SKC Annual Report 2006

The Next Growth

SKC

Contents

With New SKC, a whole new world opens for you. For more convenient living and higher values, SKC is in ceaseless pursuit of change and innovation. A company that puts first what its customers want, pioneering with research and development the latest technology that its customers need-that's SKC, a global maker of state-of-the-art materials.
Appreciating the value of small things, we'll make our big dreams a reality for you.

Financial Highlights

Commemorating its 30th anniversary, SKC, in 2006, started to take off for a greater success in the next 30 years. To make its core businesses more profitable, SKC has transformed its business structure with the expansion of strategic, high value-added products. In particular, we focused our efforts on expanding existing businesses, running our China business successfully, and exploring new and promising growth businesses as well as acquiring new capabilities while reinforcing accountability management for each business unit. On top of these, we have strengthened our R&D capabilities and put in place six-sigma quality management system. Furthermore, we have made sharing of happiness settle down in our corporate culture, with aggressive pursuit of win-win labor-management relationship through expanded sharing of happiness.

Building on these corporate-wide efforts, SKC accomplished a record performance of 1 trillion 211.8 billion won in sales, 117 billion won in operating income, the largest ever in the company history, and 100.6 billion won of current net income, all in the face of difficult business conditions, including increased raw material prices due to continued high oil prices, appreciation of Korean won, and delayed recovery of the Korean economy.

Financial Statements

(in billions of KRW)

	2004	2005	2006
Operation Results			
Sales	1,326.3	1,409.0	1,211.8
Gross profit on sales	181.2	210.7	227.0
Operating profit	59.5	96.2	117.0
Ordinary profit	40.7	15.7	123.1
Net income	53.1	24.5	100.6
EPS (in Korean Won)	168.4	76.5	299.3
Financial condition			
Total assets	1,438.1	1,348.5	1,359.3
Total liabilities	1,032.3	909.5	792.4
Total borrowings	834.8	696.6	644.8
Total Shareholders' equity	405.7	439.0	566.9
Financial Ratios(%)			
Debt-to-equity ratio	254.4%	207.2%	139.8%
Return on average assets(ROA)	3.7%	1.8%	7.4%
Return on average shareholders' equity(ROE)	13.1%	5.8%	20.0%

Sales

With the impact of the restructuring of businesses, including the shutdown of mobile business for two years since 2005, and withdrawal from Information & Telecommunication business, the sales in 2006 recorded 1 trillion 211.8 billion won, down by 197.2 billion won from the previous year. On the other hand, sales in our core businesses, including chemicals, film and display materials, was 1.154 trillion won, up 55.7 billion won from 959.7 billion won the year before.

Operating Income

Even in the face of challenging business conditions, like high oil prices and appreciation of won, we became more profitable with more sophisticated product mix and continued efforts to reduce costs. Operating income improved from 96.2 billion won in 2005 to 117 billion won, and the operating income to sales increased from 6.8% to 9.7%.

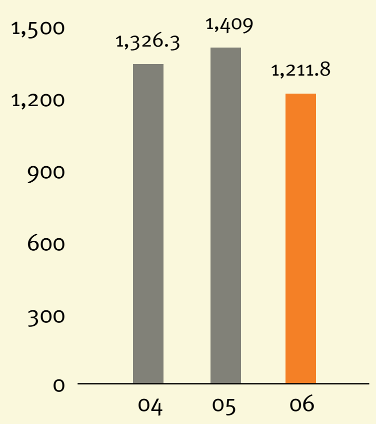
Borrowings

With continued improvements of financial structures, the size of borrowings fell from 696.6 billion won as of yearend 2005 down to 644.8 billion won in 2006. Main forces that contributed to this reduction include: huge increase in current net income, influx of cash due to disposal of non-operating assets, and reduced working capital requirements with the closure of mobile handset business.

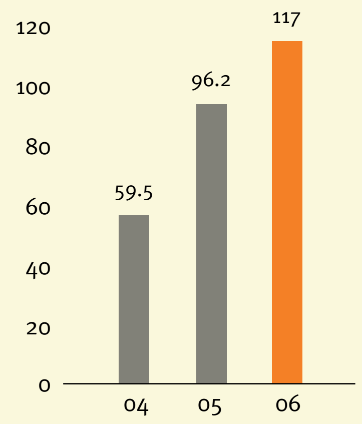
Stock Price

With the completion of restructuring under the business strategy of "choice and focus," we have enjoyed improved profitability. Besides, positive evaluation from investors towards new businesses like PI film and the construction of a new plant for chemicals business contributed to the increase of our stock price that was 23,450 won per share at yearend 2006, up 96% from 11,950 won per share as of yearend 2005. The market capitalization increased 101.4% to 816.7 billion won at yearend 2006 from 405.4 billion won from the previous year.

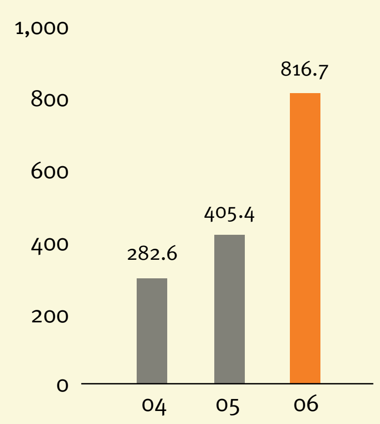
Net Sales
(in billions of KRW)



Operating Profit
(in billions of KRW)



Market Capitalization
(in billions of KRW)



At a Glance

May

Signed Agreement to Introduce HPPO Production Technology

On May 10, SKC signed an agreement with the co-licensors from Germany, Degussa and Uhde, to introduce the HPPO production technology that uses hydrogen peroxide to produce propylene oxide (PO). Deploying this new technology, SKC is planning to start commercial production in 2008 after completing the construction of a new PO plant with annual output of 100,000 tons. As the sole producer of PO in South Korea, SKC today has an annual output of 200,000 tons, while the domestic demand for PO is estimated at some 290,000 tons per annum. The new PO plant can help increase our PO supplies to stabilize the demand base and acquire a continued source of revenue.

June

Winner of the 2006 Corporate Governance Excellence Award

On June 28, SKC was selected as the winner of the 2006 Corporate Governance Excellence Award by the Korea Corporate Governance Service (KCGS), in acknowledgement of its improvement efforts. SKC is keeping up its governance improvement initiatives that encompass the adoption of employee code of conduct, formulation of rules for audit committee, and timely corporate disclosure on its Web page. SKC plans to make more proactive efforts to improve corporate governance.

July

Winner of the 10th Industrial Innovation Award

On July 4, SKC was honored by the MOCIE (Ministry of Commerce, Industry and Energy) Minister's Award in the 10th Industrial Innovation Award event hosted by Korea Industrial Technology Foundation (KOTEF). SKC was selected as the winner, in recognition of the government-sponsored project "to develop films and polymer precursors for PI films with high heat-resistance," which was launched as part of the Ministry's mid-term base technology development efforts.

Construction of PI Film Plant Completed

On July 20, SKC went productive with the PI plant in Jinchon, Chungbuk Province, which is a culmination of its 43 billion-won investment. With the growth of IT and display panel industries, PI film is growing more than 12% each year. Now that SKC has started to mass produce the material, you can expect that the local PI film will replace imported materials. Succeeding the first plant, SKC prepares to add the second plant (annual output: 300 tons) to be completed by the end of 2007. Reusing the resources and infrastructure from the first plant, we expect that we can reduce significantly the amount of investment required. We can achieve economy of scale to make a dramatic reduction of production costs, leading to more competitive operations.

September

Developed Nanocomposite Films

In September 2006, after a year of research, SKC applied nano-technology to films and developed a new type of color film, called "Fancylite." Fancylite film is produced by stacking hundreds of resins, each a few nano-meters thick. Depending on the differences in refraction, thickness of each layer, and the number of these layers, different color properties can be realized. Fancylite films don't get decolorized or tarnished by pigments or dyes because the color expression is made by the film structure itself. Leveraging the nanocomposite technology used in Fancylite film, SKC plans to develop advanced materials, like functional window film, safety film, and brightness-enhanced film for LCD-the economic benefit of these developments is estimated to reach one trillion won.

October

Since March 2005 SKC has been engaged in the SK Group initiative to build "Habitat-SK Happy Village." To build homes for those who are in need, SK Group, in collaboration with Habitat Korea, takes the initiative to build Habitat-SK Happy Village by funding all amount needed for the lands, building materials, and the actual construction of homes. For the SK Happy Village campaign, we held a commencement ceremony for our volunteer squad in July 2006, and many of our employees and management, including Mr. Choi, Shin-Won, Chairman, SKC, and other CEOs and executives from SK Group companies. As the first culmination of our efforts, we held a moving-in ceremony on October 31 2006, when we delivered the bible, flower bouquets, Happy TV sets, and the keys to their new homes to the families that were moving in. The first "Habitat-SK Happy Village" for 18 families is located in Gokbanjong-dong, Suwon, Gyeonggi Province.

November

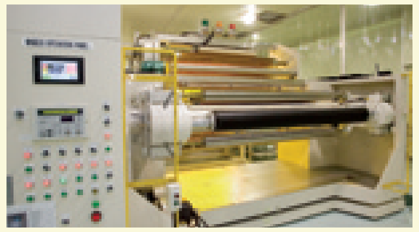
Completed Expansion of Polyol Plant in Ulsan

As a way to make our POD business more competitive, we completed the construction of the expanded Polyol plant and celebrated its completion in the Ulsan plant in November 2006. With the completion of the expanded Polyol plant, the capacity of the Ulsan plant now reaches 70,000 tons, up 10,000 tons from before-contributing significantly to making our Polyol business even more competitive.

December

Completed Construction of Joint-Venture PET Film Plant for Condensers in China

In collaboration with Tongpeng Electronics, the largest producer of OPP in China, we invested in a joint venture, Tongae Electronics Materials, located in Anhui Province, China, in December 2006. After completing its construction, the polyester (PET) film plant of Tongae started mass production. As the first Korean company to have a joint-venture film plant in China, SKC is now well-poised to reinforce its "China Insider" strategy in a market with high growth potential.



Brief History

1970s - 1980s

76.12 Sunkyong Chemicals Ltd. founded.

77.12 First in Korea (fifth in the world) to develop polyester film.

78. 5 Construction of Suwon plant completed.

80. 2 First in Korea (fourth in the world) to develop video tapes.

86. 8 An American subsidiary, SKC America Inc., established in New Jersey.

87. 1 Company name changed from Sunkyong Chemicals Ltd. to SKC Ltd.

1990s

91. 4 SKC Central R&D Center established.

96.11 Development of DVD succeeded.

97. 6 Construction of CD-R plant (in Chonan) completed.

97. 7 Initial public offering

99.10 Construction of polyester film plant in Georgia (SKC, Inc.) completed.

2000s

01. 4 Completed installing mobile handset production line in Chonan plant.

01.11 SKC merged with SK Evertec.

03. 9 Construction of LiPB mass-production facilities completed (1 million cells / month).

03. 9 Construction of plant in Suzhou, China, for fabricated film for TFT-LCD completed.

04. 6 Construction of mass-production line for PDP filter completed.

05. 4 Mass production of mill base started.

05.10 LiPB business spun off.

05.12 Media business spun off.

2006

06. 5 Agreement to introduce PO production technology signed (HPPO process, Licensor: Degussa, Uhde).

06. 6 Selected as the best in corporate governance (by the Corporate Governance Center of Korea)

06. 6 Mobile handset business and OLED business shut down.

06. 7 Honored by the MOCIE (Ministry of Commerce, Industry and Energy) Minister's Award, 10th Industrial Innovation Awards (hosted by Korea Industrial Technology Foundation (KOTEF)).

06. 7 Construction of PI film plant completed.

06. 9 Developed nanocomposite films.

06.11 Completed construction of a joint-venture plant for PET films for condensers (in China).

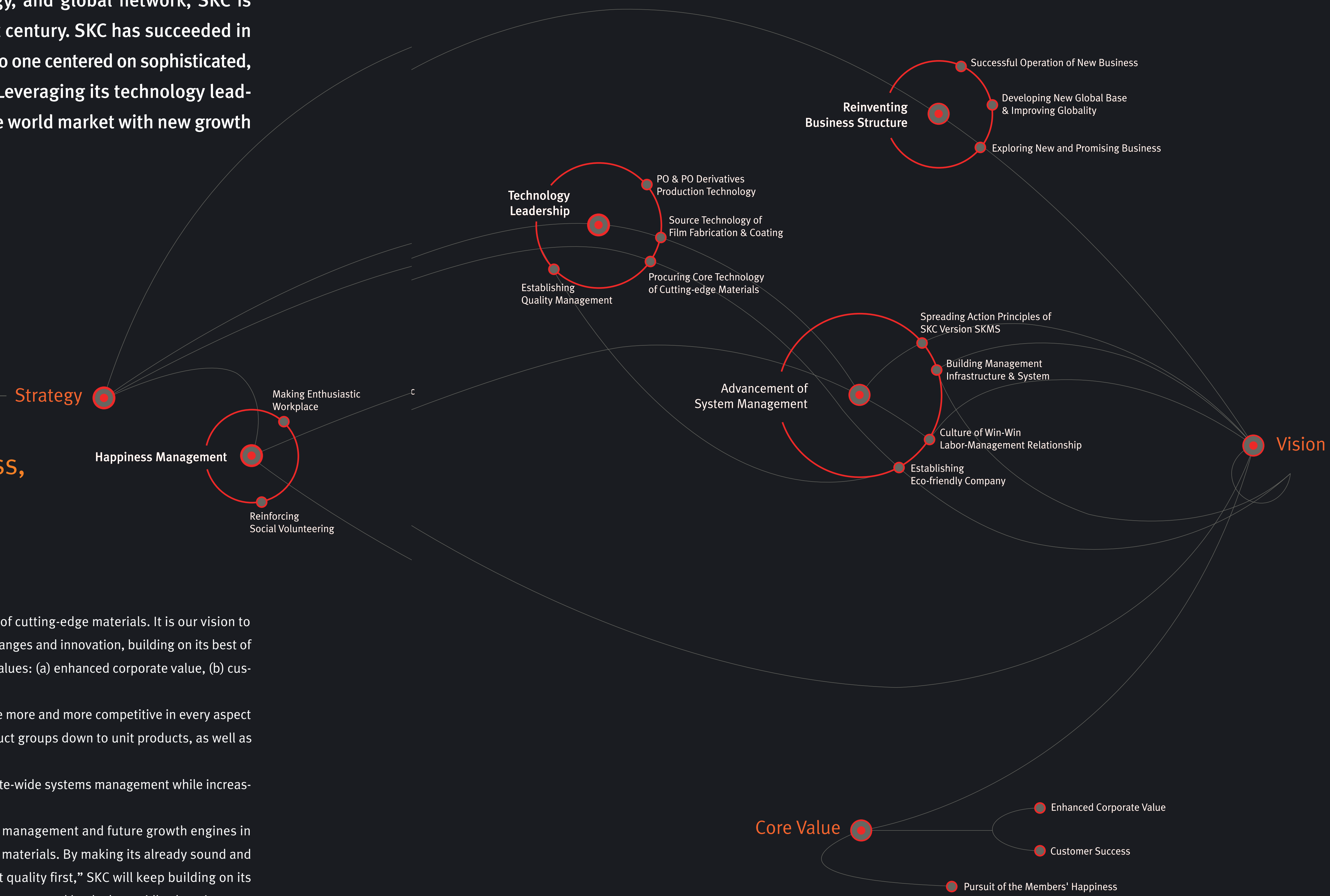
06.11 Completed expansion of Polyol plant.

Vision & Strategy

A company that creates new values, SKC takes off to become a world-class super-excellent company.
Building on its wealth of experience, superior technology, and global network, SKC is growing into a cutting-edge materials company in the 21st century. SKC has succeeded in transforming its storage media-centric business structure into one centered on sophisticated, high value-added materials, like displays and chemicals. Leveraging its technology leadership and advanced systems, SKC will continue to lead the world market with new growth businesses.

Next 30

Not resting on our past 30 years' success, we will leap toward next 30 years.



With a host of change initiatives, we strive to become a New SKC, a global leader of cutting-edge materials. It is our vision to become "a super-excellent company that creates new values through continued changes and innovation, building on its best of talents and technology." To make this vision a reality, SKC has defined three core values: (a) enhanced corporate value, (b) customers' success, and (c) pursuit of its members' happiness.
Starting with the increased competitiveness on a unit product level, we will become more and more competitive in every aspect of our operations, including profit management for both business areas and product groups down to unit products, as well as enhanced productivity, R&D, and marketing management.
With the expansion of systems management, we will lay the foundation for corporate-wide systems management while increasing cross-business synergy by benchmarking other business areas.
SKC has acquired a reliable asset quality and financial transparency. With global management and future growth engines in place, SKC is taking steps to reach out to become a global leader in sophisticated materials. By making its already sound and reliable management systems even stronger and practicing its philosophy "to put quality first," SKC will keep building on its reputation at home and abroad. Furthermore, as a super-excellent company that preempts and leads the rapidly-changing markets, SKC will repay our shareholders, investors and customers with best of values.

CEO's Message

Chairman & CEO _ Choi, Shin Won

CEO _ Park, Jang Seok

New SKC takes on a new challenge.
To deliver greater value for you, SKC will continue to change and innovate.

Founded in 1976, SKC has contributed to the Korean economy and increased the competitiveness of its customers for the last thirty years, with stable supply of high-quality products, leveraging its film-related core technologies. Having created new values with ceaseless changes and innovation, SKC is reinforcing its position even in the face of more heated competition across the globe. In commemoration of its 30th anniversary in 2006, SKC declared that it would build a New SKC for the next thirty years and lay a solid foundation to accomplish its "2nd To-be Model."

In the face of rapid changes in business conditions, SKC has set its courses towards a new chapter in its history with renewed innovation and challenging spirit, thereby evolving into a more competitive organization. Building on its past accomplishments and with its eyes set on the "2nd To-be Model," SKC is sparing no efforts to build a New SKC and keep up its momentum for growth while delivering happiness to its members.

For the next quantum leap, SKC is reinventing its business structure. We are taking proactive measures to acquire new growth engines for tomorrow by successfully expanding and installing new facilities to produce PO, PI films, and display materials. We are also expanding our global operations in China and Eastern Europe, while exploring new business opportunities with promising growth prospect.

In addition, SKC plans to secure its leadership position in technology. To develop advanced products and to take our business to the next level, SKC promotes critical R&D resources and networks with the experts outside the company, while establishing quality management by rolling out SQMS across the organization. Systems management, in particular, will be put into practice in a more structured manner.

SKC will continue to execute on its philosophy of contributing to the advancement of happiness of the human race by delivering on its promise of happiness management. Fulfilling its responsibility as a corporate citizen with mature community engagement, SKC puts its efforts in growing into a company that is trusted by both the community and its customers.

Having created new sources of power to make people's lives more convenient and to turn the world into a richer place, SKC will become a global leader in advanced industrial materials with its never-ending quest for change and innovation. To those of you who give us unwavering encouragement and caring attention, I promise that SKC will make an energetic move forward. Thank you.

Board of Directors

To maximize its shareholder value and corporate value, SKC is strengthening the board-driven management.
In the annual general shareholders' meeting in March 2005, SKC increased the portion of outside directors up to 50% of the eight-member board. The Korean law stipulates that a company like SKC whose asset is worth below 2 trillion won shall have outside directors account for more than or equal to 25% of the total board members. SKC took a step further and added two more because we wanted to ensure the independence and transparency of the board organization.
The board of directors at SKC continues to vitalize its operation and increase its independence, thereby realizing a "BOD that works," while sparing no efforts to leverage the expertise of the outside directors.
In 2006 the board went over key agenda, like investments in new businesses, issuance of corporate bonds, while increasing the transparency of management through heated discussions and reports on various business situations on a regular basis.
As a result of these incessant efforts, SKC was selected as a company with improved corporate governance in 2006 by the Korea Corporate Governance Service (KCGS), an affiliated organization of the Korea Exchange (KRX), whose evaluation of corporate governance moved the company up two levels. SKC also received good marks in the areas of auditing organization and corporate disclosure practices.

Directors

Choi, Shin Won | Director
- CEO / Chairman

Park, Jang Seok | Director
- CEO / President

Kim, Chul Soo | Director
- Director of Central R&D Center for Advanced Technologies / Vice President

Kim, Hun Pyo | Director

Outside Directors

Park, Sang Soo | Outside Director
- Chairman of Audit Committee

Hur, Shin | Outside Director
- Member of Audit Committee

Shin, Hwang Ho | Outside Director
- Member of Audit Committee

Seo, Seok Ho | Outside Director

In its 34th annual shareholders' meeting in March 2007, SKC appointed Mr. Kim, Chul as a new director in place of Mr. Kim, Hun-Pyo

Business Overview

With feature-rich materials and highly competitive products, SKC keeps its customers satisfied. A leader of technology and development of cutting-edge materials, SKC is now confident that it will become a company more widely recognized for its excellence in the world market.

With fast and accurate business execution and continuous innovation of technology in 2006, SKC were able to amaze and delight its customers. With stable production capacities, superior quality management, higher price competitiveness, and co-development of technology, in particular, SKC has completed one of the best solutions available in the market. Excellent quality products and customized support through highly-skilled researchers enable us to provide the technologies that our customers demand faster and more efficiently.

In 2007 SKC aims to leap forward and become a world leader in chemicals, film and display materials. Leveraging its top talents, advanced technologies, and core competencies acquired over the years, we will actively diversify our portfolio of products with new and high value-added products and expand our existing business areas. With more active globalization efforts, we will also seek out new business opportunities through mergers and acquisitions and joint ventures, thereby winning the next big growth engines. Having always been at our best to satisfy customers, we at SKC will become one of the best companies whose technological prowess is recognized by the world.

Chemicals Business

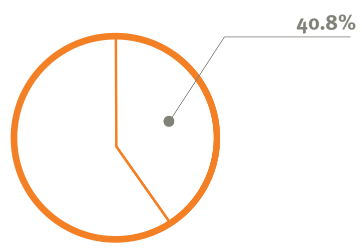
495.5 billions

2006 Performance

The chemicals business of SKC has become more competitive with continued expansion of facilities and development of new technologies, laying the foundation for the growth of the polyurethane industry in Korea. Securing its position as a leader of polyurethane industry in Asia, our chemicals business is enhancing its profitability with continued reduction of costs, and development of high value-added products through consistent new investments in research and development.

2006 Highlights

Portion of Total Sales



Sales

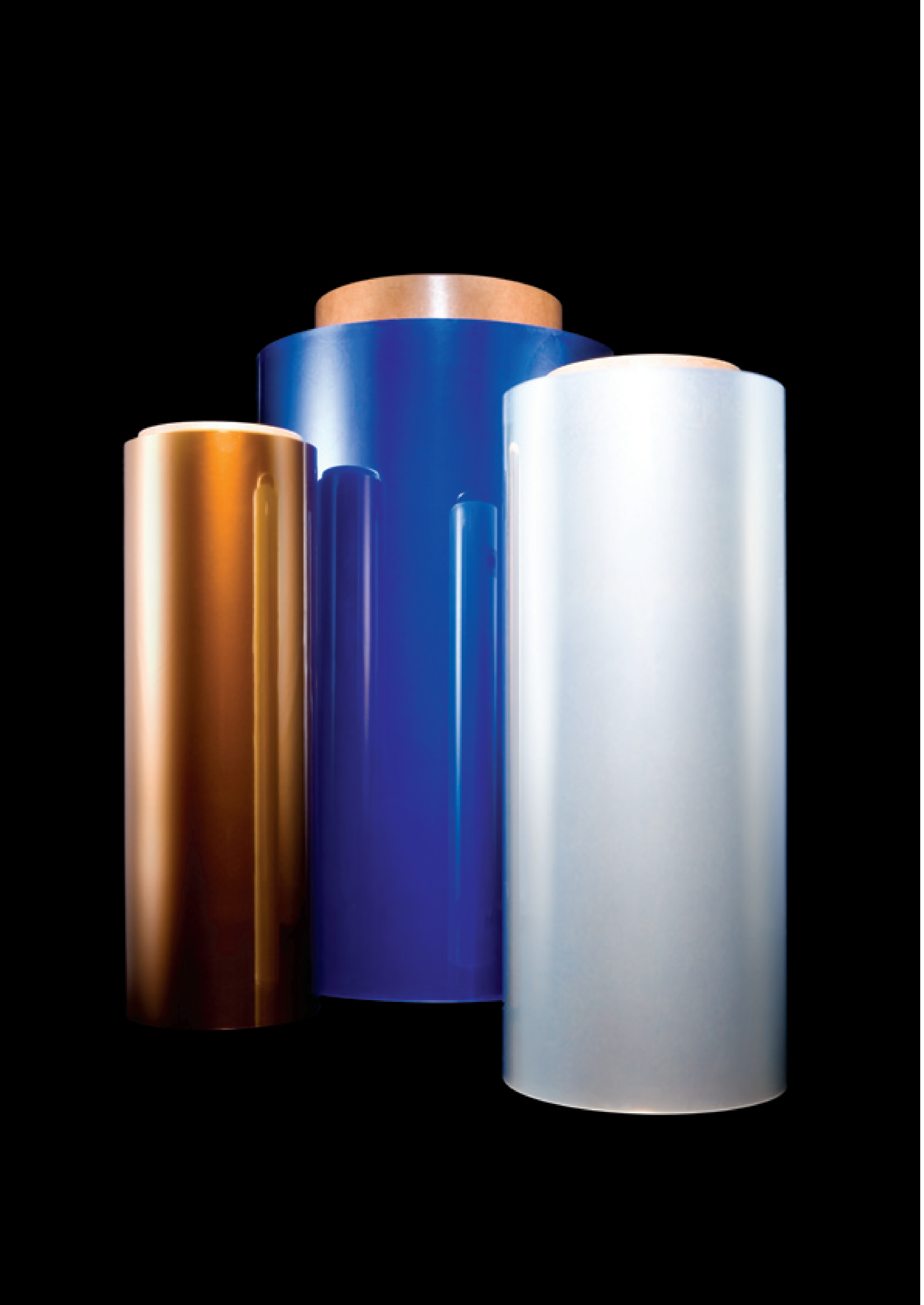
The chemicals business recorded sales of 495.5 billion won. The sales target for 2007 is 510 billion won.

Operating Income

Continued reduction of costs and increased output contributed to enhancing the profitability in 2006, leading to the operating income of 71.3 billion won. The operating income in 2007 is targeted at 62 billion won, incorporating the impact of regular maintenance planned for Q4 2007.

Operating Income to Sales

With increased output and reduced costs, the chemicals business recorded a solid 14.4% in operating income to sales. In 2007 the operating income to sales target is at 12.2%, incorporating the impact of regular maintenance planned for Q4 2007.



Film Business

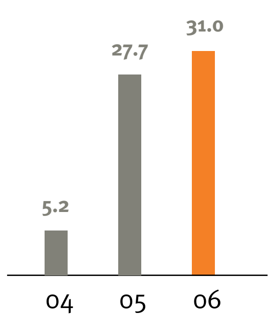
31 billions

2006 Performance

The film business of SKC operates the latest production facilities with continued improvement of facilities and technological innovation. In collaboration with the Central R&D Center for Advanced Technologies, Suwon plant is focusing on quality improvement and the development of feature-rich films, thereby ensuring that its customers are satisfied.

2006 Highlights

Operating Income
(in billions of KRW)



Sales

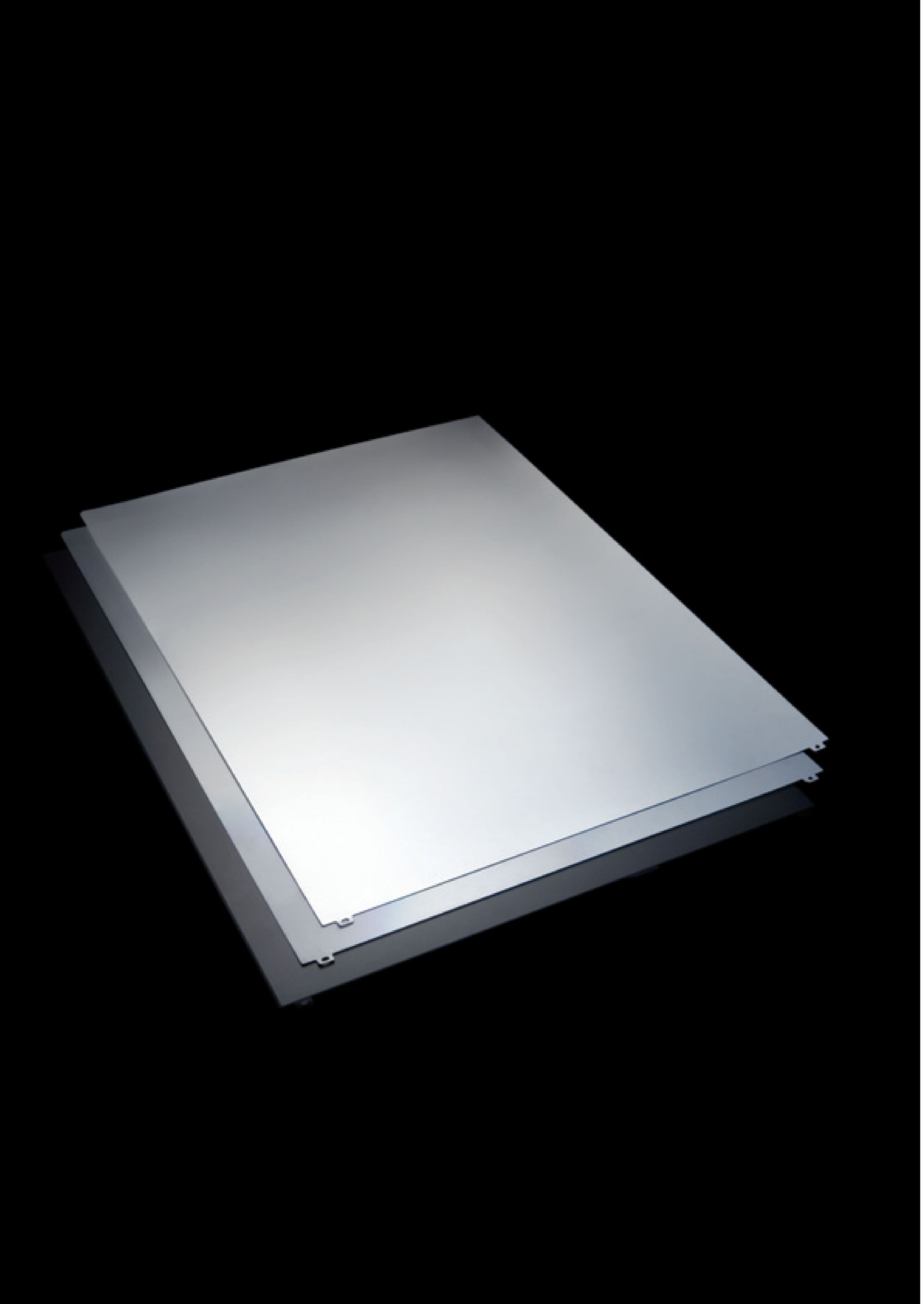
Even in the face of rising price of its key ingredients, terephthalic acid (TPA), the film business recorded sales of 326.3 billion won in 2006. The sales target for 2007 is 390 billion won.

Operating Income

Reducing the portion of generic films in sales while increasing that of high value-added films, the operating income of the film business increased 11.9% to 31 billion won year-over-year. The operating income in 2007 is targeted at 38 billion won, incorporating the impact of continued diversification of product mix.

Operating Income to Sales

Due to the increase in average sales prices, the film business recorded 9.5% in operating income to sales in 2006. This year's target is set at 9.7%.



Display Materials Business

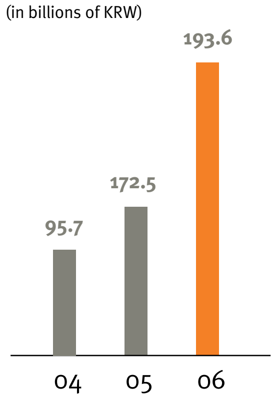
30.8%

2006 Performance

Building on its years of experience with materials fabrication technology and the history of independent development and growth of polyester film and video tapes, our display materials business is contributing to the improvement of the quality of the information society of the 21st century by producing and supplying a host of products, including digital-print media, fabricated films for semiconductors and displays, and industrial materials for the electric, electronic and information and Telecommunication sector.

2006 Highlights

Sales
(in billions of KRW)



Sales

In 2006 the sales of the display materials business recorded 193.6 billion won, up 21.1 billion won from 172.5 billion won in 2005. The compound annual growth rate (CAGR) of the display materials business for the last three years is 30.8%. The sales target for 2007 is 270 billion won, incorporating the growth outlook of the display industry and expansion of our product portfolio.

Operating Income

The operating income for 2006 is 18.1 billion won, down 9.0% from 19.9 billion won in 2005. The operating income in 2007 is targeted at 26 billion won.

Operating Income to Sales

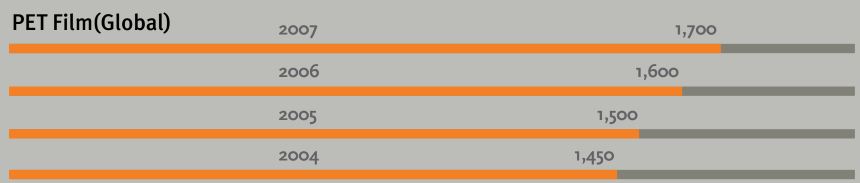
Despite the slight dip in its operating income, the display materials business accomplished solid results-9.3% in operating income to sales in 2006, thanks to increased output and reduced costs. In 2007 the operating income to sales of this business is targeted at 9.6%.

Trends & Forecast

Market Size

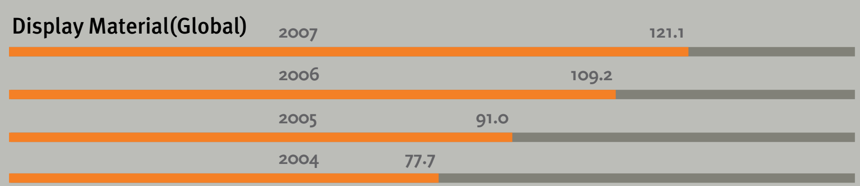
(unit : thousand tons) Source: SKC Report

The worldwide PO market continued to grow at a rate of 5% per annum in the 1990s; whereas, the performances has begun to differ from region to region since 2000. Today some 80% of the global demand is concentrated on the U.S., Western Europe, and Japan, with the Western European market and the Asian market, spearheaded by China, enjoying a rapid increase in demand.



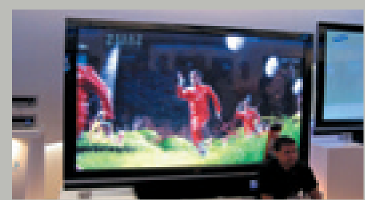
(unit : thousand tons) Source: SKC Report

Thanks to the growth of related industries and the increase in standards of living, the PET film market worldwide has grown at 6-7% per annum, and continues to grow at a relatively stable and consistent rate due to the fact that they are industrial goods. The U.S., Europe, Japan, and South Korea have remained major stable marketplaces over a long period of time. Lately, China, India, and Southeast Asia are seeing an accelerated rate of growth.



(unit : 100 million US$) Source: Long-term TV Market Forecast, DisplayBank, Nov, 2006

The display market is viewed as having very high growth potential in the information age of the 21st century. Especially in South Korea, a country that imports a significant portion of core materials for display panels, localizing the production of these core materials will contribute greatly to the growth of the IT industry. We expect that the market is expected to make great strides in the years to come.



Compared to other petrochemical products, PO products enjoy higher rate of local consumption because they have relatively higher concentration of facilities, ranging from the production of the ingredient, propylene, to the downstream sectors, including polyol, PG, and glycol ether. SKC takes up some 68% of the local PO market.

PET films are industrial goods and used as intermediates, so that they can compete successfully only when the technology, quality, service, and marketing power are in place to meet the needs of the industries concerned. The PET film business of SKC is now becoming a global leader.

The display materials business is being expanded into a feature-rich, composite fabricated materials business that provides a range of solutions, encompassing electric and electronic industries. As competition between liquid-crystal displays (LCDs) and plasma display panels (PDPs) is getting more and more heated, it is required that we should develop substitutes for related materials and simplify their structures.

Super-excellent global companies reinvent their business organization models to meet the challenges presented by changed business conditions while deploying new strategies, like the use of substitutes, production of high value-added products, and exploration of new businesses. Instead of taking stop-gap measures, these global players are getting more serious about transforming their organizations to become more flexible and stronger against high oil prices.
To respond earlier to changed environment and to generate continued results, SKC will put SK Management System (SKMS) into practice and create an environment where its employees want to work voluntarily and willingly. Globalization is essential for us to grow and face new challenges head on; whereas, internally, we believe that we need to get more productive and lower costs through changes and innovation-a key to our sustainable growth.
SKC is accelerating the pace of moving towards becoming a higher value-added business and of expanding its solutions business, while putting in place dramatic cost reduction measures. With never-stopping innovation and the indomitable spirit that challenges risk head-on to explore new opportunities, SKC will grow into a company that is recognized for its excellence by the world over.

Global Operations

SKC Manages the World.
SKC is reaching out to become a world leader. With overseas subsidiaries and local production plants across the world, SKC is fast becoming a global maker of state-of-the-art materials, built upon its global competitiveness.

Business Site
- Korea: 6
- China: 6
  Xianzhong Polyurethane
  Xianfeng Polyurethane
  Sinjin C.E.
  Anhui Tongae Electronics
  SKC New Material
  SKC ACME
- SKC, Inc. (USA)
- SKC Europe GmbH
- SKC Taipei Office
- SKC Japan Office

In response to the demands of the global age, SKC has built both production and sales operations for PET films in the U.S. and Germany. With overseas subsidiaries and local production facilities, we produce and sell directly from where our consumers are located. We are also exploring new opportunities from these markets with localized marketing programs and technology developments.
As a result, SKC is renowned as a leader in customer satisfaction, especially in the global polyester film industry sector. In 2007 we will make investments in optical films in Eastern Europe to build an advance base to capture the European markets and further expand our business areas. With its localization strategies and deployment of qualified talents, SKC is leaping ahead as a company that manages the world.

SKC, Inc. in America

A film manufacturing plant, SKC, Inc. was established in Covington, GA., with the purpose of taking by storm the American market, the largest in the world, through the highest levels of productivity and high-quality products.
As of the end of December 2006, SKC, Inc accounts for 15% of the American market. The company puts continued efforts into realizing its vision and become the world's top polyester film maker. In particular, SKC, Inc. keeps on satisfying its customers in America by developing superior products, including the copolymer films, like heat-shrinkable film and heat-sealable film, along with the super-clear films, like medical film and solar-control film.
Furthermore, in order to respond more actively to the increasing demands on the high-thickness films for display panels all across the globe, we have launched an initiative to alter a production line for mid-size wrapping films into one for industrial thick films. We will secure our position as a world-class manufacturer with continued execution of product advancement strategies and company-wide six-sigma projects.

SKC Europe GmbH

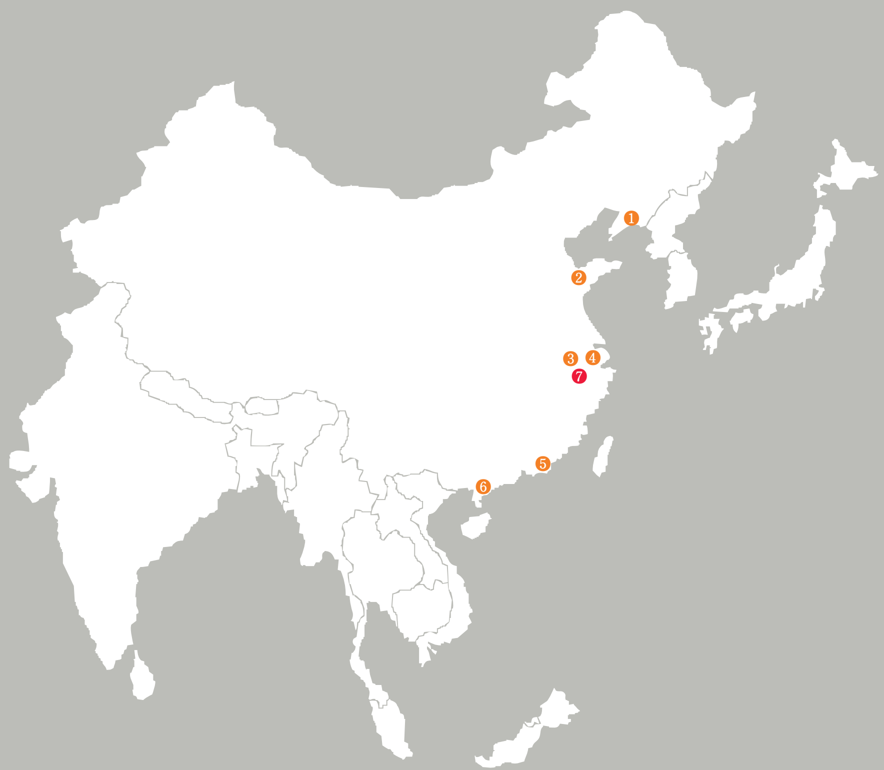
A wholly-owned European subsidiary of SKC, SKC Europe GmbH (SKCE) was established in Frankfurt, Germany in 1987. SKCE was founded to aggressively market SKC's flagship products, like polyester films, video tapes, and CD-R, in Europe. The European subsidiary buys products from SKC and SKC, Inc. and sells them to Europe and Russia.
With active marketing and development of sales networks, SKCE will spare no efforts to maximize exports to Europe and Russia.

China Operations

We will make China our second domestic market.
We at SKC understand that China is within the sphere of Korea's economic influence. Building on this understanding, we aspire to become a "China Insider" who has the same level of competitiveness as we have in Korea.

China

1. Xianzhong Polyurethane
2. Xinjin Polyurethane
3. Jehil Polyurethane
4. Suzhou Plants
5. Huizhou Plants
6. Xianfeng Polyurethane
7. Tongae Electronics

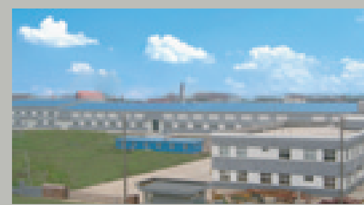


SKC has been speeding up its entry into China on the firm belief that you need to challenge the status quo and compete with new business models and production lines, in order to be recognized by the world. In collaboration with Tongfeng Electronics, largest producer of OPP in China, we invested in a joint venture, Tongae Electronics Materials (安徽銅愛電子材料有限公司), located in Anhui Province, China, on December 8, 2006. After completing its construction, the polyester (PET) film plant of Tongae started mass production. As the first Korean company to have a joint-venture film plant in China, SKC is now well-poised to reinforce its "China Insider" strategy in a market with high growth potential. Besides, it is also significant that it set a new milestone as a joint venture where we acquired 25% ownership interests (market cap: 3.125 million USD) solely with technology investment.

With the Georgia plant in America and a joint-venture plant in China on its belt in addition to Suwon plant, SKC has now completed its global production operation strategy for its PET film sector. In terms of marketing and quality, SKC is now well positioned as a global film maker and can now compete head to head with other global players. Furthermore, we plan to make continual expansion of production lines in China to produce PET films for condensers, optical and special wrappings, thereby realizing our vision to become the top PET film maker in China.

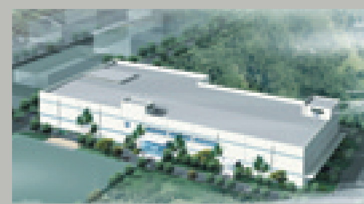
Chemicals Business

We are now reviewing the possibility to establish a Chinese subsidiary to acquire a new production base for Polyol / POD products. After selecting a strategic partner and forming a joint venture, we plan to build plants for PO and PO derivatives. With all the investment, SKC will become a competitive, leading POD player in China.



Film Business

As a stepping stone for the expansion of our business in China, we have successfully established Tongae Electronics Materials. Building on this success, we are now focusing on selecting the next foothold and on early stabilization of production and sales operations. In order to realize our vision of becoming a "China Insider," we plan to expand the Tongae facilities and add another production base, thereby realizing the economy of scale and increasing the production and sale of high value-added products.



Display Materials Business

We are stabilizing the production and quality of products coming out of our Suzhou and Huizhou plants in China, laying the foundation for sustainable profits. In preparation for upcoming surge in demands, we plan to add new plants, diversify our customer base, and launch customer satisfaction initiatives. In addition, we will become even more profitable through proactive new product development.

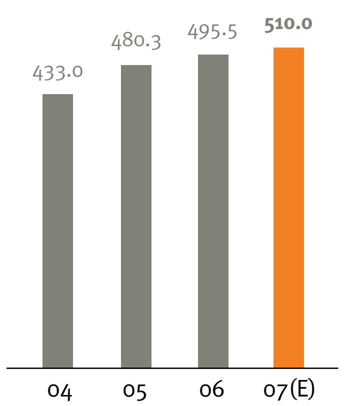
Sales (in billions of KRW)

Chemicals Business

With technology support and development of new products tailored to our customers' needs, SKC will lay the cornerstones for the polyurethane industry in Korea.
Leveraging years of operation know-how and cost competitiveness, the chemicals business of SKC produces the basic ingredients for the polyurethane (PU) industry, like PO, PG, and Polyol, and supplies them to related industries in a stable way, thereby contributing to increasing the competitiveness of the PU industry in Korea.

The only local producer that takes up some 70% of the PO/PG market in Korea, SKC maintains a stable demand base by managing a cooperative and friendly relationship with key customers.
With the goal of becoming a World's Best chemicals plant, we have performed the Total Operation Performance (TOP) activities since 1999, along with continual reduction of costs. We continue to increase our investment in R&D to develop high value-added Polyol products, and make our business more profitable. With technology support and development of new products that are tailored to our customers' needs, SKC keeps its customers satisfied.
Besides, we keep up our investments in environment to comply with the regulations that require stronger measures to be taken to protect the environment. We are also actively engaged in community service activities as a part of a corporate-wide initiative; thereby positioning ourselves as an eco-friendly company and a good corporate citizen that serves the community.
During the two years 2005~2006, we had focused on laying the groundwork for the PU business in China. In 2007 we will further stabilize our existing investments in China and seek out opportunities to make more structured investments in China.

Sales
(in billions of KRW)



Products from Chemicals Business

PO (Propylene Oxide)	Polyol / PG ingredient, surfactant, and fire retardant
PG (Propylene Glycol)	UPR, cosmetics, food humectants, and antifreeze
Polyol (Polypropylene Glycol)	Building materials, including insulators, interior materials for cars, furniture, beddings, and sealant
SM (Styrene Monomer)	Consumer electronics, office equipment, tires, shoes, and car enclosures

Even in the face of challenging business conditions, like high oil prices and appreciation of Korean won, the chemicals business of SKC in 2006 became more profitable with its continued development of high value-added products and markets, as well as cost-reduction activities. For continual stabilization and growth, we started to build a PO-only plant (HPPO: Hydrogen Peroxide to Propylene Oxide) that will have an output of 100,000 tons per annum, amounting to 50% of our current capacity. From the year 2008 when the new PO-only process will be completed, we expect to record additional sales of around 160 billion won each year.

In 2007 it is expected that the economic uncertainties will grow further, due to unstable oil prices and exchange rates, for instance. Therefore, we need to become more profitable through globalization and continual reduction of costs, while doing our utmost to complete successfully the construction of the PO-only plant slated to start its commercial production in Q2 2008.

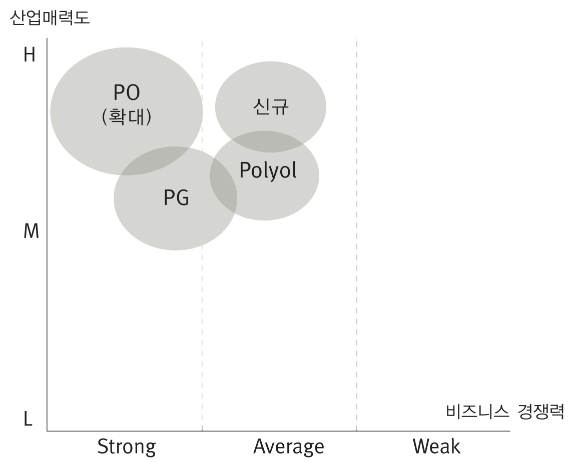
About 60% of PO (Propylene Oxide) is consumed globally to produce Polyether Polyol, a polyurethane ingredient, and 20% for PG (Propylene Glycol), while the rest is used to manufacture Propylene Glycol Ether (5%) and Dipropylene Glycol (2%). The two major processing methods for PO are Chlorohydrin Process and Peroxidation Process, each of which takes up about half of the world's PO production facilities. Korea used to import PO, but in 1991 SKC became the first company in Korea to build production facilities and acquired a domestic production base.

In the 1990s the worldwide PO market continued to grow at a rate of 5% per annum, while showing differences in growth by regions since the year 2000. Today some 80% of the global demand is concentrated on the U.S., Western Europe, and Japan, with the European and Asian market, spearheaded by China, is enjoying a rapid increase in demands. The PO market is affected significantly by the economic fluctuations of major industries, like automotive, shipbuilding, and engineering and construction-the end customer of Polyether Polyol that consumes 60% of PO.

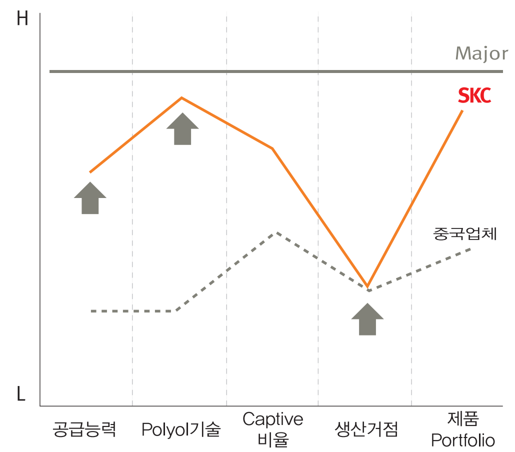
In the global market, only a small number of companies have the technology necessary to produce PO, so that they form a kind of an oligopoly. Therefore, development of new technologies is also led by the incumbent PO producers, making it difficult for new players to enter the market. As long as they meet the international specifications, there are no out-of-ordinary competitive forces for PO and PG in terms of quality. In case of Polyether Polyol, however, competition is coming from many fronts, depending on the different quality characteristics like physical properties.

SKC is committed to increasing its competitiveness in this market in order to turn its chemicals business, which is one of its core businesses, into a truly global business. With timely and decisive investments and continual emphasis on lowering costs, we will achieve continued growth and stability of operations.

To-be Business Structure



Value Proposition



Film Business

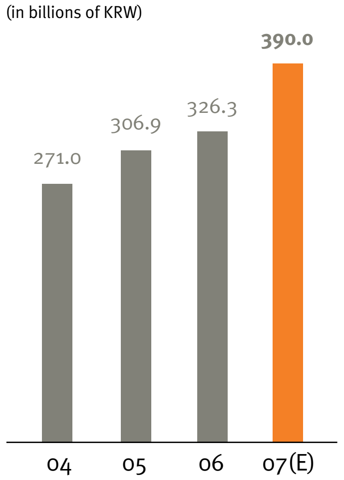
We will reach the top of the world with advanced technology and quality.
Even in the face of unfavorable economic conditions at home and abroad, including high oil prices and soaring prices of ingredients, the film business of SKC in 2006 recorded biggest ever results in its history through successful execution of strategies, including increased profitability of existing businesses driven by PET film, introduction of PI film to the market, and completion of building a joint venture plant in China.

Faced with severe competition from both leading and lagging film makers, SKC's film business has refined its product portfolio by reducing the portion of generic products while increasing the production and sale of high value-added, highly-profitable products. On top of this, we are keeping up our efforts to explore and foster the next big thing in plastic films.

PI film, in particular, is expected to record high rate of growth, playing an important part in the film business of tomorrow. Furthermore, the film business unit is committed to continual innovation of product value and faster response to changing environments. To this end, we have invested in customer relationship management (CRM) system for marketing, six-sigma for production, and shorter time-to-market system for research and development. In 2007 as well, we expect quite a small difficulties, including the competition from late-comers like China and India as well as from leading competitors in Japan, plus deteriorating business conditions at home and abroad. However, we will keep the best of profits through strong execution of the strategies that are firmly rooted in today's realities while reaching out for opportunities of tomorrow.

As a way to develop tomorrow's growth engines, we will focus on selling the films for IT and display panels sectors that are expected to enjoy years of fast growth but will require advanced technology. We will expand our capabilities to supply these products, thereby responding to the demands from customers and leading the market. In addition, the film business plans to increase synergy with the display materials business.

Sales
(in billions of KRW)



Products from Film Business

Industrial materials	TFT-LCD, photo and Ink-Jet printers, labels, fire retardant film (building materials, fire retardant apparel)
Packaging materials	Twist packages, snack packages, frozen food packages
Electronic materials	Condensers, motors, cable wrapping, membrane touch switch
PI Film	FPCB, FCCL, semiconductor materials, TFT-LCD, PDA, mobile phones, camcorders, laptop computers

Driven by the growth of related industries and the improved standards of living, the PET film market has recorded 6-7% growth per year in recent years. As industrial goods, these films maintain a relatively stable and consistent growth in demands. In 2006 alone the total transaction volume is estimated at more than 1.6 million tons, which will increase by more than 100,000 tons each year.

In order to maintain your leadership position in this film market, you are required to quickly understand the market and customer needs, develop products to meet their needs earlier than your competition, and develop new marketing capabilities to commercialize these products.

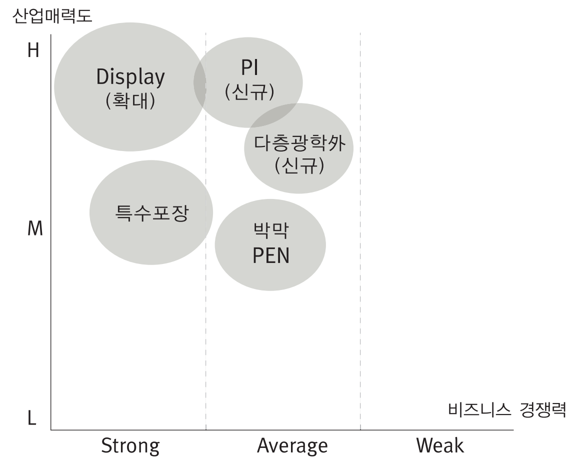
Building on its years of marketing and R&D activities, SKC will keep exploring and fostering tomorrow's growth businesses that can help evolve and grow the film business. Candidates for future growth engines include: biodegradable films, optical feature-rich multi-layered films, and other promising high value-added film products for IT and display panels. These films will play a significant role in generating tomorrow's profits. SKC is committed to securing its leadership position in the high-end market by increasing the portion of IT- and display-related products up to 45% of the total sales by 2008.

We are also working to help the PI film business take root early on by making a thorough preparation, encompassing production technologies, product certification, and building up of customer base, to proceed according to the planned timeline and ensure successful production and sales of the PI films that we started to produce from 2006. By 2008, we will earn more than 25 billion won in sales of the PI film business, thereby creating a stable profit structure while focusing on putting in place the capabilities required for us to expand the IT-film business.

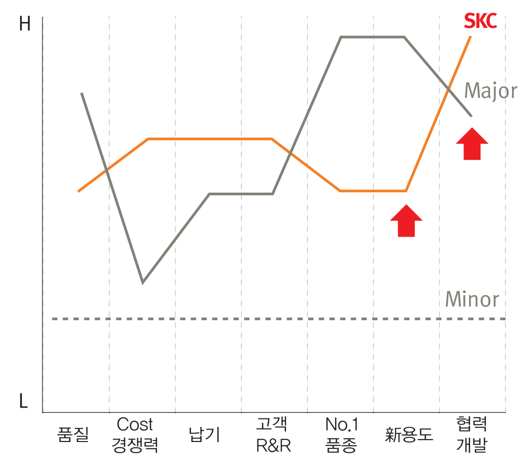
To strengthen our position as a global plastics maker, we will create a more competitive profit structure through continued product portfolio innovation, and strategic alliance with super-excellent customers like Kodak with the help of our American subsidiary. In China, a country enjoying high rate of growth as the world's industrial plant, we have already formed a joint venture (Tongae Electronics) and will select another partner after searching for a new film producer in China to build the second local production base.

Furthermore, we will put six-sigma quality management system in place, so that we can gain the trust of the market and our customers through top-notch quality management. Executing these strategies, the film business unit in 2007 will also accomplish our targets while responding to external changes, thereby playing a pivotal role in the growth and evolution of SKC.

To-be Business Structure



Value Proposition



Display Materials Business

We will deliver more value by developing cutting-edge materials. The Display Materials Business unit of SKC is growing in step with the flow of the information age of the 21st century. Especially in South Korea, a country that imports a significant portion of core materials for display panels, we contribute greatly to the growth of its IT industry by localizing the production of these core materials. Building on the success of 2005, we accomplished a lot in 2006 in terms of growth and profitability.

The Display Materials Business achieved anticipated level of results even in the face of the challenging business conditions in 2006.

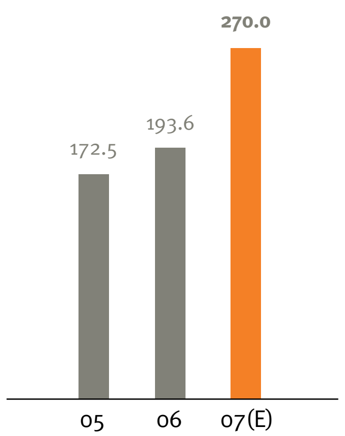
The fabricated materials business, accounting for some 69% of the Display Materials Business, provides a host of solutions for display industry and electric and electronic industries, based on the superior coating technology and R&D power of the magnetic media business.

In the fabricated materials business, the light diffusion film (LDF) used for liquid crystal displays (LCDs) maintains its leadership position with highest market share through maximized sales. The plasma display panel (PDP) filter business achieved its targets for both cost reduction and diversification of markets, in response to price pressures and dwindling small branded markets.

Having gained its own technological prowess since 1998, the PDP filter business plans to continue its investment in mass production and sales expansion. Today it does business with major players, like Samsung, Philips, and Hitachi, with whom it will build a strong sales network in 2007.

In 2007 the Display Materials Business will respond to the demand for substitute materials and simplified structures by more actively developing new products and improve time-to-market performance, thereby maximizing sales. We will also spare no efforts to reduce costs through technology innovation and to maximize profitability by leveraging best management practices. With strategic alliance with major Korean LCD panel manufacturers, we will continue to gain profits in the market for the light diffusion film for LCD, and dive right into the core LCD materials business, including polarizer protection/releasing film, micro lens film (MLF), prism sheet, triacetylcelluose (TAC) fabricated film, and Indium Tin Oxide (ITO) film.

Sales
(in billions of KRW)



Products from Display Materials Business

Electronic Materials	Optical films for LCD, optical filters for PDP, touch-panel materials
Industrial Medical Materials	Different adhesion products and patching medicine materials, scratch protection films, picture printing films for medical ultrasound scanners, protective films for PCB artwork films
Optical Materials	Dye for TFT LCD color filters
Electronic Parts	Optical filters (for PDP, LCD)

Demand for digital products is on the rise, along with the expansion of large-screen LCD and PDP television sets here in South Korea that relies on import for most of the core materials for display panels, and SKC's display materials business contributes a lot to the localization of these materials. This is one reason why SKC enjoys good business results through continued growth and profitability.

The fabricated materials business, in particular, is evolving into a world-class feature-rich composite fabricated materials business that provides solutions for a host of industries, including display, and electric-electronic industries, leveraging its superior coating technology and R&D power. In addition, it keeps generating high profits by acquiring stable production and sales partners.

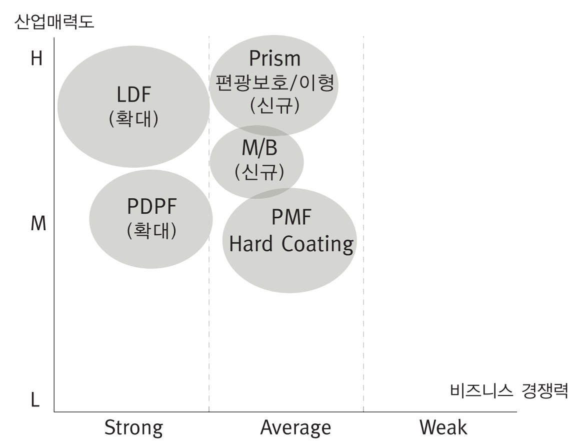
In order to capture the China market, we installed local production lines back in September 2003. Up and running, these production lines turned black in terms of earnings before tax in 2005, their second year of operation. As the demand of China market increased, we completed the second plant in China back in December 2006, which is in full operation now.

The fabricated materials business obtained continued profits with the LDF for LCD with strategic alliance with major Korean LCD panel makers in 2006 as well. In 2007 we will move full throttle into the core LCD materials business, including prism sheet, polarizer protection/releasing film, and TAC fabricated film, as well as developing new products for PCB, thereby turning this area into a core business of SKC.

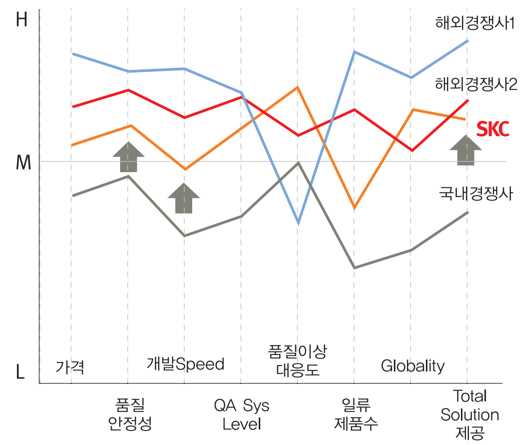
The PDP filters produced by SKC's Display Materials Business are expected to enjoy continued growth thanks to the increasing popularity of PDP TV sets (7 million units sold in 2005; 10 million in 2006). PDP filters were selected as an R&D task already in 1998. Since then, we have acquired our own technology expertise for these filters. A case in point is the patent on improving the color purity of PDP panels that we applied for. SKC is the only company in Korea to develop the end-to-end production processes all by itself. Since its first sale in 2003 to Philips, we have been working with major TV set makers at home and abroad, including Europe, Japan, China, and Latin America, to get quality certifications. Furthermore, with successful localization of the fabricated films required for PDP filter production, we have laid the foundation to enhance profitability, so that we will stabilize our business both quantitatively and qualitatively.

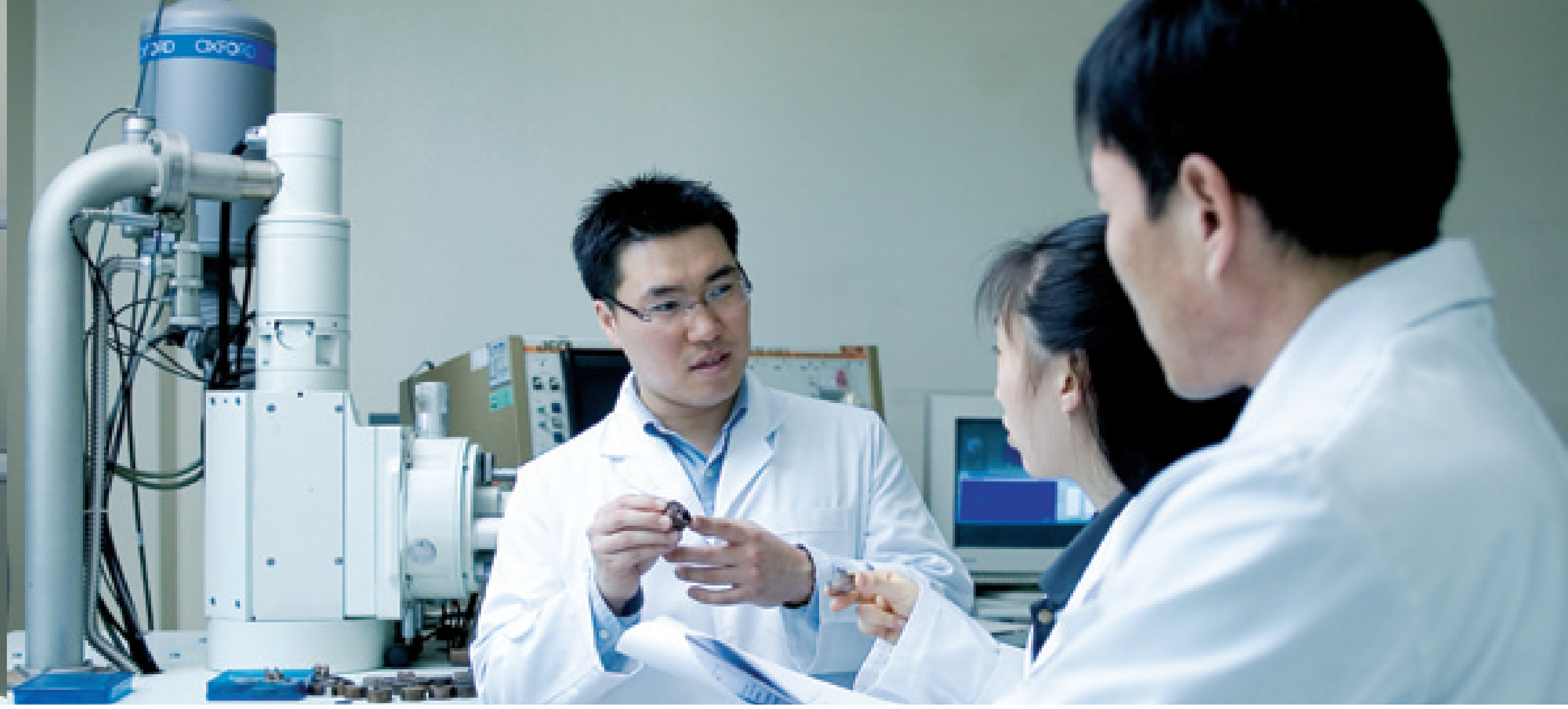
With continued development of advanced light diffusion films, while maintaining high market share and developing new value-added items and businesses, SKC will strengthen its position as the first supplier of choice through mutual growth with our key customers, delivering the level of quality our customers demand with thorough quality management and tighter relationship with strategic customers. Furthermore, by diversifying into high value-added products, we will continue to explore growth engines for tomorrow that will become a stable source of profits.

To-be Business Structure



Value Proposition





New Businesses

With more stable and proactive discovery of new growth businesses, we will open up a brighter future.

Polyimide (PI) Film

The PI film business that SKC is engaged in is a promising industry with high growth potential due to the fact that it is a base film for the products, like FPCB and TAB, whose demand is on the rise as a result of telecommunication devices and computers (IT industry) getting ever smaller and lighter.

Today only a small number of companies across the world supplies most of the PI films. Here in Korea the industry relies on imports for a significant portion of the supply of PI films. Against this backdrop, SKC's PI film business, replacing some of imported films, will help make the business more profitable while contributing to the competitiveness of the Korean industry to boot.

In July 2006 SKC completed the construction of its first PI film plant (annual output: 300 tons), followed by the second plant with the same capacity slated to be completed by the first half of 2008.

Mill Base

In June 2005 SKC became the first Korean company to successfully produce mill base, key ingredient of color photo-resist for TFT-LCD, thereby taking to the next level the competitiveness of the Korean LCD industry that used to have relied heavily on import of most materials. With incessant research and development and self-initiated evolution, SKC is committed to developing composite fabricated materials and advanced materials for the industry, thereby offering our customers with the best solutions available.

Chemical Mechanical Planarization Pad

In order to lay the groundwork for its sustainable growth, SKC entered into the chemical mechanical planarization (CMP) pad business in 2001. Used in fabricating semiconductor materials, CMP pad business began commercial sales in earnest and won quality certification in 2004. Since 2006 SKC has been increasing revenue and customer base with stabilized quality and new product development.

Exploring New Growth Engines

In addition to today's three core business areas (chemicals, films, and display materials), SKC is planning to make forward-looking investments in and drive daring mergers and acquisitions for tomorrow's key business areas.

SKC is seeking for new business opportunities in a variety of ways through structured analyses of growth industries. Furthermore, we are working to get a pool of potential M&A and joint venture targets by analyzing promising companies, with a more in-depth look at emerging markets overseas. As a way to get advanced technologies transferred from Japan and Europe, we are pursuing M&A and joint venture opportunities from overseas.

In order to update and take advantage of the information and databases for each area of our expertise, SKC plans to make more active use of professional organizations, including major financial firms. We will also spare no efforts at networking to seek out global business opportunities.

Research and Development

We will renew our commitment to building a system to reinforce our R&D and technology sophistication, thereby getting more highly recognized by the world over.

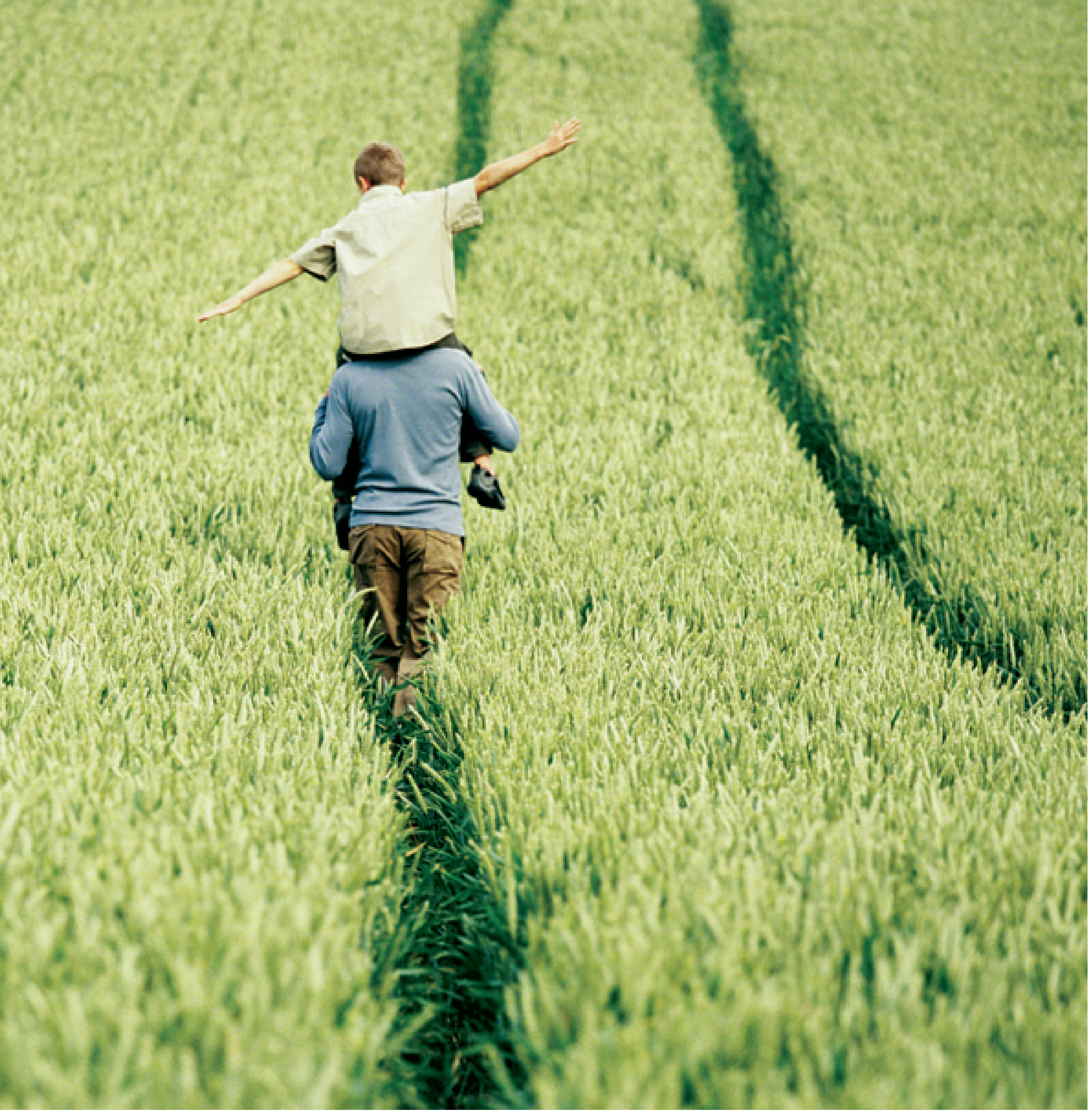
SKC Central R&D Center for Advanced Technologies makes its goal in 2007 to focus all R&D capabilities to generate profits across all business areas. Its strategic directions include exploring new growth businesses, letting quality management take hold, promoting SUPEX environment, and stabilizing new/expanded businesses early on. We will aggressively execute core implementation tasks for each of these strategic goals.

In 2007 R&D will put the three-pronged operational principles into practice. First, we will acquire market-leading technologies. To obtain leading technologies in the global as well as the local markets, we will accomplish early on the goals of technology developments. We will also acquire advanced technologies in our hands. With all these efforts we will become more competitive in terms of quality. Second, we will explore new growth businesses. New materials and technology businesses will drive our efforts to find tomorrow's growth engines. Third, we will establish innovative R&D processes. We will promote creative organization culture for R&D where talented resources can exhibit their full competencies. On top of all this, we will make SQMS (in Development) take root.

Acquiring unique technologies is a key to a company's competitiveness. Having invested heavily in R&D so far, SKC's Central R&D Center for Advanced Technologies has grouped its research and development activities into Corporate R&D, Division R&D, and Chemicals Laboratories. Corporate R&D focuses on core technologies that will help SKC become a super-excellent company. Selected after careful analysis of industry trends, each R&D theme is run as a project, where the state-gate model is applied to maximize the results of research and development. Division R&D puts its efforts into active development of new products and cost innovation in order to make today's businesses more competitive. The technology lab for the chemicals business is working on research and planning of forward-looking new businesses through technology developments and creation of customer values, including technology support, product research, and development of materials and application technology to promote the polyurethane industry. With gifted resources, cutting-edge analysis equipment, pilot, and foam makers at hand, we are running systems for new business development and customer support, so that we can lead with customers the information and telecommunication sector and the new medical materials business built on top of our polyurethane technologies.

Key Accomplishments of SKC Central R&D Center for Advanced Technologies

- Successfully developed prism sheet and commercializing it
- Developed lighting POF successfully and now selling it to customers
- Mass producing color mill base for TFT-LCD, first in Korea
- Decided to commercialize polyimide (PI) films based on world-class coating technology



We Build Trust & Dream

We build a world of sharing and happiness.
SKC promotes the practicing of love and the value of sharing. Active and continued service to the local communities comprises an important part of our corporate ethics. SKC Volunteer Squad is putting into practice a host of structured and organized community service activities. The more you share, the wealthier all of us will be. That's the happy world that SKC dreams of. SKC intends to become a trusted company that fulfills its duties as a corporate citizen, delivering the message that the true value of happiness and wealth can be found when you share what you have with the others in the society.

Habitat-SK Happy Village

Since March 2005 SKC has been engaged in SK Group's initiative to build "Habitat-SK Happy Village." To build homes for those who are in need, SK Group, in collaboration with Habitat Korea, takes the initiative to build Habitat-SK Happy Village by funding all amount needed for the lands, building materials, and the actual construction. We held a commencement ceremony for our volunteer squad in July 2006, with many of our employees and management, including Mr. Choi, Shin-Won, Chairman, SKC, and other CEOs and executives from SK Group companies. As the first culmination of our efforts, we held a ceremony on October 31 2006, to deliver the bible, flower bouquets, Happy TV sets, and the keys to the new homes to the families that were moving in. The first "Habitat-SK Happy Village" for 18 families is located in Suwon, Gyeonggi Province.

Local Communities

In a joint effort with Seocho House of Peace, a safe haven for the poor, SKC is helping out, especially in winter times and on holidays each year, those who live in poor housing in suburban areas of Seoul. We deliver rice, daily commodities, and arthritis cures to our neighbors in need and the elderly who live alone. Our CEO and employees work together to prepare kimchi and distribute it to each home as a way to show our love for our neighbors. In addition to the kimchi-preparation, we work actively to serve our local communities, by sponsoring the victims-of-crime support centers in Suwon and Chonan, for example.

Children, Teenagers

In a joint move with the Korean Citizen's Coalition for Teen Head of Household, the *Busrugy* Leftovers Love Sharing Community, and the Korea Food for the Hungry International (KFHI), SKC sponsors the country's teenager heads of households, school kids who have to skip lunch, and the children who are taken care of by Local Children's Centers, the social welfare organizations for the children in need. We provide scholarship to the students who suffer from economic difficulties, while donating personal computers to Local Children's Centers to improve their learning conditions, and supporting alternative schools with learning CD-Rs. Furthermore, each summer we invite more than a hundred teachers and students from social welfare organizations to Manripo beach and let them enjoy the "Exciting Summer Camp with SKC."

The Physically-challenged

We sponsor the facilities for the mentally challenged around the metropolitan area and pay a monthly visit and offer volunteer services. Not only SKC employees but their families participate in this program to work side by side with the mentally challenged at the self-supporting farms run by the mentally challenged themselves in Paju and Yoju near Seoul.

Environmental Protection

Winner of the 2004 Silver Tower of Energy Savings, Order of Industrial Service Merit, SKC is running the safety and environment systems in both Suwon and Chonan plants. With one-mountain-and-one-river-a-company campaign, we are leading the activities to clean up the mountains and rivers near the Suwon and Chonan plants. Every year we open up our plants and invite the residents around the plants, while offering facilities, like jogging lanes, for the comfort of our neighbors. We also clean up the streets around the plants.

Disaster Recovery

SKC is always ready to dispatch 50 experienced professionals to disaster areas within 36 hours in case of natural or other disasters, including typhoons, earthquakes, and fire. Even in case where international aid is required, like the tsunami that hit Indonesia, our employees chip in to collect a fund and deliver it via the Korea Food for the Hungry International (KFHI) to Indonesia to help them with developing wells for drinking water in Banda Ache, Indonesia.

Management Discussion & Analysis

2006 At a Glance

Even in the face of external difficulties, like surging price of ingredients due to high oil price, appreciation of Korean won, and delayed recovery of the domestic economy, SKC in 2006 accomplished record results of 1 trillion 211.8 billion won in sales, 117 billion won in operating income, the largest ever in the company history, and 100.6 billion won of current net income, through more advanced product mix and cost reduction initiatives.

Sales were down 14.0% y-o-y due to the shutdown of the Information & Telecommunication (mobile handset) business; but on the other hand, both operating income and net current income increased 21.7% and 310.1%, respectively.

Excluding the Information & Telecommunication (mobile handset) business, the total sales increased 5.8% y-o-y to 1 trillion 15.4 billion won.

Even in the face of rising price of its key ingredient, terephthalic acid (TPA), the film business recorded sales of 326.3 billion won in 2006. Thanks to our efforts to reduce the portion of generic films in our product portfolio and expanding into high value-added films, the average sale price has increased, resulting in the increase of 11.9% in operating income y-o-y, and of 9.5% in operating income to sales.

Due mainly to the decline in sale prices, the operating income of Chemicals Business and the Display Materials Business were down 8.1% and 9.0%, respectively. On the other hand, these two businesses showed solid performance in operating income to sales of 14.4% and 9.3%, respectively, thanks to the increased output and reduced costs.

Having discontinued its production in the second half of 2005, the Information & Telecommunication (mobile handset) business recorded operating loss of 3.4 billion won, due mainly to the costs related to the organizational restructuring.

By selling off non-operating assets, SKC recorded asset disposal income of 14.2 billion won, while reducing interests by continued cut down on borrowings, which is 41.0 billion won, down 10.3 billion won from the previous year. Equity income on investments recorded 40.5 billion won in net equity income, which is up 33.4 billion won from 2005, due to the improved performance of our investments in SK Shipping and SK Securities. In 2006 this performance helped us achieve the earnings before tax of 123.1 billion won, which is 6.1 billion won higher than the operating income.

The year 2006 was a year that SKC laid the foundation to strengthen the profitability of its core businesses.

From the first half of 2006, the propylene oxide (PO) lines were being expanded, followed by the completion of the first PI film plant in the second half of the year. In the future, the increased output from the expanded PO and PI films is expected to make today's businesses even more profitable.

On June 29, 2006, the board of directors of SKC determined to fold the low-profit mobile handset business. The shutdown of the Information & Telecommunication (mobile handset) business that recorded a meager 1.5% in operating income to sales resulted in the overall improvement of corporate operating income to sales performance.

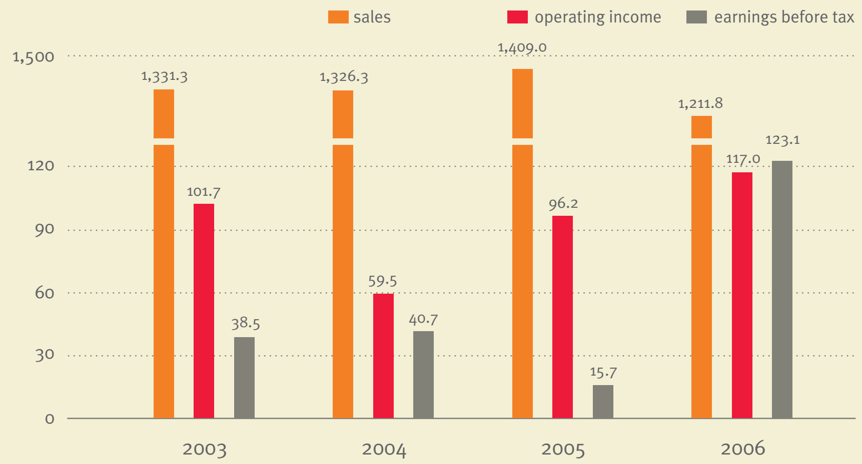
Operational Results by Division

(in billions of KRW)

	2004	2005	2006
Chemicals			
Sales	433.1	480.3	495.5
Operating income	57.2	77.6	71.3
Film			
Sales	271.2	306.9	326.3
Operating income	5.2	27.7	31.0
Display Materials			
Sales	95.7	172.5	193.6
Operating income	10.3	19.9	18.1
Mobile			
Sales	188.5	115.4	0
Operating income	-23.7	-33.9	0
Information & Telecommunication			
Sales	337.8	334.1	196.4
Operating income	10.5	4.9	-3.4
Total			
Sales	1,326.3	1,409.2	1,211.8
Operating income	59.5	96.2	117.0

Sales & Profit

(in billions of KRW)



Financial Conditions

Due mainly to the increase in tangible assets, SKC's total assets in 2006 recorded 1 trillion 359.3 billion won, which is up 10.8 billion won from the previous year.

On the other hand, the total debts of SKC were 792.4 billion won, down 12.9% from the previous year due to the reduction in corporate bonds. The total market capital in 2006 was 566.9 billion one, up 29.1% from 2005 due to the increase in earned surplus.

SKC's key stability indicators are as follows: SKC's debt ratio in 2006 has dropped dramatically from 207.2% down to 139.8%, while the borrowings and bonds payable ratio recorded 47.44%, an improvement over the previous year's 51.7%.

An unprecedented level of net current income contributed to the significant improvement in both return on assets (2006: 7.4%; 2005: 1.76%) and return on investment (2006:20.0%; 2005: 5.8%).

Summarized Financial Statements

Financial Conditions

(in miilions of KRW))

	2004	2005	2006
Current assets	390,733	394,672	316,618
Fixed assets	1,047,336	953,780	1,042,710
Total Assets	**1,438,069**	**1,348,452**	**1,359,328**
Current liabilities	545,081	402,167	394,529
Long-term liabilities	487,256	507,306	397,876
Total Liabilities	**1,032,337**	**909,473**	**792,405**
Common stock	162,775	164,631	174,146
Capital surplus	179,487	183,743	203,022
Retained earnings	52,811	77,296	170,937
Capital adjustment	10,659	13,309	18,818
Total Stockholders' Equity	**405,732**	**438,979**	**566,923**

Operation Results

(in miilions of KRW))

	2004	2005	2006
Ⅰ. Sales	1,326,276	1,409,024	1,211,821
Ⅱ. Cost of sales	1,145,065	1,198,276	984,868
Ⅲ. Gross profit on sales	181,211	210,748	226,953
Ⅳ. Selling and administrative expenses	121,760	114,578	109,903
Ⅴ. Operating income	59,451	96,170	117,050
Ⅵ. Non-operating income	121,969	73,597	91,342
Ⅶ. Non-operating expenses	140,723	154,048	85,325
Ⅷ. Ordinary income	40,697	15,719	123,067
Ⅸ. Extraordinary gains	0	0	0
Ⅹ. Extraordinary losses	0	0	0
ⅩⅠ. Income before income tax expense	40,697	15,719	123,067
ⅩⅡ. Income tax expense	-12,431	-8,827	22,426
ⅩⅢ. Net income	53,128	24,546	100,641

Financial Structure

Current Assets

In 2006 SKC's current assets recorded 316.6 billion won, down 24.7% from the previous year's 394.7 billion won.

Accounts receivable and inventory take up 85.2% of the total current assets. Compared to the results as of yearend 2005, we had smaller accounts receivable and inventory at yearend 2006 as a result of the shutdown of the Information & Telecommunication (mobile handset) business.

As of yearend 2006, the accounts receivable were 105.2 billion won, down 31.5% from 158.4 billion won. The inventory for this period was 164.4 billion won, down 5.0% from 173.1 billion won.

Fixed Assets

In 2006 fixed assets were valued at 1 trillion 42.7 billion won, a 9.3% increase y-o-y from 953.8 billion won, aided mostly by the increased assets under construction (AUC) which is 82.2 billion won, up 44.5% from 56.9 billion won in 2005. The AUC is related to the expansion of PO (Chemicals Business) and the second PI film plant.

Borrowings

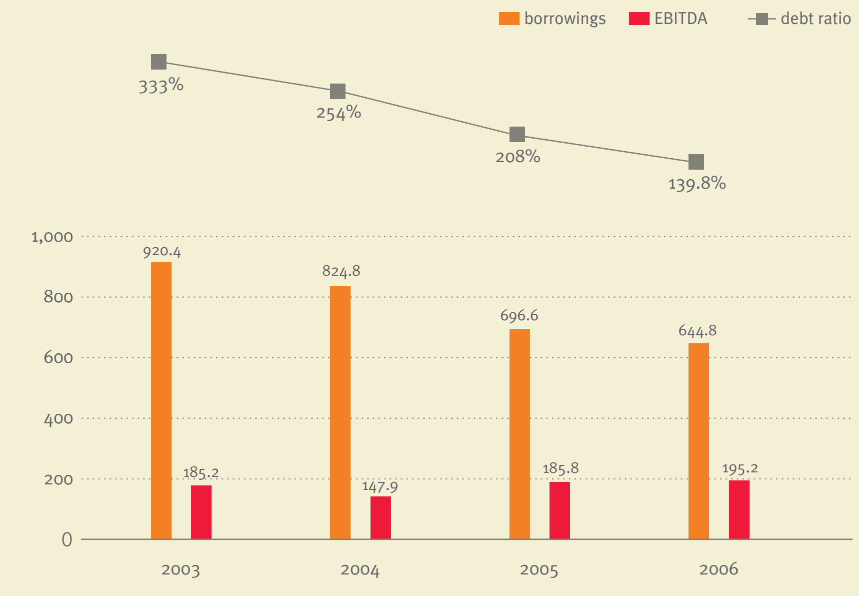
SKC's borrowings as of yearend 2006 are 644.8 billion won, down 7.4% from 696.6 billion at yearend 2005.

Our continued efforts to improve our financial structures helped reduce the borrowings. The cash-generating capability of SKC has been maximized through, for example, the disposal of non-operating assets, which generated 23.3 billion won in cash. Conversion of convertible bonds to stocks, and execution of rights for the bonds with warrants resulted in 25.9 billion won in cash.

SKC used the cash thus generated to repay its borrowings.

Borrowings/EBITDA/Debt Ratio

(in billions of KRW)



Borrowings

(in millions of KRW)

	2003	2004	2005	2006
Corporate bonds	5,232	6,017	4,845	4,800
CB	478	448	42	0
BW	0	0	405	372
Discount on bonds payable	△ 59	△ 15	△ 32	△ 21
Total	5,651	6,450	5,260	5,151
CP	2,346	741	603	231
Borrowings	1,166	1,115	926	1,054
Usance	41	41	179	12
Total	**9,204**	**8,248**	**6,968**	**6,448**

Capital Spending

SKC's capital spending in 2006 was worth 121.5 billion won, an increase of 20.0% from 101.3 billion won in 2005. The total capital spending of 121.5 billion won is divided into 57.3 billion won in chemicals business, 34.0 billion won in film business, 28.2 billion won in display materials business, and 2.0 billion won in R&D.

In 2007 SKC plans to spend some 260.0 billion won as a part of capital spending, which will be a significant increase from 2006. Most of the capital spending will be targeted at the expansion of PO facilities for the Chemicals Business, the construction of the second PI film plant for the Film Business, and the line expansion for Display Materials Business.

CAPEX

(in millions of KRW)

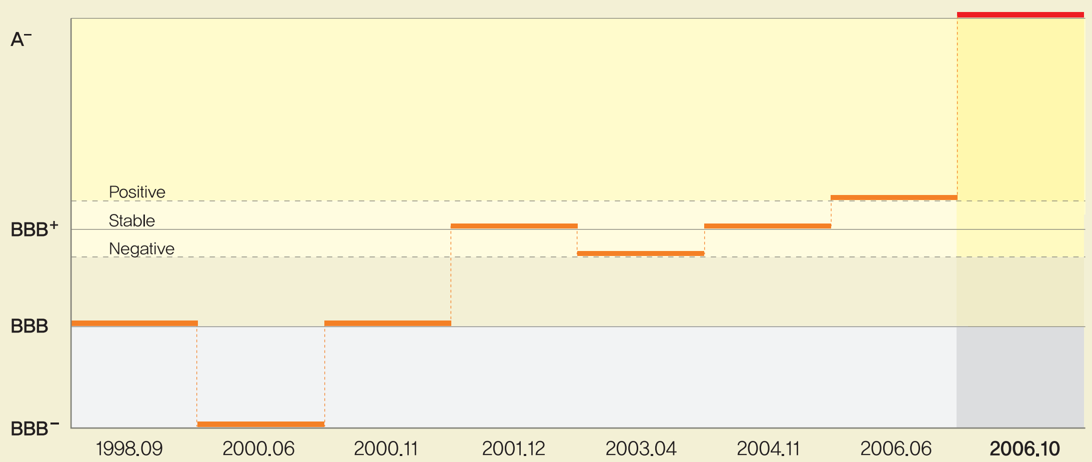
	2003	2004	2005	2006
Chemicals	162	196	249	573
Film	114	161	461	340
Display Materials	185	214	237	282
Other	279	50	66	20
Total	**680**	**621**	**1,013**	**1,215**

Ratings

SKC has been recognized by the top 3 credit ratings, including Korea Information Service, Korea Ratings, and National Information & Credit Evaluation, for its successful corporate restructuring, stable leadership position in the marketplace, and solid profit structure, so that the credit rating was moved up to A- from BBB+ in October 2006.

The credit rating hasn't moved for the past five years since December 2001 when SKC received BBB+. The most recent rating is expected to have positive impact on both financial (lowered interest rates for borrowings) and non-financial (more positive corporate image) aspects of the business.

Credit Rating



Financial Statements

Report of Independent Auditors

A member firm of
PRICEWATERHOUSECOOPERS
Samil PricewaterhouseCoopers
Kukje Center Building
191 Hangangno 2-ga, Yongsan-gu
Seoul 140-702, KOREA
[Yongsan P.O. Box 266, 140-600]

To the Shareholders and Board of Directors of SKC Co., Ltd.

We have audited the accompanying balance sheets of SKC Co., Ltd. ("the Company") as of December 31, 2006 and 2005, and the related statements of income, appropriation of retained earnings and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SKC Co., Ltd. as of December 31, 2006 and 2005, and the results of its operations, the 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.

The amounts expressed in US Dollars are provided solely for the convenience of the reader and have been translated on the basis set forth in Note 3 to the accompanying financial statements.

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 conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.

Samil PricewaterhouseCoopers

February 20, 2007

This report is effective as of February 20, 2007, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Balance Sheets

December 31, 2006 and 2005
(in thousands)

	Korean Won		U.S. Dollars (Note 3)	
	2006	2005	2006	2005
Assets				
Current assets				
Cash and cash equivalents, net of government subsidies (Note 31)	₩ 10,733,484	₩ 19,223,926	$ 11,546	$ 20,680
Trade accounts receivable	105,184,996	153,648,089	113,151	165,284
Inventories, net (Notes 4, 18)	164,429,735	173,132,081	176,882	186,244
Other receivables	14,338,168	17,333,727	15,424	18,646
Prepaid expenses	2,315,396	4,165,719	2,491	4,481
Short-term deferred tax assets (Note 26)	16,399,218	23,469,991	17,641	25,247
Other current assets (Notes 5, 25)	3,217,036	3,698,352	3,461	3,978
Total current assets	316,618,033	394,671,885	340,596	424,561
Investments (Notes 6, 7, 8)	301,865,746	276,652,253	324,726	297,604
Guarantee deposits	12,547,754	12,169,768	13,498	13,091
Long-term deferred tax assets (Note 26)	455,209	8,048,839	490	8,658
Property, plant and equipment (Notes 9, 18)	791,739,846	748,861,071	851,699	805,573
Intangible assets, net (Note 10)	(63,898,190)	(91,951,370)	(68,737)	(98,915)
Total assets	₩ 1,359,328,398	₩ 1,348,452,446	$ 1,462,272	$ 1,450,573
Liabilities and Shareholders' Equity				
Current liabilities				
Trade accounts payable	₩ 70,866,986	₩ 140,625,042	$ 76,234	$ 151,275
Other payables	27,879,628	30,197,604	29,991	32,485
Short-term borrowings	24,295,935	77,991,590	26,136	83,898
Current portion of long-term debt, net of discount (Note 13, 14, 15)	255,272,799	145,071,354	274,605	156,058
Accrued expenses	7,894,482	5,820,307	8,492	6,261
Other current liabilities (Notes 12, 25)	8,318,957	2,460,557	8,949	2,647
Total current liabilities	394,528,787	402,166,454	424,407	432,623
Long-term debts (Notes 13, 15)	365,235,695	473,533,709	392,896	509,396
Accrued severance benefits, net (Note 16)	28,063,266	24,970,109	30,189	26,861
Other long-term liabilities (Note 17)	4,577,199	8,802,536	4,923	9,469
Total liabilities	792,404,947	909,472,808	852,415	978,349
Commitments and contingencies (Notes 11, 28)				
Shareholders' equity				
Common stock (Note 19)	174,146,015	164,631,460	187,334	177,099
Capital surplus (Note 20)	203,022,240	183,742,448	218,397	197,658
Retained earnings	155,927,550	63,096,404	167,737	67,875
Other reserves (Note 21)	15,010,000	14,200,000	16,146	15,275
Capital adjustments (Notes 22, 29)	18,817,646	13,309,326	20,243	14,317
Total shareholders' equity	566,923,451	438,979,638	609,857	472,224
Total liabilities and shareholders' equity	₩ 1,359,328,398	₩ 1,348,452,446	$ 1,462,272	$ 1,450,573 2006

The accompanying notes are an integral part of these financial statements.

Statements of Income

Years Ended December 31, 2006 and 2005
(in thousands, except per share data)

	Korean Won		U.S. Dollars (Note 3)	
	2006	2005	2006	2005
Sales	**₩ 1,211,821,044**	**₩ 1,409,023,730**	**$1,303,594**	**$ 1,515,731**
Cost of sales	**984,868,408**	**1,198,276,048**	**1,059,454**	**1,289,023**
Gross profit	**226,952,636**	**210,747,682**	**244,140**	**226,708**
Selling and administrative expenses (Note 24)	**109,902,931**	**114,577,637**	**118,226**	**123,255**
Operating income	**117,049,705**	**96,170,045**	**125,914**	**103,453**
Non-operating income (expenses)				
Interest expenses	(38,258,461)	(46,532,796)	(41,156)	(50,057)
Loss on foreign currency transactions	(123,806)	(1,018,134)	(133)	(1,095)
Gain on foreign currency translations	3,290,557	505,425	3,540	544
Gain on valuation of equity method investments	40,456,949	7,076,100	43,521	7,612
Gain on disposal of equity method investments	-	7,551,514	-	8,123
Loss on disposal of property, plant and equipment	(2,177,730)	(14,013,243)	(2,343)	(15,074)
Loss on impairment of property, plant and equipment	-	(9,496,480)	-	(10,216)
Loss on impairment of intangible assets	-	(9,508,906)	-	(10,229)
Gain on repayment of long-term debts	-	5,303,045	-	5,705
Reversal of negative goodwill	14,405,805	12,461,213	15,497	13,405
Loss from business restructuring	(3,130,446)	(28,389,206)	(3,368)	(30,539)
Others	(8,446,006)	(4,389,518)	(9,086)	(4,722)
Income before income tax expense (benefit)	**123,066,567**	**15,719,059**	**132,386**	**16,909**
Income tax expense (benefit) (Note 26)	**22,425,950**	**(8,826,618)**	**24,124**	**(9,495)**
Net income	**₩ 100,640,617**	**₩ 24,545,677**	**$ 108,262**	**$ 26,405**
Per share data (Note 27)				
Ordinary income per share	₩ 2,993	₩ 765	$ 3.22	$ 0.82
Earnings per share	2,993	765	3.22	0.82
Retained earnings before appropriation				
Unappropriated retained earnings carried over from prior year	₩ 54,228,799	₩ 38,610,565	$ 58,336	$ 41,535
Changes in retained earnings of investees	31,265	713	34	1
Changes in negative retained earnings of investees	1,026,869	(60,551)	1,105	(65)
Net income	100,640,617	24,545,677	108,262	26,405
	155,927,550	63,096,404	167,737	67,875
Appropriation of retained earnings				
Legal reserve	1,032,628	810,000	1,111	871
Dividends	10,326,279	8,057,605	11,108	8,668
	11,358,907	8,867,605	12,219	9,539
Unappropriated retained earnings to be carried forward to subsequent year	**₩ 144,568,643**	**₩ 54,228,799**	**$ 155,518**	**$ 58,336**

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

Years Ended December 31, 2006 and 2005
(in thousands)

	Korean Won		U.S. Dollars (Note 3)	
	2006	2005	2006	2005
Cash flows from operating activities				
Net income	₩ 100,640,617	₩ 24,545,677	$ 108,262	$ 26,405
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	79,237,069	89,648,118	85,238	96,437
Provision for severance indemnities	18,387,044	17,472,701	19,780	18,796
(Reversal of) allowance for bad debts	1,275,399	(781,381)	1,372	(841)
Loss on foreign currency translation	3,290,557	505,425	3,540	544
Gain on valuation of equity method investments	(40,456,949)	(7,076,100)	(43,521)	(7,612)
Gain on disposal of equity method investments	-	(7,551,514)	-	(8,123)
Loss on disposal of property, plant and equipment	2,177,730	14,013,243	2,342	15,074
Loss on impairment of property, plant and equipment	-	9,496,480	-	10,216
Loss on impairment of intangible assets	-	9,508,906	-	10,229
Gain on repayment of long-term borrowings	-	(5,303,045)	-	(5,705)
Reversal of negative goodwill	(14,405,805)	(12,461,213)	(15,497)	(13,405)
Others	2,936,516	6,828,424	3,159	7,346
Changes in operating assets and liabilities				
Trade and other accounts receivable	54,123,683	(67,609,973)	58,222	(72,730)
Inventories	1,911,210	7,107,848	2,056	7,646
Trade accounts payable	(69,694,759)	17,079,811	(74,973)	18,373
Others	11,019,467	781,392	11,854	841
Payment of severance benefits	(11,853,550)	24,576,776	(12,751)	26,438
Net cash provided by operating activities	**138,588,229**	**91,456,953**	**149,083**	**98,383**
Cash flows from investing activities				
Disposal of short-term financial instruments	-	1,000,000	-	1,076
Disposal of investments	11,476,369	56,517,622	12,345	60,798
Acquisition of intangible assets	(12,340,544)	(9,294,397)	(13,275)	(9,998)
Acquisition of property, plant and equipment	(121,583,893)	(87,764,803)	(130,792)	(94,411)
Others	2,405,117	8,725,216	2,587	9,386
Net cash used in investing activities	**(120,042,951)**	**(30,816,362)**	**(129,135)**	**(33,150)**

Years Ended December 31, 2006 and 2005
(in thousands)

	Korean Won		U.S. Dollars (Note 3)	
	2006	2005	2006	2005
Cash flows from financing activities				
Repayment of short-term borrowings	(53,695,655)	(3,244,259)	(57,762)	(3,490)
Payment of other debts	(137,074,269)	(216,599,187)	(147,455)	(233,003)
Proceeds from long-term debts	149,271,000	147,365,545	160,576	158,526
Stock issuance	21,730,800	-	23,377	-
Payment of dividends	(8,057,605)	-	(8,668)	-
Net cash used in financing activities	**(27,825,729)**	**(72,477,901)**	**(29,932)**	**(77,967)**
Net decrease in cash and cash equivalents	**(9,280,451)**	**(11,837,310)**	**(9,984)**	**(12,734)**
Cash and cash equivalents (Note 31)				
Beginning of year	**20,655,261**	**32,492,571**	**22,220**	**34,953**
End of year	**₩ 11,374,810**	**₩ 20,655,261**	**$ 12,236**	**$ 22,220**

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

December 31, 2006 and 2005

1. The Company

SKC Co., Ltd. (the "Company") was established in 1973 under the Commercial Code of the Republic of Korea to engage in the manufacture and sale of polyester film, digital media product, basic chemical product and other similar products.

On July 18, 1997, the Company was listed on the Korea Stock Exchange. As of December 31, 2006, the majority shareholder of the Company is SK Corporation which has 44.19% ownership.

2. Summary of Significant Accounting Policies

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

Basis of Financial Statement Presentation

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with 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 from the Korean language financial statements. Certain information attached to 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 interim financial statements.

Accounting Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

Application of the Statements of Korea Financial Accounting Standards

The Korean Accounting Standards Board ("KASB") has published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards established by the Korean Financial and Supervisory Board. SKFAS No. 1 through No. 17(except No. 11) became applicable to the Company on January 1, 2005, and SKFAS No. 18 through No. 20 became effective for the Company on January 1, 2006. The Company adopted these Standards in its financial statements for the years ended December 31, 2005 and 2006, respectively.

Revenue Recognition

Sales of manufactured products and goods are recognized upon delivery when the significant risks and rewards of ownership of the goods are transferred to the buyer.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection.

Inventories

Inventories are stated at the lower of cost or market, with cost being determined by the weightedaverage method for finished goods, semi finished goods and work-in-process, the moving average method for merchandise, raw materials and supplies, and the specific identification method for materials-in-transit. Inventory quantities are determined using perpetual inventory records, being adjusted to physical counts of inventory. If the net realizable value of inventory is less than its cost, an inventory provision account representing the valuation loss, is presented to reduce the inventory to its net realizable value. The said valuation loss is recorded as cost of sales. If, however, the circumstances which caused the valuation loss cease to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The said reversal is a deduction from cost of sales.

Investments in Securities

The Company accounts for equity and debt securities under the provision of SKFAS No. 8, Investments in Securities. This statement requires investments in equity and debt securities to be classified into three categories: trading, available-for-sale and held-to-maturity.

Securities are initially carried at cost, including incidental expenses, with cost being determined using the moving weighted average method. Debt securities, which the Company has the intent and ability to hold to maturity, are generally carried at cost, adjusted for the amortization of discounts or premiums. Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest method. Trading and available-for-sale securities are carried at fair value, except for non-marketable securities, classified as available-for-sale securities, which are carried at cost. Non-marketable debt securities are carried at a value using the present value of future cash flows, discounted at a reasonable interest rate determined considering the credit ratings provided by independent credit rating agencies.

Unrealized valuation gains or losses on trading securities are charged to operations and those resulting from available-for-sale securities are charged to capital adjustment, the accumulated amount of which shall be charged to operations when the related securities are sold, or when an impairment loss on the securities is recognized. Impairment losses are recognized in the statement of income when the recoverable amounts are less than the acquisition cost of securities or adjusted cost of debt securities for the amortization of discounts or premiums.

Investments in equity securities of companies, over which the Company exercises a significant control or influences, are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee. The Company discontinues the equity method of accounting for investments in equity method investees when the Company's share in the accumulated losses of the investees equals the costs of the investments and until the subsequent cumulative changes in its proportionate net income of the investees equals its cumulative proportionate net losses not recognized during the periods when the equity method was suspended. Differences between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investee are amortized over a period of up to 20 years and the amortization is charged to current operations.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, except in the case of revaluation made in accordance with the Asset Revaluation Law on January 1, 1996 and July 1, 2000. Plant and equipment under capital leases are stated at an amount equal to the lower of their fair value or the present value of minimum lease payments at inception of lease. Significant additions or improvements extending useful lives of assets are capitalized. However, normal maintenance and repairs are charged to expense as incurred.

Depreciation is computed using the declining-balance method using the rates based on useful lives of the respective assets as follows:

	Estimated useful lives
Buildings	15~30 years
Structures	15~30 years
Machinery and equipment	5~10 years
Vehicles	5~10 years
Other tangible assets	5~10 years

The Company recognizes interest costs and other financial charges on borrowings associated with the manufacture, purchase, or construction of property, plant and equipment as an expense in the period they are incurred.

The Company assesses the potential impairment of property, plant and equipment when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely. The carrying value of the asset is reduced to its estimated realizable value by recording an impairment loss charged to current operations and presenting it as a reduction from the said carrying value. However, any recovery of the impaired asset is recorded in current operations and should not exceed the carrying amount of the asset before impairment.

Negative Goodwill

As a result of the merger, the Company recognized negative goodwill. In case of disposal of the undepreciable non-monetary assets such as land, the related portion of negative goodwill will be recognized as gain. The portion of negative goodwill relating to the depreciable assets is amortized during the weighted-average useful lives of the depreciable assets.

Intangible Assets

Intangible assets are stated at cost less accumulated amortization, as described below.

	Estimated useful lives
Industrial rights	5~10 years
Right of using gas	10 years
Software	5 years

The Company assesses the potential impairment of intangible assets when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely. The carrying value of the asset is reduced to its estimated realizable value by recording an impairment loss charged to current operations and presenting it as a reduction from the said carrying value. However, any recovery of the impaired asset is recorded in current operations and should not exceed the carrying amount of the asset before impairment.

Research and Development Costs

Ordinary research and development costs are expensed as incurred. Development costs directly relating to a new technology or new products with probable future benefits are capitalized as intangible assets. Amortization of development costs is computed using the straight-line method over five years from the commencement of the commercial production of the related products or use of the related technology. Such costs are subject to periodic review of their recoverability. In the event that such amounts are determined to be not recoverable, they are either written down or written off from the accounts.

Valuation of Receivables and Payables at Present Value

Receivables and payables arising from long-term installment transactions, long-term cash loans/borrowings and other similar loan/borrowing transactions are stated at present value. The difference between nominal value and present value is deducted directly from the nominal value of related receivables or payables and is amortized using the effective interest method. The amount amortized is included in interest expense or interest income.

Convertible Notes and Bonds with Warrants

When issuing convertible bonds or bonds with stock purchase warrants, the values of the conversion rights or stock warrants shall be recognized separately.

Considerations for conversion rights or stock warrants shall be measured by deducting the present value of ordinary or straight debt securities (including redemption premium applicable) from the gross proceeds of the convertible bonds or bonds with stock purchase warrants received at the date of issue. However, in the case of bonds with detachable stock warrants, considerations for such warrants shall be computed based on the fair values of the two core components-straight debt securities and detachable stock warrants.

Discount on Debentures

Discount on debenture issued, which represents the difference between the face value and issuance price of debentures, is amortized using the effective interest method over the life of the debentures. The amount amortized is included in interest expense.

Accrued Severance Benefits

Employees and directors with at least a year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date.

The Company has made deposits to the National Pension Fund in accordance with National Pension Funds Law. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheet are presented net of this deposit.

Accrued severance benefits are funded at approximately 59.91% as of December 31, 2006 (2005: 60.33%), through a group severance insurance plan, and are presented as a deduction from accrued severance benefits.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the prevailing exchange rate at the balance sheet date, and resulting translation gains and losses are recognized in current operations.

Foreign currency assets and liabilities of foreign-based operations and companies accounted for using the equity method are translated at current rate of exchange at the balance sheet date while profit and loss items in the statement of earnings are translated at average rate and capital account at historical rate. The translation gains and losses arising from collective translation of the foreign currency financial statements of foreign-based operations are offset and the balance is accumulated as capital adjustment.

Derivatives

Derivative instruments are presented as assets or liabilities valued principally at the fair value of rights or obligations associated with the derivative contracts. The unrealized gain or loss from derivative transactions is recognized in current operations.

However, for derivative instruments with the purpose of hedging the exposure to the variability of cash flows of a forecasted transaction, the hedge-effective portion of the derivative's gain or loss is deferred as a capital adjustment, a component of stockholder's equity. The ineffective portion of the gain or loss is charged or credited to current operations.

Forward foreign exchange contracts, whose purpose is to hedge foreign exchange receivables and payables in the future, are classified as forward foreign exchange contracts for hedging purposes. Unrealized gain or loss on forward foreign exchange contracts for hedging purposes are deferred as capital adjustment. The deferred gain or loss will be credited or charged to income when related foreign exchange receivables and payables are settled.

Stock Options

The stock option program allows the Company's employees to acquire shares of the Company. The option exercise price is generally fixed at below the market price of shares at the date of the grant. The Company values stock options based upon an option pricing model under the fair value method or the minimum value method and recognizes this value as an expense over the period in which the options vest. When the options are exercised, equity is increased by the amount of the proceeds received, and the difference between the exercise price and market price is included in compensation cost and credited to the capital adjustment account.

Income Tax Expenses

Income tax expenses consist of current and deferred taxes. Current income tax expense includes corporate income tax and resident tax surcharges payable for the current year. In addition to the current income taxes, deferred income taxes are recognized for the tax consequences in future years of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets arising from net operating losses or temporary differences are recognized only when it is probable that future taxable income will be available against which the deferred tax asset can be utilized.

The balance sheet distinguishes the current and non-current portions of the deferred tax assets and liabilities, whose balances are offset against each other.

Prior Period Adjustments

Prior period adjustments resulting from other than fundamental errors are charged or credited to net income for the current period. The fundamental errors are defined as errors with such a significant effect on the financial statements for one or more prior periods that those financial statements can no longer be considered to have been reliable at the date of their issuance. The prior period adjustments resulting from the fundamental errors are charged or credited to the beginning balance of retained earnings, and the financial statements of the prior period are restated.

3. Presentation of US Dollar Amounts

The Company operates primarily in Korean won and its accounting records are maintained in Korean won. The U.S. dollars amounts, provided herein, represent supplementary information, solely for the convenience of the reader. All Korean won amounts are expressed in U.S. dollars at ₩ 929.6 to US$ 1, the exchange rate in effect on December 31, 2006. Such presentation is not in accordance with generally accepted financial accounting standards in either the Republic of Korea or the United States, and should not be construed as a representation that the amounts shown could be readily converted, realized or settled in U.S. dollars at this or any other rate.

4. Inventories

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

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Merchandise	₩ 4,992,270	₩ 5,154,007	$ 5,370	$ 5,544
Finished goods	63,318,507	35,965,228	68,114	38,689
Semi-finished goods and work-in-process	40,662,925	54,217,405	43,742	58,323
Raw materials and supplies	44,763,058	75,853,369	48,153	81,598
Materials-in-transit	11,303,619	2,614,977	12,160	2,813
Other inventories	779,621	810,115	839	872
Provision for inventory valuation loss	(1,390,265)	(1,483,020)	(1,496)	(1,595)
	₩ 164,429,735	₩ 173,132,081	$176,882	$ 186,244

5. Other Current Assets

Other current assets as of December 31, 2006 and 2005, consist of the following:

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Accrued income	₩ 489,054	₩ 473,676	$ 526	$ 510
Short-term loans receivable, net of allowance	1,630,000	1,426,500	1,754	1,534
Advance payments	874,624	160,000	941	172
Forward foreign exchange contracts	865	6,341	1	7
Prepaid income taxes	-	1,444,053	-	1,553
Others	222,493	187,782	239	202
	₩ 3,217,036	₩ 3,698,352	$ 3,461	$ 3,978

6. Investments

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

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Long-term financial instruments	₩ 37,500	₩ 1,637,500	$ 40	$ 1,762
Available-for-sale securities (Note 7)				
Investments in unlisted securities	17,761,709	19,771,111	19,107	21,268
Investments in listed securities	26,464,796	34,665,005	28,469	37,290
Debt securities	4,748,530	1,990,534	5,108	2,141
Held-to-maturity securities (Note 7)	-	99,970	-	108
Equity method investments (Note 7)	245,452,891	216,494,633	264,041	232,890
Long-term loans receivable	7,400,320	1,993,500	7,961	2,145
	₩ 301,865,746	₩ 276,652,253	$324,726	$ 297,604

7. Investments in Securities

Available-for-sale securities

Investments in unlisted securities as of December 31, 2006 and 2005, are summarized as follows:

(in thousands)

	Percentage of ownership (%)	Korean Won		U.S. Dollars	
		2006	2005	2006	2005
Walker Hill, Ltd.	7.50%	₩ 4,677,274	₩ 4,677,274	$ 5,031	$ 5,031
Xianzhong Polyurethane Co., Ltd.	0.00%	-	2,834,912	-	3,050
Xianfeng Polyurethane Co., Ltd.	0.00%	-	2,629,406	-	2,828
SKC ACME Specialty Film	0.00%	-	1,575,800	-	1,694
Jehil Polyurethane(Wujiang) Co., Ltd.	0.00%	-	1,369,177	-	1,472
Global Millennium Venture Investment	5.00%	1,000,000	1,000,000	1,076	1,076
Nes Display Co., Ltd.	0.00%	-	817,000	-	879
Sawnics Co., Ltd.	16.34%	749,996	749,996	807	807
SKC-Sejin Opto					
Electronic(Suzhou) Co., Ltd.	0.00%	-	642,820	-	692
The Korea Economic Daily	0.58%	633,641	633,641	682	682
PUSYS Co., Ltd.	16.48%	482,353	482,353	519	519
Digital Biotech Co., Ltd.	0.00%	-	300,020	-	323
SK Mobile Energy	11.66%	9,096,330	-	9,785	-
Others		1,122,115	2,058,712	1,207	2,215
		₩ 17,761,709	₩ 19,771,111	$ 19,107	$ 21,268

Investment in listed securities as of December 31, 2006 and 2005, are summarized as follows:

(in thousands)

	Percentage of ownership (%)	Korean Won		U.S. Dollars	
		2006	2005	2006	2005
SK Chemicals Co., Ltd.	2.90%	₩ 23,942,168	₩ 31,064,048	$ 25,755	$ 33,417
SK Chemicals Co., Ltd. preferred stock	2.70%	1,278,228	1,019,539	1,375	1,097
Sejin T.S Co., Ltd.	6.07%	1,244,400	2,042,550	1,339	2,197
Isotechnika	0.00%	-	538,868	-	579
		₩ 26,464,796	₩ 34,665,005	$ 28,469	$ 37,290

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

(in thousands)

	Maturity date	Korean Won		U.S. Dollars	
		2006	2005	2006	2005
Tong Yang Investment Bank	March 31, 2011	₩ 2,248,530	₩ 1,990,534	$ 2,419	$ 2,141
Mococo Co., Ltd.	Dec 19, 2008	2,500,000	-	2,689	-
		₩ 4,748,530	₩ 1,990,534	$ 5,108	$ 2,141

Held-to-maturity securities

Held-to-maturity securities as of December 31, 2006 and 2005, are summarized as follows:

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Government and municipal bonds	₩ -	₩ 99,970	$ -	$ 108
Subordinate bonds	-	-	-	-
	₩ -	₩ 99,970	$ -	$ 108

Equity Method Investments

Investments in affiliated companies accounted for using the equity method as of December 31, 2006 and 2005, are summarized as follows:

(in thousands)

	Percentage of ownership (%)	Korean Won		U.S. Dollars	
		2006	2005	2006	2005
SK Shipping Co.	10.16%	₩ 65,157,936	₩ 51,036,174	$ 70,092	$ 54,901
SK Securities Co., Ltd.	12.41%	56,399,404	49,113,695	60,671	52,833
SKC, Inc.	70.31%	40,758,265	43,121,084	43,845	46,387
SK Telesys Co., Ltd.	77.13%	33,735,756	26,722,765	36,291	28,747
SKC Media	100.00%	21,872,169	21,721,823	23,528	23,367
SKC New Material	100.00%	12,125,423	11,358,854	13,044	12,219
TSF	25.00%	3,057,111	3,099,666	3,289	3,334
SKC Mobile Energy	0.00%	-	2,040,781	-	2,195
SI Digitec	49.00%	1,981,190	1,906,691	2,131	2,051
Mediastar Technology, Ltd.	32.06%	1,587,757	1,616,418	1,708	1,739
Global Recording Media, Co.	0.00%	-	1,179,685	-	1,269
SK China Company	13.90%	791,351	1,051,081	851	1,131
Nexel Co.	0.00%	-	1,004,141	-	1,080
SKC Europe GmbH	100.00%	343,027	813,690	369	875
Infosec Co., Inc.	0.00%	-	708,085	-	762
SKC-Sejin Opto	35.00%	1,186,933	-	1,277	-
SKC ACME Spe.	50.00%	1,575,800	-	1,695	-
SKC Int'l	100.00%	199,980	-	215	-
Xianzhong Polyurethane Co., Ltd.	100.00%	953,898	-	1,026	-
Xianfeng Polyurethane Co., Ltd.	80.00%	2,629,406	-	2,828	-
XinJin Polyurethane Co., Ltd	50.00%	515,660	-	555	-
Jehil Polyurethane(Wujiang) Co., Ltd.	41.18%	581,825	-	626	-
		₩ 245,452,891	₩ 216,494,633	$ 264,041	$ 232,890

The difference between the carrying value and the amount after adjusting the Company's interest in investee's net assets is charged or credited to current income and such difference owing to changes in the investee's retained earnings is presented as an increase or decrease in the Company's beginning balance of retained earnings. If the difference arises from the changes in investee's capital surplus or capital adjustment, it is charged to the capital adjustment account, a component of shareholders' equity.

The financial information of the invested companies as of and for the year ended December 31, 2006, is summarized as follows:

(in thousands)

	Total assets	Total liabilities	Sales	Net income (loss)
SK Securities Co., Ltd.	₩ 1,553,164,159	₩ 1,236,861,708	₩ 126,457,478	₩ 40,260,625
SK Telesys Co., Ltd.	169,466,569	134,850,512	354,501,499	10,086,435
SKC, Inc.	313,358,321	240,379,490	235,651,551	1,899,286
SKC Europe GmbH	21,341,671	19,611,268	58,811,212	176,666
SK China Company	6,581,958	888,789	4,049,848	(1,295,682)
SI Digitec	8,799,347	4,129,781	5,719,343	309,251
SKC New Material	16,538,640	3,505,540	15,692,892	1,353,394
SK Shipping Co.	1,711,433,000	1,069,875,000	1,775,503,000	147,180,000
SKC Media	31,721,188	10,026,280	56,176,357	169,310
TSF	20,858,118	8,629,674	-	-
SKC-Sejin Opto	8,302,718	4,911,481	18,492,611	839,613
Mediastar Technology, Ltd.	3,750,402	1,571,165	9,907,235	(581,799)
SKC ACME Spe.	5,886,243	3,096,166	-	-
SKC Int'l	253,247	42,974	1,188,453	23,783
Xianzhong Polyurethane Co., Ltd.	4,899,074	3,945,176	4,097,268	(452,893)
Xianfeng Polyurethane Co., Ltd.	2,677,686	25,202	-	(4,030)
XinJin Polyurethane Co., Ltd	1,505,948	565,339	1,833,486	(64,942)
Jehil Polyurethane (Wujiang) Co., Ltd.	4,355,022	2,942,139	2,072,592	(303,141)

8. Restricted Deposits

Certain amounts included in long-term financial instruments are restricted in connection with a bank overdraft arrangement as of December 31, 2006 and 2005, are as follows:

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Long-term financial instruments	₩ 37,500	₩ 37,500	$ 40	$ 40

9. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2006 and 2005, are summarized as follows:

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Land	₩ 168,117,790	₩ 163,746,165	$ 180,850	$ 176,147
Buildings	184,395,543	170,841,673	198,360	183,780
Structures	60,022,882	55,939,534	64,568	60,176
Machinery	653,009,170	604,352,724	702,463	650,121
Vehicles	3,333,412	3,389,781	3,586	3,646
Others	54,036,151	55,477,744	58,128	59,679
Construction-in-progress	82,242,664	56,865,090	88,471	61,172
	1,205,157,612	1,110,612,711	1,296,426	1,194,721
Less: Accumulated depreciation	(409,038,594)	(352,255,159)	(440,016)	(378,932)
Accumulated impairment	(4,379,172)	(9,496,481)	(4,711)	(10,216)
	₩ 791,739,846	₩ 748,861,071	$ 851,699	$ 805,573

10. Intangible Assets

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

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Development cost	₩ 29,267,410	₩ 15,678,192	$ 31,484	$ 16,866
Less: Government subsidy	(816,000)	(816,000)	(878)	(878)
	28,451,410	14,862,192	30,606	15,988
Industrial rights	679,674	508,591	731	547
Right of using gas	771	30,530	1	33
Others	112,333	195,500	121	210
Negative goodwill[1]	(93,142,378)	(107,548,183)	(100,196)	(115,693)
	₩ (63,898,190)	₩ (91,951,370)	$ (68,737)	$ (98,915)

[1] The Company recognized negative goodwill in 2001 during the acquisition of SK Evertec Co., Ltd.

11. Pledged Assets and Guarantees

The following assets are pledged as collaterals for the borrowings from banks as of December 31, 2006:

Pledged assets	Particulars
Securities	
SK Securities Co., Ltd.	8,683,451 shares
SK Telesys Co., Ltd.	1,600,000 shares
Property, plant and equipment	With book value of US$ 80 million and ₩ 628,961 million (equivalent to US$ 677 million)

As of December 31, 2006, the Company provided guarantees to related parties such as SKC, Inc. and other companies, amounting to US$ 143,000 thousand, ₩ 97,000,000 thousand and RMB 2,900 thousand.

In addition to the pledged assets for the related parties above, 9,660,000 shares of common stock of SK Securities Co., Ltd. are pledged as collaterals for related parties' borrowings from banks as of December 31, 2006.

The guarantees provided by the third and related party as of December 31, 2006 and 2005, are as follows:

(in thousands)

	2006		2005	
	Currency	Amount	Currency	Amount
Kumho Investment Bank	-	-	US$	963
Korea Exchange Bank	-	-	US$	1,000
Choi Taewon(Related party)	-	-	US$	80,000
			₩	90,000

12. Other Current Liabilities

Other current liabilities as of December 31, 2006 and 2005, are summarized as follows:

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Income received in advance	₩ 743	₩ 743	$ 1	$ 1
Advances from customers	162,882	341,108	175	367
Withholdings	2,989,587	2,082,991	3,216	2,241
Forward foreign exchange contracts	1,749,650	35,715	1,882	38
Income tax payable	3,416,095	-	3,675	-
	₩ 8,318,957	₩ 2,460,557	$ 8,949	$ 2,647

13. Long-term Debts

Long-term debts as of December 31, 2006 and 2005, consist of the following:

(in thousands)

	Percentage of ownership(%)	Korean Won		U.S. Dollars	
		2006	2005	2006	2005
Korean Won					
Citibank Korea Inc.	5.50	₩ 26,100	₩ 66,900	$ 28	$ 72
Korea Exchange Bank	7.00	-	46,800	-	50
The Korea Development Bank	3.25~7.60	83,337,840	72,583,760	89,649	78,081
Chohung Bank	4.42~4.72	3,625,150	4,648,950	3,900	5,001
Hana Bank	3.25~4.72	10,022,200	2,794,000	10,781	3,006
		97,011,290	80,140,410	104,358	86,210
Foreign currency					
The Korea Development	L+2.93~3.15	252,851	1,172,649	272	1,261
Bank	5.93~7.91	7,709,463	8,600,825	8,293	9,252
The Export-Import	L+0.50	-	1,953,643	-	2,102
Bank of Korea	5.96~6.35	429,475	702,009	462	755
		8,391,789	12,429,126	9,027	13,370
Bonds		480,000,000	484,500,000	516,351	521,192
Bonds with warrants (Note 15)		37,184,000	38,465,506	40,000	41,379
		622,587,079	615,535,042	669,736	662,151
Less: Unamortized discount on bonds		(923,990)	(1,263,406)	(994)	(1,359)
Current portion		(256,427,394)	(140,737,927)	(275,846)	(151,396)
		₩ 365,235,695	₩ 473,533,709	$ 392,896	$ 509,396

Aggregate maturities of the Company's long-term debts as of December 31, 2006, are as follows:

(in thousands)

Maturity	Korean Won	Foreign currency	Bonds	Bonds with warrants	Total
2007	₩ 7,830,670	₩ 1,412,724	₩ 210,000,000	₩ 37,184,000	₩ 256,427,394
2008	15,177,570	1,803,982	100,000,000	-	116,981,552
2009	17,639,650	1,589,244	110,000,000	-	129,228,894
Thereafter	56,363,400	3,585,839	60,000,000	-	119,949,239
	₩ 97,011,290	₩ 8,391,789	₩ 480,000,000	₩ 37,184,000	₩ 622,587,079

14. Convertible Bonds

Details of convertible bonds as of December 31, 2006, are as follows:

Date issued	December 4, 2003
Maturity date	December 4, 2006
Convertible period	From January 4, 2004 to November 4, 2006
Coupon rate	0%
Current conversion price	₩ 11,340/share
Foreign exchange rate in conversion	₩ 1,202.60/US$ 1
Amount of issue	US$ 40,000,000 (₩ 47,764 million)

15. Bonds with Warrants

Details of bonds with warrants as of December 31, 2006, are as follows:

Date issued	December 14, 2005
Maturity date	December 14, 2008
Convertible period	From January 14, 2006 to November 14, 2008
Coupon rate	0%
Initial conversion price	₩ 14,187/share
Foreign exchange rate in conversion	₩ 1,034.80/US$ 1
Amount of issue	US$ 40,000,000 (₩ 41,392 million)

16. Accrued Severance Benefits

Changes in the severance benefits for the years ended December 31, 2006 and 2005, are as follows:

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Beginning balance	₩ 66,166,948	₩ 76,181,224	$ 71,178	$ 81,951
Provision for severance benefits	18,387,044	17,472,701	19,780	18,796
Payment of severance benefits	(11,853,550)	(24,576,776)	(12,751)	(26,438)
Transfer to the spin-off company	-	(2,910,201)	-	(3,131)
	72,700,442	66,166,948	78,207	71,178
Less: Deposits for retirement insurance	(43,551,770)	(39,917,088)	(46,850)	(42,940)
Deposits to the National Pension Fund	(1,085,406)	(1,279,751)	(1,168)	(1,377)
Ending balance	₩ 28,063,266	₩ 24,970,109	$ 30,189	$ 26,861

17. Other Long-term Liabilities

Other long-term liabilities as of December 31, 2006 and 2005, are summarized as follows:

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Guarantee deposits received	₩ 228,188	₩ 5,539,988	$ 245	$ 5,959
Long-term other payables	2,102,418	3,262,548	2,261	3,510
Provision for pending litigation (Note 28)	2,246,593	-	2,417	-
	₩ 4,577,199	₩ 8,802,536	$ 4,923	$ 9,469

18. Insurance

Details of insurance policies as of December 31, 2006, are as follows:

(in thousands)

Type of Insurance	Assets insured	Book Value	Coverage
Fire insurance and others	Buildings	₩ 145,021,158	Total insurance
	Structures	46,611,817	coverage of
	Machinery	338,457,513	US$ 539,931
	Inventories	164,429,735	and ₩ 1,174,554
		₩ 694,520,223	

Additionally, as of December 31, 2006, the Company carries an insurance policy covering business interruption losses for up to ₩ 489,361 million, and insurance policies covering loss and liability arising from automobile accidents.

19. Capital Stock

The total authorized number of shares and the outstanding issued shares as of December 31, 2006 and 2005, are as follows:

(in thousands)

	2006	2005
Par value per share	₩ 5,000	₩ 5,000
Authorized number of shares	88,000,000	88,000,000
Outstanding and issued number of shares	34,829,203	32,926,292

As a result of the conversion of convertible bonds during the year ended December 31, 2006, capital stock and capital surplus increased by ₩ 1,855,855 thousand and ₩ 2,561,555 thousand, respectively, with total 371,171 shares issued from the conversion. And a result of exercise of bonds with warrants during the year ended December 31, 2006, capital stock and capital surplus increased by ₩ 7,658,700 thousand and ₩ 15,393,972 thousand, respectively, with total 1,531,740 shares issued from the exercise.

20. Capital Surplus

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

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Paid-in capital in excess of par value	₩ 95,066,268	₩ 77,110,741	$ 102,266	$ 82,950
Revaluation reserve	104,751,748	104,751,748	112,685	112,685
Other capital surplus	3,204,224	1,879,959	3,446	2,023
	₩ 203,022,240	₩ 183,742,448	$ 218,397	$ 197,658

21. Other Reserves

Other reserves as of December 31, 2006 and 2005, are as follows:

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Legal reserve	₩ 810,000	₩ -	$ 871	$ -
Reserve for				
Technological development	8,800,000	8,800,000	9,466	9,466
Improvement of financial structure	5,400,000	5,400,000	5,809	5,809
	₩ 15,010,000	₩ 14,200,000	$ 16,146	$ 15,275

The Korean Commercial Code requires the Company to appropriate as legal reserve, an amount equal to at least 10% of the cash dividends for each fiscal period until the reserve equals 50% of stated capital. The reserve may not be distributed as cash dividends but can be used to reduce a deficit or transferred to stated capital.

Under the Special Tax Treatment Control Law, the Company is allowed to make certain deductions from taxable income and set up reserve for technological development by appropriating retained earnings. The unused portion of such reserve is generally added back to taxable income over three years after a certain grace period.

The Regulation on Issues of Marketable Securities and Disclosures requires the Company to appropriate, as reserve for improvement of financial structure, an amount equal to at least 50% of net gain on disposal of property, plant and equipment and 10% of net earnings for each year until the Company's net worth equals 30% of total assets.

22. Capital Adjustments

Capital adjustments as of December 31, 2006 and 2005, are as follows:

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Treasury stock [1]	₩ (2,502,244)	₩ (4,264,902)	$ (2,692)	$ (4,588)
Gain on valuation of available-for-sale securities	13,598,849	14,138,051	14,629	15,209
Change of capital of equity method investments	7,601,751	2,854,625	8,177	3,071
Stock options	119,290	581,552	129	625
Ending balance	₩ 18,817,646	₩ 13,309,326	$ 20,243	$ 14,317

[1] The Company holds 408,273 shares of treasury stock for stock price stabilization purposes.

23. Related Party Transactions

The parent company is SK Corportaion and the subsidiary companies are SKC Europe Gmbh, SKC Inc., SKC Delaware, SKC New Material, SK Telesys Co., Ltd. SKC Media, Xianzhong Polyurethane Co., Ltd. Xianfeng Polyurethane Co., Ltd. XianFeng Industrial Limited, and SKC International Shanghai Trading Co., Ltd..

As of December 31, 2006 and 2005, balances of asset and liability accounts resulting from transactions that occurred in the normal course of business with related parties are as follows:

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Accounts and other receivable	₩ 30,253,615	₩ 31,635,643	$ 32,545	$ 34,031
Accounts and other payable	25,056,834	36,801,025	26,954	39,588

Significant transactions that occurred in the normal course of business with related parties for the years ended December 31, 2006 and 2005, are as follows:

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Sales and income	₩ 321,529,855	₩ 319,453,073	$ 345,880	$ 343,646
Purchases and expenses	328,694,388	282,366,677	353,587	303,751

24. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2006 and 2005, consist of the following:

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Salaries	₩ 29,615,033	₩ 24,148,810	$ 31,858	$ 25,978
Transportation	17,956,769	22,473,655	19,317	24,176
Commissions and fees	10,245,451	10,623,077	11,021	11,428
Amortization of intangible assets	3,047,115	8,127,563	3,278	8,743
Research	8,255,193	10,181,169	8,880	10,952
Sales promotion and commission	4,132,555	3,686,941	4,446	3,966
Provision for severance indemnities	4,851,106	3,447,909	5,218	3,709
Rent	4,197,172	4,266,950	4,515	4,590
Employee benefits	6,821,720	3,849,547	7,338	4,141
Operating expenses for overseas branch	1,891,136	2,950,799	2,034	3,174
Bad debts written-off	40,420	-	43	-
Travel	2,127,661	2,360,303	2,289	2,539
Depreciation	2,795,104	2,909,029	3,007	3,129
Entertainment	1,956,026	1,901,281	2,104	2,045
Royalty	773,756	1,143,257	832	1,230
Advertising	1,132,697	1,070,303	1,218	1,151
Training	1,819,304	1,795,062	1,957	1,931
Taxes and dues	1,235,823	1,116,291	1,329	1,201
Office supplies	1,256,606	952,684	1,352	1,025
Samples	1,085,102	1,097,432	1,167	1,181
Vehicles maintenance	743,118	638,770	799	687
Communications	465,081	548,689	500	590
Repairs	267,572	358,234	289	385
Insurance	237,169	336,768	255	362
Publications	328,703	207,406	355	223
Miscellaneous	2,625,539	4,385,708	2,825	4,719
	₩ 109,902,931	₩ 114,577,637	$ 118,226	$ 123,255

25. Derivatives

The Company has entered into forward exchange contracts to hedge the risk of fluctuations in foreign exchange rates for the assets and liabilities denominated in foreign currencies. The resulting gains and losses from the valuation of outstanding forward contracts as of December 31, 2006, are charged to current operations. As of December 31, 2006, the Company has 40 outstanding forward contracts with sell positions amounting to US$ 20,000 thousand and buy positions amounting to US$ 20,605 thousand.

26. Income Taxes

The reconciliation between income before income tax and taxable income for the years ended December 31, 2006 and 2005, are follows:

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Income before income taxes	₩ 123,066,567	₩ 15,719,059	$ 132,387	$ 16,909
Add(deduct):				
Non-temporary differences				
Negative goodwill	(14,405,805)	(12,461,213)	(15,497)	(13,405)
Entertainment expenses	1,613,341	1,721,114	1,736	1,851
Interest expenses	-	1,342,573	-	1,444
Bad debt expenses	3,008,466	-	3,236	-
Others	2,254,009	5,277,289	2,425	5,677
Temporary differences				
Allowance for bad debts	(3,752,220)	(2,249,615)	(4,036)	(2,420)
Accrued income	476	4,021,101	1	4,326
Impairment losses on development	64,745	15,440,597	70	16,610
Reserve for technology	2,933,333	2,600,000	3,155	2,797
Losses on valuation of inventories	(92,755)	(2,907,259)	(100)	(3,127)
Impairment losses on property, plant and equipment	(5,989,079)	8,107,875	(6,443)	8,722
Losses on valuation of securities	(34,741,143)	(51,705,455)	(37,372)	(55,621)
Others	6,112,570	(11,072,822)	6,575	(11,911)
	80,072,505	(26,166,756)	86,137	(28,148)
Less: Net loss carried forward	(32,328,724)	-	(34,777)	-
Taxable income	₩ 47,743,781	₩ (26,166,756)	$ 51,360	$ (28,148)

The changes in temporary differences between accounting income and taxable income for the year ended December 31, 2006, are as follows:

(in thousands)

	Korean Won		
	Beginning	Change	Ending
Allowance for bad debts	₩ 6,075,024	₩ (3,752,236)	₩ 2,322,788
Accrued income	(342,943)	476	(342,467)
Impairment losses on development	1,387,864	(1,399,533)	(11,669)
Reserve for technology	(6,866,667)	2,933,334	(3,933,333)
Losses on valuation of inventories	2,945,257	(315,090)	2,630,167
Impairment losses on property, plant and equipment	10,368,251	(5,989,079)	4,379,172
Loss on valuation of securities	55,126,972	(25,854,318)	29,272,654
Others	1,682,109	(24,564,211)	(22,882,102)
	70,375,867	(58,940,657)	11,435,210
Estimated future tax rate	27.5%	27.5%	27.5%
Deferred tax assets			
Temporary differences	19,353,364	(16,208,682)	3,144,682
Tax credit	12,165,466	1,544,279	13,709,745
Deferred income tax assets	₩ 31,518,830	₩ (14,664,403)	₩ 16,854,427

(in thousands)

	U.S. Dollars		
	Beginning	Change	Ending
Allowance for bad debts	$ 6,535	$ (4,036)	$ 2,499
Accrued income	(369)	1	(368)
Impairment losses on development	1,493	(1,506)	(13)
Reserve for technology	(7,387)	3,155	(4,231)
Losses on valuation of inventories	3,168	(339)	2,829
Impairment losses on	-	-	-
property, plant and equipment	11,153	(6,443)	4,711
Loss on valuation of securities	59,302	(27,812)	31,490
Others	1,809	(26,424)	(24,615)
	75,704	(63,404)	12,302
Estimated future tax rate	27.5%	27.5%	27.5%
Deferred tax assets			
Temporary differences	20,819	(17,436)	3,383
Tax credit	13,087	1,661	14,748
Deferred income tax assets	$ 33,906	$ (15,775)	$ 18,131

Income tax expense (benefit) for the years ended December 31, 2006 and 2005, consists of the following:

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Current income tax payable	₩ 7,790,422	₩ -	$ 8,380	$ -
Changes in deferred tax assets	14,664,403	(2,715,791)	15,775	(2,921)
Others	(28,875)	(6,110,827)	(31)	(6,574)
Income tax expense(benefit)	₩ 22,425,950	₩ (8,826,618)	$ 24,124	$ (9,495)

The effective tax rate for the year ended December 31, 2006, after adjustments for certain differences between amounts reported for financial accounting and income tax purposes, is 18.22%.

27. Earnings per Share

Earnings per share for the years ended December 31, 2006 and 2005, is computed as follows:

(in thousands, except per share data)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Net income	₩ 100,640,617	₩ 24,545,677	$ 108,262	$ 26,405
Weighted-average number of shares outstanding	33,624,666	32,105,493	33,624,666	32,105,493
Earnings per share	₩ 2,993	₩ 765	$ 3.22	$ 0.82

Earnings per share and ordinary income per share are identical as there was no extraordinary gain or loss.

28. Commitments and Contingencies

As of December 31, 2006, notes discounted with banks are as follows:

(in thousands)

	Term	Korean Won	U.S. Dollars
Export receivables discounted	With recourse	₩ 37,384,873	$ 40,216

As of December 31, 2006, the discountable limits of bills on documents against acceptance and documents against payment are US$ 72 million and ₩ 30,000 million, respectively.

The Company has agreements for the discount of bills and overdraft with a limit of ₩ 9,000 million and ₩ 50,000 million, respectively, with financial institutions including Hana Bank as of December 31, 2006. Also the Company has agreements to discount commercial papers with financial institutions, including Samsung Securities Co., Ltd. as of December 31, 2006.

The Company has provided guarantees up to a maximum amount of ₩ 19,869 million for the sale of Mirae Asset Life Insurance's subordinated loan to Daewoo Securities Co., Ltd.

As of December 31, 2006, The Company has filed five lawsuits with claims of ₩ 3,759 million. The management believes the final outcome of the case will not have a material impact on the Company.

In 2005, the Company, SK Networks, and SK Capital sold the securities of Mirae Asset Life Insurance to Mirae Asset Capital Co., Ltd. Under the sale contract, the Company has obligations to pay indemnities for the losses caused by a pending case between Mirae Asset Life Insurance and the tax office in relation to deferred acquisition cost. The Company recorded the contingent liabilities as provision for pending litigation amounting to ₩ 2,247 million.

29. Stock Options

The Company adopted a stock option program which allows the Company's employees to acquire shares of the Company for a specified price during a specified period of time. The Company granted 287,600 treasury stocks to its employees through the exercise of stock options in 2006.

The details of the stock option program are summarized as follows:

	March 17, 2000	April 2, 2001	March 8, 2002
Number of shares authorized to be issued	268,900	205,000	312,100
Exercise price	₩ 8,500/share	₩ 6,500/share	₩ 13,800/share
Exercisable period	March 17, 2003 ~March 16, 2005	April 2, 2004 ~April 1, 2006	March 8, 2005 ~March 7, 2007

30. Foreign Currency Denominated Assets and Liabilities

Monetary assets and liabilities denominated in foreign currency as of December 31, 2006 and 2005, are as follows:

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Assets				
Cash and cash equivalents	₩ 1,551,944	₩ 2,075,740	$ 1,669	$ 2,233
Trade accounts receivable	36,360,751	44,098,912	39,114	47,439
Other receivables	6,506,516	6,292,535	6,999	6,769
Other assets	192,255	753,526	207	811
	₩ 44,611,466	₩ 53,220,713	$ 47,989	$ 57,252

(in thousands, except per share data)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Liabilities				
Trade accounts payable	₩ 11,889,619	₩ 43,275,966	$ 12,790	$ 46,553
Short-term borrowings	-	17,731,590	-	19,074
Other payables	5,242,014	7,150,808	5,639	7,692
Current portion of long-term debts	1,412,724	3,287,807	1,520	3,537
Long-term debts	44,163,065	52,512,074	47,508	56,489
Accrued expenses	-	151,097	-	163
	₩ 62,707,422	₩ 124,109,342	$ 67,457	$ 133,508

31. Statements of Cash Flows

The cash flow statements are presented using the indirect method. Cash and cash equivalents in the statement of cash flows for year ended December 31, 2006, consist of the following:

(in thousands)

	Korean Won	U.S. Dollars
Cash on hand	₩ 125,851	$ 135
Checking accounts	4,273,256	4,597
Passbook accounts	2,582,743	2,778
Trust accounts	4,300,000	4,626
Time deposits	92,960	100
	11,374,810	12,236
Less: Governmental subsidy	(641,326)	(690)
	₩ 10,733,484	$ 11,546

Significant non-cash transactions for the year ended December 31, 2006, are as follows:

(in thousands)

	Korean Won	U.S. Dollars
Reclassification of construction in process to property, plant and equipment accounts	₩ 96,094,782	$ 103,372
Change of gain on valuation of available-for-sale securities (capital adjustment)	837,295	901
Change of capital of equity method investments (capital adjustment)	4,747,125	5,107
Reclassification of long-term debts to current portion of long-term debts	255,272,798	274,605
Issuance of common stock through conversion of convertible bonds	4,418,623	4,753
Write-off of other receivables	2,937,242	3,160
Reclassification of inventories to development cost	5,127,450	5,516

32. Business Segment Information

The Company has four reportable operating segments: production and distribution of film (the Film business segment), information & electronic product (the Display Materials business segment), information technology product (the IT business segment), and chemical product (the Chemicals business segment). The Company has disposed of the Mobile business segment in 2005.

(in millions of Korean won)

2006	Chemical business	Film business	Display business	IT business	Total
Sales [1]	₩ 495,476	₩ 350,289	₩ 196,384	₩ 196,386	₩ 1,238,535
Operating income	71,399	30,969	18,119	(3,437)	117,050
Property, plant and equipment	332,271	328,267	161,262	-	821,800
Depreciation and amortization	34,203	30,857	13,909	267	79,236

(in millions of U.S. dollars)

2006	Chemical business	Film business	Display business	IT business	Total
Sales [1]	$ 533	$ 377	$ 211	$ 211	$ 1,332
Operating income	77	33	19	(4)	125
Property, plant and equipment	357	353	173	-	883
Depreciation and amortization	37	33	15	-	85

(in millions of Korean won)

2005	Chemical business	Film business	Display business	IT business	Mobile business	Total
Sales [1]	₩ 480,304	₩ 328,706	₩ 178,691	₩ 333,921	₩ 122,631	₩ 1,444,253
Operating income	77,574	27,744	19,850	4,937	(33,935)	96,170
Property, plant and equipment	309,338	307,792	139,298	1,919	6,927	765,274
Depreciation and amortization	33,063	29,278	7,593	710	19,004	89,648

(in millions of U.S. dollars)

2005	Chemical business	Film business	Display business	IT business	Mobile business	Total
Sales [1]	$ 517	$ 354	$ 192	$ 359	132	$ 1,554
Operating income	83	30	21	5	(37)	102
Property, plant and equipment	333	331	150	2	7	823
Depreciation and amortization	36	31	8	1	20	96

[1] The amount differs from the sales amount in the financial statements due to the inter-segment sales between film business and digital media business.

The Company's sales by geographical areas for the years ended at December 31, 2006 and 2005, are as follows:

(in thousands)

	Korean Won		U.S. Dollars	
	2006	2005	2006	2005
Korea	₩ 842,773	₩ 947,463	$ 907	$ 1,019
Asia	214,070	256,749	230	276
America	76,274	104,154	82	112
Europe	78,704	100,658	85	108
	₩ 1,211,821	₩ 1,409,024	$ 1,304	$ 1,515

33. Financial Information of the Final Interim Period

Significant financial information for the three-month periods ended December 31, 2006 and 2005, follows:

(in thousands, except per share amount)

	Korean Won		U.S. Dollars	
	2006 4Q	2005 4Q	2006 4Q	2005 4Q
Sales	₩ 243,959,852	₩ 379,229,035	$ 262,435	$ 407,949
Operating profit	17,204,181	29,253,499	18,507	31,469
Quarterly net income	19,254,467	(7,286,402)	20,713	(7,838)
Earnings per share (in won)	561	(226)	0.60	(0.24)

34. Spin-off

On November 15, 2005, the Company spun off its Lithium Ion Polymer Battery business division to establish SK Mobile Energy Co., Ltd. This spin-off was approved by the Board of Directors on August 30, 2005 and by the shareholders on October 13, 2005, and in accordance with the Commercial Law of Korea, related assets and liabilities of the said division were transferred to the new company. The Company received 600,000 common shares of SK Mobile Energy Co., Ltd. and then recognized a gain on restructuring of ₩ 5,434 million under non-operating income, representing the difference between acquisition cost and the net book value of assets and liabilities transferred. The accrued severance benefits of the employees transferred to the new company were likewise transferred.

The Lithium Ion Polymer Battery business division's assets and liabilities as of November 15, 2005 and December 31, 2004, and sales and operating loss for the period from January 1, 2005 to November 15, 2005 and year ended December 31, 2004, are as follows:

(in thousands)

	Korean Won		U.S. Dollars	
	2005.11.15	2004.12.31	2005.11.15	2004.12.31
Assets	₩ 75,654	₩ 68,003	$ 81	$ 73
Liabilities	60,947	58,095	66	62
Sales	23,652	13,410	25	14
Operating loss	(14,279)	(16,174)	(15)	(17)

On December 1, 2005, the Company also spun off its Magnetic Media business division to establish SKC Media Co., Ltd. This spin-off was approved by the Board of Directors on October 13, 2005 and by the shareholders on November 25, 2005, and in accordance with the Commercial Law of Korea, related assets and liabilities of the said division were transferred to the new company. The Company received 600,000 common shares of SK Media Co., Ltd. and then recognized a loss on restructuring of ₩ 5,458 million under non-operating expense, representing the difference between acquisition cost and the net book value of assets and liabilities transferred. Any liability of the said division before the spin-off was assumed by the Company and SKC Media Co., Ltd.

The Magnetic Media business division's assets and liabilities as of December 1, 2005 and December 31, 2004, and sales and operating loss for the period from January 1, 2005 to December 1, 2005 and year ended December 31, 2004, are as follows:

(in thousands)

	Korean Won		U.S. Dollars	
	2005.12.01	2004.12.31	2005.12.01	2004.12.31
Assets	₩ 33,565	₩ 34,826	$ 36	$ 37
Liabilities	5,975	6,542	6	7
Sales	63,964	120,819	69	130
Operating loss	(8,061)	(3,181)	(9)	(3)

35. Business Restructuring

On June 29, 2006, The Board of Director approved to dispose of the Information & Communication Business division (handset business) which represents 16% of Company's total sales, and to withdraw the investment plan in organic light emitting diodes(OLED) as a part of company-wide restructuring plan.

The Company paid the retirement bonus amounting to ₩ 3,130 million and disposed of inventories and tangible assets in handset business and OLED business in 2006. With regard to the restructuring activities, the Company charged related disposal gain and loss against income.

36. Approval of Financial Statements

The accompanying December 31, 2006, financial statements were approved by the Board of Directors on February 20, 2007.

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Development Zone, Songling Town, Wujiang
City, Jiangsu Pro., China.
Tel: 86-512-6332-9888
Fax: 86-512-6332-8800

SKC China S&S - S&S Advanced Energy Tech.Co., Ltd.
Wujiang Economic Development Zone
(Dongyun High-tech & Industrial Park #1),
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Tel: 86-512-6300-5800
Fax: 86-512-6300-5100

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25# Taihu ST, Yuhong District, Shenyang
City, China
Tel: 86-24-2536-9228
Fax: 86-24-2537-5282

Xianfeng Co., Ltd.
Guangxinglu, Nansha Economic &
Technological Development Zone,
Guangzhou City 511457, China
Tel: 86-20-8468-8527
Fax: 86-20-8468-8527

SK Group Subsidiaries

Energy · Chemical

SK Corporation
99 Seorin-dong, Jongno-gu, Seoul 110-110,
Korea
Tel: 82-2-2121-5114
www.skcorp.com

SK Chemicals
948-1 Daechi3-dong, Gangnam-gu, Seoul
135-283, Korea
Tel: 82-2-2008-2008
www.skchemicals.com

SK E&S
99 Seorin-dong, Jongno-gu, Seoul 110-110,
Korea
Tel: 82-2-2121-3114
www.sk-enron.com

SK Gas
99 Seorin-dong, Jongno-gu, Seoul 110-110,
Korea
Tel: 82-2-2121-2114
www.skgas.co.kr

SK Incheon Oil
99 Seorin-dong, Jongno-gu, Seoul 110-110,
Korea
Tel: 82-2-2121-3600
www.skico.co.kr

Telecommunication

SK Telecom
11, Euljiro 2-ga, Jung-gu, Seoul 100-999,
Korea
Tel: 82-2-6100-2114
www.sktelecom.com

SK C&C
25-1 Jeongja-dong, Bundang-gu, Sungnam,
Gyeonggi-do 463-844, Korea
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www.skcc.com

SK Telink
16th Fl., SK Namsan Bldg.,
267 Namdaemunno 5-ga, Jung-gu, Seoul
100-711, Korea
Tel: 82-2-3709-1150
www.sktelink.co.kr

SK Telesys
12th Fl., Naewei Bldg.,
6 Euljiro 2-ga, Jung-gu, Seoul 100-844, Korea
Tel: 82-2-2129-2091
www.sktelesys.co.kr

SK Communications
Lim Kwang Bldg.,
257 Migeun-dong, Seodaemun-gu, Seoul
120-020, Korea
Tel: 82-2-3432-1114
corp.nate.com

Trading · Service

SK Networks
199-15 Euljiro 2-ga, Jung-gu, Seoul 100-192,
Korea
Tel: 82-70-7800-2114
www.sknetworks.co.kr

SK E&C
192-18 Gwanhoon-dong, Jongno-gu, Seoul
110-300, Korea
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www.skec.com

SK Shipping
19th Fl., SK Namsan Bldg.,
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Tel: 82-2-3788-8400
www.skshipping.com

SK Securities
23-10 Yoido-dong, Youngdungpo-gu, Seoul
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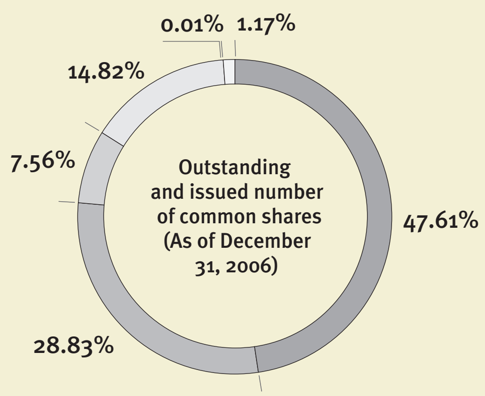
Tel: 82-2-3773-8245
www.priden.com

Walkerhill
21 Gwangjang-dong, Gwangjin-gu, Seoul
143-800, Korea
Tel: 82-2-455-5000
www.walkerhill.com
(Sheraton Grand Walkerhill)
www.whotels.com/seoul
(W Seoul - Walkerhill)

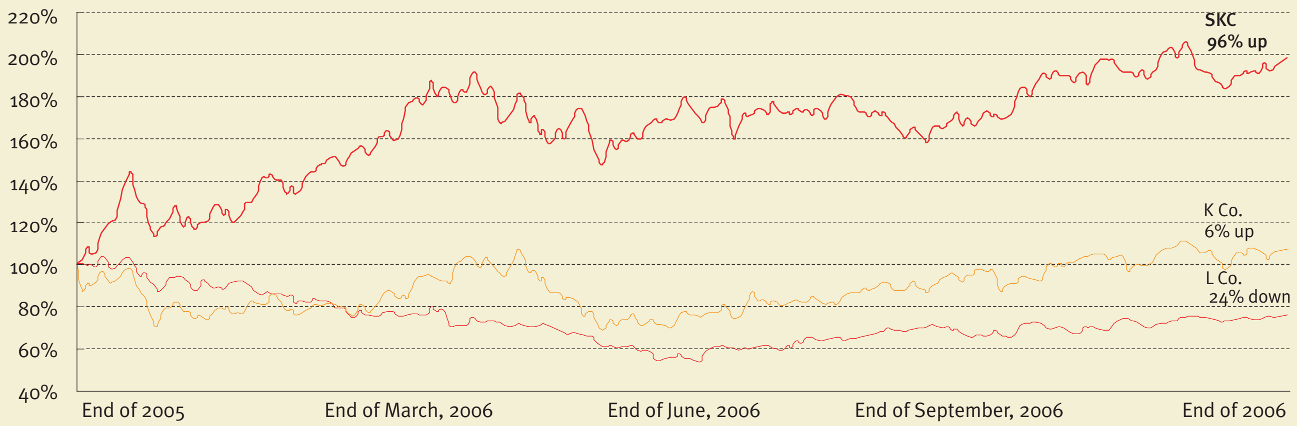
Investor Information

Shareholder Demographics

	Amount
Major Shareholder(SK Corp., etc.)	16,581,045
Domestic Institutional Shareholders	10,039,573
Foreign Shareholders	2,634,679
Individual Shareholders	5,162,869
Employee Ownership Association	2,764
Treasury Stock	408,273
Total	**34,829,203**



Earning Rate



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