (B)	422,291,952	200,192,741
Dividend payout ratio (A/B)	16.00%	12.56%

28. Selling and administrative expenses

Details of selling and administrative expenses for the years ended December 31, 2009 and 2008 are as follows (Korean won in thousands):

	2009	2008
Salaries	₩ 36,625,906	₩ 37,431,957
Provision for severance and retirement benefits	1,130,296	4,837,014
Other employee benefits	4,626,757	6,874,551
Travel	525,495	919,284
Communications	327,603	278,610
Utilities	322,865	379,790
Taxes and public dues	855,028	3,036,192
Supplies	221,862	231,190
Clothing	115,128	113,019
Books and printing	233,814	190,261
Rent	149,860	60,863
Depreciation	2,726,909	2,625,055
Amortization	2,868,788	3,179,163
Maintenance	1,339,288	1,033,607
Vehicle maintenance	209,923	702,774
Insurance	112,506	64,316
Commissions and fees	6,372,377	3,280,152
Entertainment	312,807	161,999
Advertisement	644,329	634,382
Training	2,159,721	1,973,547
Research	4,130	4,185
Rewards	119,468	73,694
Registry and legal fees	96,521	458,973
Association	242,207	237,702
Development expense	12,472,299	9,168,758
Miscellaneous	626,955	623,641
	₩ 75,462,842	₩ 78,574,679

29. Value added information

In accordance with SKAS 21 *Preparation and Presentation of Financial Statements*, the "value added" items as defined by the standard, which are required to be disclosed by the Company for the years ended December 31, 2009 and 2008, are as follows (Korean won in thousands):

	2009	2008
Salaries	₩ 73,980,306	₩ 82,611,282
Severance and retirement benefits	2,181,038	10,102,563
Employee benefits	11,242,150	14,558,682
Rental expense	2,388,470	2,358,430
Depreciation	124,817,450	91,040,456
Amortization	334,190,395	199,058,737
Taxes and dues	7,973,549	10,616,008

30. Environmental consideration

The Company has established environmental objectives from mid-term to long-term and detailed strategies to meet its objectives. They are executed in preparation for the potential safety problems and the Company's inherent business risks, including contamination or pollution of water, soil and seabed that may occur during the 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.

31. 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 other benefits.

The Company donated ₩4,178,002 thousand and ₩536,130 thousand to support oil development and others for the years ended December 31, 2009 and 2008, respectively.

Expenditures associated with development of specialization in human resources during the years ended December 31, 2009, 2008 and 2007 are as follows (Korean won in thousands):

	2009	2008	2007	Total
Training	₩ 3,271,486	₩ 2,748,396	₩ 2,412,353	₩ 8,432,235

32. Segment information

The Company engages in the following major businesses, and sales by the business segments for the years ended December 31, 2009 and 2008 are as follows (Korean won in thousands):

Segment	Main goods (or services)
Oil resource development	Exploration, development and production of domestic and overseas oil resources
Stockpiling of oil	Imports and exports of crude oil and petroleum products; lending and sales of oil stockpile; management, operation and lending of oil stockpiling facilities
Financing	Financing for companies engaging in energy and natural resources industries
Drillship chartering	Drillship chartering business
Other	Incidental income from the above businesses

	2009	2008
Oil resource development	₩ 1,271,418,223	₩ 1,115,161,216
Stockpiling of oil	366,137,737	130,959,134
Financing	94,413,337	382,100,137
Drillship chartering	54,344,769	108,242,397
Other	13,737,715	11,016,624
	₩ 1,800,051,781	₩ 1,747,479,508

33. Supplementary cash flow information

Significant transactions not involving cash flows for the years ended December 31, 2009 and the 2008 are as follows (Korean won in thousands):

	2009
Increase in long-term other accounts receivable with a corresponding increase in construction subsidy	₩ 11,683,217
Increase in equity method investments with a corresponding increase in other long-term liabilities	125,643,986
Increase in oil interests in exploration with a corresponding increase in other accounts payable and other long-term liabilities	421,309,482
Decrease in derivative assets due to the valuation loss	161,895,839

34. Approval of 2009 financial statements

The financial statements of the Company for the year ended December 31, 2009 are scheduled to be approved at the Board of Directors' meeting to be held on February 23, 2010.