

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) presents Orion's business performance in 2006 and includes forward-looking statements on the company's future management plans for the purpose of assisting investors. Please note, however, that future performance results may differ materially from those projected in this report for reasons beyond the company's control. The term 'the company' used here refers to Orion unless otherwise expressly noted.

1. Business Environment

The Korean economy in 2006 recorded a growth rate of 5.0%, much lower than expected. Exports led domestic economic growth and amounted to US\$300 billion in 2006, placing Korea 11th in the world in export volume. However, domestic businesses and consumer confidence were not recovered considerably this past year. The confectionary market in 2006 also suffered a deep depression due to the negative effects of confectionary controversies and the trans-fat issue. Market size remained at KRW 1,800 billion, a level similar to 2005. In this challenging environment of market saturation and intensified competition, Orion was successful in achieving 'Zero' trans-fat in all 60 of the company's products as of year-end 2006. As a result of such a positive management step, Orion recorded sales of KRW 543.1 billion, a 5.5 billion increase over 2005.

Overseas Sales Development

(Unit : US\$ million)

	2006	2005	2004
China	125	92	56
Russia	36	27	17
Vietnam	10	7	5

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2. Management Accomplishments

In spite of various negative factors such as lagging consumption and changing trends in the confectionary market, Orion recorded sales of KRW 543.1 billion, a KRW 5.5 billion increase from last year. The sales cost ratio to sales improved by 0.1%p compared to the previous year, but sales management costs increased by KRW 15.9 billion in 2006 due to aggravated competition among companies, worsened profitability resulting from the weakened negotiating power of retailers, and rises in advertising expenses and commission payments. Business profit amounted to KRW 27.3 billion, a KRW 13.3 billion decrease from 2005.

On the other hand, since breaking through the US \$100 million wall in 2005 to reach US \$130 million, Orion's overseas sales amounted to US \$170 million in 2006, a 35.7% year-on-year increase. In 2006, sales rose to US \$130 million in China alone. And total sales in China, Russia, and Vietnam enjoyed a more than 30% increase compared to the same period the year before.

Summary of Profit and Loss

(Unit : US\$ million)

	2006	2005	2004
Sales	534.1	537.5	513.4
Business Profit	27.3	40.6	43.3
Net Profit	109.5	37.3	20.4
Profit per Stock (KRW)	21,023	7,198	4,042

Business profit in 2006 dropped 2.6%p from 2005, but net profit rose 13.3%p. The reason for the increase in net profit is that ordinary income rose to KRW 145 billion, a KRW 99 billion year-on-year increase. The rise in ordinary profit is attributed to the expansion of evaluation profit of the equity method of accounting and is a direct result of the sale of an affiliate firm and the improved business of ON* media and other companies. Major factors contributing this fact are KRW42.6 billion, the evaluation profit of equity method through the business improvement of main affiliate companies such as ON* media and Sports TOTO, and KRW90.5 billion, the disposition profit through the sale of whole share of Buy the Way to Korea Retail Holding BV. In addition, the net return on equity recorded 29.1%, which was 17.8%p more than that of the previous year thanks to the increased net income.

Main Financial Indices

(Unit : %)

	2006	2005	2004
Business Profitability	5.0	7.6	8.2
Sales Net Profitability	20.2	6.9	3.9
Return Rate on Total Assets	13.9	5.2	3.1
Return Rate on Equity	29.1	11.3	6.5

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3. Financial Situation

Total assets amounted to KRW 828.7 billion as of year-end 2006, a KRW 84 billion increase compared with the KRW 744.7 billion recorded the year before. The rise is due to the increase in liquid assets and fixed assets to KRW 21.8 billion and KRW 62.2 billion, respectively, in 2006. Liquid assets increased mainly due to the rise in short-term financial products to KRW 15.0 billion. The increase in fixed assets is attributed to the fact that investment stocks under the equity method of accounting jumped KRW 72.2 billion year-on-year. Meanwhile, equity capital posted KRW 425 billion, a KRW 98 billion increase over 2005 caused by the rise in net profit of KRW 72.1 billion. Debt dropped KRW 13.9 billion compared to last year thanks to the repayment of short-term loans etc.

Summarized Balance Sheet

(Unit : KRW billion)

	2006	2005	2004
Total Asset	828.8	744.7	693.9
Total Debt	403.8	417.7	358.0
Total Capital	425.0	327.0	335.9

Working Capital

(Unit : KRW billion)

	2006	2005	2004
Trade Receivables and Inventory Assets	134.6	129.7	121.0
Debt Purchases	49.5	40.6	42.6
Working Capital	85.1	89.1	78.4

Cash and Securities

(Unit : KRW billion)

	2006	2005	2004
Cash and Short-term Financial Products	22.1	6.6	10.50
Marketable Securities	0.2	0.4	0.01

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4. Cash Flow: Business, Investment, and Financial Activities

Orion's cash flow in 2006 came to KRW 24 billion, a KRW 18.4 billion decrease from the year before. Cash flow in the change of assets and debts through business activities increased KRW 24.7 billion year-on-year. However, disposition profit of investment stocks under the equity method of accounting and return on equity increased KRW 90.5 billion and KRW 16 billion, respectively, not accompanying cash flow.

Net cash flow through investment activities amounted to KRW 28.8 billion, a KRW 106.8 billion year-on-year increase. In detail, cash inflow through investment activities recorded KRW 172.4 billion: KRW 16.9 billion through the disposal of real estate and KRW 150.5 billion through the disposal of investment stocks under the equity method of accounting. Cash outflow through investment activities came to KRW 143.7 billion: KRW 13.4 billion for the acquisition of assets under construction; KRW 80.1 billion for the acquisition of investment stocks under equity law; and KRW 52.3 billion of pure cash outflow through financial activities. As a result, the cash and cash equivalents of the company amounted to KRW 6.7 billion as of year-end 2006, a KRW 0.5 billion increase over 2005.

Summarized Cash Flow

(Unit : KRW billion)

	2006	2005	2004
Flow by Business Activities	24.0	42.4	17.0
Flow by Investment Activities	28.8	-78.0	-67.6
Flow by Financial Activities	-52.3	40.5	41.7

5. Prospects for 2007

Major economic research institutes have predicted that the domestic economy of 2007 will grow only 4.3% on average, an economic slump in comparison with 2006. This economic growth forecast has, however, been recently slightly upgraded, improving the outlook.

It is expected that enhanced competition due to the quantitative saturation of the domestic confectionary market will damage the sales and business income of the confectionary department in 2007. Therefore, various profit-driven strategies will be implemented that include raising the quality and function of products, entering the new 'well-being' niche market with diet-based, healthy products, and carrying out renewal of existing cash cow products. In particular, given that overseas confectionary sales have grown more than 10% since 2003, Sports TOTO has been making profits since 2005, and affiliate companies, such as ON* media are continually improving their businesses, Orion is confident that its value will rise continuously throughout 2007 and beyond.

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Five-Year Summary

In thousands of USD*

In millions of KRW

	2006	2006	2005	2004	2003	2002
For the year						
Total Sales	584,189	543,062	537,536	513,375	511,437	528,920
Gross Profit	223,988	208,219	205,585	190,827	205,799	221,220
Operating Income	29,359	27,292	40,602	43,280	49,394	53,659
Non-operating Income	163,543	152,030	31,124	5,312	3,589	18,665
Non-operating Expenses	36,894	34,297	25,714	19,189	44,776	23,440
Recurring Profit	156,008	145,025	46,013	29,403	8,207	48,883
Net Income	117,741	109,452	37,314	20,366	6,258	34,889
At year end						
Total Assets	891,514	828,751	744,719	693,916	615,000	560,270
Current Assets	173,013	160,833	139,002	124,624	115,075	107,935
Non-current Assets	718,500	667,918	605,716	569,292	499,926	452,336
Total Liabilities	434,313	403,737	417,698	357,978	325,995	306,644
Capital Stock	31,835	29,594	29,503	29,392	27,162	26,956
Capital Surplus	137,349	127,680	126,683	125,286	117,167	116,416
Retained Earnings	280,158	260,435	160,069	130,457	114,813	113,997
Total Shareholders' Equity	457,201	425,014	327,020	335,938	289,006	253,626
Financial Ratio (%)						
Current Ratio	76.0	76.0	67.7	76.0	76.4	65.5
Debt Ratio	95.0	95.0	127.7	106.6	112.8	120.9
ROA	13.9	13.9	5.2	3.1	4.1	6.2
ROE	29.1	29.1	11.3	6.5	2.3	14.8

* Korean Won figures are translated, solely for the convenience of readers into U.S.dollars at KRW 929.60:USD 1.00, the prevailing rate as of December 31, 2006.

Independent Accountants' Review Report on Internal Accounting Control System

English translation of a report originally issued in Korean

To the President of
Orion Corporation:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System('IACS') of Orion Corporation (the 'Company') as of December 31, 2006. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: 'Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2006, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.'

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2006 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2006. We did not review the Company's IACS subsequent to December 31, 2006. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

February 28, 2007

Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Stockholders Orion Corporation

We have audited the accompanying non-consolidated balance sheet of Orion Corporation (the 'Company') as of December 31, 2006, and the related non-consolidated statements of income, appropriation of retained earnings and cash flows for the year then ended. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. The accompanying non-consolidated financial statements of the Company as of December 31, 2005, were audited by other auditors whose report thereon dated February 17, 2006, expressed an unqualified opinion on those statements.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orion Corporation as of December 31, 2006, and the results of its operations, the appropriation of its retained earnings and its cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

The accompanying non-consolidated financial statements as of and for the year ended December 31, 2006 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the non-consolidated financial statements expressed in Korean Won have been translated into dollars on the basis set forth in note 2 to the non-consolidated financial statements.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 1 to the non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable in Korean accounting principles and auditing standards and their application in practice.

As discussed in note 6 to the non-consolidated financial statements, the Company purchases merchandise from and sells finished goods to Orion Snack International Corp. and other related parties and has balances due from and to the related parties in relation to the above transactions as of December 31, 2006.

KPMG Samjong Accounting Corp.
Seoul, Korea
February 28, 2007



This report is effective as of February 28, 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 non-consolidated 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.

Non-Consolidated Balance Sheets

December 31, 2006 and 2005

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Assets				
Current assets:				
Cash and cash equivalents (Note 14)	₩ 6,703,719	6,202,571	\$ 7,211,402	6,672,301
Short-term financial instruments (Note 3)	15,430,933	378,530	16,599,541	407,197
Current portion of held-to-maturity securities (Note 5)	203,390	322,400	218,793	346,816
Accounts and notes receivable - trade less allowance for doubtful accounts of ₩3,161,384 (\$3,400,800) in 2006 and ₩2,759,716 (\$2,968,713) in 2005 (Notes 6 and 14)	99,480,973	92,370,624	107,014,816	99,365,990
Accounts receivable-other less allowance for doubtful accounts of none in 2006 and ₩299,607 (\$322,297) in 2005 (Note 6)	1,751,356	608,649	1,883,989	654,743
Interest income receivable	1,121	931	1,206	1,002
Prepaid expenses	564,539	845,731	607,292	909,779
Inventories (Note 4)	35,114,464	37,329,503	37,773,735	40,156,522
Current portion of deferred income tax assets (Note 22)	1,355,988	753,707	1,458,680	810,786
Other current assets	226,624	189,752	243,787	204,122
Total current assets	160,833,107	139,002,398	173,013,241	149,529,258
Investments and other assets:				
Long-term financial instruments (Note 3)	20,500	20,500	22,052	22,052
Held-to-maturity securities (Note 5)	406,530	516,880	437,317	556,024
Available-for-sale securities (Note 5)	14,175,665	18,238,104	15,249,209	19,619,302
Investments under the equity method (Note 5)	422,685,632	350,494,073	454,696,248	377,037,514
Guarantee deposits	6,360,533	6,554,182	6,842,226	7,050,540
Deferred income tax assets (Note 22)	4,104,261	2,619,787	4,415,082	2,818,187
Total investments and other assets	447,753,121	378,443,526	481,662,134	407,103,619
Property, plant and equipment, at cost (Notes 7, 8 and 10)	406,134,613	400,067,882	436,891,795	430,365,623
Less accumulated depreciation	(187,980,065)	(174,041,271)	(202,216,077)	(187,221,677)
Property, plant and equipment, net	218,154,548	226,026,611	234,675,718	243,143,946
Intangible assets (Note 9)	2,010,021	1,246,235	2,162,243	1,340,614
Total assets	₩ 828,750,797	744,718,770	\$ 891,513,336	801,117,437

Non-Consolidated Balance Sheets, Continued

December 31, 2006 and 2005

	Won (thousands except share data)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts and notes payable - trade (Notes 6 and 14)	₩ 49,530,716	40,602,683	\$ 53,281,751	43,677,585
Short-term borrowings (Notes 11 and 14)	27,476,833	49,858,309	29,557,695	53,634,153
Accounts payable - other (Note 6)	32,262,083	35,689,063	34,705,339	38,391,849
Advances receipts	284,295	511,513	305,825	550,251
Income taxes payable (Note 22)	28,609,097	4,973,925	30,775,707	5,350,608
Accrued expenses	879,705	937,912	946,326	1,008,941
Withholdings	330,674	338,862	355,716	364,525
Other current liabilities	2,348,409	492,904	2,526,258	530,232
Current portion of long-term debt and bonds, less discount on bonds ₩67,328 (\$72,427) in 2006 and ₩38,165 (\$41,055) in 2005 (Notes 12, 13 and 14)	69,948,651	71,849,548	75,245,967	77,290,822
Total current liabilities	211,670,463	205,254,719	227,700,584	220,798,966
Long-term liabilities:				
Long-term debt (Notes 12 and 14)	10,647,085	10,663,064	11,453,405	11,470,594
Bonds, less discount on bonds ₩98,061 (\$105,487) in 2006 and ₩307,081 (\$330,337) in 2005 (Note 13)	159,901,939	179,692,919	172,011,552	193,301,333
Accrual for retirement and severance benefits (Note 15)	12,463,309	11,974,857	13,407,174	12,881,731
Deposit received	5,072,177	4,954,917	5,456,301	5,330,161
Provision for loss on sales returns	3,982,160	5,157,805	4,283,735	5,548,413
Total long-term liabilities	192,066,670	212,443,562	206,612,167	228,532,232
Total liabilities	403,737,133	417,698,281	434,312,751	449,331,198
Stockholders' equity (Note 18)				
Common stock of ₩5,000 par value Authorized - 12,000,000 shares Issued - 5,918,807 shares in 2006 and 5,900,647 shares in 2005 Outstanding - 5,209,574 in 2006 and 5,191,414 in 2005	29,594,035	29,503,235	31,835,236	31,737,559
Capital surplus	127,679,916	126,683,425	137,349,307	136,277,350
Retained earnings (Note 19)	260,435,406	160,068,503	280,158,569	172,190,730
Capital adjustments (Note 20)	7,304,307	10,765,326	7,857,473	11,580,600
Total stockholders' equity	425,013,664	327,020,489	457,200,585	351,786,239
Commitments and contingencies (Note 17)				
Total liabilities and stockholders' equity	₩ 828,750,797	744,718,770	\$ 891,513,336	801,117,437

See accompanying notes to non-consolidate financial statements.

Non-Consolidated Statements of Income

Years ended December 31, 2006 and 2005

	Won (thousands except share data)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Sales (Note 6)	₩ 543,062,406	537,535,815	\$ 584,189,335	578,244,207
Costs of sales (Note 6)	334,843,015	331,950,752	360,201,178	357,089,880
Gross profit	208,219,391	205,585,063	223,988,157	221,154,327
Selling, general and administrative expenses (Note 21)	180,927,083	164,982,971	194,628,962	177,477,378
Operating income	27,292,308	40,602,092	29,359,195	43,676,949
Other income (expenses):				
Interest income	1,427,528	1,031,553	1,535,638	1,109,674
Interest expense	(14,286,862)	(13,668,109)	(15,368,827)	(14,703,215)
Commission income	4,575,967	-	4,922,512	-
Foreign currency translation gain (loss), net	(23,455)	173,763	(25,231)	186,922
Foreign currency exchange gain, net	332,389	105,210	357,561	113,178
Gain (loss) on disposal of property, plant and equipment, net	6,037,566	(830,826)	6,494,800	(893,746)
Equity income on affiliates, net	33,303,798	17,053,250	35,825,944	18,344,718
Gain on sale of investments under the equity method	90,475,041	-	97,326,851	-
Other, net	(4,109,165)	1,545,783	(4,420,358)	1,662,847
	117,732,807	5,410,624	126,648,890	5,820,378
Income before income taxes	145,025,115	46,012,716	156,008,085	49,497,327
Income taxes (Note 22)	35,573,237	8,699,112	38,267,252	9,357,909
Net income	₩ 109,451,878	37,313,604	\$ 117,740,833	40,139,418
Earning per share of common stock (Note 23)	₩ 21,023	7,198	\$ 23	8
Diluted earnings per share (Note 23)	₩ 20,998	-	\$ 23	-

See accompanying notes to non-consolidate financial statements.

Non-Consolidated Statements of Appropriation of Retained Earnings

Years ended December 31, 2006 and 2005

Date of Appropriation for 2006 : March 23, 2007

Date of Appropriation for 2005 : March 24, 2006

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Unappropriated retained earnings:				
Balance at beginning of year	₩ 2,750,195	2,137,298	\$ 2,958,471	2,299,160
Prior period adjustments, net	-	50,935	-	54,791
Net income	109,451,878	37,313,604	117,740,833	40,139,418
Balance at end of year before appropriation	112,202,073	39,501,837	120,699,304	42,493,369
Transfer from voluntary reserves				
Reserve for research and manpower development	2,666,667	1,333,333	2,868,618	1,434,309
Unappropriated retained earnings available for appropriations	114,868,740	40,835,170	123,567,922	43,927,678
Appropriations of retained earnings:				
Legal reserve	1,200,000	1,000,000	1,290,878	1,075,731
Reserve for financial position improvement	48,000,000	-	51,635,112	-
Reserve for research and manpower development	-	4,000,000	-	4,302,926
Voluntary reserve	48,000,000	24,000,000	51,635,112	25,817,556
Dividends - 45% on per value at 2,250 won per share (Note 24)	11,721,542	9,084,975	12,609,232	9,772,994
	108,921,542	38,084,975	117,170,334	40,969,207
Unappropriated retained earnings to be carried over to subsequent year	₩ 5,947,198	2,750,195	\$ 6,397,588	2,958,471

See accompanying notes to non-consolidate financial statements.

Non-Consolidated Statements of Cash Flows

Years ended December 31, 2006 and 2005

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Cash flows from operating activities:				
Net income	₩ 109,451,878	37,313,604	\$ 117,740,833	40,139,418
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	16,410,812	13,967,940	17,653,627	15,025,753
Provision for allowance for doubtful accounts	2,836,699	3,082,529	3,051,526	3,315,974
Provision for retirement and severance benefits	8,333,922	8,535,401	8,965,062	9,181,800
Amortization of discount on bonds	179,857	152,285	193,478	163,818
Amortization of intangible assets	498,413	356,733	536,158	383,750
Reversal of loss on sales returns	(1,175,644)	1,556,071	(1,264,677)	1,673,915
Loss on disposal of investments, net	-	73,960	-	79,561
Loss (gain) on disposal of property, plant and equipment, net	(6,037,566)	830,826	(6,494,800)	893,746
Equity income on affiliates, net	(33,303,798)	(17,053,250)	(35,825,944)	(18,344,718)
Foreign currency translation loss (gain), net	37,242	(177,675)	40,062	(191,131)
Loss on redemption of bonds	-	100,000	-	107,573
Stock compensation expense	833,771	894,721	896,914	962,478
Gain on sale of investments under the equity method	(90,475,041)	-	(97,326,851)	-
Deferred tax expenses	3,543,851	1,135,824	3,812,233	1,221,842
Changes in operating assets and liabilities:				
Increase in accounts and notes receivable - trade	(10,017,628)	(9,806,019)	(10,776,278)	(10,548,644)
Increase in accounts receivable - other	(1,142,982)	(429,513)	(1,229,542)	(462,041)
Increase in interest income receivable	(189)	(184)	(203)	(198)
Decrease in prepaid expenses	281,191	37,892	302,486	40,762
Decrease (increase) in other current assets	(36,872)	191,900	(39,665)	206,433
Decrease (increase) in Inventories	2,215,038	(1,649,937)	2,382,786	(1,774,889)
Increase (decrease) in accounts and notes payable - trade	8,932,588	(1,902,250)	9,609,066	(2,046,310)
Increase (decrease) in accounts payable - other	(3,426,980)	10,491,481	(3,686,510)	11,286,017
Increase (decrease) in advances receipt	(227,218)	26,066	(244,424)	28,040
Increase in Income taxes payable	23,635,173	3,283,916	25,425,100	3,532,612
Decrease in accrued expenses	(58,207)	(78,988)	(62,615)	(84,970)
Decrease (increase) in withholdings	(8,188)	10,014	(8,808)	10,772
Increase (decrease) in deposits received	117,260	(2,105,215)	126,140	(2,264,646)
Payments of retirement and severance benefits	(7,111,322)	(6,659,518)	(7,649,873)	(7,163,854)
Transfer to the National Pension Fund	519	136,376	558	146,704
Increase in severance benefit trust deposit	(734,667)	(1,124,421)	(790,304)	(1,209,575)
Increase in other current liability	484,505	116,808	521,197	125,654
Net cash provided by operating activities	₩ 24,036,417	41,307,377	\$ 25,856,732	44,435,646

Non-Consolidated Statements of Cash Flows, Continued

Years ended December 31, 2006 and 2005

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Cash flows from investing activities:				
Increase in short-term financial instruments	₩ (16,089,883)	-	\$ (17,308,394)	-
Increase in guarantee deposits	(789,949)	(1,082,666)	(849,773)	(1,164,658)
Purchase of available for sale security	(11,938,460)	(12,325,072)	(12,842,577)	(13,258,468)
Purchase of Investments under the equity method	(80,064,902)	(30,939,723)	(86,128,337)	(33,282,835)
Additions to property, plant and equipment	(33,547,552)	(34,892,156)	(36,088,157)	(37,534,589)
Additions to Intangibles asset	(1,262,199)	(621,718)	(1,357,787)	(668,802)
Decrease in short-term financial instruments	1,037,481	-	1,116,051	-
Decrease in guarantee deposits	983,598	696,577	1,058,087	749,330
Proceeds from sale of current portion of held to maturity securit	322,400	142,490	346,815	153,281
Proceeds from sale of available for sale security	2	-	2	-
Proceeds from disposal of Investments under the equity method	150,524,024	-	161,923,434	-
Proceeds from sale of property, plant and equipment	19,578,911	2,144,334	21,061,650	2,306,727
Net cash provided by (used in) investing activities	28,753,471	(76,877,934)	30,931,014	(82,700,014)
Cash flows from financing activities:				
Repayment of short-term borrowings	(1,210,825,215)	-	(1,302,522,822)	-
Repayment of current portion of long-term debt	(71,887,713)	(74,509,547)	(77,331,877)	(80,152,267)
Repayment of long-term debt	-	(10,027,000)	-	(10,786,360)
Repayment of bonds	-	(30,073,000)	-	(32,350,473)
Dividends paid	(9,084,975)	(7,752,629)	(9,772,994)	(8,339,747)
Stock issuance costs	-	(196,000)	-	(210,844)
Proceeds from short-term borrowings	1,188,472,523	32,226,034	1,278,477,327	34,666,560
Proceeds from issuance of bond	50,000,000	130,000,000	53,786,575	139,845,095
Proceeds from issuance of common stock for stock option	1,036,640	880,582	1,115,146	947,270
Net cash provided by (used in) financing activities	(52,288,740)	40,548,440	(56,248,645)	43,619,234
Net increase in cash and cash equivalents (Note 26)	501,148	4,977,883	539,101	5,354,866
Cash and cash equivalents at beginning of year	6,202,571	1,224,688	6,672,301	1,317,435
Cash and cash equivalents at end of year	₩ 6,703,719	6,202,571	\$ 7,211,402	6,672,301

See accompanying notes to non-consolidate financial statements.

Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

1. Summary of Significant Accounting Policies and Basis of Presenting Financial Statements

Organization and Description of Business

Orion Corporation ('the Company') was incorporated as Tong Yang Confectionery Corporation in 1956, under the laws of the Republic of Korea to engage in the business of manufacturing and selling confectioneries. On September 1, 2001, the Company and its affiliates were legally separated from the Tong Yang Group to establish their identity as a confectionery, food and entertainment business group. Accordingly, the Company changed its name from Tong Yang Confectionery Corporation to Orion Corporation on August 29, 2003.

As of December 31, 2006, the Company has three manufacturing plants in Korea and four subsidiaries in overseas to produce biscuits, chocolates, pies and gums. The Company also sells merchandise purchased from Orion Snack International Corp., a 100% owned company organized locally.

On June 27, 1975, the Company was listed on the Korea Exchange Market.

Basis of Presenting Financial Statements

The Company maintains its accounting records in Korean Won and prepares statutory non-consolidated 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 solely for use by only those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language non-consolidated financial statements.

Certain information attached to the Korean language non-consolidated 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 non-consolidated financial statements. Effective January 1, 2006, the Company adopted Statements of Korea Accounting Standards ('SKAS') No. 19, 'Leases' and No. 20, 'Related Party Disclosures'. The adoption of these standards did not have a significant impact on the accompanying non-consolidated financial statements. As allowed by these standards, prior year balances have not been reclassified to conform to the current year presentation.

Cash Equivalents

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

Financial Instruments

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

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

Allowance for Doubtful Accounts

The 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 net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs. The cost of inventories is determined on the specific identification method for materials in transit and on the moving weighted-average method for all other inventories. The amount of any write-down of inventories to net realizable value due to obsolescence or excess inventory and other losses of inventories occurring in the normal course of business are recognized as cost of goods sold and such valuation losses are deducted from the inventories as allowance for valuation losses.

Investments in Securities

Upon acquisition, the Company classifies certain debt and equity securities into one of the three categories: held-to-maturity, available-for-sale, or trading securities and such determination is reassessed at each balance sheet date. Investments in debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) are classified as trading securities. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

Trading securities are carried at fair value, with unrealized holding gains and losses included in current income. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as a capital adjustment, net of tax. Investments in equity securities that do not have readily determinable fair values are stated at cost. Investments in debt securities that are classified into held-to-maturity are reported at amortized cost at the balance sheet date and such amortization is included in interest income.

The fair value of marketable securities is determined using quoted market prices as of the period end. Non-marketable debt securities are recorded at the fair values derived from the discounted cash flows by using an interest rate deemed to approximate the market interest rate. The market interest rate is determined by the issuers' credit rate announced by the accredited credit rating agencies in Korea. Money market funds are recorded at the fair value determined by the investment management companies.

Trading securities are classified as current assets, whereas available-for-sale securities and held-to-maturity securities are classified as long-term investments. However, available-for-sale securities whose maturity dates are due within one year from the balance sheet date or whose likelihood of being disposed of within one year from the balance sheet date is probable are classified as current assets. Likewise, held-to-maturity securities whose maturity dates are due within one year from the balance sheet date are classified as current assets.

A decline in market value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value and the impairment loss is charged to current results of operations.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

Investment Securities under the Equity Method of Accounting

Investments in affiliated companies of which the Company owns 20% or more of the voting stock or over which the Company has significant management control are stated at an amount as determined using the equity method. Under the equity method of accounting, the Company's initial investment is recognized at cost and is subsequently increased or decreased to reflect the changes in Company's share of the net assets of investee. The Company's share of the profit or loss of the investee is recognized in the Company's profit or loss and other changes in the investee's equity are recognized directly in the corresponding equity account of the Company. If the Company holds other investments such as preferred stock or loans issued by the investee, the Company's share of loss of the investee continues to be recorded until such other investments are reduced to zero.

Any excess in the Company's acquisition cost over the Company's share of the net fair value of the investee's identifiable net assets is considered as goodwill and amortized by the straight-line method over the estimated useful life. The amortization of such goodwill is recorded against the equity income (losses) of affiliates. When events or circumstances indicate that carrying amount may not be recoverable, the Company reviews goodwill for any impairment.

Assets and liabilities of foreign-based 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 income 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 companies are offset and the balance is accumulated as capital adjustment.

Under the equity method of accounting, unrealized gains and losses on transactions with an investee are eliminated to the extent of the investor's interest in the investee. However, unrealized gains and losses from a down-stream transaction with a subsidiary are eliminated entirely.

Investments in affiliated companies are reduced when dividends are declared by stockholders' meeting of the respective affiliated companies.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, except in the case of revaluation made in accordance with the old Asset Revaluation Law on October, 1, 1998. However, assets acquired through exchange, investment in kind or donation, are recorded at their fair value upon acquisition.

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

	Useful lives of assets acquired on or after January 1, 1995	Useful lives of assets acquired 1995 before January 1, 1995
Building and structures	50	2 ~ 60
Machinery and equipment	10	2 ~ 10
Vehicles	5	2 ~ 15
Tools, furniture and fixtures	5	2 ~ 54

The Company capitalizes interest costs on all borrowings incurred prior to completion of the acquisitions until the related assets are placed for its intended use, as part of the cost of qualifying assets.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

Leases

Prior to 2006, the Company accounted for and classified its lease transactions as either an operating or capital lease, depending on the terms of the lease under SKAS. When a lease was substantially noncancellable and met one or more of the criteria listed below, the present value of future minimum lease payments was reflected as an obligation under capital lease.

- Ownership of the leased property shall be transferred to the lessee at the end of the lease term without additional payment or for a contract price.
- The lessee has a bargain purchase option.
- The lease term is equal to 75% or more of the estimated economic useful life of the leased property.
- The present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90% of the fair value of the leased property.

Otherwise, the lease was classified as an operating lease with lease payments expensed as incurred.

Effective January 1, 2006, the Company adopted SKAS No. 19, Leases. Under this standard, the above capital lease criteria have been amended. Specifically, the premise of substantially noncancellable lease has been removed and the criterion of a bargain purchase option has been modified to include also a reasonable certainty, at the inception of the lease, that the option will be exercised. In addition, if the leased property is specialized to the extent that only the lessee can use it without any major modification, it would be considered a capital lease. The adoption of this standard had no impact on the accompanying non-consolidated financial statements.

Intangible Assets

Intangible assets, which consist of industrial property rights, are stated at cost less accumulated amortization and impairment losses. Such intangible assets are amortized using the straight-line method over a reasonable period, generally 5 years, based on the nature of the asset.

When the recoverable amount of the intangible assets are substantially below the carrying amount of the assets due to obsolescence and sharp decline in its market value and others, the Company reduces its carrying amount to the recoverable amount and the amount impaired is recognized as impairment loss.

Contributions Received for Capital Expenditures

Contributions received for capital expenditures are reflected as a reduction of the acquisition cost of the acquired assets and, accordingly, reduce depreciation expense related to the acquired assets over their useful lives.

Discount (Premium) on Debentures

Discount (premium) on debentures 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.

Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on current salary rates and length of service when they leave the Company. The Company's estimated liability under the plan which would be payable if all employees left on the balance sheet date is accrued in the accompanying non-consolidated balance sheets. A portion of the liability is covered by an employees' severance benefits trust where the employees have a vested interest in the deposit with the insurance company in trust. The deposit for severance benefits held in trust is, therefore, reflected in the accompanying non-consolidated balance sheets as a reduction of the liability for retirement and severance benefits.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

Through March 1999, under the National Pension Scheme of Korea, the Company transferred a certain portion of retirement allowances for employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount to be payable to the employees when they leave the Company and is accordingly reflected in the accompanying non-consolidated financial statements as a reduction of the retirement and severance benefits liability. However, due to the new regulation effective April 1999, such transfers to the National Pension Fund are no longer required.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the balance sheet date, with the resulting gains or losses recognized in the results of operations. Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at ₩929.6 to US\$1, the rate of exchange on December 31, 2006 that is permitted by the Financial Accounting Standards. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate at the date of the transaction.

Stock Options

The stock option program allows the Company's employees to acquire shares of the Company for a specified price at specified times. The option exercise price is generally fixed at below the market price of underlying shares at the grant date. The Company values equity-settled stock options based upon an option pricing model under the fair value method and recognizes this value as an expense and capital adjustment over the period in which the options vest. When the options are exercised, equity is increased by the amount of the proceeds received which is equal to the exercise price. However, compensation cost for cash-settled stock options is measured each period based on the current stock price and is recognized as an expense and a liability over the service period.

Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognized when all of the following are met: (1) an entity has a present obligation as a result of a past event, (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, a provision is recorded at the present value of the expenditures expected to be required to settle the obligation.

Where the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset when, and only when, it is virtually certain that reimbursement will be received if the Company settles the obligation. The expense relating to a provision is presented net of the amount recognized for a reimbursement.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, the product has been delivered and title of the product has been transferred, the price is fixed or determinable, and collection of the resulting receivable is reasonably assured.

Income Taxes

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax 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.

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

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related asset or liability for financial reporting or the expected reversal date of the temporary difference for those with no related asset or liability such as loss carryforwards and tax credit carryforwards. The deferred tax amounts are presented as a net current asset or liability and a net non-current asset or liability.

Deferred taxes are recognized on the temporary differences related to unrealized gains and losses on investment securities that are reported as a separate component of capital adjustments.

Earnings Per Share

Earnings per common share are calculated by dividing net income by the weighted-average number of shares of common stock outstanding during each period.

Use of Estimates

The preparation of non-consolidated financial statements in accordance with accounting principles generally accepted in the Republic of Korea requires management to make estimates and assumptions that affect the amounts reported in the non-consolidated financial statements and related notes to the non-consolidated financial statements. Actual results could differ from those estimates.

Reclassification

Certain balances in the prior financial statements have been reclassified in conformity to the current presentations.

2. Basis of Translating Financial Statements

The non-consolidated financial statements are expressed in Korean Won and have been translated into U.S. dollars at the rate of ₩929.6 to US\$1, the basic exchange rate on December 31, 2006, solely for the convenience of the reader. These translations should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.

3. Restricted Deposits

Financial instruments which are restricted in use for expenditures for certain business purposes as of December 31, 2006 and 2005 are as follows:

	Won (thousands)		U.S. dollars	
	2006	2005	2006	2005
Short-term financial instruments	₩ 15,052,402	-	\$ 16,192,343	-
Long-term financial instruments	20,500	20,500	22,052	22,052
	₩ 15,072,902	20,500	\$ 16,214,395	22,052

The restricted deposits of ₩20,500 thousand (\$22,052) as of December 31, 2006 and 2005 represent amounts placed with banks as guarantee deposits for the maintenance of checking accounts. The other deposits ₩15,052,402 thousand (\$16,192,343) are used as collateral for the representations and warranties related to sales equity securities of Buy The Way Co., Ltd.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

4. Inventories

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

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Merchandise	₩ 11,343,576	13,493,148	\$ 12,202,642	14,515,004
Finished goods	10,922,713	11,645,716	11,749,906	12,527,664
Work-in-process	1,402,593	1,544,005	1,508,813	1,660,935
Raw materials	6,779,409	5,592,292	7,292,824	6,015,805
Supplies and parts	1,170,406	1,314,374	1,259,043	1,413,914
Raw materials in-transit	3,495,767	3,739,968	3,760,507	4,023,200
	₩ 35,114,464	37,329,503	\$ 37,773,735	40,156,522

5. Investments

Investments other than those accounted for using the equity method as of December 31, 2006 and 2005 are summarized as follows:

Available-for-sale securities

	Won (thousands)			
	Percentage of ownership	Acquisition cost	2006	2005
				Book value
Orion Reports Corp. (*1)	86.00%	₩ 2,150,000	2,150,000	2,150,000
Orion Beverage Corp. (*1)	100.00%	100,000	100,000	100,000
Korea Investment Corp.	0.08%	58,800	4,704	6,762
Haitai Store Co., Ltd.	0.12%	166,480	81	83
MEGA MARK Co., Ltd. (*2)	100.00%	10,000,000	10,000,000	-
Orion International Euro Co., Ltd. (*1)	100.00%	1,845,420	1,845,420	-
Orion Food Rus Co., Ltd. (*3)	100.00%	-	-	9,975,329
Orion Food Vina Co., Ltd. (*3)	60.00%	-	-	4,430,038
Sports TOTO Online Co., Ltd. (*3)	30.00%	-	-	1,500,000
Others	-	52,444	75,460	75,892
		₩ 14,373,144	14,175,665	18,238,104
U.S. dollars (Note 2)		\$ 15,461,644	15,249,209	19,619,302

(*1) Investments in small affiliates with total assets amounting to less than ₩70 billion are recorded at cost, except where the effect of applying the equity method of accounting for investments on the non-consolidated financial statements is material.

(*2) Investment in MEGA MARK Co., Ltd., which is a development stage company as of December 31, 2006, is recorded at cost.

(*3) The Company reclassified investments in affiliates listed above, where the effect of applying the equity method of accounting for investments on the non-consolidated financial statements is material, to securities under the equity method in 2006.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

Held-to-maturity securities

Maturities of debt securities classified as held-to-maturity at December 31, 2006 were as follows:

	Won (thousands)		U.S. dollars (Note 2)	
	Amortized cost	Fair value	Amortized cost	Fair value
Due within one year	₩ 203,390	203,390	\$ 218,793	218,793
Due after one year through five years	256,115	256,115	275,511	275,511
Due after five years through ten years	150,415	150,415	161,806	161,806
	₩ 609,920	609,920	\$ 656,110	656,110

Investments in affiliates

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

company	Percentage of ownership	Won (thousands)		
		Cost	Net assets	Balance at December 31, 2006
Listed:				
ON media Corp. (*2)	38.01%	₩ 110,380,527	150,553,908	124,322,860
MEDIAPLEX Corp. (*2)	57.50%	17,999,000	55,314,887	55,314,887
Unlisted:				
Orion Snack International Corp.	100.00%	48,409,990	63,532,100	80,695,818
Orion Food Co., Ltd.	91.67%	31,758,805	40,615,045	40,580,403
Orion Food (Shanghai) Co., Ltd.	100.00%	22,890,134	17,307,570	17,307,570
Orion Food Rus Co., Ltd. (*1) (*3)	68.45%	22,520,739	22,830,566	22,830,566
Orion Food Vina Co., Ltd. (*1) (*3)	63.45%	17,859,838	15,446,385	15,446,385
riseON Inc.	88.83%	33,753,002	21,262,672	20,811,503
Sports TOTO Co., Ltd.	59.08%	76,286,376	(34,537,046)	43,840,574
Sports TOTO Online Co., Ltd. (*1)	30.00%	1,500,000	1,535,066	1,535,066
		₩ 383,358,411	353,861,153	422,685,632
U.S. dollars (Note 2)		\$ 412,390,716	408,450,772	454,696,248

(*1) Investments in small affiliates with total assets amounting to less than ₩70 billion are recorded at cost, except where the effect of applying the equity method of accounting for investments on the non-consolidated financial statements is material.

(*2) The market value of investments in ON media Corp. and MEDIAPLEX Corp. as of December 31, 2006 are ₩351,893,113 thousands (\$378,542,505) and ₩7,295,150 thousands (\$7,847,623), respectively.

(*3) The company used unaudited financial statements of the above affiliated companies when applying the equity method of accounting.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

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

Company	Percentage of ownership	Cost	Net assets	Won (thousands)
				Balance at December 31, 2006
ON media Corp.	42.54%	₩ 110,380,527	121,892,193	93,718,179
MEDIAPLEX Corp.	82.24%	17,999,000	39,805,609	39,788,191
Orion Snack International Corp.	100.00%	48,409,990	63,470,729	83,016,885
Orion Food Co., Ltd.	88.46%	22,455,805	30,408,015	30,354,753
Orion Food (Shanghai) Co., Ltd.	100.00%	22,890,134	17,464,619	17,421,751
riseON Inc.	88.83%	33,753,002	25,200,101	23,325,087
Sports TOTO Co., Ltd.	52.11%	60,381,576	(56,301,242)	34,623,768
Buy The Way Co., Ltd.	54.59%	25,524,016	28,349,105	28,245,459
		₩ 341,794,050	270,289,129	350,494,073
U.S. dollars (Note 2)		\$ 367,678,625	290,758,528	377,037,514

Details of the difference between the acquisition cost and the Company's share of the fair value of investee's identifiable net assets as of December 31, 2006 and 2005 are as follows:

Affiliate	2006			Balance at December 31, 2006
	Balance at January 1, 2006	Increase	Amortized amount	
Orion Snack International Corp.	₩ 22,203,181	-	(2,467,020)	19,736,161
Orion Food Co., Ltd.	(53,262)	-	18,620	(34,642)
Orion Food (Shanghai) Co., Ltd.	(42,868)	-	42,868	-
ON media Corp.	96,135	-	(48,068)	48,067
MEDIAPLEX Corp.	(17,418)	-	17,418	-
riseON Inc.	(184,256)	-	184,256	-
Sports TOTO Co., Ltd.	90,925,010	-	(12,547,390)	78,377,620
	₩ 112,926,522	-	(14,799,316)	98,127,206
U.S. dollars (Note 2)	\$ 121,478,616	-	(15,920,091)	105,558,525

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

Won (thousands)

Affiliate	2005			Balance at December 31, 2005
	Balance at January 1, 2005	Increase	Amortized amount	
Orion Snack International Corp.	₩ 24,670,201	-	(2,467,020)	22,203,181
Orion Food Co., Ltd.	(71,882)	-	18,620	(53,262)
Orion Food (Shanghai) Co., Ltd.	(85,737)	-	42,869	(42,868)
ON media Corp.	272,241	-	(176,106)	96,135
MEDIAPLEX Corp.	(34,836)	-	17,418	(17,418)
riseON Inc.	(368,511)	-	184,255	(184,256)
Sports TOTO Co., Ltd.	103,465,429	-	(12,540,419)	90,925,010
	₩ 127,846,905	-	(14,920,383)	112,926,522
U.S. dollars (Note 2)	\$ 137,528,942	-	(16,050,326)	121,478,616

Details of eliminated unrealized gains (losses) from inter-company transactions for the years ended December 31, 2006 and 2005 are as follows:

Won (thousands)

Affiliate	2006			Total
	Current assets	Investments	Property & equipment	
Orion Snack International Corp.	₩ (78,483)	-	(6,100)	(84,583)
Buy The Way Co., Ltd.	(103,646)	-	-	(103,646)
ON media Corp.	-	(1,991,034)	-	(1,991,034)
riseON Inc.	-	-	(1,239,589)	(1,239,589)
	₩ (182,129)	(1,991,034)	(1,245,689)	(3,418,852)
U.S. dollars (Note 2)	\$ (195,922)	(2,141,818)	(1,340,027)	(3,677,767)

Won (thousands)

Affiliate	2005			Total
	Current assets	Investments	Property & equipment	
Orion Snack International Corp.	₩ 141,535	-	(6,099)	135,436
Buy The Way Co., Ltd.	(84,156)	-	-	(84,156)
ON media Corp.	-	(1,991,033)	-	(1,991,033)
riseON Inc.	-	-	(490,923)	(490,923)
	₩ 57,379	(1,991,033)	(497,022)	(2,430,676)
U.S. dollars (Note 2)	\$ 61,725	(2,141,817)	(534,662)	(2,614,754)

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

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

Won (thousands)

Affiliate	2006				Balance at December 31, 2006
	Balance at January 1, 2006	Net income (loss)	Capital adjustment	Other increase (decrease)	
Orion Snack International Corp.	₩ 83,016,885	(1,219,426)	(1,101,641)	-	80,695,818
Buy The Way Co., Ltd.	28,245,459	(2,672,820)	(15,875,512)	(9,697,127)	-
Orion Food Co., Ltd.	30,354,753	2,531,856	(1,609,206)	9,303,000	40,580,403
Orion Food (Shanghai) Co., Ltd.	17,421,751	802,754	(916,935)	-	17,307,570
Orion Food Rus Co., Ltd.	-	(1,365,438)	1,675,265	22,520,739	22,830,566
Orion Food Vina Co., Ltd.	-	(1,520,712)	(892,741)	17,859,838	15,446,385
riseON Inc.	23,325,087	(2,513,584)	-	-	20,811,503
ON media Corp.	93,718,179	21,035,361	9,569,320	-	124,322,860
MEDIAPLEX Corp.	39,788,191	2,794,559	12,732,137	-	55,314,887
Sports TOTO Co., Ltd.	34,623,768	15,396,182	(22,084,176)	15,904,800	43,840,574
Sports TOTO Online Co., Ltd.	-	35,066	-	1,500,000	1,535,066
	₩ 350,494,073	33,303,798	(18,503,489)	57,391,250	422,685,632
U.S. dollars (Note 2)	\$ 377,037,514	35,825,944	(19,904,784)	61,737,574	454,696,248

Won (thousands)

Affiliate	2005				Balance at December 31, 2005
	Balance at January 1, 2005	Net income (loss)	Capital adjustment	Other increase (decrease)	
Orion Snack International Corp.	₩ 79,221,498	3,919,362	(123,975)	-	83,016,885
Buy The Way Co., Ltd.	28,094,762	150,697	-	-	28,245,459
Orion Food Co., Ltd.	16,984,649	3,667,661	335,329	9,367,114	30,354,753
Orion Food (Shanghai) Co., Ltd.	16,440,425	1,055,561	(74,235)	-	17,421,751
riseON Inc.	24,864,457	(1,539,370)	-	-	23,325,087
ON media Corp.	81,645,909	10,745,947	1,255,445	70,878	93,718,179
MEDIAPLEX Corp.	33,221,347	7,061,181	(494,337)	-	39,788,191
Sports TOTO Co., Ltd.	54,703,359	(8,007,789)	(33,643,787)	21,571,985	34,623,768
	₩ 335,176,406	17,053,250	(32,745,560)	31,009,977	350,494,073
U.S. dollars (Note 2)	\$ 360,559,815	18,344,718	(35,225,429)	33,358,410	377,037,514

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

Summarized financial information of affiliates as of December 31, 2006 is as follows:

Won (thousands)				
Affiliate	Total assets	Total liabilities	Sales	Net Income
Orion Snack International Corp.	₩ 114,070,664	50,538,564	94,573,083	1,163,011
Orion Food Co., Ltd.	79,135,651	34,829,941	84,810,742	2,840,971
Orion Food (Shanghai) Co., Ltd.	20,341,052	3,033,482	33,667,262	759,885
Orion Food Rus Co., Ltd.	50,490,879	17,137,240	17,527,588	(1,741,107)
Orion Food Vina Co., Ltd.	27,737,910	3,393,726	1,430,760	(2,534,520)
riseON Inc.	117,781,449	93,845,085	99,102,483	(4,432,543)
ON media Corp.	412,068,727	16,018,534	74,625,560	46,597,830
MEDIAPLEX Corp.	177,756,807	81,565,020	88,470,418	3,854,958
Sports TOTO Co., Ltd.	107,849,404	166,319,304	164,178,290	49,567,612
Sports TOTO Online Co., Ltd.	11,774,051	6,657,164	8,115,696	2,626,390
	₩ 1,119,006,594	473,338,060	666,501,882	98,702,487
U.S. dollars (Note 2)	\$ 1,203,750,639	509,184,661	716,977,066	106,177,373

6. Transactions and Balances with Related Companies

Details of parent and subsidiary relationships as of December 31, 2006 are as follows:

Controlled subsidiary	
Orion Snack International Corp.	Orion Snack Co., Ltd.
Orion Food Co., Ltd.	MEGABOX Inc.
Orion Food Shanghai Co., Ltd.	Orion Loews Consulting Co., Ltd.
Orion Food Rus Co., Ltd.	On Game Network Inc.
ON media Corp.	Digital ON media Inc.
MEDIAPLEX Corp.	Beijing DisitalOnStudio Co., Ltd.
riseON Inc.	Badook Television Inc.
Sports TOTO Co., Ltd.	Orion Cinema Network Inc.
Orion Reports Corp.	Dong Ku Cable Television Network Co., Ltd.
Orion Beverage Corp.	ChonNam DongBu Cable TV Co., Ltd.
Orion Food Vina Co., Ltd.	Soo Sung Cable Television Co., Ltd.
Sports TOTO Online Co., Ltd.	Young Dong Cable System, Inc.
MEGA MARK Co., Ltd.	ePLAYon Inc.
Motion101, Inc.	Beijing Zhongguan Megabox Cinema Co., Ltd.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

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

Won (thousands)

Related company	Transaction	2006	2005
Subsidiary			
Orion Food Co., Ltd.	Sales - Export	₩ 305,671	413,853
	Purchase - Import	15,860,770	19,489,940
Orion Food (Shanghai) Co., Ltd.	Sales - Export	232,980	137,217
	Purchase - Import	7,292,987	7,482,177
Orion Food Rus Co., Ltd.	Sales - Export	136,015	-
Orion Food Vina Co., Ltd.	Sales - Export	246,310	-
	Purchase - Import	220,365	-
Orion Snack International Corp.	Sales - Domestic	897,470	967,582
	Purchase - Domestic	93,173,633	99,557,855
Buy The Way Co., Ltd. (*)	Sales - Domestic	1,798,469	2,596,390
	Purchase - Domestic	197,078	399,438
Total	Sales	₩ 3,616,915	4,115,042
	Purchase	116,744,833	126,929,410
U.S. dollars (Note 2)	Sales	\$ 3,890,830	4,426,681
	Purchase	125,586,095	136,541,963

(*) Buy The Way Co., Ltd. became a non-related company in 2006 and the transactions above occurred before the termination of relationship.

Account balances with related companies as of December 31, 2006 and 2005 are as follows:

Won (thousands)

Related Company	2006			
	Receivables		Payables	
	Accounts Receivable - trade	Other receivables	Accounts payables - trade	Other payables
Orion Snack International Corp.	₩ 95,687	110,297	23,572,235	4,651,409
Orion Food Co., Ltd.	30,150	508,863	691,290	-
Orion Food (Shanghai) Co., Ltd.	5,633	15,338	649,578	-
Orion Food Rus Co., Ltd.	104,827	1,069,040	-	-
Orion Food Vina Co., Ltd.	7,414	-	63,437	-
	₩ 243,711	1,703,538	24,976,540	4,651,409
U.S. dollars (Note 2)	\$ 262,168	1,832,550	26,868,051	5,003,667

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

	2005						Won (thousands)
	Net book value as of January 1, 2005	Acquisition	Disposals	Depreciation	Other	Net book value as of December 31, 2005	
	Land	₩ 103,850,919	3,226,467	-	-	-	107,077,386
Buildings	57,515,003	433,892	-	2,209,772	1,062,079	56,801,202	
Structures	1,969,342	30,408	-	198,384	-	1,801,366	
Machinery and equipment	24,978,545	6,476,703	202,550	8,000,578	6,097,556	29,349,676	
Vehicles	3,835,960	2,904,712	96,006	2,408,763	-	4,235,903	
Furniture and fixtures others	4,987,416	2,658,041	824,160	1,150,443	-	5,670,854	
Construction- in-progress	10,940,370	19,161,933	1,852,444	-	(7,159,635)	21,090,224	
	₩ 208,077,555	34,892,156	2,975,160	13,967,940	-	226,026,611	
U.S. dollars (Note 2)	\$ 223,835,582	37,534,590	3,200,473	15,025,753	-	243,143,946	

Insurance

As of December 31, 2006, inventories, machinery, equipment and tools were insured against fire damage up to ₩ 164,407,035 thousand (\$176,858,826). In addition, as of December 31, 2006, the Company carries insurance policies covering loss and liability arising from automobile accidents.

The officially declared value of land at December 31, 2006, as announced by the Minister of Construction and Transportation, is as follows:

	Won (thousands)		U.S. dollars (Note 2)	
	Book value	Declared value	Book value	Declared value
Land	₩ 102,777,737	111,677,512	\$ 110,561,249	120,135,017

The officially declared value, which is used for government purposes, is not intended to represent fair value.

8. Capitalization of Interest

Interest costs of ₩118,682 thousand (\$127,670) and ₩80,600 thousand (\$86,704), in relation to the completion of construction, were capitalized as part of the cost of qualifying assets as of December 31, 2006 and 2005, respectively. If the Company had expensed the interest costs, the differences in balances of the relevant accounts would have been as follows:

Related account	Won (thousands)			
	Capitalized	2006 Expensed	Capitalized	2005 Expensed
Construction in- progress	₩ 13,399,107	13,280,425	21,090,224	21,009,624
Stockholder's equity	425,013,664	425,114,716	327,020,489	326,940,829
Depreciation	16,410,812	16,393,183	13,967,940	13,967,001
Interest costs	14,286,862	14,405,544	13,668,109	13,748,709
Net income	109,451,878	109,350,825	37,313,604	37,233,943

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

U.S. dollars (Note 2)

Related account	2006		2005	
	Capitalized	Expensed	Capitalized	Expensed
Construction in-progress	\$ 14,413,841	14,286,171	22,687,419	22,600,419
Stockholder's equity	457,200,585	457,309,290	351,786,239	351,700,548
Depreciation	17,653,627	17,634,663	15,025,753	15,024,743
Interest costs	15,368,827	15,496,497	14,703,215	14,789,919
Net income	117,740,833	117,632,127	40,139,418	40,053,725

9. Intangible Assets

Changes in intangible assets (Industrial property rights) for the years ended December 31, 2006 and 2005 are as follows:

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Net balance at beginning of year	₩ 1,246,235	981,250	\$ 1,340,614	1,055,562
Increases	1,262,199	621,718	1,357,787	668,802
Amortization	(498,413)	(356,733)	(536,158)	(383,750)
Net balance at end of year	₩ 2,010,021	1,246,235	\$ 2,162,243	1,340,614

Development costs incurred for the years ended December 31, 2006 and December 31, 2005 are ₩1,395,650 thousand (\$1,501,345) and ₩902,631 thousand (\$970,989), respectively.

10. Pledged Assets and Guarantees

Property, plant and equipment have been provided as collaterals to the extent of ₩52,954,400 thousand (\$56,964,716) and \$40,937,000 as of December 31, 2006 for short-term borrowings, long-term debt, bonds, and other current liabilities.

11. Short-term borrowings

Short-term borrowings as of December 31, 2006 and 2005 is summarized as follows:

Won (thousands)

Lender	Description	Annual interest rate(%)	2006	2005
Local currency borrowings:				
Woori Bank	Notes Payable	4.00 - 4.77	₩ 23,200,000	28,900,000
Shinhan Bank	Notes Payable	4.05 - 4.14	-	15,700,000
			23,200,000	44,600,000
Foreign currency borrowings:				
Nong Hyup Bank	Usance	3.80 - 6.16	₩ 4,276,833	5,258,309
			₩ 27,476,833	49,858,309
U.S. dollars (Note 2)			\$ 29,557,695	53,634,153

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

12. Long-term Debt

Long-term debt as of December 31, 2006 and 2005 is summarized as follows:

			Won (thousands)	
Lender	Maturity	Annual interest rate(%)	2006	2005
Local currency borrowings:				
Korea Industrial Bank	April 28,2008	6.30%	₩ 10,000,000	11,875,000
Kookmin Bank	March 26,2022	3.00%	663,064	675,777
			10,663,064	12,550,777
Current portion			(15,979)	(1,887,713)
Total			₩ 10,647,085	10,663,064
U.S. dollars (Note 2)			\$ 11,453,405	11,470,594

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

December 31	Won (thousands)	U.S. dollars (Note 2)
2007	₩ 15,979	\$ 17,189
2008	10,019,342	10,778,122
2009	22,805	24,532
2010	26,377	28,375
2011	578,561	622,376
	₩ 10,663,064	\$ 11,470,594

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

13. Bonds

Bonds (non-guaranteed) as of December 31, 2006 and 2005 consisted of the following:

Series			Annual interest rate	Maturity
	2006	2005		
68th	₩ -	20,000,000	6.12%	March 26, 2006
69th	-	10,000,000	6.21%	April 28, 2006
71st	-	10,000,000	6.14%	May 09, 2006
73rd	-	10,000,000	6.15%	September 30, 2006
75th - 1	-	20,000,000	4.11%	October 29, 2006
75th - 2	50,000,000	50,000,000	4.22%	October 29, 2007
76th	30,000,000	30,000,000	5.40%	February 21, 2008
77th	40,000,000	40,000,000	4.15%	June 14, 2008
78th	10,000,000	10,000,000	5.81%	June 15, 2007
79th	10,000,000	10,000,000	5.67%	August 01, 2007
80th	40,000,000	40,000,000	4.97%	August 19, 2008
81st	20,000,000	-	5.03%	March 10, 2009
82nd	30,000,000	-	5.11%	March 27, 2009
	230,000,000	250,000,000		
Current portion	(70,000,000)	(70,000,000)		
	160,000,000	180,000,000		
Discount	(98,061)	(307,081)		
	₩ 159,901,939	179,692,919		
U.S. dollars (Note 2)	\$ 172,011,552	193,301,333		

Aggregate maturities of the Company's bonds as of December 31, 2006 are as follows:

December 31		
	Won (thousands)	U.S. dollars (Note 2)
2007	₩ 70,000,000	\$ 75,301,205
2008	110,000,000	118,330,465
2009	50,000,000	53,786,575
	₩ 230,000,000	\$ 247,418,245

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

14. Assets and Liabilities Denominated in Foreign Currency

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

	2006		2005	
	Foreign currency	Won equivalent (thousands)	Foreign currency	Won equivalent (thousands)
Assets:				
Cash and cash equivalents	USD 1,581,358	₩ 1,470,030	USD 1,317,053	₩ 1,334,175
	JPY 18,241,758	142,620	EUR 29,201	35,022
Accounts and notes	USD 6,923,194	6,435,801	USD 2,490,036	2,522,406
receivable - trade	JPY 31,101,843	243,164	-	-
		₩ 8,291,615		₩ 3,891,603
Liabilities:				
Accounts and notes payable - trade	USD 3,877,903	₩ 3,604,898	USD 4,600,334	₩ 4,660,138
Short-term borrowings	USD 4,133,706	3,842,693	USD 4,186,787	4,241,215
Current portion of long-term debt	EUR 355,200	434,140	EUR 777,040	931,935
Long-term debt	-	-	CHF 110,490	85,158
		₩ 7,881,731		₩ 9,918,446

15. Retirement and Severance Benefits

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

	Won (thousands)	
	2006	2005
Estimated retirement and severance benefits accrual at beginning of year	₩ 29,939,671	28,063,788
Provision for retirement and severance benefits	8,333,922	8,535,401
Transferred from (to) affiliated companies	(37,341)	548,444
Payments	(7,073,981)	(7,207,962)
Estimated retirement and severance benefits accrual at end of year	31,162,271	29,939,671
Transfer to National Pension Fund	(1,600)	(2,119)
Deposit for severance benefit insurance	(18,697,362)	(17,962,695)
Net balance at end of year	₩ 12,463,309	11,974,857
U.S. dollars (Note 2)	\$ 13,407,174	12,881,731

The Company maintains an employees' severance benefit insurance arrangement with Tongyang Insurance Co., Ltd. Under this arrangement, the Company has made deposits in the amount equal to 60% of the reserve balances of retirement and severance benefits as of December 31, 2006 and 2005. The deposit amount is to be used to guarantee the required payments to the retirees and accounted for as a reduction of the reserve balance.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

16. Leases

The Company leases certain vehicles, computers and other equipment under various operating leases. Future minimum lease payments as of December 31, 2006 are as follows.

	Won (thousands)	U.S. dollars (Note 2)
2007	₩ 234,487	\$ 252,245
2008	234,487	252,245
2009	117,244	126,123

17. Commitments and Contingencies

The Company entered into long-term agreements with Orion Food Co., Ltd., Orion Food Rus Co., Ltd. and Orion Food (shanghai) Co., Ltd. under which the Company authorizes monopolistic rights of sales, production, packaging, distribution and trademark.

The Company maintains lines of credit totaling ₩47,000,000 thousand (\$50,559,380) with various financial institutions at December 31, 2006 as bank overdraft facilities. The Company has also obtained L/C opening and usance credit lines with banks up to \$41,500,000 and ₩4,000,000 thousand (\$4,302,926), respectively. Further, as of December 31, 2006, the Company maintains lines of credit totaling ₩80,000,000 thousand (\$86,058,519) with various financial institutions for purchasing activities.

The Company sold equity securities of Buy The Way Co., Ltd. to Korea Retail Holdings BV on July 20, 2006 and deposited ₩15,052 million (\$16.2 million) of the purchase price in an escrow account at HSBC as reservation for 'adjustment clause' stated in the Shares Purchase Agreement. As of December 31, 2006, the Company recorded an estimated loss amount of ₩1,371 million (\$ 1.5million) as a reduction in gains on sales of investments under the equity method. In addition, the actual loss amount will be finalized after the claim suit is over.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

18. Stockholders' Equity

Transactions in stockholders' equity for the years ended December 31, 2006 and 2005 are summarized as follows:

	2006					Total
	Common Stock	Capital surplus	Retained earning	Capital adjustments		
Balance at January 1, 2005	₩ 29,391,780	125,286,115	130,456,593	50,803,960		335,938,448
Exercise of stock options	111,455	1,267,867	-	-		1,379,322
Disposal of treasury stock	-	129,443	-	16,466		145,909
Net income	-	-	37,313,604	-		37,313,604
Gain from prior period adjustments	-	-	50,935	-		50,935
Paid dividend	-	-	(7,752,629)	-		(7,752,629)
Gain on valuation of investment in security	-	-	-	56,946		56,946
Loss on valuation of investment in affiliates using equity method	-	-	-	(40,362,120)		(40,362,120)
Stock options	-	-	-	250,074		250,074
Balance at December 31, 2005	₩ 29,503,235	126,683,425	160,068,503	10,765,326		327,020,489
U.S. dollars (Note 2)	\$ 31,737,559	136,277,350	172,190,730	11,580,600		351,786,239
Exercise of stock options (*1)	90,800	1,439,793	-	-		1,530,593
Adjustment to tax effect (*2)	-	(443,302)	-	-		(443,302)
Net income	-	-	109,451,878	-		109,451,878
Paid dividend	-	-	(9,084,975)	-		(9,084,975)
Loss on valuation of investment in security	-	-	-	(2,004)		(2,004)
Loss on valuation of investment in affiliates using equity method	-	-	-	(3,798,834)		(3,798,834)
Stock options	-	-	-	339,819		339,819
Balance at December 31, 2006	₩ 29,594,035	127,679,916	260,435,406	7,304,307		425,013,664
U.S. dollars (Note 2)	\$ 31,835,236	137,349,307	280,158,569	7,857,473		457,200,585

(*1) As a result of stock options exercised at price ₩57,130 (\$61.46), the Company issued additional 18,160 shares of common stock.

(*2) The tax effect related to sales of the revaluation of the land credited directly capital surplus.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

19. Retained Earnings

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

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Legal reserve	₩ 7,700,000	6,700,000	\$ 8,283,133	7,207,401
Reserve for business rationalization	7,700,000	7,700,000	8,283,133	8,283,133
Reserve for improvement of financial structure	22,500,000	22,500,000	24,203,959	24,203,959
Reserve for business expansion	39,000,000	39,000,000	41,953,528	41,953,528
Reserve for research and manpower development	23,333,333	20,666,666	25,100,400	22,231,785
Voluntary reserve	48,000,000	24,000,000	51,635,112	25,817,555
Unappropriated retained earnings	112,202,073	39,501,837	120,699,304	42,493,369
	₩ 260,435,406	160,068,503	\$ 280,158,569	172,190,730

Legal reserve

The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or transferred to common stock in connection with free issue of shares.

Reserve for business rationalization

Until December 10, 2002 under the Special Tax Treatment Control Law, investment tax credit was allowed for certain investments. The Company was, however, required to appropriate from retained earnings the amount of tax benefits received and transfer such amount into a reserve for business rationalization.

Effective December 11, 2002, the Company is no longer required to establish a reserve for business rationalization despite tax benefits received for certain investments and, consequently, the existing balance is now regarded as a voluntary reserve.

Reserve for improvement of financial structure

The Regulations on Securities Issuance and Disclosure require the Company to appropriate into a reserve for improvement of financial structure an amount equal to at least 50% of the net gain on sale of property, plant and equipment and 10% of net income for each year until the Company's net worth equals 30% of total assets. The reserve may be used to reduce a deficit or transferred to common stock in connection with free issue of shares.

Reserve for research and manpower development

Under the Korean Tax Incentives Limitation Law ('TILL'), the Company is allowed to deduct from taxable income, amounts appropriated from retained earnings as reserve for research and manpower development. The reserve is added back to taxable income over three years, after a two-year grace period.

Voluntary reserve

The voluntary reserve, the business rationalization reserve and the business expansion reserve are unrestricted.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

20. Capital Adjustments

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

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Treasury stock(709,233 shares in 2006 and 2005)	₩ (16,588,756)	(16,588,756)	\$ (17,845,047)	(17,845,047)
Gain on valuation of investments in affiliates using equity method	22,447,788	26,246,622	24,147,792	28,234,318
Loss on valuation of investment securities	(143,171)	(141,167)	(154,012)	(151,858)
Stock options	1,588,446	1,248,627	1,708,740	1,343,187
	₩ 7,304,307	10,765,326	\$ 7,857,473	11,580,600

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

21. Selling, General and Administrative Expenses

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

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Salaries	₩ 73,029,272	68,336,444	\$ 78,559,888	73,511,665
Provision for retirement and severance benefits	6,433,084	5,857,572	6,920,271	6,301,175
Other employee benefits	14,626,472	12,824,420	15,734,157	13,795,633
Travel	2,101,960	1,868,047	2,261,145	2,009,517
Communication	962,413	859,327	1,035,296	924,404
Utilities	698,660	687,080	751,571	739,114
Entertainment	141,686	153,680	152,416	165,318
Sales promotion and commission	102,482	114,367	110,243	123,028
Advertising	28,163,443	25,930,615	30,296,303	27,894,379
Supplies	1,250,589	984,447	1,345,298	1,059,001
Repairs	1,302,148	804,155	1,400,762	865,055
Insurance	625,318	684,793	672,674	736,653
Vehicle maintenance	5,244,189	5,041,724	5,641,339	5,423,541
Freight	10,719,563	10,151,030	11,531,372	10,919,783
Depreciation	4,876,722	4,393,445	5,246,043	4,726,167
Amortization	498,413	356,733	536,158	383,750
Taxes and dues	3,062,619	1,793,983	3,294,556	1,929,844
Bad debts	2,836,700	3,082,529	3,051,528	3,315,974
Rent	1,638,502	1,460,200	1,762,588	1,570,783
Development	1,395,650	902,631	1,501,345	970,989
Commissions	14,333,848	11,761,217	15,419,372	12,651,912
Publication	75,456	77,284	81,170	83,137
Overseas marketing	1,710,437	1,531,456	1,839,971	1,647,435
Training	998,985	914,403	1,074,640	983,652
Export expenses	3,309,185	3,573,623	3,559,795	3,844,259
Samples	78,599	140,395	84,551	151,027
Research	406,817	395,319	437,626	425,257
Miscellaneous	303,871	302,052	326,884	324,926
	₩ 180,927,083	164,982,971	\$ 194,628,962	177,477,378

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

22. Income Taxes

The Company is subject to a number of income taxes on taxable income at the following normal tax rates:

Taxable income	Prior to 2005	Thereafter
Up to ₩100 million	16.5%	14.3%
Over ₩100 million	29.7%	27.5%

The components of income tax expense (benefit) for the years ended December 31, 2006 and 2005 are summarized as follows:

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Current income tax expense	₩ 32,029,386	7,563,288	\$ 34,455,019	8,136,067
Changes in deferred taxes	(2,086,755)	8,767,256	(2,244,789)	9,431,213
Income taxes directly charged to equity	5,630,606	(7,631,432)	6,057,022	(8,209,371)
	₩ 35,573,237	8,699,112	\$ 38,267,252	9,357,909

The provision for income taxes calculated using the normal tax rates differs from the actual provision for the years ended December 31, 2006 and 2005 for the following reasons:

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Provision for income taxes at normal tax rates	₩ 39,868,706	12,640,297	\$ 42,888,023	13,597,566
Tax effects of permanent differences, net	1,937,118	289,898	2,083,819	311,852
Tax effects in investments under equity method	(5,811,671)	(3,311,055)	(6,251,798)	(3,561,806)
Tax credits	(454,919)	(944,107)	(489,371)	(1,015,606)
Other	34,003	24,079	36,579	25,903
Actual provision for income taxes	₩ 35,573,237	8,699,112	\$ 38,267,252	9,357,909

The effective tax rates, after adjustments for certain differences between amounts reported for financial accounting and income tax purposes, were approximately 24.53% and 23.31% in 2006 and 2005, respectively.

The tax effects of temporary differences that result in significant portions of deferred tax assets and liabilities at December 31, 2006 and 2005 are presented below:

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Deferred tax assets:				
Allowance for doubtful accounts	₩ 979,271	753,964	\$ 1,053,433	811,063
Equity income on investment in affiliates	4,643,962	9,969,566	4,995,656	10,724,576
Depreciation	2,430,540	2,104,401	2,614,608	2,263,770
Provision for loss on sales returns	1,095,094	1,418,396	1,178,027	1,525,813
Other current liability	377,025	-	405,578	-
Others	357,103	357,103	384,147	384,147
Total deferred tax assets	9,882,995	14,603,430	10,631,449	15,709,369

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Deferred tax liabilities:				
Accrued interest income	308	256	331	275
Reserve for technology development	2,933,333	3,666,667	3,155,479	3,944,349
Capital adjustments	1,489,105	7,563,013	1,601,877	8,135,772
Total deferred tax liabilities	4,422,746	11,229,936	4,757,687	12,080,396
Net deferred tax asset (liability)	₩ 5,460,249	3,373,494	\$ 5,873,762	3,628,973

Deferred tax assets have been recognized because it is probable that future profit will be available against which the Company can utilize the related benefit.

The taxable temporary differences that the Company did not recognize as deferred tax assets (liabilities) as of December 31, 2006 are summarized as follows:

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005		
Loss on valuation of investments in affiliates	₩ 11,257,086		\$ 12,109,602	
Investment in affiliates (Provision for advanced depreciation)	(33,866,487)		(36,431,247)	
Investment in affiliates (non-inclusion gain of dividend received)	(44,324,542)		(47,681,306)	
Capital adjustments	(18,378,795)		(19,770,649)	
Land for business use	(26,553,003)		(28,563,902)	
Total	₩ (111,865,741)		\$ (120,337,502)	

The Company did not recognize deferred tax assets with respect to temporary differences associated with securities accounted for by the equity method from riseON Inc., Orion Food (Shanghai) Co., Ltd., Orion Food Rus Co., Ltd, Orion Food Vina Co., Ltd. and ON media Corp. because it is not probable that the temporary differences will reverse in the foreseeable future. In addition, the Company did not recognize deferred income tax liabilities for temporary differences resulting from revaluation of the land for business and capital adjustments for valuation of investments in affiliates since these assets will not be disposed in the foreseeable future.

In 2000, the Company did not recognize corporate income tax effect with respect to ₩32,279,818 thousand (\$34,724,417) of gains on disposal of investments, in accordance with the Korean Tax Incentives Limitation Law ('TILL'), which occurred when the Company invested the stocks of Orion Cinema Network Inc. and Korea Badoo Television Inc. to ON media Corp. as investment in kind. Also, in 2002, the Company did not recognize corporate income tax effect with respect to ₩1,586,669 thousand (\$1,706,830) of gains on disposal of property, plant, and equipment, in accordance with the TILL, which occurred when the Company spun-off the riseON Inc. The Company did not recognize deferred tax assets on the above amounts, because such amounts are not expected to reverse in the foreseeable future.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

The deferred tax assets and liabilities that were directly charged or credited to capital adjustments as of December 31, 2006 are as follows:

	Won (thousands)		U.S. dollars (Note 2)	
	Temporary differences	Deferred tax liabilities	Temporary differences	Deferred tax liabilities
Capital adjustments	₩ 5,414,925	(1,489,105)	\$ 5,825,005	(1,601,877)

Under SKAS No. 16, the deferred tax amounts should be presented as a net current asset or liability and a net non-current asset or liability. In addition, the Company is required to disclose aggregate deferred tax assets (liabilities). As of December 31, 2006, details of aggregate deferred tax assets (liabilities) are as follows:

	Temporary differences at December 31, 2006	Deferred tax assets (liabilities)	
		Current	Non-current
Assets:			
Allowance for doubtful accounts	₩ 3,560,985	979,271	-
Accumulated depreciation	8,838,328	-	2,430,540
Provision for loss on sales returns	3,982,160	-	1,095,094
Other current liability	1,371,000	377,025	-
Equity income on investment in affiliates	16,887,134	-	4,643,962
Others, net	1,298,558	-	357,103
	35,938,165	1,356,296	8,526,699
Liabilities:			
Accrued interest income	1,120	(308)	-
Reserve for technology development	10,666,667	-	(2,933,333)
Capital adjustments	5,414,925	-	(1,489,105)
	16,082,712	(308)	(4,422,438)
	₩ 19,855,453	1,355,988	4,104,261
U.S. dollars (Note 2)	\$ 21,359,137	1,458,680	4,415,082

23. Earnings Per Share

Earnings per share are calculated by dividing net income by the weighted-average number of shares of common stock outstanding.

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Net income in Won	₩ 109,451,877,588	37,313,604,420	\$ 117,740,833	40,139,418
Weighted-average number of common shares outstanding	5,206,340	5,183,563	5,206,340	5,183,563
Earnings per share	₩ 21,023	7,198	\$ 23	8

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

Diluted earnings per share are calculated by dividing diluted net income by the weighted-average number of shares of common and common equivalent stock outstanding.

	Won	U.S. dollars (Note 2)
	2006	2006
Net income in Won	₩ 109,451,877,588	\$ 117,740,832
Share - based payment X (1-27.5%)	180,258,442	193,910
	109,632,136,030	117,934,742
Weighted-average number of common and common equivalent shares outstanding	14,660	14,660
Earnings per share	₩ 20,998	\$ 23

At prior year, diluted earnings per share are not calculated because there is no dilution effect by stock option.

24. Dividends

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

	Won (thousands except par value)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Dividend amount Cash dividends	₩ 11,721,542(*)	9,084,975	\$ 12,609,232	9,772,994
Net income	109,451,878	37,313,604	117,740,833	40,139,418
Dividends as a percentage of net income	10.71%	24.35%	10.71%	24.35%
Par value	5,000	5,000	5,379	5,379
Dividends as a percentage of par value	45%	35%	45%	35%

(*) This amount includes ₩11,721,542 thousands of dividends that were not recorded in the 2006 financial statements. It will be recorded upon declaration by the Board of Directors in 2007.

Dividend yield ratio for the years ended December 31, 2006 and 2005 are as follows:

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Dividend per share	₩ 2,250	1,750	\$ 2.42	1.88
Market price as of year end	272,500	280,500	293	302
Dividend yield ratio	0.83%	0.62%	0.83%	0.62%

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

25. Stock Options

The Company granted stock options to its executive officers and directors in accordance with the stock option plan approved by the Board of Directors. The details of the stock options granted as of December 31, 2006 are as follows:

	1 st Grant	2 nd Grant	3 rd Grant	4 th Grant
Grant date	January 30, 2003	January 30, 2004	January 28, 2005	January 31, 2006
Exercise price - Won	57,130	78,400	113,100	255,120
- USD	61.46	84.34	121.67	274.44
Number of shares	19,318(*)	21,407	15,669	8,458
Exercisable period	within 7 years starting from January 30, 2006	within 7 years starting from January 30, 2007	within 7 years starting from January 28, 2008	within 7 years starting from January 31, 2009

(*) During 2006, 1,158 stock option rights granted at January 30, 2003 were cancelled and the remaining number of the stock option rights has been exercised.

The total compensation cost recognized in the statement of income for stock-based employee compensation awards for the year ended December 31, 2006 amounted to ₩833,771 thousand (\$896,914) and ₩748,812 thousand (\$805,521) in 2005.

The Company adopted the fair value approach (Black-Scholes model) for the calculation of compensation costs which are amortized to expense over the option vesting periods and the valuation assumptions are as follows:

	1 st Grant	2 nd Grant	3 rd Grant	4 th Grant
Risk free interest rate	5.19%	5.50%	4.75%	5.44%
Expected option life	6 year	6 year	6 year	6 year
Expected volatility	47.34%	46.96%	44.24%	42.19%
Expected dividend yield ratio	1.10%	0.88%	0.71%	0.40%

26. Non-cash Investing and Financing Activities

Significant non-cash investing and financing activities for the years ended December 31, 2006 and 2005 are summarized as follows:

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Construction - in-progress transferred to Investments on affiliates	₩ 11,467,458	-	\$ 12,335,906	-
Construction -in-progress transferred to Buildings and structures	18,763,945	7,159,635	20,184,967	7,701,845
Long-term liabilities transferred to current liabilities	69,935,448	71,887,713	75,231,764	77,331,877
Effect on deferred tax for changes in capital adjustment	6,073,148	7,616,559	6,533,077	8,193,372
Long-term financial instrumentst transferred to current asset	275,000	300,605	295,826	323,370
Stock-option transferred to capital surplus	493,953	498,739	531,361	536,509
Change in capital adjustment to equity method	3,877,403	32,745,560	4,171,045	35,225,430

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

27. Added Value

The components of manufacturing costs and selling, general and administrative expenses which are necessary in calculating added value at December 31, 2006 and 2005 are as follows:

	Won (thousands)		U.S. dollars (Note 2)	
	2006	2005	2006	2005
Salaries	₩ 86,292,066	81,402,325	\$ 92,827,093	87,567,045
Retirement allowance and severance benefits	8,333,922	8,535,401	8,965,062	9,181,800
Other employee benefits	18,356,766	16,278,675	19,746,951	17,511,483
Rent	1,638,502	1,460,200	1,762,588	1,570,783
Depreciation	16,410,812	13,967,940	17,653,627	15,025,753
Taxes and dues	3,588,183	2,437,416	3,859,921	2,622,005

28. Employee Welfare and Contributions to Society

For employee welfare, the Company maintains a refectory, an infirmary, athletic facilities, a scholarship fund and workmen's accident compensation, unemployment and medical insurances. Welfares spending for the years ended December 31, 2006 and 2005 amounted to ₩18,356,766 thousand (\$19,746,951) and ₩16,278,675 thousand (\$17,511,483), respectively.

The Company donated ₩92,360 thousand (\$99,355) and ₩371,295 thousand (\$399,414) to the Catholic Bishop's Conference of Korea and others for the years ended December 31, 2006 and 2005, respectively.

29. Approval of 2006 financial statements

The Company's 2006 financial statements will be approved at the Company's board of directors' and general stockholders' meeting to be held on March 8, 2007. Independent Accountants' Review Report on Internal Accounting Control System English translation of a Report Originally Issued in Korean To the President of Orion Corporation: