



Nature
Housing
Human

Sustainability Report



KNHC Sustainability Report and GRI G3 Guideline



2006



Sustainability Report
2006

KNHC Sustainability Report 2006 fulfills the requirement of "A" level defined by the application level system of GRI G3 guideline. The GRI Secretariat examined the report to confirm the application level of this report. The greatest goal of our release of this Sustainability Report is to secure the stakeholders' trust. To achieve this goal we have consulted a number of internal and external stakeholders, incorporated their opinions in planning and preparation of this report. In addition, we attempted to include as much as possible contents of G3 performance indicators based on the global standard of G3 Guideline for sustainability reporting. KNHC will continue to develop its sustainability management activities and increase the level of sustainability reporting with the G3 performance indicators.

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GRI Content Index in Short

Awards and External Recognition

2005	Organization for Excellence in Win-Win Cooperation, Ministry of Construction and Transportation
2005	Gold Prize in the Ecological Landscape & Green Plan, Ministry of Environment
2005	Prize of Excellent Technique, Korea Tech. Const. Contractors Association
2005	Grand Prize in the Technology Innovation Management of the Product & Technology Sector, Korea Economic Daily
2005.06	Award for 'Love Seoul Citizenship' of the Ecological Landscape Sector, Seoul Metropolitan Government
2005.11	Prize of Excellent Technique, Korea Concrete Institute
2005.11	1st Korean Golden Tower Industrial Medal, President of Korea
2005.11	Prize of Green Residential Culture & Environment, Herald Business
2005.12	Highest Rank in the Customers' Satisfaction Survey of Government-Invested Institutions, Ministry of Planning & Budget
2006.01	Organization for Excellence in General Evaluation of Anti-Corruption Policy, Korea Independent Commission Against Corruption
2006.05	Grand Prize in the Landscape Establishing Historical & Cultural Circumstance, Ministry of Culture & Tourism
2006.10	Presidential Award for Excellence at the 2006 Korea Construction Culture Grand Awards Ceremony, Ministry of Construction & Transportation, Korea Institute Registered Architects
2006.10	Prize of Excellence in Technology, Korea Society of Geothermal Energy Engineers
2006.11	Prize of Excellence in Technology, Korea Institute of Structural Maintenance Inspection
2006.11	Excellent Product Award, Korea Concrete Institute
2006.11	Grand Prize in the Corporate Social Contribution, Korea Economic Daily

Membership Entries

1998.3	Korean Federation of Library Association
1990.7	National Association of Housing and Redevelopment Officials (U.S.A.)
1992.4	Japan Housing Association
1993.1	Eastern Regional Organisation for Planning and Housing
1993.3	Korea Planners Association
1995.2	Architectural Institute of Korea
1998.7	International Society of City and Regional Planners
2006.12	UN Global Compact

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Significance of Sustainability Report

Korea National Housing Corporation (KNHC) is publishing our first Sustainability Report as a response to the global expansion of sustainability management and to demands of social responsibility from our stakeholders. In this report we redefine our management activities within the framework of sustainability management in the three areas of economy, environment and society; describe our management performances; and present future plans.


This report, which will be published annually, will provide a useful communication tool between KNHC and our stakeholders and an essential reference for systematic implementation of our sustainability management activities.

Scope & Period of Report

This Sustainability Report 2006 of KNHC includes status and performances of KNHC's sustainability management from 1 January 2006 to 31 December 2006. Performance Indicators of the past three to four years are also presented. The report also includes the housing management activities of Korea Housing Management Corporation, a subsidiary of KNHC.

Reporting Principles

This report presents performance and plan for each of the management indices in the GRI G3 Guideline (October 2006) in a transparent manner. Status of report items recommended by GRI Guideline may be found in the appended GRI Content Index.

GRI Guideline includes 79 performance Indicators in areas of economy, society and environment. It suggests to report on material indicators selected by reporting principles and the unique circumstances each companies are operating in. Accordingly, KNHC performed evaluation of their significance by both KNHC employees and external experts to establish our set of indicators for sustainability management and the annual reports. The evaluation result for each sector is presented in the introduction section as 'Sustainability Navigator' and the selected indices are indicated with an icon () in the main body to provide reference to stakeholders.

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All employees of KNHC will implement sustainability management thoroughly to achieve the corporate vision of 'Global Top City & Housing Corporation', and contribute to sustainable development of the entire human race as well as our nation.



Dear Stakeholders

It is my privilege, as the President of KNHC, to deliver to you KNHC's pledge on sustainability management. For 46 years since our foundation in 1962, KNHC has been endeavoring to fulfill our mission of contributing to the public welfare and stability of living through housing construction and urban development in Korea. As the housing supply rate has been stretched over 100% and the demand for better quality of living increased, KNHC has been focusing on reshaping itself to create competitive urban space and increase housing welfare.

As a part of such endeavors for strengthening our roles and securing future competitiveness, KNHC established the corporate vision of 'Global Top Housing & Urban Professional Business' early 2006 and prepared 'Vision 2015 Long-term Strategic Plan' accordingly. The 'Strategic Plan' consists of strategies for enhancing our public functions; customer success strategies to secure sustainable support base through customer successes; corporate value enhancing strategies to expand our profit base for sustainable fulfillment of public benefit goals; and strategies for building sustainable management foundation for sustainable future growth.

Based on these strategic directions, KNHC has been implementing the Government's 'Construction Policy of Million National Rental Housings' and various Housing Welfare Business including purchased multi-unit tenement, rental housing with deposit money(Jeonse), subsidy for children household without parents and Group Home. To ensure productivity and innovation in our business, we have been carrying out 6-sigma innovation activities and implementing an enterprise risk management system. In addition, KNHC has endeavored to expand ethical management by taking part in the 'Transparent Society Agreement' as a representative public corporation and leading the formation of 'Public Business Council for Transparent Society.' Furthermore, we have actively pursued social responsibility management through formation of 'Didimdol(Stepping Stone) Service Group,' institution of employee social service activity regulations and planning for a social contribution fund.

In spite of such endeavors, lately KNHC has been asked to perform roles for increasing housing welfare and stabilization of the housing market, while the stakeholders are showing increasing expectation for KNHC in such roles. KNHC will strengthen our sustainability management to produce balanced performances in economic, environment and social aspects and to better integrate our activities in such roles. We will continue to pay close attention to your interests and demands for innovation, integrity and eco-friendly development and pledge to practice the following for systematic implementation of our sustainability management.

First, KNHC will maximize our corporate value by providing high quality housing welfare services and top level urban living spaces through ceaseless innovation.

Secondly, KNHC will expand the supply of environment-friendly city and housing to meet the social demand for eco-friendly development and exercise leadership in environment.

Thirdly, KNHC will develop the housing welfare service suited to the needs of the vulnerable, expand the social safety net through social contribution using our core capabilities, and fulfill our role as a major corporate citizen of Korea.

KNHC will consider the above three pledges in all our management activities and carry them out proactively. Thus, we wish to devote our efforts to sustainable development of our society and the entire world. Thank you.

March, 2007

Se-Heom Bak

Signature:

throughout the society



KNHC & Sustainability Management



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Corporate Governance



Humansia, KNHC’s brand of urban community

KNHC has developed its unique urban community brand as Humansia, which embodies our development philosophy for environment-friendly and human-centered spaces. Humansia is a composite word formed by combining Human and Sia (large space or land). It reflects KNHC’s vision of ‘providing top-level urban residential spaces of human focus and rich quality of living for the people.’

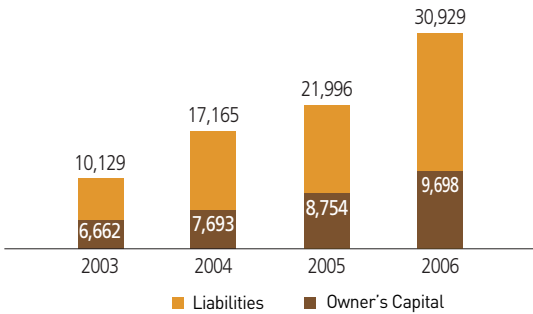


Corporate Profile (End of 2006)

Title	Korea National Housing Corporation
Founded On	July 1, 1962
Capital	Authorized Capital: KRW 8 trillion Paid-in Capital: KRW 7.6 trillion
Total Assets	KRW 40.6 trillion
Total Revenue	KRW 5.2 trillion
Employees	3,980
Houses Built	1,784 thousand (dwellings)
New town Construction Examples	Gwacheon, the first new town (1980~1984, 2,306 thousand m²) Paju Unjung, the first u-City (2000~, 9,549 thousand m²)
Shareholders	Korean Government (85%) Korea Development Bank (15 %)
Subsidiary	Korea Housing Mgmt Co. (Founded on Sep 28,1998): KNHC shares 100%
Main Office	175 Gumi-dong, Bundang-gu, Sungnam, Gyeonggi-do

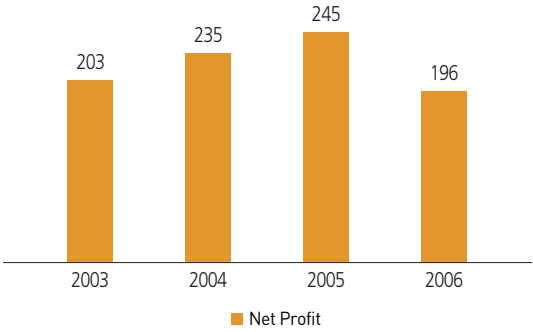
Financial Structure

(unit:KRW 1B)



Performance

(unit:KRW 1B)

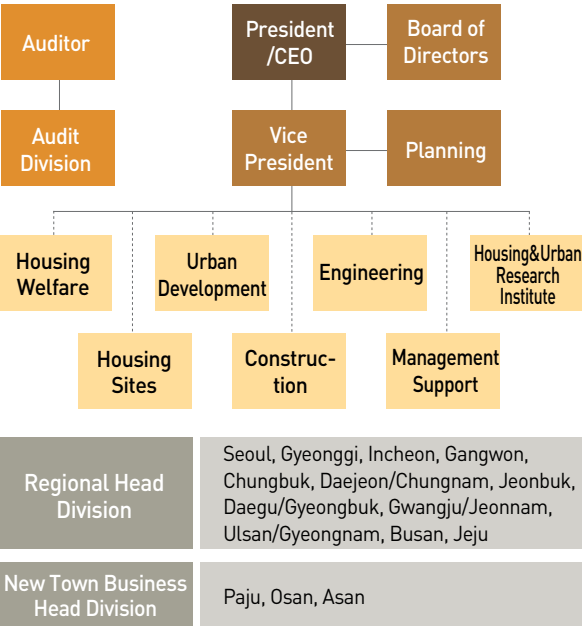


KNHC is a government-invested corporation, founded in accordance with the KNHC Act. Each year KNHC’s performance is evaluated by the Ministry of Planning & Budget (MPB) as a part of its government management evaluation program. KNHC’s sustainable governance structure is established through the Board of Directors and active management participation of stakeholders.

Organizational Structure

KNHC consists of Main Office, 12 Regional Head Divisions, and 3 New Town Business Head Divisions. KNHC’s organizational structure was revised in January 2007 to better meet the increased business volume from the Government’s 1 Million National Rental Housing Construction Plan and the demands of new business for housing welfare, new town construction, balanced national development and urban renovation.

Organizational chart



Regional Head Divisions & New Town Business Head Divisions



Board of Directors

KNHC’s Board of Directors, consisting of 7 standing directors and 8 non-standing directors and chaired by the president, reviews and makes decisions on major management agenda in accordance with Article 9, the Act on Public Invested Corporation Management.

Non-standing Directors with Independence and Professional Expertise

KNHC’s directors consist of the professionals of diverse fields including economy, management, legislation, environment and land. They take part in the monthly board meetings to review and vote on various issues of management goals, budget, funding and operational plans, thus supervising the overall management of KNHC. Independence and professional expertise of non-standing directors are verified through their appointment process, which includes recommendation by the president of KNHC and approval by the Public Corporation Management Committee.

Enhanced Roles of Non-standing Directors

KNHC provides various management information through the web site of its Board of Directors and in the form of news letters. Monthly Board meetings are held regularly on major agenda as well as special reports and site visits to support rational decision making. In 2006 the Corporate Regulation for Board of Directors was amended to allow holding meetings for non-standing directors only for information exchange and opinion hearing among non-standing directors only. In addition, management recommendation monitoring system was developed where special suggestion form was developed and a responsible team was designated to solicit and utilize recommendations of non-standing directors on KNHC management. Discussion meetings are held between the non-standing directors and Head Divisions to enable the directors to hear opinions of on-site employees directly.

Evaluation of Board of Directors Performance

The operational status of the Board of Directors is evaluated by an external evaluation group during annual management performance evaluation. Standing directors are paid performance-based compensation in accordance with the Government’s management evaluation result.

Operations of Audit Office

KNHC has faithfully undergone not only the annual audit by Bureau of Audit & Inspection (BAI) but also irregular inspections by MOCT and the Office of the Prime Minister on government policy performances and major business. Also, KNHC operates Audit Office, which is independent from the decision making bodies and Head Divisions, to review internally our business and accounting practices as an effort to stand as trustworthy corporation. During 2006 Audit Office conducted total six general audits, five special audits, five inspections on work discipline, and 1,123 daily audits. We also developed Jugong Audit System (JAS), which allows daily monitoring of abnormal indications.

KNHC's Role for Sustainable Development

Characteristics of Housing Industry

Locomotive of national economic growth and progress

Housing industry is a representative domestic industry that forms social overhead capital; generates significant social ripple effects production and employment through improved personal productivity from stable housing and the construction effects; and has high level of effects on manufacturing areas such as construction material.

Nature as public goods

In the market situation that suffers from imbalance of demand and supply due to high price level as well as the fixed nature of housing where prices are dependent on locations, participation of the public sector in the housing market is unavoidable to prevent market failures.

Policy business nature

Improved housing and the stabilization of people's housing are important policy areas. For this reason, many governments intervene in housing industry and market, directly or indirectly.

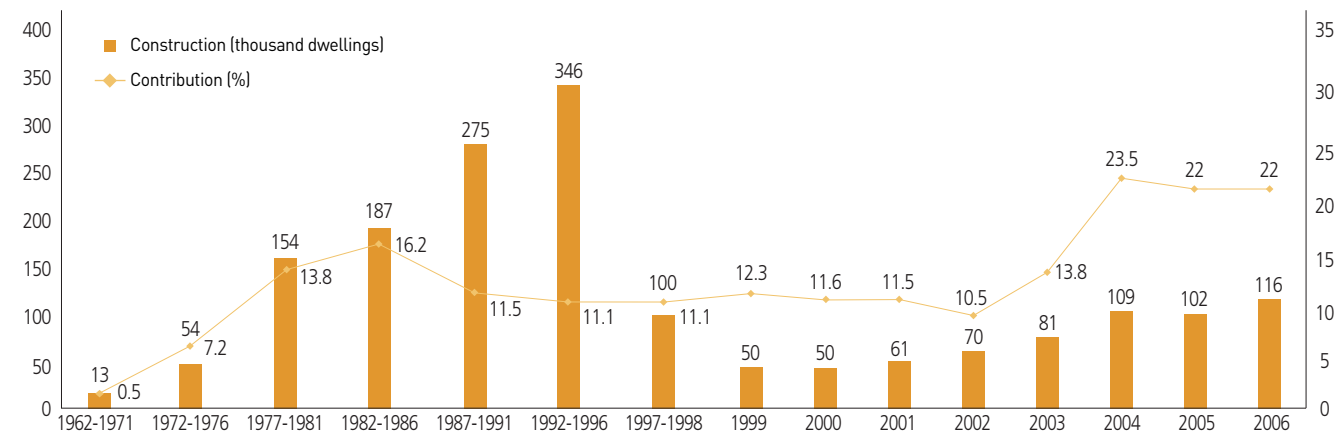
Integration nature

Housing and city is an integrated product that provides comprehensive services through raw material production, construction, supply, management, and service. Professionals of diverse trades are required for its construction and resulting subcontracting create hierarchical production structures.

Dependence on market condition

Housing industry requires huge amount of expenditure and investment. Thus, it is highly dependent on the market fluctuation on its own. However, it is used often as a tool for boosting or adjusting the construction market by the Government.

Housing Construction and Contribution of KNHC



Roles of KNHC Since Its Foundation

Leader for stable growth and progress of housing industry

KNHC has played the pioneering role for stable growth and progress of the Korean housing industry by supplying a total of 12.5% of total domestic housing stocks constructed since its foundation until 2006.

Expanded foundation for housing welfare

Early 1990s KNHC built some 164,000 dwellings of 50-year rental and permanent rental housings, thus contributed significantly to relieve the housing needs of urban poor and low-income class. KNHC has led the implementation of the government's 1 Million National Rental Housing Construction Plan, thus playing a leading role for housing stabilization of the socially disadvantaged class.

Leader of systematic urban growth

KNHC actively participated in new town development from Gwacheon New Town project (the first new town in Korea), Sanbon New Town project (a part of the 2 Million Home Construction Plan), to Paju New Town Project. KNHC's efforts contributed to relieving over-concentration of population and social functions in existing major metropolis and to activating local economies.

Participation of Urban Renewal Business

KNHC has actively participated in Urban Renewal Business, which rejuvenated urban areas of deteriorated infrastructure or housing. KNHC introduced a development methodology such as Cycled Renewal Method and Focal Points-based Redevelopment Method to minimize the social problems of renewal process.

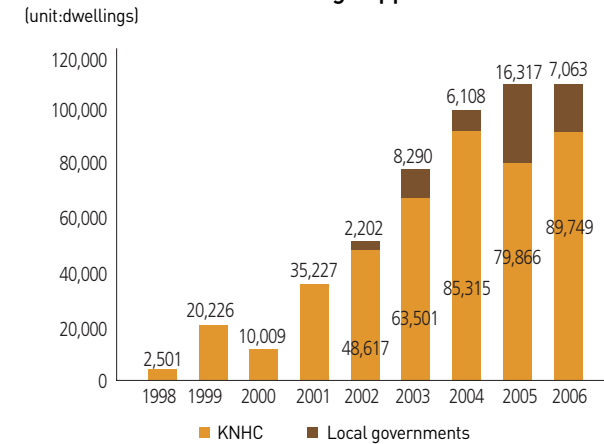
Leader in housing technology

With continuous efforts to develop new technology and construction method, housing designs, pricing standard, supervision specifications and work standards developed by KNHC have become the de facto standards of the Korean housing industry. In addition, As a Green Building Certification agency and Korea Laboratory Accreditation Scheme public testing agency, KNHC's technical capabilities have been recognized by the Government and publicly trusted.

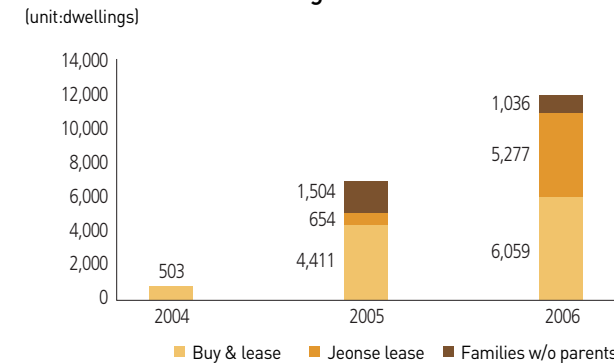
Contribution to the Sustainable Development of Korea

Korea has grown to be the tenth largest economy in the world and a member of OECD based on rapid industrialization. However, our environment conservation and social integration performances are relatively lacking. Upon recognition of such needs, the Korean Government established in 2006 '2010 National Sustainable Development Strategy' through joint collaboration of 22 ministries and agencies. The Strategy outlines 48 implementation tasks and 223 detailed tasks for Korea's sustainable development for up to 2010.

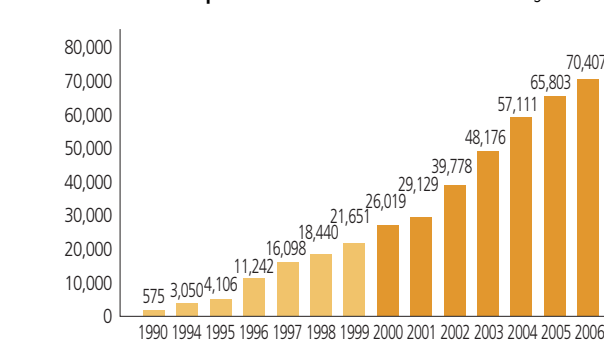
The National Rental Housing supplied



Purchased Rental Housing

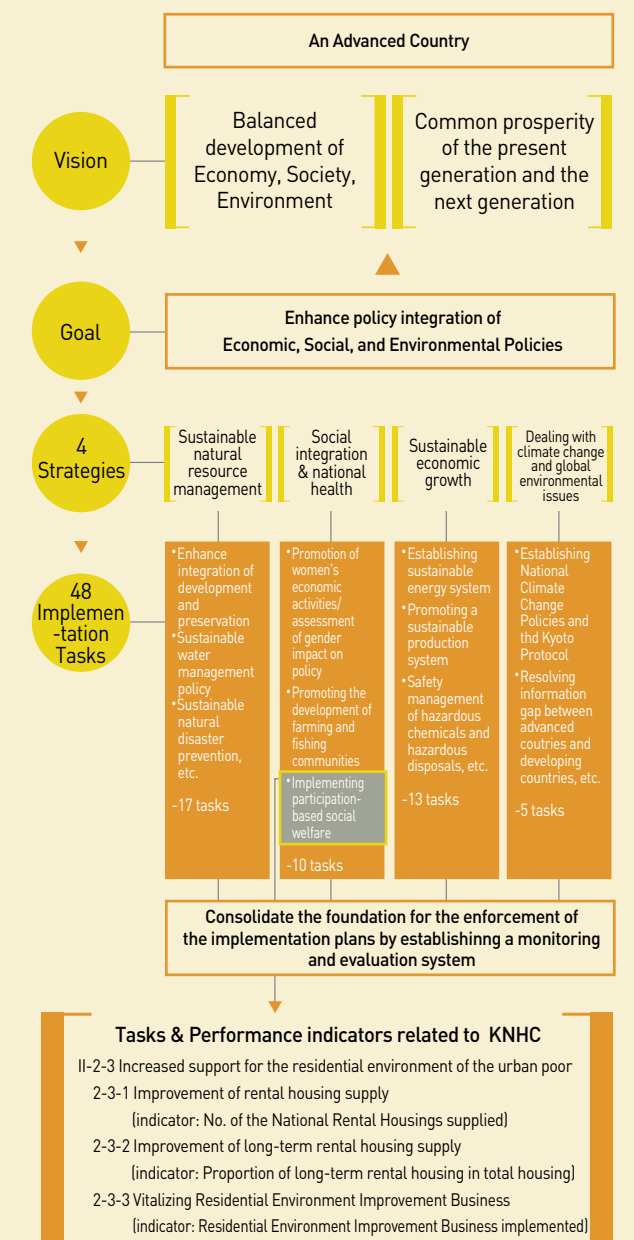


Cumulative total outcomes of Residential Environment Improvement Business



2010 National Strategy for Sustainable Development identifies the core business of KNHC such as the National Rental Housing construction, long-term rental housing supply & management, and Residential Environment Improvement Business as major activities for the sustainable development of the nation. Accordingly, KNHC shall effectively and efficiently execute own business while reinforcing environmental and social considerations in all our business activities to contribute to the sustainable development of our society.

2010 National Strategy for Sustainable Development



Strategies for Sustainability Management

Introduction of Sustainability Management

Prior to preparing the sustainability report, we conducted a thorough survey of sustainability management practices of other leading businesses, both of Korea and overseas; made an overall diagnosis of our management activities from the aspects of economy, environment and society; collected opinions of internal and external stakeholders; and established the goals and strategies of our sustainability management.

Propagation of Sustainability Management Sustainability management training of employees

For the purpose of inducing our employees’ interest and participation on sustainability management, we conducted six guest lectures for the entire officers and employees throughout 2006.

Special lecture on Sustainability Management for Open Management Forum ‘06.10



Sustainability Management lecture for all employees ‘06. 12



Incorporation of Stakeholder Feedback

KNHC conducted a survey on internal and external stakeholders in the planning stage of this report in the form of interviews and a written survey and asked for the third-party review for the purpose of determining relevant information expected by stakeholders.

Strategic Working Group for sustainability management

Strategic Working Group for sustainability management has been established, consisting of 15 working members of the Main Office, for the purpose of proper status diagnosis and incorporation of internal stakeholder views in strategy formulation and report preparation.

Interviews with external stakeholders

We carried out a benchmarking of national assembly information request items as well as sustainability indicators of leading businesses and other housing businesses for the purpose of systematic incorporation of expectations and interests of external stakeholders in our report. We also identified expectations of our stakeholders through interviews with Government officers and expert groups.

Third party review of external experts

We asked the external sustainability experts to independently review our draft report. We intend to focus on reviewing the appropriateness of our sustainability management directions and completeness of information expected by stakeholders.

Participation of the CEO and Management Team

The officers’ and CEO’s views were incorporated while establishing the sustainability management strategy. The final version of the report was approved by the management team prior to its release.

Pledge to the UN Global Compact Initiative

Upon launching the sustainable management program, KNHC joined the UN Global Compact to declare our resolve for sustainable development to the global community. We will actively take part in the Global Compact activities; comply with its international standards in four areas of human rights, labor, environment and anti-corruption; and announce our performance to stakeholders of the entire world in time.

Establishment and Promotion of Sustainability Management Strategies

KNHC’s sustainability management activities will be focused on the Triple Bottom Lines of economy, environment and society. KNHC adopted ‘Corporate Citizen for the Earth & the Next Generations’ as the sustainability management vision, which embodies KNHC’s will to fulfill its roles as a corporate citizen jointly responsible for the society’s goal of ‘sustainable development.’

In the economic sector, KNHC will take proactive measures against the financial risks from expanded public benefit business shares so as to reach a desirable balance between the public benefit nature and profitability and to contribute to the society’s economic growth.

In the environmental sector, KNHC will continue to improve the eco-friendliness of the homes and residential complexes that we provide through their eco-friendly structure certifications and management of ecosphere area proportions.

In the social sector, KNHC will faithfully perform our social role of long-term rental housing expansion and make social contribution investments at par with top-level businesses of advanced nations. KNHC shall implement our sustainability management strategies actively to fulfill our roles as a corporate citizen and to be borne again as a Global Top City and Housing Corporation.

Mid/long Term Goals of Sustainability Management

Goal Indicators		2015 Goal
Economy	EVA	0
	Economic ripple effect (Cum.) ¹⁾	KRW 100 Trillion
Environment	Eco-friendly Housing ²⁾	300,000 dwellings
	Biosphere Area Proportion ³⁾	Over 50%
Society	Long-term Rental Proportion ⁴⁾	15%
	Social Contribution Investment Share ⁵⁾	1%

1) Induced production from urban renewal (Total project cost x Construction industry propagation coefficient 2.42636)

Example: KRW 9200B = KRW 3799.1B (2006 project cost) X 2.42636)

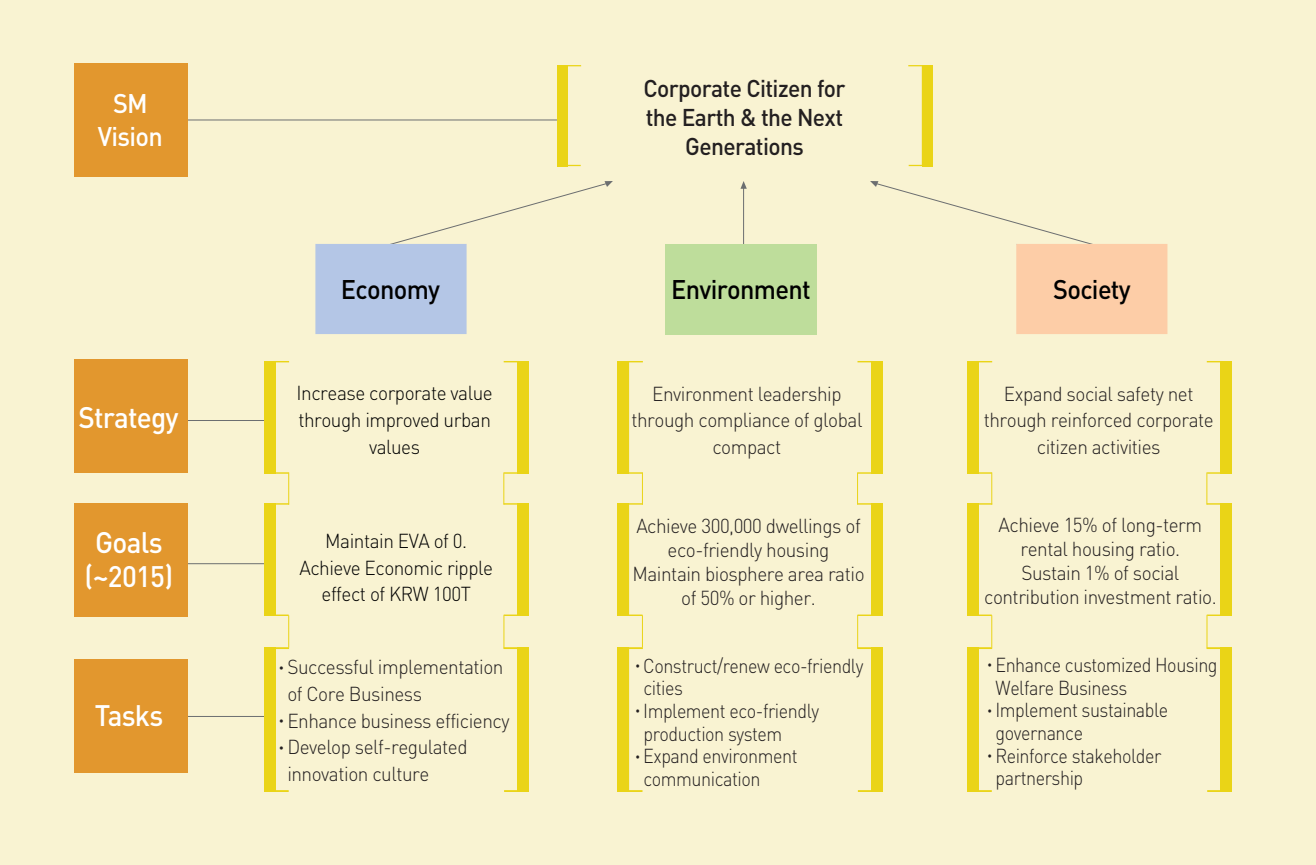
2) Number of housing dwellings with Green Building Certification

3) Proportion of natural cycling area in total area

4) Proportion of long-term housing in total housing

5) Proportion of social contribution investment in ordinary profit

Sustainability Management (SM) Strategy



Implementation of Sustainability Management

Integration with Long-term Management Strategy

Prior to establishing our sustainability management strategy, KNHC established 'Vision 2015 Long-term Management Strategy' during 2006 to meet the challenges of environment changes and to secure future competitiveness.

In 2007 we added strategic tasks of eco-friendly development and social responsibility management to augment the long-term management strategy.

KNHC's 2015 Management Strategy and Sustainability Management Plan were developed from different perspectives. However, through appropriate interaction of these plans, we will achieve the corporate vision of 'Global Top City & Housing Corporation.'

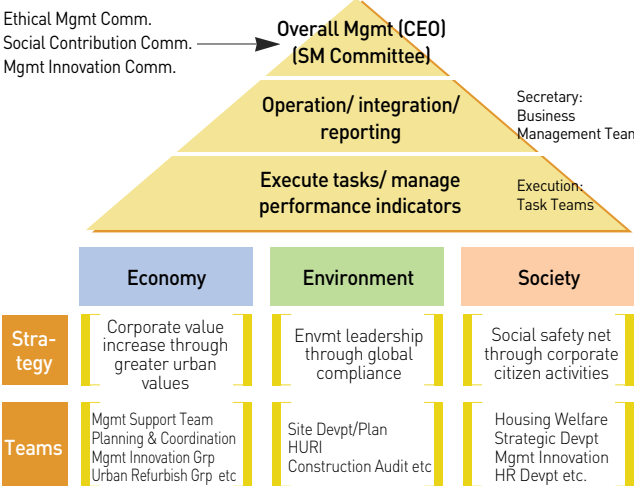
Feedback of SM elements to management



Implementation System for Sustainability

Currently KNHC's sustainability activities are the overall responsibility of the Business Management Team of the Planning Group, whereas the Innovation Group is responsible for the areas of social responsibility, anti-corruption and customer satisfaction. Each department actively carries out the relevant activities of environmental assessment, site environment control, manpower development, employee health and safety during planning and design stages.

Organization for sustainability management



Note: SM Committee being organized.

Directions of Sustainability Management

During 2007 we will establish a system for periodic publication of SM reports. We will also complete the SM foundation by reorganizing our environment management team and associated work processes.

During 2008, we will introduce sustainable supply chain management program; implement the sustainability performance management system; thus continue maturing our foundation for SM activities.

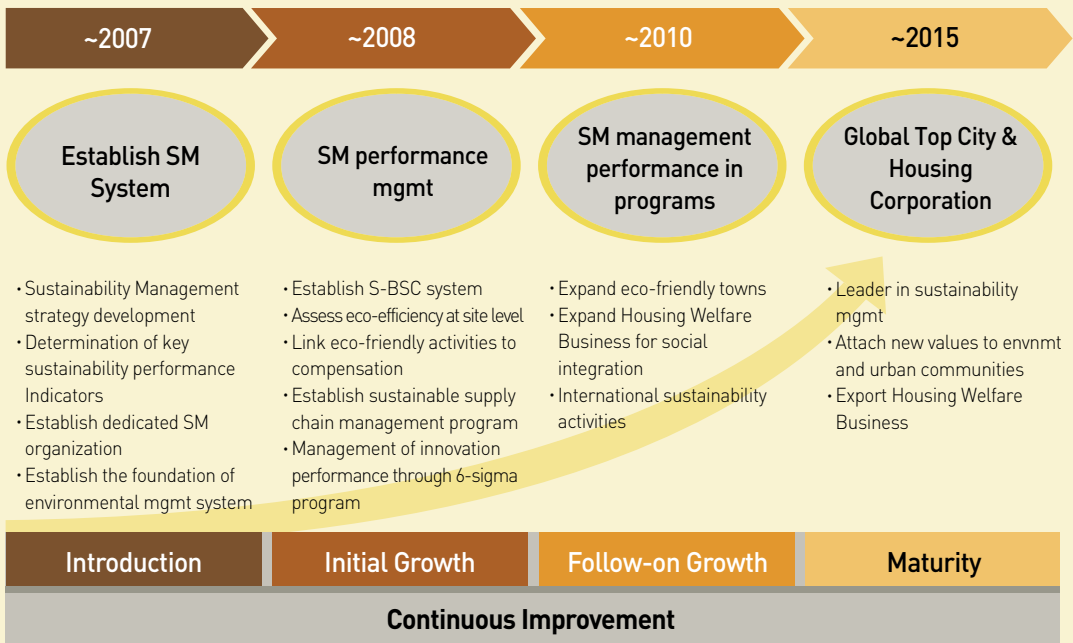
We will expand significantly the supply of eco-friendly housing and city development through improved environmental management process by 2010 and maximize housing welfare service effects, thus producing substantial results. Our activities for eco-friendly housing supply and people's housing welfare improvement are directly linked to satisfaction of both the residents of housing complexes and of local communities. Thus, they will contribute significantly to the KNHC brand value and our corporate value.

Through continued implementation of our sustainability management, KNHC will secure leadership in sustainability management based on a balance between profitability and public benefits by 2015.

'2015 Strategic Management Vision and Strategy'



Strategic Roadmap for Sustainability Management



throughout the society



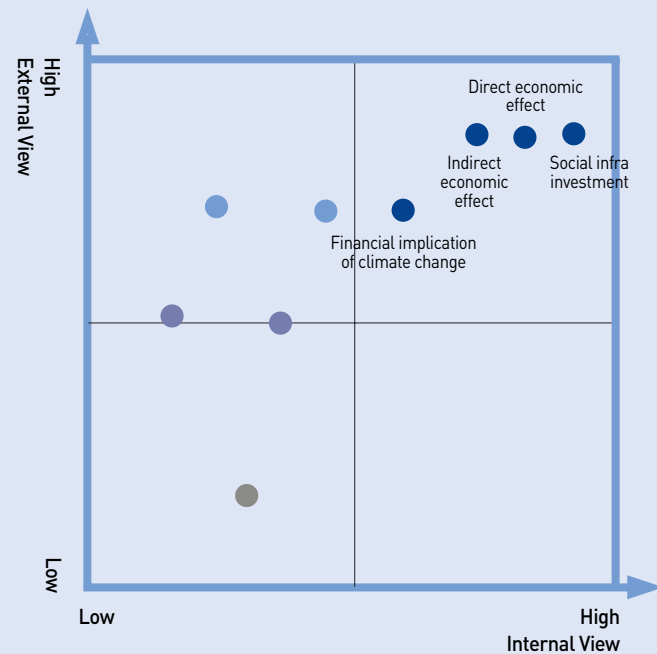
As our cities develop, KNHC also grows.



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Disclosure on Management Approach

Sustainability Navigator



Economic mission of KNHC

KNHC performs its unique mission business, which include construction/supply/management of public housing, formation/refurbishment of urban communities and other businesses entrusted by the central and local governments. KNHC will execute these businesses effectively to stabilize the housing market, provide stable housing for the low income class, provide housing services for the poverty class and create competitive urban spaces for improved quality of living, thus maximizing the social value addition.

Core performance indicators chosen by stakeholders

GRI G3 Guideline presents nine economic performance indicators including direct economic effect. Based on our survey of internal and external stakeholders, we have chosen the four indicators, which include social infrastructure investment, direct economic effect, indirect economic effect and financial implication of climate change, as KNHC's major economic performance indicators for its sustainable growth and national sustainable development.

2006 performance by major performance indicator

- Social Infrastructure Investment:** During the past three years KNHC invested 21.9% of our project cost in infrastructure such as water, sewage, roads, waste management, power and gas supply.
- Direct Economic Effect:** During 2006 KNHC achieved total sale of approximately KRW 5 trillions; our expenditures include cost of operations (64.7%), capital costs (7.9%), local community investments (3.2%), wages and employee welfare (2.9%) and dues & taxes (2.5%).
- Indirect Economic Effect:** KNHC creates diverse economic ripple effects including induced production and job creation through city and housing development. The total induced production volume due to KNHC's business throughout 2006 is estimated to be about KRW 9.2 trillions, which increases over KRW 100 trillions by 2015. In addition, KNHC provides intangible economic benefits through low rental rates, job opportunities, and low-price housing site & housing supply.
- Financial Implication of Climate Change:** KNHC is conducting studies on climate change issues, and is taking some measures to improve energy efficiency of housing and apartment complexes. We anticipate new business opportunities will arise through CDM (Clean Development Mechanism) business using collective energy resources.

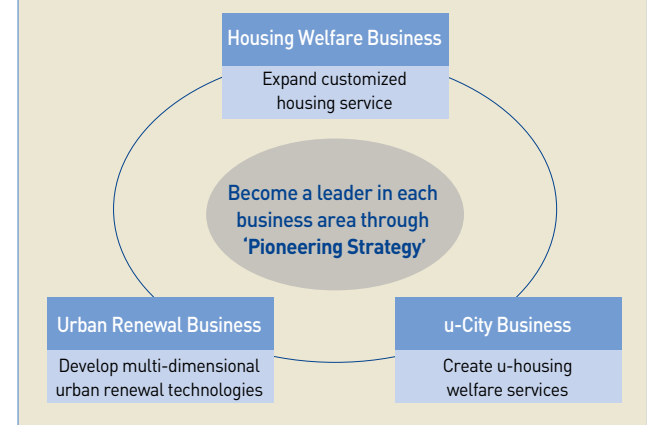
Strategic approach to the economic mission

KNHC has been conducting business for stabilization of people's residential living in city and housing areas in accordance with its charter. However, based on environment changes in city and housing areas in recent years, we are expanding and developing our business areas and roles by converting the Housing Business to Housing Welfare Business; City and Housing Environment Refurbishment business to Urban Renewal Business; and New Town business to u-City Business with u-city technology application. However, due to the limited exposure of such business to the public, most stakeholders still regard KNHC as a mere apartment complex developer/supplier.

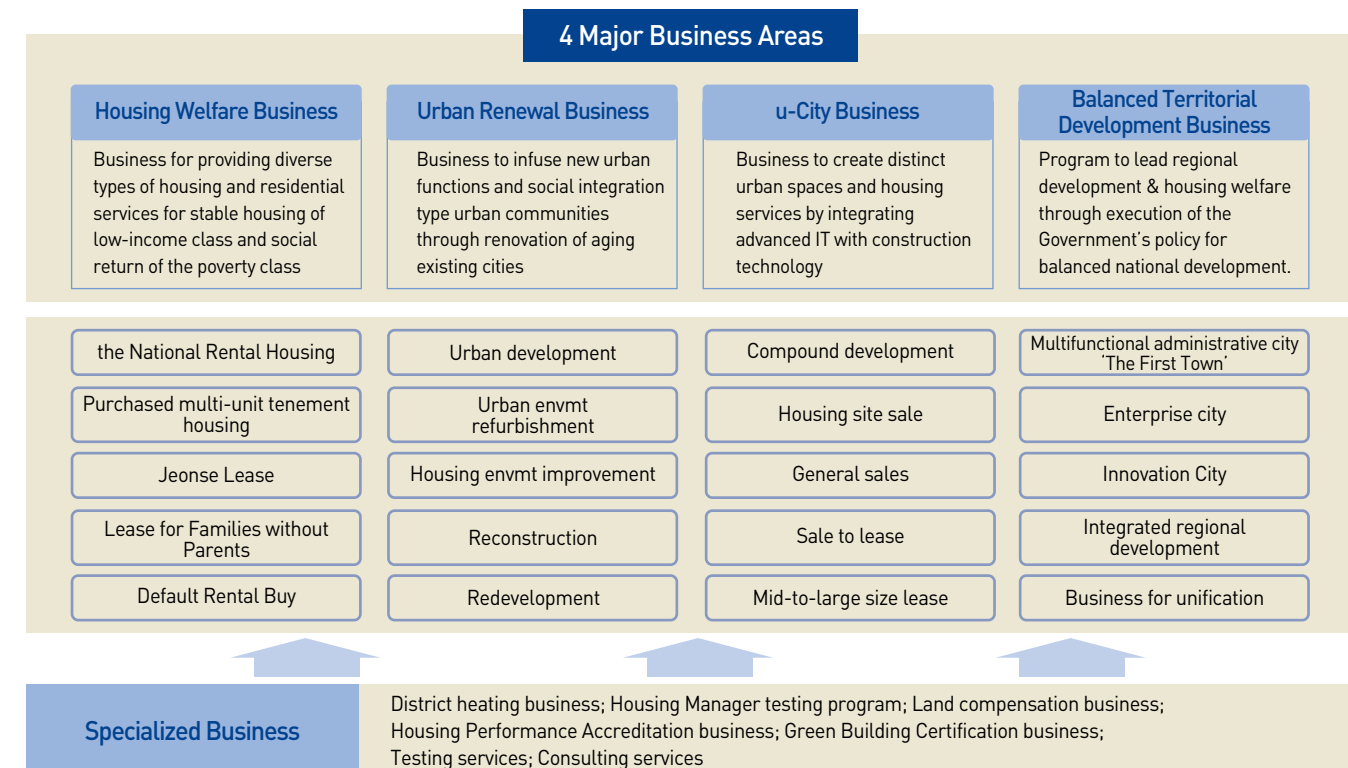
To resolve this problem, we reclassified our business as four Major Business Areas during 2006. For efficient execution of our core business, we established strategies by business areas and are pursuing internal business process innovation activities, which include strengthening of the dedicated customer satisfaction team; introduction of Enterprise Risk Management (ERM) for management productivity; improved marketing through the first urban community brand of 'Humansia,' and process innovation through 6-sigma activities.

In the future, KNHC will fulfill its roles as a socially responsible business, through Housing Welfare Business and others, by augmenting our business classification system, effectively manage our public benefit performances and profit performance, to enhance competitiveness of our cities and improve the housing welfare standard of the Korea, while growing into the Global Top City and Housing Corporation.

Strategic directions of core business



Major Business Areas



Successful Core Business

Housing Welfare Business

Definition

Diverse housing welfare programs are being implemented to ensure housing stability and improved quality of living for the low income class. They include the National Rental Housing, purchased multi-unit tenement housing, Jeonse lease, subsidy for children household without parents, default home buy & lease, rental homes for the aged and Group Homes.

Major Achievements

The National Rental Housing

KNHC has been supplying the National Rental Housing, which can be leased for long-term of 30 years or longer to enable low-income people without home ownership to easily find their homes. As of end 2006, we have constructed 422,564 dwellings and plan to add about 500,000 dwellings in the future.

Purchased Multi-Unit Tenement Housing

KNHC buys existing houses in urban areas to enable low income families to continue living in their homes with present income by leasing back the same properties at low rents. As of end 2006 we have purchased 10,973 dwellings and plan to buy and lease some 50,000 more homes by 2012.

Jeonse lease

KNHC also leases existing homes (Jeonse) in urban areas and re-lease these dwellings at low rents. During 2005 we leased 654 dwellings in three cities of the capital region as a prototype. We expanded the service area to 33 cities which has more than 300,000 population and supplied 5,277 dwellings in 2006. Total of 40,000 homes will be provided through this business by 2012.

Subsidy for children household without parents

KNHC provides Jeonse homes to children families without parents and children families of traffic accident victims. By end 2006 we provided 2,540 homes to such households and plan to provide 8,500 homes additionally by 2012.

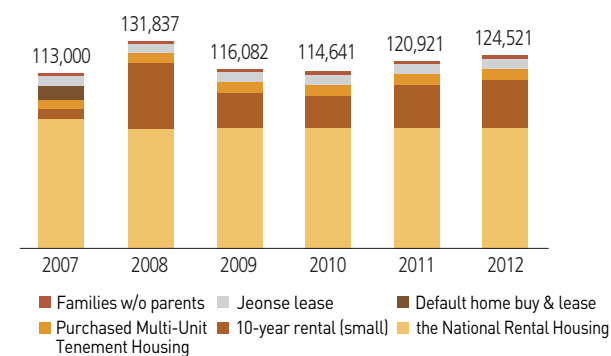
Default home buy & lease

KNHC provides housing service and legal service for people who face housing uncertainty due to default of their lease homes. Based on pertinent legislation during 2006 KNHC purchased 1,474 defaulted lease homes for the first time.

Group Homes

KNHC provides Group Home services by grouping children, youths and seniors, who cannot afford their own housing, into small living groups under protection and guidance of rehabilitation instructors, who help them adjust to their local communities.

Rental housing construction and inventory plan (unit:dwellings)



Eco-friendly designs of large National Rental Housing complexes



Downtown Type

Retail stores and common facilities are placed in the lower level of apartment buildings in downtown area, while the inner court is utilized as green space or playground.



Riverside Type

Community facilities are located on the first floor of residential buildings by a river/stream, and provide a walk path for improved access to the river.



Roadside Type

Community facilities are placed on the bottom floor of apartment buildings by a major roadway or sidewalk for improved utilization of roadside environment.

Stakeholder's Expectations: the Ministry of Construction and Transportation

"KNHC has been faithfully carrying out management objectives agreed with the Government including housing for the low income class, and downtown renewal. In the future we expect KNHC to continue to implement its core business efficiently."

Major Issues & Future Plans

Construction of rental housing loved by the people

KNHC is endeavoring to provide higher quality of the National Rental Housing by ensuring at least 15% of the designated zone as green space for comfortable living and selecting sites with good access to public transportation, education, cultural and commercial facilities.

Meeting the rental housing demand in downtown areas

In the capital region, where some 50% of the 1 Million National Rental Housing plan is concentrated, KNHC faces difficulties in acquiring needed sites for the National Rental Housing construction due to the lack of available sites. KNHC is conducting thorough analysis of the National Rental Housing needs, and searching for suitable sites through diverse channels including public agency move sites, Government-owned land and downtown renewal zones to fulfill the needs for the rental housing effectively.

Low-rent housing through business cost savings

Total required budget of KRW 66.8 trillions for the National Rental Housing Business is borne jointly by Government funding, National Housing Fund, KNHC and the tenants. To minimize the burden to the residents as the business cost increases, we are applying strict control on construction costs and seeking diverse operational approaches of the Government funding and the National Housing Fund.

Expanded mid-to-large rental dwellings

Rental housing dwellings of mid and large sizes, which can provide an easy access to education, culture and leisure facilities with low rental cost, will help improve the public perception on rental housing. These new features will also contribute to the stabilization of housing prices by meeting the diverse rental needs of the middle class consumers. Starting with Pangyo Integrated Complex, KNHC plans to increase the supply of rental housing dwellings of medium and large sizes.

Build diverse cooperation channels

Diverse cooperation channels are important for expansion and growth of the housing welfare service. KNHC plans to expand the Group Home program, where the homes are run by NGOs and utilize home repair groups, consisting mostly of low income workers, for repair/refurbishment of purchased multi-unit tenement housing to provide jobs to the low income class.

Diverse types of the National Rental Housing supplied the National Rental Housing for the senior (Hadong, Gimje)



The National Rental Housing as a downtown residential-commercial complex (Jeonpo, Busan)



Urban Renewal Business

Definition

This business area consists of comprehensive and systematic projects for rehabilitating existing cities, which have either digressed or relatively fallen behind due to changes in industrial structures and urban expansion centered on new towns and new neighborhoods, economically, socially and physically; and developing urban community infrastructures of social integration type.

Existing Urban Renewal Business

Urban Environment Refurbishment Business

This Business is for improving urban environment where either efficient land utilization is required, such as in commercial and industrial zones, or urban functions need to be rehabilitated, such as in centers and sub-centers (example in Garibong area, Seoul).

Urban Development Business

This Business is for forming a complex or street section outside of the city or urban area having functions of residence, commerce, industry, distribution, information & communication and culture, to promote balanced development of existing cities (example in Gajeong ogeori of Incheon).

Residential Environment Improvement Business

This Business involves refurbishment of infrastructure facilities, such as roads, parking areas and parks, in old, antiquated, dense residential sections, and improvement of poor homes to transform a section into a pleasant and convenient residential section and thus promote improved housing welfare for the urban low-income class and improve urban environments. Numerous projects are underway across the nation.

Housing Redevelopment Business

This Business involves improving infrastructure and structures in areas whose infrastructure is poor and where aged low-quality buildings are densely populated. KNHC applies Cycled Renewal Method for redevelopment projects nationwide.

Housing Rebuild Business

Where infrastructure including roadways is good but structures and buildings are aged, this business involves demolishing poor quality buildings and constructing new buildings. This type of business is implemented in limited areas where private sector avoids doing business but building owners desire to have the KNHC as a project owner.,

Consulting Business

KNHC provides consulting service and professional aids to redevelopment/rebuilding owners' associations, which often lack professional know-how and experience to protect their members. KNHC has conducted such consulting business for 9,370 housing dwellings in 11 districts.

Remodeling Business

Remodeling involves addition or remodeling of various degrees in high rise apartment buildings built since 1980s to prevent their obsolescence and irrational rebuilding of aged apartments.

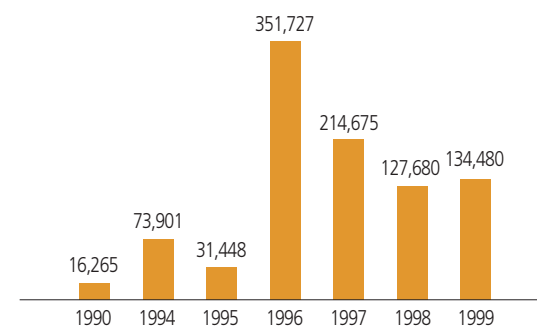
Success story of public redevelopment project - Nangok, Seoul

Nangok district is a worst case slum area of Seoul, where private businesses have avoided participating in the redevelopment project for years. KNHC applied the Cycled Renewal Method in this area and finalized the redevelopment of the whole area successfully by 2006. The development profit of KRW 10billions, which is to be occurred from rational management such as business period reduction, was distributed to the stakeholders. This project is commanded as a success story of public redevelopment effort in Korea.

Existing Urban Renewal Business Results (end '06)

	Districts	Total Area	Dwellings
Urban Environment Refurbishment	6	340,230m ²	6,196
Urban Development	1	121,582m ²	1,206
Housing Redevelopment	9	853,774m ²	15,973
Housing Rebuild	5	436,583m ²	10,080

Residential Environment Improvement Business History (unit:m²)



Major Issues and Future Plans

Transformation to comprehensive, large-area project

Existing development approaches tended to result in dense developments from random projects, making infrastructure installation difficult and causing imbalance among various sections within an existing street area as well as worsening the environment. Departing from such approaches, we would like to implement projects in large-area units.

Through our role as the overall business manager based on the 'Act on Promotion of Urban Refurbishment,' KNHC will endeavor to efficiently manage business, minimize biased allocation of development profit and improve the socio-economic environment of cities.

Enhance housing welfare through Urban Renewal Business

As the imbalance among various sections within existing urban areas has increased, the living conditions of the urban poor class have worsened and the housing welfare issue has surfaced. It is urgent to provide low-income housing for the low income class who have jobs through Urban Renewal Business.

Downtown housing for the low income: Small housings and rental housings will be acquired systematically to provide low-income housing in downtown areas in the course of implementing Urban Renewal Business, urban development projects and public facility relocations.

Redevelop & lease housing: KNHC will take over rental housing constructed in accordance with the 'Act on Urban and Housing Environment Improvement' and use them as rental housing for the urban poor to provide them stable housing.

Development approach that helps residents settle rather than leave the development zone

Past development approaches were more for profit-centered and thus caused speculative development culture and excessive business cost, which in turn caused collapse of pertinent local community. We wish to rectify such problems. By introducing Cycled Renewal Method and Focal Point-based Redevelopment Method, we wish to enhance the resettlement ratio of original residents. We will increase the Jeonse key money support to households having to move because of a redevelopment business to improve their chances of resettlement.

Arbitrator role as the public developer

KNHC aspires to become the leader in urban structural improvement, intermediary of conflicts among diverse business participants, and promoter of urban vitality. In these capacities we would like to perform our roles of a public developer. We endeavor to coordinate diverse interests associated with urban development from public viewpoint, formulate and implement rational development plans, and develop/disseminate infrastructure technology required for productivity improvements throughout the housing industry.

Garibong Urban Renewal Project (birds-eye view plan)



u-City Business

Definition

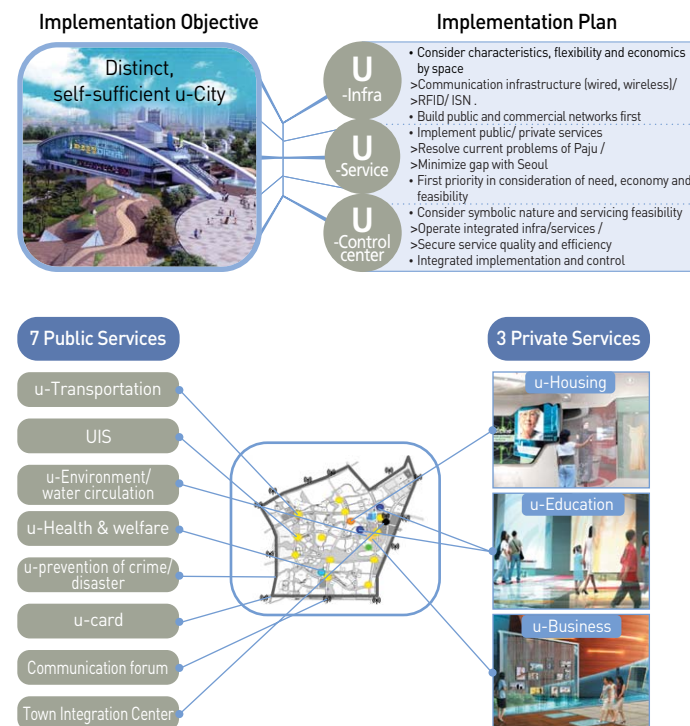
KNHC is in the process of implementing various urban functions as intelligent systems to improve the quality of living for the urban residents and to enhance the city's competitiveness in u-City Business, where advanced information and communication technologies are integrated into urban spaces.

The new u-Cities being developed will have information infrastructure, which is a level higher than existing cities, to provide futuristic urban spaces where people, nature and technology are harmonized to allow the residents to enjoy rich quality of living.

u-City Business status

During 2006 KNHC formed a network between local governments and the public developer of u-Cities and established information system strategy for the new towns of Paju Unjeong and Seongnam Pangyo. All new towns developed by KNHC in the future will be implemented with the u-City concept.

Paju Unjeong u-City Plan



New Town Business status

New towns are currently under way in Asan Baebang, Paju Unjeong, Busan Jeonggwan, Daejeon Southwest and Seongnam Pangyo. In addition, new urban development are being planned for Osan Segyo and Gimpo Geomdan.

Asan Baebang

This focal town being developed will satisfy the development needs from the admin capital move into Cheonan and Asan areas of Chungnam and the opening of the express rail service through the area. The town will also help dissipate the population and functions concentrated in the capital region.

Paju Unjeong

Unjeong is being developed as an ubiquitous, water-friendly eco-town, where diverse IT technologies are applied to traffic management, environment and communication. This development is expected to result in housing price stabilization within the capital region, relief of the traffic problem in western capital region and indirect economic effects including induced production of KRW 22 trillions and 324,000 new jobs.

Busan Jeonggwan

This rural type new town, being built in Gijang of Busan, will help meet the increasing housing demand of Busan metropolitan area and distribute its urban functions to outlying areas.

Southwest Daejeon

This new town is being developed as another sub-center of Daejeon, which shares functions with Dunsan and the existing downtown areas; as a culture-sufficient town; ecology town, where hills and streams form an ecology ring; and futuristic rural community.

Seongnam Pangyo

A new town is being developed in Seongnam area to relieve the housing shortage and to promote balanced growth in the capital region.

Major Issues & Future Plans

Legal framework and process for u-City development

While numerous local governments and public agencies are pursuing own u-City plans, there are no standards or shared concept on u-City, thus causing confusion. KNHC will pursue legislation of the bill in support of u-City Business, standardization and certification regimes as a leader for u-City Business implementation and expansion.

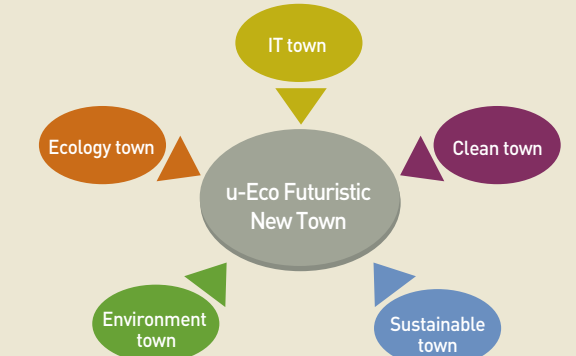
u-Service introduction to public rental housing

To minimize differences in u-service usage between economic classes, we will introduce u-services to public rental housing, such as the National Rental Housing. Thereby we will close the information gap between social classes and achieve our charter-given social obligations.

u-City integrated management

KNHC will pursue integration of u-services and associated technologies of multiple cities, to prevent inconveniences of residents in the future.

Futuristic New Town Concept



Summary of New Town Business underway

	Area (1,000 m ²)	Population target (1000)	Pop Density (persons /ha)	Total housing dwellings	Theme
Asan Baebang	3,683	25	68	8,125	Self-sufficient integrated town
Busan Jeonggwan	4,158	86	207	28,747	Rural New Town
Daejeon Southwest	6,052	64	106	22,962	Cultural self-sufficient town
Paju Unjeong	9,549	124	127	46,054	Ubiquitous water-friendly town
Seongnam Pangyo	9,294	88	95	29,294	Ubiquitous town
Osan Segyo	2,801	39	139	14,139	Ubiquitous town
Yangju Hoecheon	4,417	57	129	19,000	Eco-town
Incheon Geomdan	11,239	177	157	66,000	Central town for education/ culture/administration

u-City Concept and its status

u-City business definition

Advanced information & communication (IC) technologies are integrated into urban spaces to give intelligence to urban functions. The business implements convergence of construction technology with IC technologies to enhance urban infrastructure control, quality of living of residents and the city's competitiveness.

Key features of u-City

- Intelligence: Computerized infrastructure management system
 - Network: Physical spaces converted to e-space to link people and things in town.
 - Platform: Common platform for service use and integrated control system
 - Services: Urban functions used in e-space.
- (Ref: Gyeong-yong Ji, "u-City Market Opportunities & Potential," 2006)

u-City services

- u-Home: Home management/home network
- u-Work: Work at home/online commerce
- u-Traffic: Traffic & road management
- u-Health: Remote diagnose/emergency treatment
- u-Environment: Environment management
- u-Public service: e-government/police
- u-Education: School info mgmt

u-City related government ministries & policies

- MOCT: Presented u-City strategy (Sep, 05)
- MIC: u-Korea Master Plan (March, 06)
- MOGAHA: u-Government & next-generation e-Government plan
- MOFE: Regional specialized development plan/ e-commerce
- MOCIE: Regional innovation system and innovation cluster business
- MOST: Ubiquitous computing frontier business
- MCT: 5-year culture industry development plan

National Balanced Territorial Development Business

Definition

To seek balanced development of the capital region and other areas and to implement synergy-producing infrastructure, the Korean Government is implementing the national balanced development strategy, which includes construction of a Multi-functional Administrative City and relocation of public agencies. KNHC is taking part in Multifunctional Administrative City ‘The First Town’, Innovation City projects, and Chungju Enterprise City project to contribute to balanced development of the national territory.

Major Achievements

Enterprise City

Enterprise Cities are developed to have a harmonious mix of various functions of industry, R&D, tourism as well as other urban functions of housing, education, health and culture, to promote growth of local economy and private investments through private initiatives. Since legislation of the Special Act for Enterprise City, model projects are underway in six cities including Wonju, Chungju and Taeaen.

Chungju Enterprise City

KNHC is taking a leading part in formation of a Enterprise City of 7,043,000 m² in Judeok and Iryu-Gageum area of Chungju, Chungbuk Province. During 2006 we conducted share adjustment among project participants, increased the number of participants,

and applied for approval of the development plan. KNHC plans to develop the Chungju Enterprise City as a knowledge-based model town which is suitable for the Korean business environment with comprehensive urban and residential functions of production, R&D, education and housing.

The First Town of Multi-functional Administrative City

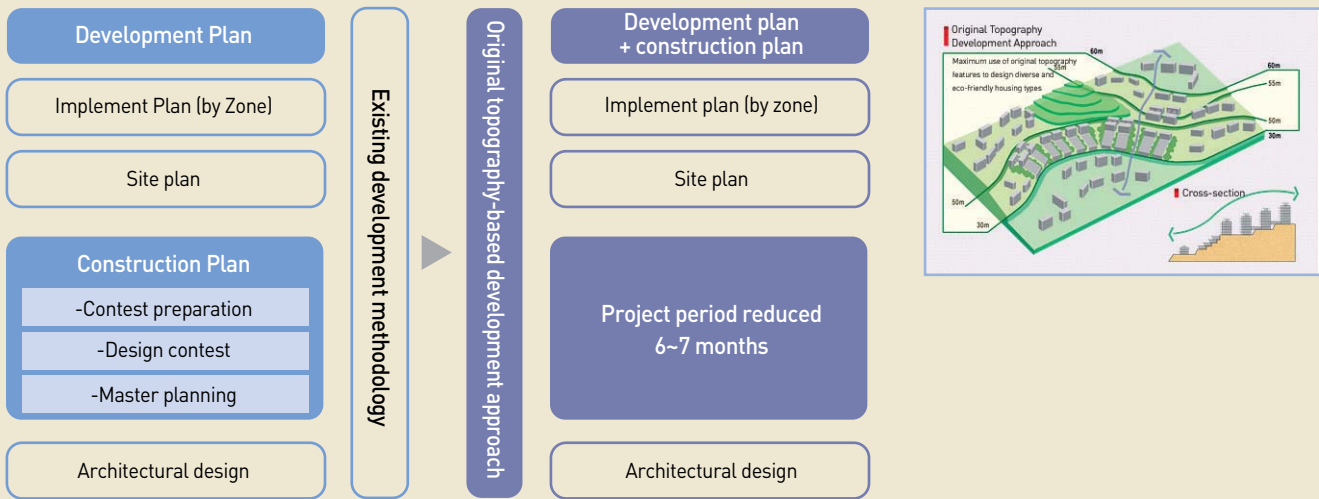
The First Town of 1,112,397m² for 7,000 residential dwellings is being developed as a symbolic, example residential site that leads new Multi-functional Administrative Cities. KNHC held Korea’s largest international masterplan competition in April 2006 to introduce a free and innovative residential zone design. Departing the past design approach of ‘select site first, design later,’ we have introduced, for the first time in Korea, the ‘original topography-based development’ approach, which allows land use and architectural design at the same time. Based on this new approach, we are developing the First Town as an eco-friendly complex that preserves its natural topography to the maximum possible extent.



Participating businesses in Chungju Enterprise City

KNHC	POSCO	Limkwang	Donghwa	AMCO	Chungju	POSDATA	Other
20%	22	20	5	10	5	5	13

New development paradigm: Original topography-based development



Innovation City

The Korean Government announced in June 2005 the relocation plan to relocate 167 public agencies outside the capital region for vitalization of local economies and balanced development of the national land. Innovation Cities are futuristic cities with optimum innovative environment and housing environment which facilitate cooperation among industry, academia, research institutes and relocated public agencies.

During 2006 KNHC was designated as the developer of Chungbuk Innovation City and Jeju Innovation City in addition to Gyeongnam Innovation Town, to which KNHC is moving. We are preparing necessary development concepts by Innovation City through internal and external expert consultation thus contribute to smooth execution of the Government’s critical policy.

Gyeongnam Innovation City - Focal Innovation Center

Twelve public agencies including KNHC are slated to move to Jinju in Gyeongnam. Accordingly, Jinju will be developed as a focal node city where facilities of education, culture, industry and environment are developed harmoniously.

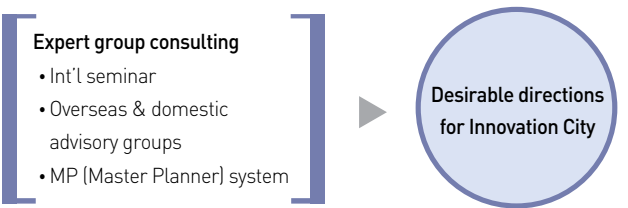
Chungbuk Innovation City -Education & Culture InnoValley

Twelve public agencies including Korea Gas Corporation are slated to move to Eumsung and Jincheon areas of Chungbuk Province. Accordingly, the area will be developed as a venture town, convention town, ecology town and innovation & education town.

Jeju Innovation City -International Exchange & Training Town

As nine public agencies including Government Employees Pension Corporation (GEPC) are moving to Seogwipo of Jeju, the area will be developed as a tourism town, seminar town, rest & leisure town and international exchange town.

Development directions from expert consulting



Overseas expert advisory group

Organization	4 world-class experts in urban planning
Op. Period	'06.10 ~ '07.5
Function	Invited meetings and pro tempo consultations
Consulting	Plan reviews of 10 innovation towns and opinion collection

Major Issues & Future Plans

Cooperation channels for smooth project implementation

An effective cooperation regime will be established to induce voluntary and active participation of all stakeholders for success of Innovation City and Enterprise City projects.

Enterprise Cities will provide the infrastructure for profit generation of participants, thus help generate aggressive investments.

Innovation Cities formed based on public agency moving will be developed as local focus centers by incorporating diverse requirements from the affected public agencies and local residents, and implementing an innovative cluster linking industry, academia and research institutes.

Reinforcement of execution capability by planning phases

Business progress from design stage to completion will be thoroughly controlled in accordance with target schedule to ensure that infrastructure, compound community and convenience facilities are completed prior to the residents’ move-in in order to maximize the residents’ convenience.





Specialized Business

Land Compensation Service

KNHC is providing land compensation service to various Government agencies and local governments, based on our rich experiences and capabilities in the compensation area, thus contributing to efficiency of public construction projects. In particular, the Land Information System was developed to integrate various processes of land compensation status, arbitration, deposition, move plan, compensation money detail and land record management. KNHC is providing efficient compensation services using the Land Information System.

Starting with land compensation service for the Central Railway Electrification project in 2000 by our Seoul Regional Head Division, we have performed land compensation outsourcing services totaling in amount of KRW 1.5 trillions.

City & Housing Information System Business

As the national housing policy has shifted from 'quantity-oriented' supply policy to one that emphasizes 'quality of housing,' demand for housing welfare information has been increasing rapidly. The importance of information servicing on housing, urban areas and the national land and associated system development/ operation is increasing due to expansion of ubiquitous environment.

City & Housing Information System Business seeks to implement an integrated production, management and distribution system of information related to housing and city/town for the purpose of enhancing KNHC's productivity and supporting the Government policy. Housing & Urban Information Center has been established and a pilot system for housing site information system and downtown development support has been in operation. City & Housing Information System Business will be aggressively implemented based on 2010 KNHC GIS Vision and Strategy.

Housing Performance Accreditation Business

National Housing Performance Accreditation System requires disclosure of major housing performances in 20 items in five fields of noise, structure, environment, living and fire prevention, to provide accurate information to consumers and to induce progress in housing construction technology and related industries.

KNHC has been designated as a housing performance accreditation agency by the Government and have operated the Housing Performance Accreditation Center since June 2006. The Center accredited housing performance of 2,164 dwellings of Chungju City housing complex in 2006.

Green Building Certification Business

Green Building Certification is a national certification system in operation since 2002 for the purpose of promoting eco-friendly buildings to help protect ecology and to reduce greenhouse gas emission. KNHC was designated as the certification agency for Green Building Certification by MOCT and the Ministry of Environment (MOE). Thus, we established and have operated the Green Building Certification Center within HURI.

Green Building Certification performance

Category	'02~'04	'05	'06	Total
Prelim Cert.	9	10	129	148
Full Cert	3	1	2	6
Total	12	11	131	154

The certification center has conducted 154 preliminary and full certifications by end 2006. The Center also conducted certification training to spread the certification system and held consultation meetings for continued system improvements.

District Heating Business

KNHC has been implementing District Heating Business, which makes use of waste energy or dedicated plant facilities such as COGEN plants or waste burners. District heating facilities have been applied in Mokdong, Gangnam, Nowon, Gwachun and five new towns in capital region. These facilities provide benefits of improved air quality, increased use of wasted energy, reduced dependence on fossil oil and improved energy utilization due to energy reduction of 15~30%, reduced fuel consumption and concentrated environment control.

KNHC is also providing district heating services for Nonhyun of Incheon (48,649 dwellings), Baebang in Asan (75,125 dwellings) and southwest Daejun (68,735 dwellings).

Overseas Business

KNHC is conducting overseas businesses such as city and housing consulting, education and training of professionals of developing countries based on the Government's policy.

During 2006 KNHC established an agreement with Mongol Office of Housing for joint projects in city and housing fields. We provided housing policy training to 15 Iraqi government officials. Accordingly, we will train overseas professionals and actively pursue support business for developing nations by 2010. As an internal basis, we will organize a team dedicated to the Overseas Business.

Residential Property Manager License Testing

Managers of apartment complexes are professionals of residential property management who perform management, operation, maintenance and repairs of apartments; manages expenses; conducts maintenance and safety management of common auxiliary facilities and welfare facilities to ensure safe living of apartment residents. KNHC has established and is responsible for the pertinent national testing program and its implementation. During 2006 we opened the web site for Residential Property Manager (www.jutest.co.kr) to provide the test information to applicants online.

Material Research & Testing Business

KNHC is an international certification testing agency with qualifications in the areas of quality inspection, noise & vibration measurement, indoor air quality testing, eco-friendly construction material certification and floor shock-absorbent structure certification.

Major 2006 performance in quality testing:

- Quality inspection: 1,892 inspections of 202 items
- KOLAS certification testing: 86 tests for 15 control items
- Certification of floor shock/noise absorption structure: 216 cases
- Noise & vibration measurements: 32 sites including Incheon Jangsu.
- Eco-friendly construction material certification: 25 cases
- Indoor air quality measurement: 2 public sites/ 58 apartments

Public testing agency qualifications

(authorizing agency in parenthesis)					
Cement products testing agency (Seoul City)	Quality inspection agency (MOCT)	Noise-Vibration testing agency (MOE)	Int'l certified testing agency (MOCT)	eco-friendly construction material certification agency (KACA)	Apartment floor noise abatement certification agency (MOCT)
— 1975 — 1988 — 1998 — 1999 — 2003 — 2004 →					



Financial implications of climate change; risks and opportunities to our business

As threats of extreme climate change has become apparent, greenhouse gas emission control as a measure for the international climate change convention and other regimes that promote higher energy efficiency are spreading world-wide. Korea is the tenth largest energy spending nation and the need for participation in global climate change convention is increasing. Accordingly, the significance of energy efficient building maintenance/management and renewable energy use in residential complex design has increased. Although common perception on impact of climate change on existing houses and urban environment has not yet reached maturity, major issues in future housing will certainly include energy efficiency improvements, increasing requirements for building maintenance and safety augmentation of buildings against disaster and extreme climate change.

As we pay close attention on external environment surrounding the climate change issue, KNHC is increasing our research efforts on climate change issues and expanding measures to enhance energy efficiency on houses and residential complexes of KNHC business. Investments of technology and facilities for energy efficiency and renewable energy resources bring short-term cost increase but will result in long-term energy cost reduction to the residents and contribute to the technological competitiveness of KNHC. Businesses such as district heating for improved residential energy efficiency are expected to bring new business opportunities to KNHC. In the case of Incheon Songdo complex, based on the annual reduction of 62,000 tons of carbon dioxide, we plan to develop CDM projects from 2007.

Enhanced Business Efficiency

KNHC is continually implementing innovation activities by value chain to bring satisfaction to both internal and external customers.

Business Portfolio Management

KNHC has developed and is managing an optimum business portfolio, which enhances our public functions as well as our corporate values.

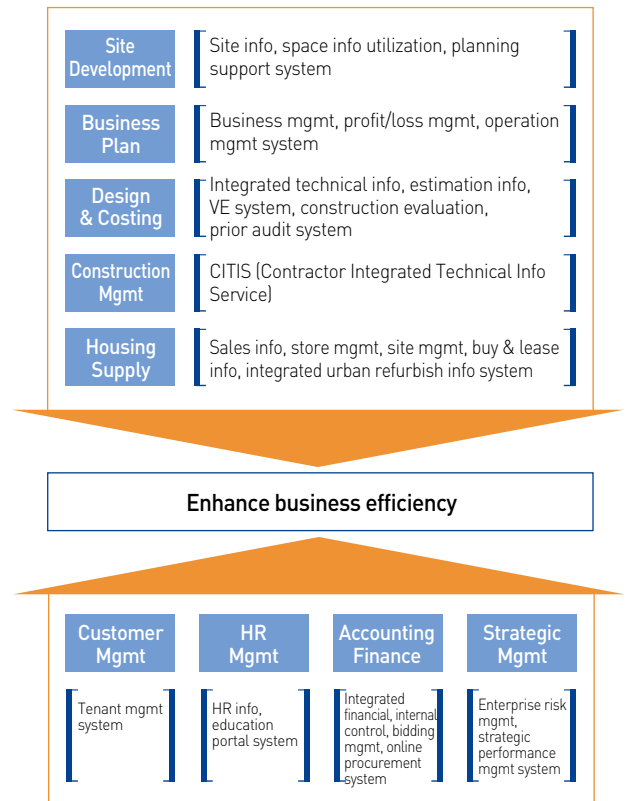
Enterprise Risk Management (ERM) System

KNHC is implementing an ERM system designed against internal and external risk factors that may arise from business expansions driven by governmental policy. For the first stage, in 2005 we formed the foundation for ERM system development by developing ERM strategy, associated organization and regulations for effective risk management using existing core systems. During 2006 we organized the ERM team, which has been conducting Stage II of development in areas of financial risk and project risk management.

Information system for Internal innovation infrastructure

We have implemented ‘Urban Refurbishment Information System,’ ‘Purchase & Lease Information System,’ and ‘Site Compensation Information System’ to form the foundation for drastic improvement of work productivity. In addition, we are upgrading CITIS for construction management data exchange.

Information System throughout the business processes

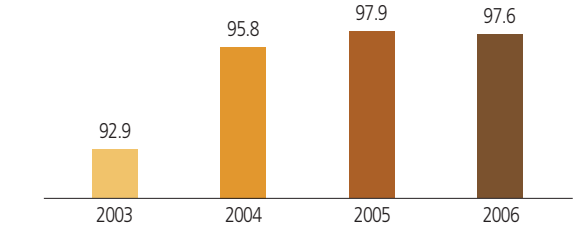


We also redeveloped the Balanced Score Card (BSC) system, and implemented ‘Lease Tenant Network’ for customer-oriented processes; ‘Internal Control System’ for robust financial structure; and ‘Civil Work Design System’ for greater product competitiveness and process efficiency.

Total Process Quality Management

We are continually reinforcing measures for quality improvement in all processes of housing supply. We have tightened the prior examination and quality examination to allow only high quality contractors to take part in bidding process. We have developed a technical information database, which has been made available to contractors and subcontractors, to provide them needed technical support. Prior to completion certification, 100% certification inspections are performed in three stages using qualified inspectors. We also conduct pre-occupation inspections of residents to help them identify the checklist items for correction. We strive towards 100% correction of checklist items.

Correction rate of checklist items before occupation (unit: %)



Technical capabilities upgraded

For the purpose of achieving higher productivity such as improved quality and reduced construction period of apartment buildings, during 2006 we selected 29 technical innovation tasks in 3 areas of productivity, quality and design; and established their performance measures and compensation plan.

Improved site supervision

Currently some 800 employees of KNHC, which accounts for 20% of entire employees, handle the site supervision work. We have continually implemented system improvements and modifications for effective site supervision; and have endeavored to prevent moral hazards.

Improved Warranty Service System

To improve our construction quality, we have derived major defect types from recently completed projects and formed an advisory group of 33 external experts with over 20 years of experience in 16 trades to develop technical countermeasures for such defect types. Some 360 measures were derived and they were fed back into construction stage through final review meetings.

Innovation of rental housing management system

We are introducing wide-area rental housing management system in stages to improve efficiency of current labor intensive management practices at multiple, scattered sites and to provide higher quality housing welfare services.

Wide-area Rental Management Groups are in operation as a trial case to cover 50,568 dwellings in five urban areas of Uijungbu, Goyang, Hwaseong, Yongin and Gwangju. So far this system has saved KRW 1.4 billion, 38% of the rental business costs of these areas. We also introduced the integrated facility management system for 22 rental apartment sites of 17,000 dwellings, where routine tasks such as cleaning and security guard duty were supervised by the single management center. From this innovation alone we were able to save 29% of dwellings management cost.

Benefits from improved rental housing management (unit: KRW 1million)

Category	Detail	Cost before	Cost after improve	Saving(%)
Wide-area central mgmt	Wide-area mgmt by region	3,623	2,257	1,366 (38%)
Focal point central mgmt	Integration of neighboring sites	3,722	2,652	1,070 (29%)



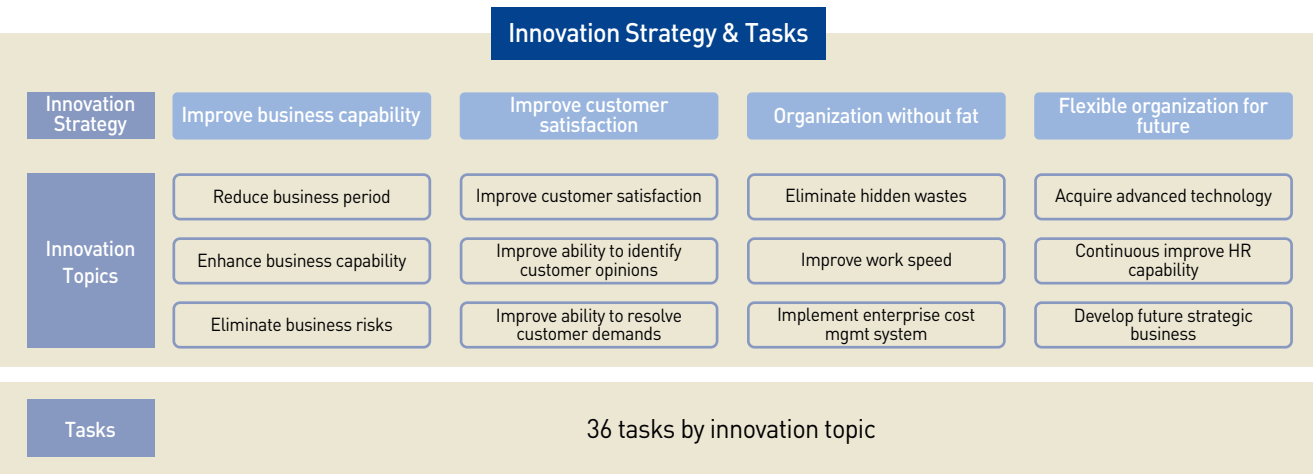
Innovation of customer relations

KNHC established Customer Success Strategy in 2006 to escalate enterprise perception on customer satisfaction management and to meet customer demands more effectively. Based on this strategy we have derived six strategic programs, including customer-oriented product innovation, and 13 tasks, including product planning and quality management system, which are being implemented by stage.

Based on the philosophy of providing quality housing at low prices, we wish to enhance customer services so that our products and services contribute to greater quality of living of our customers and support them create desired values on their own.

6-sigma Introduction

Six-sigma system has been introduced as an innovation tool for expediting management goal achieving by enhancing implementation capability of mid/long term management strategy. We will continue to implement our 6-sigma innovation activities until 2015 in accordance with the 6-sigma innovation master plan, established during 2006, and seek management quality improvements. Accordingly, during 2006 we formed 6-sigma secretariat and on-site support organization for stronger innovation organization. Resulting innovation activities include main panel process innovation, design process improvement, One-Stop new material registration system, and low-income class housing support ‘Hope’ program. Through such activities we achieved various performances such as business cost reduction and design error reduction.



Economic Performance

KNHC provides the foundation for the national economy to continuously grow and develop by contributing to stability of the housing market and improved housing welfare of the people through Housing Welfare Business and urban renewal-formation.

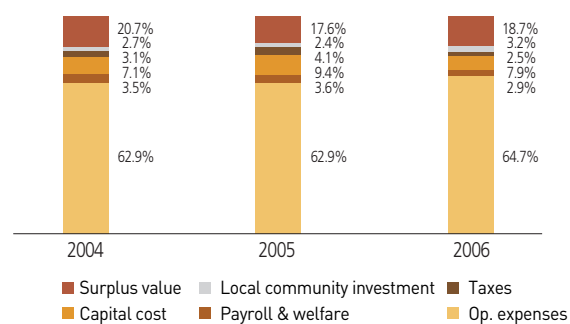
Direct economic effects

KNHC utilizes limited resources efficiently to create continuous economic values and return them to the society.

Creation and distribution of economic values

Our revenue has continued to increase for the past three years as our business volumes increased. As of end of 2006 KNHC's total asset was KRW 40.6 trillions and total liabilities KRW 30.9 trillions. Of our annual revenue we spend 70 percent or more for operational expenses for production activities and capital costs. In response to requirements of related Acts and regulations as well as demands from our stakeholders, we are delivering economic values to local communities through diverse channels such as installation of infrastructure facilities.

Utilization of economic value created



Economic value distribution (unit: KRW 1 million)

	2004	2005	2006 ¹⁾
Economic value created			
a) Revenue	3,094,029	3,893,832	5,190,980
Use of economic value			
b) Op expenses: Manufacturing cost, purchase cost of fixtures, buildings and land	1,945,781	2,448,124	3,359,917
c) Wages and welfare: Wages, health & welfare	108,083	140,778	149,917
d) Capital costs: Interest, dividend	219,804	365,586	412,417
e) Taxes: Income tax, local taxes	94,888	159,647	131,064
f) Contribution to local communities: Contributions, assessments	83,507	94,021	164,722
Surplus economic value ²⁾	641,967	685,676	972,943

1) For 2006 data, we used estimated financial statements. For computation of each account item, refer to the indicator protocol of the GRI G3 Guideline [EC1].

2) Surplus economic value refers to the total created economic value minus operational expenses, wages and welfare, capital costs, taxes and contribution to local communities, which have been distributed to various stakeholders. Since this item includes economic contributions, which are categorized as costs according to existing business accounting standard, the total is considerably different from the current period net profit. KNHC's 2006 net profit was KRW 196 billions.

Contributions

KNHC provides financial support to various non-profit organizations and makes contributions to disaster relief programs. Since contribution to political funds by corporations are prohibited, KNHC does not make any political contributions in money or in materials of any type.

Social infrastructure investments

KNHC pays contributions for infrastructure development in the course of our business based on the Act on the Promotion of Site Development and the Act on Housing. In addition, we enthusiastically expand necessary infrastructure facilities that are necessary for convenience of future residents. From 2003 to the first half of 2006, of the total project cost of KRW 27.7 trillions, some 22% (KRW 6.7 trillions) was spent as investment for infrastructure facilities, including water supply, sewage, roadways, waste processing, power and gas supply. Of this amount KRW 1.3 trillions was used for investment in road construction and waterway refurbishment, which were not required by Act.

Investment for improved housing welfare

KNHC is also reinvesting our surplus economic value to social safety net development for the people, including expansion of housing welfare services and construction of the National Rental Housing.

Stakeholder's Expectations: Mael Economic Daily

KNHC has contributed to housing supply of local small and medium cities in the past and led the construction industry by developing diverse apartment designs. We look forward to KNHC's greater role towards stabilization of the country's housing market.

Indirect economic effects

KNHC provides low-rent public rental housing to low-income classes and housing services for the housing poor class, thus creating intangible social value addition such as their stable participation in production activities, greater social welfare and relief of extreme economic gap.

Support for housing stability of low-income class

KNHC provides various rental housing types such as permanent rental, the National Rental Housing and public rental housing, so that the low-income class people are able to have necessary housing service based on their income level. KNHC is managing a portal 'Bogumjari' to provide comprehensive housing information to low-income people. The portal provides 107 information in six areas including finance, taxes and housing welfare policy. KNHC also utilizes seven experts in legal and financial fields as consultants for housing related inquiries.

Reduced housing costs of rental housing tenants

Currently the rents of KNHC's permanent rental apartments are in the range of 30~40% of market rates and those of the the National Rental Housing are in the range of 55~83% of the market rates. Based on our survey of 127,027 dwellings in 182 rental housing complexes completed by 2006, the rent level of the the National Rental Housing is at 64.4% of market Jeonse rates.

Improved rent estimation system

In the past rents were increased annually by 5% according to lease contracts. However, from January 2005 rents are raised every two years with the increase rate based on housing cost increase rate. We plan to work with the Government to introduce the system of rent based on income level from 2007.

Reduced rents for low income tenants

Beginning in January 2006 we set rents for small rental apartments of 36m² or less at 55% of market rates. This measure, we estimate, resulted in rent reduction of KRW 279.4 billions for 29.099 households in 43 districts during 2006 alone.

Reduced penalty for rent payment delays

During 2004 and 2005 we froze rents for the basic subsistence level tenants of permanent rental housing dwellings. The rent payment delay interest rate was significantly reduced from 13% to 9.5% from November 2005.

Job opportunities for tenants

We have provided jobs for total 4,687 tenants of low income households during 2005 alone.

Jobs for rental housing tenants (unit:persons)

Category	Public work	Jobs within complexes	Temporary work	Total
2004	2,881	400	1,260	4,541
2005	4,113	176	398	4,687

Rational pricing of housing supply

Revised pricing structure for public housing sites

For stability of housing market and low-cost housing supply, we have changed the pricing of housing sites of net area 85m² or less for sale within public housing land from assessed value to construction cost basis, thus supplying housing sites at low price levels.

Sale of inexpensive housing

We supplied 16,681 dwellings in 2006 15 districts at prices less than neighboring market price levels to help relieve market uncertainty due to sharp rise in real estate price levels.

Sale prices of major housing districts in 2006 (unit:34py size)

Districts	Dwelling	Sale price(KRW 1M)	Percent of market price
Seongnam	408	314	55%
Uiwang cheonggye	612	294	59%
Seongnam Pangyo	8,575	379	63%

Sale price ceiling and housing bond bidding system

We applied the sale price ceiling and the housing bond bidding system for the first time to Pangyo New Town project to supply low price housing and to retrieve profit from the project.

Economic ripple effects of housing & urban development

KNHC is creating diverse economic ripple effects through city and housing development. In case of the 1 Million National Rental Housing Plan, we anticipate our total induced production effect for 2003~2012 will be KRW 136 trillions, job creation of 1,169,124 jobs, and value addition effect of KRW 46.9 trillions. Total induced production amount from KNHC business of 2006 alone is estimated to be KRW 9.2 trillions and the total induced production effect up to 2015 is estimated to be KRW 147 trillions.

Nature will set us free



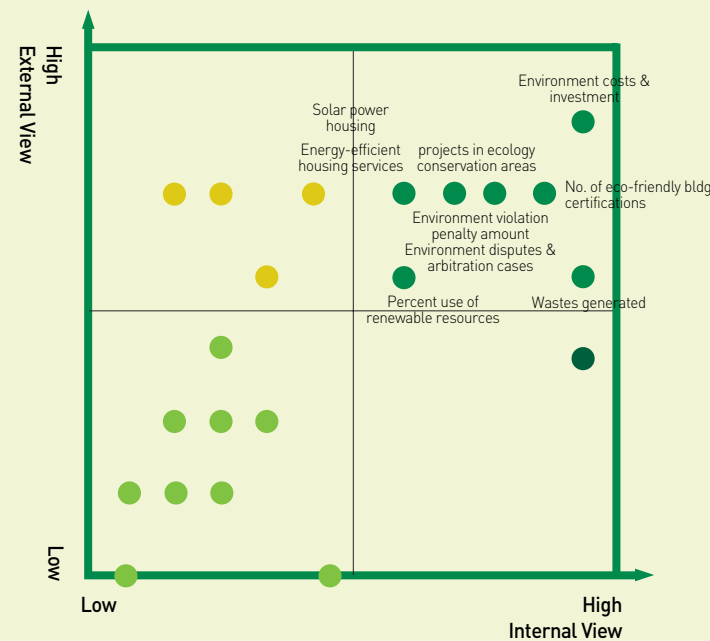
Environmental management for the earth and the coming generations, KNHC will lead the way.



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Disclosure on Management Approach

Sustainability Navigator



Environmental mission of KNHC

Eco-friendly factors must be proactively considered from the planning stage and green housing strategy must be implemented over entire business processes to ensure eco-friendliness of the city and housing environments we develop. KNHC will lead the sustainable development of our land.

Stakeholder selected core performance indicators in environment

GRI G3 Guideline presents 30 environment performance indicators including fuel consumption rate. Based on surveys collected from internal and external stakeholders, we chose 9 indicators, including environment cost & investment, number of Green Building Certifications, projects in conservation areas, and penalties from violation of environment Acts & Regulations, as environment performance indicators that are critical for its sustainable growth and national sustainable development

2006 performance by major performance indicator

- **Eco-friendly building certificates:** During 2006 we obtained Green Building Certifications on total 15,662 housing dwellings we supplied. We also took measures to increase such certifications.
- **Solar power housing:** KNHC has made preparations for introduction of solar energy apartments from 2003 and installed the first solar power generation system on 2,962 dwellings of the National Rental Housing in three districts including Gimcheon Deokgok in 2006.
- **Energy-efficient housing services:** As of end 2006 total 5,813 dwellings of 12 complexes acquired the certificates for energy efficiency grades of level II and III.
- **Projects in conservation areas:** KNHC is prohibiting development activities in and near ecology protection areas to ensure conservation. As of 2006 there are no business activities in any ecology conservation areas or wetlands.
- **Environment violation penalty:** There were no cases of penalty payment due to violation of environment Acts or regulations during the past three years.
- **Waste generated:** Our construction waste recycling rate on sites has increased from 77% in 2003 to 87% in 2006.
- **Environment dispute & arbitration:** There were total 16 cases of construction environment related disputes arbitrated by the Central Environment Dispute Arbitration Committee during the past four years.
- Despite their own significance, it is difficult to compile statistics on environment costs/investment and use of renewable resources. We will make improvements in our environment management system to enable such data collection in the future.

Strategic approach to the environmental mission

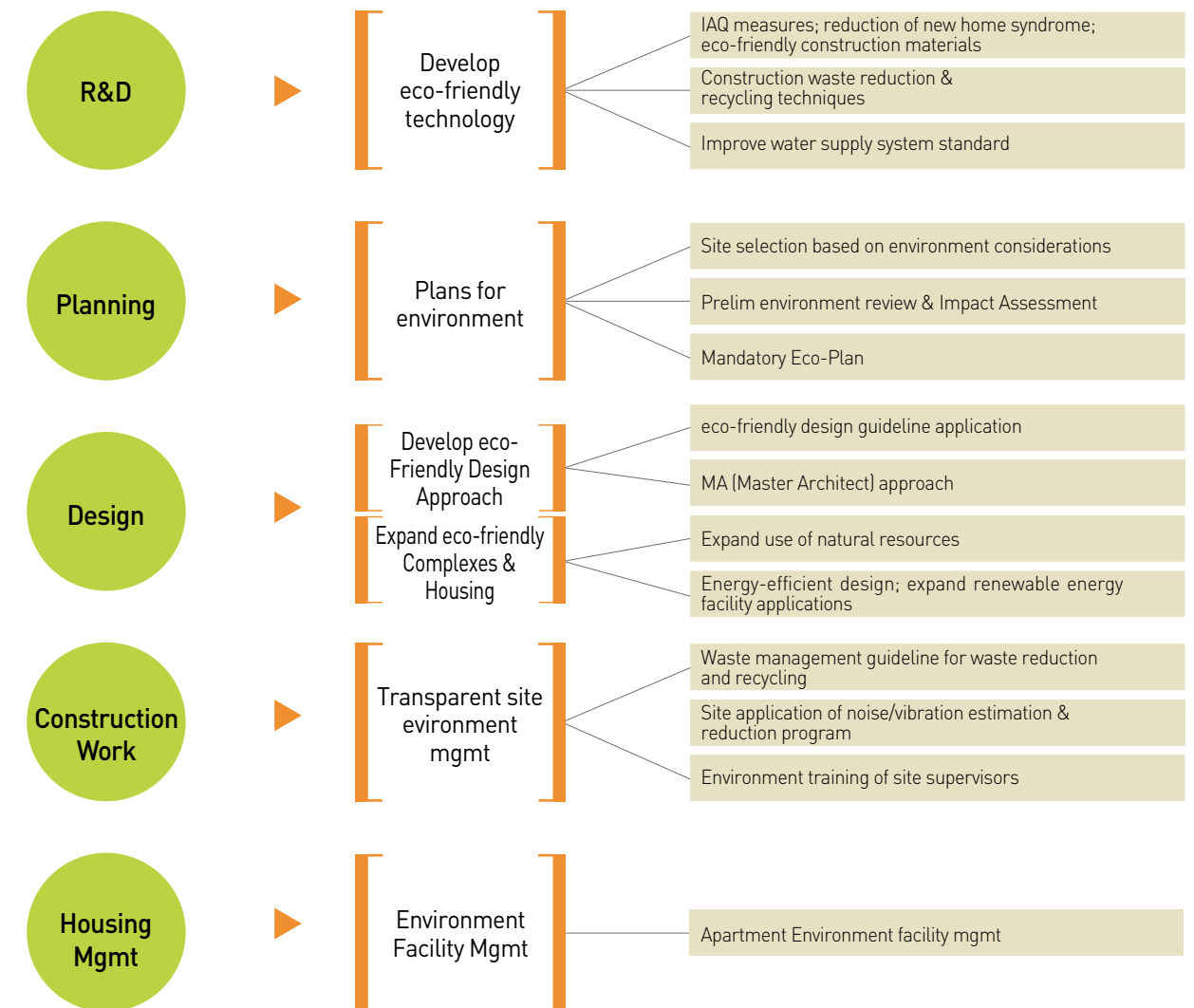
It is our goal in environment management to introduce eco-friendliness into our business activities and to explore new business opportunities from it.

Accordingly, we are faithfully carrying out our roles and duties for eco-friendly development including prior environment review, Environmental Impact Assessment and eco-friendly building certification center operations. In addition we are refurbishing our development processes to become the leader in eco-friendly city and housing development.

To reinforce environment management at some 200 project sites, we have reorganized our environment management structure.

In the future we plan to implement the eco-friendliness strategy that ensures nature conservation and supplies energy-efficient housing towards sustainable development of our land.

Eco-friendly activities by process



Creation of Eco-friendly Urban Space

For successful eco-friendly urban development, eco-friendly town prototype projects are being implemented to expand supply of eco-friendly housing.

Eco-friendly Town Prototype Projects

Ecology Town

KNHC applied the concept of eco-friendly town, where humans and the nature coexist, to Yangju Hoecheon land use plan, which incorporates green network plan for stable ecology and pleasant living environment; wind-friendly land use plan; pleasant waterway harmony with the natural scenery; and a landmark plan as an eco-friendly ecology town.

Yangju Hoecheon Ecology Town Project

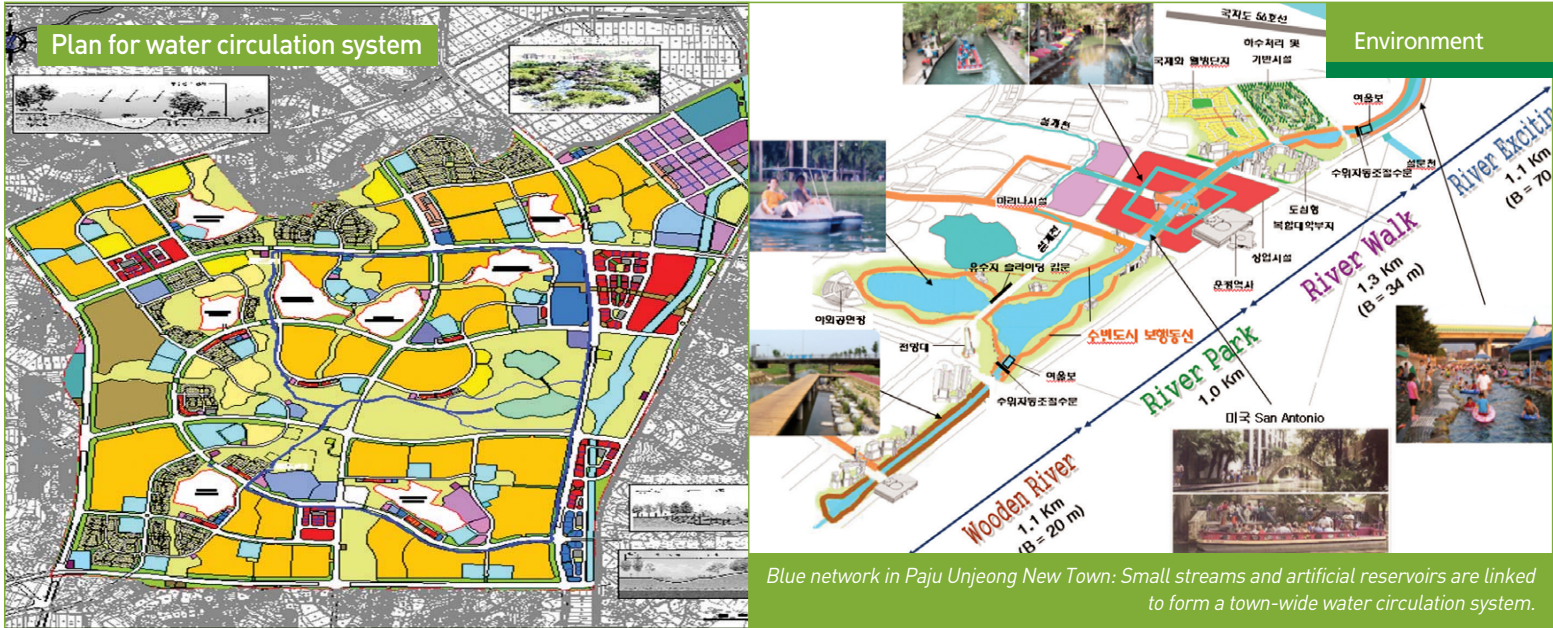


Clean City

We have established the Clean City standard, which integrates eco-friendly town and human-friendly town concepts, as a new direction for long-term urban space model having healthy and clean environment. We plan to continue developing the Clean Town standard to establish detailed concepts of eco-friendly towns; and present detailed eco-friendly town development guideline including site survey technique, plan evaluation criteria and quantified planning standards for desirable development from both environment and scenic viewpoints.

Specialized Town

KNHC is trying out development of Specialized Towns, which incorporate historical or cultural characteristics within Green Belt relaxation areas while minimizing damage to the environment from housing development. Historical & cultural specialty plans are developed from the initial stage of a specialized town project. We plan to expand application of specialized town concept to support idea of sustainable development. During 2006 we established the cultural & historical specialized town plan for the National Rental Housing complex in Minlak No. 2 district in Uijeongbu where Songsan Temple site (Gyeonggido Historical Site No. 42) is situated. In Minlak No. 2 district we plan to develop a green network that connects area parks with the south-north green axis from Mt. Cheonbo to Mt. Buyong; and the blue network, which consists of the Ecology Park and the Lake Park by preserving the Minlak River waterway in its original form, towards an eco-friendly residential complex where humans may live in harmony with the nature.



Blue network in Paju Unjeong New Town: Small streams and artificial reservoirs are linked to form a town-wide water circulation system.

Eco-friendly Housing Supply

Green Building Certification System

Green Building Certification

Green Building Certification review consists of two stage examinations (first by certification review team; second by review board) in 44 criteria in 4 areas including land use & traffic; energy, resource & environment; ecology; and interior environment. Certification comes with either Excellent or Most Excellent grade. We expanded operation of the Green Building Certification center to meet greater customer demands and the Government's policy for its expansion. Accordingly, we conducted total 131 eco-friendly building reviews, which is 12 times the number in 2002 of 11 reviews.

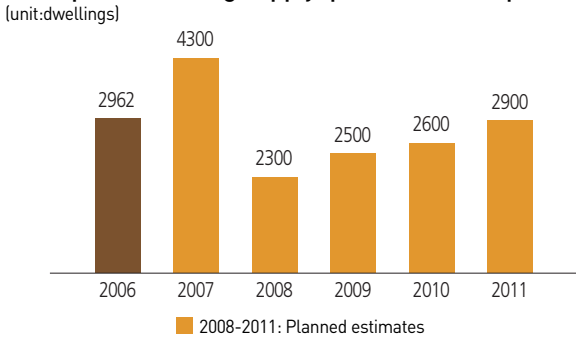
Construction of Solar Power Housing

Solar power generation system converts solar energy into electrical power using solar photo-voltaic panels. It is an efficient power supply system from the sustainable energy source of the sun. KNHC has been preparing introduction of the solar power generation technology since 2003 and implemented such systems on 2,962 dwellings of the National Rental Housing in three districts of Gimcheon Deokgok, Samcheok Geonji and Cheongju Seonghwa, for the first time during 2006. In the above three districts we anticipate annual power savings of 970MWh (KRW 70 millions) from the use of the solar power system as a supplement power supply. We plan to continue application of the solar power system on 14,000 apartment dwellings from 2007 to 2011 as an active participant to the Government's policy of renewable energy development and propagation.

Criteria for Green Building Certification

Areas	Detailed review areas
Land use and traffic	Complex plan, traffic plan, architecture plan, urban plan
Energy, resource & environment load (mgmt)	Energy, air, water, waste mgmt & recycling/ renewable facilities (machinery/power); construction & materials; building mgmt plan
Ecology	Ecology landscape; landscape plan; soil; soil quality; complex plan; construction plan
Interior Environment	Noise/vibration/light environment; indoor air quality (IAQ); architectural design

Solar power housing supply: performance & plan



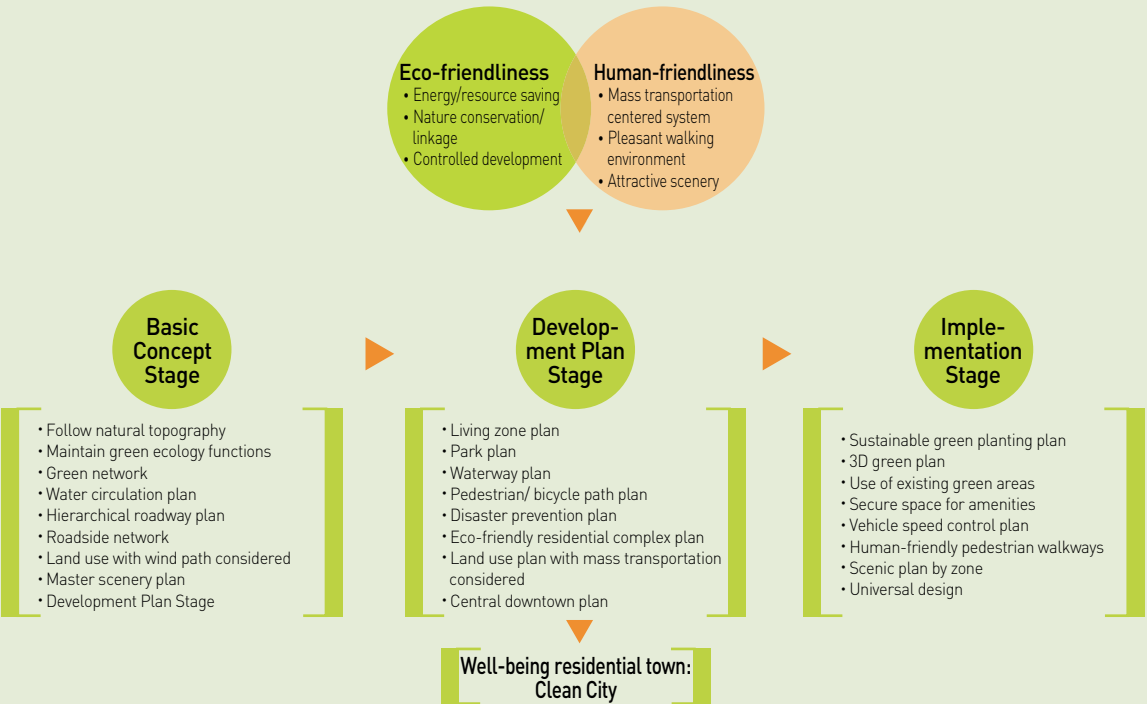
Housing Performance Accreditation System

KNHC held workshops for expansion of the system including a 'joint workshop of housing performance accreditation agencies' and 'workshop on housing performance grade system,' and conducted certification on 2,164 dwellings of Chungju G-Well City housing complex in 2006.

Effort for Green Building Certificates

Four apartment complexes (Humansia Hyundai Hometown, Humansia Honors Ville) have been certified as 'the most excellent' while 30 complexes were certified as 'excellent' eco-friendly buildings. During 2006 alone we obtained Green Building Certifications on 15,662 apartment dwellings supplied by KNHC. We revised the design regulations to strengthen the eco-friendly design of including green building preliminary certification ratio as a requirement for all new development zone designs to help expand application of sustainable Green Building Certification.

Practical application: Stagewise planning standard





Eco-friendly Development Process

During 2006 KNHC initiated new housing site development projects of some 16 million m². For eco-friendly development at such sites, we established development guidelines and incorporate experts' opinions from the initial stage of each project in order to minimize the environmental impacts of development based on the precautionary principle.



KNHC plans to lead the eco-friendly technology development and its application in all business processes, housing, apartment complexes and the entire society in the end.

IAQ (Indoor Air Quality) technology

Environment issues have surfaced due to tight sealing of buildings and massive use of chemicals. For resulting IAQ control we established the IAQ R&D Roadmap in 2000. We are continually raising the standard of design technology and IAQ controls through the measures including indoor air pollution control using microbes and energy saving hybrid air circulation technique.

IAQ standard established

KNHC has developed eco-friendly construction materials and techniques; and presented the recommended standards for apartment IAQ and air circulation systems.

eco-friendly construction materials identified

We have identified materials for toxic material reduction and manufacturing techniques for minimizing toxic emission from paints and adhesives. Thus, we achieved maximum 98% reduction of toxic substances and registered a number of patents including toxic substances collection and measurement technique and catalyst for reduction of toxic substances.

Resource saving techniques

Construction Waste recycling

Since 1990s KNHC has led the use of recycled raw materials such as stone powder and sand in Korea. To resolve the serious environmental issue of construction waste, we are developing recycled sand production system, recycling products and application techniques with funding from the MOCT.

In 2006, we have completed the production system of recycled sand/aggregate, and applied it to the construction field of Ilsan Goyang. Introducing this new system, we also look forward to boosting usage of recycled sand/gravel which is 65% of all construction waste.

Water supply design standard revised

We studied the water usage data by season and by hour of day in 105 districts during the past three years as well as foreign design standards and other domestic data to revise the water supply requirement standard. Through application of the revised water supply standard in 10,578 dwellings, we anticipate to save KRW 467 millions in terms of construction costs and energy savings annually.

Renewable Energy techniques

KNHC continues R&D efforts on heating and cooling systems using alternative energy resources to reduce fossil fuel usage and maintenance cost.

Solar energy heating & cooling system

Solar energy system, which absorbs, stores and converts solar energy into heat for heating/cooling and hot water supply, has been developed and applied to our housing development projects since 2001. In 2003 we applied for two patents related to solar energy hot water and heating system linked to home boilers.

Geothermal heating/cooling system

Geothermal heating/cooling system makes use of the energy difference between building interior and the underground area through geothermal pump and heat exchangers. KNHC conducted alternative energy heating and cooling system research to meet the tough international environment regulations and eco-friendly energy demands. As a result we developed a geothermal heating and cooling system for apartments. This technology was applied to Resident Welfare Centers in 8 project zones since 2003.

Housing Site Development

Site selection

Through internally developed geographical information system, we take into consideration various information on biosphere and ecological diversity for site so that areas of high biosphere values are protected. During 2006 we completed the district designation on total area of 16,067 thousand m².

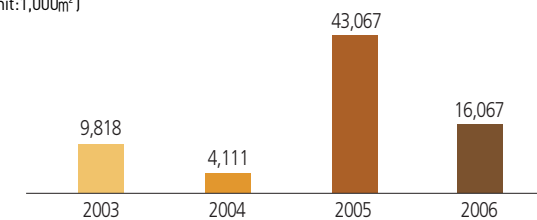
Activities in or near ecology conservation areas



Ministry of Environment designates and protects ecology conservation areas and wetlands, which have high ecological values and hence require conservation efforts. We do not have any land in or vicinity of ecology protection areas which we possess, lease or are developing.

Housing development area: district designation

(unit: 1,000m²)



Environmental review

To prevent any negative environment impact from business implementation, we conduct Prior Environmental Reviews and Environmental Impact Assessment before launching a project. We conducted Prior Environmental Reviews on 8 districts of 9,052 m² and Environmental Impact Assessment on 7 districts of 9,118 m² in 2006.

Environmental reviews during 2006 (unit: 1,000m²)

Category	Districts	Total area
Prior Environmental Reviews	8	9,052
Environmental Impact Assessment	7	9,118
Natural scenery analysis	3	2,794
Water pollution analysis	3	3,393

Improvement efforts for Environmental Impact Assessment

KNHC is endeavoring to identify social demands and new regulatory measures related to environmental reviews. KNHC participated in a forum and seminars for amendment of the Act on Environmental Impact Assessment in 2006.

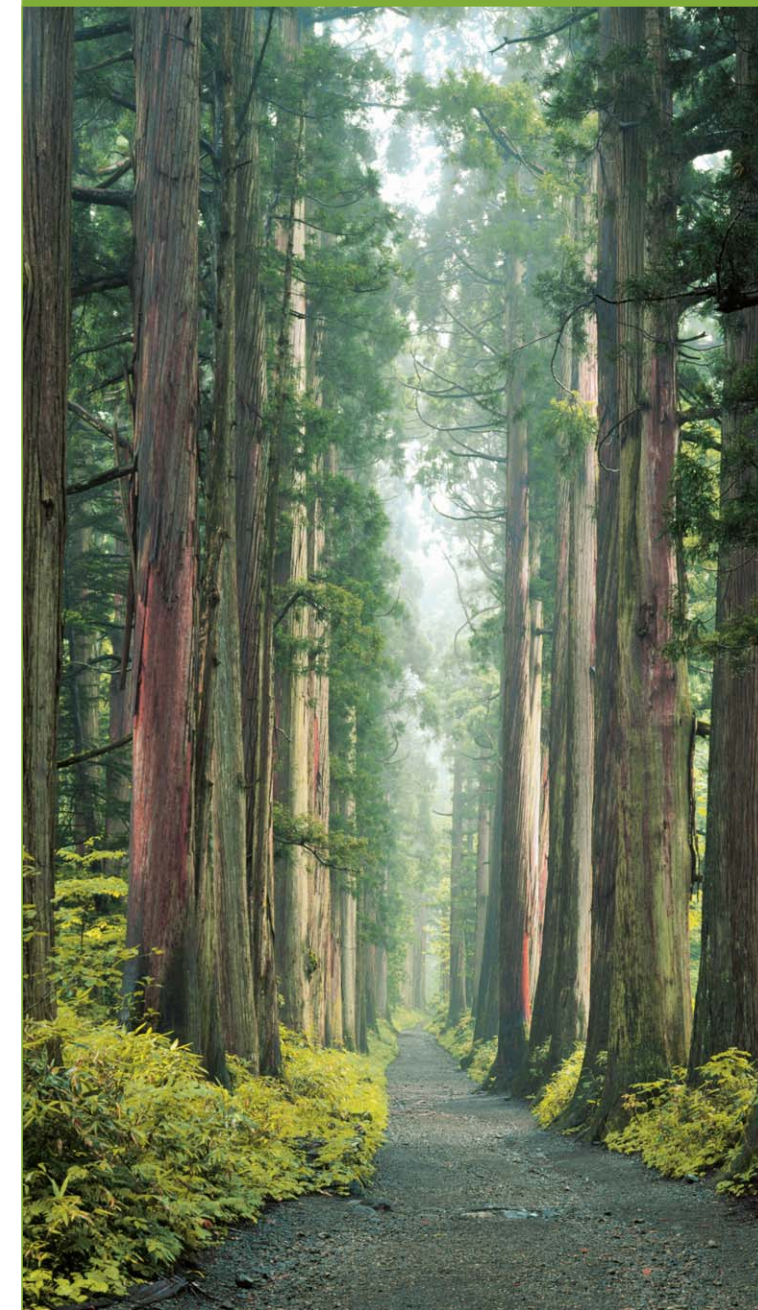
Prototype project for strategic environment evaluation

During 2005 the Act of Environment Policy was amended to convert the prior environment review system to 'strategic environment assessment' system. KNHC applied the new system concept as a prototype case to the Wonju Taejang and analyzed problems associated with the new system implementation. KNHC will take necessary measures for introduction of the strategic environment assessment system to ensure efficiency in site planning and associated internal processes.

Building LCA (Life Cycle Assessment) research

As the greenhouse gas reduction has surfaced as an important issue due to global warming and the climate change convention, there has been the need to develop a quantitative evaluation approach on resource & energy consumption and greenhouse gas emission from the life cycle of buildings.

KNHC has conducted research to develop a building life-cycle assessment (LCA) approach suitable for the Korean situation since 2004. Through 'Study for source unit definition and software development for building LCA' we presented the basis for building environment evaluation and mid/long term policy development for environmental improvement of buildings. Through further studies we plan to establish a basis for minimizing environment impact of buildings and reducing environment related costs from the life cycle viewpoint.



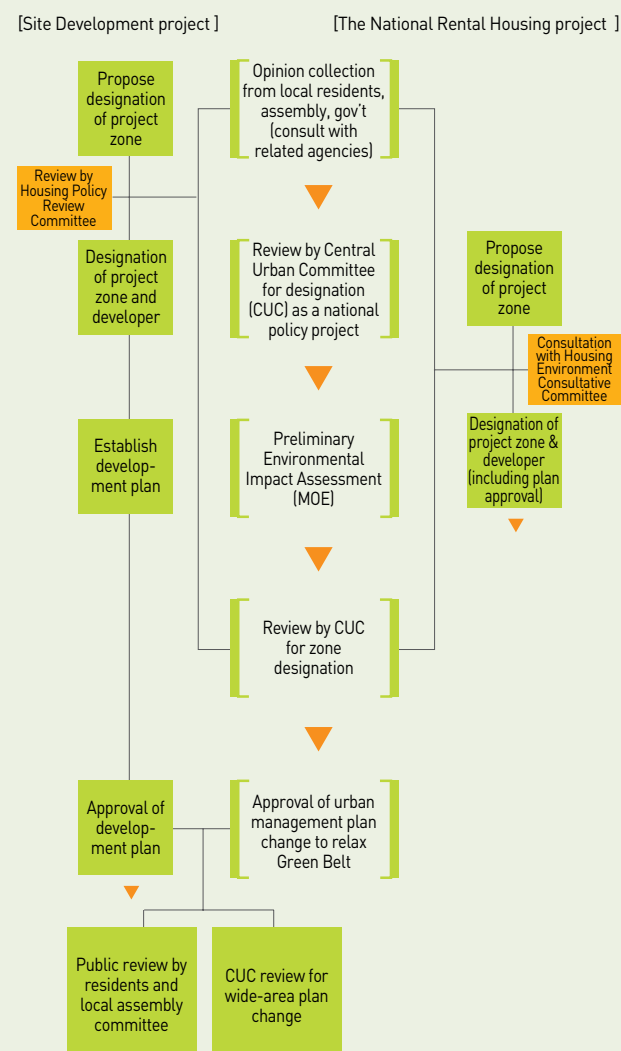
Additional measures for ecological development

As the available land for development has decreased significantly, the MOCT adopted the policy of relaxing certain Green Belt zones for construction of the National Rental Housing in November 2003. Accordingly, KNHC has secured a number of Green Belt zones, which have low level functionality as green zones, as construction sites for the the National Rental Housing.

Development process in Green Belt relaxation zones

In order to conserve ecological values of a Green Belt relaxation zone and its characteristics, we employ strict environment review process in such zones. Social consensus is derived through Central Urban Planning Committee before prior environment review. In the case of the capital region, prior environment review committee conducts the required prior environment review before finalizing a development plan.

Development Process for Green Belt relaxation zones

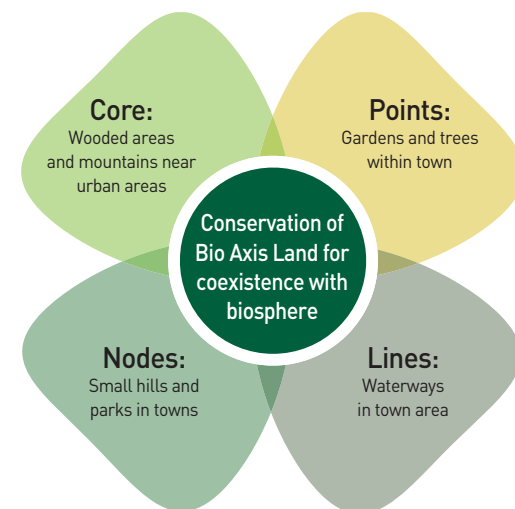


Mandatory Eco Plan

To ensure eco-friendly development in harmony with ambient environment, we have made it an internal mandatory requirement to establish an Eco Plan for projects within Green Belt relaxation zones located in the capital region from 2005. Eco Plan refers to a comprehensive land use plan that incorporates Green Network concept, which prevents disruption, damage or segregation of fauna or flora while ensuring coexistence of humans with the nature through ecology conservation and increased diversity of biosphere in a subject zone.

During 2006 we introduced eco bridges based on Eco Plans in 11 districts including Euijeongbu Minlak No. 2; implemented water circulation systems in 16 districts including Shiheung Mokgam; and implemented green networks in 21 districts including Suwon Homaeshil.

Eco Plan organization



Conservation of natural habitats

Mt. Gobong is an urban area wetland zone of high ecological value and is the natural habitat of some 60 species of rare fauna and flora including 'giant water bug,' which is Natural Monument No. 322.' In September 2006 KNHC established an agreement with Goyang City to conserve the nature in its original form as related to the Mt. Gobong housing development district of 43 thousand m². Based on this experience, we will continue our efforts of conservation in areas of high ecological value.

Design

KNHC has developed own design guidelines and space planning manual as the basis for eco-friendly design. In addition, KNHC is seeking to develop apartment designs that make use of natural resources and enhance energy efficiency.

Eco-friendly development design guideline

There has been increasing need for detailed planning concept formulation for eco-friendly housing complex development. Based on such needs, we established own eco-friendly design guideline. Eco-friendly design guideline presents the detailed planning criteria for site formation, scenery, eco-friendliness and individual facility installation. We strive to develop housing complexes which show its own characteristics through total system planning with our eco-friendly design guideline from the development planning stage to the final completion stage.

MA Design Performance in 2006

Beautiful Urban Space	Sustainable Housing Environment	Urban Housing of Coexistence
<ul style="list-style-type: none"> • Harmony between housing & surrounding nature • Max conservation of natural resources 	<ul style="list-style-type: none"> • Residential town with harmony of society, economy & environment • Healthy biosphere 	<ul style="list-style-type: none"> • Social integration • Community cultural space for local service
Uiwang Poil No. 2 +	Masan Hyundong +	Gunpo Dangdong No. 2 +

Space plan designs for 31 districts including Anyang Gwanak in Green Belt relaxation zones

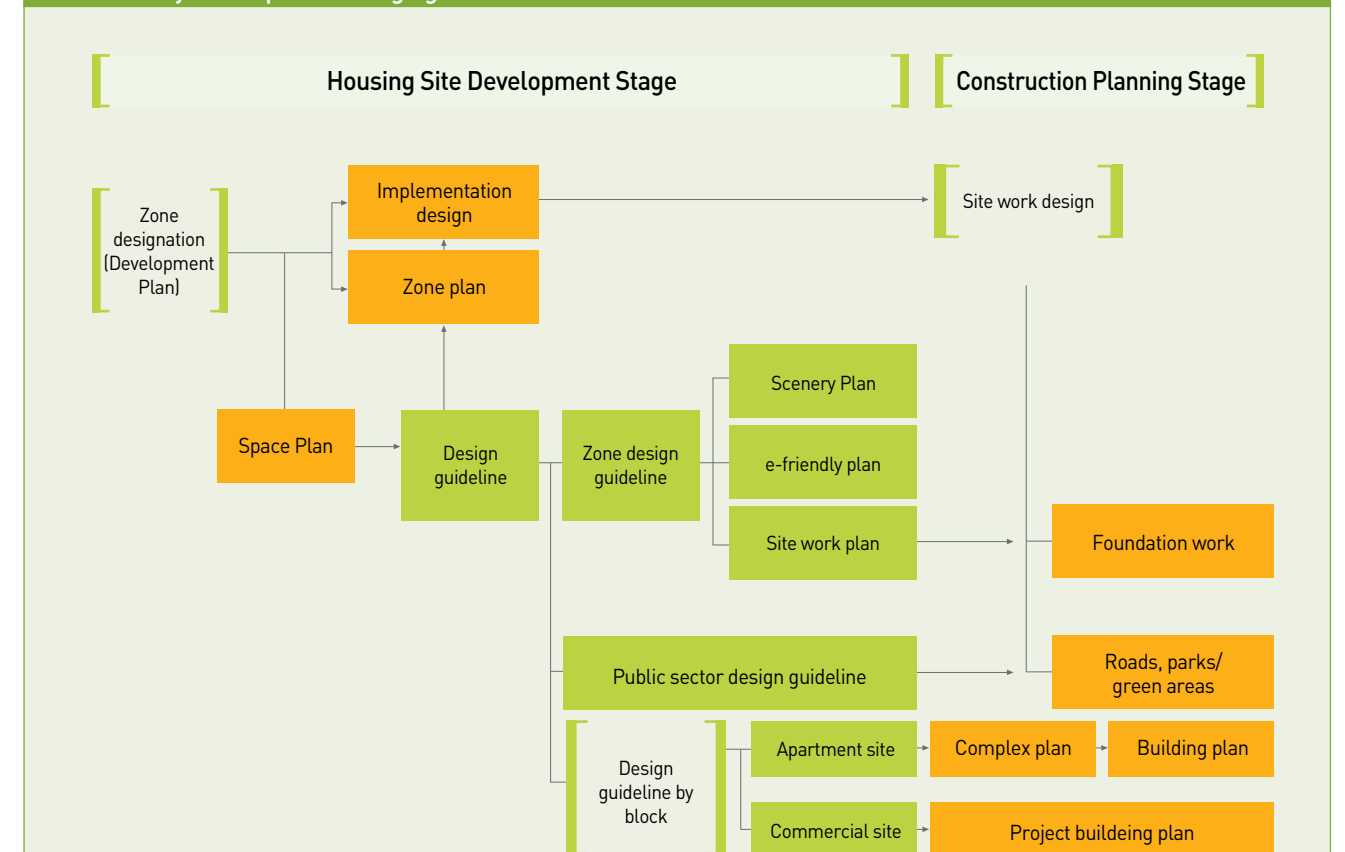
MA (Master Architect) Design

We appoint a master architect, who is highly qualified in practical experience and design coordination capability, for district-wide planned development and comprehensive design management. This Master Architect design system is applied to housing complexes in areas of high environmental sensitivity or significance.

Space Planning Manual

In 2006 KNHC published the 'Space Planning Manual' to facilitate rational space planning based on past MA design experiences.

Eco-friendly development design guideline



▼ Formation of outdoor spaces using natural resources



Plaza ground illumination using solar light blocks (Incheon Samsan Complex)



Solar street lights and illumination columns (New Millennium Complex, Yongin Shingal)



Goyang Haengshin (riverside view and scenic axis)

Use of natural landscape

Design Using Natural Resources

Housing Complex Design

We correlate the natural elements such as parks and streams in the vicinity of a development complex as eco-friendly elements constituting themes by sector. We implemented natural resource-based design in six districts including Goyang Ilsan, Paju Unjeong, Goyang Haengshin and Jinhae Jaeun during 2006.

Outdoor space formation

Eco-friendly external environment is formed using existing landscape elements in housing complexes. In addition, by applying solar energy systems, solar & wind systems, sensitivity play facilities and environmental sculptures diverse outdoors spaces are promoted.

Energy efficient design

Acquisition of building energy grade certification

‘Building energy grade certification’ system assigns energy efficiency grades to buildings in terms of their energy saving performance, such as Grade III (savings of 13.5~23.5%), Grade II (savings of 23.5~33.5%) and Grade I (savings of 33.5% or higher).

KNHC achieved the energy saving rate of 41.3% on 136 dwellings of the National Rental Housing in Yongin Jukjeon in 2004, thus securing Grade I certification for the first time in Korea in apartment area.

Following Yongin Jukjeon, Seoul Deungchon, Yongin Guseong and Bucheon Yeowol districts, we secured Grade II certifications for 4,157 dwellings of Asan Baebang, Jeonju Hyoja III, Sungnam Pangyo districts during 2006. Thus, we have obtained energy efficiency grades of I, II and III on total 5,813 apartment dwellings in 12 housing complexes as of end 2006.

Condensing boiler design

We plan to expand application of the condensing boiler design, which recycles exhausted gas for reheating, in all districts applying for energy efficiency certification. During 2006 we applied this type of boiler design to 660 dwellings of Muan Namak, where maintenance fee reduction of KRW 42,000 per dwelling is possible annually due to this boiler design.

Geothermal heating & cooling system

Since 2003 we have been implementing geothermal energy system to heating/cooling and hot water supply, which makes use of underground thermal energy (10~20°C), to one or two community centers of apartment complexes. This system was applied to the community center of Muju Namdaechun complex in 2006, where annual energy bill savings of KRW 4.1millions is expected.



Construction Work

KNHC is doing our best to minimize ecology damages and living environment impacts from the construction at sites.

Eco-friendly field management system

KNHC makes it mandatory for each field to establish its environment management plan to induce systematic field management. Each site establishes implementation plan based on agreed action items from the Environmental Impact Assessment; designates a person to keep records and perform follow-on actions of the implementation plan.

Establishment of Construction Environment Team

For the purpose of systematic environmental management we organized Construction Environment Team within the Construction Management Division of the Main Office in 2006; and prepared waste reduction & recycling plan, and noise/vibration/dust standard & reduction plan. Environment performances of each construction field in terms of waste handling, noise, vibration and dust as well as status of environmental impact action items are periodically monitored by the Construction Environment Team.

Follow-on Environmental Impact Assessment

Follow-on environment impact survey and management is an essential system to monitor environment impacts that are bound to arise in the course of construction work. KNHC performs follow-on Environmental Impact Assessment and management by field to prevent environmental damages and to verify whether items suggested from the Environmental Impact Assessment are being implemented properly. During 2006 we conducted follow-on Environmental Impact Assessments on 25 fields which amount to field work of over 300,000 m² or apartment construction of over 250,000 m² floor area.

2006 environment training conducted to field managers & field workers

Training Area	Conducted
Processing method of construction wastes	Twice a year
Scientific techniques of environment management & planning	Twice a year
Compliance verification of Environmental Impact Assessment results	200 persons in multiple sessions

Construction Field Environment Management

Waste recycling

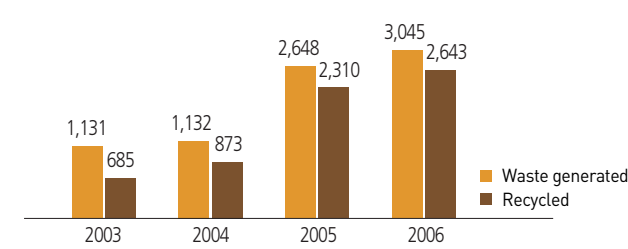
Total construction waste produced in our construction fields during 2006 was 3,045 thousand tons. Designated wastes are stored in specified storage areas for recycling, which is outsourced to qualified vendors with suitable processing know-how. Toxic wastes including asbestos are removed with prior permit of the Ministry of Labor, whereupon such wastes are processed in accordance with the Act on Waste Management and the Act on Construction Waste Recycling by outsourcing. The recycling rate of construction wastes generated from our project sites has continually increased since 2003 to about 90%.

Waste management system reinforced

We conducted waste generation status check and workshops for construction waste minimization, and established construction waste management plan, which covers definition and control of wastes and recycling techniques of construction gravel & sand. Accordingly, we have published the construction site waste management manual and are training responsible supervisors of Regional Head Divisions on this system.

Construction waste¹⁾ & recycled waste

(unit: 1,000 tons)



1) Estimates from site formation and new housing development

‘Guideline for Construction Field Waste Management’: Content & expected benefits

Guideline Content	Expected Benefits
Related Act/regulation & terminology	Increased work efficiency
How to manage wastes from new and existing fields	Compliant waste handling
Recycling of sand & gravel	Reduction of wastes
Waste handling guides & Q&A	Resource recycling



Noise-Vibration-Dust

To minimize noise, vibration and dust generation from project, we are implementing noise/ vibration reduction techniques, field boundary fences, temporary sound barriers, automated wheel washing system, water spray truck operation, traffic controller assignment and dust covers on building exteriors.

Water use

All water used at all of our field offices is tap water. Some water used for construction comes from ground water wells. Waste water from construction is entirely sent to waste water processing plants. In case there is no such processing plants nearby or where the additional Government requirements are applied, a temporary waste water processing facility is constructed to prevent pollution of the area water quality.

Prevention of soil contamination

To reduce soil contamination from development activities, we examine soil contamination status of existing field prior at the time of work and take immediate recovery measures in case of any pollution and prepare soil contamination processing report to prevent soil contamination spread.



Environmental Compliance

During the past three years there has not been any case of KNHC violation of environment Acts or regulations nor any penalty assignment due to any such violation. KNHC enforces tougher environment standards than established legal requirements, and is constantly working to improve our environment performances.

Housing management

Apartment Environment Management

KNHC manages environment facilities under our management in accordance with legal standards to ensure pleasant living environment of residents by minimizing environment impacts from apartment buildings. During January of each year we establish the year's environment conservation plan for environment facilities; analyze environment management status of each complex on quarterly basis; and conduct periodic supervision and inspections on environment facility management.

Sewage processing facilities

KNHC developed own sewage processing technology to manage apartment complex sewage efficiently. Our sewage processing facilities treat daily 42,000 tons of sewage from 55,000 dwellings in 54 apartment complexes nationwide.

Discharged water quality of our sewage processing facilities is monitored monthly for specified control items such as BOD and SS.

Central heating systems

Boilers and associated pollution control systems of our apartment complexes are maintained to control air pollution in accordance with the Act on Air Environment Conservation.

Underground pumps

Water quality of our underground pumps is periodically inspected on specified items in accordance with the Act on Underground Water.

Water tanks

Water tanks are cleaned twice a year and water quality is inspected once a year by a water testing institute to ensure sanitary control of the tanks in apartment complexes.

Oil tanks

Soil contamination of oil tank areas is tested periodically by soil testing institutes certified by the Minister of Environment.

Environmental Performance and Communication

KNHC strives to deliver environment information to our stakeholders and to improve our environment management performance through environment data management and operation of diverse dialog/communication channels at our Main Office and Regional Head Divisions.

Environment Data Management

To proactively meet the challenges of increasing global environmental issues including climate change and water shortage, KNHC is implementing various measures such as energy savings, renewable energy use, Reclaimed wastewater facility operation and green procurement. We will expand the scope of environment performance data as a basis for efficient environment management in the future.

Resource consumption data

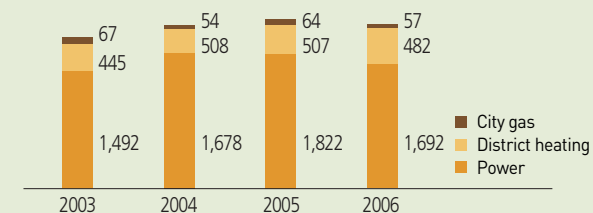
Energy consumption, water consumption and waste generation data are collected at the Main Office and the Annex. Regional Head Divisions are mostly leased buildings, where such data collection is difficult.

Energy consumption

As KNHC abides by 'the energy rationalization guideline for public agencies.' We are promoting changes in our employees' behavior patterns for energy savings by using high efficiency lighting, power saving office equipment and electrical appliances; conducting energy related training and events to new employees and for job trainings; and encouraging employees to attend energy related training sessions and events held outside. Total energy used at our Main Office and Annex in 2006 was 2,231 TOE(tonnage of oil equivalent), which was reduced from the previous year in spite of employee increase. The amount of carbon dioxide indirectly generated from power and city gas use is much greater than that generated from city gas use for heating and cooking.

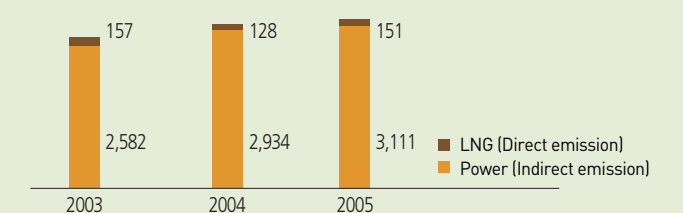
Energy consumption

(unit:TOE)



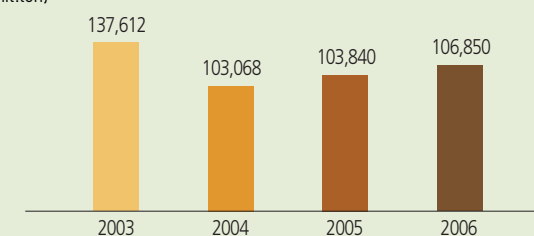
CO₂ emission

(unit:CO₂ ton)



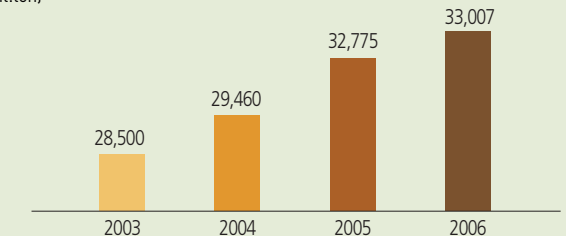
Water use

(unit:ton)



Reclaimed wastewater use

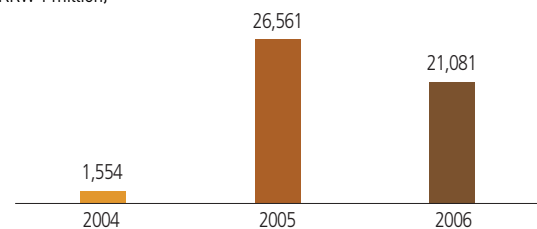
(unit:ton)



Environment costs and investment

KNHC spent about KRW 21 billions for processing construction wastes generated at our sites during 2006 alone. Our investments in environment area are expenditures for improvements in our environment performances. They are categorized into facility investments and R&D investments. KNHC is making diverse facility investments and R&D investments to minimize the environment impacts generated from business processes. Although quantitative control and categorization on environment investment items are not being performed, we will establish the criteria for environment investments, and control them to ensure their effectiveness.

Construction Waste processing cost (unit:KRW 1 million)



Environment Complaints

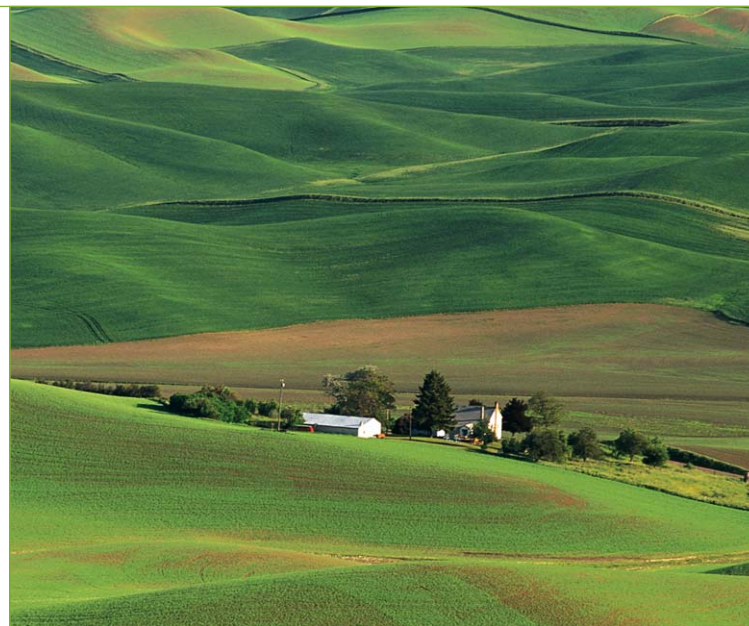
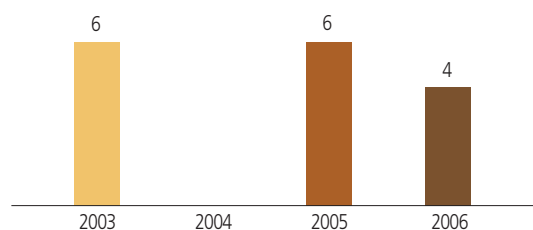
Status of Central Environment Dispute Arbitration Petition

A total of 16 complaints against KNHC have been lodged at the Central Environment Dispute Arbitration Committee from 2003 to 2006. Most cases resulted in agreements with the complainers through active efforts and KNHC compensated KRW 136 millions for three cases (2 in 2003 and 1 in 2005).

Environment complaints and efforts to prevent disputes

In order to prevent complaints on noise and vibration, we have developed, and are implementing the 'on-site installed noise-free, vibration-free pile construction technique suitable for apartment building foundation' and 'composite noise forecast program for prevention of environment complaints from apartment construction sites in downtown areas.' The former technique also enhances the supporting force of the foundation so that total cost saving of KRW 34 billions annually is anticipated. In addition, we are expanding installation of wheel wash facilities and settling ponds to minimize flying dust generation.

No. of environment complaints against KNHC (unit:cases)



Introduction of Strategic Environment Management

KNHC is implementing diverse eco-friendly activities throughout our development processes and has been leading the progress of Korea's eco-friendly city and housing technology and policies through our Center of Green Building Certification. We have also steadily developed eco-friendly construction materials and housing related techniques under the perception that the capability to effectively counter various environmental issues is essential for future business as a developer.

However, as a result of the sustainability management diagnosis conducted by independent professionals at end 2006, it was discovered that, in spite of the rapidly increasing social demands for sustainable development, KNHC's environment management activities have thus far been executed sporadically by the Main Office, Regional Head Divisions and construction fields without clear objectives or integrated control. Therefore, their performance measurement was difficult and internal-external communication on the activity results has not been smooth. Although visible environmental impacts in KNHC business occur mostly at the construction sites under control of contractors, the total number of project fields reaches 200 and the environmental impacts to be controlled occur in diverse ways based on surrounding environments and project progress at each site. Thus, management of environment performance indicators is not being done at the level recommended by GRI.

To overcome these problems, KNHC revised the existing 2015 Management Strategic Plan and included 'construction of eco-friendly production system,' as one of the 12 enterprise mid-long term strategic tasks. Through the three tasks of 'site eco-efficiency management,' 'construction of eco-friendly planning system,' and 'development of eco-friendly materials and technology,' KNHC will faithfully carry out the strategic tasks and complete construction of an eco-friendly production system. In addition, we will provide timely information on our environment performance to our stakeholders through faithful data management.

Stakeholder's Expectations: Korea Green Foundation

"Since KNHC has a great deal of influence on the construction industry, I expect KNHC will play a leading role in Green Belt management, construction waste processing and environment management of contractors. In particular, as the key developer KNHC should practice environment management activities more aggressively and systematically under detailed plans and goals."

Environment Cooperation

KNHC has expanded exchanges with environmental experts and NGOs to improve environmental management. By actively sharing eco-friendly development results with others, we hope to become a leading developer in eco-friendly city and housing.

External Cooperation in Environment Area Environment seminars held

We held the 2006 spring seminar of Korean Society of Environmental Impact Assessment under the theme of 'Governance & Environmental Impact Assessment' for the purpose of personal exchanges and sharing of information and knowledge with the society. In June 2006 we also held a Korea-Japan international seminar with the theme of 'Construction waste recycling policy and technology trend.' This seminar was attended by construction waste experts to discuss waste recycling technology status, related standard and specification and their trends.

Voluntary cooperation agreement with the MOCIE

In December 2005 KNHC established 'Cooperation agreement for high quality recycling products (GR) procurement' with the MOCIE. GR (Good Recycled) is a certification awarded by Korea Agency for Technology & Standards (KATS) of the MOCIE to products made of wastes, either buried or burned, whose quality is excellent, have high degree of eco-friendliness and yield significant energy and resource saving effects. KNHC endeavors to expand purchase of GR products through specific purchase agreements.

'Love of Environment' activities

KNHC has been cooperating with NGOs for environment activities including support for annual 'Environment fund raising for nature

guards' held by Citizen's Movement for Environmental Justice. We provided active support for environment training activities for last few years.

Evaluation on eco-friendly efforts First Ecology Construction Award

KNHC received the first Ecology Construction Grad Award in policy area from Korea Ecology Construction Institute and Yuhan Kimberly for our achievement of Green Building Certification system. Also, Ddeuranche Apartments of Nohyung district in Jeju developed by KNHC received an excellent design award. We applied solar energy systems on street lights and the Community Welfare Center in Ddeuranche Apartments of Jeju Nohyeong. In addition, a small stream was formed within the complex to make connection with the existing natural wetland.

Presidential Award, 2006 Construction Culture Grand Awards

Ddeuranche Apartments of Jeju Nohyung district, which was designed with the theme of "eco-friendly urban village where the nature and tradition are alive together," received a Presidential Award for its excellence in apartment area at the 2006 Korea Construction Culture Grand Awards.

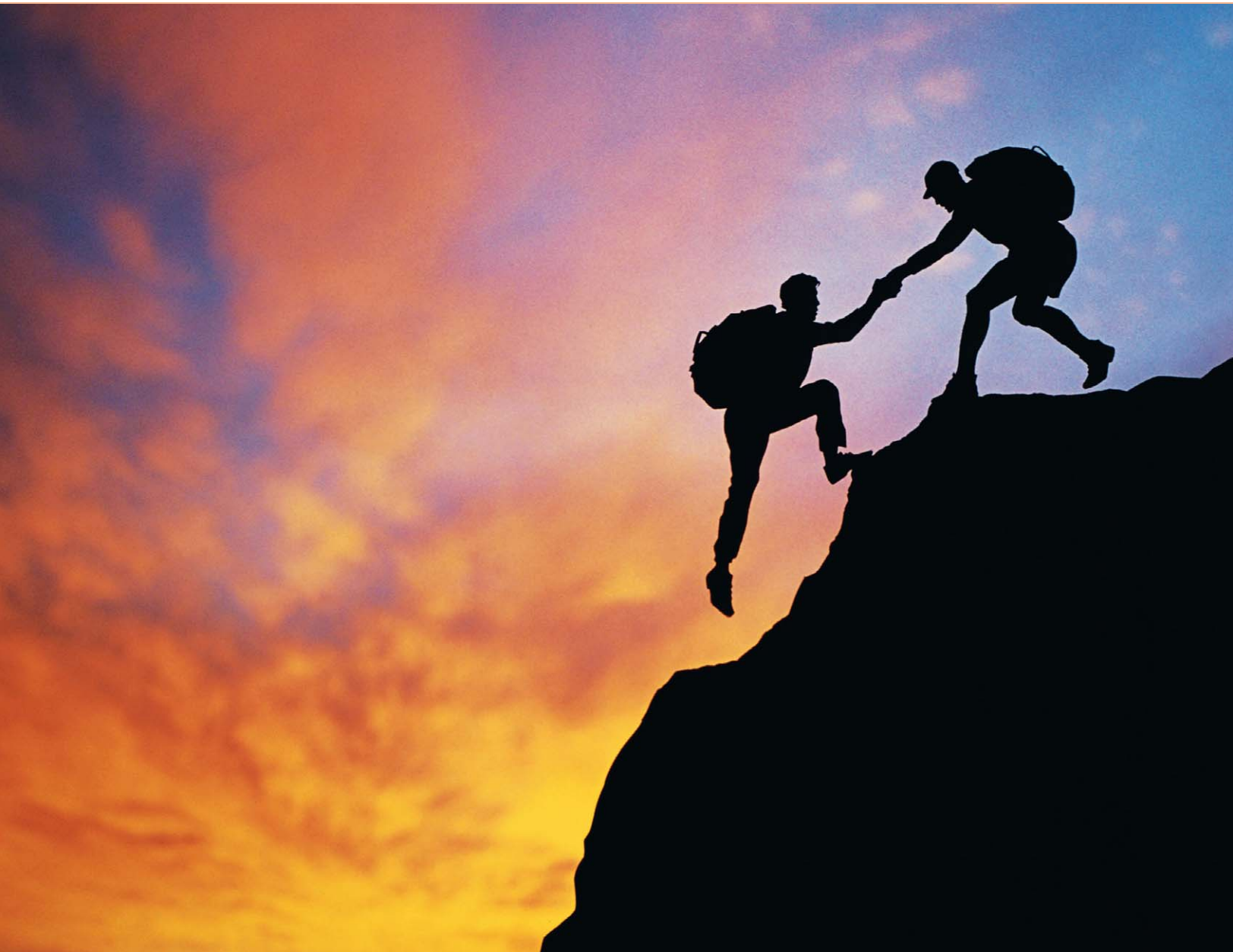
Excellent Product Award from 2006 Korea Concrete Institute

Ddeuranche Apartments in Cheonyeon-dong, Seoul was chosen for Excellent Product Award from Korea Concrete Institute. Although this complex is located in a steep hilly zone, the design made use of this geographic characteristics in the form of stepped building allocations, central park and terraced house design. Such excellent design features and the exterior beauty of the complex were rated highly.

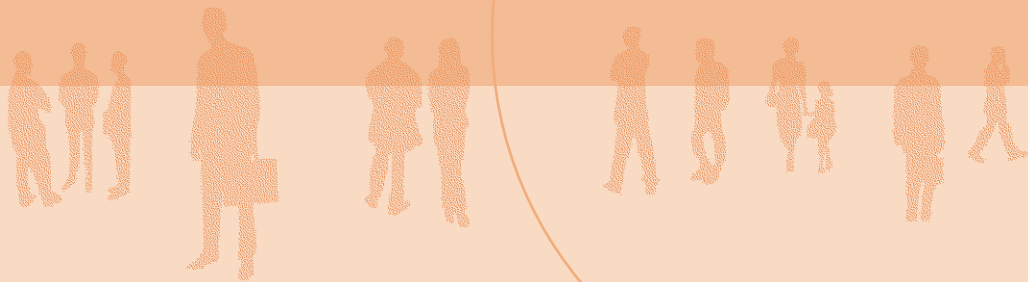
Ddeuranche Apartments in Nohyung, Jeju : Presidential Award, 2006 Construction Culture Grand Awards



with the power of potential energy

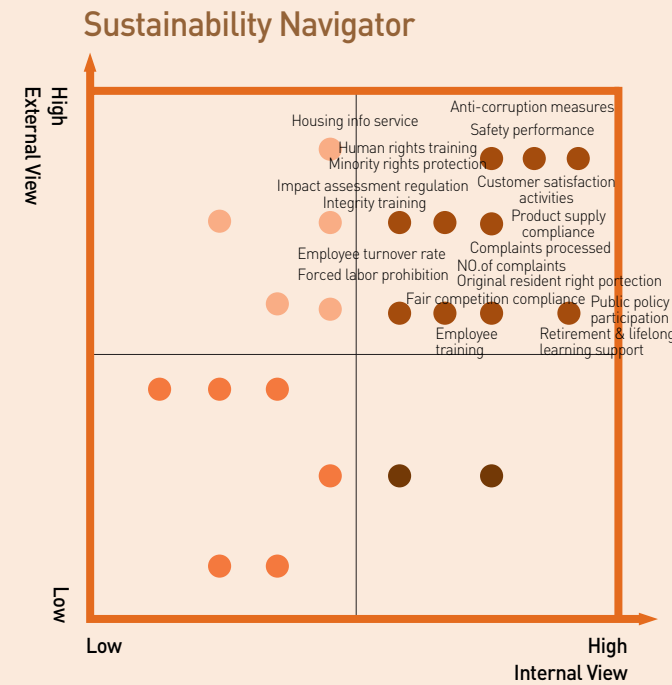


KNHC builds the society
where no one is concerned about housing.



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Disclosure on Management Approach



Social Mission of KNHC

As a professional housing welfare agency, KNHC's responsibility for social activities, which is related with our business, is ever increasing. Not as a corporation that sells products but also as a business that creates and manages people's habitation, KNHC is required to listen to demands of diverse stakeholders as well as of our customers in our business processes.

Stakeholder selected core performance indicators in the social area

GRI G3 Guideline presents 40 social performance indicators including manpower status. Based on our surveys collected from both internal and external stakeholders, 18 performance indicators were chosen as critical social performance indicators for KNHC's sustainable growth and national sustainable development. They include customer satisfaction activities, anti-corruption measures, employee safety performance, compliance of product supply regulations, employee complaints processed and human rights training performed.

Strategic approach to the Social mission

Through fair and transparent interactions with all of our stakeholders, including the Government & local governments, customers, vendors, local communities and employees, KNHC will fulfill our roles as a corporate member of the society and as a public organization responsible for the people's housing welfare.

We have chosen strategic tasks for our social responsibility management within our mid/long term strategic plan and are actively implementing ethical management and social contribution activities. We also conduct various satisfaction level surveys by stakeholder group to review our performances.

From long-term viewpoint we will conduct systematic management activities in accordance with our management plans, such as the customer success strategy for improving our stakeholder satisfaction level, the mid/long term social contribution strategy, and the mid/long term human resources development plan.

Activities to improve stakeholder satisfaction



2006 Performance in Major Performance Indicators

- **Customer satisfaction activities:** Since 2003 KNHC score in public corporation customer satisfaction assessment on corporations, conducted annually by the Ministry of Planning & Budget, has been increasing for six consecutive years. We also conduct own customer satisfaction evaluations on diverse housing welfare services, and use the results for improving our customer satisfaction level.
- **Housing info servicing:** We prepared improved purchased multi-unit tenement housing pamphlet and Jeonse lease pamphlet. Over 15,000 copies of such pamphlets have been distributed to prospective tenants.
- **Original resident rights protection:** Cycled Renewal Method was applied to the Nangok District in Seoul and completed successfully.
- **Employee safety performance:** In spite of the increase in total number of employees, sick leave and loss days have reduced significantly during the past three years. The average hazard rate of KNHC sites has been lower than the national average of construction fields.
- **Minority rights protection:** Disabled preference point system has been introduced and we have achieved the disabled employee ratio above the Government's recommended level in 2006.
- **Retirement & lifelong learning:** For the past three years the number of retirees and the resignation rate have continued to decrease. We also introduced Green Life Program to support life-long learning and retirement transition of our employees.
- **Employee training, human rights training:** During the past three years we conducted total 20,000 hours of training, which amounts to 60~70 hours per employee. We continue orientations on sexual harassment prevention and work ethics to all employees.
- **Anti-corruption measures:** We have reinforced the anti-corruption system. As a result, our score in integrity evaluations, conducted by Korea Independent Commission Against Corruption (KICAC), has improved consistently over the past four years.
- **Complaints processed:** As complaints keep increasing, measures for their reduction need to be implemented.
- **Employee complaints processed:** Although we have activated our employee complaint system, monitoring of complaint processing and internal communication of the results have not been encouraged.
- **Fair competition compliance:** Although we have put forth efforts to comply with pertinent Acts and Regulations as a public corporation, a few violations have been pointed out by the Fair Trade Commission, etc



Customized Housing Welfare

KNHC is performing the role of a locomotive for shifting the existing supply-focused housing policy to consumer-centered policy through customized Housing Welfare Business. We are providing sustainable housing welfare services that will raise everyone's quality of living. In addition, we are expanding 'Social Mix' housing complexes to help resolve the bipolarization problem of our society.



Social Mix housing

In order to resolve the problem, where low-income residents of rental housing complexes are socially estranged and experience conflicts with neighboring community residents, we are developing Social Mix type housing complexes, where the National Rental Housing apartments are apartments for sale are appropriately mixed within the same complex. First in 2005 a prototype project was implemented in Gunpo Dang-dong II district. Based on the positive result from this project, we expanded the concept to three other districts, including Incheon Cheongna, Cheongwon Osong and Paju Unjeong, during 2006.

Housing services for the vulnerable

KNHC is providing various benefits to the vulnerable, such as Jeonse subsidy, prior eligibility of rental housing lease and support to Group Homes.

Group Homes

Children, the young and the aged, who are experiencing difficulties in adjusting to the society, are grouped together in homes provided by KNHC. There they live together under protection and guidance of rehabilitation instructors, who help them adjust to local communities. In 2006 we expanded the scope of Group Home membership from the disabled to diverse socially vulnerable classes, including separated teenagers, the aged, unwed mothers and children under custody to support total 74 Group Homes.

Support for ex-residents of juvenile facilities

To assist independence of youths who leave juvenile facilities, KNHC provides them the first priority for permanent rental apartment leasing, entry into Group Homes, subsidy for existing home purchase and Jeonse lease. We also provide them help for college entrance and employment services.

Support for ex-convicts' rehabilitation

Based on the agreement between the Ministry of Justice and the MOCT in January 2006, total 1,500 housing dwellings will be provided to ex-convicts with families and difficulty of living for the next ten years.

Stakeholder's Expectations: Presidential Committee on Social Inclusion

"As the market conditions have shifted to demand-oriented and customer-centered approach, KNHC roles also need to change. We expect that KNHC continue to make success stories in activation of residential communities and social integration of economically estranged residents."

Support for the homeless

KNHC is providing low-cost housing, out of homes we purchase, to single persons, such as willing homeless people, through a managing organization.

Support for Korean refugees from Sakhalin and North Korea

KNHC is assisting the settlement of Korean refugees from Sakhalin and North Korea, who lack any housing in Korea. For this purpose we established a dedicated apartment complex in Ansan to accommodate permanent returnees from Sakhalin. In the case of the refugees from North Korea, they are given higher priority for entry into the National Rental Housing or permanent rental housing. A portion of newly constructed the National Rental Housing dwellings are allotted to North Korean refugees.

the National Rental Housing for the aged

In preparation for the rapid population aging trend, KNHC is promoting the National Rental Housing Business for the aged. Barrier-free housing system has been introduced to provide barrier-free designs suitable for the aged and to achieve inter-generational exchanges between the senior group and the younger generations. Three projects including Gimjae Hadong for 575 dwellings were approved during 2006 and similar three projects for 370 dwellings, including Seocheon, are planned for 2007.

Building Stakeholder Governance

KNHC has established cooperation channels with the Government and local communities to strengthen our business foundation. In addition, we are striving to enhance the public value of our business through cooperation with representative civic organizations.

Sustainable Cooperation Channels

Stronger business foundation through internal and external cooperation

We cooperate with major stakeholders for each core issue to solicit needed expertise and experiences while enhancing social acceptance of our business activities.

Actively conduct contract & joint research project

Based on our improved R&D results we have been receiving increasing requests of contract studies from government agencies, such as the MOCT, and of joint studies from businesses and R&D institutes. During 2006 we conducted 33 contract studies, including 'development of a new concept long-life apartment model,' and 22 joint studies, including 'technique for reinforcement of slab openings around columns in flat plate structures,' for a total business value of KRW 18,364 millions.

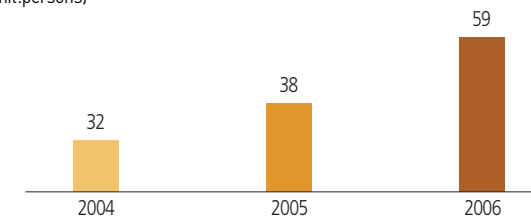
Participation in public policy formulation



KNHC participates actively in policy making processes related to KNHC business areas, including housing site approval, procedure for the National Rental Housing complex designation, revision of Environmental Impact Assessment system and actions from cultural treasure surveys, based on field views and practical experiences in 2006, thus contributing to practical usefulness of public policies.

Government dispatch workers

(unit:persons)



Enhancement of understanding on government policy

KNHC employees are sent to work at a number of Government agencies, such as the MOCT and the Board of Audit & Inspection (BAI), to effectively counter policy changes. Through discussion meetings with dispatch workers and distributing 'Urban Policy W,' a policy newsletter for effective sharing of pertinent information within KNHC, we communicate the Government's policy trends rapidly to working teams/ fields for better understanding of relevant policies.

Active communication with the Government

As our business volume grows and the Housing Welfare Business is diversified, we seek cooperation with different Government agencies and

local governments. During 2006, we utilized the cooperation channel of 'Housing Construction Support Council' for working level cooperation to achieve the goal of the the National Rental Housing Business.

Expert cooperation system

We have organized an advisory committee consisting of about 100 outside experts of various fields, including members of Central Urban Planning Committee, Housing Policy Review Committee, and Residential Environment Advisors of MOCT; members of Preliminary Environment Review Committee of the MOE; and members of Preliminary Disaster Impact Review Committee of the Ministry of Government Administration & Home Affairs (MOGAHA), to consult on operational issues and to maintain cooperation channels with such agencies.

Participation in local community councils

To assist welfare and rehabilitation of residents, we have organized and operate 'Welfare Support Committees,' in participation with by local governments, social welfare organizations and local residents. Based on our expanded role in housing welfare and recent Act amendment, we plan to take part in local community welfare councils, which are being managed by the Ministry of Health & Welfare. Ministry of Health & Welfare (MOHW) established 'Local Community Welfare Councils' for welfare support of local government units. They review issues of each community's social welfare program details, and facilitate communication and cooperation among welfare service sectors. KNHC will take active part in these councils to better implement our Housing Welfare Business, such as rental housing management and purchase & lease business, to the specific needs of each local community.

Modernization of construction industry

In February 2006 KNHC led the foundation of 'Construction Technology and Construction Culture Modernization Alliance.' Since then we have worked with Korea Land Corporation, Korea Construction Association and KRIHS (Korea Research Institute for Human Settlements) for modernization of our construction culture. Upon organization of the Alliance, we have been conducting six modernization activities including a prototype project for remodeling technology application; formation of integrated community centers; innovation of construction period; development of urban renewal models for resident settlement; formation of eco-friendly apartment environments; and development of child care facility network using purchased multi-unit tenement housing.

Stakeholder's Expectations: Citizens Alliance for Corporate Accountability

"The ultimate goal of KNHC's sustainability management should be to improve the public benefit-giving and transparency as a public corporation. We expect that KNHC establish day-to-day cooperation channels with NGOs in all business processes, and open all information on procedure and performances based on a set of principles."

Cooperation with NGOs

We are actively making use of committees and periodically hold meetings of NGO forum and Open Public Corporation Committee to maintain day-to-day cooperation channel with NGOs.

Active stakeholder participation in committees

In case of the National Rental Housing business, During 2006 we utilized consultation councils consisting of local governments and civic group experts in Green Belt relaxation zones of Incheon Seochang II and Cheongwon Hyeondo, to form social consensus on construction of the National Rental Housing in these districts.

In the case of Residential Environment Improvement Business, we have organized 'Residential Environment Improvement Committee' consisting of representatives of government agencies, NGOs, academia and KNHC team, to seek policy recommendations on major issues of the Business. During 2006 we held three general meetings and a Korea-Japan workshop for this purpose.

Opinion collection through NGO Forum

KNHC held NGO forums since 2005 for the purpose of collecting views of NGOs working in the fields of housing, urban development and environment to prevent unnecessary conflicts beforehand and to improve public benefits of our business. By 2006 we held three forums under the themes of 'public development of housing and land' (Nov, 05), 'Government's capital region policy from NGOs' viewpoint' (May, 06), and 'policy alliance between NGOs and public corporations' (Nov, 06) for exchanges with various NGOs such as

Citizens for Decent Housing, Housing Federation, Land Justice and Citizen's Movement for Environmental Justice.

Open Public Corporation Committee

We hold quarterly meetings of Open Public Corporation Committee to discuss means for public benefits and customer satisfaction. This committee, consisting of 16 members, includes 11 outside experts .

Cooperation with non-profit organizations for social contribution

KNHC has been continually implementing social contribution activities for vitalization of community housing culture, such as 'Mother's Hand Meals,' with Housing Welfare Alliance since 2005. During 2006 we established a social contribution agreement with the Korean Red Cross and established mutual cooperation system for disaster relief and voluntary service activities.

Training program for developing nations

KNHC conducted a housing policy training to 15 Iraqi government officials based on a request from KOICA (Korea International Cooperation Agency) during 2006. Trainees of KNHC program are government officials or public organization employees of developing nations and are expected to play important roles in advancing KNHC's international image and improving friendly relations with Korea in their home countries.



Housing policy training for Iraqi government officials

Meetings of Open Public Corporation Committee

Year	Activities
2004	<ul style="list-style-type: none"> Case reports on status of Korea Housing Management Corporation and community vitalization Site tour (Yongin New Millennium Greenville) Methods of public rental housing management
2005	<ul style="list-style-type: none"> Discussion on effective use of web sites by rental housing complex Site visit of buy & lease business site (Seoul Shillim-dong) the National Rental Housing complex tour (Yongin Gugal 8 complex) Status of Urban Renewal Business (Sungnam Redevelopment PR Center)
2006	<ul style="list-style-type: none"> 2006 KNHC business plan Discussion on KNHC roles and resident participation for 'Desirable town' concept Discussion on KNHC's social contribution directions; site tour of Asan New Town PR Center Discussion on Housing Welfare Business; Review & approval of revised KNHC customer code

Ethical Management

KNHC is endeavoring to consolidate ethical management practices through management training on ethical management principles, anti-corruption policy and other ethical management topics.

Foundation for Ethical Management

Since we organized the Enterprise Ethical Management Team and established the employee ethics & behavioral rules in 2003, we have introduced Whistleblower Center, Ethical Management Committee (chairman: president) as the highest decision body on ethical management, and Integrity Planning Group (leader: vice president) as the central organization for anti-corruption/ integrity activities.

Anti-corruption system strengthened



We established such a strict internal control system as 'three strike out,' doubling of promotion restriction period, and permanence of penalty record for corrupt actions. We have instituted 'integrity living code' to be applied to senior managers including executives and Grade I or above employees. Employment contract was revised to prohibit performance bonus pay when retiring for corruption related reasons.

Ethical Code revised for stronger implementation

During 2006 we incorporated the substance of the amended Act on Corruption Prevention to revise our Employee Ethical Behavior System into 'Ethical Code,' which contains ethical judgment criteria, and 'Behavior Code,' which includes detailed behavior guidelines, to promote employees' understanding of ethical standards. Also, we have instituted guidelines for golfing and gambling as well as professional integrity rules for employees to expand application scope of anti-corruption penalty measures.

Gift Return Center

Article 16 of KNHC employee behavior code specifies that KNHC employees must not receive any money, property, gift or entertainment from persons related in business. During 2006 we installed the 'Gift Return Center' to root out the gift exchange culture of the past and to establish transparent business discipline. As a result, 12 gift items including alcohol products have been turned in, of which ten were returned to their senders and two were contributed to social welfare facilities.

Inducements for ethical work life

In May 2006, we introduced 'Control Self Assessment (CSA) System,' where individual teams voluntarily identify corruption factors and make improvements. We are providing strong incentives for the CSA system practice, including awarding of integrity emblems, exemption of self audits, bonus point assignment for team performance evaluation to excellent teams, as well as overseas training and special promotion opportunity for integrity award recipients.

Daily practice of Ethical Management

We understand that the approach of post-incident penalty is limited in uprooting corruption. Based on understanding, we conduct periodic diagnosis of our employees' professional ethics, derive improvement areas and reinforce ethical orientation on continued basis for reinforcing their professional ethics.

Ethical perception surveys

From 2005 we have conducted annual ethical perception survey on all employees to diagnose their ethical perception level and to review our integrity management directions. The result of our July 2006 survey, where 2,105 employees responded, showed that 88.4% of the respondents perceive the need for integrity management and 60.6% responded that money, gifts or entertainments must not be taken under any circumstances.

Learning for ethical management



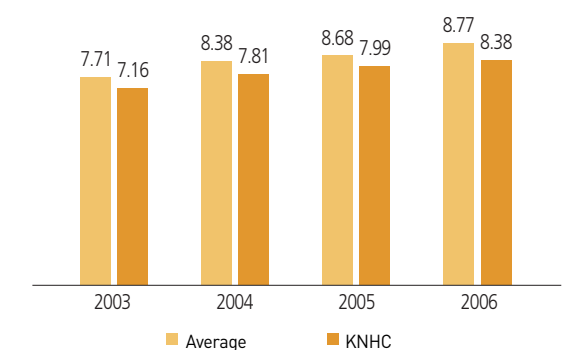
We also developed an online ethical training program, We are actively conducting ethical management training. During 2006 total 3,686 employees (97.3%) underwent this training. This training performance during 2006 amounts to 26 hours per person for all employees and the number for managers and above was 28.7 hours per person.

Integrity evaluation by public agency

In the past our integrity level was below the average of public corporations. However, thanks to our recent ethical management efforts, KNHC was selected as an outstanding anti-corruption organization of 2005, announced by KICAC, out of total 90 public organizations of Korea. Our 2006 assessment point was 8.38, a significant improvement of 0.39 from 2005 and 0.09 over the average of other public corporations.

KNHC will continue our ethical management efforts to improve our integrity level actively.

Integrity evaluation by KICAC (unit:10.0 max)



Transparent Management

KNHC has strengthened the audit function and simplified bidding and contracting processes to improve our organizational transparency. Also, we have expanded the scope of information release to guarantee the stakeholders' right to know.

Innovation through active audit function Efficient role as management consultant

KNHC formed the internal audit consulting team (consisting of 20 members in admin and technical areas), which performs advising in compliance and professional fields and thus resolve various management issues efficiently.

Audits for system improvement

System improvement audits, which are different in nature from compliance audits, are conducted to enhance the quality and quantity performance of audits. Also, we allow all stakeholders to take part in audits, thus enhancing the acceptability of audit results.

Improvements in bidding & contracting Improved price estimation

To prevent leakage of estimated price information and to improve transparency of bidding process, we corrected our computer system so that multiple preliminary prices are not shown on computer screens during selection process.

Rational and clear criteria

To induce participation of high quality professional construction companies and to enable competitive companies to be selected in our bidding process, we have clearly defined evaluation weights for all evaluation criteria and reinforced evaluation criteria in contract

Improved public release information (new items underlined)

Category	Released Information
System	Legal basis for management data release
Mgmt Status	<u>Vision & strategy</u> ; mgmt policy; mission and major business areas; history; organization and manpower; capital; management; subsidiaries; <u>major business activities</u> and values
Mgmt Performance	Business performance (performance vs. goals; major achievements; apartment mgmt); <u>performance for past 5 years</u> ; <u>performance indicators and performance levels</u> ; manpower utilization and its result by <u>major business</u> ; financial stability; productivity; innovation; e-procurement
Mgmt Capability	Mgmt capability; mgmt stability
Competitiveness & Reliability	Customer Satisfaction Level; <u>customer complaints in critical businesses</u> and improvements; profitability; financial indicators; <u>credit evaluation</u>
Financials	Mgmt goals; budget; settlement; financials; debt master
External Evaluation	Audit report (internal audit; BAI; National Assembly; external financial auditor report); mgmt performance evaluation report
Meeting Minutes	<u>Board of Directors meeting minutes</u> ; <u>president selection committee meeting minutes</u> ; Open Public Corporation Committee meeting minutes
Other	Status of similar industries & organizations; KNHC code & related Acts; <u>social contribution performanc</u>

performance capability, financial robustness, construction performance and technical capability.

Timely release of RFP data

To facilitate easy access to bidding information, we provide sufficient information through online Q&A site, expanded scope of bid related information release and made public our e-procurement system.

Continuous expansion of e-bidding and e-contracting

Based on our stage-wise e-procurement plan for 2000 to 2006, we have improved our e-bidding system. During 2006 total e-bidding amount increased 23.7% from the previous year and the number of e-contracts increased 91.9%. Through repeated system improvements, KNHC's e-bidding and e-contract systems were commended as an 'excellent case example for construction-transportation contracting' by the MOCT.

Internal accounting management system of international standard

KNHC introduced a global standard internal accounting management system, which is an internal control system that ensures business efficiency, reliability of financial information and compliance of relevant Acts and Regulations.

We first established the internal control system with a software. We identified 664 control items in 13 business areas for major financials, and designated controllers for each item. Based on the result of one-year application, we have established the guideline for internal control and internal accounting management system.

Public release of management data

To facilitate customers' access to our management data we have improved our public notice system. In November 2006 we released the details of the president's expenditures through our web site.

Social Contributions

Fulfillment of our social responsibilities is an essential prerequisite for KNHC to grow into a Global Top City and Housing Corporation. KNHC has secured necessary organization and funding towards a more systematic implementation of the plan.

Refurbishment of Social Contribution system

KNHC has been conducting numerous social contribution activities in areas of neighbor assistance, culture, environment and education including Sakhalin Korean welcoming party, group wedding ceremony for rental apartment tenants, flee market events, subsistence support for teenager households without parents, one-village one-company movement, disaster recovery activities and blood donation events.

Long-term social contribution strategy established

During 2006 we sought to improve our social contribution activities through strategy planning and infrastructure expansion.

Social contribution fund and Social Service Group

Based on our long-term social contribution strategy, we established 'Didimdol (Stepping Stone)' social service group, formed a matching grant, and introduced voluntary service vacation system and mileage system for expansion of social contribution activities.

Activation of social contribution activities

We have actively implemented the Mother's Hand Meal program, free safety inspections of low-income apartment, the Teenager Household Mentor program as our core social contribution activities; and provided support for construction of a dormitory for Jirisan High School as part of its activities to improve quality of life in remote villages.

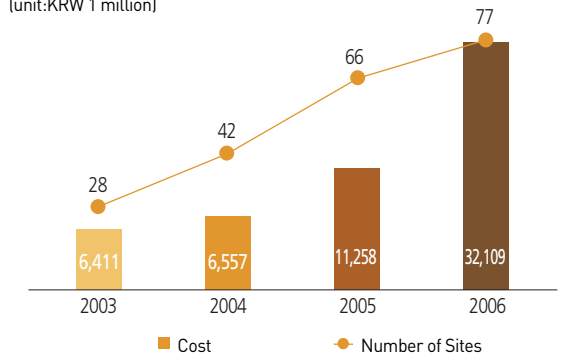
Protection of cultural treasures

KNHC has expended KRW 32.1 billions for survey of cultural assets in candidate areas in 77 districts during 2006 alone. We take various measures to identify and preserve cultural assets utilizing professional cultural asset experts and pursuing designation as a cultural asset survey agency. One such example is in Gwangju Donglim II district where we are building a museum and implementing cultural site refurbishment work.

Participation in 1-Asset, 1-Keeper movement of Cultural Properties Administration

In November 2006 we reached an agreement with Cultural Heritage Administration (CHA) to actively take part in protection of cultural assets in the vicinity of our sites. We are conducting cleaning, structure safety diagnosis and environment inspections for 9 cultural assets including those in Suwon Hwasung area as a part of our cultural heritage protection efforts.

Sites of cultural asset survey and cost (unit:KRW 1 million)



Social contribution activities using core capabilities

Repair of social service facilities

Didimdol Social Service Groups of KNHC's Regional Head Divisions have made repairs of houses of single elderly people who live in poor residential environment in the vicinity of urban housing renewal sites.

Free maintenance of low-income community toilets

KNHC has been conducting free maintenance of common toilets in low-income housing areas to relieve the living inconveniences of poor residents in low-quality housing areas. We made repair/ remodeling and new building of five conventional toilets at five such locations during 2006.

Free safety inspections of low-income apartments

In August 2006, KNHC has organized Safety Inspection Service Team, which provides free safety inspections on low-income apartment complexes, which have either suffered from damage or have such risks from flooding or typhoons. We conducted safety inspection on 9,098 apartments in 23 housing complexes.

Assistance to the disabled in Group Homes

To assist rehabilitation of the disabled residents of Group Homes, KNHC employees provides services including field trips periodically.

Digital Library for Rental Housing

We are developing a digital library to enable rental apartment tenants to access e-books via computers without restriction in time or place for e-learning at no cost.



Increasing Stakeholder Value

As a public corporation that fulfills its social responsibilities, KNHC provides the top-level housing welfare services to customer, technology support and management stability to vendors, and optimum working environment to our employees. We evaluate the major stakeholder satisfaction level periodically and reflect the result to our management activities.

Customer

KNHC conducts systematic activities for enhancing customer satisfaction level according to our customer success strategy.

Communication with customers

Through operation of a customer monitoring group and resident reviews prior to their occupation into housing dwellings, we endeavor to reflect customers' opinions in all stages of housing supply.

Operation of customer participation center

We seek to incorporate external customer opinions to our management by rewarding outstanding customer proposals. We also increased the number of adopted customer proposals so that, during 2006, we chose 45 out of total 417 proposals for actual application.

Community vitalization by housing complex

KNHC is endeavoring to improve resident satisfaction level by making community spaces within housing complexes, installing community welfare facilities to induce voluntary community activities, and inducing participation of residents in their apartment complex management affairs.

In particular, in the case of permanent rental housing and the National Rental Housing complexes, we established a plan to activate tenant participation in pubic rental housing to induce active tenant participation in the tenant representative assembly and community affairs.

Thus, during October 2005, we designated 11 complexes as excellent complexes of tenant participation, including Bundong 2 Complex in Seoul, and rewarded them based on one year's performance evaluation. During 2007 we plan to further activate tenant representative assembly activities.

Tenant representative assembly status (Sep, 06)

Average	Permanent Rental	National Rental	50-YrLease	50-YrLease
44%	28%	44%	53%	58%

Customer rights protection

We have instructed our security personnel on customer manners to ensure that visitor rights are not violated and that they are treated with kind hospitality.

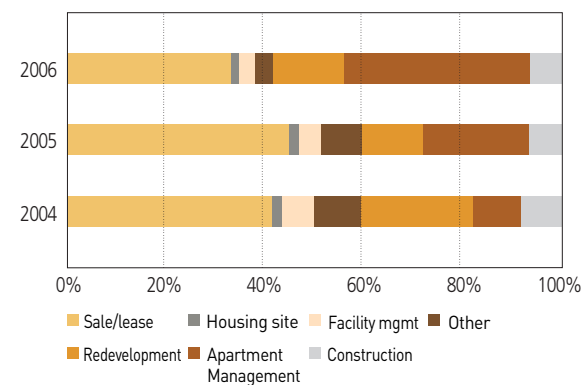
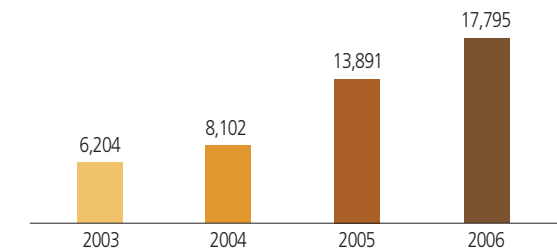
We also ensure that identities of online complainers and visitors are safeguarded through 'measure to prevent exposure of personal information in web pages.'

Processing of customer complaints

Customer complaints have increased steadily due to Internet expansion, increase of customers' perception on their rights and expansion of participation opportunities. Highest percentage of complaints are related to lease and sales, although construction related complaints are on a rapid rising pattern recently. All complaints are monitored and proper responses are provided to all complaints.

Online complaints and their types

(unit:items)



Customer health and safety

We practice customer-centered management actively by complying with the customer health and safety related regulations and making a choice on from construction material to safety devices to secure residents' life as comfortable and safe as possible.

Improved housing performance grades

The Housing Performance Accreditation system, implemented from January 2007, requires that all new housing complexes of 2,000 dwellings or more must show performance grades in five areas of noise, structure, environment, living conditions and fire prevention. KNHC has set the housing quality targets of Grade I in IAQ, landscaping and common facilities in all projects. Thus, we plan to

IAQ measurements of lease-sale apartments (unit:µg・m³)

Category	After Bake Out		MOE Standard
	Rental Housing	Housing for Sale	
Benzene	2.67	2.00	30
Toluene	498.33	380.22	1,000
Ethyl Benzene	55.17	64.67	360
Xylene	235.00	243.78	700
Styrene	47.00	62.65	300
Formaldehyde	171.00	138.56	210

Note) Measured: 2004.10~2005.9 / MOE: Ministry of Environment, Korea

'Well-being Cleaning Service' for customer appreciation

We are performing free cleaning service of areas, which are difficult to be cleaned by residents; well-being services such as debugging and sterilization; and window service such as cleaning of balcony windows and screens, in apartment complexes of 1~4 years from occupation.

Rental Housing maintenance

We perform seasonal safety inspections on all facilities within rental apartment complexes in accordance with our apartment safety management plan, established in 2006, for preventive maintenance of foreseeable problems.

During 2006 alone, we invested KRW 104.5 billions for facility maintenance/repair work, including painting of building interior and exterior, piping replacement, boiler replacement, kitchen cabinet replacement, lighting replacement, pump repairs, and elevator maintenance; crime prevention systems at underground parking spaces; and resident convenience facilities. Also, we conducted survey on all rental housing tenants on repair requirements, resident living status and other requirements.

secure high performance above a set grade level not only in districts where housing quality marking is required but in other districts also.

Improved IAQ

KNHC established and implemented 'the toxic emission standard for finishing materials,' the first in Korea, in December 2003. In addition, we began applying 'natural air circulation system' concept to all new housing to eliminate residual toxic gases, which may still exist in apartment interiors after construction. We also perform 'Bake Out' for all new housing constructed from October 2004, while we distribute New Resident Pamphlet, which includes recommended measures for prevention of new home syndromes and other maintenance guidelines.

Model 'barrier-free' apartment complex

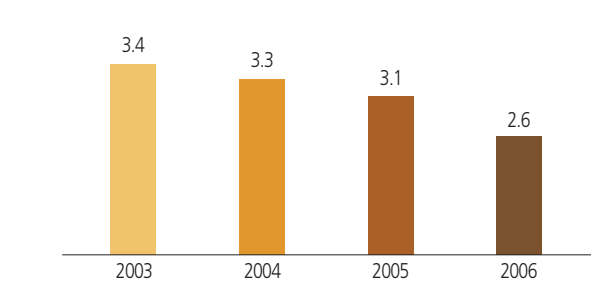
KNHC is building a model barrier-free apartment complex, a safe, pleasant and healthful living environment. Barrier-free implies the free space where the disabled, children, seniors and pregnant women may move about without assistance from others; and the human-centered space which does not give the feeling of being closed in. Mulgeum district in Yangsan, chosen for such this concept, will have pedestrian-friendly walkways; central plaza with moderate slope and low border design; and common facilities designed for easy use by anyone.

Expanded facilities in dwellings for the disabled

We are implementing disabled-friendly facilities in 34,877 dwellings for the disabled families, 24.9% of all rental apartments, as of June 2006.

Elevator failure rate per month in rental housing

(unit:failures)



Product information servicing

KNHC provides systematic information needed by residents and the general public through diverse channels to facilitate safe apartment living and to reduce social impacts.

For new complex residents



We publish quarterly 'My House of Love & Happiness,' which contains facility use guidelines, etiquettes for community living and pertinent Acts and regulations for new complex residents. During 2006 we distributed 'Apartment Living Guide' to total 52,675 new occupation households of 77 new complexes.

For tenants of purchased housing

During 2006 KNHC prepared and distributed, for the first time, 15,000 issues of the tenant pamphlet titled 'My House of Dream & Happiness' to tenants of purchased multi-unit tenement housing and Jeonse housing. The pamphlet contains essential information on occupation and move-out procedure, community self-rule system, facility maintenance, housing welfare and social welfare systems.

The National Rental Housing web site

Since 2005 we maintain the web page for the National Rental Housing, which provides timely information including introduction of the National Rental Housing, information on progress at development sites, entry qualifications and availability, PR releases and pertinent Acts and regulations.

Cyber Model House

We developed and maintain our 'Cyber Model House' to facilitate public access to desired housing information through the Internet. During 2006 alone total 4,670 users visited the web site.

Compliance



Pamphlets for housing information and compliance

KNHC provides accurate information on materials used, floor plans, surrounding conditions and environment and location in compliance of pertinent Acts and regulations via brochures for rental and sale apartment complexes.

Examples of resident pamphlets



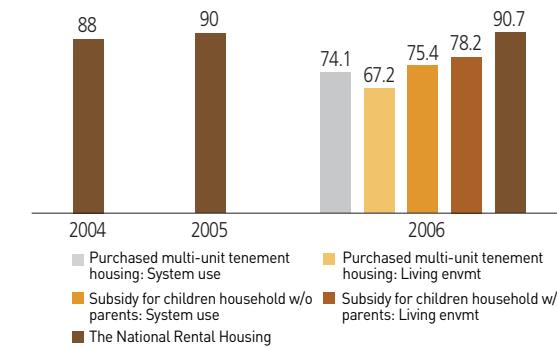
Compliance of marketing regulations

Since marketing communication impacts the decisions and views of customers, it must deliver accurate information, which does not impair customers' judgment, in approved ways. All advertisements of KNHC including apartment PR are conducted in fair manner suitable for a public corporation. We also comply faithfully to all rules and regulations for all products, services and labeling so that there has not been a single case of violation.

Customer Satisfaction Level

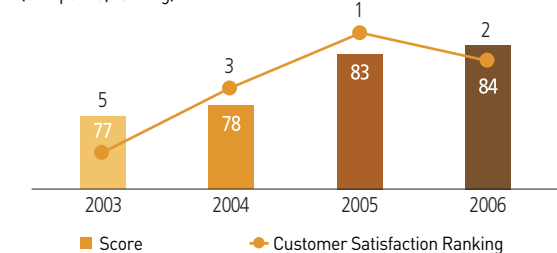
Each year we conduct Tenant Satisfaction Level survey on 1,000 tenants of the National Rental Housing. During past three years, the resulting satisfaction level has continued to improve. For purchased multi-unit tenement housing and Jeonse rental homes, we identified ways to increase the customer satisfaction through satisfaction level surveys during 2005 and 2006.

Rental housing resident satisfaction survey (Total 100)



The result of public corporation customer satisfaction assessment by the Ministry of Planning and Budget was that KNHC took the first place of total 14 public corporations with score of 83 points in 2005 and second place with 84 points in 2006.

Public Corporation Customer Satisfaction Level (unit:points, ranking)



Local Community

KNHC makes fair compensation to original residents, protects their rights and supports their stable living. We also provide various support measures to ensure that original residents and local community residents enjoy comfortable and clean living environment.

Consideration of local communities through impact assessments



We conduct impact assessments on local communities where our project plans are finalized in critical areas of environment, traffic, disaster control and population.

Contributions to Local Community

Provision of cultural facilities

We are developing community cultural centers, which integrates functions of community living, culture and welfare as the focal point of neighboring communities for each large apartment complex of 1,000 units or more. During 2006 we developed three types of community cultural centers and applied them in Paju Unjeong district and Suwon Maeshil district as prototypes.

In addition, we are developing park areas near developed housing complexes as cultural spaces. During 2006 we established the plan to build a community library of 1,500 m2 in Goyang Pungdong.

Promotion of local subcontracting

To help vitalize local economies we have included preferential clauses in selection of vendors and subcontractors. The average of local vendor selection from 2003 to 2005 for each Regional Head Division was 34.8%, while the percentage for Gwangju Jeonnam Regional Head Division for the same period was 70.9%, the highest.

Protection of original resident's rights



KNHC makes various compensations as ways to provide maximum protection of the rights of original residents who must leave their places of residence due to public housing development. We operate Compensation Advisory Committee and instituted 'moving and livelihood support guideline' as a part of our company regulations to ensure fair compensation to such original residents.

Assistance for resettlement of original residents

KNHC subtracts disposition revenue of public owned land within Housing Renewal projects from housing prices, and increased the subsidy of rental housing for original residents' relocation, thus providing realistic support for relocation of low income original residents.

During 2006 we implemented the 'block type housing' design to expand small rental housing at reduced construction cost.

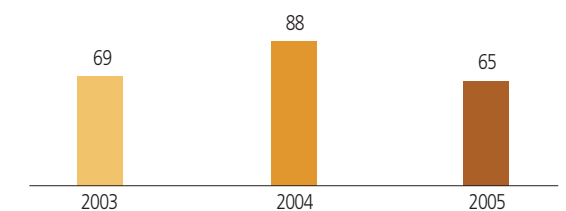
Town history plaza

KNHC is preserving and recovering places or structures of historical significance to help original residents' sense of loss on their place of livelihood and to preserve the local identity. We plan to form 11 town history plazas in 11 districts, such as Daejeon Mokdong II district, where structures of historical significance remain.

Cyber Village Museum

To help relieve the negative feelings of original residents due to housing development within Green Belt relaxation zones, we developed Cyber Village Museum for Anyang Gwanyang district, as a prototype case, where a large village has existed.

Percent resettled original residents in Residential Environment Improvement projects (unit:%)



Supply Chain Management

KNHC endeavors to achieve high quality service performance of vendors through cooperation and to respect subcontractors and small enterprises in our business transactions.

Wholesome subcontracting discipline

Win-win culture in construction

We have taken part in MOCT's 'construction industry win-win cooperation task force' and applied the win-win strategy at two model sites. We strengthened the partnership by construction stage and instituted 'construction site win-win cooperation manual' for implementation.

Prevention of unfair subcontracting

With the expansion of the minimum price bidding system in 2006, we introduced a compensation system for reporting illegal/ unfair subcontracting to prevent the increase of such practices. We also established the Subcontract Control Guideline which presents standard subcontract forms and rules for direct payment of subcontract money and subcontract restriction for outsourcing design work.

Resolution of subcontractor wage payment delays

KNHC seeks to protect the economic rights of subcontractor workers by paying delayed wage payments. During 2006 we paid KRW 1.2 billion on 47 such delayed wage payments, which were approved out of 54 requests, affecting 635 workers.

Safety management at work sites

We conduct safety training to site supervisors to prevent safety accidents and organize site safety management teams consisting of Regional Head Division personnel and safety personnel. In particular, we conduct two safety instructions annually to prevent safety accidents of foreign workers, whose number is increasing at work sites.

Compliance of fair competition rules

KNHC has received five correction orders from the Fair Trade Commission during 2000 to 2006. We have taken appropriate measures upon clarification of facts to improve our transaction practices and to prevent similar occurrences.

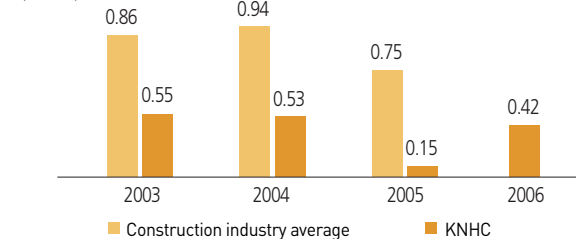
Expansion of transactions with SMEs

In accordance with the Government's policy for promoting procurement of technology products of SMEs, we organized the dedicated team and operational guideline for such purchasing activities. We purchased 16 such items of KRW 19.6 billions in 2005 and 7 items of KRW 77.4 billion in 2006, of new technology products from SMEs. We will expand such purchasing to help promote growth of new technology development of small venture businesses and to enhance KNHC product competitiveness at the same time.

Foreign worker safety training (Nov, 06, Incheon Nonhyun)



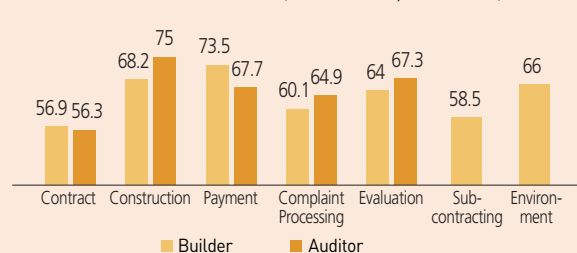
Hazard Rate (unit: %)



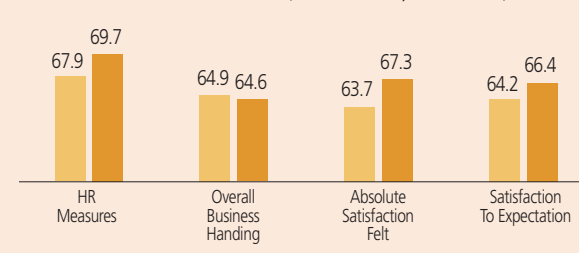
Contractors' Satisfaction Level (Survey targets: 267 builders, 55 audit companies)

During 2006 we conducted satisfaction survey on all construction contractors and audit companies for the first time. We selected 84 items of improvement based on the survey results, developed their action plans and established a feedback-action system. Customer satisfaction survey on construction activities will be expanded to all areas of construction in the future.

Process Evaluation (Builder: 64.9%, Audit: 66.8%)



Overall Evaluation (Builder: 66.8%, Audit: 67.0%)



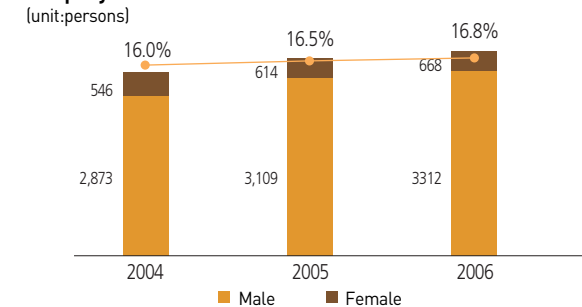
Employees

KNHC is enlisting and nurturing talented people through HR system that emphasizes ability and performance; introduction of talent nurturing program; refurbishment of health and welfare system and protection of minority employees.

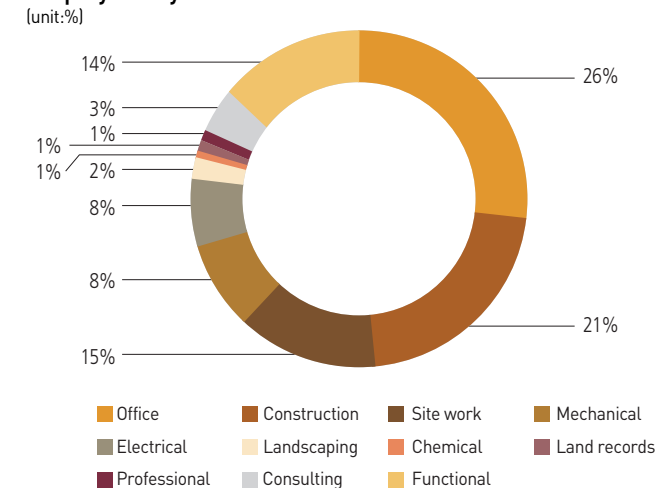
Employee status

KNHC employs total 3,980 employees including 7 high-level management. Most of the employees are in office work, construction and field work categories. Some 67 percent of all employees work in the capital region. The female employee percentage has increased each year and we have 668 female employees as of end 2006.

Employees status and female ratio



Employees by trade



Improvements of working conditions for contract employees

Contract employees and limited-term employees total 835 in categories of security, maintenance, cooking and mandatory public service as of end 2006. KNHC conducted companywide survey on status of contract employee working conditions in June 2006 responding to the social demand. Consequently, we limit indiscriminate use of contract labor and established the basis for their improved working conditions by instituting 'Guideline for Contract Employee Management,' which includes payroll system improvement, complaint processing and systematic training.

Talent nurturing through

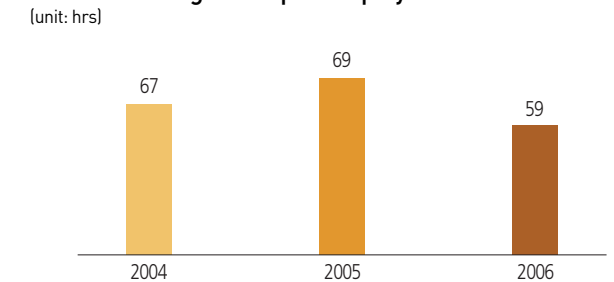
Mid-long Term Manpower Development Plan

We nurture the talent in a long-term perspective according to Mid-long Term Manpower Development Plan established in 2005. We identify the requirement of training programs and develop new programs from the employee survey and monitoring on education & training programs.

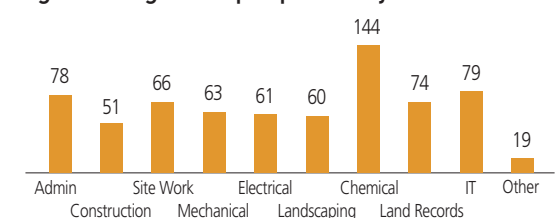
We plan to expand capability and professional training programs, design life-long instruction programs, implement learning infrastructure and provide linkage between training and performance evaluation towards systematic HR development.

During the past three years we conducted training over 20,000 hours, which averages 60~70 hours per staff.

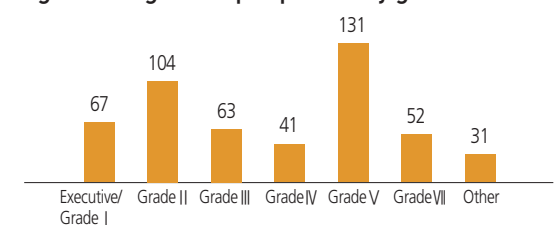
Annual training hours per employee



Average training hours per person by trade (2006)



Average training hours per person by grade (2006)



Fair performance evaluation and compensation

We maintain wage level of new employees at 227 percent of minimum wage level.

All employees of KNHC are subject to periodic performance evaluation. For Grades I and II, performance bonuses are paid in 10 criteria while others' overall performance scores from achievements, efforts and ability are incorporated into promotion scores. During 2005 we introduced the payroll peak system for efficient HR operation and compensation.

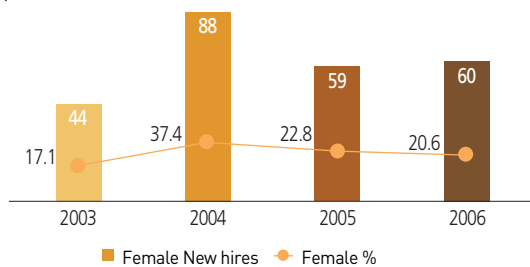
Gender Equality

During the past three years we have hired female employees at above the hiring goal of 20%. Although the percentage of female employees of senior levels of Grade III or higher is still low, the increasing female hiring pattern is expected to boost this ratio significantly in the future.

KNHC is endeavoring to ensure fair treatments between both genders in terms of basic pay, promotion and compensation. By providing improved child care conditions, such as child-birth leave and child care hours, as well as home care vacation to support spouse study/work abroad, KNHC received an excellence award in Gender Equality Grand Prize hosted by Hanguk-ilbo Newspaper, the Ministry of Labor and Korea Chamber of Commerce in 2003.

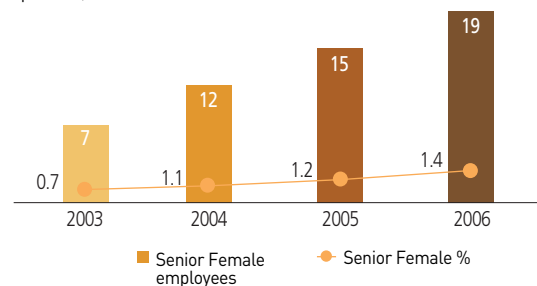
Female new hires and ratio

(unit:persons,%)



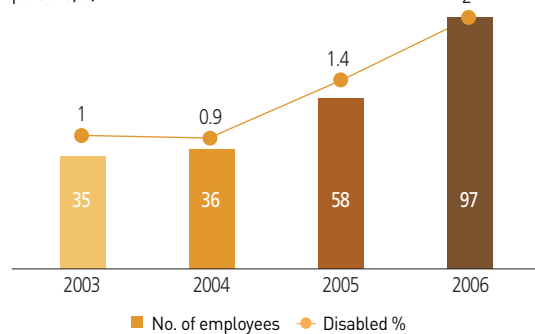
Senior female employees and ratio

(unit:persons,%)



Disabled employees and percentage

(unit:persons,%)



Human rights protection

KNHC is conducting orientations for sexual harassment prevention and improving the employee complaint processing system to ensure human rights at work. Our Labor Union and the management work together to ensure human rights protection of the disabled, female employees and part-time workers. As a measure for such efforts the Labor Union has instituted Female Division within the union organization.

Prohibition of child labor and forced labor

Our employment regulation prohibits hiring youths of 15 years or younger and students of 18 or younger. We also comply with the Act of Labor Standards.

Orientation for sexual harassment prevention

We are conducting employee mental orientation and training of complaint counselors to prevent sexual harassment at our work sites. Sexual harassment prevention training was conducted for 3,454 employees during 2004 and 3,275 during 2005.

Employee complaint processing

We are employing employee complaint organization, consisting of managers and female employees at the Main Office and Regional Head Divisions to resolve various employee issues from labor conditions to discrimination at work. We employ Employee Complaint Review Committee for fair review and processing of employee complaints, while ensuring maximum protection of the rights of both the victim and the offender. Complaint Center receives complaints via online, hot telephone line and written forms. Complaints are processed within ten days upon submission.

More hiring of the disabled

We introduced disabled priority hiring system, where 10% extra points are assigned to disabled applicants during document review. As a result, 19 persons were hired during 2006, which disabled was 7% of 270 open hires. This is a significant increase in our disabled person hiring rate. To improve the working conditions of disabled employees, we provide assistants to help them, extra subsistence subsidy monthly and expanded the scope of disabled subsidy to include not only the disabled employees but their immediate family members also.

Win-win labor culture

KNHC Labor Union, founded in August 1987, has members of Grade III or lower. It is of open shop system where members are free to join or leave. Total membership is 3,598, 90% of all employees and 99.7% of eligible employees.

Labor Union membership by grade (as of Nov, 06)

Category	Eligible	Members	Ratio (%)
Grade III	949	948	99.9
Grade IV	1,722	1,720	99.9
Grade V	379	374	98.7
Grade VI	10	9	90
Grade VII	191	190	99.5
Others	357	357	100
Total	3,608	3,598	99.7

Decision on major issues through Labor-Mgmt Committee

Labor-Mgmt Committee meetings are held to derive consensus on major issues. The Labor-Mgmt Committee, consisting of six members from each side, holds quarterly meetings to discuss issues of training, productivity, performance compensation and overall management.

Working condition improvement through collective bargaining

During annual collective bargaining, health and safety measures, including personal protective devices, audit, accident investigation, safety training and complaint processing, are also negotiated.

Prior notification for collective bargaining

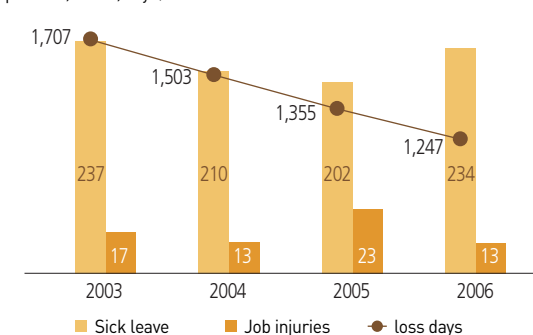
Major business changes, such as reorganization or merger that can impact the employees, are notified to employees beforehand through collective bargaining.

Health & safety of employees

Employees are given welfare points for health maintenance, which they use for health diagnosis and health care expenses. We operate in-house Sick Bays for quick checkup and conduct industrial safety and health instructions as required by the Act on Industrial Safety & Health to prevent safety accidents at work.

Sick leave, injuries and loss days

(unit:persons, cases, days)



Retirement Management

The number of resignations and the severance rate have decreased steadily during the past 3 years. The female proportion among departing employees is about 20%, while the average age of departing employees is mid 40s for males and early 30s for females.

Support for retirement

KNHC accumulates retirement pay contributions each year based on years of service and average payroll in accordance with the Act on Labor Standards. Lump-sum retirement payment is given at retirement. Retirement pension system is being studied for introduction with agreement of the Labor Union.

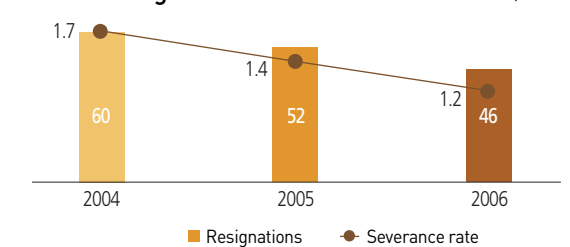
Life-long learning program

'Green Life Program' has been introduced to provide consulting and facilities to soon-to-retire employees and those planned to be transferred to professional positions. Under Green Life Program the Company supports external training, exhibit participation, individual lectures and participation in job networks, etc.

Health & Welfare

Various welfare benefits are given to regular employees including life insurance coverage, medical services, injury and handicap subsidy, child-birth leave, retirement pay and children's education support. KNHC provides welfare benefits of medical service, injury and handicap subsidy, child-birth leave and retirement pay to contract employees and part-time, non-regular employees.

Number of resignations and severance rate (unit:persons,%)

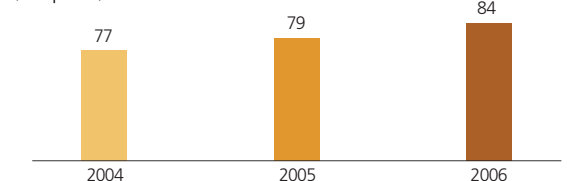


Employees Satisfaction Level

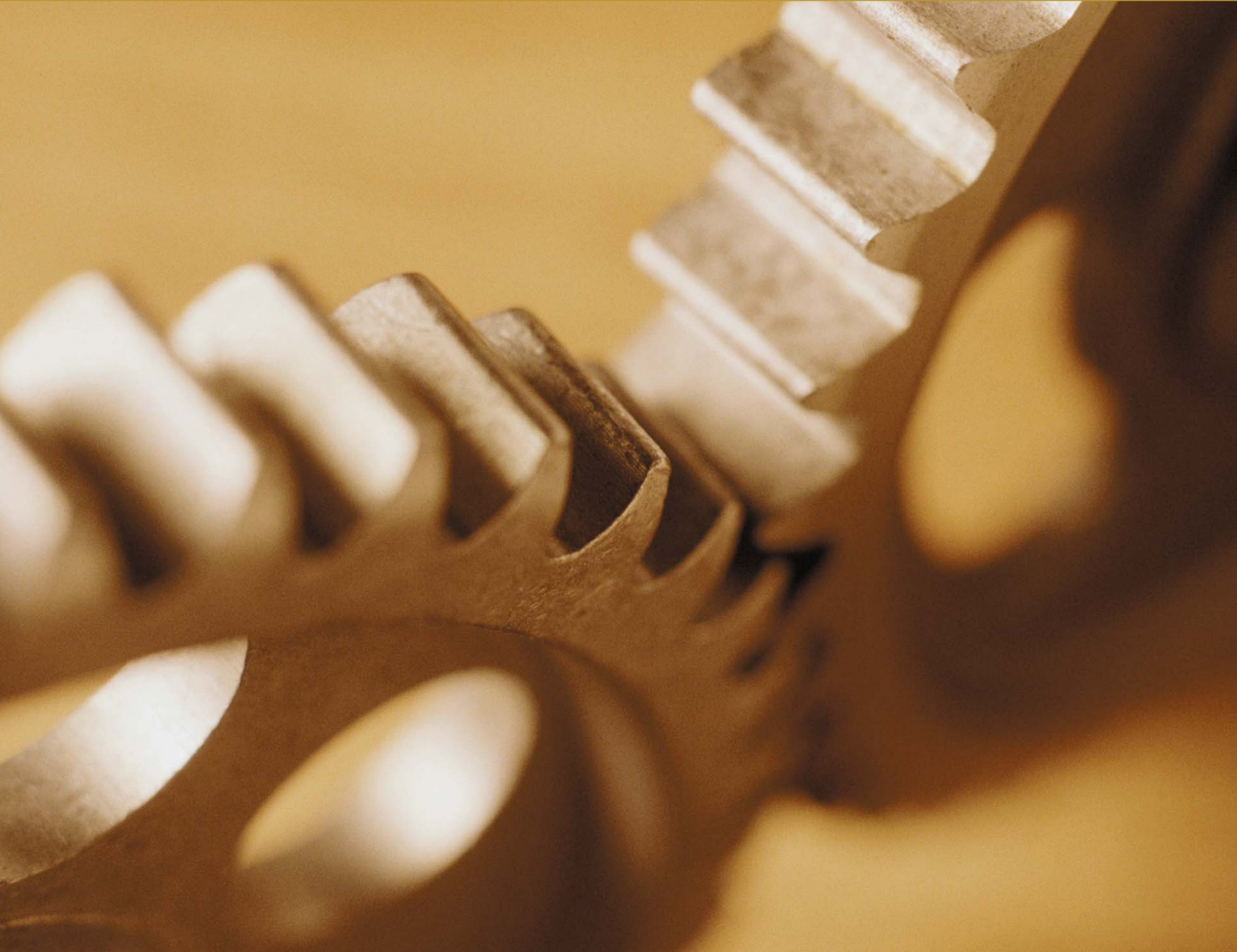
Each year we conduct satisfaction level survey on over 1,000 employees. The survey conducted in 2006 on 1,843 employees showed the total satisfaction level of 84 points, a significant improvement from the previous year level.

Employees Satisfaction Level

(unit:points)



bring the synergy effect



Third-party Review



Overall Review Opinion



Prof. Ji-In Chang

Professor of management, Chung-ang University, Seoul
Dean, School of Management, Chung-gang University, Seoul
President, Korea Society of Public Enterprises

KNHC's Sustainability report is a critical tool for open management and value management, which KNHC is pursuing in the era of global management. I believe it is highly significant that KNHC established its sustainable management strategy and is now releasing the sustainable management report, which incorporates the recently announced GRI G3 Guideline as the first such case as a public enterprise. The ultimate goal of sustainability management by a public enterprise would be achievement of sustainable foundation mission through a balance between its public service nature and profitability. Although this report lacks quantification of KNHC's performances in environment and social aspects that need to be included in the report because KNHC is in the initial stage of SM introduction, this report has high level of significance in the following points.

First, KNHC is fulfilling a very important public service as Korea's representative public enterprise that leads the people's housing welfare and urban development. In particular, its public service performances such as construction of the National Rental Housings, long-term rental housing supply and management, and Residential Environment Improvement Business, cannot properly be expressed in terms of economic value creation within its financial statements. Rather, they act as burdens to KNHC's financial structure and thus degrade its profitability. Nevertheless, since yearly financial reports only show the financial performances whereas the non-financial performances from public service enterprises are not properly presented to stakeholders. In this respect, this report is very significant in that it presents such public service value creations effectively to the stakeholders. I believe this first report include such contents faithfully.

Secondly, although KNHC has not expressly set environment management as one of its policies, KNHC has shown diverse performances in the environment aspects including eco-friendly technology development, eco-friendly design technique development and expansion of eco-friendly housing complexes. In particular, HURI has professional research personnel in environment fields and has conducted active R&D activities for introducing eco-friendly concepts into all business processes. Since environment accounting system has not been introduced, investments, costs and performances in the environment area are not quantified to sufficient detail. However, this report presents systematically KNHC's diverse environment activities and performances. I believe the report can be highly useful in presenting KNHC as an environment friendly enterprise.

Thirdly, this report faithfully complies the GRI G3 Guideline, announced in October 2006, and shows a proactive effort to present performances and plans by indicator in transparent ways. In general, financial statements of public corporations with strong public service mission are limited in showing their true business performances. Therefore, KNHC's report will play an important role to enable balanced evaluation of this corporation. In particular, I believe that KNHC's social responsibility endeavors shown through Housing Welfare Business and its environment management efforts throughout its business processes are highly critical information in this report.

KNHC's report includes diverse graphs and pictures together with detailed explanations to help understanding of stakeholders. However, since this is the first such report, systematic data analysis and performance quantification will need to be developed to improve the report's completeness. In particular, through separate accounting, the performances in public service enterprises should be segregated and be quantitatively measured. Investments, costs and performances in environment management areas also need to be measured quantitatively through introduction of environment accounting system in the future. In addition, in the case of social performances and environmental performances, time series analysis comparison against past performances, and comparison against comparable public corporations and global enterprises could yield useful information on the present status of KNHC in these areas. Such augmentations, I believe, will make KNHC's report all the more complete.

Review Opinion in Economic Area



Byung-Sun Choe

President, Korea Research Institute for Human Settlement (KRIHS)
President of civil community, Committee for Multifunctional Administrative City
President, Construction & Economy Research Institute of Korea (CERIK)

Today sustainability is a global topic. Sustainability is significant in ensuring sustainable healthy and happy life not only for the present generation but also for the coming generations. Therefore, the concept of sustainability includes economic, social and physical aspects. In particular, KNHC is obliged to keep and maintain sustainability in the economic sense because it is a corporation; social sustainability because it handles public elements of housing and cities; and physical sustainability because one of its main tasks is creation of physical environments. From this perspective, it is highly significant that KNHC is publishing this SM report at this time based on self evaluation.

In particular, the fact that KNHC identified its core business in the economic area as Housing Welfare, Urban renewal, u-City and National Balanced Territorial Development, shows that the report correctly reflects the issues and trend of the current times. However, when describing its performances, prior years' performances, reporting year's performance and future plan should be clarified to facilitate easy understanding of the reporting year's performance.

For future plans, it is recommended that, together with vision presentation, tasks to achieve the vision, including constraints and ways to overcome them, should be presented as supplementary information.

Regarding Housing Welfare Business, the Korean Government plans to upgrade the welfare standard of the low-income class to that of advanced nations by 2017. This plan should be incorporated into KNHC's long-term business.

The five development concepts of Humansia should not be individually designated to different districts but applied as integrated into districts if possible.

This first Sustainability report of KNHC may contain limitations. However, I do not doubt that, upon continued improvements, this report will become a valuable guide to a brilliant future of KNHC.

Review Opinions in the Social Area



Yeong-Cheol Chang

President, Korea Association of Business Ethics
Vice President, Korean Association of Personnel Administration
Professor of Management, Kyunghee University

In this era where diverse value systems coexist and the extreme gap between the have and the poor accelerate disintegration of the society, doubts arise on whether the market economy is the answer to all social problems. To fill this gap, the concept of corporate social responsibility (CSR) is being discussed as a social topic. Corporate social responsibility activities, which used to be discussed around the environment pollution issues during the 1970s, are now focused on social contributions from 1990s. Now, together with the globalization trend, many advanced corporations are not limiting their attention to domestic social demands but began to take interest in global problems. Private enterprises have come to perceive their roles for creation of social values and human values while departing from the simplistic activities of pursuing economic value only.

Sustainability, which is being discussed recently, anticipates diverse social responsibility activities including environment management, health, nurturing of knowledge workers, development of clean technology, quality of living, improved resource efficiency and safety. Thus, sustainability is being established as a standard for respectful corporations. Now, corporations are required to not only perform economic value activities well but also present own principles and philosophy and take a leading role in helping the market to evolve to regard environment and the human values as precious. These responsibilities call for a balance role for harmony between the changing social demands and the demands of different stakeholders. Such enterprises will seek open interest relations through which social responsibility as well as business growth objective could be fulfilled at the same time.

With this background, publishing of this Sustainability report by KNHC will be the first step to be borne again as a respected enterprise. I wish that KNHC will make continued concrete efforts to fulfill the promises expressed in this report. And here I'd like to make a few recommendations for its improvement.

First, the report should not focus on the positive aspects only but also include improvement efforts for problems and lessons learned.

Secondly, significantly greater performance other than operation of the Board of Directors should be included in the governance aspect.

Thirdly, a more active and public service nature activities are expected for improvement of construction industry environment such as public leadership and policy recommendations.

I expect that we could see in the next Sustainability report KNHC's active efforts to address and improve the issues that have been raised to KNHC through the public media.

Review Opinions in the Social Area



Geo-Sung Kim

Vice president, Transparency International Korea
Senior Executive Member, Council for Korean Pact on Anti-corruption and Transparency
Member, Korea Independent Commission against Corruption (KICAC)
Member, Anti-corruption Group, MOCT

KNHC's Sustainability report, I believe, is overall based on actual activities and that its content and descriptions are appropriate. Of the performances included in the report, KNHC's leading role in establishment of Public Enterprise Council for Korean Pact on Anti-Corruption and Transparency, its first chairmanship of the Council, formation and operation of the Ethical Management Committee, joining of the UN Global Compact, release of the president's budget, online training of ethical management and refurbishment of internal control system, are positive performances to be recognized. However, dishonorable resignations of successive presidents and the low score in the ethics survey by KICAC give us the concern that the positive performances of KNHC could be downgraded by such negative aspects.

Here, I'd like to make the following policy recommendations for progress and success of KNHC's sustainability management in the future.

- Introduction of Chief Ethics Officer system or designation of an outside integrity expert as a board member
- Induce participation of employees and external stakeholders to present innovation-ethics improvement tasks and incentive system thereof
- Establish ethics evaluation system by business sector or branch; set goals and assign incentive/ penalty thereon
- Evaluate ethical management training and code performance; assign incentive thereon
- Substantive social contribution activities suitable to KNHC business programs rather than piecemeal campaigns

I hope this report is provided to not only the stakeholders but to all people who are interested in KNHC and thus contribute to enhancement of public confidence and KNHC's corporate value.

Review Opinion in Environment Area

Committee for Corporate Social Responsibility,
Korean Federation for Environmental Movement

We are highly pleased in that KNHC is publishing its first SM report based on the GRI Guideline with the will for sustainable management. Corporate roles for sustainable society are ever increasing in importance. Understanding of roles of a corporate citizen for sustainable society, preparing an SM report, which is the first step in SM practice, and providing information to stakeholders are essential steps to an enterprise' SM implementation.

In this report KNHC has compiled its SM directions and business activities in categories of economy, society and environment and systematically listed its performance details. Thus, this report will be very useful to systematic understanding of the SM performances by KNHC.

However, there is a few items requiring augmentation.

First, more active planning and roles are required of KNHC for stabilization of the housing market. Uncontrolled escalation of housing prices is threatening the people's economy and the livelihood of the poor class, worsening the economic gap between the rich and the poor, which is the most serious problem in our society. Based on the popular desire for stable housing market, there will be a people's campaign for release of apartment true cost data and the Housing Act will be amended accordingly. By departing from the past passive approach, KNHC should resolve to take a leading role for stabilization of the housing market and execute specific plans towards its fulfillment.

Secondly, greater investments are required to improve the housing welfare of the low-income class. The share of Housing Welfare Business, such as construction of the National Rental Housings, long-term rental housing supply and management and housing environment improvement, is relatively smaller than other business areas. We expect KNHC to make greater investments for housing welfare for the low-income class.

Thirdly, greater efforts are called for eco-friendly urban development, housing environment improvement and measures for climate change. Eco-friendly residential space and urban development will improve the health and quality of living of the people and enhance the national competitiveness. Improving the energy efficiency of cities and residential spaces will constitute concrete efforts to counter the climate change. Greater technology R&D and investments are necessary for development of energy-efficient and eco-friendly housing spaces and towns.

Lastly, more concrete planning is necessary for ethical management. The morality issue of public enterprises is continually being raised and the people's lack of confidence in this issue is still significant. More advanced systems that go beyond the Ethical Management Declaration are required.

We wish greater progress of KNHC as a corporate citizen!

Appendix



On releasing the Sustainability Report

The greatest goal of our release of this Sustainability Report is to secure the stakeholders’ trust. To achieve this goal we have consulted a number of internal and external stakeholders, incorporated their opinions in planning and preparation of this report. In addition, we attempted to include as much as possible contents of G3 performance indicators based on the global standard of G3 Guideline for sustainability reporting.

Scope of report on performance indicators

The physical scope of reporting included the Main Office and regional centers of KNHC. However, we expanded the scope by performance indicator as necessary based on data availability and requirements. In particular, we extended the reporting scope to total 200 project sites nationwide for certain environment performance indicators, in consideration of the significant KNHC influence on such site management. The reporting scope will be expanded in stages in the future based on stakeholders’ information requests and needs.

Standard of performance data reporting

In preparing this report we attempted to follow closely the reporting principles contained in G3 Guideline. Performance data in economy, environment and social fields were computed in accordance with the performance indicator rules, which was published together with the G3 Guideline. In particular, recent trend data was presented whenever available by indicator, ratios as well as absolute values, using international units of metric system. For financial data we used data computed in accordance with Korean regulations and standards including ‘Korean business accounting standard’ and ‘the accounting standard for rental housing.’

Efforts for sustainable improvements

Although we have attempted to include stakeholder expectations and interest areas in this first report, it is true that it has many shortcomings. In our future reports we will incorporate internal and external stakeholder views more widely, provide better timely information and thereby improve KNHC’s sustainability management in substance.

Application level of the GRI G3 Guideline

This report fulfills the requirement of “A” level application presented as below. The application level is examined by the GRI Secretariat.

Report Application Level		C	C+	B	B+	A	A+
Standard Disclosures	G3 Profile Disclosures OUTPUT	Report on: 1.1 2.1 - 2.10 3.1 - 3.8, 3.10 - 3.12 4.1 - 4.4, 4.14 - 4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17	Report Externally Assured	Same as requirement for Level B	Report Externally Assured
	G3 Management Approach Disclosures OUTPUT	Not Required		Management Approach Disclosures for each Indicator Category		Management Approach Disclosures for each Indicator Category	
	G3 Performance Indicators & Sector Supplement Performance Indicators OUTPUT	Report on a minimum of 10 Performance Indicators, including at least one from each of: Economic, Social and Environmental.		Report on a minimum of 20 Performance Indicators, at least one from each of: Economic, Environmental Human Rights, Labor, Society, Product Responsibility.		Report on each core G3 and Sector Supplement *Indicator with due regard to the Materiality Principle by either ÷ a) reporting on the Indicator or b) explaining the reason for its omission.	

* Sector supplement in final version

Corporate Sustainability Indicators

	KPI	2003	2004	2005	2006	Units
ECONOMY	National Rental Housing construction	63,501	85,315	79,866	89,749	dwellings
	Brand recognition	Due to be measured				
	Correction rate of checklist items before occupation	92.9	95.8	97.9	97.6	%
	An assessment of innovation management				Step 4	
	Labor productivity	261	331	358	-	KRW 1mill./person
	The rent level of the the National Rental Housing	-	-	-	66.4	%
	Job creation for rental housing tenants	-	4,541	4,687	-	persons
	The rate of investment to the local community	-	2.7	2.4	3.2	%
ENVIRONMENT	Green Building Certification performance	-	-	-	15,662	dwellings
	Solar power housing supply	-	-	-	2,962	dwellings
	Housing performance of 1st grading in environment	Due to be measured				
	A number of patents related to eco-friendly technology	-	-	-	-	cases
	Construction waste recycling rate	60.6	77.1	87.2	86.8	%
	Green purchasing amount			598,772	686,053	KRW 1,000
SOCIETY	Research contracts received			5,651	8,770	KRW 1mill
	The ISO 14001 certification rate of contractors	Due to be measured				
	Satisfaction levels of construction contractors	-	-	-	65.9	points
	Satisfaction levels of audit companies	-	-	-	66.9	points
	Annual training hours per employee	-	67	69	59	hours
	Loss days	1,707	1,503	1,355	1,247	days
	Satisfaction levels of employees	-	77	79	84	points
	The rate of investment to social contribution	-	-	-	1.05	%
	Resettlement of original residents	69	88	65	-	%
	The ratio of senior female employees	0.7	1.1	1.2	1.4	%
	The ratio of disabled employees	1.0	0.9	1.4	2.0	%
	Integrity evaluation by KICAC	7.16	7.81	7.99	8.38	points

GRI Content Index

	GRI	Page
Strategy and Analysis		
1.1	Statement from the most senior decision-maker of the organization (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy	3
1.2	Description of key impacts, risks, and opportunities	9, 11-13
Organizational Profile		
2.1	Name of the organization	6
2.2	Primary brands, products, and/or services	6, 18-27
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures	6, 7
2.4	Location of organization's headquarters	6
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	27
2.6	Nature of ownership and legal form	7
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	18-27
2.8	Scale of the reporting organization, including number of employees, net sales (for private sector organization) or net revenues (for public sector organizations), total capitalization broken down in terms of debt and equity (for private sector organizations), and quantity of products or services provided	6, 30, 63
2.9	Significant changes during the reporting period regarding size, structure, or ownership	6, 7
2.10	Awards received in the reporting period	Front Cover Page
Report Parameter		
3.1	Reporting period (e.g., fiscal/calendar year) for information provided	1
3.2	Date of most recent previous report (if any)	1
3.3	Reporting cycle (annual, biennial, etc.)	1
3.4	Contact point for questions regarding the report or its contents	81
3.5	Process for defining report content, including determining materiality, prioritizing topics within the report, identifying stakeholders the organization expects to use the report	1, 10, 74
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	1, 74
3.7	State any specific limitations on the scope or boundary of the report	1, 74
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations	74
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report	74
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods)	Not Applicable
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	Not Applicable
3.12	GRI Content Index	76-79
3.13	Policy and current practice with regard to seeking external assurance for the report	10
Governance		
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight	7
4.2	Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organization's management and the reasons for this arrangement)	7
4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	7
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	7
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance)	7, 63
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	7
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for ESG issues	7
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	11, 16, 34, 50, 55, 80
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles	7
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	7
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization	35, 38, 39
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	10
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations	Front Cover Page
4.14	List of stakeholder groups engaged by the organization	10, 53, 54
4.15	Basis for identification and selection of stakeholders with whom to engage	10, 53, 54
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	10, 53, 54
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	Stakeholder's expectations

	GRI	KNHC	Global Compact	Page
Economic Performance				
Disclosure on Management Approach (Economy)				16-17
EC1	Economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital and governments	Economic value generated and distributed		30
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	Financial implications of climate changes; risks and opportunities to our business		27
EC3	Coverage of the organization's defined benefit plan obligations	Retirement Management & Retirement pay fund		65
EC4	Significant financial assistance received from government	(No internal accounting system available to compile the financial support from the government. No significant case of subsidies from the government.)		Not Available
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	Wage level of new employees to the minimum wage level		63
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	Percentage of local subcontracting		61
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	(KNHC gives no priority to specific qualifications when it comes to hiring)		Not Applicable
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	Social infrastructure investments Investment for improved housing welfare		30
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	Economic ripple effects of housing & urban development programs / Reduced housing costs of rental housing tenants		31
Environmental Performance				
Disclosure on Management Approach (Environment)				34-35
EN1	Materials used by weight or volume	(On-site management currently does not belong to the operational boundary. KNHC cannot have an access to actual data of material use on sites)		Not Available
EN2	Percentage of materials used that are recycled input materials	(On-site management currently does not belong to the operational boundary. KNHC cannot have an access to actual data of material use on sites)	Principle 7	Not Available
EN3	Direct energy consumption by primary energy source	Energy consumption: City gas		45
EN4	Indirect energy consumption by primary source	Energy consumption: District heating, Power		45
EN5	Energy saved due to conservation and efficiency improvements	(hard to compile the result of energy-saving measures)	Principle8	Not Available
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	Solar power housing supply: performance & plan / Energy efficient design & service	Principle9	26, 37, 42
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Green procurement	Principle8	45
EN8	Total water withdrawal by source	Water use	Principle8	45
EN9	Water sources significantly affected by withdrawal of water	(No direct withdrawal from water sources)	Principle8	Not Applicable
EN10	Percentage and total volume of water recycled and reused	Reclaimed wastewater use	Principle 8	45
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Activities in or near ecology conservation areas & wetlands		39
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Influences of business activities on ecology conservation areas & wetlands	Principle 8	39
EN13	Habitats protected or restored	Protection of natural habitats	Principle 8	40
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	Eco-friendly Site management system / Eco Plan organization	Principle 8	39, 40, 43
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	(Impact on endangered species are studied in the planning stage as part of environmental impact assessment. However, it is hard to compile the number of endangered species affected by operations)	Principle 8	Not Available
EN16	Total direct and indirect greenhouse gas emissions by weight	CO2 emission		45
EN17	Other relevant indirect greenhouse gas emissions by weight	(No significant indirect greenhouse gas emissions due to business activities. Currently no system available to compile the data from employee commuting and business travel.)_	Principle 9	Not Available
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Partially mentioned as a plan of CDM		(26, 27)
EN19	Emissions of ozone-depleting substances by weight	No emissions of ozone-depleting substances		Not Applicable
EN20	NOx, SOx, and other significant air emissions by type and weight	No emissions of NOx, SOx, and other significant air emissions		Not Applicable

	GRI	KNHC	Global Compact	Page
EN21	Total water discharge by quality and destination	(No significant water discharge from the operational boundary. On-site pollution prevention measures are taken.)		(44)
EN22	Total weight of waste by type and disposal method	Total construction wastes		43
EN23	Total number and volume of significant spills	(No significant spills are reported. Relevant measures and procedures exist to prevent soil contamination.)		(44)
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and IV, and percentage of transported waste shipped internationally	(All waste processed by professional vendors in Korea)		Not Applicable
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff	Partially mentioned at the part of influences of sewage disposal on the environment	Principle 8	(44)
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	The number of Green Building Certifications	Principle 8	37, 38
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	(No products sold in packaging)	Principle 7	Not Applicable
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Compensation for environmental complaints / Status of Central Environment Dispute Arbitration cases	Principle 8	44, 46
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	(No system currently available to keep tracks on on-site transports and employee transportation.)	Principle 8	Not Available
EN30	Total environmental protection expenditures and investments by type	Construction Waste processing cost	Principle 8	46
Disclosure on Management Approach (Society-Labor, Human Right, Society, Product Responsibility)				50-51
Labor Performance				
LA1	Total workforce by employment type, employment contract, and region	Employees status by trade / the number of contract employees and limited-term employees		63
LA2	Total number and rate of employee turnover by age group, gender, and region	Number of resignations and severance rate		65
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	Welfare benefits given to regular employees		65
LA4	Percentage of employees covered by collective bargaining agreements	Labor Union membership by grade	Principle 3	65
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements	Notification to employees beforehand through collective bargaining		65
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	(No such committees as management-worker health and safety committees)	Principle 3	Not Applicable
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	Sick leave, injuries and loss days / Hazard Rate		62, 65
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	(No such programs exist for workforce members, families, or community members.)		Not Available
LA9	Health and safety topics covered in formal agreements with trade unions	Employees' health and safety measures during the collective bargaining	Principle 3	65
LA10	Average hours of training per year per employee by employee category	Annual training hours per employee		63
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Support for and life-long learning		65
LA12	Percentage of employees receiving regular performance and career development reviews	Periodic performance evaluation of employees	Principle 6	63
LA13	Composition of government bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	The number & ratio of handicapped, female employees (including seniors)	Principle 6	64
LA14	Ratio of basic salary of men to women by employee category	Fair treatments between both sexes in terms of basic pay	Principle 6	64
Human Rights Performance				
HR1	Percentage of total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	(No investment agreements for the past few years)	Principle 2	Not Applicable
HR2	Percentage of significant suppliers and contracts that have undergone screening or human rights and actions taken	(No such screening system or action has been taken with regard to human right issue in the supply chain. As societal concern for human right arises, KNHC will closely monitor human right issues from its supply chain.)	Principle 2	Not Available

	GRI	KNHC	Global Compact	Page
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Orientation for sexual harassment prevention	Principle 2	64
HR4	Total number of incidents of discrimination and actions taken	(Employee compliant organization processes the discrimination cases filed by employees. However, it does not currently keep tracks on the number of incidents of discrimination.)	Principle 1	(64)
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be significant risk, and actions taken to support these rights	Policies of fair treatment of handicapped, female employees	Principle 1	64
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor	Regulation on prohibition of child labor	Principle 5	64
HR7	Operations identified as having significant risks for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor	Regulation on prohibition of forced labor	Principle 4	64
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations	Education of security personnel on customer manners	Principle 1	58
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	Protection of original resident's rights (including Assistance for resettlement of original residents)	Principle 2	61
Social Performance				
S01	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	Assessment on local communities for business activities		61
S02	Percentage and total number of business units analyzed for risks related to corruption	(No risk assessment is made at the business unit level. Periodic diagnosis of our employees' professional ethics)	Principle 10	(56)
S03	Percentage of employees trained in organization's anti-corruption policies and procedures	Education of ethical management	Principle 10	55
S04	Actions taken in response to incidents of corruption	Anti-corruption regulations	Principle 10	55
S05	Public policy positions and participation in public development and lobbying	Dispatch of employees to public agencies / NGO forum / Open Public Corporation Committee		53, 54
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	(KNHC complies with the governmental regulation forbidding financial and in-kind contributions from corporations to political parties in Korea.)		Not Applicable
S07	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	Compliance for fair competition rules	Principle 10	62
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	(No significant cases for non-compliance with laws and regulations reported.)		Not Available
Social Performance				
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	R&D and monitoring efforts to improve health and safety issues(ex. indoor air quality) at use and demolition phase of all the housing supplied by KNHC.		38, 59
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	Customer health and safety - improved housing performance grades - improved in-door air quality - "Well-being Clean Service"		59
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	Apartment living guide for new complex residents		60
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning products and service information and labeling, by type of outcomes	Compliance of pertinent laws and regulations via brochures for lease and sale apartment complexes		60
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Customer Satisfaction Levels		58, 60
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	(As public corporation, KNHC is required to comply with any national laws and standards. However, there is no specific program to secure adherence to laws, standards, and voluntary codes related to marketing communications.)		(60)
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	Compliance with regulations and voluntary codes concerning marketing communications		60
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Online complaints and their types		58
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Compliance of all products and services		60

Employees Ethics Code

Preamble

Based on the pride of having led people's housing stability and urban development efforts since our foundation in 1962, KNHC wants to provide better services for the people and be borne again as a trustworthy public corporation by actively practicing ethical management.

Here, we of KNHC, establishes correct ethical values and practice ethical management principles in exemplary ways as a public corporation.

In performing our work we shall form a community with all stakeholders to mutually cooperate on the basis of legal correctness, transparency and fairness; and thereby seek mutual progress.

We, of KNHC, strive to become a people's business that achieves the highest level of customer satisfaction and creates new values by providing the top-level quality products and services to our customers.

As a social entity that fulfills all responsibilities and obligations, we strive to contribute to the nation's sustainable development by playing a leading role in social contribution and protection of the nature and the environment.

Chapter I: General

Article 1 [Purpose]

Article 2 [Application Scope]

Chapter II: Basic principles of employees

Article 3 [Basic attitudes of employees]

Article 4 [Fulfillment of mission]

Article 5 [Self development]

Article 6 [Fair job performance]

Article 7 [Conflict avoidance]

Article 8 [Prohibition of illegal gain]

Article 9 [Distinction of public and private matters]

Article 10 [Employee relations]

Article 11 [Wholesome life]

Article 12 [Transparency of information and accounting]

Chapter III: Responsibility to customers

Article 13 [Respect of customers]

Article 14 [Customer satisfaction]

Article 15 [Protection of customer interests]

Chapter IV: Fair and transparent transaction discipline

Article 16 [Compliance of transaction regulations]

Article 17 [Fair transactions]

Chapter V: Responsibility to employees

Article 18 [Respect of employees]

Article 19 [Fair employee treatment]

Article 20 [Talent nurturing and promotion of creativity]

Article 21 [Quality of life improvement]

Chapter VI: Responsibility to the nation and the society

Article 22 [Contributions to national and social progress]

Article 23 [Prohibition of political activities]

Article 24 [Safety and accident prevention]

Article 25 [Environment protection]

Article 26 [Labor-management harmony]

Article 27 [Compliance of global management standards]

Chapter VII: Supplementary rules

Article 28 [Ethical Management Committee]

Article 29 [Implementation]

We solicit your opinions.

KNHC would like to receive your valued views and recommendations on the Sustainability Report.

Please fill out the following opinion survey and mail it to the following address.

Where to send:

Office of Business Management, KNHC, 175 Gumi-dong, Bundang-gu,

Seongnam-si, Gyeonggi-do, Korea

Tel: +82-31-738-3165/3166

Fax: +82-31-738-4399

1. Where do you work?

- ① KNHC Contractor/ subcontractor ② KNHC employee ③ Local resident ④ Civic group
⑤ Industry ⑥ Academic ⑦ Government ⑧ Press ⑨ Other ()

2. How did you come to know of KNHC's sustainability report?

- ① KNHC web page ② Seminar, lecture, exhibit ③ Newspaper or magazine
④ Other online sources ⑤ KNHC Employee ⑥ Other ()

3. What was the most interesting portion of this report?

- ① KNHC & sustainability ② Economic area ③ Environment area ④ Social area

4. Which part of this report needs to be improved?

- ① KNHC & sustainability ② Economic area ③ Environment area ④ Social area

5. Please state your opinion on KNHC's sustainability report freely here.