

We Bring Wellness...





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First



Woongjin Coway is the undisputed leader in the industry vis-à-vis market share, customer satisfaction and brand awareness. In addition, we have contributed significantly to broadening the sheer size of the market by introducing a rental marketing approach for the first time in this industry. Our success has been enabled through partnership with various stakeholders such as customers, employees, shareholders and business partners. We value our stakeholders as our market leadership would not have been made possible without them. We also value our environment to build a better future for our posterity. With a deep commitment to stakeholder values and our environment, Woongjin Coway firmly stands as a reliable partner who delivers on its promise.

& Last





Profitability

Can profit maximization and social, environmental responsibilities exist with one another? Social contribution and environmental preservation are generally perceived as a cost that erodes the financial bottom line of businesses. However, Woongjin Coway thinks different. We recognize that in the world we live in, businesses no longer exist if only to generate profit. We believe that for a business to be the business it truly aspires to be, it has to assume its corporate responsibility—environmental responsibility for the future generations and social responsibility for our community. For Woongjin Coway, economic profitability, environmental soundness, and social responsibility are the core values that need to be pursued together.



& Responsibility

A full-body portrait of a man with short dark hair, smiling broadly. He is wearing a white long-sleeved dress shirt, a pink and white striped tie, and dark trousers with a black belt. His arms are crossed over his chest. The background is a plain, light-colored wall.

Domestic



& Global

Woongjin Coway has positioned itself as a genuine leader in all areas of products, services and management. However, we will not settle for our leadership at home. We are now set to take our next big leap forward onto the global stage. We aspire to move beyond our domestic boundaries and become a truly global, environmentally friendly company for lifestyle commodities that shapes the life culture of global citizens. Woongjin Coway now begins its grand journey with the world.



Now

A woman with dark hair pulled back, wearing a light-colored sweater with a decorative black and white patterned collar and cuffs, and black tassel earrings. She is smiling and holding a potted plant with pink flowers. The background is a solid light green color.

& Future

Only a few years ago, it would have seemed like a distant dream to imagine a Woongjin Coway that generates KRW 1 trillion in sales and 100 billion in net income. But we have now reached the top of that seemingly unreachable aspiration. Our dream became a reality. But, we are now once again beginning a new journey to reach the unreachable again, and this time with an even stronger resolve than before. Woongjin Coway now lives together with the future that our new businesses and overseas market opportunities promise to bring.



WAY...

Looking back on the way that Woongjin Coway has taken to come this far. Though challenges waited before us, we were able to become what we are today for we did not allow the challenges to defeat us to the ground. The road that Woongjin Coway has followed has never been walked alone. There have been our customers walking alongside us on that road. Our business partners, shareholders and investors, employees and many other stakeholders too have chosen to travel that road with us.

We think beyond the success of today and beyond our own interests. Because we know that the success was not ours alone and we walked the journey together. The road we have taken together and the road ahead we will have to go down together. We now begin that walk together again holding the hands of our stakeholders on our side.

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CEO Message



Taking a step back to look farther out to the future and the world beyond...

CEO Joon-Kee, Hong



Dear customers, shareholders and stakeholders of Woongjin Coway from around the world,
I am very delighted to meet you all through this sustainability report.

Sustainability management has evolved from a global standard for leading companies towards the very foundation of business management. It is a strategy that helps deliver the future value of a company by ensuring compliance with societal norms and standards in all processes of management, and by translating moral values of ethics management and environmental management into core competitiveness of a company. It is also a fundamental accountability of a business as a member of a larger society. Woongjin Coway, since its establishment in 1989, has always stood by our customers with a mission to become the leading eco-friendly company for lifestyle commodities committed to delivering a healthier and happier life, and maximizing greater value. We have explored a new territory of “well-being home appliances” and have developed diverse products and innovative services to bring improved customer convenience. The *raison d’être* of Woongjin Coway is embedded in our technologies and services that lay the basis for a fuller, more convenient life by forecasting latent customer needs and offering the most optimal pattern of life. Our vision has led us to achieve outstanding results in all our key product lines, i.e., water filtration devices, electronic toilet seats, air cleaners, and water softeners with market share nearing a 50% territory in all categories.

For Woongjin Coway to take to the next level of success from being a domestic eco-friendly leader in lifestyle commodities to a true global shaper in the wellness industry, we need to think completely out of the box towards innovation and sustainability. Woongjin Coway has taken these following steps to get to the next phase in its development. First, we set an environmental management agenda called “New Green Management” to approach all management processes from production, distribution, disposal to re-production from a closed-loop perspective so that substantial value can be added to the preservation of the earth’s environment. Second, we are dedicating ourselves to become a sustainable business through conducting an accurate forecast on environmental changes, making proactive investment into services and process improvement, developing greener products and expanding distribution channels. Third, as the wellness boom sweeps the world as a mega trend, Woongjin Coway is preparing itself to emerge as a global well-being company, capitalizing on our excellence in R&D, design and overseas businesses which help shape our pioneering thinking such as “rental business” and “CODY system.” We are confident that in the near future, our products will be able to serve you wherever you are. Woongjin Coway, driven by a strong resolution and unique competitiveness, will do its best to stand by you as your reliable partner in building a better, more promising future. Thank you.

April 25, 2007
CEO Joon-Kee, Hong

Company Profile +

“Coway” is a compound word consisting of “Co” and “Way” which means “All together” and “Road” respectively and “A road for All to go together” in the whole. This name of the company well encompasses our strong will to grow together with our customers, shareholders, and employees which can be extended to the society and the whole world.



【 Company Profile 】

Woongjin Coway has been at the forefront of promoting a wider public use of and developing more specialized and sophisticated living and environment-friendly products, with product portfolios ranging from air to water quality arenas-e.g. water filtration devices, air cleaners, and electronic toilet seats. For 18 years since its establishment on May 2, 1989, Woongjin Coway has defended its market leadership in living and environmental home appliances area.

• General Profile

Company name: Woongjin Coway Co., Ltd
 Address: 658 Yugu-ri, Yugu-eup, Gongju city,
 Choongnam province
 Date of establishment: May 2, 1989
 Business area: manufacturing and sales
 Number of employees: 1,284 persons

• Financial Profile

Unit: KRW billion

| | |
|----------------------------|---------|
| Sales | 1,117.8 |
| Total assets | 885.1 |
| Total liabilities | 446.3 |
| Total shareholders' equity | 438.8 |
| Operating income | 112.3 |
| Capital stock | 39.3 |
| Net income | 74.9 |

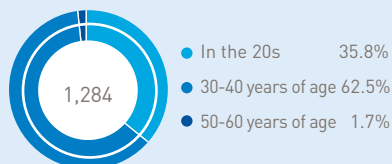
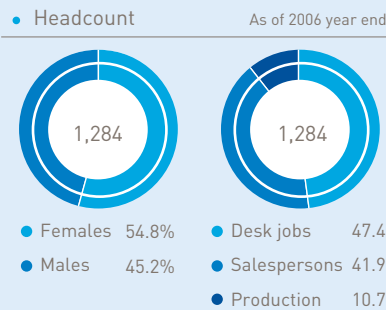
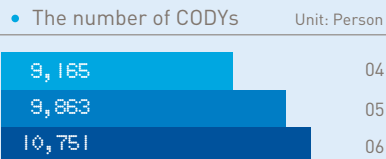
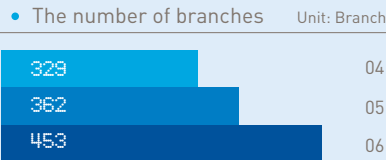
Woongjin Coway sets up the The Environment Technology Institute in January 1993, and has since achieved much progress as shown in the GOLD SEAL mark it acquired from the Water Quality Association (WQA) for all of its products. We have also obtained NSF certification for product quality from the US National Sanitation Foundation, the CE mark that enables us to export to the EC region, as well as certification to ISO 9001 quality management system and ISO 14001 environmental management system. In addition, we developed the 3-way valve system for automatic circulation, and dual home water filtration devices for cold and hot water equipped with membrane automatic cleaning functions. These achievements have given us the honor of the IR52 Jang Young Shil Award in Korea as well as golden prizes at the three major international invention fairs in Geneva, Los Angeles and Nierenberg in recognition of our development capabilities.

In April 1998, Woongjin Coway introduced a breakthrough concept of rental marketing into water filtration devices as a first in the industry, and has earned credit to have created the blue ocean in the marketing field. Woongjin Coway has rolled out rental marketing to other product lines, thereby recording KRW 1.1 trillion of sales, and KRW 74.9 billion of net income in 2006.

Woongjin Coway will think beyond its leadership in the Korean market to go global with our rental business in key products, e.g., water filtration devices, digital bidets, air cleaners so that we can build a new platform for future growth. Moreover, we will work harder to deepen marketability of our total living business line Bussel and drive to strengthen revenue stream from food waste disposal devices where consumers are showing an increasing interest in.

【 Organization and Human Resources 】

Organization In March 2007, Woongjin Coway carried out an organizational realignment changing the previous co-CEO system led by Yong-Sun Park and Joon-Kee Hong to a single-CEO system spearheaded by Joon-Kee Hong. In line with this transition, Woongjin Coway has come to operate five departments, two institutes centers, one factory, two divisions, five overseas subsidiaries, and 44 teams.



Human Resources As of the end of 2006, there are 1,284 employees working at Woongjin Coway. Currently, 609 are working on desk jobs, 538 in the sales, and 137 in the production. By gender composition, 580 of the workers are male and 704 females, with a ratio of female workers higher than the male workers.

[As of April 25, 2007]

Company Profile +

Woongjin Coway has grown around our four core product areas in water filtration devices, digital bidets, air cleaners and water softeners with aspirations to serve as an eco-friendly company for lifestyle products that delivers a healthier and happier life and maximizes greater value. Each product category is an undisputed leader in Korea, both in terms of brand awareness and revenue generation. We are working hard to reinforce our overseas businesses to gain a momentum for growth.

【 Products and Brand Portfolio 】



• Coway •• LooLoo ••• Cairs •••• Bussel

Water Filtration Devices-Coway As the flagship product of Woongjin Coway, water filtration devices under the brand name “Coway” have been enjoying strong brand awareness in the water filtration devices market with its revenue contribution of 46% to the Company. Innovation in our sales approach called rental marketing backed by product excellence has made Woongjin Coway the leader it is today. We have continued to defend our number one market share at 50% in the water filtration devices market. Leveraging our corporate image as a trustworthy and an intimate brand, we plan to bring more rigors to managing our water filtration devices products and the Coway brand.

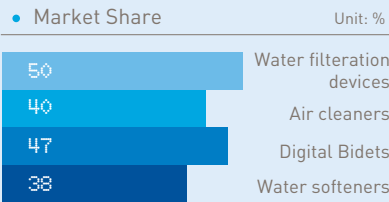
Digital Bidet and Water Softener-LooLoo Starting its digital bidet business in 1998, Woongjin Coway went onto launch the LooLoo Brand in 2002 to meet an increasing demand for the products, and has since dramatically improved its awareness in the market. LooLoo is enjoying an overwhelming market share with over 40% in the electronic toilet seat and water softener product lines. The current contribution to the Company revenue from digital bidets and water softeners stand at 24% and 10% respectively.

Air Cleaners-Cairs Cairs was born in 1995 as an air cleaner brand and has since established its firm presence in the market thanks to its differentiated product power in effective air cleaning functionality, cluster oxygen generator, plasma and customized filters. As of the end of 2006, about 19% of Company revenue comes from the air cleaner business. With air cleaners becoming more embedded and fundamental in our lives, our air cleaner products will contribute more revenue to the Company on the basis of its high-end functionalities.

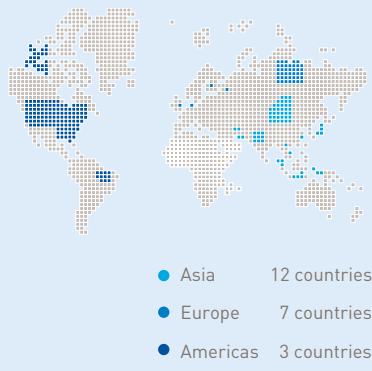
System Kitchen-Bussel Bussel was launched in October 2004 when Woongjin Coway started new living business line (e.g., system kitchen and built-in furniture). Soon, the Bussel gallery was opened to offer customers with direct hands-on experiences to understand the culture of Bussel. At present, 14 galleries are operating across the country, with nine of them located in the Seoul metropolitan area.

【 Key Markets 】

Domestic Sales Woongjin Coway has consolidated its position as a peerless company in the rental service area. Woongjin Coway has been rolling out the rental sales concept to other product lines such as air cleaners and digital bidets to reposition itself as a living and eco-friendly company. As of 2006, rental customers and membership customers have totaled 3.94 million with 3.29 million and 650,000 members respectively, showing a 9.3% rise from 3.61 million at the end of 2005 (3.07 million rental customers and 540,000 registered members). In addition, rental sales including membership sales represent approximately 90% of total sales, thus serving as the most powerful driving engine for the Company growth. Woongjin Coway also opened the Rental House in 2005 to improve existing door-to-door sales and facilitate rental sales. The Rental House is an innovative “total well-being experience place” to enable customers to try products and make informed decisions for purchase or rentals. We plan to expand the rental houses, currently totaling 84 at the 2006 yearend, across the country in 2007 to use them as a regional basis. We hope to concentrate our core competency on rental sales by retaining our existing members and driving development of new products custom-tailored to the needs of rental consumers.



● Export Market Profile



Overseas Sales Woongjin Coway has a thirst for becoming a truly global shaper, going and thinking beyond the leadership it has accomplished in the domestic market. After setting up an operation in Malaysia last year, Woongjin Coway established a springboard to penetrate to global market along with its subsidiaries in China, Japan and Thailand and has now come to serve 22 countries around the world with a focus on Southeast Asia. In particular, rental business model has been introduced to the Japanese and Thai markets with local employees employed as CODYs, and a steady increase is seen in the number of rental customer base in these countries as well. In addition, we plan to conduct preliminary market research in Southeast Asia, America and Europe to identify overseas markets with potential to grow, and will conduct rigorous business feasibility study before selecting our target markets. As part of this plan, we will open a new operation in Los Angeles, US in May 2007.

Sustainability Management



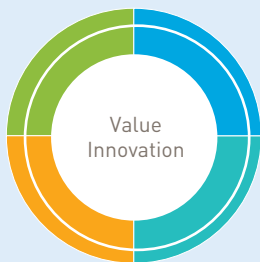
Woongjin Coway is committed to value management driven by its technology prowess and breakthrough thinking, to deliver more value for various stakeholders and spur growth towards global leadership. As the management philosophy of "Tto-Tto Sarang (Love again & again)" signifies, Woongjin Coway dedicates itself to engaging in an endeavor to ensure a sustainable future for the company and beyond.

- The Management Philosophy of Woongjin Group



"Tto-Tto Sarang, All as one"

Commitment to practicing our management philosophy "Tto-Tto Sarang" together with employees, local community and customers as one.



- **Value to Customer**

- Maximization of brand value
- Customer-oriented development of products
- Development of service placing top priority on customer value

- **Value to Employee**

- Creative corporate culture
- Performance-based compensation
- Encouragement of employees' self-development

- **Value to Society**

- Putting ethics management into practice
- Returning profit to community
- Helping enhance quality of life through efforts for environmental conservation

- **Value to Shareholder**

- Maximization of market value
- Enhancement of investors' return
- Transparent and responsible management

【 Management Philosophy- Tto-Tto Sarang 】

With a dream for 'clean water, clean world and clean people', Woongjin Coway operates its business starting with love for individual members of the organization, and going beyond to love our stakeholders and the world we live in. This philosophy is what we call "Tto-Tto Sarang (Love again & again)".

Tto-Tto Sarang (Love again & again) 1 - love for challenge

Love for challenge means the challenge for pursuing better future. Those who are afraid of challenges miss the true meaning of life. We will explore ways to make tomorrow better than today.

Tto-Tto Sarang (Love again & again) 2 - love for work

Those who like it win the ones who know it. However, those who enjoy it always beat the ones who like it. Loving the work is not only the best way for good performance but also the very way to make myself happy.

Tto-Tto Sarang (Love again & again) 3 - love for change

Being change creates the competitive power. Change requires strong will and only those who have a robust will produce a valuable outcome. Everything Woongjin Coway pursuing starts from love and practice of change.

Tto-Tto Sarang (Love again & again) 4 - love for customer

We feel everyday how valuable our customers are to us. We are well aware that we can not survive without our customers. Woongjin Coway is the company that best understands what customers want.

Tto-Tto Sarang (Love again & again) 5 - love for the organization

Love for the organization starts from loving my coworker next to me. Love for colleagues is the first step of the love for the organization. Having positive thoughts, giving complements and opening up towards others are the very ways of loving the company.

Tto-Tto Sarang (Love again & again) 6 - love for society

Love for society is derived from the consideration of "us", not "me". Sharing what I have with those who are in need is the way of making myself happy.



【 The Promise of Woongjin Coway 】

Woongjin Coway’s sustainability management begins with a heart that values innovation, creativity and a spirit of challenge, for we are convinced that innovation and creativity go a long way towards sustainable development of our stakeholders. The promise of Woongjin Coway is the promise we give to you to ensure sustainability. During 2006, Woongjin Coway staged a campaign for “Dynamic Coway 2006” to drive innovation, emphasize a spirit of creativity and internalize the challenging spirit in our people. In 2007 as well, Woongjin Coway continues to live the values of sustainability management with a catchphrase “Innovation-the Exciting Festival.” Looking ahead, we will take advantage of our out-of-the-box thinking to become more competitive in all aspects of management so that we can bring a sustainable future for the Company as well as all stakeholders of Woongjin Coway.

【 Sustainability Management Drive 】

Since 2005, Woongjin Coway has built on a strong commitment of CEO towards sustainability management to spearhead enterprise-wide effort aimed at identifying sustainability issues in relevant areas of each sector. We are communicating the outcomes of such activities to various stakeholder groups through our sustainability report, and are establishing a platform for upgrading sustainability activities through incorporating stakeholder feedbacks. Over the mid-term, a dedicated TFT for sustainability management will be set up to ensure decisions made at top management are promptly cascaded across the company and to more efficiently improve sustainable management performance.

- The promise of Woongjin Coway



2003_Re-New 2004_New Start 2005_Jump Up 2006_Dynamic Coway

Our Ethics +

Woongjin Group formulated the Woongjin ethics regulations in 2003 and has since been executing a variety of ethics management activities. Woongjin Group put in place the Group Ethics Management Office in 2003 and is currently operating the Office to build and embrace transparency across all areas of management from accounting, personnel management to purchasing, etc. All affiliates of the Group have been showing commitment to ethics management by establishing Ethics Management Office at their affiliate level.

【 Ethics Management System of Woongjin Group 】

Woongjin Group operates the following ethics management system and relevant programs with an aim to successfully pursue ethics management and seamlessly internalize the values of ethics management into the corporate culture.

| | |
|--|--|
| Woongjin ethics regulations enacted | The Ethics Platform, Code of Ethics and Rules of Ethics for the management and employees were enacted in October 2003. |
| Ethics management implementation bodies in place | Group Ethics Management Office and each affiliate's Ethics Management Office started operation in October 2003 |
| Hot Line, Woongjin Ethics Report Center, in place | On-line report system started operation in December 2003 |
| Continuous ethics management training | Compulsory ethics management training for the management and employees were initiated by Group HR development institute |
| Business partners' cooperation | Periodic communication for cooperation such as sending a letter requesting "No holiday gifts " has been undertaken |
| Ethics management monitoring and evaluation | Ethics management index criteria was released and each affiliate's performance was evaluated and reflected in the CEO's performance management |

【 Implementation Organizations for Ethics Management 】

Woongjin Group runs ethics management offices at each affiliate from the Group Ethics Committee to translate ethics management into action.

• Organizational Structure



| | |
|---------------------------------------|--|
| Group Ethics Committee | <ul style="list-style-type: none"> • Group CEO constitutes the committee chairman • CEO of each affiliate and Group Ethics Management Office head constitute the committee members • The committee discusses and resolves the issues as moved by the Group Ethics Management Office |
| Group Ethics Management Office | <ul style="list-style-type: none"> • Audit team at Group Strategy Planning Division constitutes Group Ethics Management Office with Group Strategy Planning Division head as the office head • The office develops and revises the regulations and systems for group ethics management and executes the resolutions of Group Ethics Committee • The office undertakes audits on the ethics management implementation of affiliates and group and calls for Group Ethics Committee meetings as necessary |
| Ethics Management Office | <ul style="list-style-type: none"> • Each affiliate appoints the responsible organization, audit or HR departments. • The office at each affiliate undertakes training and audits and periodically report to Group Ethics Management Office • The office can deal with violation issues through its own HR committee or transfer them to Group Ethics Management Office if they are significant |



• Ethics Reporting System

【 Ethics Management Activities 】

Self-Check System for Ethics Management To drive implementation of ethics management through self-checks for ethics awareness and ethical management and on-going ethics management diagnostics, the ethics management self-check system went into operation for six months from October 2005 to march 2006.

Enactment and Revision of Rules of Ethics Rules of ethics were enacted and revised accordingly in June 2006 to govern purchasing divisions-tasks with supporting environment-friendly businesses via green procurement, and sales divisions-responsible for protecting and managing customer information. Purchasing divisions enacted and revised their relevant “rules of ethics for purchasing” and sales organizations also developed and modified their guidelines considering their specific circumstances.

Dissemination of Ethics Management to Business Partners Guidance on ethics management at Woongjin Coway has been actively communicated to its business partners since June 2006. Suppliers have been informed of our intention of ethics management via logistics SCM and a channel was also set up for reporting non-ethical behaviors and practices.

Ethics Management Guide We have been providing them with a guide to the rules and regulations of ethics management from December 2006. Information on ethical management is sent to all our employees through this help guide on a frequent basis.

Establishment of Accountability and Discipline Standards We developed a new set of disciplinary regulations on irregularities and wrongdoings in accordance with the accountability and discipline standards established on March 1, 2007. No violations to the standards have been found at Woongjin Coway during 2006. We provides trainings on anti-corruption policy and procedures, and in 2006, 565 completed sexual harassment prevention course, 97 for information security course and 89 for ethics management practice course (targeted at newly hired staff).

Our Creativity +

Creativity management is defined as a corporate practice that sets a creative vision and develops an enabling environment for building a world different from conventional perspective. Woongjin Coway's outstanding achievements including differentiated products and services and launching new marketing strategy are highly attributed to its creativity management.

【 Creativity Management Strategy 】



Woongjin Coway is generating performance from creativity management on the foundation of a corporate culture defined by participation and implementation, Bandi system for improvement suggestions, and knowledge management system.

Award of Excellence from Sustainability Management Awards (for Creative Management)

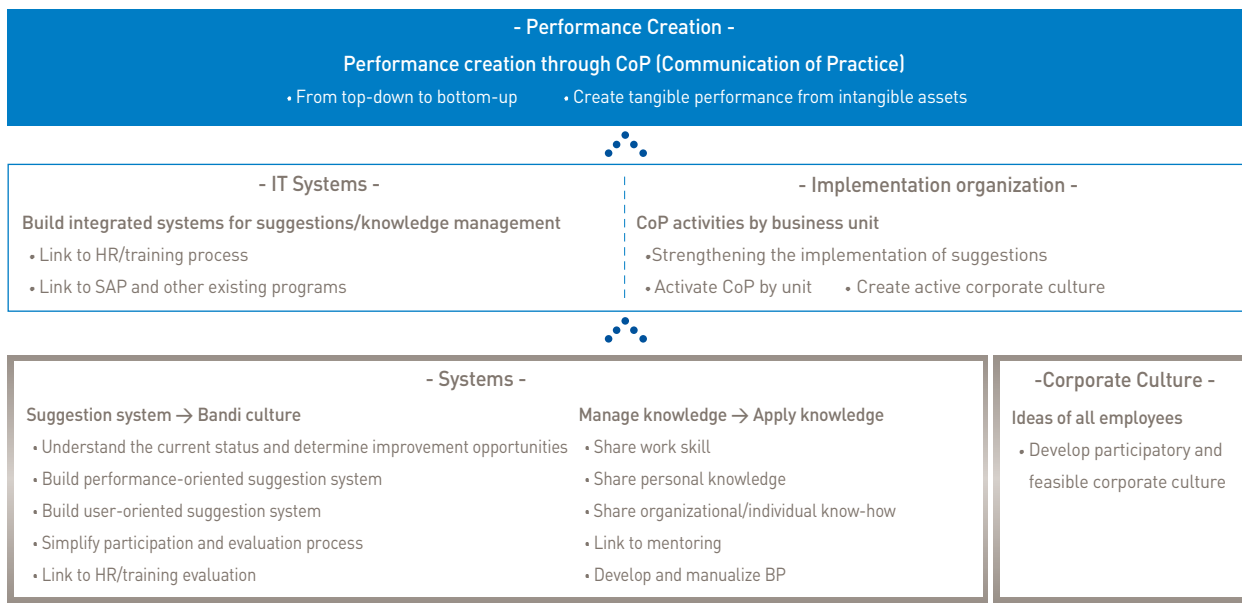


Woongjin Coway received an award of excellence from the 1st 'Sustainability Management Awards' organized by Korea Research Institute for Measurement and Assessment (KRIMA) and sponsored by the national newspaper Dong-A Ilbo. This award is given in recognition of value enhancement through management innovation and ethics management.

WOONGJIN COWAY NEWS



• Creativity Management Strategy Structure



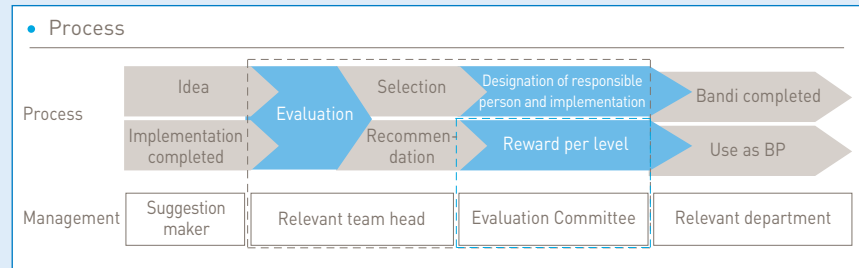


• Bandi System

[Institutionalization of Creativity]

To induce performance from creativity management, Woongjin Coway introduced the “Bandi System” and further refined it to develop an efficient foundation for performance generation.

Bandi System Woongjin Coway introduced new Bandi System which improved the old Bandi System, and built more effective process. The new system includes formulating work Bandi, building selected Bandi implementation process, separating participation and performance, simplifying evaluation process, changing evaluation levels and revising reward structures.



• Compensation Scheme

| | Description | Reward grade | Reward |
|-------------------|--------------------------------|---|--|
| Standard awards | Standard awards for suggestion | Proposal/participated/adopted Plain/Average/Excellent/Recommended | Different levels of rewards per grade |
| Additional awards | Excellent Bandi (month) | First prize Second prize Encouragement prize | KRW 1 million KRW 500,000 KRW 200,000 |
| | Individual ranking (month) | Individual ranking-first place Individual ranking-2nd-5th place Individual ranking-6th-10th place | KRW 300,000 KRW 200,000 KRW 100,000 |
| | Overseas study & training | Train abroad for people with outstanding proposals-every quarter | Period: 5 days Frequency: every half a year |
| | Others | Team of excellence (total 3 teams) Leaders with excellent suggestions (total 10 persons) | KRW 500,000 Prize money |
| | Total | KRW 202 million | |

Corporate Governance +

Woongjin Coway is on track to build sound corporate governance for improved transparency in business and for increased interest of shareholders and other stakeholders. We are also faithfully complying with the regulations in relation to corporate ownership, corporate governance including the rights and equal treatment of shareholders, and the roles of stakeholders, disclosure and transparency as well as responsibilities of the Board of Directors.

【 Board of Directors 】



• BOD Meeting 2007

Woongjin Coway's BOD decides on the matters defined by the law and regulations or by the Article of Incorporation. The Board also votes on the matters delegated from the general shareholders' meeting, key agendas related to basic management policy and operation of the Company, as well as carries out auditing activities. Sustainability management issues are also addressed as a key agenda item at the Board, and all directors collectively assume managerial responsibility and make decisions for sustainable growth of the Company. The BOD is chaired by the CEO and agendas are voted by presence of a majority and by approval of a majority of the directors present. A total of 18 regular and extraordinary meetings of BOD were convened during January 1 and December 31 of 2006, with average attendance of independent directors at 74%. Furthermore, Woongjin Coway sets up a management committee under the BOD to strengthen autonomy and expertise of the Board. In addition, before the board meeting is convened, minority shareholders and our employees are invited to send in email and/or applications for IR meetings on our IR site.

Composition of BOD The BOD consists of seven directors with the CEO serving as the chairperson. There are three independent directors with their composition ratio standing at 43% (in full compliance with the 25% requirement as defined by the Securities & Exchange Act of Korea). Independent directors are experts with excellence in areas such as economy, environment and society and are appointed as such at the general shareholders' meeting. The limit on remuneration to the directors is determined via shareholders' approval at a regular convention of general shareholders' meetings each year. Final remuneration ceiling is set in line with various performance indicators.

Committee under BOD Woongjin Coway operates a management committee under the Board as pertaining to the Article 11 of the provisions relating to the Board of Directors. As of the 2006 yearend, the management committee, composed of three directors, reviews key agendas on general management and finance of the Company. The committee convenes a regular meeting on every first Monday each month, and also calls for an ad-hoc meeting when important agendas come up to bring a timely resolution to issues that need to be promptly managed at field division levels. The committee is working to bring up the level of efficiency and timeliness of work.

BOD Activities for Preventing Conflict of Interest The Board circulates additional information for each agenda item submitted for consideration, so as to make sure that a sufficient amount of deliberation is done beforehand. The agendas submitted for consideration are adopted through final voting and no conflict of interest regarding these agendas has been found during this course.

Corporate Governance



1. CEO Joon-Kee Hong

- B.Sc. in Electronics, Sungkyunkwan University
- MBA, KAIST
- Head of Production Division, Samsung Electronics in Spain
- Head of Production & Sales Division, Samsung Electronics in Hungary
- President, Woongjin Coway (current)

2. Director Seok-Keum Yoon

- B.A. in Economics, Konkuk University
- CEO Course, Graduate School of Business, Seoul National University
- Adjunct Professor of Business Administration, Korea University
- Director of Korean Publishers Association
- Chairman, Woongjin Group (current)

3. Director Yong-Sun Park

- B.A. in Business Administration, Hongik University
- M.A. in Business Administration, Hanyang University
- Division Head, Woongjin Publishing Company
- Director, Woongjin Media
- CEO, Woongjin Coway
- Vice Chairman, Woongjin Group (current)

4. Director Jong-Bae Kim

- B.Sc. Toronto University
- Director of C/L Department, Woongjin Coway Development
- Head of Overseas Business, Woongjin Coway
- Head of Sales Business Dept. (current)

5. Auditor Jin Lee

- B.A. in Diplomacy, Seoul National University
- Honorary Doctorate, Kongju National University
- Vice Minister, Ministry of Culture and Tourism
- Dean, Kongju Communication Arts College
- Auditor, Woongjin Coway (current)

6. Outside Director Hyun-Suk Kim

- LL.B. Seoul National University
- M.A. in Law, Seoul National University
- CEO, Hyun-Suk Kim's Law Office
- Advisory Lawyer, Diners Card
- Executive Lawyer, Law Firm 'Shinmungo' (current)

7. Outside Director Hyon-Ung Shin

- B.A. in Liberal Arts & Science, Seoul National University
- M.A. in Public Administration, Seoul National University
- Secretary of Culture and Tourism in President's Secretariat
- Vice Minister, Ministry of Culture and Tourism
- Executive Head, New Millennium Committee

8. Outside Director Yi-Hwan Kim

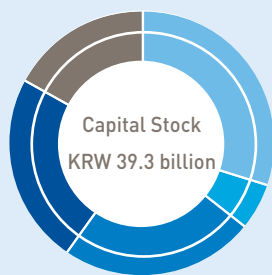
- B.A. in Communication, Chungang University
- M.A. in Communication, Seoul National University
- CEO, Anam Semiconductors Inc.
- Vice Chairman, Korea PR Academic Society (current)
- Adjunct Professor of Advertising & Public Relations, Chungang University (current)

9. Secretary Dong-Hyun Kim

- B.A. in Business Administration, Seoul National University
- Director of Cosmo Equity Partners
- Consulting Director of ADL
- Head of Strategy & Planning Dept., Woongjin Coway

Corporate Governance

• Ownership Structure As of 2006 year end



| | |
|----------------------------------|-------|
| ● Largest shareholder | 27.2% |
| ● Woongjin ThinkBig & affiliates | 5.8% |
| ● Foreign investors | 24.3% |
| ● Domestic institutions | 23.2% |
| ● Individuals | 19.5% |

【 Audit 】

Woongjin Coway has one standing auditor in charge of auditing the company's business and accounting to have internal systems for the audit committee's access to the management information. The auditor can call for the ad-hoc Board of Directors meeting by submitting a written agenda on purpose and cause of the meeting and request subsidiaries to report the business results as necessary.

【 Shareholdings Structure 】

As for the equity owned by major shareholders in Woongjin Coway as of the end of 2006, a 27.2% is held by a largest shareholder followed by foreign investors at 24.3% and domestic institutional investors at 23.2%. Woongjin Coway remains committed to improving shareholdings structure so that we can become more globally competitive and enjoy greater corporate value.

Affiliates +

Woongjin Group has ten affiliates in six business groups as of the end of 2006: Woongjin ThinkBig in educational service and publication; Woongjin Coway and Woongjin Cuchen in environment and living area; Woongjin Foods in the foods and beverages; Rexfield CC and Woongjin Construction in leisure and development; Woongjin Happyall, Booxen, Platinum Media in distribution and services; and newly established Woongjin Capital in finance and investment advisory service.



Woongjin ThinkBig is the flagship company of the Woongjin Group. Since it was established in 1980, Woongjin ThinkBig has realized love for customers through education and publishing. Through development of quality content and diverse educational and cultural services, Woongjin ThinkBig is growing into Korea's leading education company as well as the biggest publishing group.



Woongjin Foods aims to promote a lifestyle and culture that embodies a healthy balance with nature. Woongjin Foods does not simply manufacture beverages but seeks to improve quality of life through products that provide a sense of pleasurable abundance.



Established in 2004, Woongjin Happyall provides premium technology and service with some 1,500 service experts and 350 call center consultants. Happyall is winning positive attention in the Korean service industry.



Woongjin Cuchen is growing by creating a unique identity through novel technology, increased utility and refined designs. As it is reborn as a premium household appliance brand, Woongjin Cuchen will become a trustworthy corporation that provides the best products for a rich and healthy life.



The biggest publications distributor in Korea, Booxen has state-of-the-art automated facilities and integrated distribution information system(WMS), to provide quick and accurate distribution services.



Rexfield Country Club has become a top-four golf club in just two years as well as the leading choice for many businessmen. The three courses are differentiated with each hole having a unique theme. Golfers can enjoy the course's aesthetics and the excitement of the play at the same time.



Platinum Media, an IT service specialist, overseas systems management(SM), systems integration (SI), the integrated intranet (Woongjin net), and the adoption of the ERP system. It serves to maximize efficiency in the Woongjin Group.



Established in 2005, Woongjin Construction is building the Woongjin ThinkBig headquarters, the Woongjin R&D Center at Seoul National University, the Incheon Children's Village and the Woongjin Training Institute. It also plans to penetrate the residential construction sector.



As a private equity fund firm with capital stock of KRW 20 billion, Woongjin Capital is presently managing KRW 300 billion for a fund named Renaissance Number One. This management firm is armed with top financial professionals and is focused on robust investment analysis and risk management, transparent decision-making and strategic ex-post management.

Stakeholder Communication +

Acknowledging that stakeholder views are essential in operation and management, Woongjin Coway uses key communication channels for each stakeholder group in accurately incorporating their demands and feedback into management decisions. We plan to take a more holistic approach towards stakeholder communication to better and more efficiently undertake stakeholder engagements in the future.

• Stakeholder Communication at Woongjin Coway



•

Customers

- We produce and sell the products which can enhance customers' health and quality of life
- We assume our responsibility to the customers by the Product Liability Acts.

•

Shareholders and investors

- We try to maximize shareholders' profit through transparent management.
- We disclose management information through IR activities and abiding by fair disclosure rules.

•

Executives and employees

- We work to build a corporate culture for improved employee satisfaction.
- We work to enhance competitiveness through continuous development
- We work to motivate our employees with quality welfare schemes and a better workplace.

•

Business partners

- We seek win-win partnership with business partners through COP (Coway Open Plaza) system.
- We keep mutually beneficial relationships with business partners through Annual Partners' Day.
- We maintain continuous communication channel with business partners.

•

Government and Local Autonomous Bodies

- We protect our society and environment through various social contributions.
- We faithfully fulfill our tax obligations and undertake charity work.

•

NGO and Civil Society Organizations

- We seek partnership with NGOs for sustainable growth and development.

【 Customers 】

Customers are the most valuable stakeholders at Woongjin Coway. Improved customer relations enabled by rental marketing can be sustained only when Woongjin Coway sees and understands from a customer standpoint and promptly responds to the customer needs as a result. Against this backdrop, we bring a strong customer focus to all processes of our product life cycle from development, sales to after-sales care service. We also train our customer care representatives CODYs more intensively to drive higher service levels at the point of interface with the customers. We remain committed to increased convenience and enhanced value for our customers.

【 Shareholders and Investors 】

Woongjin Coway reports on the status of management of the Company to its shareholders at the general shareholders' meeting upon closing of each fiscal year. Key management data relating to the shareholder and investor returns conforms to the regulations of the Securities & Exchange Act and is thus, disclosed in a timely manner at the Korea Exchange and the Company IR website. Our business reports and audit reports are also duly disclosed on a regular basis. In 2006, Woongjin Coway undertook numerous activities for management transparency and shareholder-centric management. Such efforts earned Woongjin Coway an honor of receiving a meritorious award for disclosure practices from the Korea Exchange in January 2007.

【 Executives and Employees 】

Corporate competitiveness is enhanced from selecting and developing the right people. In addition, we undertake effort to improve employee satisfaction with their working environment and to enhance their productivity through self-career management, employee complaints & grievances management and information sharing with the employees. Such interactive communication with our employees is benefiting each individual worker as well as the Company as a whole.



【 Business Partners 】

Woongjin Coway understands that sustainable growth is enabled by collective efforts, and thus is working to seek win-win with our business partners through Coway Open Plaza (COP) system. We are active in supporting our small- and mid-sized suppliers in their growth and their effort to bring in advanced management techniques.

【 Government and Local Autonomous Bodies 】

We are assuming social responsibilities to the government and relevant local autonomous organizations through creating added value from our sales activities. At present, Woongjin Coway is working as a subscribed member of Korea Water Filtration Devices Industry Cooperative, Korea Air Cleaning Association, and Korea Industrial Technology Association (Environment R&D Center), etc.

【 NGO and Civil Society Organizations 】

We have a firm conviction that corporate sustainability management and socially sustainable growths are realized through proactive stakeholder communication with not only large national NGOs but also civic organizations operating at the grassroots of our community.

【 Risk Management System 】

Woongjin Coway has been delivering its best efforts for the comprehensive and continuous risk management that can occur in the overall business operations. We will keep endeavoring to enhance the reliability and stakeholders' values through comprehensive risk management. Risk management committee, a specialist organization, implements the comprehensive risk analysis, prepares resolution measures and improves risk related rules and systems. All other business units, responsible for the on-site execution, stipulate the policies and procedures, understand the purposes and procedures of the company's risk management and apply them in their day-to-day works.

2006 Highlights

- **Environmental Management Declaration**

In April 2006, a proclamation ceremony for environmental management was held to showcase the Company's commitment to "New Green Management." At the ceremony, Woongjin Coway declared its aspiration to embrace environmentally sustainable process across its management, acknowledging that the biggest value in the 21st century will derive from the environment.

- **Founding Woongjin Energy**

Woongjin Coway signed an agreement with the SunPower, the US Company with cutting-edge technology for solar batteries, to set up a joint venture Woongjin Energy. The joint venture with KRW 6.4 billion and KRW 1.6 billion invested by Woongjin Coway and SunPower respectively was set sail as a subsidiary of Woongjin Coway on the 20th of December, 2006 mandated with a mission to fulfill corporate responsibility for today's environmental concerns such as fossil fuel

depletion and climate change convention. By the second half of 2007, first production line will be constructed in the 14,000 Pyeong (approximately 46,281m²) areas. By 2012, a total of KRW 219.3 billion will be injected to add more production lines. Woongjin Energy will lead the effort towards development and supply of new and renewable energy in alignment with the national goal of replacing 5% of total energy use with new and renewables by 2011.



- **Social Responsibility Award**

Woongjin Coway became the winner of "2006 Social Responsibility Award" in environmental preservation category in October 2006. The recipients are exemplary businesses dedicated to socially responsible management and are leading endeavors to meet the mandate of the upcoming ISO 26000 standards for social responsibility expected to be published by 2010.

- **Green Management Award and Other Awards**

Woongjin Coway won the "2006 Korea Green Management Excellence Awards" in the green product service category, organized by the Korea Management Association Registrations & Assessments on September 20th, 2006. We became the winner of the award in recognition of our eco-friendly products as an environmental company devoted to green management. On top of that, Coway, LooLoo and Cairns were

given the highest honor in Korea Well-Being Consumer Index for three consecutive years from Korea Standard Association Consulting on September 26, 2006. On 28th of the same month, grand prize was conferred by Womensnews to LooLoo Bidet (4 years in a row), Cairns Air cleaners (4 years in a row), and Bussel as leading companies favored and selected by women consumers.

- **Grand Launch of Woongjin Coway Malaysia**

Woongjin Coway's fourth overseas subsidiary set sail following China, Japan and Thailand. On Dec. 1, 2006, the opening ceremony in Kuala Lumpur was held with keen interest and enthusiasm from Malaysian Minister of Industry and Commerce as well as local journalists from 20 plus different broadcasting and news agencies. The grand launch was a cross-section of Woongjin Coway's propulsion into a leader of living and

environmental products in Southeast Asia (Malaysia and Thailand) as well as in the world

- **Global Social Contribution**

In 2006, Woongjin Coway undertook a number of activities for global social contribution to honor our duty as a responsible corporate citizen. In March 2006, we supplied soccer uniforms and soccer balls to underprivileged children and youth soccer teams in the Republic of South

Africa, and still to this day, our management and employees are sponsoring tuition for the children in need. In September, Woongjin Coway took part in the Cambodia well-drilling campaign organized by the environmental management office of Woongjin Group. We remain committed to serving as a more active and responsible citizen to live out sustainable values in our society.



- **Sustainability Management Excellence Award**

Woongjin Coway published its first sustainability report in Feb. 2006. The Report was published with a view to redefining the roles of Woongjin Coway in sustainable development for humanity in the context of today's competitive marketplace. The Report was also designed to be used as an instrument for a more dynamic communication with our stakeholders. The Report is only our first small

step to meet the societal expectations for environmental accountability and social responsibility of business and to continue our growth as a genuinely sustainable organization in the future. However, the Report will be further refined to provide our stakeholders with more detailed and holistic information on our sustainability commitment. On 28th of April, Woongjin Coway was awarded the sustainability management excellence award, co-sponsored by the newspaper Dong-A Ilbo,

the Institute for Industrial Policy Studies and Korea Green Foundation. Encouraged by such acknowledgement, we will continue to practice sustainability management to hone our competitiveness and at the same time, emerge as a global leading business that helps shape a more sustainable society for all.



BUSINESS...

The first and foremost thing to consider in business management is enhancing corporate value and generating profit to that end. Value enhancement and profit generation, in turn, contribute to improving economic values of diverse stakeholders. In this context, Woongjin Coway has made unrelenting efforts to improve its entity value ever since it was born. Woongjin Coway, on a strong foundation as a going concern enabled by creative and innovative management, is growing side by side with our stakeholders, local community and our country via means of dividends and tax payments. Woongjin Coway envisions enhancing and sharing our values together with the stakeholders.

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Business Performance in 2006 +

Financial performance is a critical lever that drives businesses to actively engage in sustainable management. Woongjin Coway has accomplished impressive financial performance backed by our successful and unique rental marketing strategy and the products that cater to the needs of our consumers. Based on such performance, we are solidifying our platform for sustainable management of our Company and delivering added value to our stakeholders.

【 Operating Performance 】



The management catchphrase in 2006 was “Dynamic Coway 2006.” It was a strategy that encompassed strong commitment to continuing our success story via innovation-driven and dynamic management. Our priority in 2006 was enhancing and expanding competitiveness in our rental system. Thus, Woongjin Coway increased the number of CODYs to over 10,000 persons at the end of 2006 and also strongly drove organizational efficiency.



Another focus area for Woongjin Coway in 2006 was strengthening our presence in overseas markets. Following our existing operations in Japan, China, and Thailand, subsidiaries were set up in Malaysia and the US. Woongjin Coway China diversified its product portfolio from its cosmetics line to distributing living and environmental home appliances such as air filtration devices and air cleaners. Five million USD was invested in Shenyang, China to help this diversification process.



In the living business line, we operated 14 Bussel galleries across the country and empowered 250 Living Designers (LD) to develop a platform for business growth.

Woongjin Coway posted KRW 1.1 trillion in total sales, KRW 112.3 billion in operating income, KRW 102.4 billion in ordinary income and KRW 74.9 billion in net income based on its beginning-of-year business plan. The sales revenue grew 10.9% from KRW 1 trillion and 8 billion in 2005, and operating income and ordinary income rose 15.9% and 19.1% respectively. Our earnings were positively affected by a successful closure of a merger with Woongjin Coway Development Co., Ltd., as savings in cost of goods sold and improved synergistic effects drove operating margin higher in each quarter.

| • Total Sales | Unit: KRW billion | • Net Income | Unit: KRW billion |
|---------------|-------------------|--------------|-------------------|
| 827.8 | 04 | 71.0 | 04 |
| 1,008.1 | 05 | 60.9 | 05 |
| 1,117.8 | 06 | 74.9 | 06 |

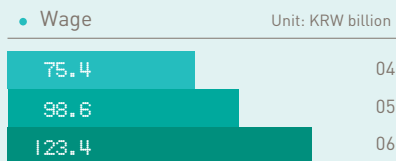
【 Distribution of Economic Value 】

Dividend Our cash dividend in 2006 stood at KRW 29.8 billion, or 39.7% of net income. With a focus on shareholder value, Woongjin Coway plans to keep the dividend payout ratio over 30% at minimum and maintain consistent dividend policy to earn trust from the market.

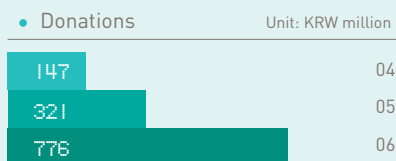
| Description | 2004 | 2005 | 2006 |
|------------------------------|-------|--------|--------|
| Dividend ratio (%) | 30 | 68 | 80 |
| Dividend payout ratio (%) | 10.3 | 40.1 | 39.7 |
| Dividend per share (KRW) | 150 | 340 | 400 |
| Total dividend (KRW billion) | 7.3 | 24.4 | 29.8 |
| Stock price at yearend (KRW) | 9,700 | 23,950 | 25,800 |

Interest Expenses In 2006, interest expenses on liabilities was KRW 8.82 billion, up from KRW 6.77 billion in 2005. Net interest expenses (interest expenses minus interest income) was KRW 6.97 billion or an increase of KRW 1.13 billion from KRW 5.84 billion in the previous year.

| Description | 2004 | 2005 | 2006 |
|-------------------------------------|--------|-------|-------|
| Interest expenses (KRW million) | 10,136 | 6,772 | 8,822 |
| Interest income (KRW million) | 361 | 932 | 1,856 |
| Net interest expenses (KRW million) | 9,775 | 5,840 | 6,966 |



Wage Compensations to employees are largely divided into salary and employee benefits. In 2006, Woongjin Coway spent a total of KRW 123.4 billion including KRW 107.2 billion for salary and KRW 16.2 billion for employee benefits, marking a rise of KRW 24.8 billion from the total expenditure of KRW 98.6 billion in 2005.



Donations Woongjin Coway's donations in 2006 totaled KRW 776 million, a significant growth compared to KRW 321 million in 2005 and KRW 147 million in 2004.

Taxes In 2006, taxes paid to the State and local autonomous governments totaled KRW 103.3 billion, KRW 99.6 billion in national taxes (including KRW 25.4 billion in income taxes) and KRW 3.7 billion in provincial taxes. Also, payments into national pension scheme amounted to KRW 8 billion.

Government Subsidy No subsidy was received from the government in 2006.

Plan for 2007 +

Woongjin Coway will continue its growth into 2007. The year 2007 promises to be a financially rewarding year, with our expected net income likely to hit the KRW 100 billion mark as our revenue continues to grow and profitability improves. With innovation as our keyword for the year, we plan to further reinforce innovation drive across management to ensure our growth in 2007.

• Management Goals for 2007-Summary

KRW 1.343 trillion in sales
KRW 175 billion in operating income
1.25 million units of sales

1. Internal & external programs for customer delight
2. Five overseas subsidiaries in operation with US operation launching in May 2007
3. Achieving USD 41 million in sales from overseas business
4. Expanding the culture of energy and excitement through three major festivals

【 Innovation, the Exciting Festival 】

Woongjin Coway is the only company amongst listed businesses in Korea that has surpassed the sales of KRW 1 trillion at the end of 2002 with the number of employees growing over 1,000 in a short period of time. However, we aspire to take another leap forward into 2007 with more aggressive goals in place. On the basis of our operating performance until 2006, we have set our 2007 management targets to achieve KRW 1.343 trillion in sales, KRW 175 billion in operating income and 1.25 million units of sales. Our management slogan for the year is “Innovation, the Exciting Festival” with our hope to motivate all our employees towards innovation and enjoy as if they are having an exciting festivity.

As we have adopted “Innovation” as this year’s key word under conviction that “Change is a key to survival,” we have first set our mind to bringing positive changes to “customer innovation.” First off, we have a target to broaden our membership base from 3.94 million at 2006 yearend to 4.80 million this year. To drive growth in membership, Woongjin Coway has a variety of internal and external programs designed to set 2007 as the starting year for genuine partnership with our customers to continue success. Externally, we seek to bring higher customer satisfaction through customer benefit programs targeted at our long-term customers and those who have made repeated purchases on our products, and also plan to deliver upgraded services through differentiation initiatives. Internally, for our CODYs who are responsible for serving our customers on the frontline, we plan to roll out self career development opportunities and offer various family events for them to enhance satisfaction with their work.

The second strategy to implement “Innovation” is to launch top premium products based on our state-of-the-art technology. For air cleaners and digital bidets, Woongjin Coway is going to build in its core technology and diverse functionalities into these products, which will enable the Company to demonstrate its strength as a leader in innovation. We understand well that innovation will be a key driver for us to gain a solid foothold on the global stage. As we plan to generate USD 41 million from overseas operations this year, we will carry out innovation initiatives to build product line-up specifically targeted at overseas market demands and to diversify our



channels for distribution. With Woongjin Coway US scheduled to launch in May 2007, a total of five overseas subsidiaries will be in operation by then.

The Rental House is a distribution channel directly managed by Woongjin Coway to improve the interface with consumers. The 84th Rental House was opened recently, and more of them are scheduled to follow suit in 2007. With the “Dennovation 2006” in Dec., 2006 to showcase ideas for advanced designs, Woongjin Coway plans to channel resources to product development for improved customer convenience. Dennovation is a compound word of design and innovation, reflecting our deep commitment to changing the paradigm in product design.

Another important goal for Woongjin this year is to better motivate and satisfy our employees and managers with their jobs through spreading the culture of energy and excitement with three major festivals at hand. Not only that, we seek to reinforce our technology manpower by recruiting the best and the brightest within and outside Korea.

【 Plan for Sales and Profits 】

Woongjin Coway disclosed the outlook on the sales and profits of the Company for fiscal year 2007 on the 10th of January, 2007. On the sales revenue front, a healthy growth in the demands for replacement and digital bidet products is expected to boost the sales revenue to KRW 1.343 trillion, a 20.2% jump from 2006.

On the profitability front, a significant margin of improvement is forecasted, considering the fact that the merger with Woongjin Coway Development Co., LTD. has decreased the acquisition cost of assets, leading to structural improvement in profitability. Therefore, we expect our operating margin to go up from 10.0% in 2006 to 13.0% in 2007, and operating income to KRW 175 billion, a 55.8% up from 2006. Ordinary income and net income are expected to record KRW 165.4 billion and KRW 118.9 billion respectively, a rise of 61.5% and 58.7% respectively from 2006 levels. With such stellar performance on the horizon, we expect 2007 to be the breakthrough year when our net income will finally pass the KRW 100 billion mark.

• Sales and Profits for 2007

Unit: KRW billion

| Description | Amount | As a percentage of sales revenue (%) |
|------------------|---------|--------------------------------------|
| Sales | 1,343.0 | 100.0 |
| Operating income | 175.0 | 13.0 |
| Ordinary income | 165.4 | 12.3 |
| Net income | 118.9 | 8.9 |

Plan for 2007



【 Strategy and Key Initiatives 】

Our strategy in 2007 is mainly classified into three categories growth, profit and innovation. On the growth front, building stronger customer relations and consolidating a global Coway platform were defined as our strategic tasks. On the profit front, innovating sales organization and sharpening cost competitiveness were adopted as strategic tasks. Last on the innovation front, innovating cost/HR structure, fostering a culture of innovation, driving quality innovation and developing differentiated products were picked as strategic tasks.

| Direction | Strategic Tasks | Key Initiatives | Detailed Action Plans |
|------------|------------------------------------|--|--|
| Growth | Customer relations building | Customer loyalty | Reduce rental returns through acquiring more long-term use customers |
| | | New sales channels | Secure sales channels at large discount stores |
| Growth | Global Coway platform | Generating USD 4.1 million in overseas exports | Strengthen overseas subsidiaries Equip full line-up for overseas Diversify distribution channels Establish sales infrastructure |
| | | Sales organization innovation | CL sales organizational efficiency Achieving BEP in living business |
| Profit | Cost competitiveness | Driving KRW 56.5 billion in accumulated cost savings | Cut purchasing cost (GOP activities) Reduce cost through VE Save cost through VE & technology development |
| | | Cost/HR structure innovation | Implementing innovation tasks for cost/HR structure |
| Innovation | Culture of innovation | Innovation activities through innovation/ideas festivals | Organize innovation festivals Organize idea festivals Organize performance festivals |
| | | | Quality innovation |
| | Differentiated product development | Launching one or more new items | Review/ launch ASL therapy Review/ launch new STP ultrasonic wave Food waste processor for functional improvement |

Our Innovation +

At Woongjin Coway, work is underway to embrace a genuine sense of “innovation” across all management aspects. Our innovation drive moves in line with our fundamental management spirit that stresses “a sense of crisis is needed especially for companies at its best.” In particular, our priorities are placed on innovation in “R&D,” “design & production,” “international business,” and “marketing.”

【 R&D Innovation 】

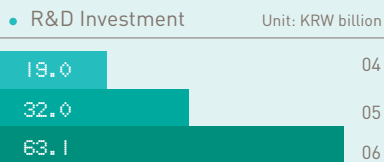


Research and development innovation at Woongjin Coway is focused primarily on delivering improved consumer convenience rather than improved profit for the Company. In other words, our R&D is founded on consumer-centric system that exhaustively identifies and discovers consumer needs in product development. Woongjin Coway has a firm investment commitment to R&D. We take pride in developing eco-friendly products through our The Environment Technology Institute, Quality Management Institute and Water Analysis & Research Center.

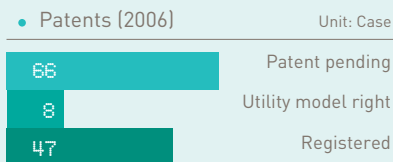
Needless to say, what is critical in facilitating R&D innovation is securing best people and reducing cost. Our on-going efforts to recruit high-calibers in R&D are aimed at strengthening the Company’s R&D technology competence through strategically expanding our pool for excellent researchers. All heads from business lines are holding recruitment fairs themselves to discover and inform the prospective hires for job opportunities. The new recruits will also be charged with building core competency in the Company that far exceeds the competence levels of our competitors and others fast following our track.

Separate from job fairs, a variety of other activities to enhance R&D capability both internally and externally are planned, such as “Woongjin Project Contest” targeted at prominent science & engineering schools, as well as inducing participation from industry-academia/other distinguished institutes in our projects. When Woongjin R&D Center is built by December 2007 on the campus of a prestigious Seoul National University (SNU), fully armed with cutting-edge research facilities, the status of Woongjin Coway as a living and environmental leader will certainly be taken to an even higher level than today.

Furthermore, we plan to move away from our existing sourcing approach centered on domestic suppliers, towards overseas suppliers as part of our aggressive global sourcing drive to sharpen cost competitiveness. We are also planning to reinforce our suggestions system and training programs for our local suppliers to seek shared success. For our export products, we currently are reviewing a plan to enter into partnership with a Chinese local plant for OEM production to drive down cost.



* KRW 5.3 billion out of KRW 63.1 billion in 2006 is allocated for construction of Woongjin R&D Center at SNU.



Our Innovation



Air Cleaners for Toddlers, Winner of Technology Frontier Award



In April 2006, air cleaners for toddlers (Model: AP-0805EH) won the “Technology Frontier Award” from Korea Standard Association. Our air cleaner products for toddlers were highly appreciated for our priority focus on children safety in terms of product design and functionality.

WOONGJIN COWAY NEWS



Groundbreaking Ceremony for Woongjin R&D Center



On May 3, 2006, Woongjin and Seoul National University had a groundbreaking ceremony to signal construction of “Woongjin R&D Center.” Slated to be finished by December 2007, our existing research centers will be consolidated into this new research center to carry out joint R&D activities in environmental technology area related to water, air and health as well as work on new ideas for home appliances.

WOONGJIN COWAY NEWS



【 Design and Production Innovation 】

Design Innovation Woongjin Coway has plans to bring changes to features and design aspects in products to make them more user-friendly. Functional and custom-tailored filters will be developed for air cleaners to differentiate our products from competition in the market. Also a measure is in review to replace existing filters with new functional/customized filters for our users who have owned and used the air cleaners for a set period of time.

Design is where our management particularly puts a special emphasis on, believing that design is the manifestation of our technological prowess. Woongjin Coway’s design innovation aims to establish “Aura design oriented towards

optimal value for a healthier consumer life,” and to reduce the product size to half. To realize “Slim & Premium Design,” design exhibitions and new idea proposals will be organized, a review panel of design experts will be arranged, and leading design research and global networking will be pursued.

HR Project Woongjin Coway presently deploys initiatives to set up a leading production system for higher production efficiency. The High Renovation High Running Project (HR project) for innovating production started from 2005 and has produced tangible fruit in both higher productivity and improved reliability in manufacturing and process quality. During 2005, we saw our productivity increased by 30% and production lines and materials storage space reduced by 31%. Also by applying cell-based production to air cleaners, a 91% improvement in production capacity was gained compared to the previous production methodology. Encouraged by visible results, we conducted HR innovation projects twice in 2006, thus generating a 74% enhancement in per capita productivity, or KRW 1.04 billion in amount of savings.

【 Marketing Innovation 】

Rental Marketing Amidst a rapid society-wide transformation including massive corporate failures, triggered by economic difficulties that had ensued foreign currency crisis in 1998, Woongjin Coway was able to turn crisis into opportunity by introducing a pioneering rental marketing technique that laid the basis for prosperity. Our approach was taken from a value-stream perspective. To be more specific, we shifted away from a conventional marketing approach based on a simple loop linked by production, sales, and after-sales service. We instead moved towards building deeper and more sophisticated layers of customer service mechanism-- first embedding our corporate ethics into products, developing a multitude of environmental well-being products, and intensively training our employees to serve our customers before any need arises (B/S or Before Service), then renting out or selling our products to customers, followed by after-sales care that inevitably comes after rental marketing. As rental marketing requires consistent product maintenance, our consumers have come to feel much more reassured in using our products and even save costs thanks to affordable rental pricing.

Our Innovation



• Who are CODYs?

A CODY is an abbreviated word for Coway Lady who works as a service expert at Coway. Their main responsibility is providing B/S (or before service) for all Woongjin Coway products, starting from conducting regular check-ups and inspections on rented products to managing membership for general products, filter control and soliciting rental membership. Whereas most of service providers do after-sales service (A/S), our CODYs deliver before-sales service (B/S) from customer perspective. Through the CODY system, we contribute to providing female workforce with opportunities to partake in economic activities especially at a time when they face difficulties in getting jobs, and further contribute to nurturing highly value-added manpower by developing them to acquire professional skills set.

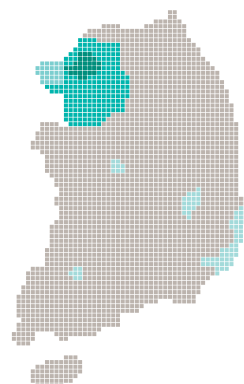
CODY System Under the CODY system- developed for the fact that the main user group for rental products is housewives, CODYs are responsible for door-to-door sales and after-sales care services to customers. In 1999, CODYs were selected as new intellectuals by the Korean Ministry of Labor, thus emerged as a new category in occupation. There are currently 10,751 CODYs working as of the end of 2006. Woongjin Coway has been strengthening service and technology training to CODYs to deepen customer satisfaction, and has equipped CODYs with PDAs to improve their productivity on the job. We plan to expand the number of CODYs to 15,000 and implement an IT-based geographical intelligence system (GIS) to better manage and upgrade the quality of our services.

Rental House In 2005, Woongjin Coway opened "Rental House" with an aim to compensate existing shortcomings in the traditional door-to-door sales and to facilitate sales through rental marketing.

The Rental House- the "total well-being experience space" for our consumers- has products displayed for rental such as water filtration devices, air cleaners, bidets, water softeners, food waste processors, etc., and showcases many other varieties of products as well. Customers can try and see for themselves different functions and features of our products to make informed decisions before buying. Since our first Rental House opened in October 2005, thirty more opened by the yearend, and at present, a total of 84 Rental Houses are in operation as of the end of 2006.

• Rental Houses by Geography

As of 2006 year end



| | |
|---------------------|-----|
| ● Seoul | 40% |
| ● Gyeonggi Province | 30% |
| ● Five major cities | 15% |
| ● Other regions | 15% |



【 Overseas Business Innovation 】

The last yet equally important area that Woongjin ambitiously prepares to innovate is our overseas business. We have taken powerful steps towards the global market to position ourselves as a genuine leader in global environmental and home appliances market, on the foundation of technology and know-how accumulated over the years from our domestic market leadership.

Woongjin Coway is just now beginning to develop its overseas business in contrast to other global Korean electronics makers whose overseas market brings in more than 80% of their revenue. However, this also means that there are that much more opportunities to leverage for growth. To capture opportunities overseas, we are now conducting a systematic analysis into key overseas markets and their consumers in order to develop customized product models. We are also undertaking effort to diversify distribution channels to gain a platform for stable sales generation. In May 2007, we will open our subsidiary in the US to use as a platform for penetrating into the US and other major neighboring markets.

In September 2006, we signed an "MOU on the supply of water filtration devices and air cleaners" with a company in Europe and concluded a supply contract. For Woongjin Coway, this achievement will go down in our corporate history as the first successful step to a full-fledged overseas market entry, as we have had little or no export exposure to the European region till present. Also, a discussion is well underway to look into a strategic alliance opportunity with a global electronics manufacturer in terms of products supply and OEM production.



SOCIETY...

We want to deliver value to our customers in their everyday lives. We also hope to make an exciting workplace for our employees so that they can enjoy work, feel rewarded, and pursue their personal growth. We also want to build an exciting organizational culture for our employees. Going beyond, we want to make this world a happier place for all through our "voluntainment" efforts. Woongjin Coway remains faithfully committed to serving you as a responsible corporate citizen.

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Customer Communication



Woongjin Coway, under Consumer Complaint Management System (CCMS), is responding promptly to any customer complaints that may arise by actively undertaking improvement actions, and is facilitating customer communication through a variety of customer services.

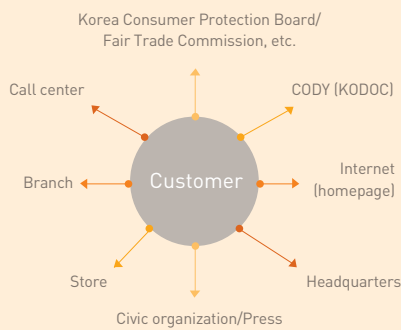
【 Consumer Complaint Management System (CCMS) 】

Woongjin Coway has implemented a CCMS to carry out continued customer damage prevention and improvement initiatives, and clarify roles and responsibilities for handling customer complaints. Complaint prevention activities fall largely into seven categories. First is “**quality control for products.**” This area stresses disseminating quality management policy for product quality and safety across-the-board, updating and revising manuals for the checklists used for quality, safety and equipment inspections as well as retaining records from inspections. Second is “**action for product safety.**” Product safety information is displayed thoroughly to reassure our customers in using our products and services, and a variety of safety services are provided to children, elderly and the physically challenged. Third is “**informing our customers.**” It is critical to make accurate product and service related information available to customers, and make that information easy for them to understand as possible. Other activities for prevention of customer complaints include, “**education targeted for customers**” to encourage recommended use of products and services among our customers, “**environmental lifecycle management for manufacturing, consumption and disposal of products,**” “**customer information security**” as well as “**contingency plans and actions.**”

| 구분 | 구분명 | 구분코드 | 발생건수 | 처리건수 | 처리율(%) | 처리기간(일) | 처리비율(%) |
|-----|-----|------|------|------|--------|---------|---------|
| 제품 | 냉장고 | 01 | 10 | 10 | 100 | 10 | 100 |
| 서비스 | 서비스 | 02 | 5 | 5 | 100 | 5 | 100 |
| 인사 | 인사 | 03 | 2 | 2 | 100 | 2 | 100 |
| 기타 | 기타 | 04 | 3 | 3 | 100 | 3 | 100 |
| 합계 | | | 20 | 20 | 100 | 20 | 100 |

- Computer Screen Displaying Customer Complaints Data

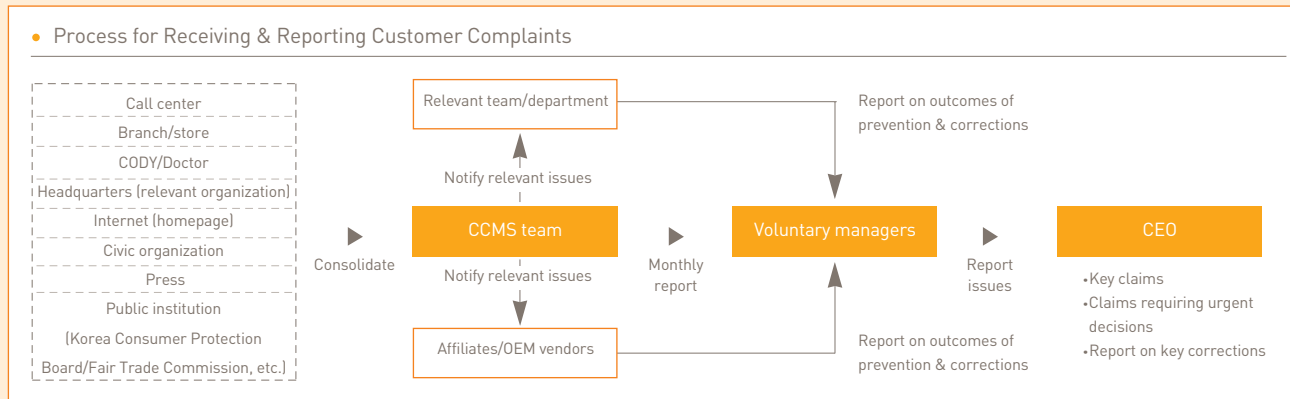
- Channel for Complaints Data Collection



【 How Our Customer Complaints Are Received & Handled 】

Woongjin Coway runs a process for receiving and handling customer complaints through CCMS team and voluntary managers.

- Process for Receiving & Reporting Customer Complaints



Responsibility for Customers +

At Woongjin Coway, we have a mechanism for customer safety and protection to deploy responsible actions for our customers. We are augmenting our service education centering on CS Academy, and delivering safe and clean water to our customers through meticulous quality inspection services. We are also regularly surveying customer satisfaction index to identify opportunities for improvement and to develop appropriate corresponding countermeasures.



【 Product Responsibility 】

In an effort to prevent product defects from incurring damage on life, body and property of our customers, Woongjin Coway examines each and every aspect in products from its design stage and addresses potential problems before manufacturing. As for product responsibility, no violation to Product Liability Law was reported.

【 Product Information and Labeling 】

We try to supply detailed and substantial product information to our customers, since we mainly sell and distribute our products through door-to-door sales. To fulfill our “duty to provide information on products and sellers” in accordance with “Door-to-Door Sales Act” before any contract is closed, we make sure to provide customers with product information in a written pre-contract subscription letter on top of information given at the point of contract. In the meantime, there has not been a single reported case of violation to Labeling and Advertising Act in relation to our labeling practices, and our legal team performs an internal scrutiny on relevant laws and regulations on labeling before any product launch.

【 Customer Information Security 】

Protecting customer information is an accountability of companies, and the most important way for the companies to win credibility from customers. We augment security of customers’ private information by encrypting the last digits of their resident registration codes on our IT customer management system, our website as well as the portal site called Sheswell (www.sheswell.com) for our female users. Customer information is accessed by authorized personnel only and they are trained on an on-going basis to prevent leakage of customer data in the process of production, use and disposal of customer information. At the same time, we organize information security trainings regularly to reinforce our employee mindset towards information protection, out of conviction that “customer information security is a responsibility of all of us.” In 2006, the ratio of customer complaints on information security represented 1.6% of total number of claims received.

Responsibility for Customers



【 Product Services 】

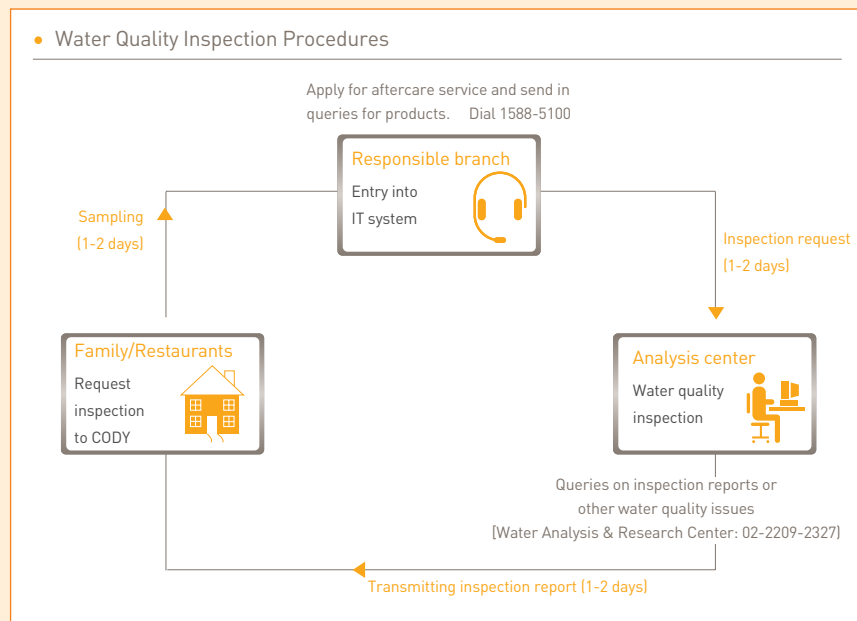
Meticulous Service at CS Academy CS Academy is Woongjin's education and training system designed to systemize service delivery of CODYs that mainly provide professional product services, and our CS doctors (CS Dr.) responsible for after-sales care and installation work. At the moment, one full-time dedicated lecturer, 13 senior lecturers and 5 instructors do training for CODYs, CS Drs. and all Group employees. In each region, thirteen CS Academy Lecture Centers are set up to help trainees more conveniently come to the nearest training site in their geography. Also when group-based training is conducted at the training center, external lecturers are invited to educate the trainees on professional skills in different fields of expertise. Each and every training site is equipped with necessary equipment and tools for effective CS trainings and practical yet in-depth education programs based on "learning by doing" are arranged, e.g., audio/visual training and role play for field service. In particular, one of the key characteristics of CS Academy is the field etiquette room designed to enable simulation at each customer interface (or moment of truth: MOT) in the complete service cycle.

At CS Academy, step-by-step education is conducted for the trainees-basic behavior and etiquettes classes and CS Mind education to foster the employees to become first-class service providers, along with other types of education for learning effective interpersonal skills. Newly hired staff is required to go through a total six sessions of these phased education programs including new orientation course conducted upon joining the Company. CODYs are given basic knowledge training at orientation and move on to take advanced classes for Tto-Tto Sarang service experience, Tto-Tto Sarang service follow-up, customer interaction skills per customer type, and selling power communication. Through these multi-layered training programs, CODYs learn to deliver an upgraded level of uniquely differentiated services of Woongjin Coway for our customers.



For trainings to be more structured, lecturers themselves should also be given chances for their internal growth and advanced education. In this light, overseas study and trainings are essential for the instructors to keep up with the changing trends of the time and to prepare themselves in absorbing new levels of insight. Woongjin Coway is currently building up the capacity of in-house lectures via overseas trainings at JAL Academy in Japan and Service Quality Center (SQC) of Singapore on top of monthly external trainings. Moreover, a variety of education programs, field monitoring and service tracking are carried out to raise the effectiveness of on-the-job training.

Water Quality Analysis Woongjin Coway offers water quality inspection services to our water filtration devices customers. At our Water Analysis & Research Center, annual water quality inspections are performed free of charge upon customer request to gauge against ten different testing criteria (i.e., turbidity, lead, cadmium, aluminum, iron, zinc, arsenic, selenium, copper, manganese) in order to check the performance and quality levels of water filtration devices used by customers.



Responsibility for Customers



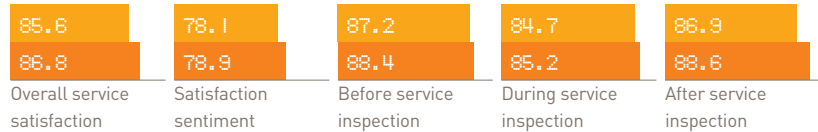
【 Customer Service Satisfaction 】

Woongjin Coway conducted customer satisfaction surveys on a total 10,322 customers across the nation (9,300 Coway customers and 1,022 customers from competitors) from the period of Nov. 24, 2006 to Dec. 28, 2006. Overall satisfaction levels rose compared to the second half of 2005, and service satisfaction score proved to be higher among Woongjin Coway customers than the competitors.

- Overall Satisfaction Score 86.8- Rising from 2005
(from Korea Research Survey)

■ 2005 ■ 2006

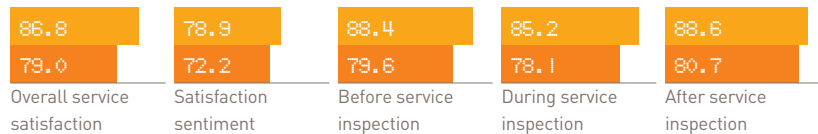
- Overall service satisfaction scored at 86.8 point, an increase from 2005
- Higher than overall satisfaction with competitor score at 79.0



- Satisfaction Sentiment & Dimension-based Satisfaction
Leveling off or Showing a Slight Increase

■ Woongjin ■ Others

- Satisfaction sentiment scored at 78.9 points, similar to the previously surveyed score
- Satisfaction in each dimension of the survey up by 0.5 ~ 1.7 points
- Vis-à-vis competitors, both satisfaction sentiment & dimension-based satisfaction much stronger



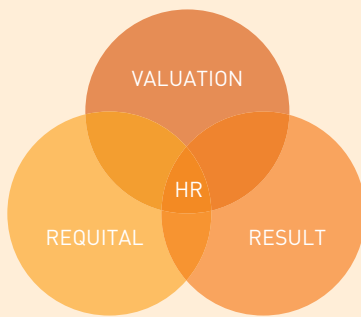
Woongjin Coway carries out customer service satisfaction surveys every quarter. The findings of the surveys are conveyed to team managers or above at briefings, and are shared with others if requested by interested and relevant departments. Key issues are taken into consideration when developing CODY trainings.

Employees +

Woongjin Coway is well aware that a sustainable growth of a company is determined by competent and satisfied employees. That is why we offer a variety of training programs to build capabilities in our people, and manage an HR system which ensures objective evaluations on our employees to set a reasonable level of compensation. For a more satisfactory workplace, we are running a grievance management committee, a personnel management committee and COWAY communication channel called "ULIMTEO" to expedite internal communication.

【 Principles of Personnel Management 】

● Personnel Management System



Personnel management is vitally important to the success of any organizations. Woongjin Coway leaves no room for any irregularities and expedients in this critically important area of human resources management. Under our principles of personnel management valuation, results and requital we make sure that equitable human resources principles be honored so that our staff can be content with their jobs and organizational atmosphere. Moreover, we prohibit all forms of child labor and forced labor, and ban any discrimination against gender, race and religion at our workplace.

VALUATION

We apply a holistic management system for corporate and individual performance to implement Management by Objectives (MBO) and performance management. In addition, many different valuation schemes such as performance valuation, competence valuation and bottom up valuation are used to make the appraisal process more fair and reasonable.

RESULTS

Woongjin Coway is fully dedicated to supporting individuals and organization in performance maximization. In alignment with strategic goals set at the corporate level, specific targets are developed in consideration of job attributes of each unit and results indicators are managed on an on-going basis. Competence valuation system focusing on basic skills, leadership capacity and job aptitude, was introduced to measure and develop internal qualities of individuals so that people can accomplish higher performance on their jobs.

REQUITAL

An exceptional level of performance pay and opportunities for special promotion are awarded to Woongjin members with proven excellence in performance and competence. Promotion mileage system for different ranks was launched to link individual performance with their career advancement plan. According to the financial performance, we apply a profit-sharing scheme to share portions of profit with employees and unit organization.

Employees



● Learning Professionals

Competent and professional people with deep expertise in a given job area

●● Innovative Creators

Always searching for something new while keeping innovative and creative competitive edge

●●● Collaborative Team Players

Valuing interpersonal relations and teamwork as a flexible and an effective team player

●●●● Passionate Achievers

Doing their best to fulfill given responsibilities with perseverance, drive, strong will and passion

【 Our Vision for People 】

Vision for Talent We no longer live in a world where capital determines the success or failure of businesses. In the business landscape of the 21st century often dubbed as the “era of knowledge management” what determines the future of the business is “people”. With a strong belief that corporate competitiveness comes from global Woongjin talent capable of leading us into knowledge society, we are channeling our resources into securing a talent pool for the future. In addition, we are putting our energy into developing programs to cultivate our people in a more structured way. Such core talent promises to become our driving engine behind sustainable growth.

Right People The right people for Woongjin Coway are those who practice Tto-Tto Sarang (Love again & again) values in their daily lives. We envision four types of people whom we value, i.e., learning professionals, innovative creators, collaborative team players and passionate achievers. All our HR policy and employee assistance are fundamentally built on these four types of Right People.

【 Talent Recruitment & Development 】



Talent Recruitment Woongjin Coway is strongly dedicated to developing environmentally friendly technologies that are applied to all of our product lines. With this goal in mind, we have been channeling our energy into securing competent people as shown by our drastic move to hire a large pool of R&D manpower during the past few years, and by our CEO hosting recruitment fairs at major universities in the US to attract top talent with doctorate degrees. In the meantime, a collaborative research network has been set up with leading local universities and prestigious research institutes to continue execution of joint research projects.

- Improve recruiting process

Woongjin Coway has set up a specialist recruiting team to improve recruiting process. We have taken advantage of internships and sent outstanding candidates to overseas training. Woongjin Coway has a preferential recruiting policy designed to give job opportunities to local job seekers when hiring positions for Yugu Factory and CODYs. Through this systematic effort, we contribute to balanced development of local communities and creation of more jobs for female workforce.

- Service Expert Course

Woongjin Coway opened “Woongjin Coway Service Expert Course” at renowned universities in Korea such as Sungshin Women’s University, Sookmyung Women’s University and Konkuk University. Under this program, two sessions of “Training the CS (Customer Satisfaction) Trainers” and “Basic CS Course at Customer Interface” are taught to 30 people, specifically targeting at students in the given universities during their school breaks. Student trainees learn different service skills, etiquettes and even get to practice what they learn as trainers themselves, and are given a priority when they apply to work at Woongjin Coway as service trainers after they complete the course. Such industry-academia cooperation is good for both the students and the Company, as the students gain a professional hands-on experience while the Company is able to bring in more talented human capital.

Employees



Talent Development Equally important to securing human capital through a recruitment process is developing the talent afterwards. Therefore, Woongjin Coway heavily invests in education and training, as evidenced by a dramatic increase in education & training spending for permanent employees from KRW 740 million in 2004 to KRW 1.4 billion in 2006. We are planning to further allocate more budgets for education & training because we believe that our sustainable development largely depends on talent development.

Key education programs conducted at Woongjin Coway are as follows: “mentoring system” for improving symbiotic working relations among employees; “e-Learning” and “Woongjin Advanced Abroad (WAA)” programs for upgrading working-level knowledge; and “Mensa programs” and “Cynosure excellent technology competition” for enhancing the skills level of researchers. Training programs are also offered to CODYs.

- Mentoring System

Mentoring system is designed to match a new joiner with a mentor for one-on-one coaching to help the new employees better adapt to the Company. The senior colleague designated as a mentor not only coaches the junior worker or mentee with job-related advice but also engages in various programs with the mentee for interpersonal skills and relation building. Mentees learn to handle hardships that they may experience as they start their jobs, by gaining input and knowledge from their mentors. The mentees who become accustomed to their new jobs with the help of this system later work as mentors themselves when other new comers need some guidance and help. The mentoring system enables a valuable knowledge network and partnership to be built among employees, thereby fostering a cooperative working atmosphere at the Company.

- Education Credit System

This is a talent development system for skills development of the employees. Each year, recommended credit is assigned for each position to encourage individuals to take initiative in their self-learning plans and continuous self-development. To induce a wider participation in the credit system, extra point is given to job promotion if employees succeed in getting credits double their target credit.

- Education Profile

| Year | Per capita spending in education (KRW) | Per capita time input |
|------|--|-----------------------|
| 2005 | 401,806 | 86 hours |
| 2006 | 735,141 | 143 hours |



- Rank-based/Job-based Education System

To improve collaborative work capability by rank level, special education program for each rank and grade of employees is carried out once a year. Also, job-based education program is run to mandate employees to receive job training for at least 8 hours a year.

- WAA (Woongjin Advanced Abroad)

WAA is aimed to upgrade practical knowledge and technologies through benchmarking overseas advanced companies. Up to 2004, WAA has been more of employee benefit program provided for those who recorded excellent performance in the preceding year. However, we have expanded it to all employees to achieve the practical effects of overseas training. In other words, we support a team of 3~4 people after evaluation of detailed proposals as we believed it would be more beneficial for a small team with clear objective to take advantage of this program. 5 teams have visited Europe and Australia in 2005 and 4 teams have visited 6 countries in Europe and U.S.A in 2006 and presented their benchmarking results including experience and information. WAA has brought us opportunities to share business ideas and form culture of voluntary and active involvement. It plays a role to enhance sustainable development through presenting new and creative business model and reviewing its feasibility.

| | Number of teams selected | Location | Subject |
|-------------------|--------------------------|--------------------------|--|
| First half, 2005 | 2 teams | Turkey | Home care service business launch study |
| | | Australia | Feasibility study on bidet export to Australia |
| Second half, 2005 | 3 teams | Eight European countries | R&D system improvement Bussel prestigious marketing Alternative energy project |
| First half, 2006 | 2 teams | Six European countries | Advanced standards & testing Total setting system for children's room |
| Second half, 2006 | 2 teams | US | Benchmarking trip for specialized rental companies Strategic market development for LOHAS |

Employees



- e-Learning

Woongjin Coway uses its e-Learning program in a cafeteria-style training method to allow individual employees to select and be trained for areas they feel the need to work further on. At present, some 100 curricula from office automation, finance and accounting, HR/training, marketing, CS and language are in place. One of the merits about e-Learning program is that individual worker can take part in the subject they need to study, at their time of convenience. In 2006, 3,630 regular workers (accumulated figure) spent 72,280 hours of time a year to complete their training online. (Annual average of 56.5 hours spent per person)

- HAJA Program

This is a program that delves into a variety of different themes from jazz dance, photography, oriental (meridian) massage to cooking, teddy bear making and language to be taught for around 40 to 50 workers every half a year. During 2006, participants in the HAJA program showed 96.2% satisfaction with the classes. Under this program, employees can acquire new knowledge or gain experience in their particular field of interest by attending in-house classes taught by famous outside lecturers, or by taking classes at private learning institutes.

- Researchers Skill-Up Programs

Woongjin Coway runs programs such as technology seminars and Cynosure excellent technology competition at its R&D centers to actively support researchers with upgrading their skills and accessing latest technology. The Cynosure excellent technology competition is an instrument to encourage and award highly-performing researchers with excellent research achievements in a given year.

- Eco Training

Eco Trainings are education programs given at 37 sites for CODYs when they reach six months period from the point they were hired, and various classes for technology, sales and service skills are taught. During 2006, a total 9 hours of training was done each quarter, and in 2007, a total 6 hours of training is expected to take place as a result of integrated training for service and sales. For other CODYs whose experience at the Company is less than 6 months from the start of their employment, the Headquarters carries out training courses directly for them.

- Eco Training (Quarterly)

| Year | Subject | Training hours |
|------|---------------|----------------|
| 2006 | Technology | 3 |
| | Service | 3 |
| | Sales | 3 |
| 2007 | Technology | 3 |
| | Service/Sales | 3 |

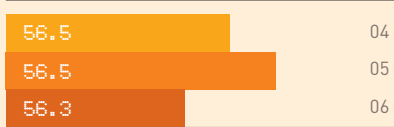
[Internal Stakeholder Communication]

An open dialogue forum between top management and staff called “High-Ting” and monthly labor management committee meetings are utilized to review progress on transparent management, and share ideas for improvement. Also, proposals collected from club activities and the suggestion boxes called “Looloolala Postbox” are communicated to the Company on a more informal basis.

● Satisfaction with the Company Unit: %



● Satisfaction with Work Environment Unit: %



● Satisfaction with Work Unit: %



● Overall Satisfaction Unit: %



● Retirement Ratio Unit: %



● Coway Ulimteo

This is a new interactive online communication forum set up to collect opinions and feedbacks from employees regarding personnel management and training issues. The Coway Ulimteo - an open dialogue channel for creating a more fun and exciting corporate culture - applies a rule of anonymity to encourage people to express and exchange their views in a more candid manner.

● Satisfaction of Our Executives and Employees

Until 2005, Employee Satisfaction Index (ESI) measuring satisfaction level among regular workers showed a steady increase, as a result of overall improvement in compensation and welfare benefits through active internal communication. However, 2006 ESI survey conducted by SIS Research & Consulting from 1st to 11th of Dec, 2006 showed a slight drop in employee satisfaction among 289 team managers and members surveyed at the Headquarters compared to the previous year. As a result of evaluating three areas - satisfaction with the Company, work environment and their job, overall ESI in 2006 was 63.6%, a slight decline from 65.4% in 2005. As for retirement among permanent employees, the ratio fell by 1.3%p from 3.9% in 2005 to 2.6% in 2006. The turnover ratio in 2006 was relatively low at 1.01%, mostly attributed to high satisfaction rate among our executives and employees.

● Grievance Management Committee

All the grievances of employees are handled and resolved through the Grievance Management Committee. Both HR development team manager and labor managers work as interface for receiving different forms of complaints from the employees, and if the issues raised by the workers are caused by sexual harassment or job incompetence/inadequacy, then they get escalated to the Personnel Management Committee which then formally takes up the issues for resolution .

● Industrial Accidents

Woongjin Coway has a relatively low risk of industrial accidents as most of our employees work on the desk jobs. Industrial accidents were reported, however in 2005, as two employees lost their lives in a traffic accident during their business trip, but no industrial incident was reported during 2006.

Employees



【 Compensation and Welfare Benefits 】

Woongjin has four programs for employee motivation: Improvement of welfare benefits; Facilitation of reward and recognition; Innovation of HR management system based on abolition of fixed-term promotion; and Reasonable wage increase linked to performance.

Evaluation and Compensation Through competence and performance evaluations, Woongjin Coway duly compensates highly-performing workers to keep them motivated. We appraise individual competence by applying an objective and reasonable set of criteria to each position. Performance appraisal is a scheme to regularly check progress and achievement against defined individual targets to compensate the workers for their achievement.

Regular Promotion

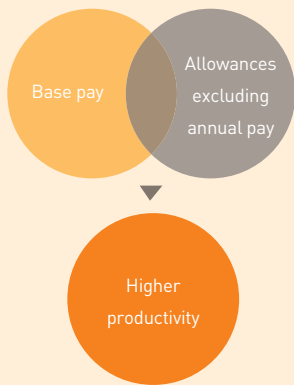
Regular promotions, which take place every February, apply a series of evaluation criteria for assessing competence levels of individuals, i.e., language test scores, participation in Bandi system (in-house idea generation scheme), records of various domestic/international awards, completion of training courses, etc.

Promotion by Selection

Annual selection-based promotions have been implemented from 2003 onwards to enhance job performance of individuals and induce an atmosphere of challenge and innovation across the organization. Under the system, employees who demonstrate exceptional ability in their jobs after regular promotion is conducted in a given year, are recognized and awarded an appropriate level of compensation for their performance in a timely manner. Individual accomplishments, presentation skills, OA tools usage, 360 degree review and interviews with executives are taken into account during comprehensive and rigorous assessments to select individuals for promotion opportunities.

We have been running an annual remuneration scheme since April 2002. Our company is establishing a flexible pay system linked to both performance reviews and operating results, by remunerating workers in line with their individual capability and performance. Such pay scheme motivates employees towards higher performance, thus resulting in improved long-term productivity of Woongjin.

• Appraisal & Compensation



• Club Activity Supports
[23 clubs with 463 active members]

| | | |
|--------------------------|---------------------------|-------------------------|
| Choronghoe Sorority | Clara Clarinet club | Membrain Music band |
| Photo Village Photo club | WALA Musical club | Vino Plus Wine club |
| e-Rak e-sports | Saxophonia Saxophone | Dangshin Billiards club |
| Niceshot Golf club | Bread Garden Cookie class | Golmet Gourmet Club |

[Details]

- Clubs with more than five initial members
- KRW 200,000 funded when club opens
- Up to KRW 1 million sponsored per month
- KRW 1 million sponsored the following year to high-performing clubs

• Anti-smoking campaign



Welfare Benefits Our goal under the welfare benefit scheme is to ensure that all our staff and managers realize their full potential in their jobs. In 2006 alone, we spent a total of KRW 17,153,000,000 (or KRW 5,200,200 per person) on school tuitions, Tto-Tto Sarang vacation pay, housing expense, and expenses for congratulations and condolences, etc.

• Welfare Benefits Scheme

| Description | Details |
|--|---|
| For congratulations and condolences | For weddings and other events of the workers or their family members (KRW 470 million, 2006) plus related vacations |
| Tuition assistance for employees' children | Enrollment fee for kindergarten & university not limited to the number of children |
| Housing purchase /rental | Supports 50% of interests payment on housing loan for workers without home ownership |
| Finding Help | Supports external counseling sessions (up to 2 sessions) |
| Blueprint program | Training support for job-related qualification/training |
| Discounted price for the Group products | Employee retail price scheme for discount buys |
| Transportation expense | Transportation expenses supported for deputy managers or above |
| Overseas education | Supporting good performers |
| Souvenirs | Souvenirs for New Year, thanksgiving, company founding day, the Worker's day |
| Total medical check-up service | Total medical check-ups for office workers once every 2 years & production workers every year |
| Vacation system | Summer vacation, annual leaves, sickness leaves, maternity leaves, sabbatical |
| Employee club activities | Supports leisure activities of employees--soccer, mountain climbing, bowling clubs |
| Gift certificates | Birthday gift certificates given on employee birthdays |
| Birth celebration pay | Birth celebration pay for workers/their spouses/children |
| Five work-day system | Supports self development and leisure activities of employees |

A Healthy Employee & a Healthy Company Woongjin Coway has been waging an anti-smoking campaign from January 2006 to promote healthier lives among individual employees. The campaign has resulted in positive changes in lowering the smoking rate among the workers, and the rate of non-smokers increased to 62% as of 2006 yearend. To keep our production workers sound and healthy, we are also carrying out more robust medical check-up programs to prevent them from the risk of illnesses.

Corporate Culture +

A corporate culture signifies guiding philosophy and overall atmosphere embedded in a company. It symbolizes the values and goals shared among employees. Corporate culture is a reflection of a corporate image that even goes beyond to affect corporate brand and product image. Woongjin Coway, backed by voluntary involvement of each individual worker and active assistance at the Company level, is well on course to a unique and proud corporate culture of its own.

【 Culture of Energy and Excitement 】

• Woongjin Coway's Corporate Culture



Participation and improvement

employees who voluntarily participates and grows with the company



Talents development

securing excellent talents and developing them for the organizational and individual growth



Family culture

enhancing job satisfaction forming a culture based on love and trust



Customer-oriented culture

achieving internal and external customer's satisfaction

Woongjin Coway builds a unique corporate culture of energy and excitement believing that only those energized and excited about their work can drive outstanding results with their creative mind and a challenging spirit. Our growth is built on this organizational culture of energy and excitement that inspires creative thinking and strategy and which brings everyone together towards the shared vision. The culture of energy and excitement thrives on four different cultures we value a culture of debate, a culture of dissent, a culture of positive thinking and a culture of togetherness. In order to build a fun and exciting workplace that facilitates active vertical and horizontal communication, Woongjin Coway develops and operates a multitude of programs such as "Hope Day", "High-Ting", "My HAJA", "Coway League" and "Humor Billboard", etc.

【 Research Center Culture 】

Free and Flexible Culture With flexible working hours, dress code, individual work place and vacation, we have created the free and flexible research center culture.

Creative Culture With various creativity improvement activities including periodic new technology presentation, best technology competition, knowledge sharing and self-up, we have created creative research center culture.

Fun Culture With various activities including "Hi coway", "e-SPORTS", we have created fun and participatory research center culture.

• The Culture of Energy and Excitement - Programs

Hi coway

- Building a global culture of energy and excitement
- English class during lunch time
- Movies, pop song sing-along, Golden bell games

Good morning, Woongjin

- CEO message
- Special lectures by renowned speakers
- Benchmarking exhibitions by department
- Tto-Tto Sarang fundraising
- Lucky draw

Hope Day

- (Open dialogues with top managers)
- Communication for everyone-from CEO to new hires

HAJA

(Culture classes for self development)

- Oriental massage/sports massage
- Crystal beading handcraft
- Magic & wine tasting classes
- Other self-development courses

【 Labor-Management Culture 】



There is no labor union at Woongjin Coway. Instead, seamless communication is guaranteed between employees and management through regular and ad-hoc labor-management councils. Such endeavors, recognized by the Ministry of Labor in 2002, gave us an honor of being selected as an “outstanding company for leading new industrial relations.” In 2006, a total of 18 agendas were tabled at labor management councils and all 18 of them were addressed and closed with processing ratio of 100%. If we look at the five-year records from 2002 to the present, total 43 sessions of the council were convened through which 138 agendas were negotiated and addressed accordingly. Key agendas put forth at the labor-management council in 2006 were related to performance pay, improvement of welfare benefits, wage increase, thanksgiving holidays.

| Year | 2002 | 2003 | 2004 | 2005 | 2006 | Total |
|--|-------|-------|-------|-------|-------|---------|
| Number of council meetings | 14 | 13 | 5 | 4 | 7 | 43 |
| Number of agendas negotiated/addressed | 35/35 | 41/41 | 26/26 | 18/18 | 18/18 | 138/138 |
| Processing ratio (%) | 100 | 100 | 100 | 100 | 100 | 100 |

Apart from this, workshops and committee activities for capacity building, health and safety and building labor-management solidarity were conducted as follows.

- Tto-Tto Sarang committee workshop (one workshop each for 1st H & 2nd H)
- Workshops for field supervisors
- Regular/ad-hoc sessions of Tto-Tto Sarang Council (10 times a year)
- Industrial safety and health committee meetings

Club activities
(support for employees' diverse leisure activities)

- Soccer club, Sorority-Choronghoe
- Mountaineering, Baseball, etc
- Bowling/billiard/Chinese classes/Inline skating, etc

Morning broadcast
(Exciting & refreshing music /story sharing)

- Department introduction
- Music requests
- Birthday celebration and story sharing

High-Ting

- Consensus building between CEO and employees through joint experience
- 15 employees assigned to develop programs each week
- Magic classes, horse riding, digital camera photography

Humor billboard

- Funny stories posted on the groupware for energy boost
- Winners ranking 1st - 3rd receive prizes each week based on recommendation
- The 1st winner to receive prize each month based on recommendation

Business Partners +

Under a firm conviction that companies alone cannot survive the cut-throat competition, Woongjin Coway is involved in a variety of initiatives to seek symbiotic working relations with our business partners. We are committed to building a win-win partnership through environmental cooperation with our business partners as well as leveraging Coway Open Plaza [COP].



- Industrial Voluntary Agreement on Green Purchasing

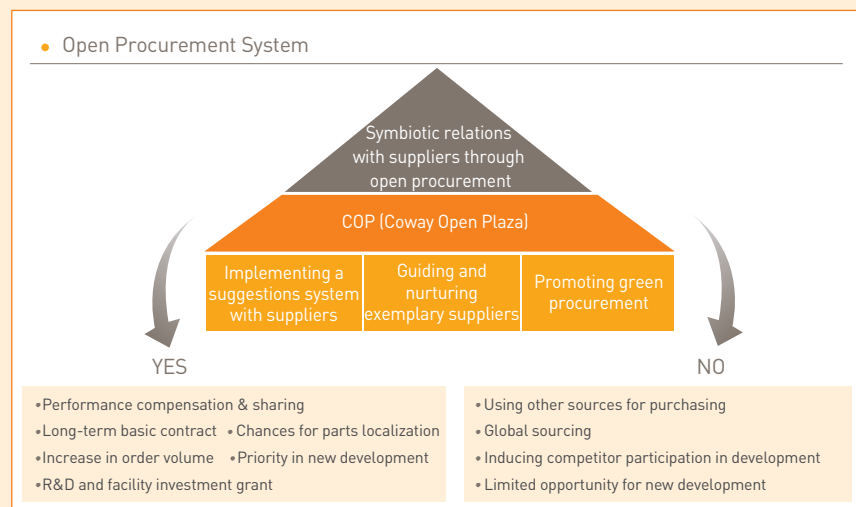
- Supplier Profile



- Domestic 91%
- Overseas 9%

【 COP Facilitation 】

Woongjin Coway is facilitating Coway Open Plaza (COP) to live and grow with our suppliers in harmony. Main activities of COP include implementing a suggestions system with suppliers, providing guidance and support to exemplary suppliers in their growth, and promoting green procurement, etc.



【 Coway Partner's Day 】

Woongjin Coway hosted the 2nd "Coway Partner's Day" on Dec. 12, 2006 which began in 2005 to pursue symbiotic management with business partners. With a goal to implement symbiotic management with full force, some 140 suppliers of Woongjin such as Daewoo Electronics and Saehan attended the event and explored ways for future collaboration. In addition, awards were given to high-performing suppliers in acknowledgement of their achievement during a new product exhibition jointly prepared by Woongjin and its suppliers. In 2007, we plan to pick 15 suppliers to help them on management, production innovation and quality through consulting services and fully cover all necessary expenses for them. Also, we plan to set aside KRW 3 billion as a facility fund to assist SMEs with their facility and equipment needs, and extend loans to the applicants with no interest payment obligation.

Social Contribution +

Profit making should no longer be the sole focus of business management.

Recognizing the importance of social responsibility and corporate citizenship, Woongjin Coway has long been engaged in various community activities – both in Korea (launching “Clean Water Campaign,” sponsoring cultural events, reaching out to the less fortunate, etc.) and abroad (community services in South Africa, etc.)

【 Corporate Citizenship and Social Responsibility 】

• Woongjin Coway Symbol



The background blue symbolizes river, a target of our Clean Water Campaign. Fish takes the form of a heart to emphasize the spirit of “Tto-Tto Sarang (love again & again)”, our management philosophy. This is the future that Woongjin Coway envisions through its social contribution activities.

Amid growing social emphasis on corporate social responsibility, many companies are launching various social contribution activities, i.e. community services, MECENAT activities (for sponsoring cultural and art events), and environment protection campaigns. Woongjin Coway takes pride in the fact that it has been a good corporate citizen long before the social awakening. We believe that social contribution should be regarded as a due responsibility, not a financial burden for companies. In this context, social contribution activities can also benefit companies financially – in the forms of better corporate image, motivated employees, and expanded communication interfaces with consumers. One key example of our community services is in Yugu, Choongnam Province, where our plant is located. We test water quality, provide Yugu-cheon (cheon: river in Korean) cleaning volunteers, assist farmers with organic farming techniques, and offer scholarships to students at a local Gongju University. We have also been supporting an overall development of this area with a fund from the Ministry of Environment.

Meanwhile, separately from the regional activities, we have been deeply committed to the more general social issues. Woongjin Coway has set mandatory community service hours for all its employees, which includes reaching out to and taking care of the underprivileged, the disabled, seniors living alone, and minor-aged breadwinners. We also work with Holt Children’s Services, Yang Pyeong Disabled Center, Beautiful Stores, children’s schools for the blind, and UNICEF to better reach out to the less fortunate people in our society.

Social Contribution

【 Tto-Tto Sarang Volunteers 】



Since its launch on June 30, 2005, Woongjin Coway's "Tto-Tto Sarang (love again & again) Volunteers" have been leading a variety of community services such as purifying the environment under the Clean Water Campaign, supporting cultural and art events, experiencing the ecosystem, and helping the underprivileged. In 2006, they released freshwater snails into nature and unearthed potatoes from the fields. Over nine mandatory service hours were allocated to all Woongjin employees in 2006 for more active social contribution. The content of their activities are updated and managed objectively and transparently by Korea National Council on Social Welfare – via its volunteer certification system.

| 센터명 | 봉사일 | 봉사자 | 수요처 | 봉사시간 | 봉사활동 |
|--------------------|------------|--------------|-----|------------------|--------------------|
| 04000004 울진코웨이 (주) | 2006-09-13 | 박준현 04174303 | 유구읍 | 04000002 8시간 00분 | 환경보호(특차활동) -쓰레기분리구 |
| | 2006-09-13 | 김찬용 04990314 | 유구읍 | 04000002 8시간 00분 | 환경보호(특차활동) -쓰레기분리구 |
| | 2006-09-13 | 장진석 06299822 | 유구읍 | 04000002 8시간 00분 | 환경보호(특차활동) -쓰레기분리구 |
| | 2006-09-13 | 김기철 06299296 | 유구읍 | 04000002 8시간 00분 | 환경보호(특차활동) -쓰레기분리구 |
| | 2006-09-13 | 이지민 06290204 | 유구읍 | 04000002 8시간 00분 | 환경보호(특차활동) -쓰레기분리구 |
| | 2006-09-13 | 박신우 06299203 | 유구읍 | 04000002 8시간 00분 | 환경보호(특차활동) -쓰레기분리구 |
| | 2006-09-13 | 김우윤 05172810 | 유구읍 | 04000002 8시간 00분 | 환경보호(특차활동) -쓰레기분리구 |
| | 2006-09-13 | 이은희 05189311 | 유구읍 | 04000002 8시간 00분 | 환경보호(특차활동) -쓰레기분리구 |
| | 2006-09-13 | 신용선 05189276 | 유구읍 | 04000002 8시간 00분 | 환경보호(특차활동) -쓰레기분리구 |
| | 2006-09-13 | 조일 04196117 | 유구읍 | 04000002 8시간 00분 | 환경보호(특차활동) -쓰레기분리구 |
| | 2006-09-13 | 왕현진 04000952 | 유구읍 | 04000002 8시간 00분 | 환경보호(특차활동) -쓰레기분리구 |
| | 2006-09-13 | 구경훈 06299241 | 유구읍 | 04000002 8시간 00분 | 환경보호(특차활동) -쓰레기분리구 |
| | 2006-09-13 | 김봉영 06299040 | 유구읍 | 04000002 8시간 00분 | 환경보호(특차활동) -쓰레기분리구 |
| 총 계 | | 1120 명 | | 7004시간 40분 | |

Woongjin Coway's investment in the social contribution activities increased from KRW 498,300,000 in 2005 to KRW 1,210,000,000 in 2006.

【 Social Contribution Activities 】

Woongjin Coway seeks to build a better world for people and nature to live together through our social contribution activities, i.e., “Clean Water Campaign” for restoring the environment, “Volunteer activities” to share joy with our neighbors, and “Oh! Beautiful Month Campaign” for sharing with the neighbors. We aspire to live the values of Tto-Tto Sarang for our customers and community through a variety of social contribution activities.

| | |
|-------------------------------|---|
| Clean Water Campaign | <p>For the day when everyone can enjoy cleaner streamlets</p> <p>Building reed wetlands at Anyang-cheon and Gumuh-cheon & fostering an eco-friendly stream around Yugu-cheon</p> |
| Employee Volunteer Activities | <p>For the day when a heart of warmth blossoms in the world</p> <p>Volunteer activities among employees for sharing love and warmth with neighbors</p> |
| Oh! Beautiful Month Campaign | <p>For the day when sharing becomes a part of our daily lives</p> <p>Practicing a spirit of sharing with our neighbors by giving more</p> |



- Distribution Agreement with the Gongju City on Eco-friendly Agricultural Produce
 Woongjin Coway signed an agreement with the City of Gongju on March 16, 2006 regarding distribution of environmentally friendly agricultural products. As part of Woongjin’s endeavors for “New Green Environmental Management” starting February 2006, this agreement will allow Woongjin to purchase agricultural produce during harvest in autumn from cultivated lands in Yugu, Gongju City that use organic farming techniques (duck farming).

- Sponsorship for Children in the Republic of South Africa
 On March 7, 2006, Vice chairman Jin Lee attended the World Forum for The International Council for Local Environmental Initiatives (ICLEI) held in Cape Town, the Republic of South Africa as a Korean representative and delivered sponsorship for the children from poor local families. Woongjin Coway donated a total of KRW 15 million for this cause and conveyed it to the people in need through ICLEI.

Social Contribution



- Building Sister Relationship with Yugu

Woongjin Coway and Yugu (Mancheon and Moongeum villages) formed sister ties on May 17, 2006. Among many other activities scheduled, the Company plans to directly purchase environmentally friendly products from this region and give a helping hand to farmers during busy farming seasons.

- Sharing Organic Rice with Yang Pyeong Disabled Center

Our employees visited Yang Pyeong Disabled Center on December 18, 2006 to donate Christmas cakes and rice, bought with the money collected from “Looloolala Beautiful Auction” that went on for one full year on the company newsletter. Adding to the significance was that the rice came from our sister village Yugu, harvested in an environmentally friendly way (pond snail farming).

- A Pilot Project of Natural River Restoration

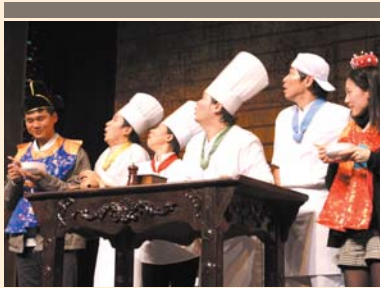
Agreement was signed in Yugu on September 29, 2006 for a natural river restoration project. The signing ceremony was graced by Woongjin Group (Chairman Seok-Keum Yoon and 100 executives), the Environment Minister Chi Beom Lee, Korea Green Foundation Director Joon Ha Yoon, and over 600 Yugu residents. Woongjin Group will be investing KRW 1.5 billion for 3 years until 2008 in planting water purification greens, performing organic purchasing, and cleaning the riverbed.

- Ecosystem Experiences

Woongjin Coway employees and their families took part in the ecosystem experience programs on June 26, 2006 to better understand eco-friendly farming (pond snail farming) and learn more about environment preservation through releasing pond snail into nature and helping the farmers dig up potatoes.

- Volunteer Activities for the Underprivileged

We visited Holt Children’s Services on Sept. 29, 2006 to help people with disabilities receive rehabilitation training and also cleaned the place and did the laundry. On December 14, we visited Yongsan Seniors’ Home to clean the cafeteria for senior citizens living alone. We will be working with the Home to offer free lunches in Hyo Chang Park, Seoul, to the elderly living alone. The program, named “Happy Friday” will start in February 2007.



- Digging Wells in Cambodia

Woongjin Group dug total 75 pump-type wells in 26 villages around Phnom Penh, Cambodia in 2006. As part of its continued commitment to improving the drinking water quality for the Cambodian people, the Group plans to expand the effort with a target of digging total 1,000 wells (over 100 wells every year) in the country.

- Supporting Cultural & Art Events

Woongjin Coway invited 546 couples in the low-income class to experience various cultural and art events on total 18 occasions in 2006, including musicals, drama plays, puppet shows, and art exhibitions. We will continue the efforts in 2007 so as to enrich the lives of the underprivileged in our society.

| Month | Couples invited | Event Name |
|----------|-----------------|------------------------------------|
| January | 40 | Zola Man (Family Puppet Show) |
| | 45 | Jack and Magic Piggy Bank |
| February | 10 | Jack and Magic Piggy Bank (Encore) |
| March | 45 | The Gogol Trilogy |
| | 30 | NONO Story |
| April | 26 | Ophelia's Shadow Theater (Encore) |
| | 20 | Musical The Little Prince |
| May | 30 | Musical Funky Funky |
| | 60 | NONO Story (Encore) |
| August | 20 | Pororo Forest Festival |
| | 40 | Dongrae Outdoor Play |
| | 20 | Jack and Magic Piggy Bank (Encore) |
| October | 30 | Surprise! Picasso Art Exhibition |
| | 30 | Grass Insects Show (Encore) |
| | 30 | Piano and Tooth |
| December | 20 | The Nutcracker |
| | 30 | Grass Insects Show (Encore) |
| | 20 | Musical Marry Poppins |



ENVIRONMENT...

For Woongjin Coway, an eco-friendly producer of various lifestyle commodities, the environment has always been its top agenda. Environmental protection has been our first and foremost priority ever since our registration with the Water Quality Association (WQA) upon corporate establishment in 1989. In April 2006, we had “Environmental Management Declaration,” where we announced our commitment to adopting environmentally friendly processes to overall corporate management. We do not believe in success that comes at the cost of environment degradation. Woongjin Coway will make best endeavors to protect and save the one and only earth, and to contribute to prosperity of the humankind for generations to come.

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Leadership for Environmental Management +

Woongjin Coway fully recognizes the significance of environmental protection. We believe that ensuring top quality and preserving the nature are the basis of fulfilling consumer expectations and social accountability. With our environmental management system and various environment conservation initiatives in place, we will continue to keep the earth clean and fresh.



[Environmental Management Declaration]

In the environmental management declaration on April 25, 2006, the Woongjin Group announced transformation into an environmentally friendly global player. As stressed by Chairman Seok-Keum Yoon, "The environment is the keyword in the 21st century. We must strive to become a global leader of the new century by embracing New Green Management."

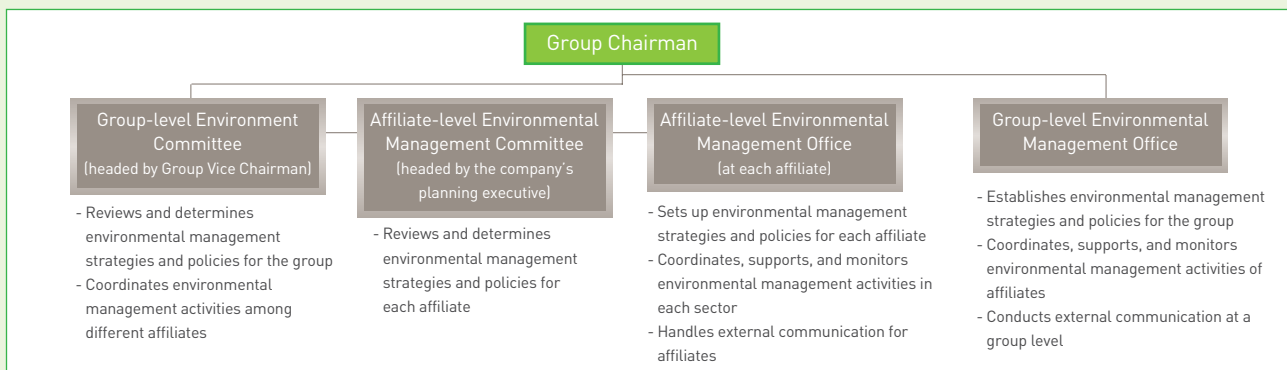
[Environmental Management System (EMS)]

We have adopted environmentally friendly management system since certifying to ISO14001 Environmental Management System in 1996. Thanks to the efforts, our products are now more environment-friendly than ever before and even enjoy higher competitiveness. Recently we have developed green purchasing guidelines as part of our endeavors to encourage our partner companies to embrace environment-friendly management. We believe in taking practical approaches to the environmental issues based on the concept of sustainable management. This will help stakeholders better understand and appreciate Woongjin Coway as a truly eco-friendly company.

Woongjin Coway is now in the process of aligning its environmental management system to the long-term road map of the Woongjin Group. The Group's environmental management office plans to establish RoHS (Restriction on Hazardous Substances) management system and EMS (Environmental Management System) by May 2007.

• EMS

Quality Planning Team was newly established in Woongjin Coway in September 2006 for a more efficient operation of environment and quality systems. The Company further plans to align EDM (Environmental Data Management) system with SAP for real-time management of energy use and hazardous substances, and to build more efficient and eco-friendly production system (to open in May 2007).



• Woongjin Group Environment Logo



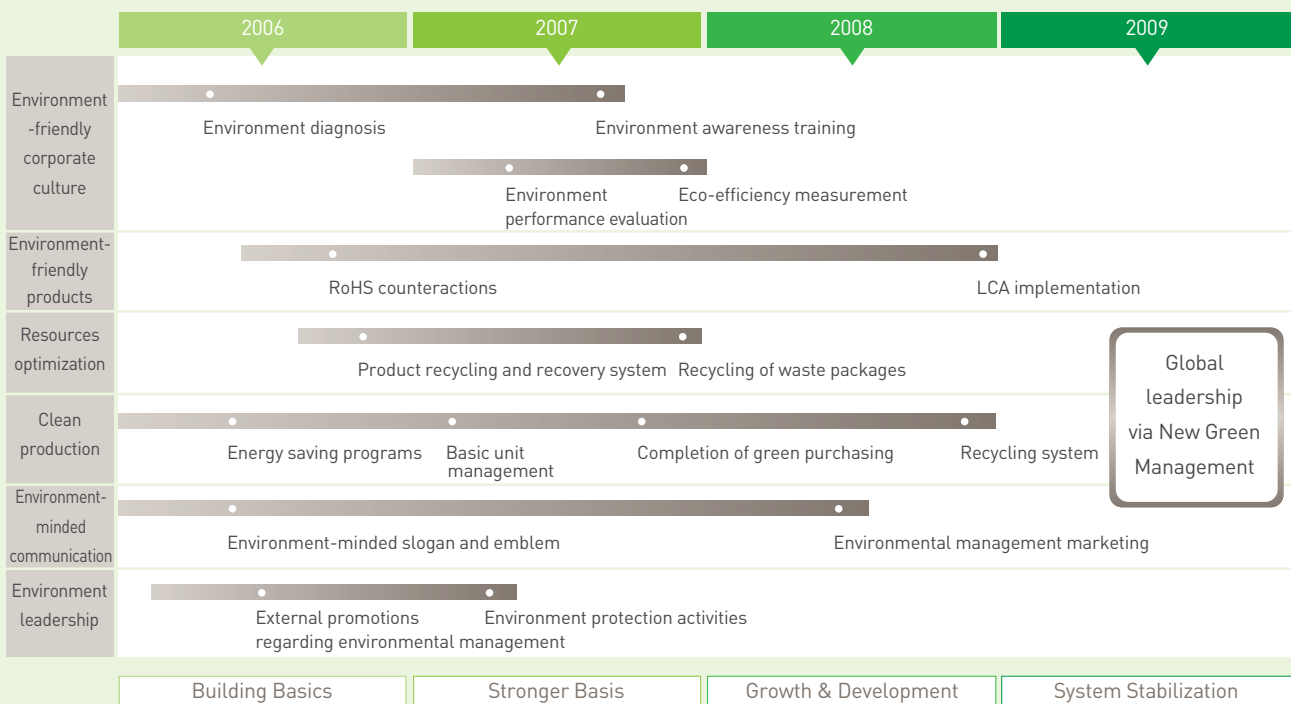
Recognizing the environment as a keyword in the 21st century, the Woongjin Group declared its drive for environmental management in April 2006, and pledged to take off as a global leader via New Green Management. "EVER GREEN LOVE, Tto-Tto Sarang" slogan was launched to spread the consensus across the group.

With this organization structure in place, we builds environmental management strategies and detailed roadmap for long-term programs and initiatives. Woongjin Coway will continue to lead the group not only in terms of business growth and expansion, but also in terms of environmental management.

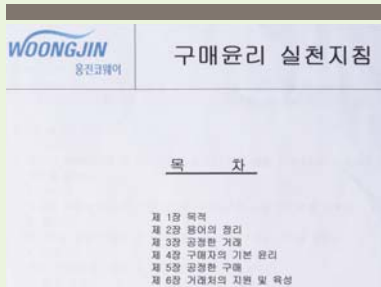
• Woongjin Group Environmental Management Strategy Map



• Environmental Management Roadmap



Leadership for Environmental Management



- Procurement Ethics Guidelines

- Green Partnership

Woongjin Coway believes that co-prosperity with its business partners is the only way to achieve sustainability. This rings truer today, as the importance of corporate social responsibility in environment regulations continue to escalate. Rather than just passively following the trend and resorting to one-off programs, we are solidifying cooperation with our partners to proactively address environmental issues.

【 Green Purchasing 】

Recognizing the importance and non-replaceability of the earth, Woongjin Coway is applying green purchasing to all its products through technical and economic means.

Green Purchasing Guidelines

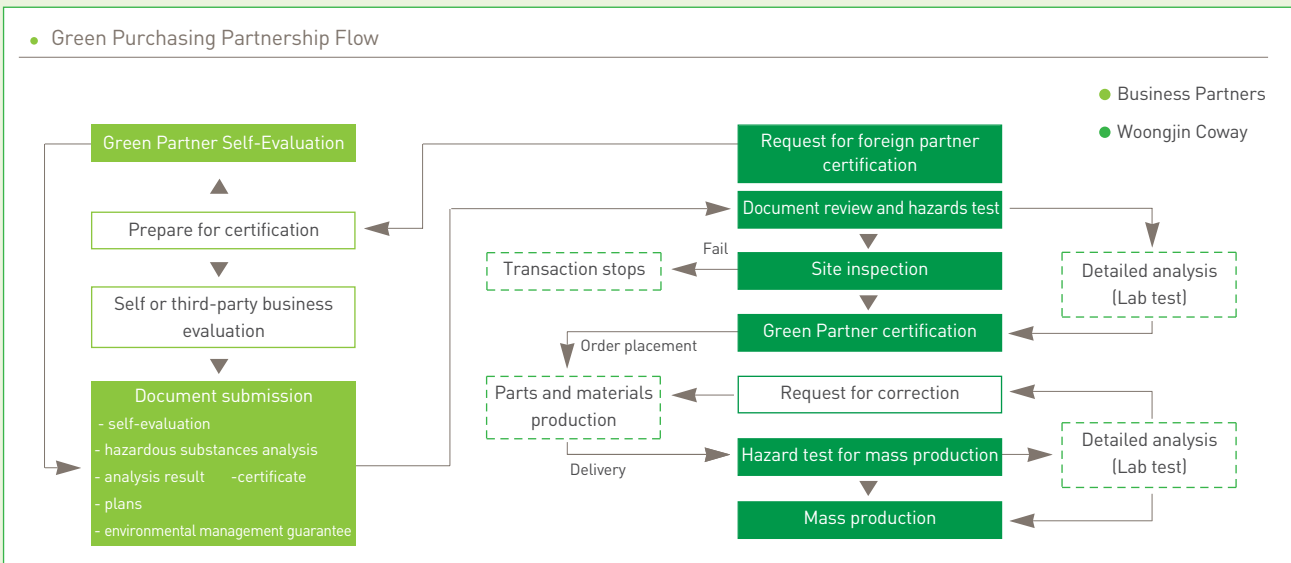
1. Woongjin Coway recognizes procurement of environment-friendly parts and components as one of its top priorities.
2. Woongjin Coway discovers, supports, and develops environment-conscious business partners and evaluates its partners against environmentally sensitive criteria.
3. Woongjin Coway clearly communicates to its partners to minimize environmental impact in the areas of business management, production and service delivery.
4. Woongjin Coway works with its partners to continue to improve the environment.
5. Woongjin Coway provides guidance and resources to facilitate partner companies' environment related initiatives.
6. Woongjin Coway offers active support to environment-friendly partners and strives to achieve co-prosperity.

Since establishment in December 2006, the Green Purchasing Guidelines have been widely applied to all our procurement activities, particularly to the first-tier vendors (suppliers of ingredients, parts, components, and packaging materials) and to the OEM manufacturers (supplier of semi-finished and finished goods). For tier-1 vendors that supply assembled parts, we investigate down to tier-2, tier-3 and even tier-4 suppliers to check against the use of hazardous materials in the raw materials of the tier-1 vendor. Woongjin Coway reviews all business partner companies against a set of environmentally sensitive criteria and issues Green Partner certificates to the strictly selected companies. We do not work with any uncertified companies in principle.

• Green Purchasing Procedures Summary

| Stage | Procedure | Activities | Ownership |
|-------|------------------------------------|---|-----------------------------|
| I | Data submission | Submit self-evaluation sheet Submit hazardous substances documents - Hazardous substances analysis - Analysis result - Proof of non-use - Correction plan (when exceeding criteria thresholds) - Environment management guarantee | Business partners |
| II | Document review | Review self-evaluation sheet Review hazardous substances analysis Evaluate and request for correction | Woongjin Coway and partners |
| III | Site inspection and corrections | Site inspection (visit and verify) Submit correction plan (if failed) Request for correction, i.e. extra NG components | Woongjin Coway and partners |
| IV | Final evaluation for certification | Final evaluation for certification - Self-evaluation - Content of hazardous substances | Woongjin Coway |
| V | Approval/Certification | Issue Green Partner Certificate Sign-off and approve partnership | Woongjin Coway |

• Green Purchasing Partnership Flow



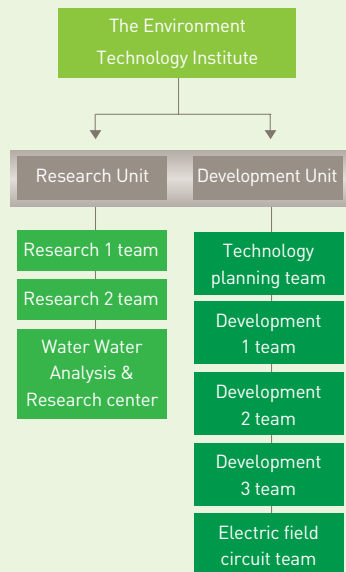
Leadership for Environmental Management



【 Basis for Environmental Technology 】

The Environment Technology Institute The Environment Technology Institute was established in 1993 with a vision to restore the environment. The Institute is dedicated to improving quality of environmental products and developing relevant technologies. Refer to the table below for its major achievements and performances.

● Organization Chart



● Major Activities

- New product development such as water filtration devices, air cleaners and water ionizer
- Filtration system and materials development
- Air purification system development
- Water filtration process development
- Technical survey and outsourcing

● Major Achievements

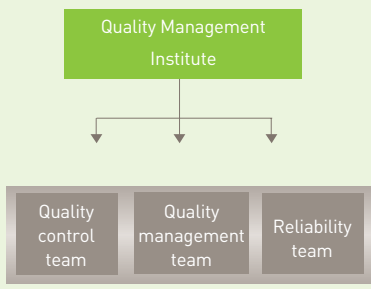
- Instant freezing & instant water heating system
- Design optimization system (CAE)
- Mid-to-long-term technology strategies via trend analysis and estimation
- Local and foreign technology partnership network
- Patent strategies
- Product development process
- Air cleaner for improving indoor air quality (IAQ)
- Functional, customized filter technology (SBS, SHS, MCS, VOCs, virus, influenza, pollen, etc.)
- R&D for air filtration devices flow, fan design, noise design, and flow analysis
- Modules for water filtration devices technology
- OEM model for overseas requirements
- Compact water filtration devices technology
- Micro electronic cooling system
- Replaceable refrigerant cycle
- Durability test database for parts materials
- Joint research with government and academia (Ferrotec of Japan)
- Highly-durable electrolytic cell, electrode, and water ionizer
- Government research on sub-watt standby power technology and energy saving technology
- Food waste shredder & dryer disposer for residential use

Environment R&D Center will strengthen its function as water quality inspector of drinking water in order to secure qualification as a domestic and international quality certification institution, and at the same time, by activating process analysis, Woongjin will establish its grounds as an independent system.

Water Analysis & Research Center The Center was approved in 2002 by the Korean Agency for Technology and Standards (under the Ministry of Commerce, Industry, and Energy), as a certified tester of Korea Laboratory Accreditation Scheme (KOLAS) regarding 75 items in water and chemical sectors. The Center takes pride in providing highly reliable test results.

- Major Activities
 - Tests drinking water and ground water by use type
 - Provides analytical assistance to product development and research projects
 - Offers water quality analysis for customers' water filtration devices
 - Tests product performance and conformity
 - Performs status analysis via field monitoring
 - Tests water safety for water filtration devices
- Major Achievements
 - Working on international certifications (NSF, WQA)
 - Selected as #16 drinking water testing organization (Ministry of Environment, 1996)
 - Selected as #181 international testing organization (KOLAS, 2001)
 - Working to be a RoHS testing organization (TUV)
 - Additional approval by KOLAS (2004)

• Organization Chart



Quality Management Institute Ensuring the best quality is our top priority across the entire process from product development, production to sales. Aspiring to make world-class products and fully meet customer expectations, the Institute is dedicated to evaluating and improving quality of products and parts.

- Major Activities
 - Manages hazardous substances in raw materials
 - Manages EMS and QMS
 - Prepares for local/overseas certification tests
 - Analyzes market quality data
 - Performs field analysis on product breakdowns and carries out correction activities
 - Performs follow-up after certification (plant inspection, etc.)
 - Tests safety and reliability of new products and parts
 - Guides, diagnoses, and evaluates partner companies
 - Develops accelerated life test
 - Conducts quality test for products and parts
- Major Achievements
 - Global-IMC 2006 Reliable Technology Award
 - Hazardous substances database (2006)
 - UL WTDP (2006)
 - ISO 13485 Medical Equipment QMS Certification, MDD Certification (2007)

Environmental Performance +

Offering consumers with environmentally friendly products is only a due obligation for Woongjin Coway, an environment-conscious producer of lifestyle commodities. We have been deeply committed to producing the most environment-friendly products and have thus, acquired a wide range of environment-related certifications. In 2006, we established hazardous substances guidelines to respond to global regulations.

【 Hazardous Substances Guidelines 】

On June 1, 2006, Woongjin Coway established a set of guidelines for controlling environmentally hazardous substances. A revised and finalized version has been in use since November 1, 2006. The guidelines aim to accurately define hazardous substances in parts, materials, and packages of our products, to improve the parts and materials according to the guidelines, and to ultimately ensure that human health and the environment remain safe and intact. We are linking the hazardous substances guidelines with the green purchasing guidelines to encourage our business partners to embrace environmental management.

1. Continued improvement of the company's strategic EMS
2. Effective response to environmental regulations at home and abroad
3. Regulatory environment analysis, strategy building, and revision of Green Purchasing Guidelines
4. Regular verification of the green purchasing process and hazardous substances control
5. Inspection on business partner for environmental management
6. Management of pollutants in the Yugu Factory and other business sites
7. Evaluation of environmental performance of the Company
8. Development of hazardous substances management process for products and parts
9. Effective response to environmental concerns of communities and government
10. Efficient response to product or environment related contingencies

- Hazardous Substance Control

(by part and model) Unit: Each

| Year | Total number of parts controlled | Total number of models controlled |
|------|----------------------------------|-----------------------------------|
| 2006 | 1,120 | 30 |
| 2007 | 747 | 18 |

We classify hazardous substances into three categories and control them according to different criteria. The level of control may change in line with the changes in the local or overseas regulatory environment, in which case the changes are notified to the relevant divisions.

- Classification of Hazardous Substances

- Class 1 (prohibition): Six substances defined by RoHS (Cd, Hg, Cr⁺⁶, Pb, PBB, PBDE)
- Class 2 (restriction): Substances, whose uses are regulated in foreign countries for their environmental and health impacts
- Class 3 (observation): Substances expected to be prohibited by phase in the future for their environmental and health impacts



【 Environmentally Friendly Products 】

Energy Winner Award Our Cairis air cleaner for toddlers and LooLoo electronic toilet seat won the 10th Energy Winner Award, given by the Consumers Korea and the newspaper Hankook Ilbo, on July 14, 2006. The former won the competition in terms of energy efficiency and the latter in standby power. By automatically shifting the gear when it does not sense human contact for over 30 minutes, the LooLoo digital bidet can save 55.7% energy compared to the existing models.

Wellbix Seven of our products received certifications as the best wellness products from Korea Standards Association Consulting and Yonsei University on January 23, 2006. The certification is given to environment-friendly, safe, and healthy products to reassure consumers in using the products. Total seven Woongjin Coway models (two water filtration devices, two air cleaners, an electronic toilet seat, a food waste disposer, and an ultrasonic dishwasher) won the competition, thus upgrading the corporate image as an eco-friendly company.

KOECO Eco-Label One of our air cleaners "Venus" (AP-2506BH0/BHH) and a food waste disposer (WM02-A/B) acquired an eco-label from Korea Eco Products Institute on December 6, 2006. The eco-label is government recognition of environment-friendly and top quality products. The Venus won the competition as it is made with environmentally friendly materials and boasts low-noise and low level of ozone gas exhaustion. It was the first time for a large-sized air cleaner (for space larger than 20 Pyeong or 66m²) to receive the eco-label.

Slimmer Products We set up a dedicated design team for more compact and enhanced quality products. Thanks to our efforts, we were able to simplify materials for design and assembly, and slim down by 30% in terms of product weight and volume.

Packaging Improvements We diluted the colors on product packages by 2 grades as well as excluded complex designs for increased recyclability. Paper boxes on the production lines were also replaced by semi-permanent plastic boxes for better recycling.

Environmental Performance



【 Environment-Friendly Activities 】

Benchmarking Advanced Companies By investigating best practices of leading companies at home and abroad, we were able to make significant improvements in many areas including energy saving and waste disposal. In May, 2006, we visited Japan to study the cases of Toto, Toyota and Mitsubishi and to take part in the environment exhibition in Tokyo. In June, we visited Samsung Electronics plant in Suwon and Nongshim plant in Anseong. These best practices have benefited us not only in saving energy, controlling discharged water, and recycling industrial water, but also in developing environment-friendly products, responding to regulations, and managing suppliers.

Zero Food Waste A significant part of food wastes are not recyclable. We have thus started a cafeteria campaign to make only an adequate amount of food and minimize leftovers. The campaign has started off with factory cafeterias and has resulted in reduction of per capita food wastes by 37.1g throughout 2006.

Second Voluntary Green Purchasing Woongjin Coway signed the “second voluntary agreement to green purchasing” in 2006, as part of its commitment to spreading the culture of environment-friendly production and consumption. It continues to realign corporate policies for green purchasing, offer employee trainings, use environmentally safe resources and materials, and develop environmental products.

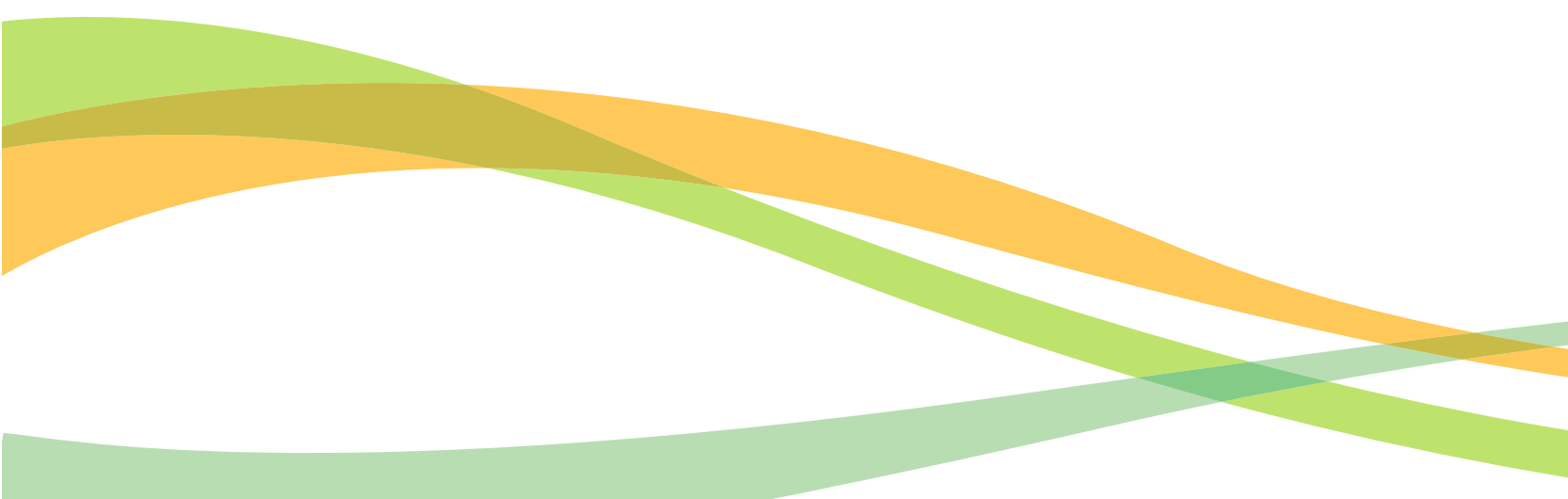
Eco-friendly Business Cards All employees of Woongjin Coway use business cards made with 78% recyclable paper. The Woongjin Group environment emblem and eco-label are also printed on the cards to give a more natural feel. As of 2006, over 95% of the Group employees are using the eco-friendly name cards.

2006 Eco-Products Korea Woongjin Coway took part in the 2006 Eco-Products Korea, held in COEX Atlantic Hall in November 2006, organized by Korea Eco Products Institute and Green Fund. Ninety percent of our exhibition booth was built with recycled, adhesive-free, environment-friendly wood. In the resting area we provided for visitors, we showed video clips to raise awareness of the visitors on environment protection.

APPENDIX...

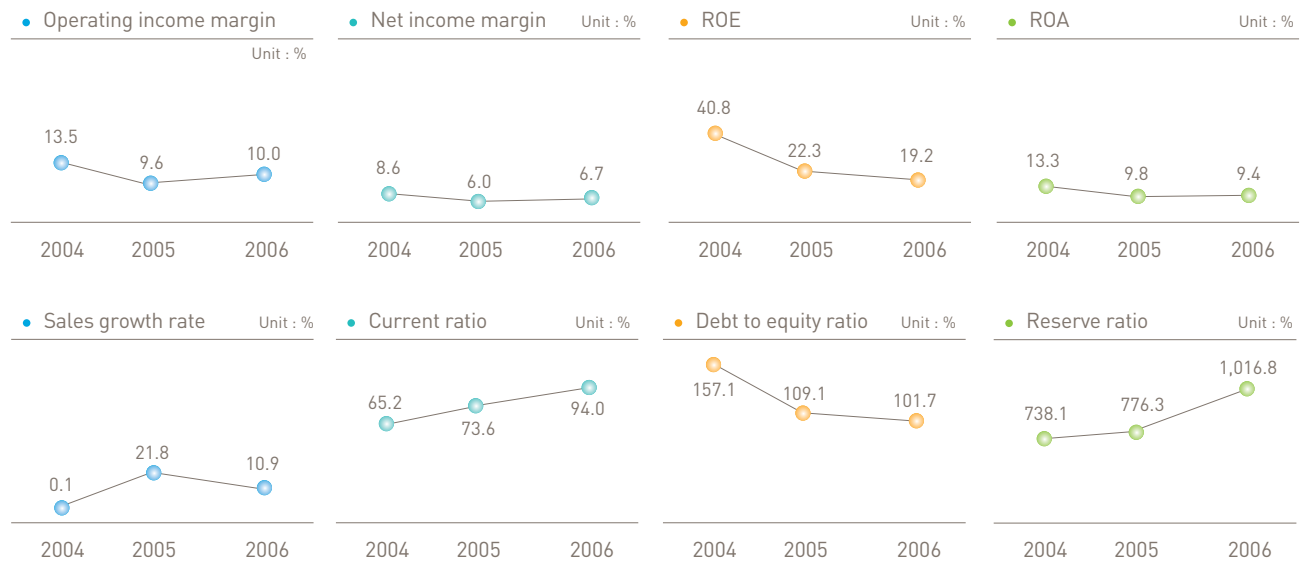
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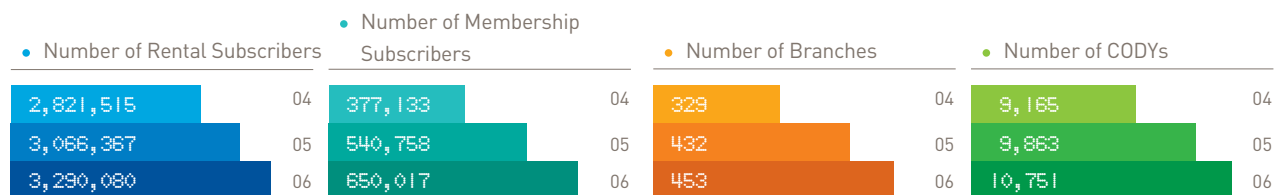


Key Financial Ratios and Operating Indicators

【 Key Financial Ratios 】

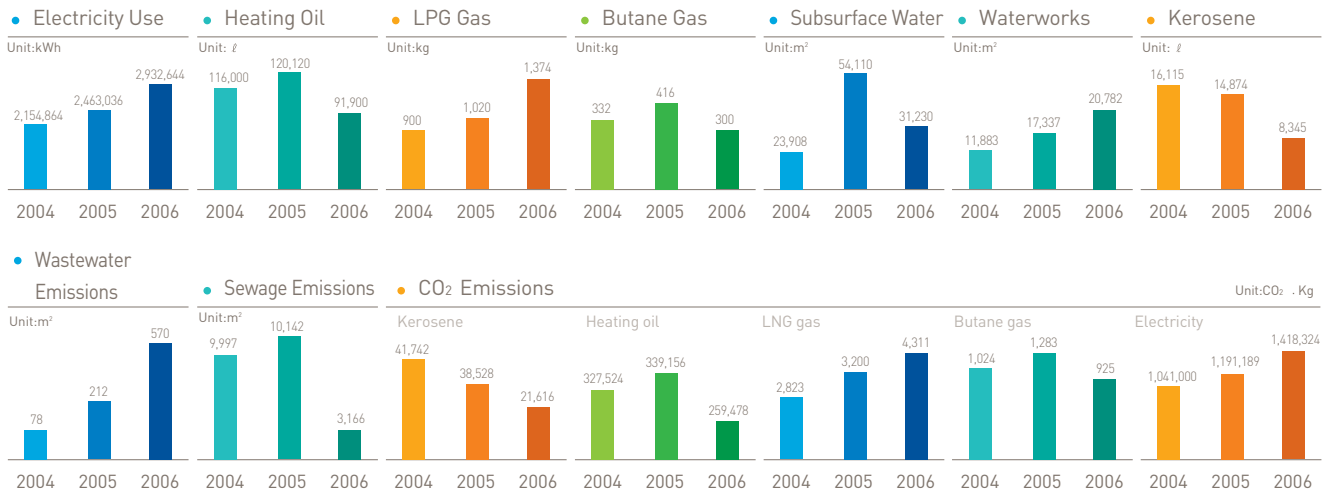


【 Number of Rental and Membership Subscribers, Branches and CODYs 】



Energy Use and Waste Treatment

【 Energy Use 】 : Yugu Factory



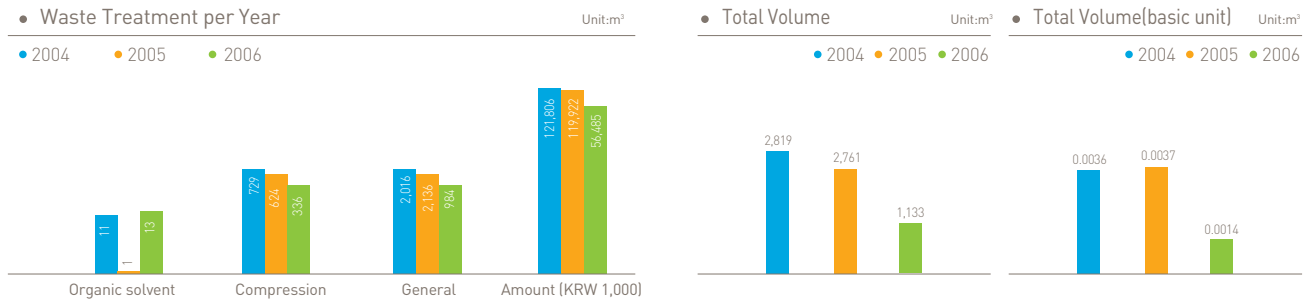
※ Shutdown as of May 2, 2006
: linkage to eliminate at sewage treatment plant

■ Hazardous chemicals management

A small quantity of acetone and the minimum amount of nucleic acid are used for washing when it comes to self-maintenance activities, and it is not possible to occur outflow accident.

■ Environmental law violation cases are not reported in recent 3 years and close collaborations with community residents are maintained

【 Total Waste Generated per Year 】 : Yugu Factory



■ Reduction in 2005 in contrast to 2004 is due to increased recycling vinyl in compressed waste from July.

■ Reduction in total volume of generated waste of 2006 in contrast to 2005 is due to increased recycling activities and consignment activities at Woongjin Cuchen from June.

■ Total volume of generated waste (compression, general and organic solvent) is consigned to incinerate at Hankook Environment Development, Inc.

■ Basic unit = Total volume of waste/product output

Code of Ethics +

Woongjin shares “Tto Tto Sarang” which encompasses continuous love for ‘challenge, work, change, customer, the organization and the society’ as its company management spirit and establishes and declares its code of ethics as the standards for behavior and value-judgment by which all its management and employees shall abide by to respect the rules of free market economy and pursue the benefits of all stakeholders based on trust and cooperation.

【 Chapter 1. Our responsibilities and liabilities for customers 】

We acknowledge that customers are the basis for the business and acquire firm from them by respecting their opinions, providing them with services and benefits from their perspectives and continuously creating values for them.

1. We always listen to the customers’ opinions, believe they are right and take the customers’ satisfaction as the first priority standards for behaviors and judgment.
2. Providing the customers with value
 - ① We tell customers only the truth and always keep promises to them.
 - ② We provide customers with the best quality products and services and respond to their requests promptly and correctly.

【 Chapter 2. Fair competition 】

We abide by all the related laws and regulations of the place where we operate, respect the trade customs and secure competitive position through justifiable methodology and process.

【 Chapter 3. Fair trade 】

We offer equal opportunities in accordance with free competition rules and pursue long-term mutual growth by building mutual trust and cooperative relationship through transparent and fair trades.

1. Equal opportunities
 - ① We provide all competent suppliers with opportunities to be registered and selected as vendor.
 - ② Registration and selection of vendors shall be implemented reasonably following objective and fair evaluation criteria.
2. Fair trade process
 - ① We have sufficient prior discussions about the conditions and process for all trades to be executed in fair manners and equal positions.
 - ② We do not misuse our superior position for any irregularities.
3. Pursuit for mutual growth
 - ① We actively support suppliers to acquire long-term growth and competitiveness and share profits created through innovation.

【 Chapter 4. Fundamental ethics for the management and employees 】

The management and employees establish right sense of value and implement tasks through continuous self-development and fair work performance.

1. We have the pride and self-respect as Woongjin family and always maintain honest and faithful attitudes.
2. Implementation of duties
 - ① We understand the company’s management philosophy, share the goals and values that the company pursue and earnestly implement our tasks in accordance with the company’s rules.
 - ② We implement our tasks with best efforts in right manners and understand and abide by the related laws, regulations and systems.
3. Self-development

We continuously develop ourselves to be creative talents with open minds.

4. Fair implementation of tasks

We implement tasks in honest and fair manners and do not take any monetary benefits from stakeholders.

5. Avoidance of gifts among employees

We do not provide colleagues with gifts for individual or organizational benefits. However, we abide by rules of ethics for exceptional occasions including special events.

6. Sexual harassment can cause victims to lose the desire to work, which ultimately result in the deterioration of productivity. It also causes some burdens for the company from damages to the image and legal actions and should be prevented.

【 Chapter 5. Our responsibilities for Woongjin family 】

1. Respect for family

- ① We love our family members as independent humans with 'Tto Tto Sarang'
- ② We do our best to let our family work hard with ownership to achieve pride and satisfaction

2. Talent development

- ① We build systems to support our family members to create talents and support them
- ② Seniors endeavor to lead their junior to develop them to excellent forces

3. Fair treatment

- ① We provide our family members with equal opportunities based on their competencies
- ② We evaluate our family members' performance and competencies according to fair standards and reward them right.

4. We develop innovative corporate culture by allowing creative thinking and voluntary participation based on supports and rewards.

【 Chapter 6. Our responsibilities for the society 】

We protect shareholders' interest and contribute to the social development and life equality enhancement by growing into a strong company through reasonable management.

【 Supplementary Provision 】

Clause 1(Time of enforcement)

- 1. This code of ethics is effective as of March 1, 2001.
- 2. This code of ethics is revised and enforceable as of November 1, 2003.

Clause 2 (Rules of ethics)

We establish and operate Rules of ethics for the management and employees to implement this Code of ethics more thoroughly.

Clause 3(Interpretation)

We follow the interpretation and resolution based on employment rules and HR regulations for the company's ethics management-related issues which Code of ethics or rules of ethics do not regulate or conflict in interpretation arise.

Clause 4(Relationship with other company's regulations)

This code of ethics, the basis for the company's ethics management implementation, supersede the company's other regulations.

Rules of Ethics +

With a strong belief that the customers are the basis of the company's business, we always respect customers' opinions and abide by Rules of Ethics.

【 Chapter 1. Objectives 】

This Rules of Ethics regulate the requirements for reporting any unethical activities including accepting monetary benefits, entertainment and other benefits and ethicing irregularities abusing the job or positions.

【 Chapter 2. Definition 】

1. Monetary benefits : cash, monetary securities, gifts and other financial benefits
2. Entertainment : meals, drinks, sports (including golf) and any other entertainment
3. Other benefits : transportation, accommodation, tour guide, supporting events and other benefits except for monetary benefits and entertainment
4. Reporter : all the management and employees who acknowledge the acceptance of benefits and have the obligation to report such undue activities
5. Stakeholder : all natural people, corporations and other organizations which can be affected by the work-related behaviors or decision makings for the management and employees

【 Chapter 3. Standard for monetary benefits 】

We offer equal opportunities in accordance with free competition rules and pursue long-term mutual growth by building mutual trust and cooperative relationship through transparent and fair trades.

1. Principles

- ① Woongjin Coway employees shall not accept any monetary benefits from the company's stakeholders and any related parties including supplies.
 - ② Accepting monetary benefits by Woongjin Coway employees' families, relatives and friends shall be considered as the acts of the employees.
 - ③ Offering monetary benefits among Woongjin Coway management and employees for the benefits of individuals or organization shall be strongly prohibited with the following exception;
 - Individual gift to the senior or head of each organization shall be limited to books or records not exceeding KRW 10,000.
 - There are no limits in amounts or items for the senior or head of each organization to offer gifts to the junior or members just to activate the organizational culture.
 - Exchanging token gifts funded by each organization members for special occasions including birthday, wedding and funeral shall be considered as an exception.
 - Prior notice shall be required for juniors 'visit to the seniors' and 3 or more people shall form a team for such visits. Such visits require prior or post notice to the responsible person at ethics management office.
 - ④ Work-related gifts to business partners shall be the company's products including the products of Woongjin Group affiliates and subsidiaries. Otherwise, such gifts shall be report to the responsible person at ethics management office within 3 days.
2. Monetary benefits received from business partners and stakeholders related to the subject activities shall be reported.
 3. Reporter of accepting such monetary benefits shall report to the direct senior within 3 days, prepare 'Monetary benefit acceptance report' and report to the responsible person at ethics management office regardless whether such monetary benefits have been returned or not.
 4. When the acceptor of such monetary benefits does not acknowledge such acts or sees it rude to reject such benefits shall report to the direct senior, prepare 'Monetary benefit acceptance report' and submit the report together whit such monetary benefits to the responsible person at ethics management office. The responsible person returns such monetary benefits to the giver with apologies within 10 days.

【 Chapter 4. Standards for entertainment 】

1. Principles

- ① Woongjin Coway management and employees shall not accept any business-related entertainment from business partners or stakeholders and shall reject it with amenities. However, meals less than KRW 10,000 per person and KRW 100,000 total for business cooperation shall be considered as exceptions.
- ② Employees shall avoid meeting suppliers outside the company and have discussions inside the company. However, inevitable occasions for the business benefits shall follow the rules in ①.

- ③ Employees shall stop or avoid such activities which can be converted to entertainment even if the purpose of such activities are not subject to reporting.
- ④ Accepting entertainment by Woongjin Coway employees' families, relatives and friends shall be considered as the acts of the employees and shall follow the rules in ①

2. Activities subject to reporting

- ① The acceptor of work-related entertainment from business partners or stakeholders shall report such acceptance.
 - ② Acceptance of entertainment such as room salon, karaoke, casino, sauna, massage and etc. shall be reported.
3. Reporter of accepting such entertainment shall report to the direct senior within 3 days, prepare 'Monetary benefit acceptance report' and report to the responsible person at ethics management office.

【 Chapter 5. Standards for other benefits and irregularities abusing positions 】

1. Other benefits

- ① Woongjin Coway management and employees shall not accept any business-related other benefits from business partners or stakeholders and shall reject it with amenities. However, meals, transportation and accommodation for trainees who participate in the formal training or events shall be considered as exception if provided equally to all the people attended.
- ② The acceptor of such other benefits shall pay properly and report this.
- ③ Accepting other benefits by Woongjin Coway employees' families, relatives and friends shall be considered as the acts of the employees.

2. Repay debts or providing guarantee

- ① Stakeholders' paying for employees' bills or debts for business benefits shall be considered as acceptance of other benefits.
- ② Stakeholders' offering stake in their assets and guarantee for employees' debts and trading real properties, personal properties, financial securities, good will, membership etc. with employees for business benefits shall be considered as acceptance of other benefits.
- ③ Accepting other benefits by Woongjin Coway employees' families, relatives and friends shall be considered as the acts of the employees.

3. Lease of personal properties and real properties

- ① Loans from stakeholders shall be considered as accepting monetary benefits. However, loans from registered financial institutions through due methods and process shall be considered as exceptions.
- ② Employees shall not lease properties from stakeholders or use stakeholders' properties as collateral for the employee's benefits or interest.
- ③ Profits from transactions where employees buy properties at lower prices than the market from stakeholders shall be considered as other benefits.
- ④ Accepting such other benefits by Woongjin Coway employees' families, relatives and friends shall be considered as the acts of the employees.

4. Guarantee for the future

- ① Employees shall not accept any guarantees for training, employment or contract execution from stakeholders.
- ② Accepting such other benefits by Woongjin Coway employees' families, relatives and friends shall be considered as the acts of the employees.

【 Chapter 6. Penalties 】

Woongjin Group's management and employees have obligation to abide by such Rules of ethics and shall be subject to penalties for violations determined by each company's ethics management office.

【 Supplementary Provision 】

Clause 1 (Time of enforcement)

- 1. This rules of ethics is effective as of March 1, 2001.
- 2. This rules of ethics is revised and enforceable as of November 1, 2003.

Clause 2 (Interpretation)

We follow the interpretation and resolution based on employment rules and HR regulations for the company's ethics management-related issues which rules of ethics do not regulate or conflicts in interpretation arise.

Clause 3 (Relationship with other company's regulations)

This rules of ethics, precede any internal regulation except for the code of ethics.

History

• 1989

May
Korea Coway Co. was established
(Paid-in capital: KRW 300 Million)

Nov
Registered as official member of
Water Quality Association (WQA)

• 1990

Apr
Commenced sales of Life Spring
Water Filtration Devices

• 1991

May
Commenced production of Korea
Coway's own water filtration devices

Nov
Coway Water Filtration Devices first
exported to Japan

• 1992

Apr
Changed company name to Woongjin
Coway Co., Ltd.

Oct
First production of Coway Compact
Water Filtration Devices

• 1993

Jan
Established environment R&D center

May
Began construction of Yugu factory
(Chungnam Gongju-gun Yugu
agricultural and industrial park)

Nov
Hot/Cold water filtration devices
WJCHP-8050 won a 'Q-MARK'

• 1994

Jan
Became the business in the industry
to win a 'CLEAN MARK'

Apr
Yugu factory construction completed

Jul
Hot/Cold water filtration devices
won a 'GD MARK'

Aug
Won a Gold Seal issued by the WQA
Industry 's first to be designated as
corporate laboratory recognized by
the Ministry of Science and Technology

• 1995

Feb
Won ISO 9001 certification from TUV
BAYERN GROUP, a quality guarantee
certification group

Mar
Entire line of products won a Gold
Seal mark from the WQA

Apr
Environment R&D Center designated
as the first technological institute
attached to a business by the Ministry
of Science and Technology

Jun
Became the first Korean business to
win A/S certification

Nov
Became the first business to win a
Water Mark for its entire line of
products from the Korea Water
Filtration Devices Industry Cooperative

Dec
Selected as one of the '95 Hit
Products'

• 1996

Jan
Second production line at Yugu
Factory commenced operations

Mar
Became the first Asian business to
win NSF quality certification (National
Sanitation Foundation of the U.S.)

May
Won the Presidential Award at the '96
National Inventions Promotion
Contest'

Jun
Became the first Korean business to
win ISO1401/DIS certification for
environmental management from the
TUV Bayern Group

Sep
Won the top prize in the corporate
and catchphrase sector at the '96
Customer Satisfaction Management
Innovation Awards'
Registered and listed on KOSDAQ

Nov
Hot/cold water filtration devices for
households selected as the best
customer satisfaction product by
Sports Chosun
Participated in '96 Customer
Satisfaction Festival'

• 1997

Feb
Announced 'Woongjin Coway Vision
2001'

Apr
Hot/cold water filtration devices for
households won the 'Chang Young-
Sil Prize'

Jun
WJCHP-7000H (Jun WJCHP-7000H
selected as one of the '97 Hit
Products' by Korea Management
Association Launched a new hot/cold
water filtration devices for
businesses (WJCHP-9900) and a food
waste processor (WJFW-1500C)

Jul
WAP-12000, WJCHP-9900 and WJP-
2000U won Good Design marks at the
'Korea Industrial Design Awards'

Nov
Launched the WJP-4000H and a fuel
catalyzer (MCS303)

• 1998

Feb
Incumbent CEO Park Yong-Sun took
office

Mar
Received the official commendation
as a model taxpayer from MOFE

Apr
Woongjin Coway Development Co.,
Ltd. entered the rental business

May
Automatic filter production factory
completed

Jun
Registered as a venture company by
the Small and Medium Business
Administration) CP-CP-100U/P-
5000/AP-2000/CHP-8100 won GD
marks

Jul
Selected as one of the 50 most
competitive companies in quality in
1998 by Korea Standard Association

Aug
Won a three-time zero-accident
certification from the Korea
Occupational Safety and Health
Agency)

Oct
Received certification for excellent
products from the Small and Medium
Business Administration

• 1999

Jan
Introduced air cleaner MAP-300 onto
the market

Mar
Selected as having No.1 brand power
company

Jun
Selected as an exemplary business in
technological competitiveness by the
Small and Medium Business
Administration

Jul
Hipack3 water filtration devices won
a '99 Good Industrial Design Awards
GD Mark'
Participated in the KBP (Find
Korea)business

Oct
Launched 'Perfect 2003' campaign

Nov
Won the Managerial Innovation Grand
Prize from KMA

• 2000

Feb
Launched overseas rental business in Thailand

Mar
Woongjin Coway's technical institute awarded as a 'best institute' by Korea's Prime Minister

Apr
Selected as having the No.1 brand power for 2 consecutive years by KMA

Jun
Established local corporation, Coway Asia in Thailand

Jul
Water filtration devices P-5200 and GHP-7500 won GD marks from the KIDP

Oct
Placed first on the 9th Korea Customer Satisfaction Index

• 2001

Jun
Won grand prize at the '2001 Korea Marketing Award' by KMA

Jul
Won a prize at the 'Innovative Corporate Culture Awards' by KMA
Won quality service certificate from KMA Consulting(KMAC)

Aug
Listed on the Korea Stock Exchange

Oct
Won the Prime Minister Award at the Innovative Business Awards ceremony sponsored by the Korea Chamber of Industry and Commerce
ITS Intertek Testing Services
Won CE certification from the ITS Intertek Testing Services Underwriters laboratory
Won CUL certification certification from Underwriters Laboratory

Dec
Certified as an exemplary factory by the KMA Consulting

• 2002

Mar
Rental subscribers for water filtration devices passed 1 million

Apr
Selected as a good 'New Industrial Management Company' by Korea's Ministry of Labor
Won New Technology Grand Prize from Korean Standards Association SF-Sanitary Finished
Water filtration devices system won SF(Sanitary Finished) certification from the Korea Consumer Technological Institute

May
Launched bathroom specialty brand, Woongjin LooLoo

Jun
Won the Grand Prize at the 25th Value Management Awards ceremony sponsored by the KMAM
Completion of Pochun Plant Construction

Jul
Certified as an exemplary factory by KMA Consulting

Nov
Won the Presidential Award at the 9th Innovative Business Awards from the Korea Chamber of Industry and Commerce
Water Analysis & Research Center certified as the 181st Institute by KOLAS (Korea Laboratory Accreditation Scheme)

• 2003

Mar
Seoul Office moved to Naewei Bldg. in Euljiro 2-ga
Selected as No.1 company in Korea Brand Power Index by Korea Management association for 5 consecutive years in the water filtration devices division
Selected as CA quality certification from Korea Air Cleaning Association - Air purifier Cair AP-1201AH)

Apr
Door to door sales division, right of sales, and fixed asset transfer contract signed with Woongjin Coway Development

Jul
Won the Grand Prize at Korea Best Marketing Award (Corporate Marketing Award for 3 consecutive years
Best Product Award for Loo Loo Bidet

Sept
Commenced Electric Appliance Business through a merger with Doowon Tech Corp.

Nov
Won the presidential prize at the 'Korea Logistics Award'
Won first prize for water filtration devices at the '2003 Korea Brand Conference'

Dec
Become the first water filtration devices producer to top the Korea Product Quality Index (KPQI)

• 2004

Mar
Selected as having the best brand power in Korea by KMA (Coway brand won for 6 consecutive years and Cair & Looloo won for 2 consecutive years)
Selected as having the No.1 brand power at the Korean industries (Looloo and Cair won for 2 consecutive years)
Received the Grand Prize at the Power Brand Awards by the Korea Business Newspaper

May
CAIRS won the Grand Prize for new products at Korea Best Marketing Awards

Jul
Won the Grand Prize in the business sector at the 'Environmentally-friendly Management Awards'

Oct
Launched the Bussel, a system kitchen brand.

Nov
2004 Korea Customer Satisfaction Management Awards, Gold medal

Dec
Ranked number 1 in consumer well being index (Woongjin Cair, Woongjin Coway) sponsored by Korea Standards Association Consulting
World Consumer Rights Day, Minister of Finance and Economy Award (Association of Consumer Affairs and Professionals in Business)

• 2005

Mar
Acquired a KT mark from the Ministry of Science and Technology (Looloo bidet BA06-A)

Apr
2005 Won the Leading Prize in the 'Technology Frontier Awards' sponsored by Korean Standards Association (Ionizer CPE-04BL and Looloo Bidet BA-06A)

May
Merger and acquisition of Woongjin Coway Development Co., Ltd.

Jun
Signed contract to build an R&D Center at Seoul National University
Selected as one of the '30 Most Admired Korean Companies' for the 2 consecutive years sponsored by Dong-A newspaper and IBM

Sep
Transferred the Home Appliances Department to Cuchen

Oct
Opened the 1st Rental House at Daechi

Major Issues in 2006

January

1. Consulting on quality management system innovation
2. Formulating a slogan for sound sales ethics: Walking the path with dignity and integrity
3. Issue consulting (till July): Establishing risk management system and producing a manual for improving employee response and management to crises

February

1. Friendly soccer match between Korea vs. Costa Rica at the invitation of Woongjin
2. MOU on industrial design collaboration with Hong Ik University
3. MOU with Korea Research Institute of Chemical Technology and Korean Electronics Technology Institute
4. Product planning innovation consulting (Circle one consulting/EON Group)
5. Consulting on environmental management diagnosis (Feb. 13-April 12)
6. Publication of Woongjin Coway sustainability report
7. Baby Fair
8. Kyung Hyang Housing Fair
9. System improvement for CODY development: CODY grading system, Ceiling cap on the number of inspection accounts

March

1. Love donation event for children in Africa (participated in 2006 World Forum for Local Governments for Sustainability (ICLEI), only Korean participant in the event)
2. Seoul Living Design Fair
3. Consulting on living strategy purchasing innovation (Arthur D. Little)
4. MY HAJA (Beading handcraft)
5. Meetings with new joiners in 2006
6. Signing ceremony with Gongju City on distribution of eco-friendly agricultural produce
7. Collection event for waste materials in Yugu village

April

1. Bussel International Design Competition
2. TPS training for Yugu factory workers (till July 14)
3. Drastic reinforcement of employee welfare benefits
4. Facilitation of club activities: Large-scale support
5. Case study presentation at a forum for corporate innovation strategy: Productivity improvement through cell methodology (Canon and Sony of Japan also presented their cases of innovation)
6. Sister alliance with local community: Mancheon & Moongum in Yugu, Gongju City, Choongnam Province
7. Launch of Woongjin Coway Living products Ltd.
8. Help Find-establishment of Tto-Tto Sarang center: corporate-wide professional counseling services for employees

9. Seoul tour for scholarship students from Gongju university
10. Bidets sponsorship on the Happy Tart Day for the disabled

May

1. Groundbreaking of R&D Center at SNU
2. WAA for overseas study and training
3. Launch of corporate sales team
4. Benchmarking of leading environmental companies
5. Korea Visit Day for outstanding sales representatives from Thailand
6. Establishment of the Malaysian subsidiary
7. Purchase agreement on eco-friendly rice (Moongum/Mancheon villages)
8. Project launch for planting eco-friendly greens for Yugu-cheon (3 year project)

June

1. Sponsorship for 2006 World Cup in Germany
2. Mini-MBA course
3. Media training
4. Inauguration of Joon-kee Hong as CEO
5. Farming life experience and volunteer work: Through eco-friendly rice purchase in Yugu village, Yugu-cheon.
6. Coway Ulimteo: Communication for HR and training issues
7. Launch of Woongjin Coway China master store
8. Releasing pond snails into nature of Yugu, Gongju City & Potato digging



July

1. Informal gatherings with suppliers: for global environment and cost competitiveness
2. Launch of cost innovation project
3. Launching ceremony for GOP: Continuous and structured cost innovation through gaining global cost competitiveness
4. Opening of the Japanese subsidiary rental shop (Saimata prefecture near Tokyo)
5. Overseas study & training for Bandi winners from the 1st half of the year (Woongjin Coway China)
6. Industry-academia cooperation: Woongjin CS camp
7. Campaign for sound sales practices
8. Donation to Beautiful Stores

August

1. Improvement of membership system (scrapped ownership transfer system and implemented re-rental for new products)
2. Raised rental fees
3. Began paid services for installation transfers
4. Home appliance festival for newlyweds
5. New CM for Coway water filtration devices
6. 2006 Autumn Baby Fair
7. Participated at 2006 Wedex Korea, products fair for newlyweds
8. Improvement of job posting system: I-GROW
9. Implementation of ERP
10. Volunteer work at Han River boat festival

September

1. Living restructuring plan
2. CI consulting kick-off (Sept. 4-Dec. 3)
3. Environment R&D Center e-sports competition
4. Friendly volleyball match at Yugu Factory
5. Event for digging 1,000 wells for Cambodia
6. Hi Coway- improving English skills of employees in this global era (movies/pop songs/CNN)
7. Attended Aquatech Amsterdam 2006
8. MOU signed with Zepter of Poland
9. Implemented WAA
10. Attended Papertainer
11. Signing ceremony for pilot project on eco-friendly stream restoration
12. Better office environment for a more exciting workplace (Team name change/department signboard change/ English names for employees/introducing executive board rooms/anti-smoking billboard change/ cleaner & more convenient bathrooms/free product services from vending machines/ meeting room improvement/wellbeing zone)
13. Developing volunteer plans for everyone
14. Signing ceremony for pilot project-a natural river restoration at Yugu-cheon- with the Ministry of Environment, Woongjin Group, City of Gongju and Korea Green Foundation
15. Volunteer work for Holt Children's Services, The Angel's House, Lifeline, etc.

October

1. Founding of Woongjin Energy
2. Established CCMS
3. Coway Joa-Harmony event at Yugu Factory
4. MOU signed on technology cooperation with Japan's Mitsubishi Paper
5. Participated in 2006 Seoul International Mom & Baby Expo
6. Participated in International Clean Air Tech 2006 aimed at addressing sick house syndrome

November

1. Established MIDAS
2. Began construction of Filter plant (till July 2009)
3. Planned purchasing of eco-friendly rice from Yugu (2,000 sacks)

December

1. Conducted employee tests
2. Announced business plan for 2007



Awards and Recognitions

【 2006 Awards and Recognitions 】

| Month | Awards | Organizer | Winning brand |
|-------|---|-------------------------------|--|
| Jan. | WELLBIX for excellent well-being products | KSAC | 7 items-water filtration devices, air cleaner, digital bidet, food waste processor, ultrasonic wave washer, etc. |
| Mar. | The 8th K-BPI for brand power index | KMAC | Coway (for 8 consecutive years), LooLoo (for 4 consecutive years), Cair (for 4 consecutive years) |
| | The 4th Korea service management grand prize | KOSMA | General service category |
| Apr. | 2006 Korea Brand Star | Brandstock | Coway and Cair for 2 consecutive years |
| | Global Grand Competence Index (GBCI) | JMAC | Coway, LooLoo and Cair each for 3 consecutive years |
| | The 1st Sustainability Management Grand Prize Good Design (GD) | KRIMA KIDP | Excellence award for creative management Coway CPE |
| May | 2006 Technology Frontier Award | KSA | Cair (AP-0805EH) |
| | 2006 KMBA for Marketing | KMAC | Luxury goods award for new luxury products-Bussel |
| | 2006 Korea Best Brand Award | Korea Economic Daily-Hankyung | Coway, LooLoo, Cair for 2 consecutive years respectively |
| | 2006 Korean Consumers' Most Reliable Company Prize | Korea Consumer Forum | Woongjin Coway (Co., Ltd.) for 3 consecutive years |
| | Most Recognized Brand Power by Female Consumers | Womensnews | LooLoo and Cair for 4 consecutive years respectively, Bussel |
| June | Best Luxury Goods Brand Award by Female Consumers | Women Times | Coway and LooLoo for 2 consecutive years respectively, Bussel |
| | Global-IMC 2006 | KSA | Korea Reliable Technology Management Award |
| | Korea Best Brand Grand Prize | Korea Economic Daily-Hankyung | Coway, LooLoo, Cair for 2 consecutive years respectively |
| | Korean Consumers' Most Reliable Company Award | Korea Consumer Forum | Woongjin Coway (Co., Ltd.) for 2 consecutive years |
| July | Most Recognized Brand Power by Female Consumers | Womensnews | LooLoo and Cair for 4 consecutive years respectively, Bussel |
| | Best Luxury Goods Brand Award by Female Consumers | Women Times | Coway and LooLoo for 2 consecutive years respectively |
| | The 10th Energy Winner | Consumers Korea | Cair (energy efficiency) Cair (Stand-by power) |
| Sep. | 2006 KWCI for wellbeing consumer index | KSAC | Coway, LooLoo, Cair for 3 consecutive years respectively |
| | 2006 Green Management Excellence Award | KMAR | Green products (service)-Coway and LooLoo |
| | 2006 Best Company Award by Female Consumers | Womennews | LooLoo (4 consecutive years), Cair (3 consecutive years) |
| | 2006 KCSI- consumer satisfaction index | KMAC | Coway (for 6 consecutive years), Cair (2 consecutive years) |
| Oct. | Women's Love Best Company Award | Women Times | LooLoo and Cair for 3 consecutive years respectively, Bussel |
| | SR-Social Responsibility Award | Economic Review, Newsis | Environmental preservation category |
| Nov. | The 6th Women's Love Best Company Award | Women Times | LooLoo and Cair for 3 consecutive years respectively, Bussel |
| Dec. | Korea Industry Design Awards (KIDA) | KAID | Coway CHP-06DL (excellence award) and five other items |
| | 2006 Korea Management Grand Prize | KMAC | The first prize in management leadership |

【 Participation in 2006 External Seminars & Forums 】

| No | Event | Duration | Organizer | Department participated |
|----|-----------------------------------|-----------|-------------------------------|-------------------------------------|
| 1 | Korea Innovation Forum | Feb.6-7 | Korea Economic Daily-Hankyung | Management planning team |
| 2 | Customer Value Innovation Seminar | March 20 | KMAC | Management planning team |
| 3 | World Knowledge Forum | Oct.18-19 | Maeil Business Newspaper | Management planning team and others |



Statement of Assurance

【Introduction】

Korean Foundation of Quality (hereinafter "KFQ") has engaged the assurance of Woongjin Coway's 2006 Sustainability Report (hereinafter "Report"). The Woongjin Coway is responsible for the compilation of the report and KFQ's responsibility is to express our conclusion based on the engagement.

【Independence of Assurance】

KFQ has no conflict of interest with Woongjin Coway in terms of profit generation-related activities except providing third party assurance service on the report. And we do not have any biased opinion on Woongjin Coway's stakeholders.

【Scope of Assurance】

KFQ has applied assurance procedures specified by KFQ referring to the '2003 AA 1000 Assurance Standard' and 'GRI Sustainability Reporting Guideline(G3)' which are already generally accepted.

The assurance was conducted based on 3 principles(materiality, completeness and responsiveness) and covers sustainability management performance and activities of the follows: Woongjin Coway Seoul Office, Yugu Factory, The Environment Technology Institute, Quality Management Institute

【Assurance Procedure】

The assurance was planned and performed to achieve reasonable assurance to whether there is any material omission error or misrepresentation in the report. KFQ has verified integrity of report contents and effectiveness of the internal process and systems for preparing the Report according to the following steps:

- Desk Review

We have conducted GAP analysis against 'GRI Sustainability Reporting Guidelines(G3)' and then analysed key issues and performance data described in the report. Also we have reviewed the performance data and activities in the report and then, planned for on-site assurance

- On-site assurance

We have undertook on-site assurance under sampling principle after due consideration of material information in the report. KFQ examined data and information source to obtain objective evidence, data management system and availability of the report compilation process.

- Resolution of findings

We have discussed the issues identified during the procedures above, and reviewed the final version of the report again to check the correction and reflection of the founded facts. Then, gap analysis against the GRI guidelines was conducted on the final report.

【 Considerations and Limitations 】

Verification of financial information in the report was substituted by means of comparing it with 'Financial Statements of 2006 Woongjin Coway' which has already been audited by 3rd parties. For the complete understanding financial status, refer to 'Financial Statements of 2006 Woongjin Coway'.

【 Conclusion 】

We believe that we have obtained reasonable basis to express the conclusion below through verification procedure above.

1. The report covers Woongjin Coway's sustainability management activities and performance without material misrepresentation.
2. Woongjin Coway adequately used the system to identify sustainable performance related to their activities, products and service.
3. Woongjin Coway managed their sustainability performance properly and use the report preparation process internally to response various stakeholders.
4. Woongjin Coway self-checked and declared the application level of 2006 Sustainability Report in conformity with GRI Sustainability Reporting Guidelines(G3).

【 Highlights 】

Woongjin Coway has performed the process to collect and analyse data systematically to compile the Report and we have found that they are putting many efforts to improve those internal system.

Also Woongjin Coway have endeavored to improve data comparability, especially in reporting principles. And Woongjin Coway are making every efforts to develop Key Performance Indicator and internal data management system for raising the quality of the report.

【 Suggestions for Improvement 】

We suggest Woongjin Coway to integrate their various activities and align it to their strategy. So that, they can produce high quality sustainability report. Also, we recommend setting out system to analyse and utilize stakeholder's concerns in Coway management activities.



April 25, 2007

CEO & President Jae-Ryong, Kim

G3 GRI Index

●: Disclosed ◐: Partly disclosed ○: Not disclosed N/A: Not available

| GRI Index | Indicators | Page | Remark |
|-----------|---|----------------|--------|
| 1 | Strategy and Analysis | | |
| 1.1 | Statement from the most senior decision-maker of the organization (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy | 13, 19, 40, 73 | ◐ |
| 1.2 | Description of key impacts, risks, and opportunities | 13, 19 | ◐ |
| 2 | Organizational Profile | | |
| 2.1 | Name of the organization | 14 | ● |
| 2.2 | Primary brands, products, and/or services | 16 | ● |
| 2.3 | Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures | 1, 15 | ● |
| 2.4 | Location of organization's headquarters | 14 | ● |
| 2.5 | Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report | 1, 17 | ● |
| 2.6 | Nature of ownership and legal form | 28 | ● |
| 2.7 | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries) | 17 | ● |
| 2.8 | Scale of the reporting organization | 14, 15 | |
| 2.9 | Significant changes during the reporting period regarding size, structure, or ownership | 32 | ◐ |
| 2.10 | Awards received in the reporting period | 32 | ● |
| 3 | Report Parameters | | |
| 3.1 | Reporting period (e.g., fiscal/calendar year) for information provided | 1 | ● |
| 3.2 | Date of most recent previous report (if any) | 1 | ● |
| 3.3 | Reporting cycle (annual, biennial, etc.) | 1 | ● |
| 3.4 | Contact point for questions regarding the report or its contents | 100 | ● |
| 3.5 | Process for defining report content | 1 | ◐ |
| 3.6 | Boundary of the report | 1 | ● |
| 3.7 | State any specific limitations on the scope or boundary of the report | 1 | ◐ |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations | 1 | ◐ |
| 3.9 | Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report | 83 | ◐ |
| 3.10 | Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement | 1 | ◐ |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report | 1 | ● |
| 3.12 | Table identifying the location of the Standard Disclosures in the report | 96-99 | ● |
| 3.13 | Policy and current practice with regard to seeking external assurance for the report | 1 | ● |
| 4 | Governance, Commitments, and Engagement | | |
| 4.1 | Governance structure of the organization | 24 | ● |
| 4.2 | Indicate whether the Chair of the highest governance body is also an executive officer | 24 | ● |
| 4.3 | For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members | 24 | ● |
| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body | 24 | ● |
| 4.5 | Linkage between compensation for members of the highest governance body, senior managers, and executives | 24 | ◐ |
| 4.6 | Processes in place for the highest governance body to ensure conflicts of interest are avoided | 24 | ◐ |
| 4.7 | Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics | 24 | ◐ |
| 4.8 | Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation | 21, 32, 84 | ● |
| 4.9 | Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles | 24 | ◐ |
| 4.10 | Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance | 24 | ◐ |

●: Disclosed ○: Partly disclosed ○: Not disclosed N/A: Not available

| GRI Index | Indicators | Page | Remark |
|-----------|--|------------------|----------|
| 4.11 | Explanation of whether and how the precautionary approach or principle is addressed by the organization | 31 | ● |
| 4.12 | Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses | 90-91 | ● |
| 4.13 | Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization | 31 | ● |
| 4.14 | List of stakeholder groups engaged by the organization | 30-31 | ● |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage | 30-31 | ● |
| 4.16 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group | 30-31 | ● |
| 4.17 | Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting | 30 | ● |
| | Economic Performance | 36, 38-45 | ● |
| EC1 | Direct economic value generated and distributed | 36-37 | ● |
| EC2 | Financial implications and other risks and opportunities for the organization's activities due to climate change | 32 | ● |
| EC3 | Coverage of the organization's defined benefit plan obligations | - | ○ |
| EC4 | Significant financial assistance received from government | 37 | ● |
| EC5 | Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation | 37 | ● |
| EC6 | Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation | 64 | ● |
| EC7 | Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation | 55 | ● |
| EC8 | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement | 68 | ● |
| EC9 | Understanding and describing significant indirect economic impacts, including the extent of impacts | 18, 37 72, 73 | ● |
| | Environment Performance | 72, 73 | ● |
| EN1 | Materials used by weight or volume | 83 | ● |
| EN2 | Percentage of materials used that are recycled input materials | - | ○ |
| EN3 | Direct energy consumption by primary energy source | 83 | ● |
| EN4 | Indirect energy consumption by primary source | 83 | ● |
| EN5 | Energy saved due to conservation and efficiency improvements | 83 | ● |
| EN6 | Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives | 79 | ● |
| EN7 | Initiatives to reduce indirect energy consumption and reductions achieved | - | ○ |
| EN8 | Total water withdrawal by source | 83 | ● |
| EN9 | Water sources significantly affected by withdrawal of water | - | ○ |
| EN10 | Percentage and total volume of water recycled and reused | - | ○ |
| EN11 | Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas | 68 | ● |
| EN12 | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas | - | ○ |
| EN13 | Habitats protected or restored | 68 | ● |
| EN14 | Strategies, current actions, and future plans for managing impacts on biodiversity | - | ○ |
| EN15 | Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk | - | N/A |
| EN16 | Total direct and indirect greenhouse gas emissions by weight | 83 | ● |
| EN17 | Other relevant indirect greenhouse gas emissions by weight | 83 | ● |
| EN18 | Initiatives to reduce greenhouse gas emissions and reductions achieved | - | ○ |
| EN19 | Emissions of ozone-depleting substances by weight | 83 | ● |
| EN20 | NOx, SOx, and other significant air emissions by type and weight | - | ○ |
| EN21 | Total water discharge by quality and destination | 83 | ● |
| EN22 | Total weight of waste by type and disposal method | 83 | ● |
| EN23 | Total number and volume of significant spills | 83 | ● |
| EN24 | Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally | - | N/A |
| EN25 | Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff | - | N/A |
| EN26 | Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation | 74-79 | ● |

G3 GRI Index

●: Disclosed ○: Partly disclosed ◐: Not disclosed N/A: Not available

| GRI Index | Indicators | Page | Remark |
|-----------|--|---------------|----------|
| EN27 | Percentage of products sold and their packaging materials that are reclaimed by category | - | ○ |
| EN28 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations | 83 | ● |
| EN29 | Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce | - | ○ |
| EN30 | Total environmental protection expenditures and investments by type | - | ○ |
| | Labor Practices & Decent Work Performance | 53, 62 | ● |
| LA1 | Total workforce by employment type, employment contract, and region | 15 | ● |
| LA2 | Total number and rate of employee turnover by age group, gender, and region | 59 | ◐ |
| LA3 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations | 60-61 | ● |
| LA4 | Percentage of employees covered by collective bargaining agreements | 63 | ◐ |
| LA5 | Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements | - | ○ |
| LA6 | Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs | 63 | ◐ |
| LA7 | Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region | 59 | ◐ |
| LA8 | Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases | 61 | ◐ |
| LA9 | Health and safety topics covered in formal agreements with trade unions | 63 | ◐ |
| LA10 | Average hours of training per year per employee by employee category | 56, 58 | ● |
| LA11 | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings | - | ○ |
| LA12 | Percentage of employees receiving regular performance and career development reviews | 53 | ● |
| LA13 | Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity | 15, 24 | ● |
| LA14 | Ratio of basic salary of men to women by employee category | 37 | ◐ |
| | Human Rights Performance | 53 | ◐ |
| HR1 | Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening | - | ○ |
| HR2 | Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken | - | ○ |
| HR3 | Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained | 21 | ◐ |
| HR4 | Total number of incidents of discrimination and actions taken | - | ○ |
| HR5 | Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights | - | ○ |
| HR6 | Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor | 53 | ◐ |
| HR7 | Operations identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of forced or compulsory labor | 53 | ◐ |
| HR8 | Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations | - | ○ |
| HR9 | Total number of incidents of violations involving rights of indigenous people and actions taken | - | ○ |
| | Society Performance | 20 | ◐ |
| S01 | Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting | - | ○ |
| S02 | Percentage and total number of business units analyzed for risks related to corruption | 21 | ◐ |
| S03 | Percentage of employees trained in organization's anti-corruption policies and procedures | 21 | ◐ |
| S04 | Actions taken in response to incidents of corruption | 21, 87 | ● |
| S05 | Public policy positions and participation in public policy development and lobbying | - | ○ |
| S06 | Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country | - | ○ |
| S07 | Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes | - | ○ |
| S08 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations | 21 | ● |

●: Disclosed ◐: Partly disclosed ○: Not disclosed N/A: Not available

| GRI Index | Indicators | Page | Remark |
|-----------|---|-----------|--------|
| | Product Responsibility Performance | 41, 49 | ● |
| PR1 | Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures | 49 | ◐ |
| PR2 | Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services, by type of outcomes | 49 | ● |
| PR3 | Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements | 49 | ◐ |
| PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes | 49 | ● |
| PR5 | Practices related to customer satisfaction, including results of surveys measuring customer satisfaction | 52 | ● |
| PR6 | Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship | 22, 49-50 | ◐ |
| PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes | 49 | ● |
| PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data | 49 | ● |
| PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services | 49 | ● |

Self-declaration of GRI G3 application level



The Sustainability Report 2006 of Woongjin Coway was written based on the GRI G3 guidelines and, Woongjin Coway declared that this report met the content and quality requirements of GRI G3 Application Level B.

KFQ confirms that this report meets the GRI G3 Application Level B among A, B and C level through assurance.

* Reference : + provided below refers to 3rd party assurance.

GRI Application Levels Table

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

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

Deloitte.

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TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF WOONGJIN COWAY CO., LTD.:

We have audited the accompanying balance sheets of Woongjin Coway Co., Ltd. (the "Company") as of December 31, 2006 and 2005, and the related statements of income, appropriations of retained earnings 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 generally accepted auditing standards 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 present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of its operations, changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea [See Note 2].

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



February 23, 2007

Notice to Readers

This report is effective as of February 23, 2007, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

Balance Sheets

As of ended december 31, 2006 and 2005

| | | Korean Won (In thousands) | |
|--|---|---------------------------|---------------|
| | | 2006 | 2005 |
| ASSETS: | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents (Note 14) | ₩ | 34,519,828 | ₩ 18,569,954 |
| Short-term financial instruments (Note 3) | | 4,360,000 | 100,000 |
| Short-term investment securities (Note 6) | | ,429 | 67,230 |
| Short-term loans (Note 22) | | 633,621 | 65,222 |
| Trade receivables, net allowance for doubtful accounts of ₩68,012,122 thousand as of December 31, 2006 and ₩49,318,561 thousand as of December 31, 2005 (Notes 4, 14 and 22) | | 110,848,764 | 28,877,664 |
| Accounts receivable-other, net allowance for doubtful accounts of ₩10,558,130 thousand as of December 31, 2006 and ₩10,292,568 thousand as of December 31, 2005 | | 14,259,971 | 34,917,651 |
| Inventories (Notes 5 and 8) | | 80,419,194 | 42,154,964 |
| Advanced payments (Note 22) | | 1,312,889 | 4,518,912 |
| Prepaid expenses | | 144,090,939 | 128,817,681 |
| Current portion of deferred income tax assets (Note 20) | | 15,057,351 | 2,282,120 |
| Other current assets | | 353,549 | 297,778 |
| Total current assets | | 405,929,535 | 260,669,176 |
| NON-CURRENT ASSETS: | | | |
| Long-term financial instruments (Note 3) | | 15,500 | 2,815,500 |
| Long-term investment securities (Note 6) | | 2,750,208 | 2,628,950 |
| Equity securities accounted for using the equity method (Note 7) | | 11,073,215 | 541,874 |
| Long-term prepaid expenses | | 18,500,000 | 12,500,000 |
| Guarantee deposits (Note 22) | | 39,659,871 | 38,111,122 |
| Other investments | | 180,000 | 180,000 |
| Deferred income tax assets (Note 20) | | 4,694,543 | 4,185,388 |
| Property, plant and equipment, net of accumulated depreciation of ₩310,316,351 thousand and ₩268,016,384 thousand, and impairment loss on rental assets of ₩12,898,370 thousand and ₩11,553,378 thousand as of December 31, 2006 and 2005, respectively (Notes 8, 9 and 22) | | 374,165,148 | 369,847,596 |
| Intangible assets, net of amortization (Notes 10 and 26) | | 28,164,376 | 23,673,170 |
| Total non-current assets | | 479,202,861 | 454,483,600 |
| Total assets | ₩ | 885,132,396 | ₩ 715,152,776 |

(Continued)

Balance Sheets

As of ended december 31, 2006 and 2005

Korean Won (In thousands)

| | 2006 | | 2005 | |
|--|------|-------------|------|-------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| CURRENT LIABILITIES: | | | | |
| Trade payables (Notes 14 and 22) | ₩ | 29,289,360 | ₩ | 32,605,060 |
| Short-term borrowings (Note 11) | | 101,745,026 | | 69,758,846 |
| Accounts payable-other (Note 22) | | 73,458,601 | | 75,656,177 |
| Advanced receipts | | 144,830,347 | | 108,604,285 |
| Withholdings | | 6,373,075 | | 3,489,579 |
| Accrued expenses | | 5,347,241 | | 3,224,340 |
| Income tax payable | | 40,241,805 | | 14,402,088 |
| Current portion of debentures (Note 12) | | 30,000,000 | | 46,000,000 |
| Provision for product warranties | | 373,742 | | 341,879 |
| Provision for return of goods sold (Note 2) | | 91,859 | | 70,489 |
| Total current liabilities | | 431,751,056 | | 354,152,743 |
| LONG-TERM LIABILITIES: | | | | |
| Reserve for accident compensation (Note 13) | | 5,750,432 | | 5,939,796 |
| Rental deposits received | | 2,365,388 | | 9,624,212 |
| Accrued severance benefits, net of payment to National Pension Fund of ₩37,245 thousand and ₩45,415 thousand, and severance insurance of ₩9,722,145 thousand and ₩9,099,848 thousand as of December 31, 2006 and 2005, respectively (Note 2) | | 6,471,981 | | 3,454,194 |
| Other long-term liabilities (Note 22) | | 10,000 | | 10,000 |
| Total long-term liabilities | | 14,597,801 | | 19,028,202 |
| Total liabilities | ₩ | 446,348,857 | ₩ | 373,180,945 |

(Continued)

| | 2006 | | 2005 | |
|---|---------------------------|-------------|------|-------------|
| | Korean Won (In thousands) | | | |
| COMMITMENTS AND CONTINGENCIES (Note 23) | | | | |
| SHAREHOLDERS' EQUITY: | | | | |
| Capital stock (Note 15) | ₩ | 39,287,797 | ₩ | 39,025,806 |
| Capital surplus (Note 15 and 17) | | 113,831,969 | | 76,308,402 |
| Retained earnings: | | | | |
| Legal reserve | | 6,255,427 | | 3,755,427 |
| Reserve for business rationalization | | 16,228 | | 16,227 |
| Voluntary reserve | | 201,459,806 | | 161,459,807 |
| Reserve for corporation development | | 1,570,000 | | 1,570,000 |
| Before appropriations (Net income of ₩74,926,263 thousand for the year ended December 31, 2006 and ₩60,888,600 thousand for the year ended December 31, 2005) | | 74,229,616 | | 66,897,556 |
| Capital adjustments: | | | | |
| Gain on valuation of long-term investment securities (Note 6) | | 9,657 | | 8,739 |
| Gain on valuation of equity securities accounted for using the equity method (Note 7) | | 52,591 | | 38,648 |
| Stock options (Note 16) | | 2,070,448 | | 1,828,211 |
| Treasury stock (Note 17) | | - | | (8,936,992) |
| Total shareholders' equity | | 438,783,539 | | 341,971,831 |
| Total liabilities and shareholders' equity | ₩ | 885,132,396 | ₩ | 715,152,776 |

See accompanying notes to financial statements.

Statements of Income

for the years ended december 31, 2006 and 2005

Korean Won (In thousands, except per share amounts)

| | 2006 | 2005 |
|--|-----------------|-----------------|
| SALES (Note 22) | ₩ 1,117,766,992 | ₩ 1,008,079,888 |
| COST OF GOODS SOLD | 380,380,741 | 363,699,498 |
| GROSS PROFIT | 737,386,251 | 644,380,390 |
| SELLING AND ADMINISTRATIVE EXPENSES (Notes 22 and 24) | 625,108,853 | 547,536,391 |
| OPERATING INCOME | 112,277,398 | 96,843,999 |
| NON-OPERATING INCOME (EXPENSES): | | |
| Interest expense, net | (6,966,366) | (5,839,988) |
| Foreign currency exchange gain, net | 591,156 | 12,746 |
| Foreign currency translation loss, net | (21,848) | (161,901) |
| Gain on disposal of short-term investment securities, net | - | 69,599 |
| Gain on disposal of long-term investment securities, net | - | 105,354 |
| Loss on impairment of long-term investment securities (Note 6) | (422,177) | (165,099) |
| Gain (Loss) on disposal of property, plant and equipment, net | 98,768 | (16,606) |
| Loss on valuation of equity securities accounted for using the equity method (Note 7) | (3,857,612) | (1,541,337) |
| Miscellaneous income, net | 1,142,956 | 3,419,492 |
| Additional payment of income tax | (1,653,923) | (69,549) |
| Loss on transfer of business (Note 25) | - | (6,488,396) |
| Others, net | 1,210,758 | (199,030) |
| | (9,878,288) | (10,874,715) |
| ORDINARY INCOME | 102,399,110 | 85,969,284 |
| INCOME TAX EXPENSE (Note 20) | 27,472,847 | 25,080,684 |
| NET INCOME | ₩ 74,926,263 | ₩ 60,888,600 |
| ORDINARY INCOME PER SHARE (Note 18) | ₩ 1,019 | ₩ 951 |
| DILUTIVE ORDINARY INCOME PER SHARE (Note 18) | ₩ 1,018 | ₩ 948 |

See accompanying notes to financial statements.

Statements of Appropriations of Retained Earnings

For the years ended december 31, 2006 and 2005

| | Korean Won (In thousands) | |
|--|---------------------------|-------------------|
| | 2006 | 2005 |
| UNAPPROPRIATED RETAINED EARNING: | | |
| Accumulated retained earnings carried over from prior years | ₩ 9,862 | ₩ 6,008,956 |
| Changes in retained earnings by using the equity method (Note 7) | (706,509) | - |
| Net income | 74,926,263 | 60,888,600 |
| | <u>74,229,616</u> | <u>66,897,556</u> |
| APPROPRIATIONS: | | |
| Legal reserve | 3,000,000 | 2,500,000 |
| Voluntary reserve | 41,400,000 | 40,000,000 |
| Cash dividends (Note 19) | 29,750,237 | 24,387,694 |
| | <u>74,150,237</u> | <u>66,887,694</u> |
| UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR | ₩ 79,379 | ₩ 9,862 |

Statements of Cash Flows

for the years ended december 31, 2006 and 2005

| | Korean Won (In thousands) | | | |
|---|---------------------------|-------------|------|-------------|
| | 2006 | | 2005 | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Net income | ₩ | 74,926,263 | ₩ | 60,888,600 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Provision for severance benefits | | 10,129,378 | | 9,377,652 |
| Stock compensation expense | | 2,691,498 | | 1,704,935 |
| Depreciation | | 132,162,646 | | 124,024,165 |
| Amortization of intangibles | | 6,337,079 | | 3,648,282 |
| Bad debt expense | | 18,995,895 | | 21,272,877 |
| Loss on impairment of rental assets | | 49,980,186 | | 50,428,831 |
| Loss on foreign currency translation, net | | 1,786 | | 112,838 |
| Gain on disposal of short-term investment securities, net | | - | | (69,599) |
| Loss on valuation of inventories | | 173,370 | | 4,364,649 |
| Loss (Gain) on disposal of property, plant and equipment, net | | (98,768) | | 16,606 |
| Gain on disposal of long-term investment securities, net | | - | | (130,761) |
| Loss on impairment of long-term investment securities | | 422,177 | | 165,099 |
| Loss on valuation of equity securities accounted for using the equity method | | 3,857,612 | | 1,541,337 |
| Loss on transfer of business | | - | | 6,488,396 |
| Others, net | | (10,578) | | 249,885 |

(Continued)

| Korean Won (In thousands) | | |
|--|---------------|--------------|
| | 2006 | 2005 |
| Changes in operating assets and liabilities: | | |
| Decrease (Increase) in trade receivables | (100,701,266) | 66,986,378 |
| Decrease (Increase) in accounts receivable-other | 22,427,258 | (31,313,359) |
| Decrease in advanced payments | 1,168,930 | 1,157,971 |
| Increase in prepaid expenses | (15,273,258) | (38,576,407) |
| Decrease (Increase) in other current assets | (177,949) | 1,714,285 |
| Increase in deferred income taxes | (13,284,386) | (12,445,919) |
| Decrease (Increase) in inventories | (38,437,600) | 2,341,262 |
| Increase in long-term prepaid expenses | (6,000,000) | (12,500,000) |
| Decrease in trade payables | (3,315,701) | (54,410,413) |
| Increase (Decrease) in accounts payable-other | (2,197,576) | 1,881,039 |
| Increase in advanced receipts | 36,226,061 | 39,573,429 |
| Increase (Decrease) in withholdings | 2,883,496 | (2,586,430) |
| Increase in income tax payable | 13,238,410 | 7,548,435 |
| Decrease in rental deposits received | (7,258,824) | (14,343,962) |
| Payment of severance benefits | (6,497,464) | (7,412,760) |
| Increase (Decrease) in other current liabilities | 1,340,782 | 4,872,749) |
| | 183,709,457 | 226,824,592 |

(Continued)

Statements of Cash Flows

for the years ended december 31, 2006 and 2005

Korean Won (In thousands)

| | 2006 | | 2005 | |
|---|------|----------------------|------|----------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Cash inflows from investing activities: | | | | |
| Withdrawal of short-term financial instruments | ₩ | 100,000 | ₩ | - |
| Proceeds from disposal of short-term investment securities | | - | | 250 |
| Collection of short-term loans | | 22,556 | | 52,430 |
| Withdrawal of long-term financial instruments | | 2,800,000 | | 18,500 |
| Proceeds from disposal of long-term investment securities | | - | | 456,117 |
| Proceeds from disposal of investment securities accounted for using the equity method | | - | | 1 |
| Refund of guarantee deposits | | 5,764,625 | | 9,165,761 |
| Disposal of plant, property, equipment | | 22,119,204 | | 19,932,429 |
| | | <u>30,806,385</u> | | <u>29,625,488</u> |
| Cash outflows from investing activities: | | | | |
| Acquisition of short-term financial instruments | | 4,360,000 | | - |
| Acquisition of short-term investment securities | | - | | 20 |
| Extension of short-term loans | | 590,955 | | 44,972 |
| Acquisition of long-term financial instruments | | - | | 1,040,000 |
| Acquisition of long-term investment securities | | 420,320 | | 111 |
| Acquisition of investment securities accounted for using the equity method | | 15,081,520 | | - |
| Repayment of guarantee deposits | | 7,313,372 | | 14,075,046 |
| Acquisition of plant, property, equipment | | 208,644,884 | | 197,485,307 |
| Acquisition of intangible assets | | 10,627,998 | | 2,546,419 |
| | | <u>247,039,049</u> | | <u>215,191,875</u> |
| | | <u>(216,232,664)</u> | | <u>(185,566,387)</u> |

(Continued)

Korean Won (In thousands)

| | 2006 | 2005 |
|---|--------------|--------------|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Cash inflows from financing activities: | | |
| Proceeds from short-term borrowings | 565,327,132 | 325,294,991 |
| Proceeds from issuance of debentures | 20,000,000 | - |
| Exercise of stock options | 2,114,670 | 1,412,948 |
| Proceeds from disposal of treasury stock | 54,759,924 | - |
| | 642,201,726 | 326,707,939 |
| Cash outflows from financing activities: | | |
| Repayment of short-term borrowings | 533,340,951 | 324,920,430 |
| Repayment of current portion of debentures | 36,000,000 | 32,000,000 |
| Payment of dividends | 24,387,694 | 7,334,100 |
| Acquisition of treasury stock | - | 14,674 |
| | 593,728,645 | 364,269,204 |
| | 48,473,081 | (37,561,265) |
| INCREASE IN CASH THROUGH MERGER | ₩ - | ₩ 1,792,051 |
| INCREASE IN CASH THROUGH THE TRANSFER OF BUSINESS | - | 12,167,157 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 15,949,874 | 17,656,148 |
| CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR | 18,569,954 | 913,806 |
| CASH AND CASH EQUIVALENTS, AT END OF YEAR | ₩ 34,519,828 | ₩ 18,569,954 |

See accompanying notes to financial statements.

Note to Financial Statements

for the years ended december 31, 2006 and 2005

1. GENERAL

Woongjin Coway Co., Ltd. (the "Company") was incorporated in May 1989, under the laws of the Republic of Korea, to manufacture and distribute water purifier, home appliances and facilities for disposal of waste and others.

The Company's shares have been listed on the Korea Stock Exchange since August 7, 2001. Effective May 2, 2005, the Company merged with Woong Jin Coway Development Co., Ltd. As the result of the merger and several increases in paid-in capital, the capital stock of the Company as of December 31, 2006 is ₩39,287,797 thousand. In addition, as a result of extinguishment of 4,200,000 shares of treasury stock, the number of shares issued as of December 31, 2006 is 74,375,593 and face value of stock issued differs from the capital stock amount. As of December 31, 2006, majority shareholders of the Company are Seok-kum, Yoon (27.21%) and Woong Jin Thinkbig Co., Ltd. (5.15%).

The Company has issued 7,318,200 Global Depository Receipts (common stock: 3,659,100 shares) through the global stock market on May 3, 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Financial Statement Presentation

The Company maintains its official accounting records in Korean Won and prepares statutory financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. 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. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

Implementation of Statements of Korea Accounting Standards

The Company prepared its financial statements as of December 31, 2006 in accordance with the existing Korea Financial Accounting Standards and Statements of Korea Accounting Standards ("SKAS") No.1 through No.20 except for No.11 and No.14. The Company's accounting policies have not been changed since the preparation of the financial statements for the year ended December 31, 2005, except for changes due to the application of new SKAS No.18 - Interests in Joint Ventures, No.19 - Lease and No.20 - Related Party Disclosures, which are effective from January 1, 2006.

The significant accounting policies followed by the Company in the preparation of its financial statements are summarized below.

Cash and Cash Equivalents

Cash and cash equivalents include currency, checks issued by others, other currency equivalents, current deposits, passbook deposits and cash equivalents, which are securities and short-term money market instruments that can be easily converted into cash and whose risk of value fluctuation arising from changes of interest rate is not material. Only investments, with maturities (or date of redemption) of three months or less from the acquisition date, are included as cash equivalents.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided based on past collection experience and estimated loss on uncollected trade and other receivables.

Inventories

Inventories are recognized in the balance sheet at the lower of their historical costs or net realizable values. The historical costs are determined using the moving average method (the specific identification method for materials-in-transit). Quantities of inventories at year-end are determined based on physical counts. Valuation loss incurred when the net realizable value of an inventory falls below its carrying amount is reported as a contra inventory account and added to the cost of goods sold.

Investments in Securities other than those Accounted for Using the Equity Method

- Classification of Securities

At acquisition, the Company classifies securities into one of the three categories; trading, held-to-maturity or available-for-sale. Trading securities are those that were acquired principally to generate profits from short-term fluctuations in prices. Held-to-maturity securities are those with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity. Available-for-sale securities are those not classified as either held-to-maturity or trading securities. Trading securities are classified as short-term investment securities, whereas available-for-sale and held-to-maturity securities are classified as long-term investment securities, except for those whose maturity dates or whose likelihood of being disposed of are within one year from balance sheet date, which are classified as short-term investment securities.

Note to Financial Statements

for the years ended december 31, 2006 and 2005

- Valuation of Securities

Securities are recognized initially at cost, which includes the market price of the consideration given to acquire them and incidental expenses. If the market price of the consideration is not reliably determinable, the market prices of the securities purchased are used as the basis for measurement. If neither the market prices of the consideration given nor those of the acquired securities are available, the acquisition cost is measured at the best estimates of its fair value.

After initial recognition, held-to-maturity securities are stated at amortized cost. The difference between their acquisition costs and face values of held-to-maturity securities is amortized over the remaining term of the securities by applying the effective interest method and added to or subtracted from the acquisition costs and interest income of the remaining period. Trading securities are valued at fair value, with unrealized gains or losses included in current operations.

Available-for-sales securities are also valued at fair value, with unrealized gains or losses included in capital adjustments, until the securities are sold and if the securities are determined to be impaired, the lump-sum cumulative amount of capital adjustments are included in current operations.

However, available-for-sales securities that are not traded in an active market and whose fair values cannot be reliably estimated are accounted for at their acquisition costs. For those securities that are traded in an active market, fair values refer to those quoted market prices, which are measured as the closing price at the balance sheet date. The fair value of non-marketable debt securities are measured at the discounted future cash flows by using the discount rate that appropriately reflects the credit rating of issuing entity assessed by a publicly reliable independent credit rating agency. If application of such measurement method is not feasible, estimates of the fair values may be made using a reasonable valuation model or quoted market prices of similar debt securities issued by entities conducting similar business in similar industries.

Securities are evaluated at each balance sheet date to determine whether there is any objective evidence of impairment loss. When any such evidence exists, unless there is a clear counter-evidence that recognition of impairment is unnecessary, the Company estimates the recoverable amount of the impaired security and recognizes any impairment loss in current operations. The amount of impairment loss of the held-to-maturity security or non-marketable equity security is measured as the difference between the recoverable amount and the carrying amount. The recoverable amount of held-to maturity security is the present value of expected future cash flows discounted at the securities' original effective interest rate.

For available-for-sale debt or equity security stated at fair value, the amount of impairment loss to be recognized in the current period is determined by subtracting the amount of impairment loss of debt or equity security already recognized in prior period from the amount of amortized cost in excess of the recoverable amount for debt security or the amount of the acquisition cost in excess of the fair value for equity security. For non-marketable equity securities accounted for at acquisition costs, the impairment loss is equal to the difference between the recoverable amount and the carrying amount.

If the realizable value subsequently recovers, in case of a security stated at fair value, the increase in value is recorded in current operations, up to the amount of the previously recognized impairment loss, while for the security stated at amortized cost or acquisition cost, the increase in value is recorded in current operation, so that its recovered value does not exceed what its amortized cost would be as of the recovery date if there had been no impairment loss.

When transfers of securities between categories are needed because of changes in an entity's intention and ability to hold those securities, such transfer is accounted for as follows: trading securities cannot be reclassified into available-for-sale and held-to-maturity securities, and vice versa, except when certain trading securities lose their marketability. Available-for-sale securities and held-to-maturity securities can be reclassified into each other after fair value recognition. When held-to-maturity security is reclassified into available-for-sale security, the difference between the book value and fair value is reported in capital adjustments. Whereas, in case available-for-sale security is reclassified into held-to-maturity securities, the difference is reported in capital adjustments and amortized over the remaining term of the securities using the effective interest method.

Equity Securities Accounted for Using the Equity Method

Equity securities held for investment in companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. If the cost of the acquisition exceeded the acquirer's interest in the fair value of the identifiable assets and liabilities at the date of acquisition, the difference is amortized over the period during which future economic benefits are expected to flow to the company. However, if the cost of the acquisition is less than the acquirer's interest in the fair value of the identifiable assets and liabilities, (1) the difference that relates to expectations of future losses and expenses that are identified in the acquirer's plan for the acquisition is recognized as income in the statement of income when the future losses and expenses are recognized, (2) otherwise, the difference not exceeding the fair values of acquired identifiable non-monetary assets is recognized as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable or amortizable assets, and (3) the difference in excess of the fair values of acquired identifiable non-monetary assets is immediately recognized as income. The Company's share in the net income or net loss of investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of investees are accounted for as an adjustment to retained earnings or to capital adjustments.

Note to Financial Statements

for the years ended december 31, 2006 and 2005

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or extension of the useful lives of the facilities involved are treated as additions to property, plant and equipment. Depreciation is computed using the declining balance method, based on the estimated useful lives of the assets as enumerated below, except for the buildings and structures acquired after January 1, 1995, and vehicles, furniture and fixtures and rental assets, which are depreciated using the straight-line method.

| | Useful lives (years) |
|--------------------------------|----------------------|
| Buildings | 25 ~ 40 |
| Structures | 07 ~ 25 |
| Machinery and equipment | 02 ~ 12 |
| Vehicles | 05 ~ 10 |
| Tools | 02 ~ 06 |
| Furniture and fixtures | 02 ~ 20 |
| Experimental research facility | 3 |
| Rental assets | 5 |

The Company assesses any possible recognition of impairment loss when there is an indication that expected future economic benefits of a tangible asset is considerably less than its carrying amount, as a result of technological obsolescence, rapid declines in market value or other causes of impairment. When it is determined that an asset may have been impaired and that its estimated total future cash flows from continued use or disposal is less than its carrying amount, the carrying amount of a tangible asset is reduced to its recoverable amount and the difference is recognized as an impairment loss. If the recoverable amount of the impaired asset exceeds its carrying amount in subsequent reporting period, the amount equal to the excess is treated as the reversal of the impairment loss; however, it cannot exceed the carrying amount that would have been determined had no impairment loss been recognized.

Intangible Assets

Intangible assets are measured initially at its acquisition cost, comprised of the purchase price and any other directly attributable expenditure on preparing the asset for its intended use and are stated at cost, net of amortization, which is determined on a straight-line method over the estimated economic useful lives of five to ten years.

Foreign Currency Transactions and Translation

The Company maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the prevailing rates of exchange on the transaction date. Monetary accounts with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates prevailing at the balance sheet dates. The balances have been translated using the Basic Rate announced by Seoul Money Brokerage Services Ltd., which was ₩929.60 and ₩1,013.00 to US \$1.00 at December 31, 2006 and 2005, respectively.

Provision for Product Warranties

The Company uses the reserve method to provide for future obligations arising from warranties issued for products sold. Accordingly, all actual warranty related losses are charged to the provision for product warranties. The provision for product warranties is based on past warranty claim experience.

Accrued Severance Benefits

Employees with more than one year of service are entitled to receive severance indemnities, based on their length of service and rate of pay, upon termination of their employment. The accrued severance benefits that would be payable assuming all eligible employees were to resign amount to ₩16,231,371 thousand and ₩12,599,457 thousand as of December 31, 2006 and 2005, respectively.

Individual severance insurance deposits, in which the beneficiary is a respective employee, are presented as deduction from accrued severance benefits.

Before April 1999, the Company and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Company paid half of the employees' 6 percent portion and is paid back at the termination of service by offsetting the receivable against severance payments. Such receivables are presented as a deduction from accrued severance benefits. Actual payment of severance benefits amounted to ₩6,497,464 thousand and ₩7,412,760 thousand in 2006 and 2005, respectively.

Note to Financial Statements

for the years ended december 31, 2006 and 2005

Revenue Recognition

Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. In addition, rental revenue is recognized on an accrual basis over the periods rental services are provided. Revenue from interest, dividends and royalties is recognized when the amount of revenue can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the Company. The Company generally provides provision for return of goods sold by subtracting expected sales and cost of goods sold, which are expected to be returned in the near future. Provision for return of goods sold as of December 31, 2006 amounts to ₩91,859 thousand.

Income Tax

Income tax expense is determined by adding or deducting the total income tax and surtaxes to be paid for the current period and the changes in deferred income tax assets or liabilities. In addition, current tax and deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity in the same or different period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are generally recognized for all taxable temporary differences with some exceptions and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related assets or liabilities for financial reporting and according to the expected reversal date of the specific temporary difference if they are not related to an asset or liability for financial reporting, including deferred tax assets related to carry forwards. Deferred tax assets and liabilities in the same current or non-current classification are offset, if these relate to income tax levied by the same tax jurisdictions.

Ordinary Income per Share and Earnings per Share

Ordinary income per share and earnings per share are computed by dividing ordinary income (after deduction for tax effect) and net income, respectively, by the weighted average number of common shares outstanding during period. Dilutive ordinary income per share and earnings per share are computed by dividing ordinary income (after deduction for tax effect) and net income, respectively, after addition for the effect of expenses related to diluted securities on net income, by the weighted average number of common shares plus the number of dilutive potential common shares.

Reclassification

For comparative purposes, certain accounts in the 2005 financial statements were reclassified to conform to the 2006 financial statement presentation. Such reclassifications had no effect on the net income or net equity reported in the 2005 financial statements.

3. RESTRICTED FINANCIAL INSTRUMENTS:

Financial instruments with withdrawal restrictions as of December 31, 2006 and 2005 consist of the following:

| | | Korean Won (In thousands) | | | |
|----------------------------------|---|---------------------------|--------|------|---------|
| Account | Description | 2006 | | 2005 | |
| Short-term financial instruments | Installment savings deposits | ₩ | - | ₩ | 100,000 |
| Long-term financial instruments | Guarantee deposit for checking accounts | | 15,500 | | 15,500 |
| | | ₩ | 15,500 | ₩ | 115,500 |

4. TRANSFER OF RECEIVABLES:

(1) Receivables transferred to SPC under the Law on Asset Securitization in 2006 and 2005 are as follows:

| | | Korean Won (In thousands) | | | |
|---------------------------|--|---------------------------|-------------|------|-------------|
| Company | | 2006 | | 2005 | |
| Coway 1 st SPC | | ₩ | 315,010,260 | ₩ | 914,972,718 |

(2) Receivables transferred to SPC under the Law on Asset Securitization and uncollected as of December 31, 2006 and 2005 are as follows:

| | | Korean Won (In thousands) | | | |
|---------------------------|--|---------------------------|---|------|-------------|
| Company | | 2006 | | 2005 | |
| Coway 1 st SPC | | ₩ | - | ₩ | 102,625,535 |

Note to Financial Statements

for the years ended december 31, 2006 and 2005

(3) Subordinated beneficiary certificates accounted for as trade receivables as of December 31, 2006 and 2005 are as follows:

| Korean Won (In thousands) | | | | |
|---------------------------|------|---|------|------------|
| Company | 2006 | | 2005 | |
| Coway 1st SPC | ₩ | - | ₩ | 22,625,535 |

As the receivables-trust contract and the relevant special conditions with Hana Bank Co., Ltd. expired on May 12, 2006, the Company closed the trust contract on May 30, 2006.

5. INVENTORIES:

(1) Inventories as of December 31, 2006 and 2005 consist of the following:

| Korean Won (In thousands) | | | | |
|--|------|-------------|------|-------------|
| Account | 2006 | | 2005 | |
| Merchandise | ₩ | 64,063,731 | ₩ | 33,091,334 |
| Finished goods | | 14,808,015 | | 8,690,380 |
| Semi-finished goods | | 1,119,861 | | - |
| Raw materials | | 5,548,311 | | 5,184,766 |
| Materials in transit | | 8,307 | | 144,145 |
| Allowance for valuation of inventories | | (5,129,031) | | (4,955,661) |
| | ₩ | 80,419,194 | ₩ | 42,154,964 |

(2) Lower of cost or margin applied to the inventories as of December 31, 2006 and 2005 are as follows:

| Korean Won (In thousands) | | | | | | | |
|---------------------------|------------------|--------------|-----------------|--------------|--|---------------|--|
| | Acquisition cost | | After valuation | | Allowance for valuation of inventories | | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | |
| Merchandise | ₩ 64,063,731 | ₩ 33,091,334 | ₩ 60,709,530 | ₩ 28,757,322 | ₩ (3,354,201) | ₩ (4,334,012) | |
| Finished goods | 14,808,015 | 8,690,380 | 13,303,537 | 8,167,846 | (1,504,478) | (522,534) | |
| Semi-finished goods | 1,119,861 | - | 1,116,993 | - | (2,868) | - | |
| Raw material | 5,548,311 | 5,184,766 | 5,280,827 | 5,085,651 | (267,484) | (99,115) | |
| Material-in-transit | 8,307 | 144,145 | 8,307 | 144,145 | - | - | |
| Total | ₩ 85,548,225 | ₩ 47,110,625 | ₩ 80,419,194 | ₩ 42,154,964 | ₩ (5,129,031) | ₩ (4,955,661) | |

Valuation loss incurred when the net realizable value of an inventory falls below its carrying amount is reported as a contra inventory account and added to the cost of goods sold. In 2006 and 2005, loss on valuation of inventories amounted to ₩173,370 thousand and ₩4,363,649 thousand, respectively.

6. INVESTMENT SECURITIES:

(1) Short-term investment securities as of December 31, 2006 and 2005 consist of the following:

| | | Korean Won (In thousands) | | | |
|-------------------------------|------------------------------|---------------------------|--------|------|--------|
| Account | Description | 2006 | | 2005 | |
| Available-for-sale securities | Government bonds | ₩ | - | ₩ | 20 |
| | Beneficiary certificates (*) | | 73,429 | | 67,210 |
| | | ₩ | 73,429 | ₩ | 67,230 |

(*) The acquisition cost and fair value of beneficiary certificates, whose portfolio included the bonds issued by SK Networks Co., Ltd., as of December 31, 2006 are ₩132,339 thousand and ₩73,429 thousand, respectively

(2) Long-term investment securities as of December 31, 2006 and 2005 consist of the following:

| | | Korean Won (In thousands) | | | |
|-------------------------------|--|---------------------------|-----------|------|-----------|
| Account | Description | 2006 | | 2005 | |
| Available-for-sale securities | Equity securities stated at fair value | ₩ | 9,657 | ₩ | 8,740 |
| | Equity securities stated at acquisition cost | | 2,218,880 | | 2,219,880 |
| | Debt securities | | 521,671 | | 400,330 |
| | | ₩ | 2,750,208 | ₩ | 2,628,950 |

(3) Equity securities stated at fair value included in long-term investment securities as of December 31, 2006 consist of the following:

| | | Korean Won (In thousands) | | | |
|-------------------------------------|-----------------------------|---------------------------|------------|------------|-------|
| Company | Ownership percentage (%) | Acquisition cost | Book value | Fair value | |
| Tong Yang Investment Bank Co., Ltd. | 0.06 | ₩ 1 | ₩ 9,657 | ₩ | 9,657 |

Note to Financial Statements

for the years ended december 31, 2006 and 2005

(4) Equity securities stated at acquisition cost included in long-term investment securities as of December 31, 2006 and 2005 consist of the following:

Korean Won (In thousands)

| Company | Ownership percentage (%) | 2006 | | 2005 | |
|--|-----------------------------|------------------|-------------|------------------|-------------|
| | | Acquisition cost | Book value | Acquisition cost | Book value |
| McScience Inc. | 5.90 | ₩ 1,133,760 | ₩ 1,133,760 | ₩ 1,133,760 | ₩ 1,133,760 |
| Nextelecom Co., Ltd. | 1.20 | 98,516 | 98,516 | 98,516 | 98,516 |
| Coway 1st SPC | - | - | - | 1,000 | 1,000 |
| Woongjin Foods Co., Ltd. | 5.07 | 739,810 | 739,810 | 739,810 | 739,810 |
| Woongjin Cuchen Co., Ltd. | 0.01 | 4,089 | 4,089 | 4,089 | 4,089 |
| Booxen Co., Ltd. | 0.49 | 140,900 | 140,900 | 140,900 | 140,900 |
| Academy Infra Corp. | 7.84 | 165,100 | 1 | 165,100 | 1 |
| Kirin Music Publishing Co., Ltd. | 12.06 | 96,500 | 96,500 | 96,500 | 96,500 |
| Korea Management Association Media | 1.96 | 1 | 1 | 1 | 1 |
| Korea Water Purifier Industry Cooperative | 3.33 | 5,300 | 5,300 | 5,300 | 5,300 |
| Others | | 1,481,733 | 3 | 1,481,733 | 3 |
| | | ₩ 3,865,709 | ₩ 2,218,880 | ₩ 3,866,709 | ₩ 2,219,880 |

In 2005, the difference between the book value and the collectable value for Academy Infra Co., Ltd., amounting to ₩165,099 thousand excluding ₩1 thousand (memorandum price) have been accounted for as loss on impairment of long-term investment securities. The difference between the book value and the collectable value for Open Solution Co., Ltd., KMACS Inc. and Korea Culture Promotion, Inc. have been accounted for as loss on impairment of long-term investment securities prior to 2005.

(5) Debt securities as of December 31, 2006 and 2005 consist of the following:

Korean Won (In thousands)

| | 2006 | | 2005 | |
|--------------------|-------------|------------|-------------|------------|
| | Face value | Book value | Face value | Book value |
| Subordinated bonds | ₩ 2,250,000 | ₩ 100,001 | ₩ 2,250,000 | ₩ 400,000 |
| Government bonds | 421,670 | 421,670 | 330 | 330 |
| | ₩ 2,671,670 | ₩ 521,671 | ₩ 2,250,330 | ₩ 400,330 |

The difference between the book value and the collectable value for subordinated bonds, amounting to ₩299,999 thousand and the related accrued income amounting to ₩122,178 thousand have been accounted for as loss on impairment of long-term investment securities in 2006. The debt securities will mature after 1 year through 5 years from December 31, 2006.

7. EQUITY SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

(1) Equity securities accounted for using the equity method as of December 31, 2006 are summarized as follows:

Korean Won (In thousands)

| Affiliated company | Ownership Percentage(%) | Acquisition cost | Net asset value | Book value |
|--|-------------------------|------------------|-----------------|--------------|
| Woongjin Japan Co., Ltd. (*1) | 50.00 | ₩ 4,434,045 | ₩ - | ₩ 1 |
| Woongjin USA Inc. (*1) | 35.00 | 395,176 | - | 1 |
| Platinum Media Co., Ltd. (*1) | 15.75 | 300,001 | - | 1 |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. (*2) | 91.13 | 5,496,044 | 4,971,991 | 4,475,288 |
| Woongjin Coway (Thailand) Co., Ltd. (*1) | 99.99 | 886,986 | - | 1 |
| Woongjin Coway (M) Sdn Bhd. | 70.00 | 906,885 | 247,001 | 248,286 |
| Woongjin Energy Co., Ltd. | 80.10 | 6,408,000 | 6,349,637 | 6,349,637 |
| | | ₩ 18,827,137 | ₩ 11,568,629 | ₩ 11,073,215 |

(*1) Use of the equity method was discontinued for the equity securities since the value of investments is less than zero due to accumulated deficit.

(*2) Woong Jin Coway (Shenyang) Living Goods Co., Ltd. has changed its name from Woongjin Cosmetic., Ltd. in 2006.

Note to Financial Statements

for the years ended december 31, 2006 and 2005

There are cumulative losses of ₩988,458 thousand for Woongjin Japan Co., Ltd., ₩9,639 thousand for Platinum Media Co., Ltd. and ₩971,148 thousand for Woongjin Coway (Thailand) Co., Ltd. not recognized by the Company due to the suspension of the valuation of equity securities accounted for using the equity method as of December 31, 2006.

In addition, equity securities are valued based on the unaudited financial statements and the management of the Company did not expect any significant differences between the unaudited financial statements and the audited financial statements.

(2) Equity securities accounted for using the equity method as of December 31, 2005 are summarized as follows:

Korean Won (In thousands)

| Affiliated company | Ownership Percentage(%) | Acquisition cost | Net asset value | Book value |
|---|-------------------------|------------------|-----------------|------------|
| Woongjin Japan Co., Ltd. | 42.86 | ₩ 1,551,910 | ₩ - | ₩ 1 |
| Woongjin USA Inc. | 35.00 | 395,176 | - | 1 |
| Platinum Media Co., Ltd. | 15.75 | 300,001 | - | 1 |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. | 36.00 | 611,544 | 604,575 | 541,870 |
| Woongjin Coway (Thailand) Co., Ltd. | 99.99 | 886,986 | - | 1 |
| | | ₩ 3,745,617 | ₩ 604,575 | ₩ 541,874 |

(3) The changes in equity securities accounted for using the equity method in 2006 are as follows:

Korean Won (In thousands)

| Affiliated company | Jan 1, 2006 | Acquisition | Paid in capital increase | Gain (loss) on valuation | Changes in capital adjustments | Changes in retained earnings | Dec 31, 2006 |
|--|-------------|-------------|--------------------------|--------------------------|--------------------------------|------------------------------|--------------|
| Woongjin Japan Co., Ltd. | ₩ 1 | ₩ - | ₩ 2,882,135 | ₩ (2,262,199) | ₩ 86,573 | ₩ (706,509) | ₩ 1 |
| Woongjin USA Inc. | 1 | - | - | - | - | - | 1 |
| Platinum Media Co., Ltd. | 1 | - | - | - | - | - | 1 |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. | 541,870 | - | 4,884,500 | (874,406) | (76,676) | - | 4,475,288 |

(Continued)

Korean Won (In thousands)

| Affiliated company | Jan 1, 2006 | Acquisition | Paid in capital increase | Gain (loss) on valuation | Changes in capital adjustments | Changes in retained earnings | Dec 31, 2006 |
|--|-------------|-------------|-----------------------------|-----------------------------|--------------------------------------|------------------------------------|--------------|
| Woongjin Coway (Thailand) Co., Ltd. | 1 | - | - | - | - | - | 1 |
| Woongjin Coway (M) Sdn Bhd. | - | 906,885 | - | (662,644) | 4,045 | - | 248,286 |
| Woongjin Energy Co., Ltd | - | 6,408,000 | - | (58,363) | - | - | 6,349,637 |
| | ₩ 541,874 | ₩ 7,314,885 | ₩ 7,766,635 | ₩ (3,857,612) | ₩ 13,942 | ₩ (706,509) | ₩ 11,073,215 |

In 2006, the Company purchased new shares of Woongjin Japan Co., Ltd. where the cumulative losses were not recognized due to the suspension of the valuation of equity securities using the equity method until 2005. The cumulative losses of ₩706,509 thousand for Woongjin Japan Co., Ltd. were accounted for using the equity method as decreases of accumulated retained earnings carried over from prior years as of December 31, 2006.

(4) The changes in equity securities accounted for using the equity method in 2005 are as follows:

Korean Won (In thousands)

| Affiliated company | Jan 1, 2005 | Acquisition | Gain (loss) on valuation | Other changes (*) | Dec 31, 2005 |
|-------------------------------------|-------------|-------------|-----------------------------|----------------------|--------------|
| Woongjin Japan Co., Ltd | ₩ 232,476 | ₩ - | ₩ (246,030) | ₩ 13,555 | ₩ 1 |
| Woongjin USA Inc. | 1 | - | - | - | 1 |
| Platinum Media Co., Ltd. | - | 300,001 | (300,000) | - | 1 |
| Woongjin Cosmetics Co., Ltd. | - | 611,544 | (91,036) | 21,362 | 541,870 |
| Woongjin Coway (Thailand) Co., Ltd. | - | 886,986 | (904,271) | 17,286 | 1 |
| | ₩ 232,477 | ₩ 1,798,531 | ₩ (1,541,337) | ₩ 52,203 | ₩ 541,874 |

(*) Other changes for Woongjin Cosmetic Co., Ltd. and Woongjin Coway (Thailand) Co., Ltd. are due to changes in equity due to the equity method valuation.

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for the years ended december 31, 2006 and 2005

(5) The changes in the excess of cost over book value for the year ended December 31, 2006 consist of the following:

Korean Won (In thousands)

| Affiliated company | Paid in capital | | | | |
|--|-----------------|-------------|-------------|------------|--------------|
| | Jan 1, 2006 | increase | Acquisition | Amortized | Dec 31, 2006 |
| Woongjin Japan Co., Ltd. | ₩ 95,757 | ₩ - | ₩ 133,712 | ₩ (43,996) | ₩ 185,473 |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. | (62,705) | (492,585) | - | 92,371 | (462,919) |
| Woongjin Coway (Thailand) Co., Ltd. | 257,523 | - | - | (64,381) | 193,142 |
| | ₩ 290,575 | ₩ (492,585) | ₩ 133,712 | ₩ (16,006) | ₩ (84,304) |

The difference between the acquisition cost and the Company's portion of an investee's net equity at the date the Company was considered to be able to exercise significant influence over the operating and financial policy of an investee is amortized 5 years, using the straight-line method.

(6) The changes in the excess of cost over book value for the year ended December 31, 2005 consist of the following:

Korean Won (In thousands)

| Affiliated company | Jan 1, 2005 | Acquisition | Amortized | Dec 31, 2005 |
|---|-------------|-------------|------------|--------------|
| Woongjin Japan Co., Ltd | ₩ 119,696 | ₩ - | ₩ (23,939) | ₩ 95,757 |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd.. | - | (92,419) | 29,714 | (62,705) |
| Woongjin Coway (Thailand) Co., Ltd. | - | 321,904 | (64,381) | 257,523 |
| | ₩ 119,696 | ₩ 229,485 | ₩ (58,606) | ₩ 290,575 |

(7) Significant unrealized profits (losses) that occurred in transactions with investees in 2006 are as follows:

Korean Won (In thousands)

| Affiliated company | 2006 |
|--|-----------|
| Woongjin Japan Co., Ltd. | ₩ 563,855 |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. | 33,784 |
| Woongjin Coway (Thailand) Co., Ltd. | 127,970 |
| Woongjin Coway (M) Sdn Bhd. | (1,285) |
| | ₩ 724,324 |

(8) Condensed financial information of the investees accounted for using the equity method as of and for the year ended December 31, 2006 is as follows:

Korean Won (In thousands)

| Affiliated company | Assets | Liabilities | Sales | Net income (Loss) |
|--|--------------|--------------|-------------|----------------------|
| Woongjin Japan Co., Ltd. | ₩ 11,206,912 | ₩ 12,427,063 | ₩ 5,072,105 | ₩ (5,161,964) |
| Platinum Media Co., Ltd. | 9,248,636 | 10,685,055 | 44,736,483 | 1,323,740 |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. | 8,756,758 | 3,411,173 | 3,016,018 | (1,023,805) |
| Woongjin Coway (Thailand) Co., Ltd. | 3,865,352 | 4,901,775 | 2,242,649 | (1,379,045) |
| Woongjin Coway (M) Sdn Bhd. | 1,255,252 | 902,393 | 103,333 | (948,470) |
| Woongjin Energy Co., Ltd | 10,998,729 | 3,071,592 | - | (72,863) |

8. INSURANCE:

Property, plant, and equipments, and inventories are insured with ceiling of ₩74,004,805 thousand as of December 31, 2006. In addition, the Company has insured sales compensation liability insurance and vehicle insurance.

9. PROPERTY, PLANT AND EQUIPMENT:

(1) Property, plant and equipment as of December 31, 2006 and 2005 consist of the following:

Korean Won (In thousands)

| | 2006 | 2005 |
|--------------------------------|--------------|-------------|
| Land | ₩ 12,652,116 | ₩ 6,448,665 |
| Buildings | 11,951,681 | 15,408,136 |
| Structures | 606,455 | 391,524 |
| Machinery and equipment | 6,035,222 | 2,787,537 |
| Vehicles | 131,085 | 127,158 |
| Furniture and fixtures | 59,321,361 | 53,106,353 |
| Rental assets | 575,465,171 | 561,194,060 |
| Tools | 17,173,041 | 8,037,187 |
| Experimental research facility | 2,242,575 | 1,261,022 |

(Continued)

Note to Financial Statements

for the years ended december 31, 2006 and 2005

Korean Won (In thousands)

| | 2006 | 2005 |
|-------------------------------------|---------------|---------------|
| Construction-in-progress | 11,801,162 | 655,716 |
| | 697,379,869 | 649,417,358 |
| Less: Accumulated depreciation | (310,316,351) | (268,016,384) |
| Loss on impairment of rental assets | (12,898,370) | (11,553,378) |
| | ₩ 374,165,148 | ₩ 369,847,596 |

(2) The changes in book value of property, plant and equipment for the year ended December 31, 2006 are as follows:

Korean Won (In thousands)

| | Beginning | | | | | | End |
|--------------------------------|---------------|---------------|--------------|---------------|-------------|---------------|-----|
| | of year | Acquisition | Disposal(*) | Depreciation | Transfer | of year | |
| Land | ₩ 6,448,665 | ₩ 7,878,788 | ₩ 4,427,179 | ₩ - | ₩ 2,751,842 | ₩ 12,652,116 | |
| Buildings | 15,117,388 | 488,805 | 3,817,428 | 389,276 | (38,557) | 11,360,932 | |
| Structures | 338,201 | 94,860 | 206,568 | 88,165 | 285,516 | 423,844 | |
| Vehicles | 106,399 | 5,362 | 4,238 | 27,804 | 3,181 | 82,900 | |
| Machinery and equipment | 2,550,753 | 2,363,680 | 6,113 | 550,060 | 917,988 | 5,276,248 | |
| Furniture and fixtures | 27,119,942 | 8,732,407 | 23,513 | 10,337,339 | (595,476) | 24,896,021 | |
| Rental assets | 309,661,059 | 165,427,809 | 62,933,842 | 117,079,476 | - | 295,075,550 | |
| Tools | 6,798,371 | 2,898,544 | - | 3,084,151 | 4,488,596 | 11,101,360 | |
| Experimental research facility | 1,051,102 | 1,198,220 | - | 606,375 | (147,931) | 1,495,016 | |
| Construction-in-progress | 655,716 | 19,556,409 | 545,518 | - | (7,865,446) | 11,801,161 | |
| | ₩ 369,847,596 | ₩ 208,644,884 | ₩ 71,964,399 | ₩ 132,162,646 | ₩ (200,288) | ₩ 374,165,148 | |

(*) Disposal for rental asset include loss on impairment of rental assets amounting to ₩49,980,186 thousand.

In 2006, the Company disposed a building and land of the plant in In-Cheon to Woongjin Cuchen Co., Ltd. for ₩ 9,101,618 thousand and the difference amounting to ₩ 104,926 thousand between disposal price and book value was recorded as a non-operating income. The Company acquired a building and land of the plant located in Seoul, Geum-Cheon Gu for ₩ 8,187,055 thousand in 2006.

(3) The changes in book value of property, plant and equipment for the year ended December 31, 2005 are as follows:

Korean Won (In thousands)

| | Beginning | | Acquisition | Disposal(*) | Depreciation | Transfer | End |
|--------------------------------|-----------|--------------|--------------|-------------|--------------|-------------|--------------|
| | of year | | | | | | |
| Land | ₩ | - | ₩ | - | ₩ | - | ₩ 6,448,665 |
| Buildings | | - | 815,680 | - | 290,747 | 14,592,455 | 15,117,388 |
| Structures | | - | - | - | 53,323 | 391,524 | 338,201 |
| Vehicles | | 8,791 | - | 7,888 | 21,634 | 127,130 | 106,399 |
| Machinery and equipment | | - | 909,869 | - | 252,259 | 1,893,143 | 2,550,753 |
| Furniture and fixtures | | 20,743,539 | 13,005,247 | 35,841 | 8,479,604 | 1,886,601 | 27,119,942 |
| Rental assets | | 316,696,978 | 176,004,894 | 70,334,135 | 112,706,678 | - | 309,661,059 |
| Tools | | - | 5,070,647 | - | 1,978,502 | 3,706,226 | 6,798,371 |
| Experimental research facility | | - | 1,023,254 | - | 241,418 | 269,266 | 1,051,102 |
| Construction-in-progress | | - | 655,716 | 703,068 | - | 703,068 | 655,716 |
| | | ₩337,449,308 | ₩197,485,307 | ₩71,080,932 | ₩124,024,165 | ₩30,018,078 | ₩369,847,596 |

(*) Disposal for rental asset include loss on impairment of rental assets amounting to ₩50,428,831 thousand.

(4) As of December 31, 2006, the published value of the Company-owned land (97,364 square meters) totals ₩10,829,913 thousand in terms of land prices officially announced by the Korean government.

10. INTANGIBLE ASSETS:

(1) Intangible assets as of December 31, 2006 consist of the following:

Korean Won (In thousands)

| | Acquisition cost | | Accumulated amortization | | Book value |
|----------------------------|------------------|------------|--------------------------|------------|--------------|
| | ₩ | | ₩ | | |
| Goodwill | ₩ | 23,941,598 | ₩ | 8,270,732 | ₩ 15,670,866 |
| Industrial property rights | | 212,615 | | 61,713 | 150,902 |
| Other | | 13,727,554 | | 2,011,606 | 11,715,948 |
| Construction-in-progress | | 626,660 | | - | 626,660 |
| | ₩ | 38,508,427 | ₩ | 10,344,051 | ₩ 28,164,376 |

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for the years ended december 31, 2006 and 2005

(2) Intangible assets as of December 31, 2005 consist of the following:

| | Korean Won (In thousands) | | |
|----------------------------|---------------------------|--------------------------|--------------|
| | Acquisition cost | Accumulated amortization | Book value |
| Goodwill | ₩ 23,941,598 | ₩ 3,529,472 | ₩ 20,412,126 |
| Industrial property rights | 208,838 | 30,136 | 178,702 |
| Other | 3,529,706 | 447,364 | 3,082,342 |
| | ₩ 27,680,142 | ₩ 4,006,972 | ₩ 23,673,170 |

(3) The changes in book value of intangible assets for the year ended December 31, 2006 are as follows:

| | Korean Won (In thousands) | | | | |
|----------------------------|---------------------------|-------------|--------------|-------------|-----------------|
| | Beginning of the year | Addition | Amortization | Transfer | End of the year |
| Goodwill | ₩ 20,412,126 | ₩ - | ₩ 4,741,260 | ₩ - | ₩ 15,670,866 |
| Industrial property rights | 178,702 | 3,777 | 31,577 | - | 150,902 |
| Other | 3,082,342 | 2,006,725 | 1,564,242 | 8,191,123 | 11,715,948 |
| Construction-in-progress | - | 8,617,496 | - | (7,990,836) | 626,660 |
| | ₩ 23,673,170 | ₩10,627,998 | ₩ 6,337,089 | ₩ 200,287 | ₩ 28,164,376 |

(4) The changes in book value of intangible assets for the year ended December 31, 2005 are as follows:

| | Korean Won (In thousands) | | | | |
|----------------------------|---------------------------|-------------|--------------|--------------|-----------------|
| | Beginning of the year | Addition | Amortization | Transfer | End of the year |
| Goodwill | ₩ 117,648 | ₩ - | ₩ 3,176,527 | ₩ 23,471,005 | ₩ 20,412,126 |
| Industrial property rights | 33,193 | 46,125 | 57,843 | 157,227 | 178,702 |
| Development cost | - | - | 50,650 | 50,650 | - |
| Other | 495,478 | 2,500,294 | 363,262 | 449,832 | 3,082,342 |
| | ₩ 646,319 | ₩ 2,546,419 | ₩ 3,648,282 | ₩ 24,128,714 | ₩ 23,673,170 |

(5) The ordinary research and development expenses amounting to ₩4,786,590 thousand and ₩2,860,954 thousand for the years ended December 31, 2006 and 2005, respectively, were charged to selling and administrative expenses.

11. BORROWINGS:

Short-term borrowings as of December 31, 2006 and 2005 consist of the following:

Korean Won (In thousands)

| Lender | Description | Annual interest rate(%) | | |
|-----------------------------------|---|-------------------------|--------------|--------------|
| | | 2006 | 2006 | 2005 |
| Kookmin Bank | Purchase loans | 5.02 | ₩ 23,446,720 | ₩ - |
| Shinhan Bank | Purchase loans | 4.85 | 46,567,687 | 28,566,806 |
| Woori Bank | Purchase loans | 4.95 | 18,230,619 | 327,165 |
| Hana Bank | Discount of commercial paper and others | 4.99 | 10,000,000 | 24,479,313 |
| Korean French Banking Corporation | Discount of commercial paper | 4.95 | 3,500,000 | - |
| SC First Bank | Purchase loans | - | - | 8,566,307 |
| Korea Development Bank | Purchase loans | - | - | 7,819,255 |
| | | | ₩101,745,026 | ₩ 69,758,846 |

12. DEBENTURES:

Debentures as of December 31, 2006 and 2005 are summarized as follows:

Korean Won (In thousands)

| | Issuance date | Maturity date | Interest (%) | | |
|------|---------------|-----------------------|--------------|------------|--------------|
| | | | 2006 | 2006 | 2005 |
| 15th | 2003.10.02 | 2006.10.02 | - | ₩ - | ₩ 16,000,000 |
| 16th | 2003.10.13 | 2006.10.13 | - | - | 10,000,000 |
| 17th | 2005.10.14 | 2006.10.14 | - | - | 10,000,000 |
| 18th | 2006.02.23 | 2007.02.23 | 5.30 | 10,000,000 | 10,000,000 |
| 21st | 2006.10.13 | 2007.10.13 | 5.07 | 10,000,000 | - |
| 23rd | 2006.10.13 | 2007.10.13 | 4.96 | 10,000,000 | - |
| | | | | 30,000,000 | 46,000,000 |
| | | Less: Current portion | | 30,000,000 | 46,000,000 |
| | | | | ₩ - | ₩ - |

Note to Financial Statements

for the years ended december 31, 2006 and 2005

13. RESERVE FOR ACCIDENT COMPENSATION:

Certain portion of the commission that was paid to sales agencies is deducted and accounted for as reserve for accident compensation in order to prevent insolvency of sales agencies. Accordingly, all actual insolvency related losses are charged to the reserve.

14. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Assets and liabilities denominated in foreign currencies as of December 31, 2006 and 2005 are as follows:

| | | Korean Won (In thousands) | | | |
|---------------------------|-----|---------------------------|------------|-------------|-------------|
| | | Foreign Currencies | | | |
| | | 2006 | 2005 | 2006 | 2005 |
| Cash and cash equivalents | USD | 1,574,635 | 1,119,721 | ₩ 1,463,781 | ₩ 1,134,277 |
| | JPY | 16,948,020 | 2,005,298 | 132,505 | 17,246 |
| | EUR | 1,366,197 | 845,126 | 1,669,820 | 1,014,278 |
| Trade receivables | USD | 1,628,048 | 2,067,351 | 1,513,433 | 2,094,227 |
| | EUR | - | 74,860 | - | 89,844 |
| | JPY | 198,115,824 | 48,642,700 | 1,548,929 | 1,793,098 |
| | THB | 122,628,271 | 72,595,055 | 3,225,123 | 418,347 |
| | USD | 3,202,683 | 3,187,072 | ₩ 9,553,591 | ₩ 6,561,317 |
| | JPY | 215,063,844 | 50,647,998 | | |
| | EUR | 1,366,197 | 919,986 | | |
| | THB | 122,628,271 | 72,595,055 | | |
| Trade payables | USD | - | 117,918 | ₩ - | ₩ 119,352 |

15. CAPITAL STOCK

(1) Common stock as of December 31, 2006 is as follows:

| Authorized (shares) | Issued and Outstanding (shares) | Par value | Kroean won (in thousands) |
|---------------------|---------------------------------|-----------|---------------------------|
| 200,000,000 | 74,375,593 | ₩ 500 | ₩ 39,287,797 |

Due to the retirement of treasury stock, face value of stock issued amounting to ₩37,187,797 thousand differs from the capital stock amount.

(2) Changes in common stock in 2006 are as follows:

| Date | Description | Issued | Capital stock | Paid-in capital in excess of par value |
|-------------------|-------------------------------|-------------------|---------------|--|
| Beginning of year | | 73,851,611 shares | ₩ 39,025,806 | ₩ 76,308,195 |
| April 10, 2006 | Exercise of stock options (*) | 411,511 shares | 205,756 | 3,113,597 |
| June 23, 2006 | Exercise of stock options (*) | 112,471 shares | 56,235 | 1,188,344 |
| End of year | | 74,375,593 shares | ₩ 39,287,797 | ₩ 80,610,136 |

(*) Increase in additional-paid-in capital as a result of exercise of stock options includes transfer from stock options in capital adjustment amounting to ₩2,449,263 thousand.

(3) Changes in common stock in 2005 are as follows:

| Date | Description | Issued | Capital stock | Paid-in capital in excess of par value |
|-------------------|---------------------------------|-------------------|---------------|--|
| Beginning of year | (*) | 48,894,000 shares | ₩ 24,447,000 | ₩ 130,558 |
| Mar. 2, 2005 | (**) | 24,177,736 shares | 14,188,868 | 75,085,148 |
| Jun. 22, 2005 | Exercise of stock options (***) | 714,875 shares | 357,438 | 561,439 |
| July 11, 2005 | Exercise of stock options | 65,000 shares | 32,500 | 531,050 |
| End of year | | 73,851,611 shares | ₩ 39,025,806 | ₩ 76,308,195 |

Note to Financial Statements

for the years ended december 31, 2006 and 2005

[*] Number of shares, capital stock, and additional-paid-in capital as of January 1, 2005 are those of WoongJin Coway Development Co., Ltd.

[**] The difference of the shares issued is the difference between the number of shares for Woongjin Coway Development Co., Ltd., as an actual acquirer, prior to the merger and the number of shares for Woongjin Coway Co., Ltd., as an acquirer according to corporate tax law, subsequent to the merger. The effect of the extinguishment of treasury stock of 4,200,000 shares was not considered at the table above.

[***] Increase in additional-paid-in capital as a result of exercise of stock options includes transfer from stock options in capital adjustment amounting to ₩69,479 thousand.

16. STOCK OPTIONS:

(1) Stock options as of December 31, 2006 are as follows:

| Description | Prior to the merger 1st grant | Subsequent to the merger 1st grant | Subsequent to the merger 2nd grant | Subsequent to the merger 3rd grant |
|-----------------------------|-------------------------------------|--|--|--|
| Granted shares | 388,000 | 440,000 | 150,000 | 50,000 |
| Remaining shares | 56,400 | 440,000 | 150,000 | 50,000 |
| Grant date | 2000.3.17 | 2006.3.13 | 2006.8.01 | 2006.9.28 |
| Exercise price | ₩ 3,200 | ₩ 27,050 | ₩ 20,780 | ₩ 22,970 |
| Exercisable period | 2003.3.17~2008.3.16 | 2008.3.13~2013.3.12 | 2008.8.1~2013.7.31 | 2008.9.28~2013.9.27 |
| Risk-free interest rate | 9.04% | 5.12% | 4.86% | 4.67% |
| Expected return on dividend | 13.75% | 42% | 42% | 42% |
| Expected expiry rate | 0.00% | 0.00% | 0.00% | 0.00% |
| Variability of stock price | 0.6319 | 0.3439 | 0.3335 | 0.3286 |
| Expected exercise period | 5 years | 5 years | 4.5 years | 4.5 years |

(2) The changes in compensation expense accounted for a credit to capital adjustments for the year ended December 31, 2006 are as follows:

| | Korean Won (In thousands) | |
|--------------------------------------|---------------------------|-----------|
| Beginning of year | ₩ | 1,828,211 |
| Increase in compensation expense (*) | | 2,691,498 |
| Decrease as exercised (**) | | 2,449,263 |
| End of year | ₩ | 2,070,448 |

(*) The total compensation costs related with stock option were calculated by the fair value approach using the option-pricing model. In 2006, the Company recognized compensation cost amounting to ₩ 2,691,498 thousand, and stock options as of December 31, 2006 amounts to ₩ 2,070,448 thousand. Subsequent to December 31, 2006, additional compensation cost amounting to ₩ 3,622,035 thousand will be charged.

(**) In 2006, the stock options have been exercised by 201,400 shares. As a result, the decreased in stock options in capital adjustment was transferred to additional-paid-in capital.

17. OTHER CAPITAL SURPLUS AND TREASURY STOCK:

As of December 31, 2005, the Company retained 2,123,094 shares of treasury stock. In 2006, the Company registered Global Depository Receipts and sold all shares of treasury stock for ₩54,759,924 thousand. As of December 31, 2006, gains of sale of treasury stock from which deferred tax effect is subtracted are accounted for as other capital surplus in relation with above transaction.

18. EARNINGS PER SHARE

Ordinary income per share and net income per share are computed by dividing ordinary income (after deduction of income tax) and net income, respectively, by the weighted average number of shares outstanding during the year.

(1) The weighted average number of shares outstanding for the year ended December 31, 2006 is computed as follows:

| | Number of shares (1) | Weighted average (2) | (1) x (2) |
|----------------------------|----------------------|----------------------|----------------|
| Beginning of year | 71,728,511 | 99 | 7,101,122,589 |
| Exercise of stock warrants | 72,140,022 | 22 | 1,587,080,484 |
| Disposal of treasury stock | 74,263,122 | 52 | 3,861,682,344 |
| Exercise of stock warrants | 74,375,593 | 192 | 14,280,113,856 |
| Total | | | 26,829,999,273 |

Weighted average number of shares outstanding = 26,829,999,273 shares ÷ 365 days = 73,506,847 shares

Note to Financial Statements

for the years ended december 31, 2006 and 2005

(2) The weighted average number of shares outstanding for the year ended December 31, 2005 is computed as follows:

| | Number of shares (1) | Weighted average (2) | (1) x (2) |
|-------------------------------|----------------------|----------------------|----------------|
| Beginning of year | 48,894,000 | 121 | 5,916,174,000 |
| Merger | 70,949,836 | 22 | 1,560,896,39 |
| Acquisition of treasury stock | 70,948,642 | 29 | 2,057,510,618 |
| Exercise of stock warrants | 71,663,517 | 19 | 1,361,606,823 |
| Exercise of stock warrants | 71,728,517 | 129 | 9,252,978,693 |
| Acquisition of treasury stock | 71,728,511 | 45 | 3,227,782,995 |
| Total | | | 23,376,949,521 |

Weighted average number of shares outstanding = 23,376,949,521 shares ÷ 365 days = 64,046,437 shares

(3) Basic ordinary income per share and net income per share for the years ended December 31, 2006, and 2005 are computed as follows:

Korean Won (In thousands, except per share amounts)

| | 2006 | 2005 |
|--|-------------------|-------------------|
| Net income available to common share | ₩ 74,926,263 | ₩ 60,888,600 |
| Weighted average number of common shares outstanding | 73,506,847 shares | 64,046,437 shares |
| Ordinary income per share | ₩ 1,019 | ₩ 951 |

(4) Diluted ordinary income per share and diluted net income per share for the year ended December 31, 2006 is computed as follows:

Korean Won (In thousands, except per share amounts)

| | 2006 | 2005 |
|--|-------------------|-------------------|
| Net income available to common share | ₩ 74,926,263 | ₩ 60,888,600 |
| The effect of expenses related to diluted securities | - | - |
| Ordinary income/ net income, after addition for the effect of expenses related to diluted securities (*) | ₩ 74,926,263 | ₩ 60,888,600 |
| Weighted average number of common shares outstanding | 73,506,847 shares | 64,046,437 shares |
| Weighted average number of common shares plus the number of dilutive potential common shares | 62,454 shares | 194,463 shares |
| | 73,569,301 shares | 64,240,900 shares |
| Diluted ordinary income per share and diluted net income per share | ₩ 1,018 | ₩ 948 |

(*) As there is no extraordinary item, the ordinary income and net income per share is the same.

19. DIVIDENDS

(1) Proposed dividends for 2006 and 2005 are computed as follows:

| | 2006 | 2005 |
|---------------------------------------|-------------------|-------------------|
| Types of dividend | Cash dividend | Cash dividend |
| Number of shares entitled to dividend | 74,375,593 shares | 71,728,511 shares |
| Par value | ₩ 500 | ₩ 500 |
| Dividend ratio | 80% | 68% |
| Dividend (In thousands) | ₩ 29,750,237 | ₩ 24,387,694 |

Number of shares in 2005 entitled to dividends is net of treasury stock of 2,123,100 shares.

(2) Dividend payout ratio for 2006 and 2005 is computed as follows:

Korean Won (In thousands, except per percentage amounts)

| | 2006 | 2005 |
|-----------------------|--------------|--------------|
| Dividend | ₩ 29,750,237 | ₩ 24,387,694 |
| Net income | 74,926,263 | 60,888,600 |
| Dividend payout ratio | 39.71% | 40.05% |

(3) Dividend yield ratio for 2006 and 2005 is computed as follows:

| | 2006 | 2005 |
|---|----------|----------|
| Dividend per share | ₩ 400 | ₩ 340 |
| Market price per share at December 31, 2006 | ₩ 25,800 | ₩ 23,950 |
| Dividend yield ratio | 1.55% | 1.42% |

Note to Financial Statements

for the years ended december 31, 2006 and 2005

20. INCOME TAX EXPENSE AND DEFERRED INCOME TAX ASSETS:

(1) Income tax expense for the years ended December 31, 2006 and 2005 is as follows:

| | Korean Won (In thousands) | |
|---|---------------------------|--------------|
| | 2006 | 2005 |
| Income tax currently payable | ₩ 49,982,513 | ₩ 37,388,476 |
| Changes in deferred income taxes due to temporary differences | (9,908,360) | (12,307,792) |
| Gain on sale of treasury stock-related income tax expense | (12,601,306) | - |
| Income tax expense | ₩ 27,472,847 | ₩ 25,080,684 |

(2) Tax reconciling items between financial accounting income and taxable income for the years ended December 31, 2006 and 2005 are as follows:

| | Korean Won (In thousands) | |
|-----------------------|---------------------------|--------------|
| | 2006 | 2005 |
| Income before tax | ₩ 102,399,110 | ₩ 85,969,284 |
| Temporary differences | 40,006,786 | (9,225,977) |
| Others | 49,908,271 | (572,940) |
| Taxable income | ₩ 192,314,167 | ₩ 76,170,367 |

(3) Deferred income taxes as of December 31, 2006 and 2005 are computed as follows:

| | Korean Won (In thousands) | |
|--|---------------------------|--------------|
| | 2006 | 2005 |
| Accumulated temporary differences, net | ₩ 81,458,920 | ₩ 14,150,876 |
| Adjustments | (9,633,852) | 9,367,335 |
| | 71,825,068 | 23,518,211 |
| Statutory tax rate | X 27.5% | X 27.5% |
| Deferred income tax assets | ₩ 19,751,894 | ₩ 6,467,508 |

(4) The intraperiod allocation of income tax as of December 31, 2006 is as follows:

Korean Won (In thousands)

| | Amount | Income tax expense |
|-----------------|---------------------|---------------------|
| Ordinary income | ₩102,399,110 | ₩ 27,472,847 |
| Capital | 45,822,932 | 12,601,306 |
| Total | ₩148,222,042 | ₩ 40,074,153 |

(5) The deferred income tax assets and liabilities as of December 31, 2006 are as follows:

Korean Won (In thousands)

| | Current | Non-current | Total |
|---------------------------------|---------------------|--------------------|---------------------|
| Deferred income tax assets | ₩ 53,181,377 | ₩ 6,760,964 | ₩ 59,942,341 |
| Deferred income tax liabilities | (38,124,026) | (2,066,421) | (40,190,447) |
| Net | ₩ 15,057,351 | ₩ 4,694,543 | ₩ 19,751,894 |

(6) Effective tax rate for the years ended December 31, 2006 and 2005 is computed as follows:

Korean Won (In thousands)

| | 2006 | 2005 |
|----------------------------|---------------|---------------|
| Income tax | ₩ 27,472,847 | ₩ 25,080,684 |
| Income before tax | 102,399,110 | 85,969,284 |
| Effective tax rates | 26.83% | 29.17% |

Note to Financial Statements

for the years ended december 31, 2006 and 2005

21. OPERATIONAL RESULT OF THE 4TH QUARTER OF 2006 AND 2005:

Significant result of the operation in the 4th quarter of 2006 and 2005 (Unaudited) are summarized as follows:

Korean Won (In thousands, except per share amounts)

| | 2006 | 2005 |
|----------------------|---------------|---------------|
| Sales | ₩ 290,170,288 | ₩ 269,137,805 |
| Gross profit | 197,904,492 | 173,288,927 |
| Operating income | 41,334,356 | 34,037,937 |
| Ordinary income | 38,924,758 | 25,224,637 |
| Net income | 29,638,094 | 15,330,737 |
| Net income per share | 398 | 214 |

22. RELATED PARTY TRANSACTIONS:

(1) Related parties for the year ended December 31, 2006 are as follows:

| Related parties | Business | Ownership(%) |
|---|--|--------------|
| Subsidiary except for consolidated financial statement: | | |
| Woongjin Japan Co., Ltd. | Sales of water purifier and other | 50.00 |
| Woongjin USA Inc | Sales of water purifier and others | 35.00 |
| Woongjin Coway (Thailand) Co., Ltd. | Sales of water purifier and others | 99.99 |
| Woongjin Coway (M) Sdn Bhd. | Sales of water purifier and others | 70.00 |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. (*) | Sales of cosmetics, water purifier and others | 91.13 |
| Woongjin Energy Co., Ltd. | Manufacture of diode, transistor and semiconductor | 80.10 |
| The investees accounted for using the equity method: | | |
| Platinum Media Co., Ltd. | Developing an on-line information software | 15.75 |
| Other related parties | | |
| Woongjin Thinkbig Co., Ltd | Publishing | - |
| Woongjin Foods Co., Ltd. | Sales of ginseng product and beverage | 5.07 |
| Woongjin Happyall Co., Ltd. | Servicing of water purifier and others | - |
| Woongjin Cuchen Co., Ltd. | Sales of household appliance and CDs | 0.01 |

(Continued)

| Related parties | Business | Ownership(%) |
|---------------------------------|---|--------------|
| Rexfield Country Club | A golf course and sales of sporting goods | - |
| Booxen Co., Ltd. | Sales of books and others | 0.49 |
| Woongjin Construction Co., Ltd. | Construction | - |

[*] Woongjin Coway (Shenyang) Living Goods Co., Ltd. has changed its name from Woongjin Cosmetic., Ltd. in 2006.

[2] Significant transactions with related parties for the years ended December 31, 2006 and 2005 are as follows:

| | | Korean Won (In thousands) | |
|---|-------------------------------------|---------------------------|-------------|
| Related parties | Description | 2006 | 2005 |
| Subsidiaries: | | | |
| Woongjin Japan Co., Ltd. | Sales | ₩ 1,803,915 | ₩ 1,185,500 |
| Woongjin Coway (Thailand) Co., Ltd. | Sales | 1,237,114 | 1,091,109 |
| Woongjin Coway (M)SDN BHD | Sales | 204,285 | - |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. | Sales | 328,095 | 7,573 |
| The investee accounted for using the equity method: | | | |
| Platinum Media Co., Ltd. | Sales | 1,624 | 1,195 |
| | Purchases | 2,634,177 | - |
| | Selling and administrative expenses | 17,183,543 | 1,807,932 |
| Other related parties: | | | |
| Woongjin Thinkbig Co., Ltd. | Sales | 183,904 | 392,388 |
| | Selling and administrative expenses | 543,135 | 505,328 |
| Woongjin Foods Co., Ltd. | Sales | 8,715 | 13,199 |
| | Purchases | - | 342,007 |
| | Selling and administrative expenses | 3,704,791 | 2,911,140 |
| Mco Digital Co., Ltd. | Sales | - | 124,139 |
| | Commission | - | 1,500,974 |
| | Penalty for the return of goods | - | 6,693 |
| Woongjin ST | Sales | - | 7,300 |
| | Selling and administrative expenses | - | 5,068,309 |

(Continued)

Note to Financial Statements

for the years ended december 31, 2006 and 2005

| | | Korean Won (In thousands) | |
|---------------------------------|-------------------------------------|---------------------------|------------|
| Related parties | Description | 2006 | 2005 |
| Woongjin Happyall Co., Ltd. | Sales | 442,470 | 473,869 |
| | Service fees | 96,506,116 | 94,414,227 |
| | Purchases | 204,321 | - |
| | Selling and administrative expenses | 19,659,391 | - |
| Woongjin Cuchen Co., Ltd. | Sales | 10,588,864 | 7,110,035 |
| | Rent income | 195,496 | 26,726 |
| | Disposal of tangible assets | 9,101,618 | - |
| | Transfer of business | - | 11,061,052 |
| | Penalty for the return of goods | 46,708 | 1,304,685 |
| | Purchases | 99,682,900 | 72,335,025 |
| | Selling and administrative expenses | 1,204,048 | 77,367 |
| | Acquisition of tangible assets | 8,187,055 | - |
| | Rexfield Country Club | Sales | 18,853 |
| | Selling and administrative expenses | 188,019 | 213,804 |
| Booxen Co., Ltd. | Sales | 5,665 | 5,227 |
| | Service fees | 5,155,656 | 15,234,173 |
| | Selling and administrative expenses | 13,862,829 | - |
| Woongjin Construction Co., Ltd. | Sales | 2,400 | 395,024 |
| | Acquisition of tangible assets | 6,762,475 | - |
| | Penalty for the return of goods | - | 145,244 |
| | Purchases | - | 6,144 |
| | Service fees | - | 2,364,360 |

(3) Significant balances with related companies as of December 31, 2006 and 2005 are summarized below.

| | | Korean Won (In thousands) | |
|-------------------------------------|-----------------------------|---------------------------|-------------|
| Related parties | Description | 2006 | 2005 |
| Subsidiaries: | | | |
| Woongjin Japan Co., Ltd. | Trade receivables | ₩ 2,220,128 | ₩ 1,943,706 |
| Woongjin Coway (Thailand) Co., Ltd. | Trade receivables | 3,225,123 | 1,793,098 |
| | Advanced payments | 16,320 | 16,320 |
| | Accounts receivable - other | 3,556 | 3,556 |

(Continued)

| | | Korean Won (In thousands) | |
|--|------------------------------|---------------------------|------------|
| Related parties | Description | 2006 | 2005 |
| Woongjin Coway (M) Sdn Bhd. | Trade receivables | 199,695 | - |
| | Short-term loans | 590,955 | - |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. | Trade receivables | 590,628 | 220,341 |
| The investee accounted for using the equity method: | | | |
| Platinum Media Co., Ltd. | Advanced payments | - | 2,823,205 |
| | Accounts payable-others | 1,468,964 | 505,762 |
| Other parties: | | | |
| Woongjin Thinkbig Co., Ltd. | Trade payables | 61,654 | - |
| | Accounts payable-others | 71,541 | 80,487 |
| Woongjin Foods Co., Ltd. | Trade receivables | 77,770 | - |
| | Accounts payable-others | 440,168 | 296,071 |
| Woongjin Happyall Co., Ltd. | Trade receivables | 139,701 | 122,682 |
| | Accounts receivable - others | 131 | 131 |
| | Guarantee deposits | 320,612 | - |
| | Accounts payable-others | 11,131,876 | 10,281,547 |
| Woongjin Cuchen Co., Ltd. | Trade receivables | 100,127 | 169,128 |
| | Accounts receivable - others | 5,891,237 | 21,827,717 |
| | Trade payables | 9,455,605 | 9,782,020 |
| | Accounts payable-others | 1,344,598 | 1,042,541 |
| Woongjin Construction Co., Ltd. | Trade receivables | - | 203,674 |
| | Accounts receivable - others | 220 | - |
| | Trade payables | - | 20,909 |
| | Other long-term liabilities | 10,000 | 10,000 |
| Booxen Co., Ltd. | Accounts payable-others | 1,819,915 | 1,586,174 |
| Rexfield Country Club | Trade receivables | 1,636 | 1,637 |
| | Guarantee deposits | 4,303,400 | - |
| | Accounts payable-others | 15,513 | 27,500 |

(4) Short-term loans provided to employees as of December 31, 2006 and 2005 amount to ₩42,666 thousand and ₩65,222 thousand, respectively.

Note to Financial Statements

for the years ended december 31, 2006 and 2005

(5) Guarantee provided on behalf of its related parties and others as of December 31, 2006 are as follows

(Korean Won: In thousands):

| Provided to | Creditors | Types of payable | Borrowing limit | |
|---|----------------------|-------------------------|-----------------|---------------|
| Subsidiaries: | | | | |
| Woongjin Japan Co., Ltd. | Hana Bank | General loan and others | JPY | 1,560,000,000 |
| Woongjin Coway (Thailand) Co., Ltd. | Citibank | General loan and others | US\$ | 2,000,000 |
| Woongjin Coway (Shenyang) | | | | |
| Living Goods Co., Ltd. | Hana Bank | General loan and others | US\$ | 3,250,000 |
| Woongjin Energy Co., Ltd. | Hana Bank | General loan and others | ₩ | 41,600,000 |
| The investee accounted for using the equity method: | | | | |
| Platinum Media Co., Ltd. | Hana Bank and others | | ₩ | 2,990,000 |
| Other parities: | | | | |
| Woongjin Cuchen Co., Ltd. | | | | 82,700,000 |
| Woongjin Construction Co., Ltd. | | | | 3,250,000 |
| | | | ₩ | 130,540,000 |
| | | | JPY | 1,560,000,000 |
| | | | US\$ | 5,250,000 |

(6) Details of compensation to key management of the Company in 2006 are as follows:

| | Korean Won (In thousands) | |
|---------------------------|---------------------------|-----------|
| | 2006 | |
| Salaries | ₩ | 739,997 |
| Severance indemnities (*) | | 60,757 |
| Stock options (**) | | 243,278 |
| | ₩ | 1,044,032 |

(*) Total cost of severance indemnities for key management as of December 31, 2006 amounted to ₩172,805 thousand.

(**) Total compensation cost for management' stock options as of December 31, 2006 amounted to ₩485,200 thousand.

23. COMMITMENTS AND CONTINGENCIES:

(1) As of December 31, 2006, the Company has borrowing agreements with various financial institutions as follows

(Korean Won: In thousands):

| Types of borrowing | Financial institutions | | Borrowing limit |
|---|--|------|-----------------|
| Bank overdraft | Kookmin Bank and others | ₩ | 10,000,000 |
| Loan provided in line with the purchase | Shinhan Bank and others | | 205,000,000 |
| Discount of notes receivable | Korean French Banking Corp. and others | | 60,000,000 |
| General loan | Shinhan Bank and others | | 15,000,000 |
| Issuance of electronic notes payable | Korean Exchange Bank | | 10,000,000 |
| Borrowings related with import | Woori Bank and others | US\$ | 5,000,000 |

(2) As of December 31, 2006, Seoul Guarantee Insurance Co., Ltd. has provided guarantee of execution of contract of ₩543,959 thousand on behalf of the Company.

(3) As of December 31, 2006, the Company is involved with 13 lawsuits regarding the refund of sales commission amounting to ₩ 1,104,138 thousand. The Company estimates the result of the above lawsuit

24. SELLING AND ADMINISTRATIVE EXPENSES:

The details of selling and administrative expenses for the years ended December 31, 2006 and 2005 are as follows:

| | Korean Won (In thousands) | |
|-------------------------|---------------------------|---------------|
| | 2006 | 2005 |
| Salary related expenses | ₩ 135,971,319 | ₩ 109,959,874 |
| Travel | 2,691,726 | 1,896,493 |
| Communications | 8,339,305 | 7,207,494 |
| Entertainment | 660,677 | 672,776 |
| Education and training | 10,754,961 | 9,225,008 |
| Supplies | 8,234,351 | 17,591,636 |
| Books and publishing | 968,992 | 828,053 |

(Continued)

Note to Financial Statements

for the years ended december 31, 2006 and 2005

| | Korean Won (In thousands) | |
|--|---------------------------|---------------|
| | 2006 | 2005 |
| Advertisements | 31,259,773 | 32,380,682 |
| Rent | 29,760,632 | 25,062,838 |
| Taxes and dues | 755,220 | 798,420 |
| Insurance | 200,243 | 626,231 |
| Transportation | 1,124,770 | 1,413,831 |
| Sales promotion | 14,321,028 | 5,836,299 |
| Sales warranties | 31,864 | 113,573 |
| Sales commissions | 241,656,094 | 200,642,426 |
| Fees and commissions | 41,643,741 | 36,261,307 |
| Repairs and maintenance | 3,162,742 | 2,434,164 |
| Ordinary research and development | 4,786,590 | 2,860,954 |
| Depreciation | 11,699,378 | 8,622,389 |
| Amortization | 6,330,942 | 3,648,282 |
| Bad debt | 18,995,895 | 21,272,877 |
| Loss on returned goods | - | 6,066,592 |
| Loss on impairment loss of rental assets | 49,980,186 | 50,428,831 |
| Other | 1,778,424 | 1,685,361 |
| | ₩ 625,108,853 | ₩ 547,536,391 |

25. TRANSFER OF BUSINESS:

Effective on October 4, 2005, the Company transferred the Home Appliances business to Woongjin Cuchen Co., Ltd., a related party, in order to focus on its principal business of rental business. As a result, the Company transferred its assets and liabilities at fair value, and incurred loss on transfer of business amounting to ₩6,488,396 thousand. Details are as follows:

(1) The acquiree

Name: Woongjin Cuchen Co., Ltd.

CEO: Moon, Mu-Kyung

Principal business: bidet and others

(2) Condensed financial information of the transferred division

| | Korean Won (In thousands) |
|-------------------|---------------------------|
| Trade receivables | ₩ 10,429,227 |
| Inventories | 9,136,314 |
| Properties | 8,615,122 |
| Others | 1,389,421 |
| Assets | 29,570,084 |
| Trade payables | 4,300,876 |
| Other payables | 7,719,760 |
| Liabilities | 12,020,636 |
| Net asset value | ₩ 17,549,448 |

(3) As it is impossible to disaggregate financial result of the transferred division, condensed financial result of the transferred division was not prepared.

26. MERGER:

Effective on May 2, 2005, the Company merged with Woongjin Coway Development Co., Ltd., in order to establish an original profit model and maximize synergy effect on merger. Details of the merger are as follows:

(1) The acquiree

Name: Woongjin Coway Development Co., Ltd.

CEO: Park, Young-Seon and Yoon, Seok-Kum

Principal business: Rental and sales business

(2) Merger schedule

Shareholders' meeting held for the approval of merger plan: March 22, 2006

Merger date: May 2, 2006

Merger ratio: 1:1.060266

Number of shares distributed as a result of merger: 51,840,646 shares

Ownership ratio attributable to the acquiree after merger: 70.94%

Note to Financial Statements

for the years ended december 31, 2006 and 2005

(3) Accounting for merger

As a result of merger between Woongjin Coway Co., Ltd. and Woongjin Coway Development Co., Ltd., shareholders of Woongjin Coway Development Co. have controlled Woongjin Coway Co., Ltd. According to the regulation on accounting for merger and acquisition of corporation, the purchase method was used to account for the merger, and capital stock of the surviving company was disclosed on the basis of the number of shares issued by Woongjin Coway Co., Ltd. In addition, additional-paid-in capital and retained earnings were accounted for as if the Company assumed those of Woongjin Coway Development Co., Ltd. as of the date prior to the merger.

(4) Calculation of purchase cost

Purchase cost was calculated assuming that Woongjin Coway Development Co., Ltd. distributed its shares of 21,231,090 shares to the shareholders of Woongjin Coway Co., Ltd. by applying the merge ratio in terms of the merger contract. In addition, per share value of Woongjin Coway Development Co., Ltd. was calculated based on the fair value of net asset value per share as of the merger date.

(5) Goodwill incurred as a result of merger is calculated as follows:

| | | Korean Won (In thousands) |
|-----------------------------|-----------------------------------|---------------------------|
| Description | | |
| Acquisition cost (1) | (*) | ₩ 89,274,015 |
| Net asset value assumed (2) | Net asset value assumed ① = ② - ③ | 65,803,011 |
| | Total assets assumed ② (**) | 191,757,024 |
| | Total liabilities assumed ③ | 125,954,013 |
| Goodwill (3)={1}-{2} | | ₩ 23,471,004 |

(*) 21,231,090 shares X ₩4,204.87 (Net asset value per share of Woongjin Coway Development Co., Ltd.)

(**) Details of the assets assumed are described as follows:

| | | Korean Won (In thousands) |
|-----------------------|---|---------------------------|
| Description | | |
| Assets | | ₩ 197,836,516 |
| Treasury stock | | 8,922,318 |
| Goodwill | Goodwill recognized by Woongjin Coway Co., Ltd. before merger | (14,668,627) |
| Long-term investments | Combined stock | (333,183) |
| Total assets assumed | | ₩ 191,757,024 |

The above goodwill is amortized over 5 years using the straight line method, and ₩4,694,200 thousand was amortized in 2006.

(6) Condensed financial information of the actual acquiree, which is Woongjin Coway Co., Ltd., for the period from January 1, 2006 through the merger date and for the year ended December 31, 2005 is as follows:

| | Korean Won (In thousands) | |
|--|---------------------------|---------------|
| | May. 2, 2006 | Dec. 31, 2005 |
| Current assets | ₩ 128,391,288 | ₩ 105,153,591 |
| Non-current assets | 69,445,228 | 71,524,933 |
| Total assets | ₩ 197,836,516 | ₩ 176,678,524 |
| Current liabilities | ₩ 118,937,009 | ₩ 94,219,420 |
| Non-current liabilities | 7,017,004 | 6,820,503 |
| Total liabilities | 125,954,013 | 101,039,923 |
| Total shareholders' equity | 71,882,503 | 75,638,601 |
| Total liabilities and shareholders' equity | ₩ 197,836,516 | ₩ 176,678,524 |
| Sales | ₩ 100,958,762 | ₩ 308,707,990 |
| Cost of sales | 67,221,619 | 192,674,431 |
| Gross profit | 33,737,143 | 116,033,559 |
| Selling and administrative expenses | 25,648,432 | 82,765,294 |
| Operating income | 8,088,711 | 33,268,265 |
| Non-operating income | 669,250 | 2,852,763 |
| Non-operating expenses | 4,726,326 | 17,964,459 |
| Ordinary income | 4,031,635 | 18,156,569 |
| Extraordinary item | - | - |
| Income before income tax | 4,031,635 | 18,156,569 |
| Income tax expense | 816,858 | 3,732,356 |
| Net income | ₩ 3,214,777 | ₩ 14,424,213 |

Note to Financial Statements

for the years ended december 31, 2006 and 2005

(7) Significant transactions with Woongjin Coway Development Co., Ltd. for the period from January 1, 2006 through the merger date and for the year ended December 31, 2005 are as follows:

| | Korean Won (In thousands) | |
|-----------|---------------------------|---------------|
| | May. 2, 2006 | Dec. 31, 2005 |
| Sales | ₩ 77,657,050 | ₩ 228,588,188 |
| Purchases | 905,107 | 14,949,126 |

(8) Significant receivables and payables as of merger date and December 31, 2005 as a result of transaction with Woongjin Coway Development Co., Ltd. are as follows:

| | Korean Won (In thousands) | |
|-------------------------------------|---------------------------|---------------|
| | May. 2, 2006 | Dec. 31, 2005 |
| Trade accounts and notes receivable | ₩ 87,221,083 | ₩ 46,105,107 |
| Accounts receivable-other | 27,512 | 16,247 |
| Trade accounts and notes payable | 1,297,573 | 978,351 |
| Accounts payable-other | 289,719 | 314,472 |

27. SEGMENT INFORMATION:

Main segment of the Company is comprised of Rental division and Lump-sum payment division.

Details of business segment information for the years ended December 31, 2006 and 2005 are as follows:

| | 2005 | | | 2006 | | |
|------------------|-------------|---------------|--------------|-------------|---------------|--------------|
| | Sales | Cost of sales | Gross profit | Sales | Cost of sales | Gross profit |
| Rental | ₩ 1,019,928 | ₩ 340,626 | ₩ 679,302 | ₩ 903,383 | ₩ 316,072 | ₩ 587,311 |
| Lump sum payment | 49,732 | 17,779 | 31,953 | 45,371 | 18,309 | 27,062 |
| Others | 48,107 | 21,976 | 26,131 | 59,326 | 29,319 | 30,007 |
| Total | ₩ 1,117,767 | ₩ 380,381 | ₩ 737,386 | ₩ 1,008,080 | ₩ 363,700 | ₩ 644,380 |

28. SUPPLEMENTARY INFORMATION ON CALCULATION OF VALUE-ADDED AMOUNTS:

Supplementary information on calculation of value-added amounts for the years ended December 31, 2006 and 2005 are as follows

| | Korean Won (In thousands) | |
|--------------------|---------------------------|---------------|
| | 2006 | 2005 |
| Ordinary income | ₩ 102,399,110 | ₩ 85,969,284 |
| Salaries | 114,350,559 | 92,817,563 |
| Severance benefits | 10,129,378 | 9,377,652 |
| Employee benefits | 17,596,277 | 13,158,545 |
| Rent | 29,760,632 | 25,062,838 |
| Depreciation | 132,162,646 | 124,024,165 |
| Taxes and dues | 763,728 | 836,380 |
| | ₩ 407,162,330 | ₩ 351,246,427 |

Independent Accountants' Review Report on Internal Accounting Control System ("IACS")

English Translation of a Report Originally Issued in Korean

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TO THE REPRESENTATIVE DIRECTOR OF WOONGJIN COWAY CO., LTD.:

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of Woongjin Coway Co., Ltd. (the "Company") as of December 31, 2006. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2006, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2006, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, objective of which is to obtain a lower level of assurance than an audit, of the Management's Report in all material respects. A review includes obtaining an understanding of a company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

A company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2006, and we did not review its IACS subsequent to December 31, 2006. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.



February 23, 2007

Report on the Assessment of Internal Accounting Control System (“IACS”)

TO THE BOARD OF DIRECTORS AND AUDITOR (AUDIT COMMITTEE) OF WOONGJIN COWAY COMPANY

I, as the International Accounting Control Office (“IACO”) of Woongjin Coway Company (“the Company”), assessed the status of the designed and is operation of the Company’s IACS for the year ended December 31, 2006.

The Company’s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the LACS has been appropriately designed and is effectively operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements. I, as the IACO, applied the IACS Framework established by the Korea Listed Companies Association for the assessment of design and operation of the IACS.

Based on the assessment of the IACS, the Company’s IACS has been appropriately designed and is operating effectively as of December 31, 2006, in all material respects, in accordance with the IACS Framework.

February 23, 2007

Kim Dong-Hyun
Name, Internal Accounting Control Officer



Park Yong-Sun
Name, Chief Executive Officer of President



Contact Information Woongjin Coway strives to provide stakeholders with accurate and reliable information on our sustainability activities. We will continue with efforts to provide reliable information via the Sustainability Report. We look forward to feedback from all our stakeholders.

Please send all comments on this report via contact details provided below.

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