

NEWS LETTER KNOC

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First step taken toward Korea's becoming a Northeast Asian oil hub;



Ceremony of dedicating oil storage facilities in Yeosu

The first step has been taken in positioning Korea as the center of oil trading in Northeast Asia under the so-called "Northeast Asia Oil Hub Project."

In a ceremony marking the completion of the Yeosu storage terminal, Sang-jik Yoon, Minister of the Ministry of Trade, Industry, and Energy (MOTIE), announced the vision of transforming Korea into the Northeast Asian oil hub. The event was held on June 24, 2013 and attended by around 300 people including Moon-kyu Suh, Chief Executive Officer (CEO) of KNOC, and Jin-soo Huh, CEO of GS Caltex.

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Northeast Asian oil hub; Yeosu storage terminal completed

In his speech, CEO Suh thanked everyone involved in the construction of the terminal for their cooperation. He added that the successful operation of the facilities will strengthen Korea's energy security since massive oil reserves can be stored within the country, revitalizing the local economy. The Northeast Asia Oil Hub Project has been pursued since 2008 based on the goal of growing Korea as one of the four global oil hubs together with the United States (US), Europe, and Singapore.

The project includes plans to build commercial oil storage terminal with a combined capacity of 36.6 million barrels and an international oil trading center in Yeosu and Ulsan.

As the first phase of the project, the construction of the Yeosu storage facilities has been implemented over a period of four years with an investment of KRW 517.0 billion. It has been built as the largest commercial oil storage terminal in Korea with a capacity of 8.2 million barrels

including 3.5 million barrels of crude oil and 4.7 million barrels of petroleum products. Six domestic companies such as KNOC, which holds a 29% stake, SK-GS with 11%, and Samsung C&T Corporation with 10% and China National Aviation Fuel with a 26% stake took part in the project. The international oil trading center is forecast to be completed in the first half of 2017. Moreover, storage facilities with a combined capacity of 28.4 million will be established in the southern and northern ports of Ulsan, finalizing the project.

Once the project is completed, Korea will have a marketplace for oil futures and spots and various derivatives on top of stable logistics infrastructure; thus becoming a true global oil center. Currently, in Asia, Singapore is the only country with an international spot trading center that deals oil products including gasoline, diesel, and kerosene. The Korean hub will accelerate the growth of the relevant industries such as oil stockpiling, transport, logistics, and

finance, contributing to the expansion of investment and employment. Therefore, it is expected to be a symbolic energy industry project with a goal of realizing a creative economy as the key policy principle of the incumbent administration of Korea.

"Korea is touted as one of the most optimal locations to build an oil hub considering the geographical benefit of being adjacent to China, a market with huge demand for oil, and Korea's world-class port infrastructure. When the project is completed, global oil companies and traders will rush into Korea, creating an enormous amount of added value," said Moon-hyun Baek, the Representative Director of Oil Hub Korea Yeosu Co., Ltd. Meanwhile, a policy meeting was held prior to the ceremony led by the Minister of MOTIE. Market experts and those related to the project including government officials, investors, and executives of oil companies shared their views on the future direction of the project in light of the progress, plans, and vision of MOTIE.



Signed an investment LOI for Ulsan North Port with Sinopec



During President Park Geun-hye's state visit to China from June 27 to 30, the signing ceremony of economic cooperation MOU between China and Korea was held. And also there was the signing ceremony of Letter of Intent (LOI) with Sinopec China for investment in the project developing Ulsan North Port as a Northeast Asia's oil hub on June 28th. The signing ceremony participated by Sang-jik Yoon, Minister of Trade, Industry and Energy, Moon-kyu Suh, CEO of KNOC and Mr. Wang Tianpu of Sinopec has a significant meaning in that it encouraged the investment in Ulsan North Port project, the second-stage business to develop a Northeast Asia oil hub by the largest state-owned oil refiner in China. Meanwhile, KNOC signed HOA with Vopak, the world's number

one operator of oil and chemical tank storage terminals, and proceeds with investment and basic design jointly with the company aiming at completing the construction of tank terminal by 2016.

Statistics on the expected benefits of the Northeast Asia Oil Hub Project

 **8.2** million barrels

Construction of massive oil storage terminal as the first phase of the project

- A total of **8.2 million barrels** can be stockpiled in 36 tanks (4 days' worth of national oil consumption).
- The time required for adopting crude oil will be cut from an average of three weeks to five days.

 **4.46** trillion

According to the feasibility study conducted by the Korea Development Institute, the project will translate into **KRW 4.46 trillion** (USD 3.91 billion) of production, **KRW 605.9 billion** (USD 531 million) of income, and approximately 22 thousand jobs.



Executive Communication with Staff

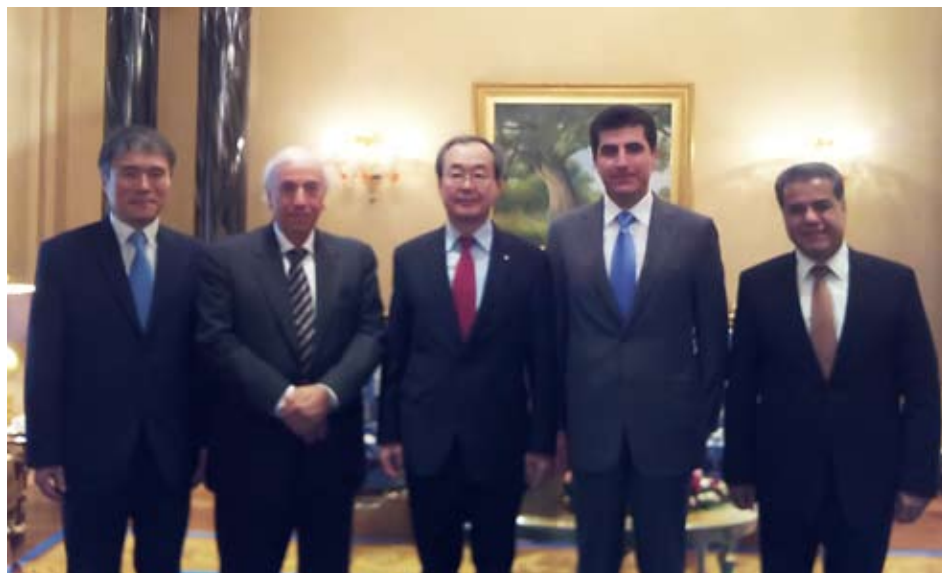


On July 1, KNOC held a venue for communication among executives and staff members in the grand hall on the first floor of HQ. After the monthly meeting, a venue titled "Communication and Cooperation for Innovative KNOC!" was organized hearing the presentations about inside and outside business environment, mid- and long-term financial prospect and the "KNOC 3.0" plan. The attending executives including CEO Suh and staff members talked about project performances, innovative business directions beyond business evaluation.

Meeting with the Prime Minister of the Kurdistan Regional Government

During a business trip to Iraq from July 18, CEO Suh visited the Prime Minister and the Ministry of Natural Resources of the Kurdistan Regional Government on 20th, having a discussion on KNOC's projects in Iraq.

At the meeting, he appreciated that Kurd region was evolving into a global E&P hub and expressed his gratitude to the government for supporting our local projects which had conducted since the end of 2007. He also asked for unwavering cooperation for our three exploration projects: Hawler Block producing about 10 thousand barrels of oil a day since successful exploration in March 2013, Bazian Block which is under the second drilling (Bn-2) process and Sangaw South Block that 2D additional exploration process is under way. Meanwhile, KNOC signed a contract for



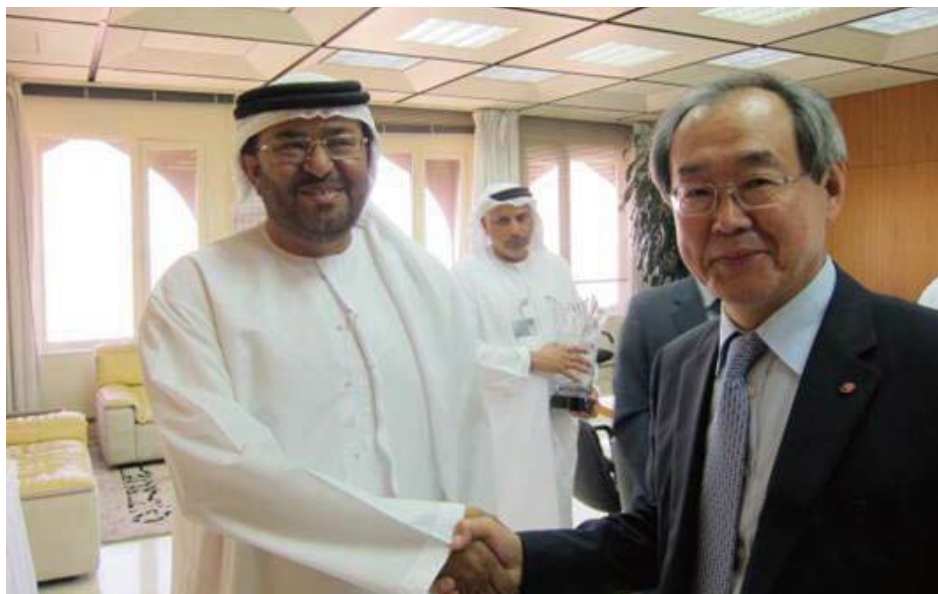
the construction of two power plants and a substation in Iraq in August 2012 and is engaging in payment and supervision works including land compensation for KRG-MOE, the project

owner. He asked the Kurdistan Regional Government for early land compensation for the completion of the project within the schedule.

CEO Suh visits ADNOC

CEO Suh visited Abu Dhabi National Oil Company (ADNOC) of the United Arab Emirates (UAE) on May 28, with the Minister of MOTIE and discussed methods of cooperation in relation to KNOC's oil development and the joint stockpile project with CEO Abdulla Nasser Al Suwaidi.

KNOC concluded the main contract for three undeveloped oil blocks in March 2012. Administrative procedures including the environmental impact study and authorization and approval have been completed, with two appraisal wells to be drilled in October 2013. As for the joint stockpile project, the relevant procedures to store ADNOC's crude oil in the Yeosu base are underway following the contract



signed with ADNOC in November 2012 to stockpile 6.0 million barrels of crude oil. Such activities to strengthen the partnership

with ADNOC are expected to serve as a solid bedrock for the projects that KNOC have been implementing in the UAE.

Meeting with the Minister of Energy and Mineral Development of Uganda



A meeting was held on May 27, 2013 between CEO Suh and Irene Nafuna Muloni, the Minister of Energy and Mineral Development of Uganda. During the meeting, a Memorandum of

Understanding (MOU) on comprehensive cooperation was concluded, indicating the commitment of both parties to establish close ties in the E&P business. CEO Suh said that the corporation will

consider the collaborate including joint research favorably if the Ugandan government is willing to provide technical data on prospective oil blocks and suggests that KNOC participate in their project. Other methods that have been discussed with regard to laying a platform for exchange in the energy sector included the participation of a high-level official from the Ministry in the international energy policy program at Seoul National University in Korea and KNOC's support in establishing a state-owned oil corporation in Uganda, if planned.

After the meeting, Ms. Muloni visited the Guri branch office of KNOC to be briefed on the current status of oil stockpile and toured the underground base.

CEO makes business trip to the US



CEO Suh made a business trip to the US last May 5 to 8, 2013. At the Houston branch office, he was briefed on KNOC's Eagle Ford and El Paso projects and inspected project sites. He also met with the CEO of Anadarko to ask for cooperation and support for the corporation's projects implemented in the US. KNOC holds a stake in the shale oil project of Anadarko. In addition, CEO Suh participated in the Offshore Technology Conference in Houston on May 6, 2013. During the conference, he held meetings with the CEO of Petronas, the state-run oil corporation of Malaysia, and the CEO of POSCO Specialty Steel to seek ways for collaboration.

Meeting with CEO of Petronas

A meeting was held on June 25, 2013 between CEO Suh and Tan Sri Dato Shamsul Azhar Abbas, CEO of Petronas, a state-owned oil corporation of Malaysia. In the meeting, which kicked off with the welcome remarks by CEO Suh, the two CEOs shared information on the progress of shale gas projects – which have recently been drawing a lot of attention – and Petronas' LNG project in Canada. In-depth discussions on the joint Malaysian offshore project by KNOC and Petronas have been carried out as well.

Other agenda included the offshore block 2B project in Malaysia that has been completed – and two additional offshore projects wherein KNOC is expected to participate. The two parties resolved to derive meaningful results through strategic alliances for the projects.



Moreover, they shared methods to maximize mutual synergy by designating the regions that both companies are keenly interest in and exchanging assets under the strategic alliance. In particular, specific suggestions were made including a regular seminar on stockpiling by KNOC

and E&P by Petronas, which are known for their expertise in each field. The event could serve as an opportunity to introduce best practices and share information and cutting-edge technology. The strategic alliance is expected to accelerate efforts to boost synergy in jointly implemented projects.

Meeting with Iraqi Minister of Oil

CEO Suh met with Abdul Kareem Luaibi Bahedh, the Iraqi Minister of Oil, who visited Korea with five other officials. In the meeting held on April 30, 2013 at the Seoul Plaza Hotel, the two discussed KNOC's joint stockpile project and State Oil Marketing Organization (SOMO: Iraq's state-run corporation under the Ministry of Oil). The agenda also included a request on free destination condition for future time-contract supply from SOMO. CEO



Suh asked about the amendment to Iraq's Oil Law and key issues regarding oil and gas. The Iraqi delegation signified their

commitment to continued cooperation, showing interest in stockpiling Iraq's crude oil in KNOC's base in the future.

Meeting with Norwegian ambassador



A meeting was held on April 12, 2013 between CEO Suh and Torbjørn Holthe, the Norwegian ambassador to Korea. CEO Suh mentioned a Norwegian project being undertaken by Dana, a subsidiary of KNOC, and also talked about plans such as additional acquisitions of exploration

assets by participating in the distribution of operation rights and a possible enlargement of investment in Norway. CEO Suh requested Norway's cooperation in KNOC's projects in various sectors, including possible E&P projects with Statoil, and the international joint stockpiling

project that has been implemented since 1999.

He also asked for Norway's investment in the Ulsan phase of the Northeast Asia Oil Hub Project, which is being implemented based on government policy. For his part, Mr. Holthe expressed hope that KNOC will proactively participate in the Offshore Northern Seas Conference held by the Norwegian government.

Meanwhile, KNOC has been operating in Norway through the offshore exploration by Dana. It is currently trying to find business opportunities in polar areas such as Barents Sea, Greenland, and Alaska. In addition, it has been maintaining close coordination with Statoil for the international joint stockpile project, thanks to the visit of Statoil's CEO last March.

Overseas Financial Managers' Meeting 2013

KNOC held the "Overseas Financial Managers Meeting 2013" for three days from June 10 to 12, 2013 to establish and share methods of integrating the financial system between KNOC and subsidiaries in line with the enterprise-wide endeavor for system integration. Participants of the meeting were 24 employees of the headquarters including the Exe VP for Strategy and Planning Group and the vice president of the Finance Management Dept. as well as 11 financial managers of overseas subsidiaries.

A number of presentations were given, with discussions on specific goals of setting up strategies to operate overseas subsidiaries and the integrated management system as

well as the goal of making improvements to the account-closing process. Other agenda included global budget allocation and management and the relaxation of constraints regarding work coordination

with overseas subsidiaries.

In addition, an integrity and ethics training for financial managers was offered during the meeting to raise awareness of the rising significance of ethics.



Opening ceremony for KPA



KNOC held a ceremony to commemorate the launch of the KNOC Petroleum Academy (KPA) in the headquarters on April 19, 2013. Built as a center to nurture technical experts in resource development, KPA will operate a total of 63 programs in 11 areas including

petroleum engineering, petroleum geology, and petroleum management. The employees of KNOC and those who are engaged in the oil industry will be able to participate in the academic courses. Government officials such as Assistant

Minister for Energy and Resources of MOTIE and members of the Korean oil industry including those from the academies, research institutes, and private companies joined the ceremony.

KPA differentiates itself from common colleges by focusing on providing enrollers with not only theoretical training but also hands-on experience. The center will develop and deliver educational contents that include case studies of E&P projects and actual data from the operated oil blocks under a project-based workshop format that are unique to this facility.

CEO Suh said that the establishment of KPA will allow KNOC to take a new leap forward as a global oil corporation that leads national oil development projects by upgrading the corporation's technological capability to the global level.

Seminars and workshops for capacity building



Stockpile Technology Seminar 2013

KNOC held the "Stockpile Technology Seminar 2013" in the Yongin branch office on May 7, 2013 to reinforce the capability to maintain and repair stockpile bases by sharing advanced technology and upgrade facility management ability. A total of 22 employees joined the seminar to present success and failure cases in facility management, discuss rooms for improvement, and share information on technology.

Petroleum Engineers' Workshop 2013

KNOC invited 23 petroleum and production engineers from overseas branch offices and subsidiaries to hold the "KNOC Petroleum Engineers' Workshop" from May 22 to 24, 2013. The workshop sought to improve the operational efficiency of KNOC-owned oil blocks and managing reservoirs and expand production.

A total of 19 presentations were given on four areas: project management, production management and optimization, unconventional oil and gas, and reservoir management. A Q&A session on the specific technology applied



to the ADA oil block project in Kazakhstan, Donghae-1 gas field project, and Abu Dhabi project followed.

Drilling Technology Seminar

KNOC held the "Drilling Technology Seminar" for the first half of 2013 at HQ on May 14, 2013 and at Chonnam National University (CNU) in Gwangju on May 16. The annual seminar aims at facilitating the development of drilling technology in the industry and academia and training drilling experts. This year, Professor Jong-geun Choi of Seoul National University and Professor Jeong-hwan Lee of CNU were invited as guest speakers. KNOC's employees from Drilling and Subsea Dept. also gave presentations related to casing design, deep-water drilling, and well completion.

Oil Industry Seminar

KNOC held the "Oil Industry Seminar" for the first half of 2013 on May 23, at HQ to share information on the oil industry and economic issues and facilitate exchanges. Around 180 fee-based subscribers to Petronet joined the seminar. Samsung Economic Research Institute gave a presentation on global economic



issues and outlook; the Korea Petrochemical Industry Association discussed the issues and outlook of the petrochemical industry. KNOC also presented the global oil market trend and outlook on international oil prices in the first half of 2013.

KNOC has been holding the seminar twice a year, receiving positive feedback from members for offering information on the trend and outlook of domestic and overseas oil markets.

HSE workshop, rig "Doo Sung" crew meeting

Recognizing the importance of eco-friendly management, KNOC held the Health, Safety, and Environment (HSE) Workshop for KNOC's semi-submersible rig "Doo Sung" on April 9, 2013 at HQ. Employees of the Offshore Rig Operations Dept. and crew who were embarked from the rig "Doo Sung" were briefed on KNOC's new vision and management principles. In particular, a safety expert from Lloyd's Register was invited to conduct training on the risk analysis method for advanced drilling rig and to lead discussion; thus strengthening the participants' safety awareness.

KNOC Promotes FUN management and communication with the public!

Management by Wandering Around (MBWA) by the CEO

KNOC has been implementing management programs focused on the element of "fun" to create a pleasant workplace and improve employee satisfaction. In line with this, the CEO adopted Management by Wandering Around (MBWA) in 2013 to facilitate communication across different levels and enhance management efficiency. In this regard, the "Happy time" program has been revamped. The CEO will prepare snacks to visit and experience the field and discuss pending issues with employees. In fact, on May 23, 2013, CEO Suh visited the Exploration Business Dept., sharing snacks and listening to employees as they cited work-related issues and difficulties. "I feel much closer to the CEO now, having been able to talk to him face-to-face," said one employee who took part in the event. MBWA is expected to contribute to enhancing communication across the hierarchy and strengthening the sense of unity.



Korea Green Energy Festival 2013

KNOC provided an educational opportunity to the public to experience the energy industry in a comprehensive manner by operating the petroleum exhibit in the Korea Green Energy Festival 2013. The exhibit was held for 14 days from May 1 to June 16, 2013 in three cities as a chance to promote the significance of petroleum resources and the role of KNOC. Moreover, employees and their families were invited together to the exhibit to share KNOC's key business values and reinforce a sense of community.

KNOC facilitates talent-nurturing and scholarship programs

Youth scholarship

KNOC held a ceremony on April 5, 2013 to award 115 high school students with scholarships, which are provided to foster future talents in science and engineering. The headquarters and nine branch offices nationwide select one or two students each from 83 high schools in 10 cities where they are located. Each student is awarded KRW 500 thousand (USD 4,5 hundred) every quarter or KRW 2 million (USD 1.8 thousand) annually, for a total of KRW 230 million (USD 205 thousand) until their graduation. In addition, KNOC visited the education office of Ulsan Innovation City to donate KRW 40 million (USD 36 thousand) for the development of sister schools in the city where KNOC will relocate its headquarters in 2014. It has been operating a range of scholarship programs such as "petroleum development scholarship" and "elementary and middle school student scholarship."



KNOC Pioneer Scholarship Program

Gwang-hun Jang, head of KNOC's Vietnam office, and the Korean International School of Ho Chi Minh City signed a sponsorship agreement for the "KNOC Pioneer Scholarship Program" on April 16 at the school. The aim of the program is to encourage one individual, one group, one organization or one company to support one student each. The scholarship is implemented as a part of the various scholarship programs of the Vietnam office to provide encouragement and hope to students.

Contributing to the local community, practicing management of giving back!

Volunteering activity

KNOC concluded on May 28, 2013 an agreement on implementing medical volunteering activities in cooperation with the Hallym University Medical Center located near the headquarters to improve the medical environment of the residents of the local community where the headquarters and the branch office are located.

Free diagnosis services and medical fee discounts will be provided at least semiannually together with many other programs.

The first round of the activity was held on June 26, 2013 when the two parties carried out medical volunteering activities at the Western Pyeontaek Center for the Elderly for around 60 elderly residing near the Pyeongtaek branch office. From the medical center, 15 medical professionals engaged in health checkup and consultation including the measurement of blood sugar and pressure, body fat, and bone density. They also offered services such as electrocardiogram, abdominal ultrasound, and chest x-ray.



Financial contribution and donation

KNOC donated on May 21, 2013 KRW 30 million (USD 27 thousand) for the low-income class and welfare facilities of Jung-gu district, Ulsan Innovation City, where the KNOC headquarters is to be relocated in 2014. A third of the donation was to be provided to 50 low-income households of the area, with the remainder going to 12 free-lunch centers of the district and 9 welfare facilities for children. On April 11, 2013, KNOC also donated KRW 30 million to support the refugees victimized by a wildfire in Ulsan.

Volunteering event

Around 60 KNOC employees planted rice as part of volunteering activities in the sister villages of Jongdong and Gangyang in Ulju-gun, Ulsan on April 27, 2013 to help local residents and experience the true meaning of sharing. Around 40 employees engaged in the "One Company, One Village campaign" in Yongsomak Village of Wonju on May 11 and June 29. They harvested potatoes and garlic, rooted out weeds, and planted pumpkins, eggplants, and hot pepper at nine farmhouses, thereby providing substantial support. Marking its ninth anniversary in 2013, the campaign is an annual enterprise-wide activity that has been carried out since 2005 under a sisterhood agreement concluded with Yong-am 2 Village. It has been implemented consistently through activities not only during the harvest season but also year-round, strengthening the sense of unity between KNOC and the villages.

Meanwhile, residents of Yongsomak Village were invited to participate in the Seosan stockpile base visit program on April 1, 2013 to promote mutual understanding and exchange.



CREATING OIL FROM NOTHING

KNOC has been creating boundless possibilities from scratch through 34 years of unwavering effort and can-do spirit. The energy that we generate today is energy of hope.



Korea is an oil-producing country.

- World's 95th oil producer
- Successfully developed the Donghae-1 gas field in Ulsan in 2004
- Producing 9,055 barrels of oil a day

Contributing to the happiness for the people through oil stockpiling projects!

We are securing around 132 million barrels of reserve oil in nine stockpile bases nationwide.



Creating Value beyond Energy

'Creating value beyond energy' is KNOC's new vision that embodies its commitment to reaching closer to the people by achieving growth for the bright future of Korea and the happiness for the people.

"Bringing about changes that make lives happier"