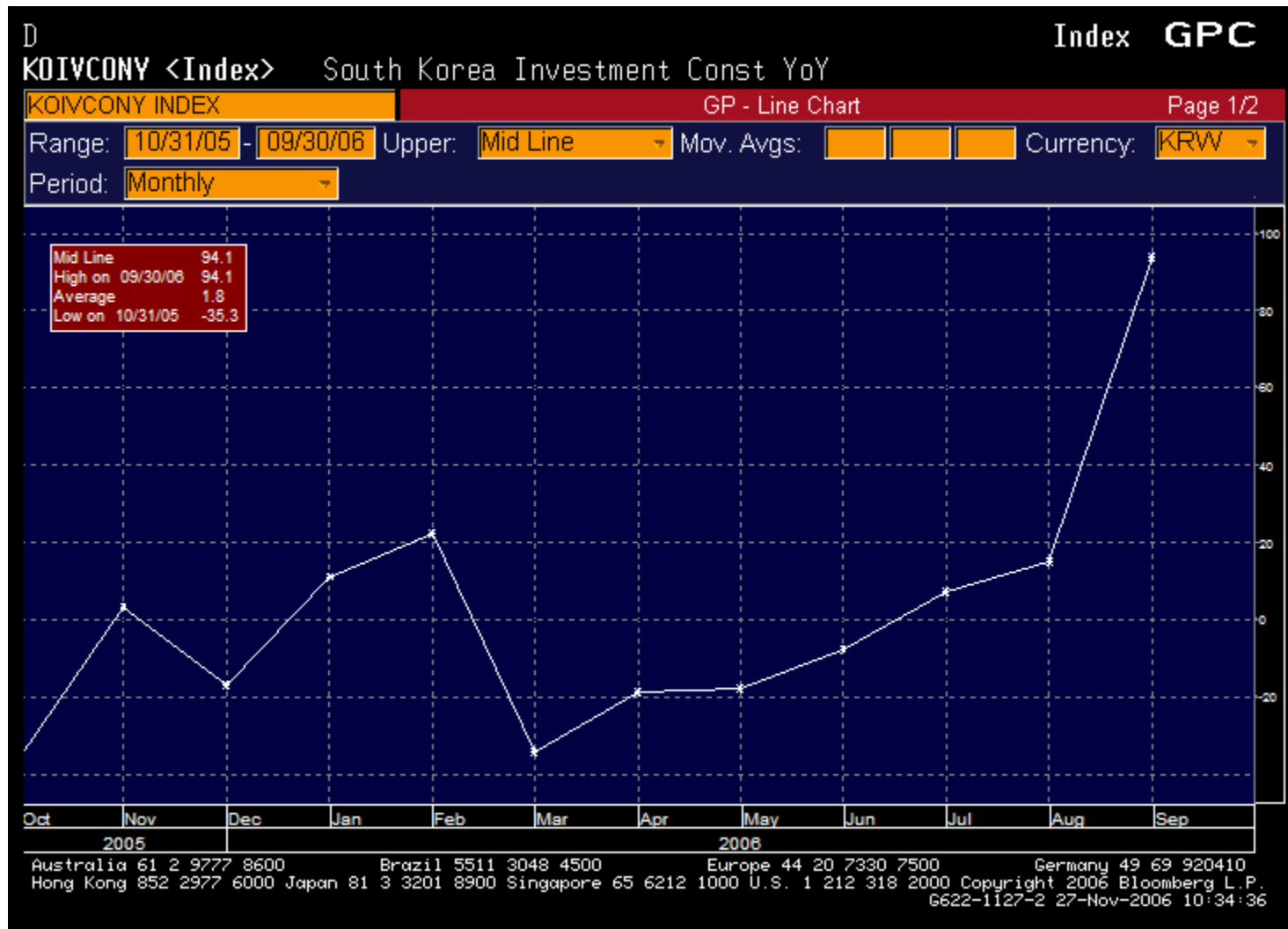


INTERNATIONAL INVESTMENT ADVISERS

**Korean Stock Market and Economy
November, 2006**

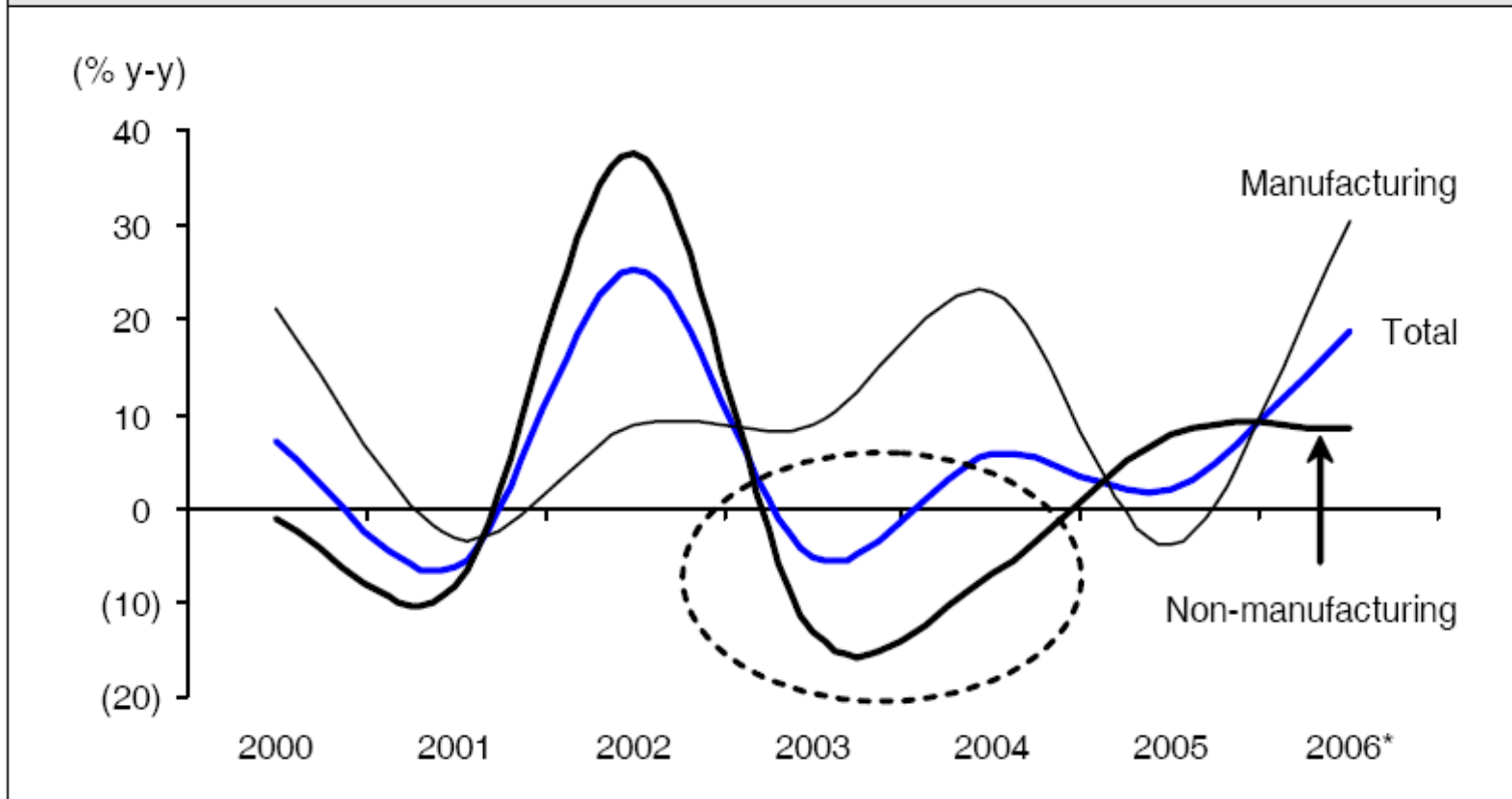
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Construction orders are soaring.

Chart 7. Domestic private machinery order growth (12-mo MA)



Note: * 2006 growth based on January~September data

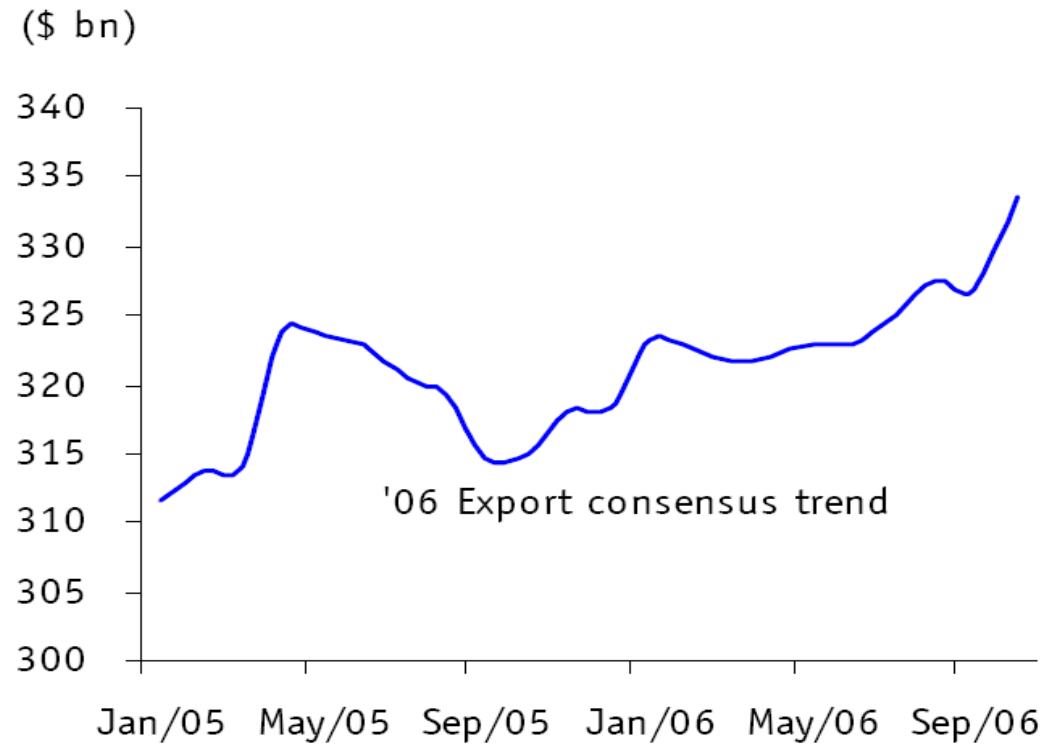
Source: NSO

Machinery growth is tangible evidence of robust Capex.



Exports have returned to an uptrend.

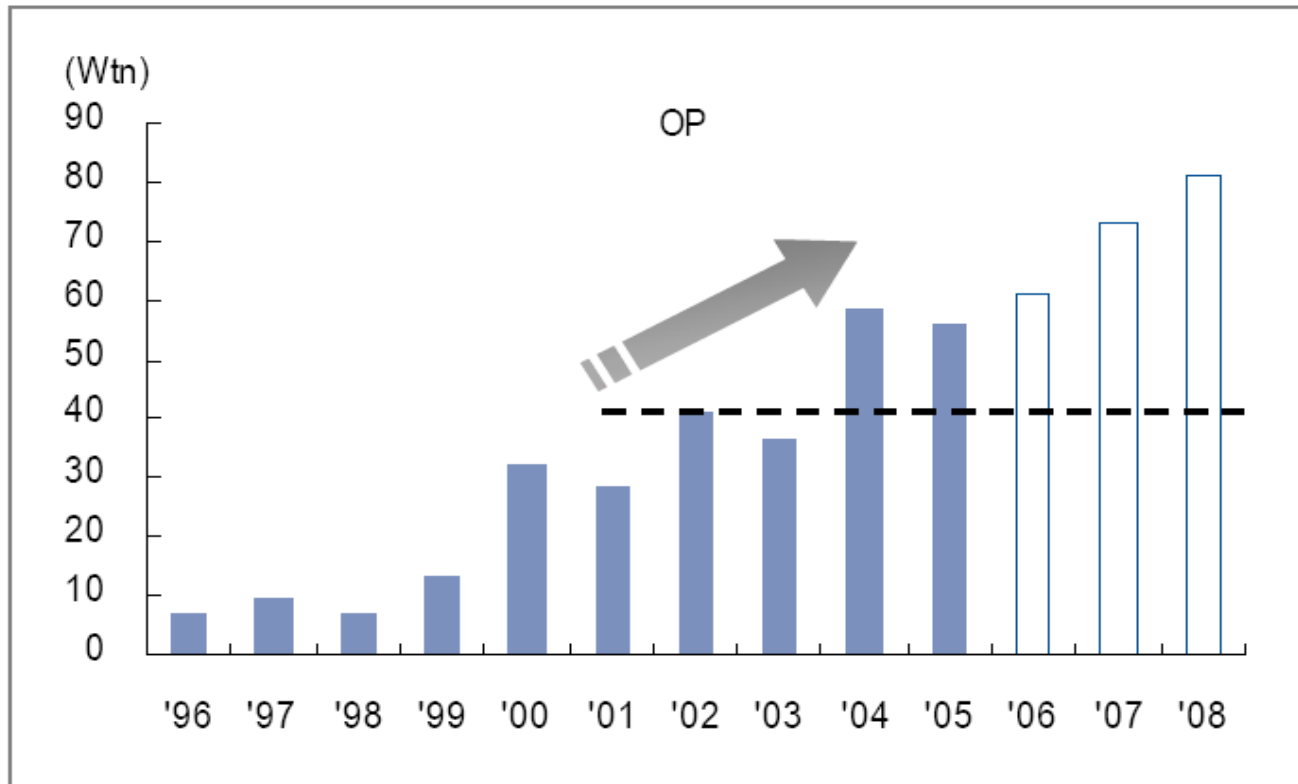
Consensus forecasts on exports



Source: Consensus Forecast, GMSH

This year's total exports are looking better and better.

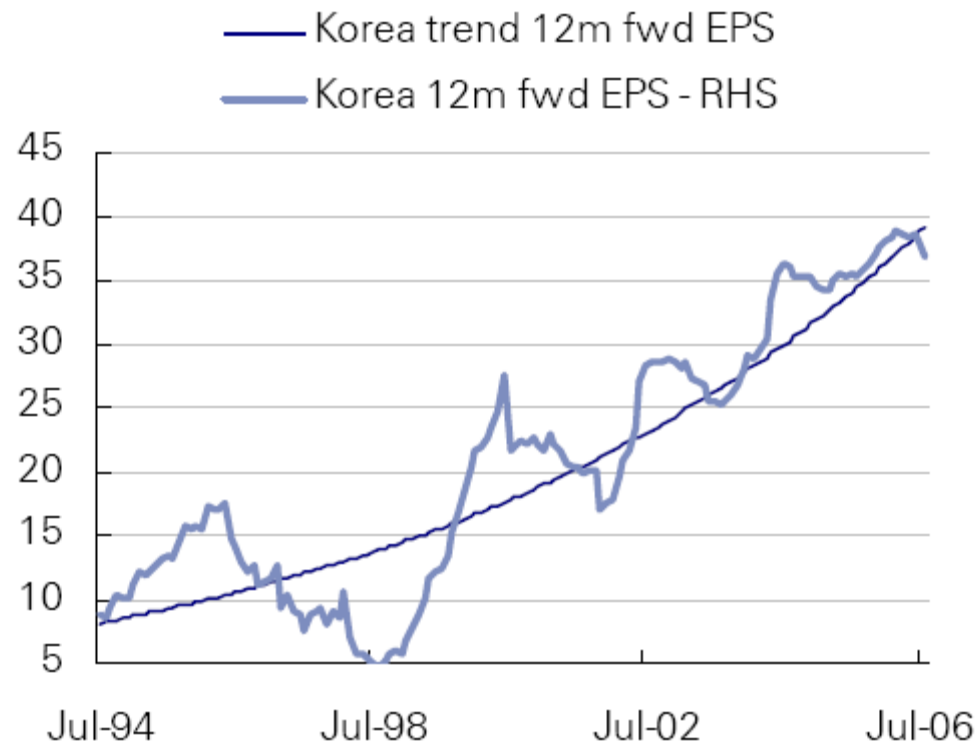
Korean corporate operating profit soaring



Note: 154 companies under Woori I&S Universe with past data
Source: Woori I&S Research Center

Positive long-term trend in Operating Profit.

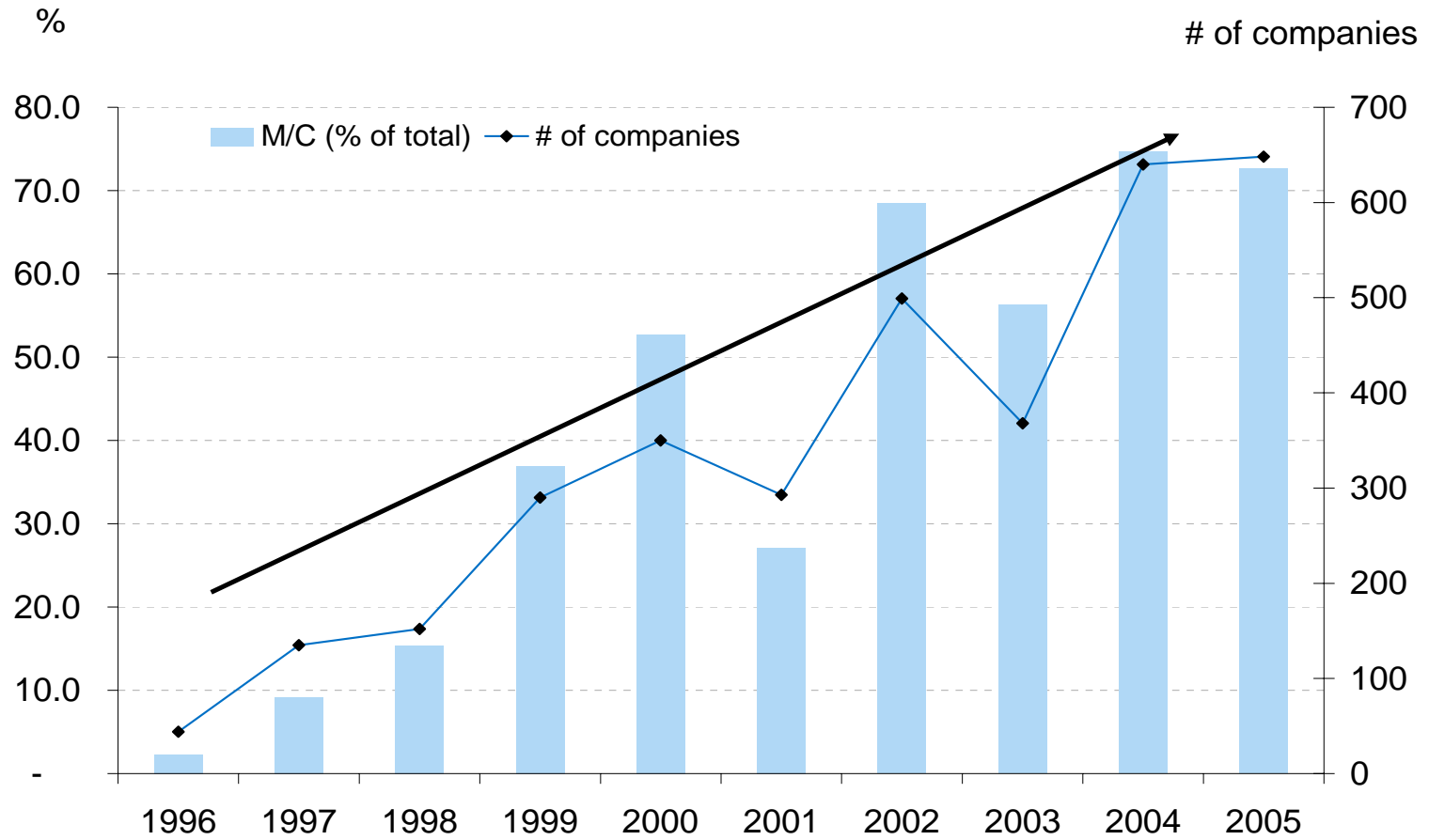
Figure 142: 12m fwd EPS in relation to trend



Source: Datastream, Deutsche Bank

Long-term EPS growth trend remains intact.

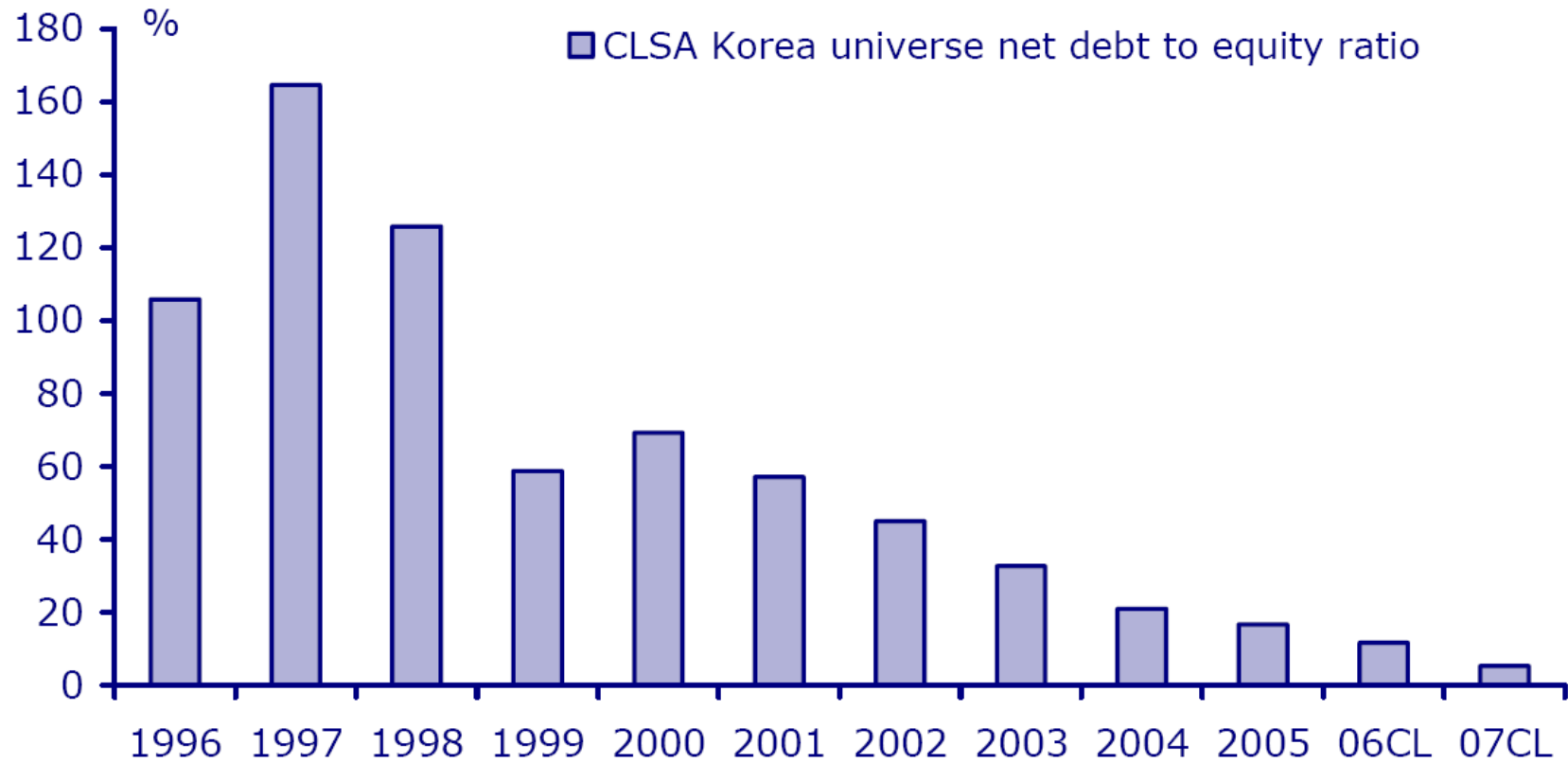
Value creators by market cap and number of stocks



The trend towards value creation is firmly in place.

Figure 5

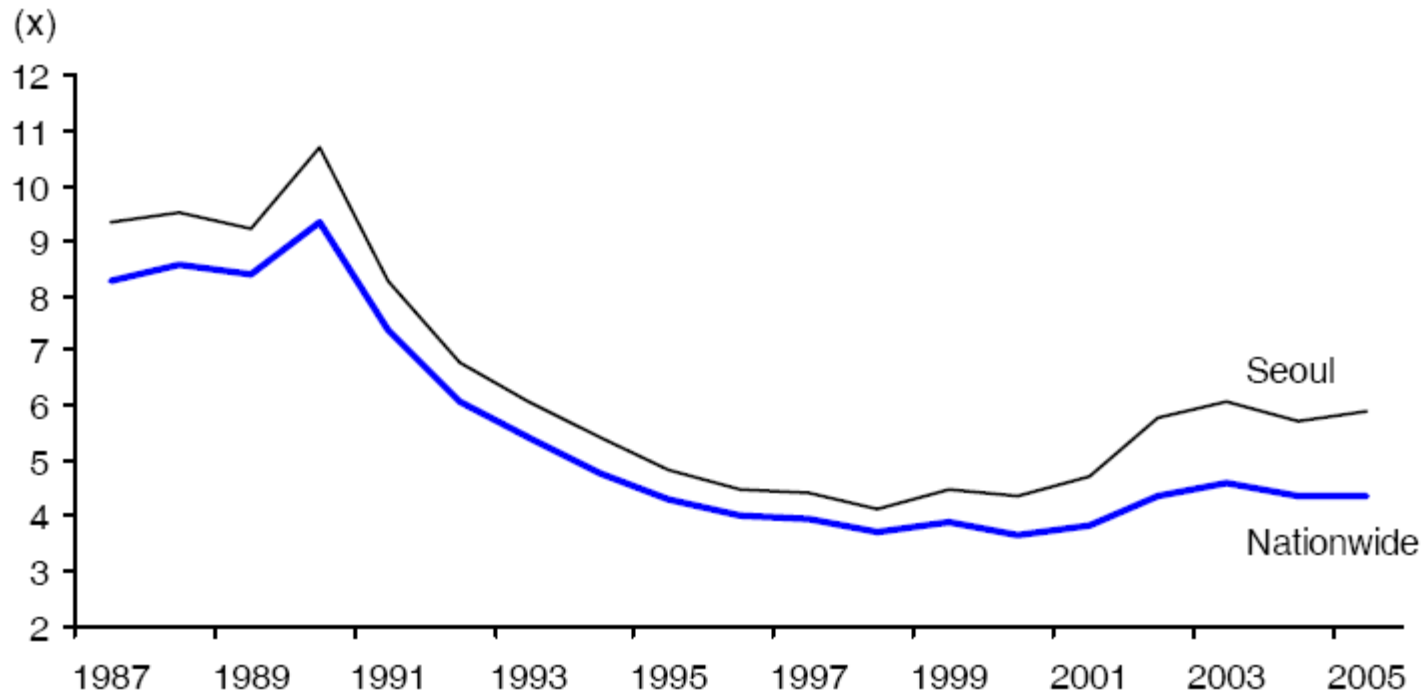
CLSA Korea universe net debt to equity ratio



Source: CLSA Asia-Pacific Markets

Balance sheets get more healthy each year.

Chart 24. Price-to-income ratio (PIR) for apartments

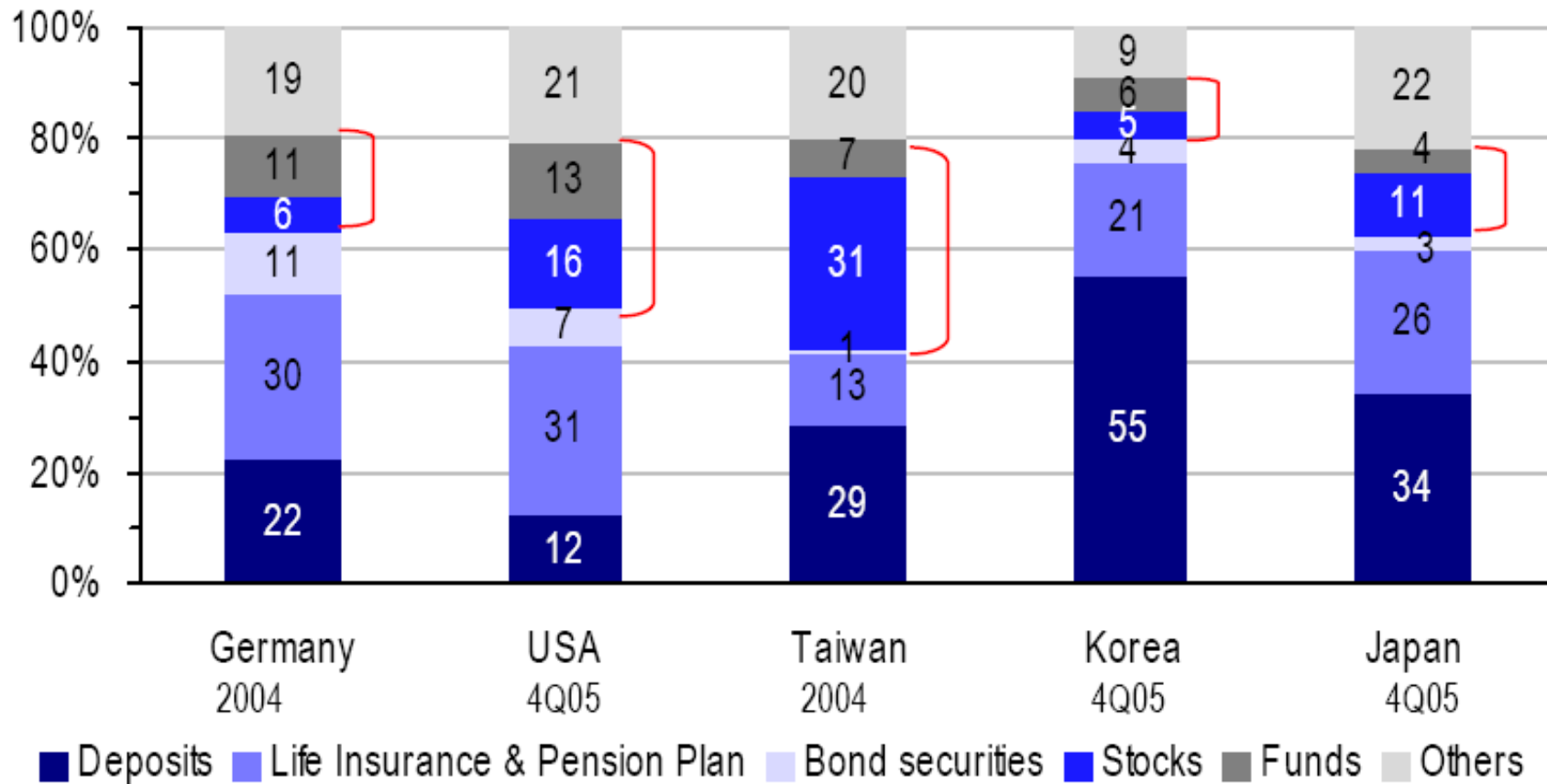


Note: Based on Kookmin Bank's apartment price index and Korea Housing Finance Corporation's PIR estimates

Source: KB, KHFC, NSO, Samsung Securities estimates

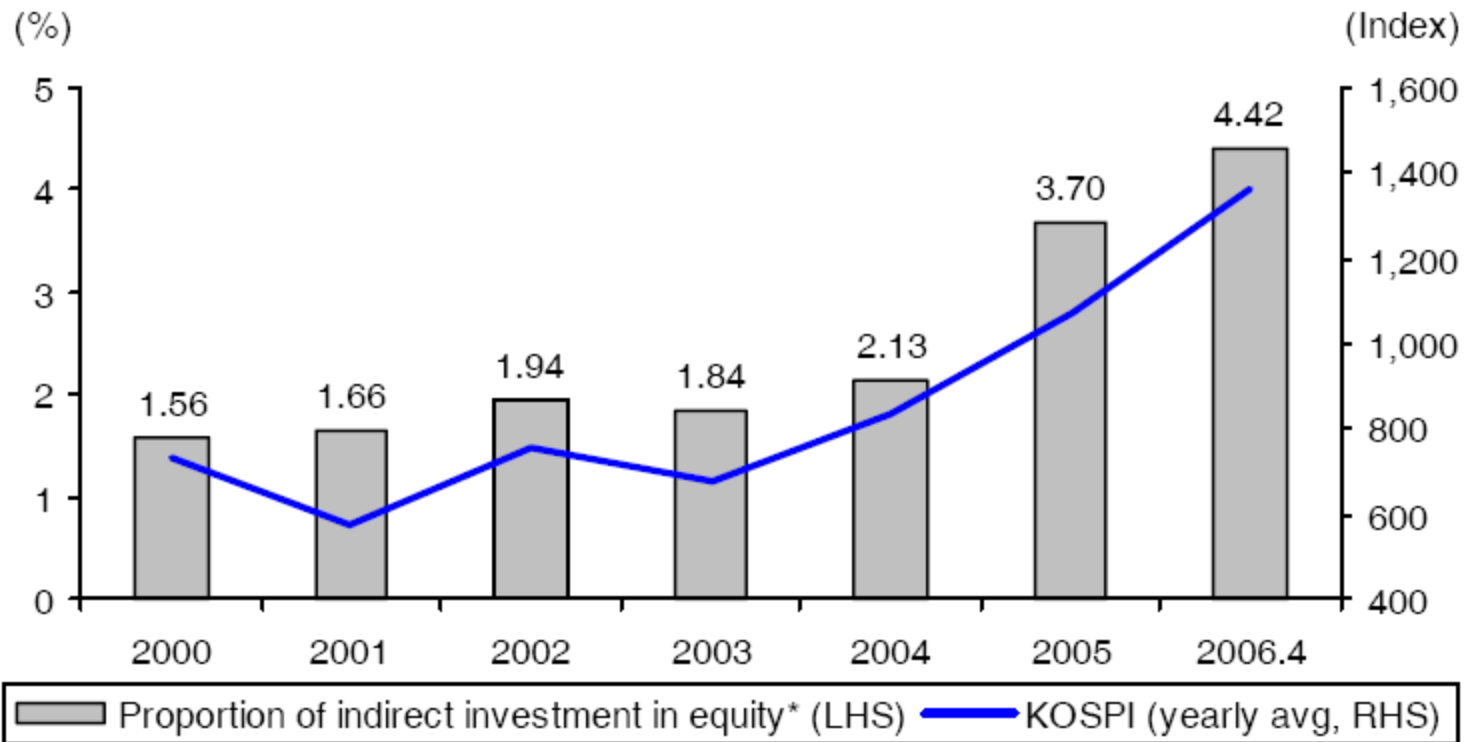
Government concern about real estate prices is overblown.

Composition of household financial assets



Korean households have a tiny exposure to stocks, relative to the rest of the world.

Chart 22. Institutionalization beginning in Korea

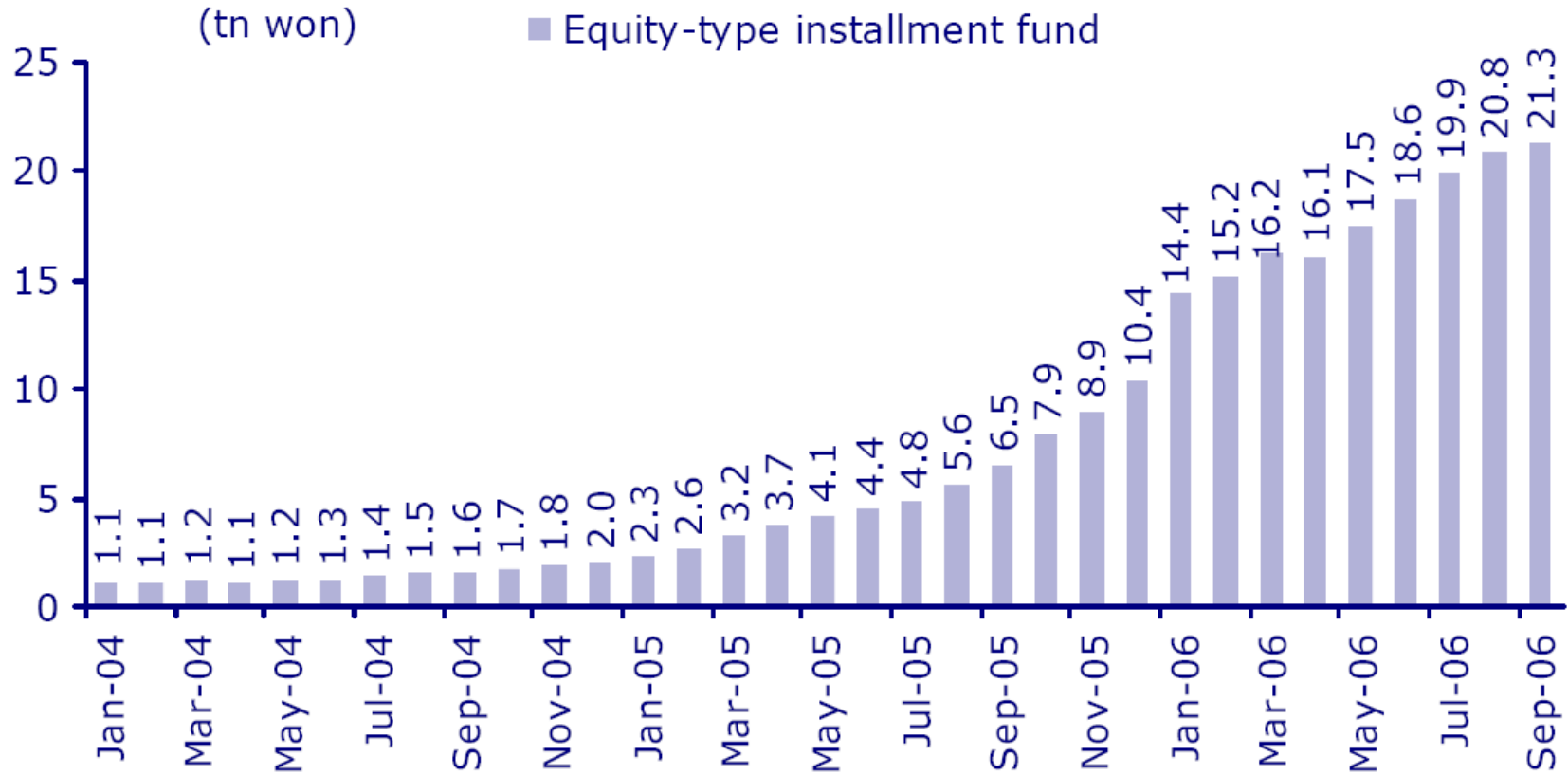


Note: * (NPC's stock balance + equity-type BC balance) / individual financial asset balance

Source: BOK, NPC, AMAK, Samsung Securities

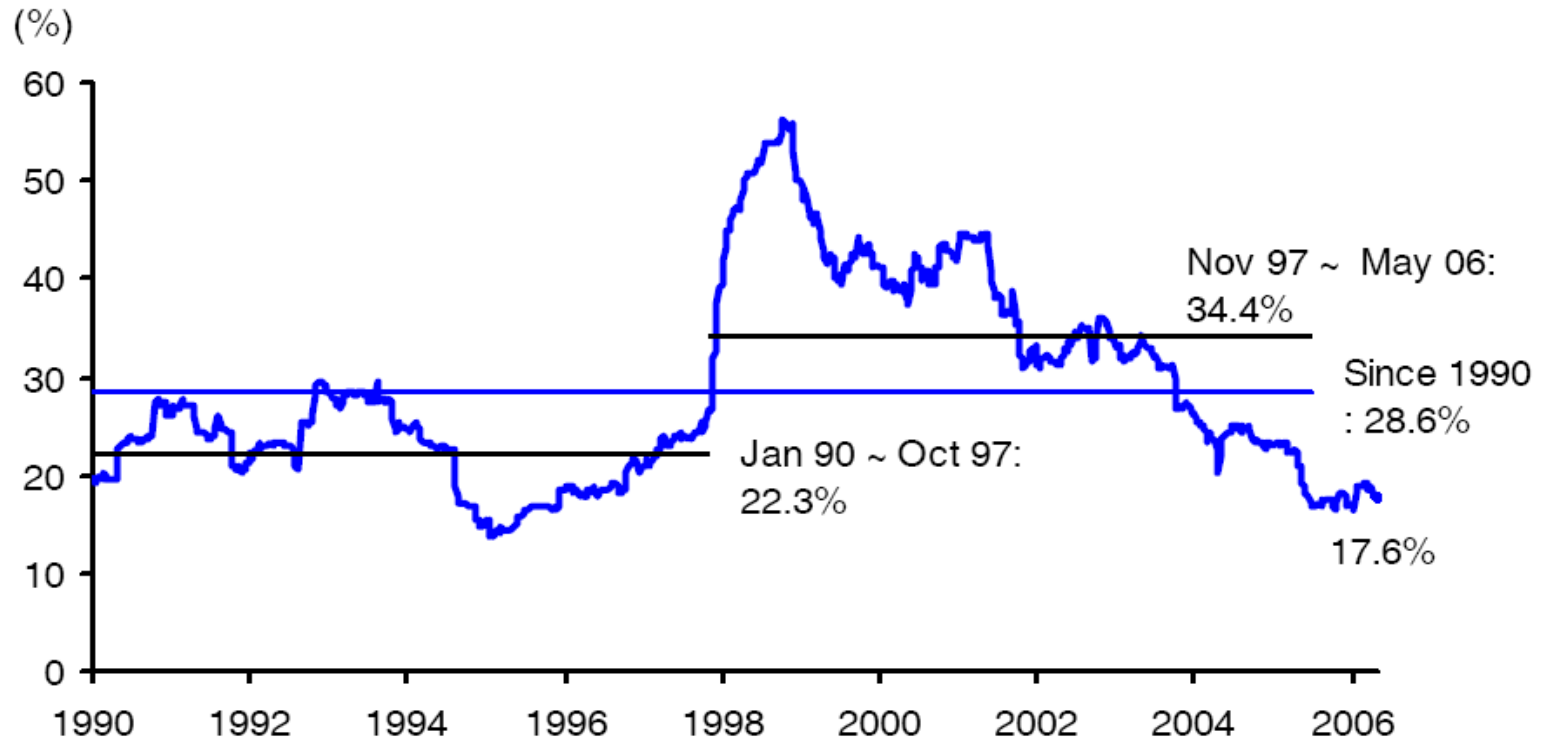
The appeal of stable equity funds is growing rapidly in Korea.

Equity-type instalment fund flows



Domestic retail investment continues to flow into Equity Installment Funds.

Chart 8. Volatility in Korean market declining

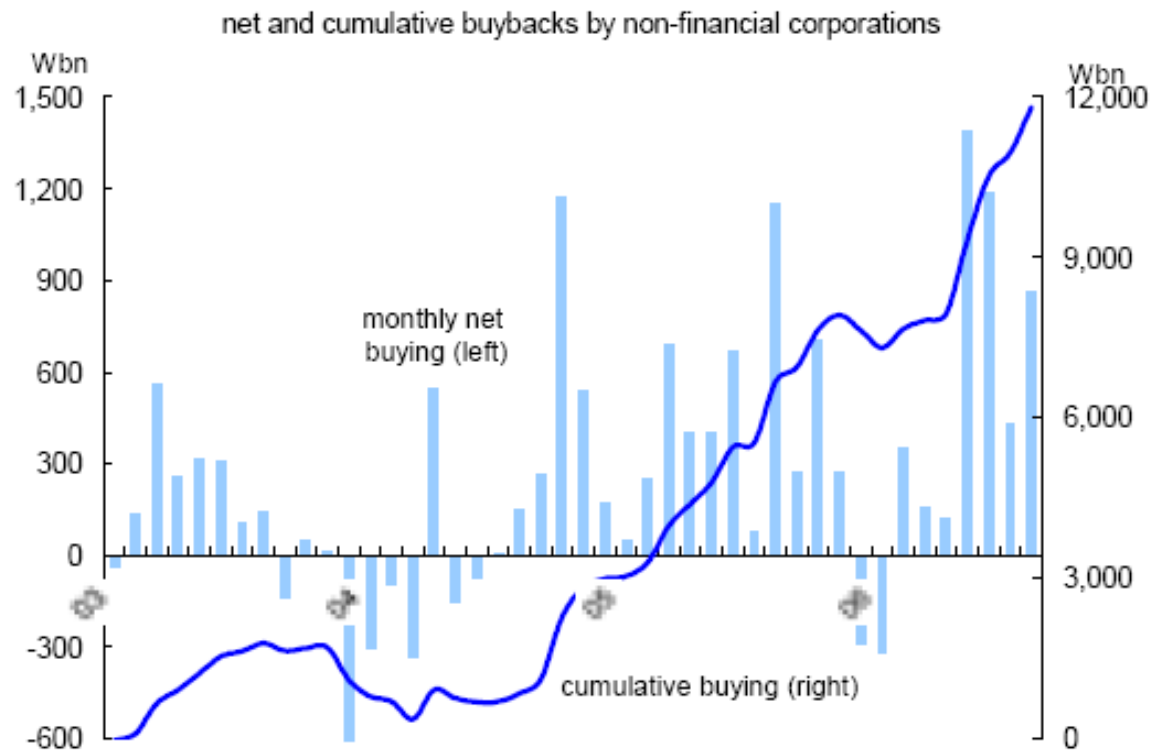


Note: Historical volatility based on 26-week data

Source: Samsung Securities

Volatility in the Korean stock market continues to trend downward.

Fig. 3: Corporate buybacks continue at a brisk pace



Source: Korea Stock Exchange

Unwarranted fear of foreign hostile M&A results in blue-chip buybacks.

Figure 5

Kospi performance and major North Korea events



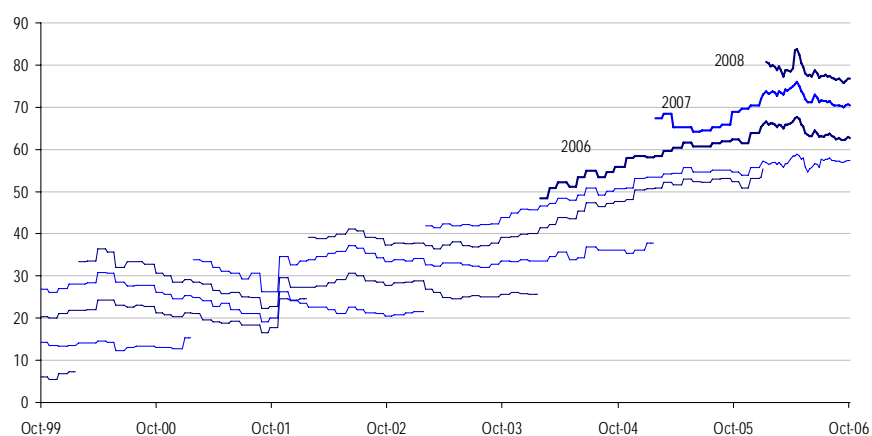
Source: CLSA Asia-Pacific Markets, Quantiwise

No pattern of stock market response to North Korean events.

Moving Korea to Overweight

Unsurprisingly at this stage in the cycle, consensus EPS revisions have been tended to be downward. However, recent revisions have tended to be small, with considerable regional differences. Most of EMEA, Mexico, China and India have seen upward revisions, while Korea, Taiwan and Turkey expectations have generally been revised downward.

Chart 10: GEM Aggregate Consensus EPS Revisions



Source: I/B/E/S, UBS

UBS analysts' bottom-up view of GEM equities is more sanguine than consensus. Earnings estimates have been revised upward, driven in part by our more bullish than consensus view of commodity markets, as shown in the table below.

Figure 1: 2007E Net Income 3-month revisions

	Brazil	Chile	Mexico	Other LatAm	LatAm	CE3	Israel	Russia	S. Africa	Turkey	EMEA	China	India	Indonesia	Malaysia	Philippines	S. Korea	Taiwan	Thailand	Asia	Aggregate	
Consumer Disc.			0%		0%	-24%			3%	-1%	2%	-4%	6%	-11%	-2%	4%	-7%	-8%	2%	-4%	-2%	
Consumer Stap.	-3%	-1%	1%		0%			20%	-4%	2%	-2%	-6%	-5%	-2%	7%	0%	-2%		-22%	-1%	-1%	
Energy	-0%			8%	1%	-3%		0%	-2%	-3%	0%			-2%		0%			-8%	-3%	-0%	
Financials	-1%	8%	14%	13%	1%	3%	-1%	12%	1%	0%	2%		2%	9%	7%	2%	3%	-16%	2%	-1%	0%	
Health Care	-1%				-1%	-8%			-15%		-11%	-3%	-9%	0%							-8%	-9%
Industrials	-10%	1%	-0%		-3%		-0%		5%		5%	-0%	5%	-0%	-5%		0%	0%	-12%	-0%	-0%	
I.T.							0%				0%	-17%	3%				-4%	-1%		-1%	-1%	
Materials	-9%	0%	-1%	-4%	-6%	-0%	-12%	39%	19%	-6%	18%	0%	15%	-20%	-0%		18%	11%	-2%	12%	6%	
Telcos	-8%	-8%	2%		-1%	-0%	2%	9%	3%	0%	4%	6%		4%	1%	-1%	-2%	-3%	-8%	3%	2%	
Utilities	3%	0%			2%	2%		0%			1%	7%	-10%	-0%	0%	-0%	-4%		-1%	-0%	1%	
Aggregate	-3%	1%	1%	4%	-1%	-0%	-3%	4%	5%	-0%	4%	3%	2%	1%	2%	1%	-0%	-3%	-4%	-0%	1%	

Source: UBS estimates

Figure 2: Selected UBS Commodity price forecasts (2007)

		<i>UBS</i>	<i>Consensus</i>	<i>Difference</i>
Oil	US\$/bbl	69	64.2	7%
Aluminium	USc/lb.	120	109	10%
Copper	USc/lb.	325	252	29%
Nickel	USc/lb.	1075	744	44%
Zinc	USc/lb.	185	134	38%
Gold	US\$/oz	700	663	6%
Silver	US\$/oz	14	11.8	19%
Iron Ore (contract)	Usc/dltu	89	95	-6%
Thermal coal (contract)	US\$/t	58	50	16%

Source: UBS estimates

The themes underlying our GEM equity strategy remain unchanged. We see macro economic risks as concentrated in a handful of countries (Turkey, Hungary and South Africa), and are relatively comfortable with the balance of risks in most. The compression of valuations across most of GEM, leaves us taking relatively small positions at the country level. Rather, we prefer to take larger positions at the sector level within each country.

We continue to find most value in Brazil and Russia, based on both valuations and our view of the macro outlook. Thailand is also one of the most attractively valued markets in our universe. Our largest underweight is India, where valuations are the highest in the GEM universe. We are also underweight Turkey, Hungary, and South Africa because of the current account imbalances and the expected slowdown in economic activity.

At the country level, the main change we have introduced is to increase our recommended weight in Korea from neutral to overweight. There are three reasons for this change.

- First, Korean valuations are very attractive in a GEM context (as indeed they have been for a while). Korea is also expected to have one of the fastest earnings growth rates within GEM (24% vs. 19% as shown in figure 3).
- Second, recent inflation data has been better than expected, possibly paving the way for a sooner-than-expected cut in interest rates.
- Third, construction has picked up, and we are adding Hyundai Development to our GEM 50.

To move Korea to overweight we have rebalanced our weighting in other countries. Notably, the overweights in Brazil and Russia have been reduced.