

ANNUAL REPORT 2006

The Best Value, a Better Life





CONTENTS

- 03 Company Profile
- 04 Financial Highlights
- 06 2006 Highlights
- 14 CEO Message
- 16 Business Overview
- 32 Financial Review
- 44 Affiliates
- 45 Global Network
- 46 Organization & Management

Leading the Way in E&C and Petrochemical Operations

Daelim Industrial Co., Ltd., with its E&C (Engineering and Construction) and Petrochemical groups is the flagship enterprise of the Daelim Business Conglomerate.

In 1966, Daelim became Korea's first company to work on an overseas construction project. Since 1970, Daelim has enjoyed a good reputation for its successful completion of numerous projects in the Middle East and Southeast Asia. Today, we are recognized as a global contractor boasting of cutting-edge technologies and excellent management capabilities as well as an impressive track record in more than 24 countries worldwide.

With a top-notch staff of over 2,600 specialists, Daelim's E&C group provides a comprehensive array of services including feasibility studies, project management, engineering, procurement, construction, commissioning

& start-up, operation & maintenance, and project financing. The fields covered by Daelim's high-quality and cost-competitive services include gas, petroleum refining, chemical & petrochemical, power & energy plants, building & housing, civil works as well as a range of industrial facilities.

Daelim's petrochemical group, as a driving force within the Korean petrochemical industry, continues to provide a complete range of products from basic petrochemicals to highly functional, value-added products.

Daelim pursues the company vision of 'Best Value, Better Life' to realize the best value for every product we make and service we provide and to maximize our core competencies to provide a better life for all our stakeholders.

FINANCIAL HIGHLIGHTS

SALES

(in USD millions and KRW billions)



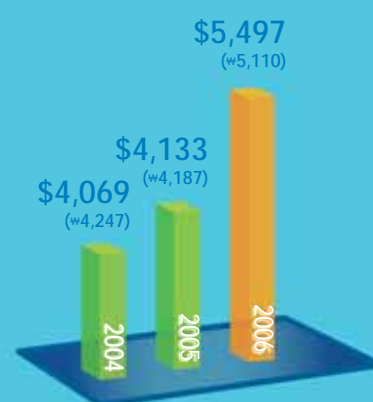
TOTAL ASSETS

(in USD millions and KRW billions)



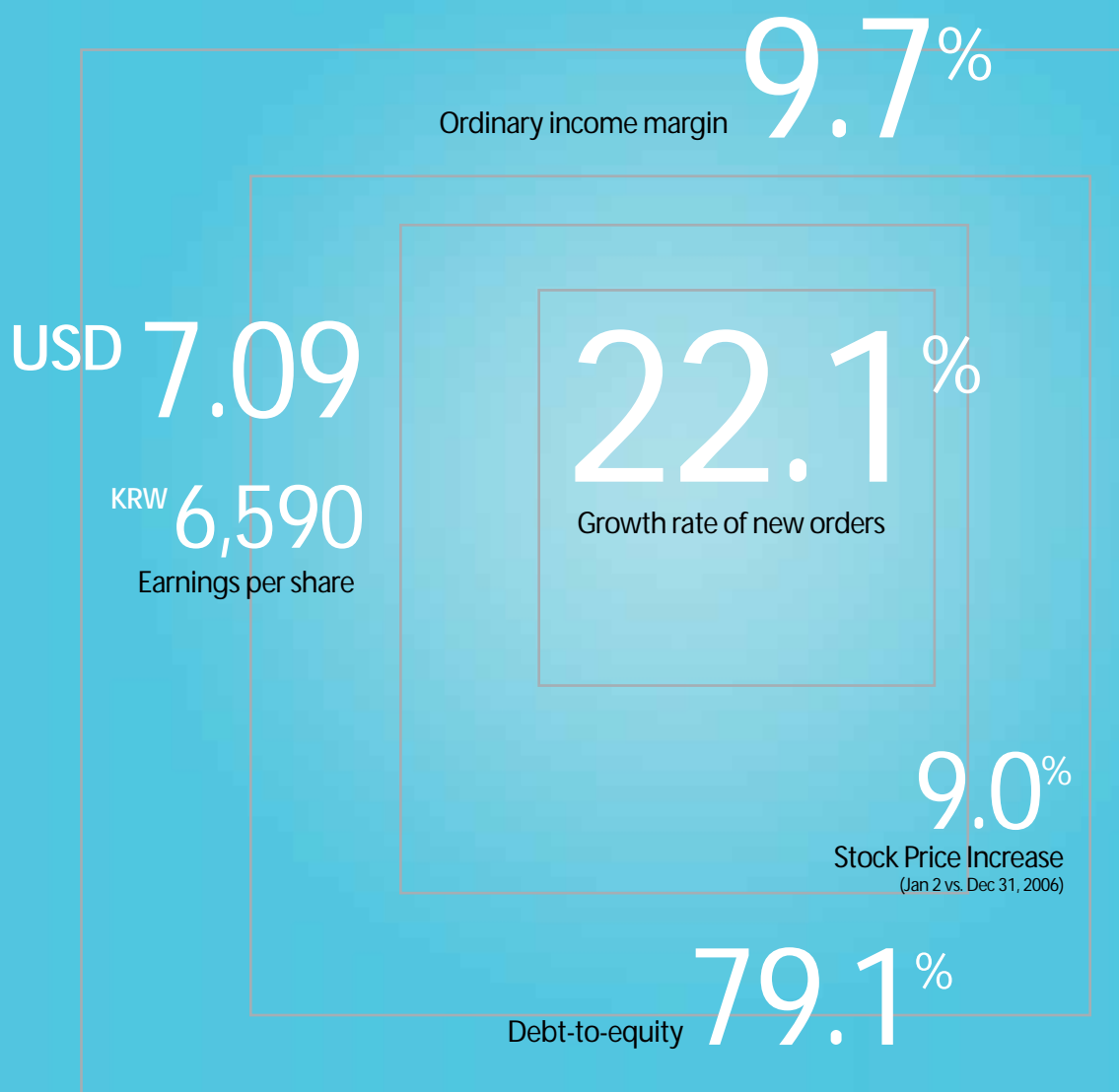
NEW CONTRACTS

(in USD millions and KRW billions)



in KRW millions and USD thousands

	2006	2005	2004	2003	2002
Sales	₩ 4,269,282 \$ 4,592,601	4,256,724 4,202,097	4,073,019 3,902,107	3,328,819 2,779,111	2,652,181 2,209,414
- Engineering & Construction	₩ 3,627,184 \$ 3,901,876	3,590,368 3,544,292	3,460,927 3,315,699	2,863,890 2,390,958	2,248,294 1,872,954
- Petrochemicals	₩ 642,098 \$ 690,725	666,356 657,805	612,092 586,408	464,929 388,153	403,887 336,460
Total assets	₩ 4,540,268 \$ 4,884,109	3,915,678 3,865,427	3,509,665 3,362,392	3,048,100 2,544,749	2,810,744 2,341,506
New contracts	₩ 5,109,986 \$ 5,496,973	4,186,765 4,133,036	4,247,096 4,068,879	4,029,400 3,364,001	3,367,300 2,805,148
Exchange rate (₩/ \$)	₩ 929.60	1,013.00	1,043.80	1,197.80	1,200.40



Sales rose by 0.3% to USD4.59 billion (KRW4.27 trillion) in 2006 compared to the previous year. E&C group and Petrochemical group recorded sales of USD3.90 billion (KRW3.63 trillion) and USD690.7 million (KRW642.1 billion), respectively. A net income of USD272.7 million (KRW253.5 billion) was posted thanks to stable sales growth and equity income from investments in 2006.

Daelim also received new orders of USD5.50 billion (KRW5.11 trillion) in 2006, USD1.30 billion (KRW1.21 trillion) of which came from civil works, USD3.34 billion (KRW3.10 trillion) from building & housing, and USD0.86 billion (KRW0.8 trillion) from plants. Civil works figures jumped by 30% and building and housing works recorded a remarkable 24% increase compared to the previous year in spite of the sluggish construction industry.

GWANGYANG LNG COMBINED CYCLE POWER PLANTS

We won the 'Project of the Year' award in 2006.

Our Gwangyang LNG combined cycle power plants project won the 'Project of the Year' award from the Korea Project Management Association.

The 'Project of the Year' award is given annually to the project completed in the most successful manner through systematic and efficient project management.

Daelim demonstrated its prominent capabilities in operating the integrated project management system for the Gwangyang LNG combined cycle power plants project completed in 2006, which involved building 2 LNG combined cycle power plants at the Gwangyang National Industry Complex.



Gwangyang LNG Combined Cycle Power Plant, Korea





Changseon-Samcheonpo Grand Bridge, Korea



CHANGSEON-SAMCHEONPO GRAND BRIDGE

Changseon-Samcheonpo Grand Bridge named most beautiful road in Korea.

The Changseon-Samcheonpo Grand Bridge was ranked first at the '100 Most Beautiful Roads in Korea' by the Ministry of Construction and Transportation.

This 3.4km bridge connects Samcheonpo, Sacheon-si to Changseon, Namhae-gun, Gyeongsangnam-do and was completed in 2003. As Korea's first marine integrated bridge, it has 5 individual bridges that exhibit unique technical construction method to ensure harmony with the beautiful natural environment of Hanryeosudo.

The '100 Most Beautiful Roads in Korea' is a prestigious award that is selected by specialists in various fields such as road, art, photography, and citizens' groups, based on Δ artistry, Δ aesthetics, Δ historical value, Δ functionality, and Δ intimacy.



Integrated Isocyanates Plant Project in Shanghai, China



INTEGRATED ISOCYANATES PLANT PROJECT, CHINA

In April 2006, Daelim completed the Integrated Isocyanates Plant Project in Shanghai, China for BASF of Germany, Huntsman International LLC of the US, and SLIC of China, the world-leading petrochemical companies.

Our technological superiority in this field was recognized through successfully completing TDI (Toluene Diisocyanate) Plant Project in Yeosu, Jeollanam-do, Korea ordered from BASF in 2001, which gave us a good opportunity to construct this meaningful project.

Especially, Daelim's distinguished safety management capabilities have been demonstrated through completing the IIP Project without an accident during 29 million man-hours from the commencement of work, which was the best record in Asia.



Myodo-Gwangyang Suspension Bridge, Korea

MYODO-GWANGYANG SUSPENSION BRIDGE

Daelim is building the world's 3rd longest (Korea's longest) bridge.

In 2006, Daelim was nominated as the contractor for the construction of the suspension bridge between Myodo and Gwangyang, which will be Korea's longest and world's 3rd longest bridge. The bridge to be completed in 2012 is expected to be longer than the Golden Gate Bridge in San Francisco, US.

The company expects to complete the project by June 2012 when the Yeosu World Expo opens. With total length of 2,260m and length of center span of 1,545m between the main towers, the bridge is the 3rd longest in the world next to the 1,991m Akashi Great Bridge in Japan and 1,624m Great Belt Bridge in Denmark. Aside from being the highest bridge in Korea with altitude of 202m above sea level, the bridge was designed to reflect the shape of the traditional Korean pagoda and demonstrate our marine expertise to the world.

The bridge's available width for vessels to pass is 1,310 meters, the widest in Korea, which lets ultra-large containerships such as 440m long 18,000TEU containerships pass safely along the two way sea route under the bridge at the same time.



Best Value and Better Life.

In the coming year, we'll do our best to create high corporate value through securing future growth engines, enhancing business competitiveness, and promoting performance-oriented corporate culture.



Our valued shareholders and customers

In 2006, the Korean economy unfortunately failed to climb out of the doldrums because of a sluggish domestic market.

The construction industry enjoyed good performances in overseas businesses mainly due to record breaking construction orders from Middle East countries that benefited from strong oil prices.

However, the domestic construction business suffered from a slowdown of investments, the government's consistently strong stabilization policies on real estate, and severe competition among construction companies. The petrochemical business also experienced a challenging year compared with the prosperous 2005, because of the influence of a sluggish market condition, increases in raw material prices, and a strong Korean won.

In 2006, in spite of the unfavorable market environment, new contracts were up 22% to USD5.50 billion (KRW5.11 trillion) over last year's record and sales increased 0.3% to USD4.59 billion (KRW4.27 trillion) over 2005, thanks to the intensive efforts hard work of all members of the company.

Industry-wide recognition was achieved on the strength of Daelim's technological supremacy in cutting-edge bridge building by being nominated as

the contractor for construction of Myodo-Gwangyang Suspension Bridge, Korea's longest and the world's 3rd longest suspension bridge. We also won an USD4.63 billion (KRW4.3 trillion) order for housing redevelopment projects, having enjoyed the best brand awareness in housing industries in the domestic market. We won other meaningful new orders for large-scaled plant projects in the Philippines and Saudi Arabia.

Externally, 2006 was a banner year for Daelim. Our corporate governance grade was upgraded to the "good" level and we won the First Grade of the National Customer Satisfaction Index (NCSI) for apartment building. The Gwangyang LNG combined cycle power plant also received a grand prize for 'Project of the Year'.

In the coming year, we'll do our best to create high corporate value through securing future growth engines, enhancing business competitiveness, and promoting performance-oriented corporate culture. We are grateful to all our customers and wish for their consistent prosperity and happiness. Everyone at Daelim is looking forward to reporting on our future successes.



Jong-In Kim President & CEO



We are creating the Best Value
and a Better Life.

THE BEST VALUE IN...

Plants
Civil Works
Building & Housing
Petrochemicals

BUSINESS OVERVIEW

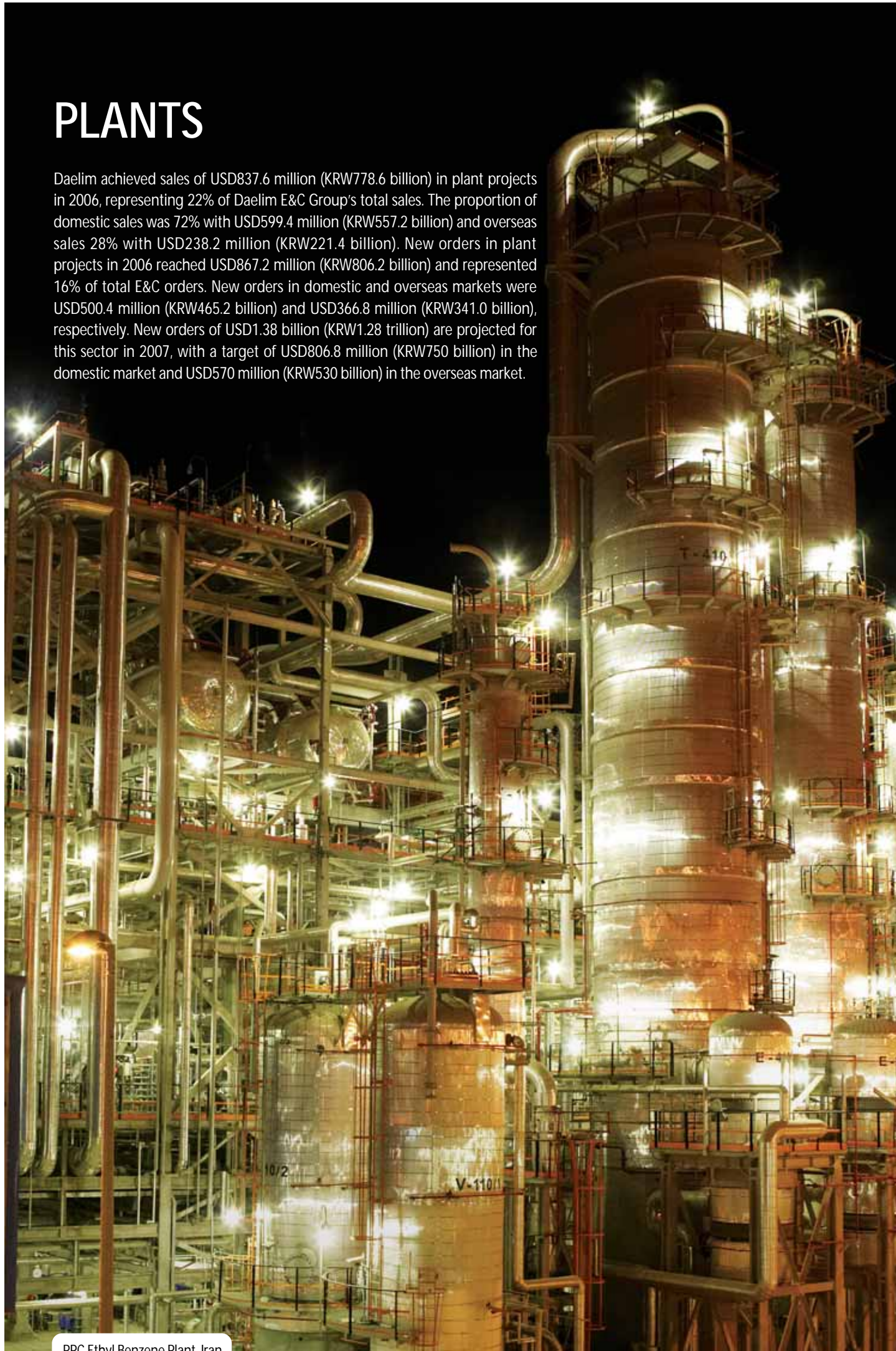


We strive to deliver the best value to our customers and a better life for all our stakeholders.

It's a simple vision that has kept us growing. We have helped build a sustainable future for communities, businesses, and families in Korea and around the globe for more than six decades.

PLANTS

Daelim achieved sales of USD837.6 million (KRW778.6 billion) in plant projects in 2006, representing 22% of Daelim E&C Group's total sales. The proportion of domestic sales was 72% with USD599.4 million (KRW557.2 billion) and overseas sales 28% with USD238.2 million (KRW221.4 billion). New orders in plant projects in 2006 reached USD867.2 million (KRW806.2 billion) and represented 16% of total E&C orders. New orders in domestic and overseas markets were USD500.4 million (KRW465.2 billion) and USD366.8 million (KRW341.0 billion), respectively. New orders of USD1.38 billion (KRW1.28 trillion) are projected for this sector in 2007, with a target of USD806.8 million (KRW750 billion) in the domestic market and USD570 million (KRW530 billion) in the overseas market.



PPC Ethyl Benzene Plant, Iran

Gwangyang LNG Combined Cycle Power Plant, Korea

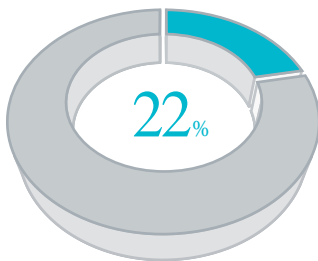


Review of Operation

In 2006, plant business experienced a favorable period mainly due to high oil price. A significant amount of new investments and revamping and expansion projects for oil & gas development, LNG/GTL, refinery and petrochemical facilities were from the Middle East countries. The domestic market was also busy with lots of new investment and revamping projects in refinery and petrochemical, following ongoing investment in LNG facilities and power plants.

Daelim has pursued new orders from the Middle East and Asia and achieved great success in winning contracts for huge projects from Saudi Arabia, Iran, Kuwait, Philippines, and China. We also won contracts for domestic projects from Yeochun NCC Co., Ltd., Keumho Polychem Co., Ltd., SK Incheon Oil Refinery Co., Ltd., Lotte Daesan Petrochemical Corporation, and Honam Petrochemical Corporation.

Sales portion of Plants in Daelim E&C



Petroleum Refinery

New Contract Project

In Korea, we received the contract for the turn-key based SK No.2 FCC Project Group I (RHDS: Residue HydroDesulfurization and HP: Hydrogen Plant) from SK Incheon Oil Refinery. The project will be completed in April 2008 in the Ulsan Petrochemical Industry Complex with a capacity of 80,000 BPSD of RHDS and 110 MMSCFD of HP.

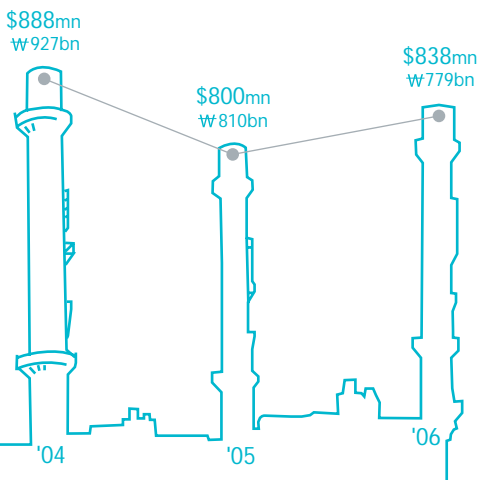
In the overseas market, we won the contract for the PetroFCC Project from Petron Corporation, Philippines in February 2006. This is an EPC Turnkey Project including Engineering, Procurement, Construction, and Commissioning. The project is changing the existing TCCU (Thermoform Catalytic Cracking Unit) located in the Petron Complex in Limay Battan, Philippines to an FCCU (Fluidized Catalytic Cracking Unit), expanding the capacity from 15,000 BPSD to 19,000 BPSD along with revamping work of neighboring utilities and processes and construction of the new Propylene Recovery Unit, which produces 140,000 MT annually. The project will be finished by the end of December 2007.

Chemical & Petrochemical Projects

New Contract Projects

Ibn Zahr Utilities & Offsites Project, Saudi Arabia Daelim won a project from Saudi European Petrochemical Company (Ibn Zahr), a subsidiary company of Saudi Basic Industries Corporation (SABIC) in July 2006, to construct utilities and offsite facilities for PP plant with a capacity of 500,000 tons per year and an OCT (Olefins Conversion Technology) plant with a capacity of 288,000 tons per year. Currently, Daelim is working on the AL-

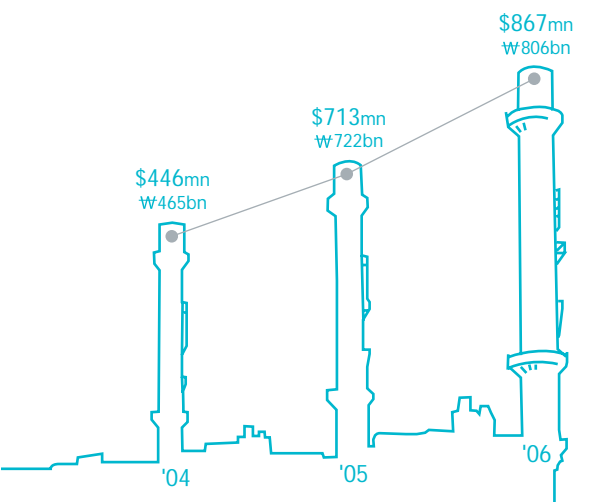
Sales in plants (in USD millions)



Effluent Water Disposal Plant, Kuwait



New orders in plants (in USD millions)



WAHA PP/PDH Project with an annual capacity of 450,000 tons of PP and 467,000 tons of PDH in Al-Jubail Industrial City together with Technimont as a consortium.

Poly-Carbonate Project, Korea We won the Poly-Carbonate Project from Honam Petrochemical Company, covering project management, engineering, procurement, and governmental permits. The plant will be completed by August 2008 in Yeosu Petrochemical Complex in Korea with a capacity of 51,480 MTA of DMC (EC and DMC Unit) and 65,000 MTA of PC (DPC and PC Unit).

LLDPE Expansion Project, Korea We were awarded the LLDPE Expansion Project by Lotte Daesan Petrochemical Corporation, which is expanding the capacity of the plant from 160,000 TPA to 290,000 TPA. Construction is expected to be completed in April 2008. This is the first project using new technology of Univation, US licensor provider, to be executed in Daesan Petrochemical Industry Complex in Korea on an EPC Turn-key basis, which will provide impetus to our growing competitiveness in the field.

Completed Projects

PPC EB, Iran We successfully completed an EPC Turn-key based Ethyl Benzene (EB) Plant in April 2006, for Pars Petrochemical Company (PPC), a subsidiary of National Petrochemical Company (NPC) in Iran. This project called for construction of a plant with an annual capacity of 645,000 tons of Ethyl Benzene in the 9th Petrochemical Complex in southern Iran. The timely completion of the project resulted in a special compliment from the client since it was the only project completed on time among other projects within the NPC Assaluyeh Complex.

Integrated Isocyanates Plant Project, China The Integrated Isocyanates Project (IIP) awarded from the joint venture company consisted of Shanghai BASF Polyurethanes Co. (SBPC), Huntsman Polyurethanes Shanghai (HPS), and Shanghai Lianheng Iso-Cyanates Company (SLIC) has been completed in April 2006. This project was to construct TDI/MDI plants in Shanghai Chemical Industry Park (SCIP) by the consortium of Daelim, Korea, Fluor, USA, and CTCI, Taiwan. Daelim provided detailed design, procurement support, and construction management of the TDI plant with capacity of 130,000 MTY. Daelim received additional payment of USD8 million as an incentive for its distinguished performance in HSE, quality, schedule, and cost reduction. It also led to our independently winning the IIP Auxiliary Facilities Plant project, which was successfully completed.



Integrated Isocyanates Plant, China



Saemangeum Sinsi Gate, Korea

Power Plants & Others

Completed Projects

We successfully completed the Gwangyang LNG Combined Cycle Power Plant (541 MW x 2) project including the installation of main equipment (GTS, STG, HRSG), and auxiliary equipment which was ordered by K-Power Corporation. We won the order on an EPC Turnkey basis and completed the first unit on December 31, 2005, and the second unit on May 15, 2006 in Gwangyang National Industrial Complex.

We also completed the construction of a floodgate in Semangeum in December 2006 for the Korea Rural Community and Agriculture Corporation.

Environment

Completed Projects

EWDP (Effluent Water Disposal Plant) Project, Kuwait We worked on the Effluent Water Disposal Plant Project for Kuwait Oil Company (KOC) and made mechanical completion on June 28, 2006, finalizing all the contract responsibilities with a performance test of EWDP-1 on December 3, 2006.

The EWDP Project was to collect the effluent water of extracted crude oil from 14 gathering centers and the 2 South Tank Farms and 1 North Tank Farm, treat the oil and remove suspended solid particles, and then dispose of it in high pressure (about 120 barg) into 12 wells dug to a depth of 2.5 kilometers. In this project, we constructed EWDP-1 with a 150,000 BBL capacity in Magwa and EWDP-2 with a 350,000 BBL capacity in Burgan, Kuwait. We were awarded the 10 Million Man-hour Impressive Safety Achievement letter by the client.



South Pars Gas Development Phase1, IRAN

PROJECTS IN PROGRESS

GAS PLANT

Pyeongtaek LNG Receiving Terminal II, Korea (2004~2008)
South Pars Gas Field Development Phases 6~8, Iran (2003~2007)

CHEMICAL & PETROCHEMICAL PROJECTS

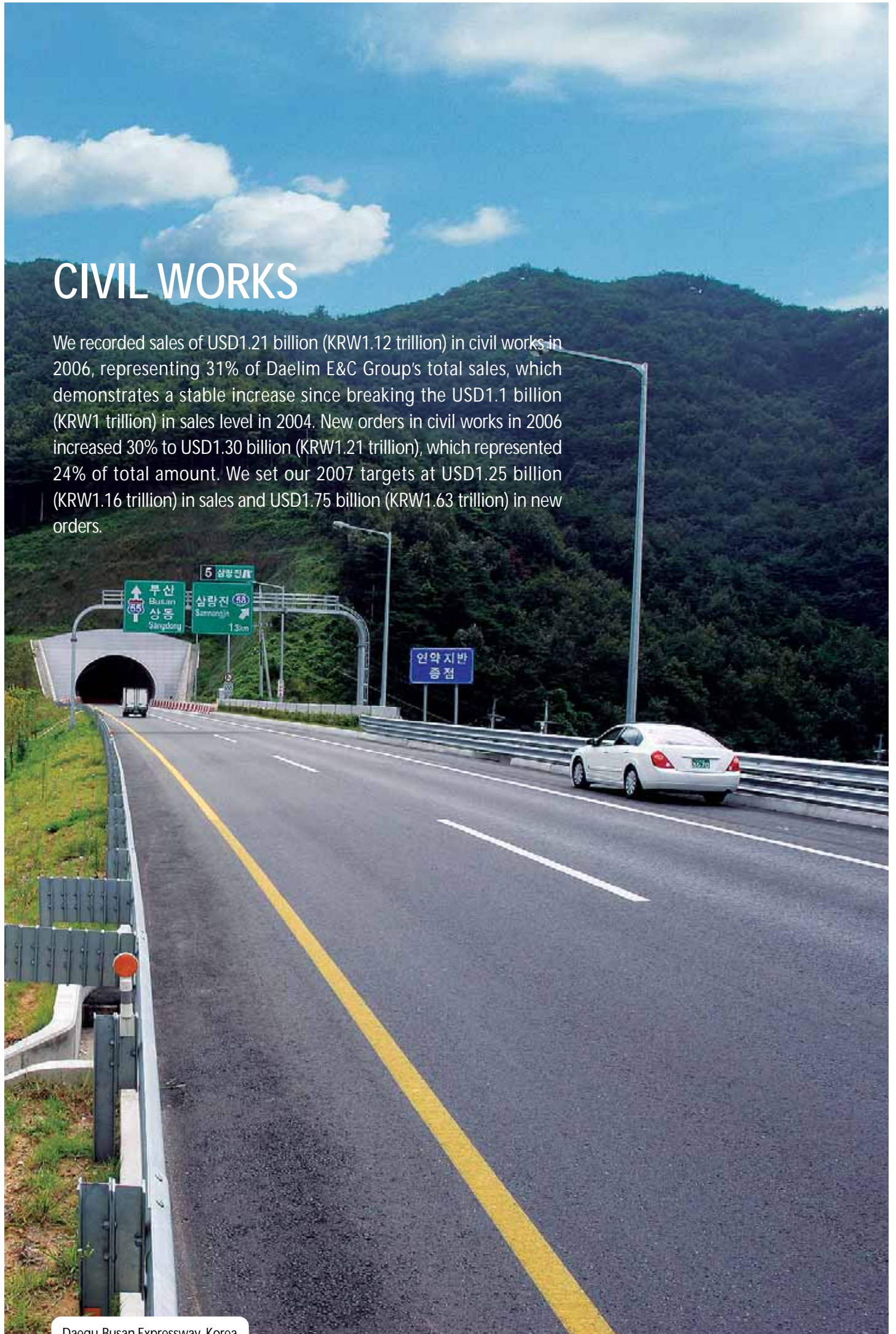
AL-WAHA PDH/PP Project, Saudi Arabia (2006~2008)
AKPC LDPE Project, Iran (2005~2008)
EPM/EPDM Revamping Project, Korea (2005~2007)
NCC Revamping Project, Korea (2005~2007)
BTX Revamping Project, Korea (2005~2007)

POWER PLANTS & OTHERS

Boryeong Thermal Power Plant, Units 7 & 8, Korea (2004~2008)
Boryeong Thermal Power Plant, Desulfurization Facilities, Units 7 & 8, Korea (2005~2008)
Shin-Kori Nuclear Power Plant, Units 1 & 2, Korea (2003~2010)

CIVIL WORKS

We recorded sales of USD1.21 billion (KRW1.12 trillion) in civil works in 2006, representing 31% of Daelim E&C Group's total sales, which demonstrates a stable increase since breaking the USD1.1 billion (KRW1 trillion) in sales level in 2004. New orders in civil works in 2006 increased 30% to USD1.30 billion (KRW1.21 trillion), which represented 24% of total amount. We set our 2007 targets at USD1.25 billion (KRW1.16 trillion) in sales and USD1.75 billion (KRW1.63 trillion) in new orders.



Kangwon Land Ski Resort, Korea



Review of Operation

The domestic civil market environment for turn-key based projects shrank due to the government's insufficient budget. Although the private SOC market expanded due to the actual application of the BTL (Build Transfer Lease) system, more middle-sized companies and latecomers actively participated in the market. Eventually, we faced an overall tough market situation, where price was a prime factor in bidding process.

Despite this unfavorable market condition, our sales and new orders in the civil works exceed USD1.1 billion (KRW1 trillion) in 2006, through aggressive marketing and by strengthening the competitiveness of core business field.

We will continuously make every effort to establish fundamentals for sustainable growth by increasing the market share in turn-key project market, and developing new projects of private SOC business.



Dam of Peace, Korea

Major New Projects

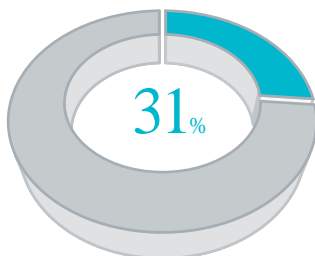
We were nominated as the contractor for the construction of the suspension bridge between Myodo and Gwangyang in December 2006, which is expected to be completed by 2012.

We received a new order from the Igsan Regional Construction Management Office of MOCT (Ministry of Construction and Transportation) to construct a 9.28km 4-lane bypass of Gwangyang City, which included 10 bridges with total length of 1.7km and 3 tunnels with total length of 6.93km. We also won the order for the Woongdong-Jangyu national road extension project totaling 9.26km from the Busan Regional Construction Management Office of MOCT, which included 10 bridges and 2 tunnels covering 0.88km and 6.93km, respectively. These projects are scheduled for completion in June 2014.

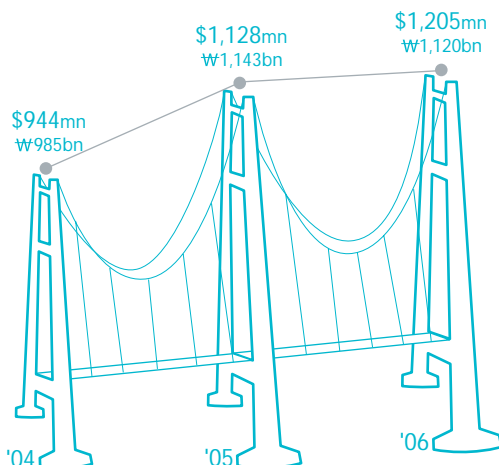
We won an expansion project of sewage facilities of Imha Dam from Environment Management Corporation, Andong, which included 3 sewage treatment plants, 47 town sewage lines, 161km pipelines, and 141 pump facilities. We also won the contract for an emergent waterway construction in the Imha Dam project, which was awarded by the Korea Water Resource Construction Association. In this project, we will complete an overflow tunnel type 3 line spillway, a 1.2km entrance way, hydraulic gateway, etc. by August 2009.

An order from the Jeju Regional Maritime Affairs and Fisheries Office is to complete the stage #2 Jeju Harbor including a 390m outer wall facilities (breakwater and waves prevention revetment), 780m quay wall facilities, and 1,204m revetment facilities. We expect to complete the project by August 2011. We were also awarded the Incheon South Harbor Project for container pier construction (stage #2) by Incheon Container Terminal Co., Ltd., which included a 40,000-ton inner wall quay wall with 1 berth, 319m revetment work, and 1,337,000 m³ dredging work. The project is expected to be completed by June 2008.

Sales portion of Civil Works in Daelim E&C



Sales in Civil Works (in USD millions)



Ilisan-Toigewon Expressway, Korea



The Sewer Rehabilitation Project in the Han River Watershed ordered from the Environment Management Corporation is expected to be completed in October 2010. The project features 23.6km new pipelines and 8,716 draining facilities. On the other hand, the Sintanjin Drainage Facilities Project from the Public Procurement Service calls for constructing a 13.4km pipeline paved with Ascon 204a; construction is expected to be completed by December 2009.

Completed Projects

The Kangwon Land Ski Resort, ordered by Kangwon Land Co., Ltd., was completed in December 2006. The project included 20km slopes, 9 lifts and buildings with total floor area of 97,400 m².

The 3rd construction section of the express beltway (Ilisan to Toigewon) ordered by Seoul Beltway Co., Ltd. was completed. This project was to construct a tunnel (2.2km), 6 bridges (0.92km) and a road (4.05km) in September 2006.

We successfully completed the Highway of Sungsan-Okpo Extension Project in December 2006, covering the 2nd and 3rd construction sections ordered by Korea Expressway Corporation. The 2nd section had a total length of 3.7km and included 2 bridges, 560,000 m³ of soil excavation, pavement with 50,000 m³ of concrete, and a 6,000 ton steel box bridge. The 3rd section was 5.1km long with 1 interchange (3.3km) and a floating road (3.8km).

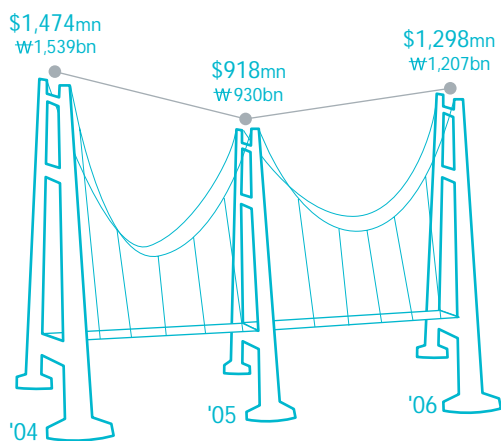
The 1st Line Highway - Kimchon-Youngdong Extension Project, ordered from Korea Expressway Corporation, was completed in December 2006. This project called for the construction of a 9.91km highway with a width of 30.6m (extended from 4 lanes to 6 lanes) including 12 bridges (11 small bridges (total 281m), 1 big bridge (129m)), 18 box culverts (958m), 31 drainers (1.62km), paving (122,579 m³ anti-freezing layer, 46,923 m³ supportive layer, 840a of Ascon paving, and 132,922 m³ of concrete paving), and miscellaneous work.

We completed the Daegu-Busan highway project in February 2006, which called for the construction of a 4 lane highway (9.49km long, 23.4m width, 120km/h design speed) with 1 Interchange Office, 1 tunnel (722m), 14 bridges (2.72km), 27 box culverts (1.1km), 16,102 m³ of concrete paving.

Additionally, the 2nd stage of the Dam of Peace, ordered from Korea Water Resources Corporation, was completed in June 2006, which featured a dam of 4,755,000 m³ and a slab concrete of 23,000 m³.

The 3rd site of U-2 ordered from Korea Gas Association completed in June 2006. This project includes 5,000 barrels of underground cavern and 2,600,000 barrels of ground tanks (650,000 barrel capacity x 4 reserve tanks for crude oil).

New orders in Civil Works (in USD millions)



U-2, Korea

PROJECTS IN PROGRESS

ROAD PROJECTS

Incheon Grand Bridge linking road, Section 2
(2005~2009)
Jeonju-Gwangyang Expressway, Section 1
(2004~2011)
Daeryeon-Seonggok Bypass
(2004~2008)
Anseong-Eumseong Expressway, Section 6
(2002~2008)
Busan-Ulsan Expressway, Section 5
(2001~2007)
Cheongwon-Sangju Expressway, Section 3
(2001~2007)
West suwon-Osan-Pyeongtaek Expressway
(2005~2009)

RAILWAY PROJECTS

Busan-Ulsan Railway, Section 2
(2005~2010)
Jeolla Line Rail Extension, Sungsan-Sinpung
(2002~2008)
Gyeongui Line, Myongsan-Unsan, Section 1
(2005~2008)
KTX High Speed Rail, Section 11-2
(2003~2007)
Incheon Airport Train facilities, Phases I, II
(2001~2007, 2004~2009)
New Bundang Line Railway, Section 2
(2005~2010)
Seoul Subway Line 7, Section 701
(2004~2011)
Seoul Subway Line 9, Section 906
(2002~2008)
Busan Subway Line 3, Section 321
(2004~2008)

BRIDGE & OTHER PROJECTS

Geogum Island Bridge
(2001~2007)
Ilsan Grand Bridge Development
(2003~2007)
Cheongpung Grand Bridge
(2003~2010)
Yecheon Pumped-Storage Power Plant, Units 1, 2
(2004~2010)
Gimhae-Yulha Housing Development, Section 1
(2004~2007)
Pyeongtaek (Asan) Port
(2005~2008)
Pohang Yeongil Bay New Port, Phases 1-1
(2005~2009)
Busan New Port South Container Wharf, Section 1
(2004~2008)
Pyeongtaek (Asan) Port West Wharf
(2003~2007)
Jeju Port
(2001~2007)



BUILDING & HOUSING

Our sales in Building & Housing works in 2006 was USD1.83 billion (KRW1.70 trillion), representing 47% of Daelim E&C Group's total sales. New orders in Building & Housing works in 2006 amounted to USD3.3 billion (KRW3.1 trillion), an increase of 24% over the previous year, representing 60% of the total new orders. We expect to receive USD4.02 billion (KRW3.74 trillion) worth of new orders in 2007.



Jeonju Seosin e-Pyunhan Sesang, Korea

Review of Operations

In 2006, the building & housing market was rather shrunk due to the government's strong drive to control real estate prices, resulting in decreased demand for new apartment buildings and increased number of unsold apartment houses.

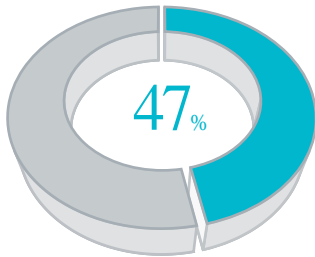
In spite of such difficult business environment, Daelim's sales and new orders steadily increased compared to the previous year. The company's capability for quality management was also proven by improving the cost rate, achieving the targeted ordinary profit, and ranking no. 1 in NCSI (National Customer Satisfaction Index)

Such impressive performance was resulted from developing new technology, implementing consistent quality management and a differentiated brand strategy focused on the customer satisfaction management.

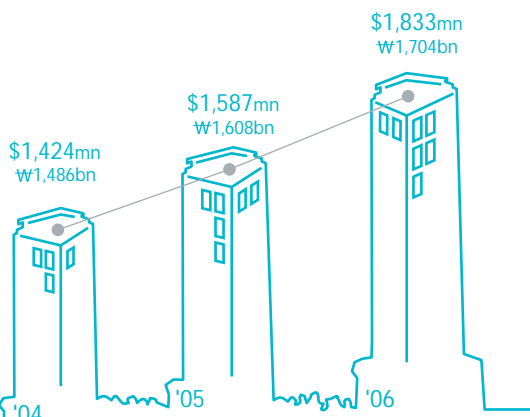
We expect the 2007 housing business environment to be still unfavorable for the market with the government's continued application of its real estate stabilization policy, which may lead to tight competition in the public construction market due to decreased demand for private construction.

In 2007, Daelim will strategically focus on 4 main directions: strengthening the business competitiveness, achieving the best quality, achieving cost competitiveness, and developing the best technology. For 2007, we are targeting USD4.02 billion (KRW3.74 trillion) worth of new orders.

Sales portion of Building & Housing in Daelim E&C



Sales in Building & Housing (in USD millions)



Major New Projects

One of our new 2006 building projects was the construction of Dongnamkwon Instrument Biz Complex ordered by SH Corporation. This project called for 5 basement floors and 10 above ground floors on a total floor area of 274,824 m². Additionally, we won Pajoo Unification Park Project, Seocho-dong Annex of the Court of Korea, and Jeongeup Branch Office of the Korea Institute of Toxicology.

Major new contracts for housing project include Yangsan e-Pyunhan Sesang (brand name of Daelim's apartments) in Osan and Wondang e-Pyunhan Sesang in Koyang. Yangsan e-Pyunhan Seang in Osan is an apartment project consisting of 29 apartment buildings with 1,670 units, with 22 floors above ground and 1 basement floor on a total land space of 302,030 m². Wondang e-Pyunhan Sesang project calls for building 21 apartment

Jeju Government Building, Korea

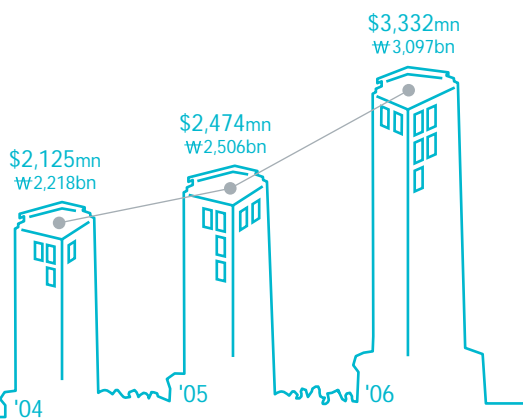


buildings with 1,486 units, with 28 floors above ground and 1 basement floor on a total land space of 263,176 m².

We also won many e-Pyunhan Sesang projects such as Banpo phase 2 (1,111 units), Seocho phase 2 (435 units), Shinkye (950 units), Bangbae Seorypool (496 units), Mabuk (404 units), Daegu Chilgok (608 units), Jochiwon (983 units), Yangsan Moolkeum (14 blocks, 884 units), Yangsan Moolkeum 17 block (998 units), Namtong (915 units), Namyangjoo (1,302 units) as well as Musil Public apartment in Wonju (600 units) and Pankyo Public apartment (384 units).

For the remodeling project, we completed the Seohyun Business Building Remodeling Project, and currently implementing the remodeling project on the Small Hall of Sejong Center commissioned by the Sejong Center of Performing Arts.

New orders in Building & Housing Works (in USD millions)



Completed Projects

Main building projects completed in 2006 include the Jeju Government Complex and Suseong Cultural Art Hall in Daegu (Suseong Artpia Project). In particular, the Jeju Government Complex Project involved the construction of a new office building with 2 stories underground and 5 stories above ground and total floor area of 43,553 m². On the other hand, the Suseong Cultural Art Hall project included the construction of a new building of total floor area of 14,777 m² with 1 basement and 3 floors above ground.

For the housing project, we completed several e-Pyunhan Sesang projects in Bangbae phase 3 (193 units), Jookgeon phases 2 and 3 (445 units), Haeundae (1,190 units), Hwajung (377 units), Sokcho Keumho (449 units), Chungdam phase 2 (142 units), Jungreung 5th block (739 units), Mojong (754 units), Kaya (299 units), Inchang phase 2 (621 units), Kangreung Kyo-dong (400 units), Seomyun (623 units), and Jeonju Seoshin (651 units) as well as the e-Pyunhan Sesang project in Ansan Banwol (1,886 units).



Suseong Artpia, Daegu, Korea (Suseong Cultural Art Hall)

PROJECTS IN PROGRESS

E-PYUNHAN SESANG RESIDENTIAL PROJECTS

Namyangju, 1,302 units (2006~2009)
Gunpo Daeyami, 689 units (2006~2008)
Gumi Namtong, 915 units (2006~2009)
Daegu Chilgok, 608 units (2006~2009)
Daegu Daehyeon, 527 units (2006~2008)
Mabuk, 404 units (2006~2009)
Bucheon Jungdong, 1,018 units (2005~2008)
Daegu Sangin, 1,053 units (2006~2008)
Seongdang, 1,560 units (2006~2008)
Suwon Jeongja, 288 units (2005~2008)
Sinhyeon, 2,315 units (2005~2009)
Anyang Bisan, 486 units (2006~2008)
Jamsil Municipal, 1,144 units (2005~2008)
Jamsil Phase 1, 1,420 units (2005~2008)
Jamsil Phase 2, 1,530 units (2005~2008)
Jeongneung Phase II, 527 units (2006~2009)
Jochiwon, 992 units (2007~2009)
Cheongju Gangseo, 385 units (2006~2008)
Pohang Yangdeok, 638 units (2007~2009)
Gwangmyeong Haan, 2,815 units (2006~2010)
Incheon Geomdan, 1,003 units (2005~2007)
Gyeryeong, 918 units (2005~2007)
Sanbon Phase 2, 677 units (2004~2007)
Suseong Phase 2, 447 units (2004~2007)
Amsa, 730 units (2004~2007)
Suwon Yeongtong, 230 units (2005~2007)
Osan Wondong, 2,368 units (2004~2007)
Hwagok, 1,259 units (2005~2007)

COMMERCIAL & MIXED USE PROJECTS

Sangnam Acro Tower (2005~2008)
ROK Air Force hanger facilities in Daegu (2004~2008)
Dongnamkwon Instrument Biz Complex (2006~2008)
Pyeongchon Acro Tower (2005~2007)
KBS Media Center (2005~2007)
Korea National Housing Corporation
Daegu HQ / Gwangju HQ (2004~2007)
ROK military hospital in Gwangju (2004~2007)
Jeonju Catholic Center (2005~2007)
Jeongeup Branch Office of Safety Assessment Institute(Korea Institute of Toxicology) (2006~2007)
Amore Pacific Gwangju HQ (2005~2007)



Pyeongchon Acro Tower, Korea

PETROCHEMICALS

Sales in the petrochemical group reached USD690.7 million (KRW642.1 billion) in 2006, a decrease of 3.6% compared to the prior year, and represented 15% of the company's total sales.





PB Plant, Yeosu, Korea

Review of Operation

The business environment in 2006 for the petrochemical group is slightly unfavorable compared to 2005 due to the slowdown in world petrochemical industries, high raw material prices, and strong Korean won.

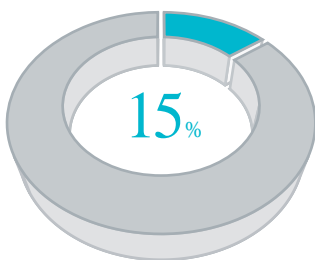
We made every effort to achieve our business objectives by maintaining stable factory lines based on productive relations between the union and management, aggressive marketing of specialty products, and cost reduction. However, sales only reached USD690.7 million (KRW642.1 billion), a 3.6% decrease from the previous year.

We expect the market will be much tougher in 2007, but the operating profit will be improved over that of 2006 thanks to an expected drop in raw material costs due to greater stability of oil prices. We are committed to more aggressive sales based on our customers' needs.

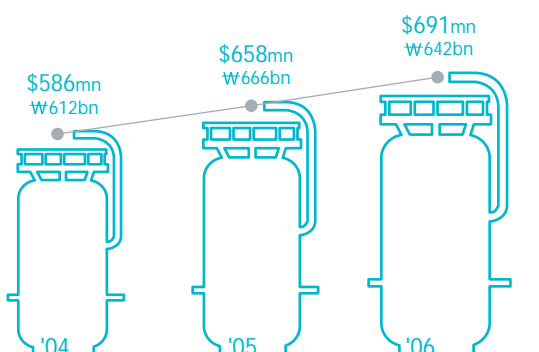
In 2007, we will concentrate on developing the Metallocene Polyethylene market, maximize profits of Poly-Butene (PB) business by expanding the production capacity of PB plant (from 45 thousand tons to 65 thousand tons) and focus on profit-oriented management by strengthening our core competitiveness.

We will also strengthen R&D, develop high quality and highly functional products and find high value-added businesses to enhance our business portfolio.

Sales portion of Petrochemicals in Daelim



Sales in Petrochemicals (in USD millions)



Major Products

- HDPE : 380,000 tons/year
- Compounds : 71,000 tons/year
- Polybutene : 45,000 tons/year
- BOPP film : 25,000 tons/year

The background of the page is an abstract composition. The top half features a teal-to-blue gradient sky with a thin, dark diagonal line and some faint, wispy clouds. Below this, a grey grid pattern is visible, overlaid with a black line graph that shows a sharp upward trend. The bottom half of the page is dominated by bold, overlapping geometric shapes in shades of magenta, red, and blue, creating a dynamic, modern look.

Financial Review

- 33 _ Selected Financial Data
- 34 _ Management's Discussion & Analysis
- 36 _ Report of Independent Auditors
- 38 _ Non-consolidated Balance Sheets
- 40 _ Non-consolidated Statements of Income
- 41 _ Non-consolidated Statements of
Appropriations of Retained Earnings
- 42 _ Non-consolidated Statements of Cash Flows

SELECTED FINANCIAL DATA

	2006		2005	
	in USD thousands	in KRW millions	in USD thousands	in KRW millions
Operating results				
Sales	4,592,601	4,269,282	4,202,097	4,256,724
Gross income	605,281	562,669	580,391	587,936
Operating income	289,317	268,949	316,569	320,684
Ordinary income	445,862	414,473	487,066	493,398
Net income	272,759	253,557	338,513	342,914
Financial position				
Current assets	2,398,355	2,229,511	1,884,513	1,909,012
Non-current assets	2,485,754	2,310,757	1,980,914	2,006,666
Total assets	4,884,109	4,540,268	3,865,427	3,915,678
Current liabilities	1,504,163	1,398,270	1,162,915	1,178,033
Long-term liabilities	652,454	606,521	453,709	459,607
Total liabilities	2,156,617	2,004,791	1,616,624	1,637,640
Capital stock	235,047	218,500	215,696	218,500
Capital surplus	1,329,828	1,236,208	1,210,570	1,226,307
Retained earnings	1,109,977	1,031,835	844,086	855,060
Capital adjustments	52,640	48,934	-21,549	-21,829
Total shareholders' equity	2,727,492	2,535,477	2,248,803	2,278,038
Data per share (in US\$/in Korean Won)				
Earnings	7.09	6,590	9.87	10,001
Book value	59.35	55,169	55.54	51,632
Dividends	1.45	1,350	1.97	2,000
Ratio				
Net income margin		5.9%		8.1%
Return on assets		6.0%		9.2%
Return on equity		10.5%		16.3%
Debt-to-equity		79.1%		71.9%
Current ratio		159.5%		162.1%
Exchange rate (₩/\$)		₩ 929.60		₩ 1,013.00

2006 Operating Environment

In 2006, the Korean economy experienced low private consumption, high oil prices and strong Korean won, service and construction business was rather slow while the manufacturing business continued its growth. The construction area experienced greater competition due to investment shrinkage and the government's strong real estate stabilization policies, which eventually polarized the market share between large and small companies. The domestic petrochemical market has also shrunk due to the more intense competition between companies and high prices of raw materials.

Despite the high oil price, the global economy showed a growth rate of 4% backed by the stable growth of the American economy, the recovery of Japanese economy and rapid growth of the Chinese economy. But the economic growth began to decline slowly during the second half of the year. Under these market conditions, Korean construction companies received recordable new international orders exceeding USD16.5 billion in 2006, an increase of 51% compared to USD10.9 billion in 2005. This '2nd Golden Time' for overseas construction market was possible because the Middle East Market was revived thanks to high oil prices and increased orders from new oil-producing countries in Africa.

2006 Operating Result

In 2006, Daelim achieved USD4.59 billion (KRW4.27 trillion) in sales, an increase of 0.3% compared to the previous year, backed by abundant backlogs even though the domestic economy remained sluggish. Our construction and petrochemical divisions recorded USD3.91 billion (KRW3.63 trillion), an increase of 1.0%, and USD690.7 million (KRW642.1 billion), a decrease of 3.6% over the prior year, respectively.

We won a total of USD5.5 billion (KRW5.1 trillion) worth of new orders, which break down to USD1.3 billion (KRW1.21 trillion) from civil works (24%), USD3.3 billion (KRW3.1 trillion) from building & housing works (60%), and USD0.9 billion (KRW0.8 trillion) from plant (16%) including USD366.8 million (KRW341 billion) from overseas plant construction. We achieved a strong 30% growth in civil works and a 24% growth in building & housing works compared to the previous year despite of the sluggish construction business environment. Our order backlog as of the end of 2006 reached USD12.4 billion (KRW11.5 trillion), which consisted of 34% of civil works, 54% of building & housing works and 12% of plants. We have made stable growth with well balanced business portfolio and differentiated competitiveness.

	2006	
	in USD thousands	in KRW millions
Net income		
Pre-tax income	371,167	345,037
Net income	272,759	253,557

	2006	
	in USD thousands	in KRW millions
Operating margin		
Sales	4,592,601	4,269,282
Operating income	289,317	268,949
Operating margin		6.3%

	2006	
	in USD thousands	in KRW millions
Financial position		
Total assets	4,884,109	4,540,268
Total liabilities	2,156,617	2,004,791
Total shareholder's equity	2,727,492	2,535,477

In the aspect of profitability, operating income decreased 16.1% over the previous year to USD289.3 million (KRW268.9 billion) mainly due to the increase of S&A expenses for receiving new orders including reconstruction projects. Ordinary income also decreased 16.0% compared to the prior year to USD445.9 million (KRW414.5 billion) due to a decrease of equity income from investment such as Yeochun NCC Co., Ltd. An extraordinary profit of USD8.0 million (KRW7.4 billion) and extraordinary loss of USD82.6 million (KRW76.8 billion) were incurred with respect to the projects of KARUN Dam, Iran, and MPRP, Eritrea, during the same period. Income taxes were USD98.4 million (KRW91.5 billion) and net income recorded USD272.7 million (KRW253.5 billion), a decrease of 26.1% over the previous year. EPS in 2006 was USD7.09 (KRW6,590) and operating margin and ROE were 6.3% and 10.5%, respectively.

As for financial position, Daelim's total assets as of the end of 2006 increased 16.0% over 2005 to USD4.88 billion (KRW4.54 trillion). Current assets and non-current assets increased 16.8% and 15.2%, respectively,

compared to the previous year mainly due to the purchase of land property for in-house business and the increase of investments in private SOC projects. Total liabilities increased 22.4% to USD2.16 billion (KRW2.01 trillion). Current liabilities and long-term liabilities rose by 18.7% and 32.0% to USD1.51 billion (KRW1.40 trillion) and USD652.4 million (KRW606.5 billion), respectively, due to the increase of working capital and borrowings. Shareholder's equity reached USD2.73 billion (KRW2.54 trillion) backed by the increase of retained earnings that rose by 20.7% compared to the previous year to USD1.11 billion (KRW1.03 trillion).

Market Outlook for 2007

Domestic Market In 2007 The Korean GDP is expected to grow to around 4%, considering major market variables such as oil prices, semi conductor business and housing market in the U.S. We assume domestic new orders in construction will drop by 4.0% to USD102.9 billion (KRW95.7 trillion) in 2007, primarily due to the decrease of demand for redevelopment and reconstruction. New orders in public construction sector are projected to drop by 1.6% because railroad business is converted to private investment. The private construction and housing orders are also expected to decrease by 5.2% and 7.4%, respectively, compared to the previous year. However, we expect a positive upturn of 1.2% in the civil work business because of active input of private investments. Our petrochemical business is expected to face quite tough competition in the market due to sluggish domestic demand and oversupply.

Overseas Market In 2007 The global economy growth rate is expected to show relatively lower growth than that of 2006, around 3.2%(E) among advanced countries, which may support our continued winning of overseas orders. We expect the Middle East area to lead new orders in plants and the Asian market would grow. The global petrochemical market is expected to make better profits thanks to more stable oil prices despite its continued depressing environment.

2007 Management Objectives and Strategies

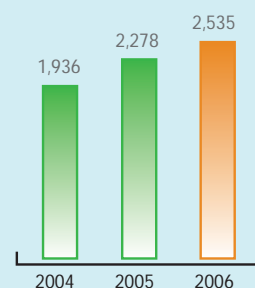
Daelim established a 3-year rolling plan from 2007 to 2009 to secure long-term profit, which is inevitable for its sustainable growth. For 2007 as the first year, we set our target for USD7.15 billion (KRW6.65 trillion) in new orders, USD5.2 billion (KRW4.8 trillion) in sales, and USD550.8 million (KRW512 billion) in ordinary income. To achieve this, we will actively participate in turn-key contracts in civil works, maintaining our dominant position over construction of bridges, dams, and harbors together and strengthening the competitiveness in SOC private investment business. On the other hand, for the building and housing works, we will secure what is essential in generating stable profits by strategically expanding the scale and proportion of in-house development and will actively find new development projects such as large-scale multi-complexes to overcome the growth limit of the existing market.

Regarding our domestic plants business, we will focus on the petrochemical and energy sectors backed by our extensive experience in engineering, procurement, and construction (EPC) as well as our unrivaled human resources. In the overseas market, we will seek for profitable projects centered on petrochemical or gas plants with thorough risk management.

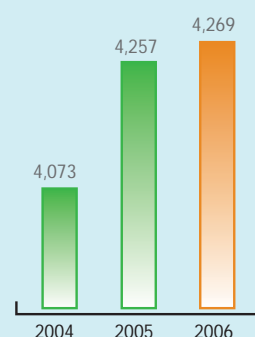
As for our petrochemical business, we will make efforts to develop metallocene polyethylene markets and focus on profit-centered management by maximizing the profit of PB business based on the extended PB production capacity from 45 thousand tons to 65 thousand tons in 2006. We will enhance our business with high value by developing high-quality products with various functions by increasing R&D investments.

Instead of resting on its laurels, Daelim will do its best to improve the quality of products and develop technologies that are essential to enhancing corporate competitiveness. Together, all of its corporate members will take a giant leap forward to make the company growing for 100 years by actively coping with the constantly changing business environment based on continuing reforms and innovation.

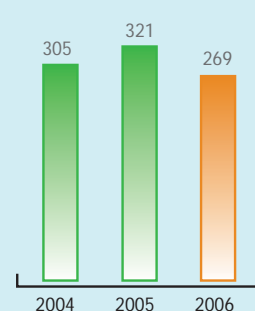
>> Shareholders' equity (in KRW billions)



>> Sales (in KRW billions)



>> Operating Income (in KRW billions)



To the Board of Directors and Shareholders of Daelim Industrial Co., Ltd.

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

We did not audit the financial statements as of and for the years ended December 31, 2006 and 2005, of Yeochun NCC Co., Ltd. and some subsidiaries, the investments in which are reflected in the accompanying non-consolidated financial statements using the equity method of accounting. The equity-method investments in those subsidiaries represent 19.7% of the Company's total assets as of December 31, 2006, and the equity in their net gains represents 43.0% of the Company's net income before income taxes for the year then ended. These financial statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the subsidiaries, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations, and cash flows in conformity with accounting principles and practices generally accepted in

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

Seoul, Korea
February 26, 2007

This report is effective as of February 26, 2007, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

NON-CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005

Assets	2006		2005	
	in USD thousands	in KRW millions	in USD thousands	in KRW millions
Current assets				
Cash and cash equivalents	\$53,474	₩49,709	\$46,002	₩46,600
Short-term financial instruments	6,561	6,099	9,865	9,993
Available-for-sale securities	12	11	1	1
Trade accounts and notes receivable, net	112,904	104,956	114,217	115,702
Construction work receivables, net	853,833	793,723	701,835	710,959
Lotting-out receivables, net	49,024	45,573	12,372	12,533
Short-term loans receivable, net	124,053	115,320	88,988	90,145
Other accounts receivable, net	221,889	206,268	186,627	189,053
Accrued income, net	9,783	9,094	8,375	8,484
Advance payments, net	29,499	27,422	44,568	45,147
Prepaid expenses, net	111,594	103,738	78,518	79,539
Inventories, net	823,032	765,091	593,145	600,856
Current deferred income tax assets	2,697	2,507	-	-
Total current assets	2,398,355	2,229,511	1,884,513	1,909,012
Non-current assets				
Long-term financial instruments	33	31	31	31
Long-term trade accounts and notes receivable, net	6,412	5,961	12,763	12,929
Available-for-sale securities, net	624,255	580,307	467,774	473,855
Equity-method investments	998,131	927,863	885,238	896,746
Guarantee deposits, net	46,451	43,181	28,919	29,295
Long-term prepaid expenses	285	265	506	513
Long-term loans receivable, net	128,269	119,239	107,423	108,819
Long-term other accounts receivable, net	15,895	14,776	24,117	24,431
Derivative financial instruments	14,818	13,775	7,032	7,123
Other investments, net	2,567	2,386	563	570
Property, plant and equipment, net	627,316	583,153	425,110	430,636
Intangible assets, net	21,322	19,820	21,438	21,718
Total non-current assets	2,485,754	2,310,757	1,980,914	2,006,666
Total assets	4,884,109	4,540,268	3,865,427	3,915,678

December 31, 2006 and 2005

Liabilities and Shareholders' Equity	2006		2005	
	in USD thousands	in KRW millions	in USD thousands	in KRW millions
Current liabilities				
Trade accounts and notes payable	\$562,284	₩522,699	\$559,250	₩566,520
Short-term borrowings	181,434	168,661	15,795	16,000
Other accounts payable	55,033	51,159	56,688	57,425
Current maturities of long-term debts, net	193,241	179,637	49,726	50,372
Other advances received	423,634	393,810	386,511	391,536
Lotting-out advances received	25,812	23,995	17,501	17,729
Withholdings	23,641	21,977	19,581	19,836
Accrued expenses	4,021	3,738	2,387	2,418
Income tax payables	35,063	32,594	55,273	55,992
Current deferred income tax liabilities	-	-	203	205
Total current liabilities	1,504,163	1,398,270	1,162,915	1,178,033
Non-current liabilities				
Debentures, net	354,657	329,689	277,813	281,425
Long-term borrowings, net of current maturities	75,368	70,062	20,115	20,377
Rental guarantees	35,455	32,959	29,802	30,189
Accrued severance benefits, net	17,307	16,089	8,557	8,668
Non-current deferred income tax liabilities	101,100	93,983	81,274	82,331
Derivative financial instruments	1,579	1,468	-	-
Reserve for loss on construction	14,277	13,272	11,443	11,592
Reserve for construction warranty	32,034	29,779	22,922	23,220
Reserve for contingent liability	20,677	19,220	1,783	1,805
Total non-current liabilities	652,454	606,521	453,709	459,607
Total liabilities	2,156,617	2,004,791	1,616,624	1,637,640
Shareholders' equity				
Common stock, ₩5,000 par value per share authorized-90,000,000 shares; issued and outstanding-34,800,000 shares	212,457	197,500	194,965	197,500
Preferred stock, ₩5,000 par value per share authorized-30,000,000 shares; issued and outstanding-3,800,000 shares	22,590	21,000	20,731	21,000
Capital surplus	1,329,828	1,236,208	1,210,570	1,226,307
Retained earnings	1,109,977	1,031,835	844,086	855,060
Capital adjustments	52,640	48,934	-21,549	-21,829
Total shareholders' equity	2,727,492	2,535,477	2,248,803	2,278,038
Total liabilities and shareholders' equity	4,884,109	4,540,268	3,865,427	3,915,678

NON-CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2006 and 2005

	2006		2005	
	in USD thousands	in KRW millions	in USD thousands	in KRW millions
Sales	\$4,592,601	₩4,269,282	\$4,202,097	₩4,256,724
Cost of sales	3,987,320	3,706,613	3,621,706	3,668,788
Gross profit	605,281	562,669	580,391	587,936
Selling and administrative expenses	315,964	293,720	263,822	267,252
Operating income	289,317	268,949	316,569	320,684
Non-operating income				
Interest income	14,661	13,629	27,699	28,059
Dividend income	1,934	1,798	3,123	3,164
Rental income	932	866	947	959
Refund of prior year's income tax	395	367	208	211
Gain on foreign currency transactions	1,637	1,522	3,882	3,932
Gain on foreign currency translation	5,314	4,940	3,824	3,874
Gain on disposal of available-for-sale securities	972	904	17,578	17,807
Gain on transaction of derivative financial instruments	3,273	3,043	7,861	7,963
Gain on valuation of derivative financial instruments	8,760	8,143	9,837	9,965
Gain on disposal of property, plant and equipment	1,193	1,109	4,843	4,906
Recovery of available-for-sale securities impairment loss	5,059	4,703	-	-
Recovery of property, plant and equipment impairment loss	6,077	5,649	-	-
Gain on valuation of equity-method investments	168,704	156,827	208,644	211,356
Reversal of reserve for contingent liability	313	291	-	-
Arrears income	5,117	4,757	4,592	4,652
Premium income	361	336	640	648
Others	26,669	24,790	27,590	27,949
Total non-operating income	251,371	233,674	321,268	325,445
Non-operating expenses				
Interest expense	24,895	23,142	21,077	21,351
Loss on foreign currency transactions	3,419	3,178	3,016	3,055
Loss on foreign currency translation	10,211	9,492	5,535	5,607
Loss on obsolescence of inventories	-	-	12	12
Donations	5,472	5,087	3,829	3,879
Loss on valuation of equity-method investments	4,728	4,395	575	582
Loss on disposal of investments	-	-	107	108
Loss on transaction of derivative instruments	410	381	182	184
Loss on valuation of derivative instruments	2,307	2,145	2,114	2,141
Loss on disposal of property, plant and equipment	2,723	2,531	342	346
Additional payment of income tax	94	87	33,888	34,329
Other bad debt expense	6,757	6,281	21,469	21,748
Loss on disposal of available-for-sale securities	1,627	1,512	22,636	22,930
Loss on impairment of available-for-sale securities	-	-	5,900	5,977
Transfer to reserve for contingent liability	19,048	17,707	1,782	1,805
Loss on redemption of debentures	3	3	-	-
Others	13,132	12,209	28,307	28,677
Total non-operating expenses	94,826	88,150	150,771	152,731
Ordinary income	445,862	414,473	487,066	493,398
Extraordinary gain	7,946	7,387	-	-
Extraordinary loss	-82,641	-76,823	-	-
Income before income tax	371,167	345,037	487,066	493,398
Income tax expense	98,408	91,480	148,553	150,484
Net income	272,759	253,557	338,513	342,914
Basic ordinary income per share (in USD/in Korean won)	8.497	7,899	9.873	10,001
Basic earnings per share (in USD/in Korean won)	7.089	6,590	9.873	10,001
Diluted ordinary income per share (in USD/in Korean won)	8.472	7,876	9.574	9,698
Diluted earnings per share (in USD/in Korean won)	7.070	6,572	9.574	9,698

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

Years Ended December 31, 2006 and 2005

	2006		2005	
	in USD thousands	in KRW millions	in USD thousands	in KRW millions
Retained earnings before appropriations				
Unappropriated retained earnings carried over from prior year	\$703,394	₩653,875	\$389,355	₩394,417
Effect of equity-method investments	-90	-84	-462	-468
Dividends on treasury stock	744	692	4,388	4,445
Net income	272,759	253,557	338,513	342,914
Total retained earnings before appropriations	976,807	908,040	731,794	741,308
Transfer from voluntary reserve				
Reserve for technology development	8,973	8,341	7,598	7,697
Appropriations of retained earnings				
Legal reserve	-5,626	-5,230	-7,641	-7,740
Reserve for technology development	-21,515	-20,000	-9,872	-10,000
Cash dividends	-56,261	-52,300	-76,397	-77,390
Total appropriations of retained earnings	-83,402	-77,530	-93,910	-95,130
Unappropriated retained earnings carried forward to subsequent year	902,378	838,851	645,482	653,875

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2006 and 2005

Cash flows from operating activities	2006		2005	
	in USD thousands	in KRW millions	in USD thousands	in KRW millions
Net income	\$272,759	₩253,557	\$338,513	₩342,914
Adjustments to reconcile net income to net cash provided by (used in) operating activities				
Depreciation	20,809	19,344	17,377	17,603
Amortization of intangible assets	3,181	2,957	4,885	4,949
Provision for severance benefits	24,749	23,007	30,385	30,780
Bad debt expense	15,146	14,080	11,540	11,690
Other bad debt expense	6,757	6,281	21,469	21,748
Interest expenses	1,986	1,846	5,965	6,043
Amortization of present value discount	335	311	2,759	2,795
Loss on redemption of debentures	3	3	-	-
Loss on disposal of investments, net	-	-	107	108
Loss on disposal of available-for-sale securities, net	654	608	5,057	5,123
Loss on impairment of available-for-sale securities	-	-	5,900	5,977
Recovery of available-for-sale securities impairment loss	(5,059)	(4,703)	-	-
Gain of equity-method investments, net	(163,976)	(152,432)	(208,069)	(210,774)
Loss on impairment of equity-method investments	-	-	-	-
Loss (gain) on disposal of property, plant and equipment, net	1,530	1,422	(4,501)	(4,560)
Recovery of property, plant and equipment impairment loss	(6,077)	(5,649)	-	-
Gain on valuation of derivative instruments, net	(6,452)	(5,998)	(7,724)	(7,824)
Loss on obsolescence of inventories	-	-	12	12
Loss on foreign currency translation, net	4,859	4,517	1,105	1,119
Transfer to reserve for contingent liability	18,735	17,416	1,782	1,805
Offset of leasehold deposits received (lotting-out revenue)	-	-	(87,095)	(88,227)
Return of present value discount	(1,808)	(1,681)	(3,780)	(3,829)
Extraordinary loss	74,694	69,436	-	-
Others, net	1,472	1,368	18,042	18,277
Total adjustments	(8,462)	(7,867)	(184,784)	(187,185)
Changes in operating assets and liabilities				
Decrease in trade accounts and notes receivable	19,825	18,429	7,813	7,915
Increase in construction work receivable	(106,617)	(99,111)	(91,389)	(92,577)
Increase in lotting-out receivables	(35,208)	(32,729)	(1,527)	(1,547)
(Increase) decrease in other accounts receivable	(19,120)	(17,774)	149	151
Decrease in accrued income	185	172	2,355	2,386
Decrease (increase) in advance payments	19,364	18,001	(16,210)	(16,421)
(Increase) decrease in prepaid expenses	(22,083)	(20,528)	9,102	9,220
Increase in inventories	(178,236)	(165,688)	(324,176)	(328,390)
Increase in current deferred income tax assets	(2,697)	(2,507)	-	-
(Decrease) increase in trade accounts and notes payable	(45,222)	(42,038)	71,647	72,578
(Decrease) increase in other accounts payable	(9,999)	(9,295)	4,315	4,371
Increase in other advances received	2,445	2,273	70,247	71,160
Increase in lotting-out advances received	6,741	6,266	308	312
Increase (decrease) in withholdings	2,315	2,152	(4,776)	(4,838)
Increase (decrease) in accrued expenses	1,686	1,567	(4,184)	(4,238)
Decrease in income tax payables	(29,988)	(27,877)	(31,057)	(31,461)
Decrease in current deferred income tax liabilities	(221)	(205)	(750)	(760)
Accrued severance benefits, net	(16,769)	(15,588)	(66,671)	(67,538)
Increase in non-current deferred income tax liabilities	12,286	11,421	58,280	59,038
Increase (decrease) in reserve for loss on construction	1,807	1,680	(11,699)	(11,851)
Increase in reserve for construction warranty	7,056	6,559	4,371	4,428
Increase in overseas operation translation adjustment	(4,621)	(4,296)	(3,099)	(3,139)
Dividends	146,130	135,842	132,858	134,585
Total changes	(250,941)	(233,274)	(194,093)	(196,616)
Net cash provided by (used in) operating activities	13,356	12,416	(40,364)	(40,887)

Years Ended December 31, 2006 and 2005

	2006		2005	
	in USD thousands	in KRW millions	in USD thousands	in KRW millions
Cash flows from investing activities				
Proceeds from short-term financial instruments	\$28,115	₩26,136	\$99,505	₩100,799
Proceeds from short-term loans receivable	248,766	231,253	193,214	195,726
Proceeds from long-term financial instruments	-	-	7	7
Proceeds from available-for-sale securities	20,712	19,254	168,210	170,397
Proceeds from held-to-maturity securities	-	-	959	971
Decrease in guarantee deposits	19,333	17,972	11,492	11,641
Proceeds from long-term loans receivable	101,511	94,365	95,827	97,073
Decrease in derivative financial instruments	14,215	13,214	8,044	8,149
Decrease in other investments	2,666	2,478	151	153
Disposal of property, plant and equipment	12,670	11,778	12,518	12,681
Acquisition of short-term financial instruments	(23,926)	(22,242)	(95,775)	(97,020)
Short-term loans receivable provided	(279,176)	(259,522)	(205,795)	(208,470)
Acquisition of available-for-sale securities	(129,948)	(120,800)	(100,703)	(102,012)
Acquisition of held-to-maturity securities	-	-	(5,209)	(5,277)
Increase in equity-method investments	(18,080)	(16,807)	(18,821)	(19,066)
Increase in guarantee deposits	(34,406)	(31,984)	(18,640)	(18,882)
Long-term loans receivable provided	(112,667)	(104,735)	(117,649)	(119,178)
Increase in derivative financial instruments	(13,742)	(12,775)	-	-
Increase in other investments	(3,267)	(3,037)	(258)	(261)
Acquisition of property, plant and equipment	(191,440)	(177,963)	(18,316)	(18,554)
Acquisition of intangible assets	(1,136)	(1,056)	(736)	(746)
Net cash (used in) provided by investing activities	(359,800)	(334,471)	8,025	8,131
Cash flows from financing activities				
Proceeds from short-term borrowings	2,234,686	2,077,364	918,719	930,662
Issuance of debentures	319,346	296,864	118,460	120,000
Increase in rental guarantees	7,802	7,253	3,423	3,467
Proceeds from long-term borrowings	53,787	50,000	-	-
Proceeds from disposal of treasury stock	-	-	5	5
Payment of short-term borrowings	(2,070,786)	(1,925,003)	(902,936)	(914,674)
Repayment of current maturities of long-term debts	(107,998)	(100,395)	(32,307)	(32,727)
Payment of cash dividends	(82,225)	(76,436)	(87,492)	(88,629)
Payment of issuance cost of debentures	-	-	(118)	(120)
Repayment of long-term borrowings	-	-	(2,125)	(2,153)
Decrease in rental guarantees	(4,823)	(4,483)	(4,892)	(4,956)
Net cash provided by financing activities	349,789	325,164	10,737	10,875
Net increase (decrease) in cash and cash equivalents	3,345	3,109	(21,602)	(21,881)
Cash and cash equivalents				
Beginning of year	50,129	46,600	67,604	68,481
End of year	53,474	49,709	46,002	46,600

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Jong-In Kim President & CEO

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