www.dsme.co.kr

85, Da-dong, Jung-Gu, Seoul, Korea
Tel: 82-2-2129-0114 / Fax: 82-2-756-4390

ANNUAL REPORT 2006

DAEWOO SHIPBUILDING & MARINE ENGINEERING CO., LTD.

BUILDING A FOUNDATION FOR SUSTAINABILITY

ANNUAL REPORT 2006

DSME has prospered into one of the leading shipbuilding and offshore contractors.
Based on advanced IT and systemized shipbuilding technologies, paired with a vast quantity of large plant and offshore structure management experience, the company can provide an extensive range of highly specialized vessels and offshore structures for use in the shipping, naval and energy industries.

DAEWOO SHIPBUILDING & MARINE ENGINEERING CO., LTD.

RELIABLE corporation

PROFILE

Daewoo Shipbuilding and Marine Engineering Co., Ltd. (DSME), is considered by many professionals in the industry to be the best shipbuilding company in the world. Based in Okpo, Korea, DSME conducts business with major shipping and energy companies from all around the world.

DSME has prospered into one of the leading shipbuilding and offshore contractors. Based on advanced IT and systemized shipbuilding tech-nologies, paired with a vast quantity of large plant and offshore structure management experience, the company can provide an extensive range of highly specialized vessels and offshore structures for use in the shipping, naval and energy industries.

With over 30 years' experience in shipbuilding and marine engineering, DSME prides itself on being able to complete sophisticated products with a level of technical superiority second-to-none, with on-time delivery and an unparalleled dedication to customer satisfaction. Hence, the company sees its number of repeat orders growing consistently and enjoys a long-lasting relationship with its clients.

DSME employs approximately 11,000 people, including about 1,500 design and R&D personnel, that construct various vessels, such as LNG and LPG carriers, containerships and tankers, as well as offshore platforms, drilling rigs, floating oil production units, submarines and destroyers, to the highest standards of quality.

The company is continuously shaping Korea's marine sector and strives to maintain its position as a model organization. It is committed to the wellbeing of society as a whole, by producing its products with an earnest dedication to quality, within a progressive and accountable working environment.

DSME is also devoted to satisfying the needs of both customers and employees, as a value-creating company that always seeks to serve its investors through solid and transparent business management.

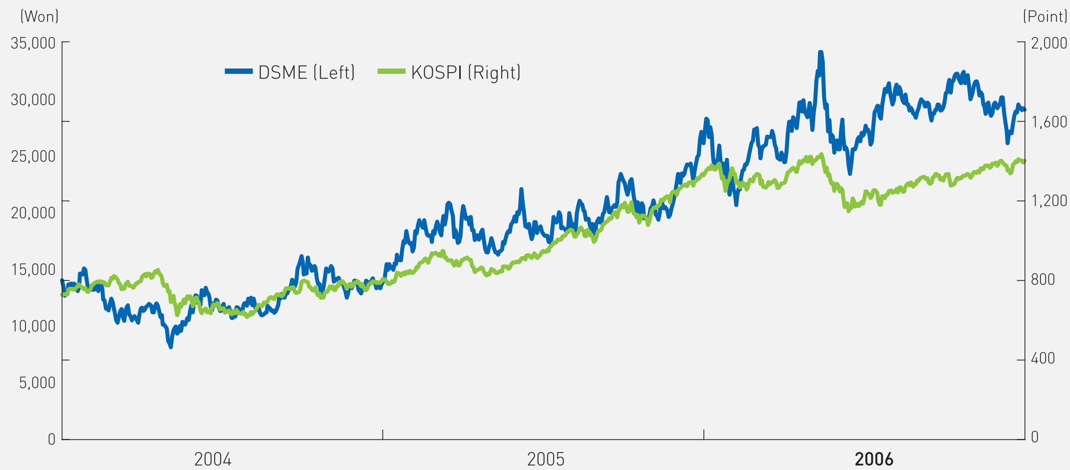
KEY FIGURES

Financial Summary

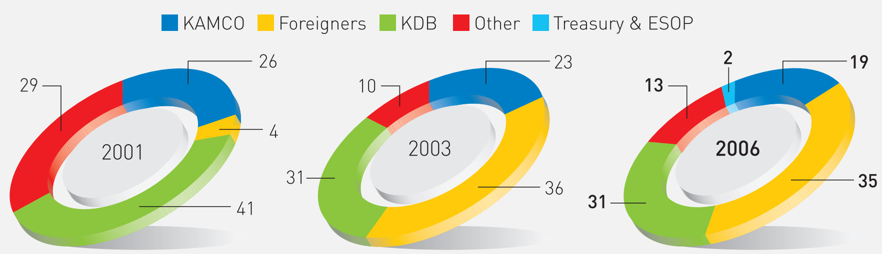
	(Billions of KRW)			(Millions of US$*)
	2004	2005	2006	2006
For the Year				
Sales	4,760.1	4,714.2	5,400.7	5,809.7
Gross Profit	266.0	81.7	62.4	67.2
Operating Income	60.8	(124.0)	(169.3)	(182.1)
Net Income	241.8	7.6	58.7	63.2
At Year End				
Total Assets	5,378.4	5,255.3	5,954.8	6,405.7
Total Liabilities	3,621.7	3,814.1	4,351.4	4,680.9
Total Shareholders' Equity	1,756.7	1,441.2	1,603.4	1,724.8
Financial Ratio				
Liability-to-Equity	206.2%	264.6%	271.4%	
ROE	15.3%	0.5%	3.9%	
ROA	5.2%	0.1%	1.1%	

* Korean won amounts are converted, solely for the convenience of readers, into U.S. dollars at KRW 929.6:US$ 1, the rates prevailing as of December 31, 2006

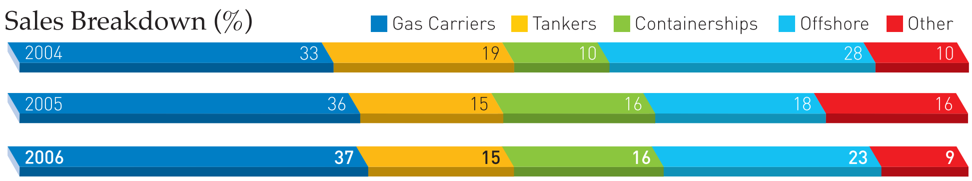
Stock Performance



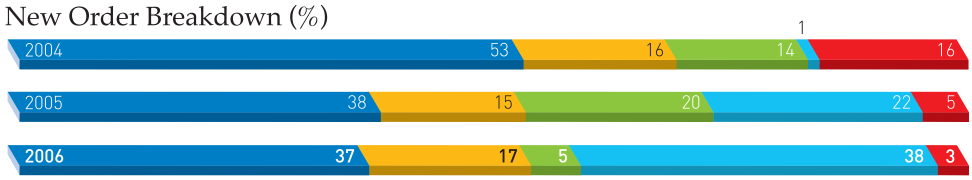
Shareholders (%)



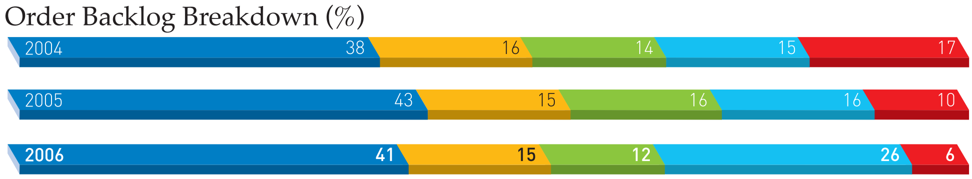
> Sales Breakdown (%)



> New Order Breakdown (%)



> Order Backlog Breakdown (%)



CEO MESSAGE

Esteemed shareholders of Daewoo Shipbuilding & Marine Engineering!

DSME has grown into a veritable global company thanks to your continued interest and support over the years.

The year 2006 was a particularly difficult year for the shipbuilding industry. A strong Won against the US Dollar as well as higher costs of materials continued to pose a challenge for us last year.

Concerted efforts from the management and employees have been geared toward overcoming such obstacles and fortunately, such exertions have paid off into a net income of KRW 58.7 billion. In terms of our new orders, we have seen a record of US$ 4.2 billion in orders in the offshore sector, turning it into one of the key business areas of DSME. The total scale of orders including those for shipbuilding amounted to a record-breaking US$ 11 billion in the fiscal year 2006.

Dear shareholders of DSME!

The business and economic circumstances for 2007 are not expected to be without hurdles. Amid expectations of sluggish economic growth in advanced countries, fluctuation in the exchange rates combined with increased costs of materials with relevance to the shipbuilding industry are giving rise to growing concerns over excessive supply from shipbuilding yards in China and a resulting drop in vessel prices. In other words, the business environment surrounding the shipbuilding industry is faced with increasing uncertainties.

In spite of such difficulties, we have reached the conclusion that revenue of KRW 7 trillion and new orders of US$ 11 billion in 2007 are necessary in order to induce sustained growth and stable profitability.

These intermediate goals are indispensable stepping stones to achieving our mid-term revenue target of KRW 15 trillion by 2011. I would have to admit that this goal is not easy to achieve considering the troubling domestic and international business environment.

However, we remain steadfast in our determination to implement our plans through meticulous preparation of new types of ships such as the company's first-ever drillship. With the intention to increase profits, we shall focus on risk management and reducing costs. Attention will also be given to high value-added products such as LNG carriers where we already enjoy a high competitive edge, and to series vessels that allow repeated manufacture of identical products.

Furthermore, we look forward to developing overseas business in earnest this year. Beginning with the creation of a national shipping company in Nigeria, which took place early this year, Okpo Shipyard productivity will be augmented with the addition of a shipbuilding block fabrication yard in China in the latter half of this year.

Relying on our experience in building gas carriers, we shall expand into the high value-added product market with LNG-FSRUs. In addition, we shall move into new business areas, in for example, the energy sector, in order to offer a new direction as a global leader in shipbuilding with the ability to create high profits whatever the business environment.

My respected shareholders!

DSME pledges to do its utmost in repaying the debt we owe to you for your continued support over the years by distancing ourselves from business fads or short term performances and by improving corporate value in the longer term with the objective of creating maximized profits amid adverse business circumstances. We intend to commit ourselves to enhancing overall competitiveness by solidifying core business sectors and identifying an engine for growth, while on the domestic front, we shall set our eyes on raising corporate value and planting roots of transparent business management in the organization through sustained reduction in costs and higher profitability.

We don't expect the year 2007 to be without challenges. The higher the impediments in business, the stronger we have turned out to be in spirit in the past. Likewise, all the constituents of the organization from high to low are more than ready to join hands to overcome the demanding business environment we are faced with. In 2007, we shall do our best to develop DSME towards the corporate image that is consistent with your expectations.

We wish the best of health and happiness to you and your families.

Yours sincerely,

President & CEO
Nam, Sang Tae

CORPORATE GOVERNANCE

DSME is cementing transparent corporate governance to raise its corporate value. To protect the rights of shareholders we have increased not only the number of, but also, the role of outside directors and have set up regulations on business ethics.

Board of Directors


NAM, SANG TAE
DSME, President & CEO


HUH, JONG UK
Former Director of
Korea Development Bank


CHUNG, DONG SOO
Former Vice Minister of
Ministry of Environment


HA, JOHNG IN
Former Standing Auditor of
Jeon Buk Bank


KIM, HEUNG JIN
Former Head of Financing Team of
Combank Leasing


KIM, HYOUNG TAE
Professor at
Chungnam National University
(Dept. of Ship & Ocean Eng.)


KIM, DONG GACK
DSME, Senior Executive Vice
President & CFO / COO


LEE, YOUNG MAN
DSME, Senior Vice President & CTO

All of these efforts have earned favorable assessments from external organizations. DSME received the Best Corporate Governance Award four years in a row from 2003 to 2006 and the Excellent Transparent Management Award at the Korea Ethical Management Grandprix on February 14, 2007.

INNOVATIVE
Strategy

In 2006 DSME presented its mid-term plans to achieve KRW 15 trillion in sales by 2011 (Vision 2011). The company is planning to continue growth as a true blue-chip shipbuilding and marine engineering company. The 'Vision 2011' strategy is one step on the way to realizing our long-term target of KRW 20 trillion by 2015.

Vision 2011

KRW 15 trillion in sales by 2011

Core Business Development

Shipbuilding Sales: KRW 8 trillion

- Establish annual production capacity of 75 vessels (Okpo+Overseas)
- Aim for the world no. 1 position in profitability

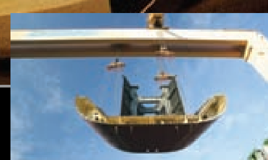
Offshore Sales: KRW 3 trillion

- Series order taking and repeated construction of similar model floaters
- Build 5-6 floaters per year in large offshore projects

New Business

New Business Sales: KRW 4 trillion

- Introduce and develop new business (Energy, Logistics, etc.)
- Focus on our global affiliates



CORE BUSINESS:
Enhanced Competitiveness of High-end Products

LNG Carriers, DSME's Engine for High Growth

DSME, already enjoying technical sophistication and shipbuilding experience, has received new orders to build 15 LNGCs in 2006, the largest number in the industry. As of December 2006, we had secured an order backlog 39 LNGCs. DSME has secured the biggest market share of 30% by taking orders for 72 out of a total 235 vessels since 2000. It has illustrated its dominant position by securing orders for 26 out of a total of 53 vessels intended for the Qatar Projects that began in June 2004. DSME has also signed an LSSA (Long-term Ship Supply Agreement) to protect future profits.

The LNGC sector has seen remarkable growth in terms of contributions to sales and order status. It accounted for 32% of total revenue (KRW 1.7 trillion) and 33% of new orders (US$ 3.7 billion) in 2006.

As of the end of 2006, 19 large LNGCs with capacities of over 200,000m^3 are waiting to be built. The LNGC sector is thus assuming a more vital role in acting as an engine for sustained growth.

Going further, DSME has been setting new landmarks in the LNGC sector by building the world's first ever large LNGC with a capacity of 210,100m^3 and having its design chosen as the industry standard. The company also designed a large LNGC with a capacity of 260,000m^3 and built the world's first LNG-RV. In the future, DSME intends to keep up its reputation as the world's best LNGC shipbuilder through consistent attention to technological development and enhanced customer satisfaction.

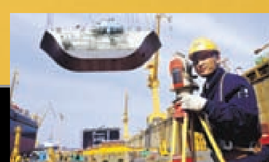
DSME received new orders to build 15 LNGCs and 7 offshore projects in 2006, accounting for 72% of total revenue from high-end vessels

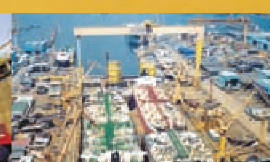
Offshore Projects, DSME's Flight toward Excellence

DSME has posted a record-breaking US$ 4.2 billion in orders for 7 high value-added offshore units including 6 floating type drilling rigs (including 3 drillships) and one fixed offshore platform. On the basis of total orders, it overtook LNGCs' share of 33% with 38%. It is highly likely that offshore engineering will further contribute to an increase in growth and profitability.

DSME has been recognized for its comprehensive array of technical expertise ranging from engineering, construction, installation and trial operation to running of very large offshore facilities by notable clients such as Chevron, Exxon Mobil, Transocean and Seadrill. In 2006, DSME succeeded in gaining the order for the world' largest DPP (Drilling and Production Platform) worth US$ 1.3 billion, from Cabinda Gulf Oil, a subsidiary of Chevron. In the meantime, having moved into the drilling rig business sector this year, DSME has received record orders for 3 drillships, including one worth US$ 519 million from Transocean.

Continuing high oil prices and the resulting rise in investment in drilling facilities are likely to persist. Amid such conditions, DSME shall remain steadfast in strengthening its competitive edge as one of the top marine engineering companies in the world.





NEW BUSINESS:
Engines for Accelerated Growth

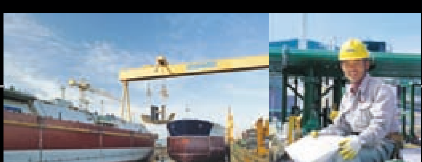
Marine Shipping Business Accelerates DSME Global Business

DSME set up a company called NIDAS (Nigeria Daewoo Shipping Ltd.) under joint partnership with the NNPC (Nigerian National Petroleum Company) on January 2, 2007.

DSME has become involved in energy development, construction of production facilities, and transportation businesses in Nigeria's offshore oil industry. Nigeria, for its part, will have the benefit of creating more revenue by transporting oil produced in Nigeria using its own company. DSME has a 49% stake in the joint company with the rest being assumed by NNPC. DSME will be responsible for overall business management including vessel operation, and in the initial period NNPC will transport its oil to overseas markets. Once a good transportation service network is set up, the new enterprise looks to be firmly set on its route. An early success will help DSME to expand its business into LNG and refined petroleum product imports, inshore transportation of dry bulk and containers, and ground logistics to seek revenue of more than KRW 1 trillion.

Accumulating Business Experience in Energy Development

DSME invested in the development of two offshore oilfields in Nigeria, which could contain up to 2 billion barrels of crude oil. The company's involvement is as part of a Korean Consortium (Korea National Oil Corp. 80%, KEPCO 10%, DSME 10%), which secured a 60% stake in the two oilfields.



Banking on its competitive edge in existing businesses, DSME is turning to overseas markets to operate shipbuilding yards and take part in energy development, construction of production facilities, and transportation businesses

Having started its energy development and marine shipping businesses in Nigeria, one of the top oil producers in Africa with a high growth potential, DSME plans to expand its business portfolio into logistics, manufacture of production facilities and energy-related areas branching out from the newly gained strategic foothold in Nigeria. It will also serve as a base for penetrating into the electric energy industry in Nigeria.

Exporting Operational Know-how

DSME signed an Operations and Management Services Agreement with Oman to operate a ship repair dock in Duqm, Oman on September 24, 2006. The Government of the Sultanate of Oman is currently building a ship repair yard on an area totaling about 245 acres in Duqm situated in the central part of Oman. This will be the largest ship repair dock of its kind in the Middle East with the ability to accommodate and repair 260,000 cbm-class LNGCs. DSME will provide consulting services over the next ten years concerning designing and constructing the dock and procuring equipment required.

The project has helped DSME create a new source of revenue from royalties without any investment risks, thanks to its shift from exporting only shipbuilding products to ship repair yard operating techniques, leading to annual revenue of KRW 10 billion. Maintaining closer ties with the Government of Oman will help DSME accomplish its venture into new businesses such as construction of infrastructure and development of natural resources.

CORPORATE SOCIAL RESPONSIBILITY

Community Care

DSME is running a Public Service Group comprised of six volunteer service groups; The Public Volunteer's Committee, Damuldan, The Sound of New Buds Committee, The True Love Welfare Committee and Hope Volunteer's Committee. Each and every component of the organization is giving its share in an effort to give hope and courage to people in need.

DSME has posted a 'Social Contribution Calendar' on the website to help employees see the kinds of social volunteer activities in operation. While more and more employees are taking part in the activities, this will ensure that activities become more streamlined and efficient.

DSME is actively supporting regional community volunteer work. For one, over 300 members of 42 volunteer groups including four DSME volunteer service groups have taken part in the Geoje Sarang Festival, celebrating volunteer work in the community. The participants lent their hand in farming and a clean-up of surroundings, offered medical services, and took part in washing and bathing elderly and physically disabled. This social contribution is extending overseas as well through scholarships for students of Korean descent in China to support children with learning disabilities and children suffering from leukemia there. New employees are actively involved in volunteer work and some are volunteering to help foreign workers in Korea.

DSME considers HSE the core of its business structure and work philosophy.

DSME has announced its medium-term strategy for 2011 and aims to earn respect as a world-class company known for its social commitment by joining the 1% Club and introducing Profit Sharing

HSE

Health

The company's new south-gate facility is purpose-built for HSE training and conducts simulated procedures using up-to-the-minute technology, including a virtual hull. Our workers are by far our most valuable resource and their health and safety has to take the No. 1 priority in all endeavors. This is evident when looking at last year's (2006) injury and illness rate, which was reduced by 31% (from 1.06% to 0.73%). The company schedules annual medical-checkups for all employees and has a state-of-the-art physiotherapy and physical training center on-site, as well as a full-service medical facility off-site.

Safety

Monthly campaigns ensure that safety comes first and daily safety training and pre-work cautionary exercises are carried out for site-managers, supervisors and relevant on-site personnel to instill a safety conscience in all DSME staff. DSME works continually with safety experts such as DuPont Safety Management to ensure that the highest standards of safety are maintained.

Environment

Since establishing itself as a 'Green Shipyard' in 1996, DSME has been continually strengthening its environmental management systems and preservation systems. The company places emphasis on decreasing the discharge of pollutants, minimizing energy consumption and developing and implementing green technology. DSME helped create the world's first environmentally friendly and poison-free marine paint. Low NOx technology and technology to reduce CO_2 emissions, are also utilized.

ENERGETIC Business

Daewoo Shipbuilding and Marine Engineering Co., Ltd. traces its beginnings to the construction of the Okpo Shipyard in Geoje-si, Gyeongsangnam-do in 1973. It has grown into a global shipbuilding and marine engineering company with expertise in building carriers such as LNG carriers, tankers, containerships, LPG carriers, and car carriers, offshore products such as FPSO, drilling rigs, and fixed platforms and specialty vessels including submarines, destroyers, rescue and patrol ships.

Over a total yard of 4.4 million square meters, DSME boasts the world's largest 1 million-ton dock with 900-ton Goliath Crane. Equipped with state-of-the-art facilities enhanced by consistent technology development, DSME is highly competitive in terms of high-tech shipbuilding.

Shipbuilding techniques based on IT technology, high-tech offshore platform building, large project management capability and advanced technologies involved in building submarines and destroyers have enabled DSME to acquire the capacity to produce all types of vessels and offshore products of the highest caliber.

DSME is particularly strong in high-end LNG carriers with the world's best technical expertise in this field. We have developed LNG-RVs that combine a regasification device into the LNG carrier using our own technology, a feat that can only be achieved by DSME. A total of 7 orders for LNG-RVs were made by the end of 2006 and three out of seven LNG-RVs have been delivered.

In the meantime, DSME has posted revenue of KRW 5.4 trillion and net income of KRW 58.7 billion as of 2006, continuing its bullish drive into positive net income. DSME has received US$ 11 billion in new orders in 2006 centering on high value-added products, and consequently, we have exceeded the US$ 10 billion mark in new orders for the first time.

We have set revenue and new order targets for 2007 at KRW 7 trillion and US$ 11 billion, respectively. For the sake of achieving our business goals and maintaining our competitive edge as the world's top producer of sophisticated products, we intend to remain vigilant to improving both quality and productivity, and to undertaking cost-reduction as well as turning our attention to developing new technologies and identifying potentially-promising new businesses to create additional sources of growth.

SHIP BUSINESS

DSME enjoys the most competitive position in terms of sophisticated technology involved in electronic products such as LNG carriers, VLCC, large containerships, LPG carriers and car carriers, and is more than likely to contribute to future growth and enhance profits following the completion of its strategic product-mix.

The shipbuilding business is equipped to produce 40 to 50 top-notch ships of varying types and sizes thanks to the top-of-the-line facilities and systematic application of the ERP system combined with the world's largest 1 million-ton dock, 900-ton Goliath Crane and the 3,600-ton offshore crane that has helped curtail the duration of shipbuilding.

With the introduction of a large floating dock and an offshore crane in 2006, a 210,100m^3-capacity LNG carrier was launched for the first time, opening up the era of large LNG carriers. Moreover, the standards employed in building large LNG carriers have been adopted as international standards, testifying to the competitive edge of our technology in building large LNG carriers.

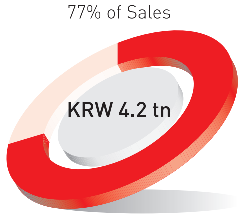
We also take pride in possessing state-of-the-art technology and cutting-edge competitiveness in the all product lines including VLCCs, large containerships, LPG carriers, and car carriers. The completion of a strategic product mix scheme in the foreseeable future is expected to contribute to further expansion in business and increase in profits.

The specialty vessel building sector provides passenger carriers and various kinds of naval vessels, including destroyers and submarines for home and abroad navy, and Korean Maritime Police. In 2006, we were successful in receiving a new order for the world class state-of-the-art 10,000-ton capacity destroyer, Aegis, and have completed building a 5,000-ton capacity destroyer to be delivered in due time.

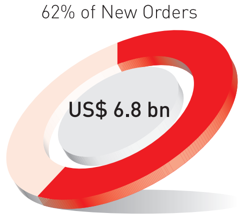
The shipbuilding business in 2007 will be geared toward increasing pro-ductivity on the basis of our advanced facilities. In addition, our objective is to maximize both stability in performance and profitability, while remaining relentless in our drive to reach our objective in new orders set at US$ 7.6 billion for 2007.

> Ship Business Share in 2006

77% of Sales



62% of New Orders



OFFSHORE BUSINESS

The offshore business in 2006 has posted record-breaking orders of US$ 4.2 billion including those for semi submersible drilling rigs and drillships as well as that for the US$ 1.3 billion offshore platform for Chevron, the world's largest in terms of size.

DSME possesses a wide range of technologies to allow it to successfully manufacture a product using its own technical expertise from engineering, construction, installation, to trial run and operation. All intended for final delivery to and satisfaction of the client.

Capitalizing on such technical capability and accumulated experience, DSME has maintained close partnerships with world oil majors such as Chevron, Exxon Mobil and Total. Further, we are given recognition by the world's largest oil drilling company, Transocean, in addition to Seadrill, Odfjell and Petroserv, for its high technical standards.

Furthermore, DSME has been acknowledged for its execution as an EPCI (Engineering, Procurement, Construction, and Installation) contractor. Banking on such recognition, DSME intends to set up a Global Resource Network to propel its growth into major league in the global offshore business.

In 2006, DSME saw the biggest scale of new order placements in total worth US$ 4.2 billion including semi-submersible drilling rigs and drillships and a US$ 1.3 billion offshore platform from Chevron. By delivering the Dalia FPSO to Total and successfully completing the Sable Project on behalf of Exxon Mobil, we have reached revenue of KRW 1.2 trillion in 2006.

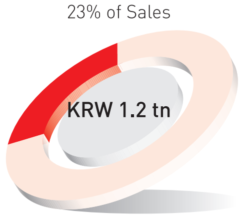
The goal in terms of new orders for 2007 is US$ 3.4 billion. As part of efforts to reach the target, we will do our best to accomplish a constructing system capable of 5 high value-added offshore products per year.

The offshore business's revenue objective for 2007 is set at KRW 2 trillion and we have every intention of turning offshore into one of DSME's core business areas that will help raise our corporate value and profitability for clients.

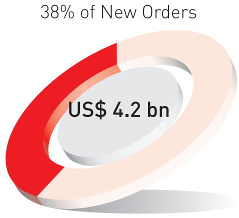
An optimum competitive edge solidified by the combination of a systematic production line and sophisticated shipbuilding and offshore technologies will allow DSME to concentrate on becoming a blue-chip marine engineering company in the world in the not so distant future.

> Offshore Business Share in 2006

23% of Sales

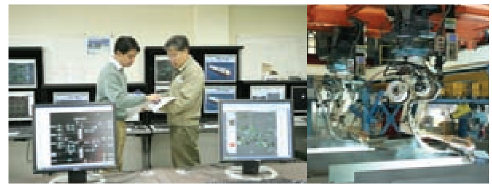


38% of New Orders



RESEARCH & DEVELOPMENT

DSME will concentrate efforts on developing design technologies that take into account productivity, quality and task feasibility of major products, and developing project engineering and base technologies that support the construction of high value-added offshore structures.



Currently, four R&D centers are in operation at DSME comprised of about 300 researchers involved in developing new products, improving the major products and introducing productivity enhancement.

The research centers consist of the following: the Ship and Ocean R&D Institute involved in studying base technologies relevant to fluid dynamics, structure analysis, vibration and noise; the Industrial Application R&D Institute conducting research on welding processes, distortions in welding, measurement technology and preventive measures for corrosion of ships; the Ship Basic Performance Research Institute concerns itself with hull analysis and structural safety, while the Robot R&D Institute is responsible for developing automation and robotics systems for assembly, welding and painting.

As for the achievements of individual institutes in 2006, the Ship and Ocean R&D Institute localized the technology for an LPG carrier cargo handling system and developed an in-house fatigue interpretation system. The Ship Basic Performance Research Institute invented a DSME-standard drillship and regasification device for use on LNG carriers.

In the meantime, the Industrial Application R&D Institute developed a real-time based tracking system for transporters and welding technology for large container ships, while the Robot R&D Institute successfully developed a part assembly welding robot and fire-resistant box installation device for LNG carriers.

DSME shall undertake to develop design techniques aligned with productivity, quality and task feasibility of major products and develop project engineering and base technologies to build high value-added offshore products. Last but not least, we shall make every effort to serve as pioneers in the development of new products such as FSRUs, drillships, and cruise liners, identified as our future engines of growth.

2006 AT A GLANCE

1. The Best Order Achievement ever for DSME

DSME hit a new high with orders totaling nearly US$ 11 billion in 2006, by clinching contracts for 48 products. This is significant growth considering that DSME exceeded this year's target amount of orders by over 10%. The average price per vessel has also reached a new high of US$ 250 million.

2. Strategic Objectives for 2011 Proclaimed

DSME proclaimed its strategic objectives for 2011. This states that DSME will be aiming for an annual revenue of KRW 15 trillion (US$ 15.6 billion) by 2011. And the Foundation Day of DSME has been set to honour the commencement of construction work at the Okpo shipyard.

3. New CEO Appointed

On March 7, Mr. S.T. Nam was appointed as the new President & CEO of DSME. He pledged he will concentrate on strengthening comprehensive company competitiveness, enhancing the company's corporate values and reinforcing transparent management, developing an enjoyable working environment.

4. Outsized Production Facilities to Provide Synergy for Future Growth

As the amount of production increases, more production facilities have been equipped at DSME this year. A 3,600-ton floating crane, an RD#3 floating dock, as well as another 900-ton Goliath Crane at the Neutae area were installed and went into operation.

5. Offshore Business Becomes Main Force

The offshore sector was also enjoying brisk orders. DSME won a record number of orders, a total of 7 offshore plants worth US$ 4.23 billion. DSME was the only shipbuilder in the world to have won orders worth more than US$ 4 billion in the offshore platform sector.

6. Company's Global Network Embodied

On Sep. 24th, DSME signed an Operations and Management Services Agreement with the Government of the Sultanate of Oman to construct, operate and manage a ship repair yard in Duqm, Oman. In July, the construction of DSSC's block factory started in Shandong, China in order to produce blocks for large-scale vessels. In addition, DSEC has also been executing its own programs in response to DSME's global network strategist.

7. Initiation into L-LNGC Construction

A total of 15 L-LNGCs are under construction in the Okpo yard, including a 210.1K cbm L-LNGCs for Pronav and 263K cmb L-LNGCs for QGTC. In terms of L-LNGCs, DSME has secured the largest number of orders among Korean yards.

8. And the Others are

There was other news worth mentioning such as the relocation of the DSME Seoul Office, zero fatalities recorded at the Okpo yard, and DSME's continued community service, and so on.

SUSTAINABLE
Financial Data

DSME recorded KRW 5.40 trillion in sales in 2006, up 14.6% from the previous year. Our net income also soared by KRW 51.1 billion to KRW 58.7 billion in 2006.

DSME achieved US$ 11.0 billion in new orders, exceeding its initial 2006 target of US$ 10.0 billion, with 48 new orders of mostly high value-added shipbuilding and offshore projects.

Forward-Looking Statements

Management's Discussion & Analysis (MD&A) provides access to our operations results, financial condition and future prospects for the fiscal year ended December 31, 2006. This MD&A should be read in conjunction with our Audited Financial Statements and related notes dated December 31, 2006. All amounts are in Korean Won (KRW), unless otherwise specified, and are based on financial statements prepared in accordance with Korean generally accepted accounting principles (GAAP).

The MD&A section may also contain forward-looking statements regarding our financial condition, results of operations, and general business, or relating to plans and objectives of our management. Daewoo Shipbuilding & Marine Engineering Co., Ltd. (DSME) cautions readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements.

Forward-looking statements only represent conditions as of the date they are made, and DSME undertakes no obligation to update publicly any of them in light of new information or future events.

Management's Discussion & Analysis

I. OVERVIEW

We, Daewoo Shipbuilding & Marine Engineering Co., Ltd. (DSME), have captured a solid position as a leading world-class company in the shipbuilding and offshore business area. Indeed, we are constructing various kinds of vessels ranked world best including LNG carriers, tankers, containerships, bulk carriers, passenger car ferries, submarines and destroyers, as well as FPSOs (Floating, Production, Storage & Offloading units), offshore drilling rigs, and fixed platforms.

In 2006, shipbuilding industry conditions were not favorable with the Korean won continuously rising against the dollar and the high raw material prices. Despite such a challenging market environment, we recorded KRW 5.40 trillion in sales in 2006, up 14.6% from the previous year. Our net income also soared by KRW 51.1 billion to KRW 58.7 billion in 2006. We achieved US$ 11.0 billion in new orders, exceeding our initial 2006 target of US$ 10.0 billion, with 48 new orders of mostly high value-added shipbuilding and offshore projects.

Overall, we successfully solidified our global leadership in the LNG carrier, and focused on offshore business as our new growth engine with US$ 4.2 billion of new orders in 2006. In fact, it was the first time ever for DSME to win over US$ 4 billion in offshore orders.

II. PERFORMANCE RESULTS

> Summary of Income Statements

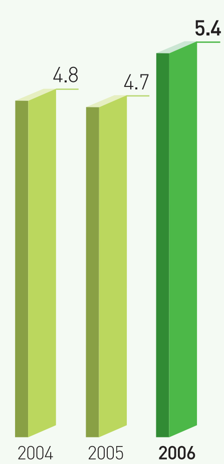
	(Billions of KRW)			(Millions of US$)
	2004	2005	2006	2006
Sales	4,760.1	4,714.2	5,400.7	5,809.7
Gross Profit	266.0	81.7	62.4	67.2
Operating Income	60.8	(124.0)	(169.3)	(182.1)
Ordinary Income	340.8	11.0	81.6	87.7
Net Income	241.8	7.6	58.7	63.2

* Korean won amounts are converted, solely for the convenience of readers, into U.S. dollars at KRW 929.6:US$ 1, the rates prevailing as of December 31, 2006

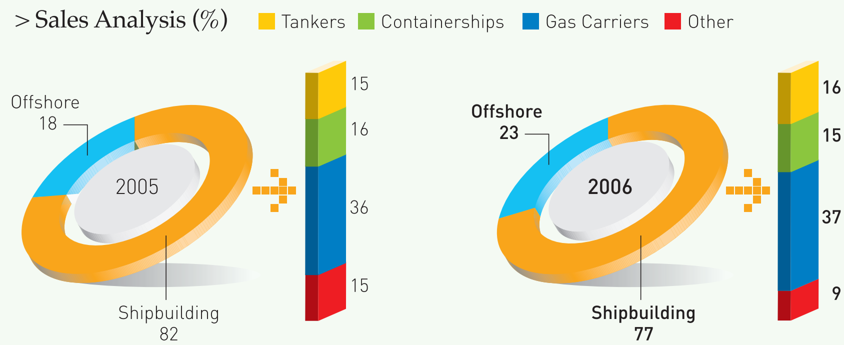
Sales

Total sales for the year 2006 stood at KRW 5.40 trillion, up 14.6% from KRW 4.71 trillion in 2005, primarily due to a better product mix focusing on LNG carriers and offshore products. The shipbuilding business division was still the most significant sales contributor, accounting for 77% of total sales. Offshore business also expanded 5% year-on-year to reach 23% of the total sales in 2006. In particular, sales generated from gas carriers in our shipbuilding business division improved most, accounting for 37% of the total sales. Sales of gas carriers in 2006 recorded KRW 2.0 trillion, up 18.3% from the previous year. This was due first of all to the global increase in natural gas consumption and because we secured new orders of high value-added shipbuilding products from various clients satisfied with DSME's shipbuilding quality. Tanker and containership sales also increased 18.5% and 11.6% year-on-year to KRW 842.7 billion and KRW 813.1 billion, respectively. The offshore business division also saw sales jump by 40.2% to record KRW 1.22 trillion in 2006.

> Sales Trends
(KRW tn)



> Sales Analysis (%)

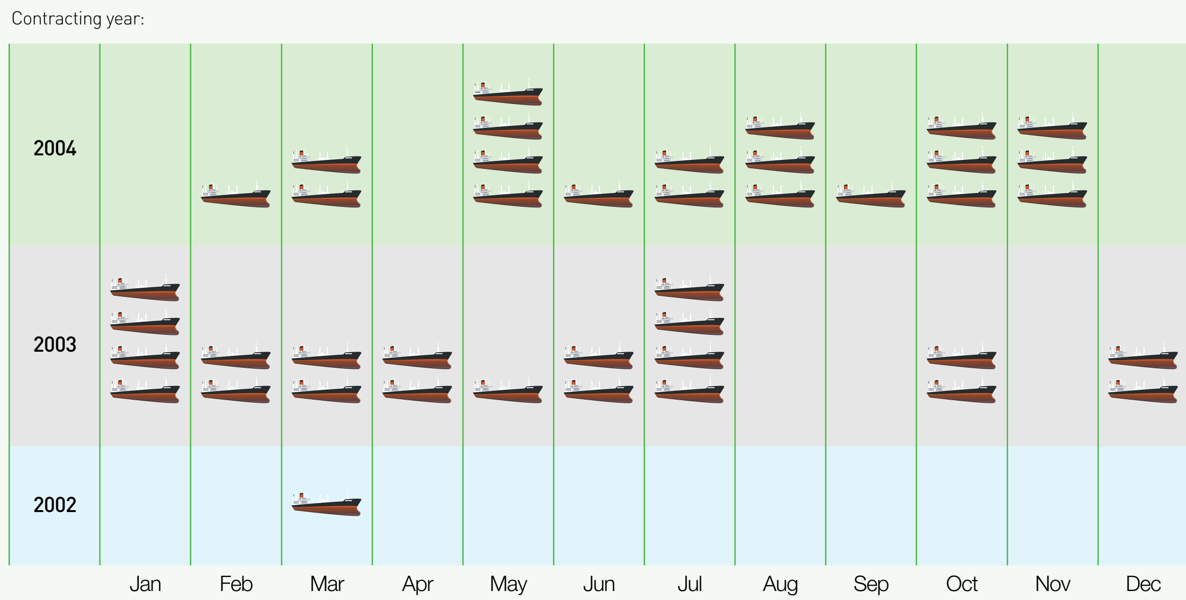


Profitability

Gross profit in 2006 declined by KRW 19.3 billion, from KRW 81.7 billion to KRW 62.4 billion, due to an increase in cost of sales. The main reasons for this change were external factors such as unfavorable global shipbuilding prices at time of order in 2003, the continuous rise of the won against the dollar, and the sudden high price of raw materials. Prices for shipbuilding orders placed in 2003 were significantly lower than those placed in the following years, and the portion of orders placed in 2003, at the then lower prices negatively affecting 2006, has now seen completion. Since 2003, global prices have recovered in an upward trend. The won gaining greater strength against the dollar throughout 2006 resulted in higher costs of sales from orders placed in US dollars. This factor together with high raw material costs meant that profitability slowed during 2006.

We recorded operating losses of KRW 169.3 billion in 2006, up KRW 45.3 billion from KRW 124.0 billion in 2005. However, these operating losses in 2006 derived from the lower contract prices of 2003 which were realized in the revenue of 2006. Still, in 2006, total net profit reached KRW 58.7 billion, up from KRW 7.6 billion in 2005, mainly due to gains of KRW 126.4 billion on the valuation of currency forward contracts.

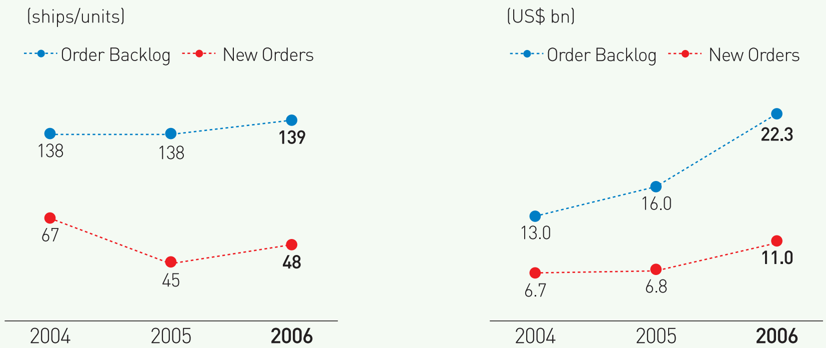
> Delivery Status in 2006



Management's Discussion & Analysis

New Orders and Backlog

> Status of Orders

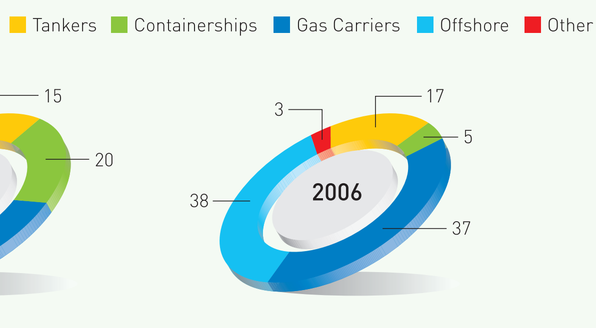


In 2006, we successfully gained a total of 48 new orders for shipbuilding and offshore projects, worth US$ 11.0 billion, a record high. This represents a drastic increase of 61.7% from US$ 6.8 billion in 2005. New orders included 15 LNG carriers at US$ 3.7 billion, 15 tankers at US$ 1.8 billion, and 7 offshore units at US$ 4.2 billion.

In the shipbuilding sector alone, our new orders reached US$ 6.8 billion in 2006, up 26.7% (US$ 1.5 billion) from US$ 5.3 billion in 2005, while the actual number of new orders in 2006 remained at almost the same as in 2005. This result was mainly derived from our strategic focus on high value-added shipbuilding contracts such as LNG carriers, LNG-RVs, VLCCs, and large containerships.

Moreover, our offshore business acquired 7 new orders at US$ 4.2 billion in 2006, an increase of 187% from the previous year. To compare the importance of offshore orders in terms of their value, the graph below shows that there has been a 16% rise in the order value of offshore products in 2006. This means that our offshore division has successfully positioned itself as one of our major high value-added growth drivers, the other being our LNG carrier business.

> New Orders Analysis (%)



Our order backlog as of December 31, 2006 recorded 139 ships and offshore units, remaining at a similar level of 138 projects in 2005. However, backlog value expanded 39.5% to US$ 22.3 billion in 2006 from US$ 16.0 billion in 2005. This was primarily due to our continuous efforts to gain more high value-added shipbuilding and offshore orders.

III. FINANCIAL STRUCTURE

> Summary of Balance Sheets

	(Billions of KRW)			(Millions of US $)
	2004	2005	**2006**	**2006**
Current assets	2,725.9	2,846.6	3,085.1	3,318.7
Property, plant and equipment	1,805.4	1,923.1	2,185.1	2,350.6
Other assets	847.1	485.6	684.6	736.4
Total assets	**5,378.4**	**5,255.3**	**5,954.8**	**6,405.7**
Advances from customers	1,829.3	2,200.0	2,985.2	3,211.3
Other current liabilities	1,392,2	1,073.0	788.5	848.2
Other liabilities	400.2	541.1	577.7	621.4
Total liabilities	**3,621.7**	**3,814.1**	**4,351.4**	**4,680.9**
Total shareholders' equity	**1,756.7**	**1,441.2**	**1,603.4**	**1,724.8**

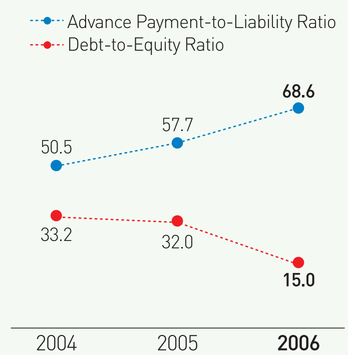
* Korean won amounts are converted, solely for the convenience of readers, into U.S. dollars at KRW 929.6:US$ 1, the rates prevailing as of December 31, 2006

Assets and Liabilities

At the end of 2006, our total assets stood at KRW 5.95 trillion, an increase of 13.3% from the previous year. Current assets grew 8.4% to KRW 3.09 trillion in 2006 due to a 5.1% (KRW 120.8 billion) and a 23.7% (KRW 117.7 billion) year-on-year increase in quick assets and inventories, respectively. Meanwhile, fixed assets increased 19.1% to KRW 2.87 trillion in 2006 due to higher currency forwards in investment assets and tangible assets.

Our total liabilities posted KRW 4.35 trillion, up 14.1% from the previous year. Of these, current liabilities increased 15.3% to KRW 3.77 trillion due to rises in advance payments from the clients with the significant orders acquired in 2006. In fact, advance payments from clients reached KRW 2.99 trillion in 2006, up 35.7% year-on-year. Our borrowings stood at KRW 240.8 billion, down by KRW 221.0 billion from 2005. As a result, the debt-to-equity ratio greatly improved to 15% in 2006 from 32% in 2005.

> Asset Soundness (%)



Shareholders' Equity

Total shareholders' equity at the end of 2006 was KRW 1.60 trillion, up 11.3% due to the significantly increased valuation gain on currency forwards. Gains on currency forwards were KRW 180.6 billion in 2006, an almost three times higher result compared to 2005.

IV. OUTLOOK FOR 2007

Our performance for the year 2006 was the most significant in terms of gaining new orders and sales as part of our mid-term plan 'Vision 2011.' In particular, we have consistently made efforts to secure high value-added products such as LNG carriers and, since 2001 turn-key based offshore products. Meanwhile, we expect growing demand for LNG carriers driven by the continuous increase in global natural gas consumption, and investment in oil production with higher oil prices. With these expectations, we set our new orders target for 2007 at US$ 11 billion.

Adding to our global network, we will continue to focus on shipbuilding and offshore as our core business in 2007. Furthermore, we will also develop new business in its shipping and energy sector. With this combined global network and a strategy coined 'Vision 2011', we are striving to accomplish KRW 15 trillion of sales by 2011.

Independent Auditors' Report

Based on a report Originally Issued in Korean

KPMG SAMJONG

KPMG Samjong Accounting Corp.
10th Floor, Star Tower, 737 Yeoksam-dong, Gangnam-gu, Seoul 135-984 Republic of Korea
Tel +82 (2) 2112 0100 Fax +82 (2) 2112 0101 www.kr.kpmg.com

The Board of Directors and Stockholders
Daewoo Shipbuilding & Marine Engineering Co., Ltd.:

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

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Daewoo Shipbuilding & Marine Engineering Co., Ltd. as of December 31, 2006 and 2005, and the results of its operations, the appropriation of its retained earnings, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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

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

As discussed in note 1(b) to the non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea.

In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable in Korean accounting principles and auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
February 7, 2007

This report is effective as of February 7, 2007, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Non-consolidated Balance Sheets

December 31, 2006 and 2005

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2006	2005	2006	2005
Assets				
Current assets:				
Cash and cash equivalents (notes 3 and 20)	₩ 97,814	₩ 434,706	$ 105,222	$ 467,627
Less government subsidies (note 14)	-	(38)	-	(40)
	97,814	434,668	105,222	467,587
Short-term financial instruments (notes 3, 8 and 12)	763,643	296,000	821,474	318,417
Short-term investment securities (notes 6 and 12)	1,845	27,122	1,985	29,176
Accounts receivable (notes 8, 12 and 20)				
Trade	1,236,023	1,239,787	1,329,629	1,333,678
Other	52,165	49,843	56,115	53,618
Less allowance for doubtful accounts	(1,412)	(14,841)	(1,519)	(15,965)
	1,286,776	1,274,789	1,384,225	1,371,331
Inventories (notes 4 and 10)	614,730	497,017	661,285	534,657
Prepaid construction costs	185,163	171,105	199,186	184,063
Current deferred income tax assets (note 27)	17,371	13,364	18,686	14,377
Advance payments	78,437	86,551	84,377	93,105
Other current assets (note 5)	39,325	45,957	42,304	49,436
Total current assets	3,085,104	2,846,573	3,318,744	3,062,149
Investments:				
Long-term investment securities (notes 6 and 12)	67,733	50,115	72,862	53,911
Equity method investments (notes 6 and 8)	101,815	96,522	109,526	103,832
Long-term loans (note 20)	45,507	49,590	48,954	53,346
Long-term accounts receivable - trade (notes 12 and 20)	3,833	7,598	4,124	8,173
Currency forwards (notes 8 and 22)	407,101	204,195	437,931	219,659
Deferred income tax assets (note 27)	-	14,657	-	15,767
Other investments (note 7)	32,131	26,987	34,565	29,029
	658,120	449,664	707,962	483,717
Property, plant and equipment, at cost (notes 9, 10, 11, 12, 17 and 38)	2,949,966	2,593,113	3,173,369	2,789,492
Less accumulated depreciation	(762,195)	(668,594)	(819,914)	(719,227)
Less government subsidies (note 14)	(2,622)	(1,447)	(2,822)	(1,556)
Net property, plant and equipment	2,185,149	1,923,072	2,350,633	2,068,709
Intangible assets (notes 13 and 38)	26,378	35,984	28,375	38,709
Total assets	**₩ 5,954,751**	**₩ 5,255,293**	**$ 6,405,714**	**$ 5,653,284**

(continued)

Non-consolidated Balance Sheets (Continued)

December 31, 2006 and 2005

	Won (millions)				U.S. dollars (thousands) (note 2)			
		2006		2005		2006		2005
Liabilities and Stockholders' Equity								
Current liabilities:								
Accounts and notes payable - trade (note 20)	₩	373,587	₩	413,928	$	401,879	$	445,276
Short-term borrowings (notes 8, and 20)		63,130		291,949		67,910		314,059
Accounts payable - other (notes 19 and 20)		188,029		225,077		202,268		242,122
Advances from customers (note 22)		2,985,246		2,200,045		3,211,323		2,366,658
Accrued expenses (notes 8, 14 and 20)		31,708		30,564		34,110		32,879
Current portion of long-term borrowings (notes 16 and 20)		45,706		16,573		49,168		17,829
Current portion of capital lease liabilities (note 17)		742		-		799		-
Provision for loss on construction contracts (note 37)		56,222		51,818		60,480		55,743
Other current liabilities (notes 15 and 20)		29,336		43,126		31,557		46,392
Total current liabilities		3,773,706		3,273,080		4,059,494		3,520,958
Long-term borrowings, less current portion (notes 16 and 20)		131,994		153,293		141,990		164,902
Long-term accounts payable - other (note 20)		95,158		95,843		102,364		103,101
Long-term accrued expenses (note 30)		4,378		6,574		4,710		7,072
Retirement and severance benefits (note 18)		25,327		79,462		27,244		85,479
Accrued warranty costs		52,256		49,329		56,214		53,065
Provision for contingent losses (notes 19 and 21)		117,732		140,516		126,649		151,157
Currency forwards (note 22)		12,464		15,975		13,408		17,184
Capital lease liabilities (note 17)		79,601		-		85,629		-
Deferred income tax liabilities (note 27)		58,719		-		63,166		-
Total liabilities		**4,351,335**		**3,814,072**		**4,680,868**		**4,102,918**
Stockholders' equity (note 23):								
Common stock, ₩5,000 par value:								
Authorized - 400,000,000 shares								
Issued - 191,390,758 shares		961,954		961,954		1,034,804		1,034,804
Retained earnings (note 24)		515,218		484,857		554,236		521,576
Capital adjustments (notes 6, 22 and 25)		126,244		(5,590)		135,806		(6,014)
Total stockholders' equity		**1,603,416**		**1,441,221**		**1,724,846**		**1,550,366**
Commitments and contingencies (notes 19 and 21)								
Total liabilities and stockholders' equity	₩	**5,954,751**	₩	**5,255,293**	$	**6,405,714**	$	**5,653,284**

See accompanying notes to the non-consolidated financial statements.

Non-consolidated Statements of Income

Years ended December 31, 2006 and 2005

	Won (millions, except earnings per share)		U.S. dollars (thousands, except earnings per share) (note 2)	
	2006	2005	2006	2005
Sales (notes 8, 22, 37, 38 and 40)	₩ 5,400,661	₩ 4,714,244	$ 5,809,662	$ 5,071,261
Cost of sales (notes 8, 33 and 40)	5,338,214	4,632,527	5,742,484	4,983,355
Gross profit	**62,447**	**81,717**	**67,178**	**87,906**
Selling and administrative expenses (notes 26 and 33)	231,733	205,749	249,285	221,331
Operating loss	**(169,286)**	**(124,032)**	**(182,107)**	**(133,425)**
Other income (expense):				
Interest income (note 8)	61,763	39,443	66,441	42,430
Interest expense (note 8)	(29,450)	(22,529)	(31,681)	(24,235)
Gain (loss) on foreign currency transactions, net	(21,358)	9,716	(22,975)	10,452
Gain on foreign currency translation, net	5,224	9,451	5,620	10,167
Gain (loss) on sale of property, plant and equipment, net	(1,570)	4,422	(1,688)	4,757
Equity in losses of affiliates, net (note 6)	(22,111)	(9,473)	(23,785)	(10,191)
Gain on valuation of currency forward contracts, net (note 22)	118,282	13,496	127,239	14,518
Gain on currency forward transactions, net	69,153	32,745	74,390	35,225
Accrued estimated contingent losses (note 19)	(5,956)	(121)	(6,407)	(131)
Reversal of allowance for doubtful accounts	13,405	1,132	14,421	1,218
Reversal of reserve for contingencies	248	1,298	267	1,396
Reversal of reserve for warranty costs	3,838	3,453	4,129	3,715
Miscellaneous income, net	52,943	52,872	56,953	56,876
Other, net	6,443	(831)	6,928	(893)
Ordinary income	**81,568**	**11,042**	**87,745**	**11,879**
Income taxes (note 27)	22,845	3,448	24,575	3,710
Net income	**₩ 58,723**	**₩ 7,594**	**$ 63,170**	**$ 8,169**
Earnings per share of common stock in Won and U.S. dollars (note 28)	**₩ 311**	**₩ 40**	**$ 0.33**	**$ 0.04**

See accompanying notes to the non-consolidated financial statements.

Non-consolidated Statement of Appropriation of Retained Earnings

Years ended December 31, 2006 and 2005
Date of Appropriation for 2006: March 16, 2007
Date of Appropriation for 2005: March 07, 2006

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2006	2005	2006	2005
Unappropriated retained earnings				
Balance at beginning of year	₩ 3,993	₩ 2,841	$ 4,295	$ 3,056
Changes in retained earnings of equity method investees	(4)	(245)	(4)	(263)
Net income	58,723	7,594	63,170	8,169
Balance at end of year before appropriation	62,712	10,190	67,461	10,962
Transfer from voluntary reserves:				
Reserve for research and human resource development	25,000	25,000	26,893	26,893
Unappropriated retained earnings available for appropriation	87,712	35,190	94,354	37,855
Appropriations of retained earnings:				
Legal reserve	4,800	2,840	5,164	3,055
Dividends - 5% on par value at 250 Won per share in 2006 and 3% on par value at 150 Won per share in 2005 (note 29)	47,262	28,357	50,841	30,505
Reserve for facility construction	30,000	-	32,272	-
	82,062	31,197	88,277	33,560
Unappropriated retained earnings to be carried over to subsequent year	**₩ 5,650**	**₩ 3,993**	**$ 6,077**	**$ 4,295**

See accompanying notes to the non-consolidated financial statements.

Non-consolidated Statements of Cash Flows

Years ended December 31, 2006 and 2005

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2006	2005	2006	2005
Cash flows from operating activities:				
Net income	₩ 58,723	₩ 7,594	$ 63,170	$ 8,169
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	122,122	109,250	131,371	117,524
Amortization	9,825	9,815	10,570	10,558
Foreign currency translation gain, net	(19,090)	(10,847)	(20,536)	(11,668)
Loss (gain) on sale of property, plant and equipment, net	1,570	(4,422)	1,688	(4,757)
Equity in losses of affiliates, net	22,111	9,473	23,785	10,191
Provision for retirement and severance benefits	56,043	53,295	60,288	57,331
Gain on valuation of currency forward contracts, net	(118,282)	(13,496)	(127,239)	(14,518)
Provision for estimated loss on construction contracts	199,002	221,792	214,073	238,589
Accrued warranty costs	31,074	14,296	33,427	15,379
Accrued estimated contingent losses, net	29,610	5,718	31,853	6,151
Reversal of allowance for doubtful accounts	(13,405)	(1,132)	(14,421)	(1,218)
Reversal of reserve for contingencies	(17,565)	(1,298)	(18,895)	(1,396)
Reversal of reserve for warranty costs	(3,838)	(3,453)	(4,129)	(3,715)
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable - trade	6,873	(290,874)	7,392	(312,902)
Decrease (increase) in accounts receivable - other	(2,418)	34,154	(2,601)	36,740
Decrease (increase) in accrued income	(7,239)	14,521	(7,787)	15,620
Increase in prepaid construction costs	(14,058)	(19,124)	(15,123)	(20,572)
Decrease (increase) in advance payments	8,114	(19,893)	8,728	(21,400)
Decrease in prepaid expenses	874	8,394	940	9,030
Decrease in deferred income tax assets	64,496	5,501	69,380	5,917
Increase in inventories	(117,713)	(10,305)	(126,628)	(11,085)
Decrease in long-term accounts receivable - trade	-	8,050	-	8,659
Increase (decrease) in accounts payable - trade	(39,957)	21,846	(42,983)	23,501
Decrease in accounts payable - other	(61,540)	(32,446)	(66,201)	(34,903)
Decrease in income taxes payable	(7,981)	(30,063)	(8,585)	(32,340)
Increase (decrease) in accrued expenses	1,111	(8,527)	1,195	(9,173)
Increase in advances from customers	785,201	370,776	844,665	398,855
Decrease in withholdings	(8,538)	(5,094)	(9,184)	(5,480)
Decrease in long-term accrued expenses	(3,798)	(194)	(4,085)	(208)
Decrease in provision for estimated loss on construction contracts	(194,599)	(284,777)	(209,336)	(306,344)
Decrease in accrued warranty costs	(24,308)	(2,251)	(26,149)	(2,421)
Decrease in currency forward contracts	32,843	73,316	35,330	78,868
Decrease in liability provision for contingent losses	-	(2,952)	-	(3,175)
Payment of retirement and severance benefits	(33,155)	(58,197)	(35,666)	(62,604)
Decrease (increase) in deposit for severance benefits	(77,764)	36,380	(83,653)	39,136
Other, net	188	9,598	204	10,323
Total adjustments	605,809	206,830	651,688	222,493
Net cash provided by operating activities	₩ 664,532	₩ 214,424	$ 714,858	$ 230,662

(continued)

Non-consolidated Statements of Cash Flows
(Continued)

Years ended December 31, 2006 and 2005

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2006	2005	2006	2005
Cash flows from investing activities:				
Decrease in short-term loans receivable	₩ 17,900	₩ -	$ 19,256	$ -
Decrease in short-term financial instruments	1,225,642	991,724	1,318,461	1,066,829
Decrease in long-term loans receivable	-	40,504	-	43,571
Decrease in guarantee deposits	2,453	20,159	2,639	21,686
Proceeds from sale of property, plant and equipment	3,039	7,236	3,267	7,785
Proceeds from sale of short-term investment securities	32,122	65,341	34,555	70,289
Increase in government subsidies	4,242	4,415	4,563	4,749
Increase in short-term financial instruments	(1,693,284)	(628,679)	(1,821,519)	(676,290)
Increase in short-term loans receivable	-	(17,900)	-	(19,256)
Acquisition of short-term investment securities	(5,000)	(5,000)	(5,379)	(5,379)
Acquisition of long-term investment securities	(1,706)	(15,252)	(1,835)	(16,407)
Acquisition of equity method securities	(29,600)	(48,635)	(31,842)	(52,318)
Increase in guarantee deposits paid	(93)	(5,617)	(100)	(6,043)
Acquisition of property, plant and equipment	(270,662)	(249,773)	(291,161)	(268,690)
Acquisition of capital lease assets	(24,293)	-	(26,132)	-
Acquisition of intangible assets	(219)	(169)	(235)	(182)
Other, net	(10,959)	(78)	(11,786)	(82)
Net cash provided by (used in) investing activities	(750,418)	158,276	(807,248)	170,262
Cash flows from financing activities:				
Proceeds from short-term borrowings	50,000	914,927	53,787	984,216
Proceeds from long-term borrowings	38,173	102,402	41,063	110,157
Repayment of short-term borrowings	(277,235)	(1,073,040)	(298,230)	(1,154,303)
Repayment of current portion of long-term borrowings	(16,521)	(57,383)	(17,773)	(61,728)
Repayment of long-term debt	(1,374)	-	(1,478)	-
Payment of accounts payable - other	(797)	(821)	(858)	(884)
Payment of capital lease liabilities	(14,894)	-	(16,022)	-
Payment of dividends	(28,358)	(66,167)	(30,504)	(71,177)
Net cash used in financing activities	(251,006)	(180,082)	(270,015)	(193,719)
Net increase (decrease) in cash and cash equivalents (note 31)	(336,892)	192,618	(362,405)	207,205
Cash and cash equivalents at beginning of year	434,706	242,088	467,627	260,422
Cash and cash equivalents at end of year	₩ 97,814	₩ 434,706	$ 105,222	$ 467,627

See accompanying notes to the non-consolidated financial statements.

Notes to Non-consolidated Financial Statements

December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements

(a) Organization and Description of Business

Daewoo Shipbuilding & Marine Engineering Co., Ltd. (the "Company") was established on October 1, 2000 as a result of the split-up of Daewoo Heavy Industry, Ltd. into two separate entities.

Major businesses of the Company include building and sale of various ships, including special-purpose ships, repair of ships, and construction of plants. The Company's shares have been listed on the Korea Exchange since February 2, 2001, and its global depositary receipts (GDR) were listed on the Luxembourg Stock Exchange on June 10, 2003. As of December 31, 2005, the Company's major stockholders consist of the Korea Development Bank ("KDB") (31.3%) and Korea Asset Management Corporation ("KAMCO") (19.1%).

(b) Basis of Presenting Financial Statements

The Company maintains its accounting records in Korean Won and prepares statutory non-consolidated financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended solely for use by only those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language non-consolidated financial statements.

Certain information attached to the Korean language non-consolidated financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying non-consolidated financial statements.

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

(c) Revenue Recognition

Revenue from construction contracts is recognized using the percentage-of-completion method, under which revenue is recognized as work progresses at the ratio that costs incurred bear to estimated total costs. The estimation of total construction cost is made in a systematic, reasonable and consistent method, which cost reflects information newly arising during construction activities.

(d) Allowance for Doubtful Accounts

The allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection. However, when principals of trade accounts and notes receivable, interest rate or repayment period are changed unfavorably for the creditor by a court imposition, such as on commencement of reorganization, or by mutual agreements and the difference between nominal value and present value is material, the difference is recognized as bad debt expense.

(e) Inventories

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

The Company recognizes interest costs and other financial charges on borrowings associated with inventories that require a long period in the acquisition, construction or production as an expense in the period in which they are incurred.

Notes to Non-consolidated Financial Statements

December 31, 2006 and 2005

(f) Investments in Securities

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

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

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

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

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

(g) Investment Securities under the Equity Method of Accounting

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

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

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

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

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

(h) Property, Plant and Equipment

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

Significant additions or improvements extending useful lives of assets are capitalized. However, normal maintenance and repairs are charged to expense as incurred.

Depreciation is computed by the straight-line method over useful lives of the respective assets as follows:

	Estimated useful lives (years)
Buildings	25~50
Capital lease buildings	25~50
Structures	12~50
Machinery and equipment	12
Ships and aircraft	15
Vehicles	6
Tools	6
Furniture and fixtures	6

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

The Company reviews the property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the expected estimated undiscounted future net cash flows from the use of the asset and its eventual disposal are less than its carrying amount.

(i) Leases

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

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

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

Effective January 1, 2006, the Company adopted SKAS No. 19, “Leases”. Under this standard, the above capital lease criteria have been amended. Specifically, the premise of substantially noncancellable lease has been removed and the criterion for a

Notes to Non-consolidated Financial Statements

bargain purchase option has been modified to include also a reasonable certainty, at the inception of the lease, that the option will be exercised. In addition, if the leased property is specialized to the extent that only the lessee can use it without any major modification, it would be considered a capital lease. The adoption of this standard had no impact on the accompanying non-consolidated financial statements.

(j) Intangible Assets

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

(i) Research and Development Costs

To assess whether an internally generated intangible asset meets the recognition criteria, the Company classifies the generation process into a research phase and a development phase. All costs incurred during the research phase shall be expensed as incurred. Costs incurred during the development phase shall be recognized as assets only if they satisfy all criteria for recognition. An intangible asset shall be recognized only if (1) it is probable that future economic benefits that are attributable to the asset will flow into the entity and (2) the cost of the asset can be measured reliably. If the costs incurred fail to satisfy all of these criteria, they shall be recorded as periodic expenses as incurred. Development cost is capitalized and amortized on a straight-line basis over the expected periods to be benefited, generally 5 years. The expenditure capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads.

(ii) Other Intangible Assets

Other intangible assets, which consist of industrial property rights, software and exclusive right to use facilities, are stated at cost less accumulated amortization and impairment losses. Such intangible assets are amortized using the straight-line method over a reasonable period based on the nature of the asset as follows:

	Estimated useful lives (years)
Industrial rights	5 ~ 10
Computer software	5
Exclusive right to use facilities	20 ~ 40

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

(k) Government Subsidies

Government subsidies which were used for acquisition of certain assets were recorded as a reduction from the acquisition cost of the related asset and such subsidies are offset against the amortization or depreciation expense on the acquired assets over useful lives of the assets. The Company records government subsidies of a type other than the above as a non-operating income or as an offset against certain matching expenses, if any.

(l) Retirement and Severance Benefits

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

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

(m) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the balance sheet date, with the resulting gains or losses recognized in the results of operations. Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at W929.60 to US$1, the rate of exchange on December 31, 2006 that is permitted by the Financial Accounting Standards. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate on the date of the transaction.

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

(n) Derivatives

Derivative instruments are recorded either as an asset or a liability measured principally at the fair value of rights or obligations associated with the derivative contracts. The unrealized gain or loss from derivative transactions is recognized in current operations. However, for derivative instruments with the purpose of hedging the exposure to the variability of cash flows of a forecasted transaction, the hedge-effective portion of the derivative's gain or loss is deferred as a capital adjustment, a component of stockholders' equity. The deferred gain or loss will be adjusted to the related asset or liability resulted from the forecasted transaction, or adjusted to income when the forecasted transaction affects the income statement. The ineffective portion of the gain or loss is recognized in current operations.

(o) Stock Options

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

(p) Expenditure before Construction Contracts

Expenditure made for the obtainment of contracts is recognized as prepaid construction costs only when it is directly related to specific construction contracts, separately identifiable and reliably measurable. The prepaid construction costs are expensed as part of construction costs upon commencement of the construction work.

(q) Provisions, Contingent Assets and Contingent Liabilities

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

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

(i) Provision for Estimated Loss on Construction Contracts

The Company records provision for losses on construction contracts at an amount equal to total estimated losses in building ships and others.

(ii) Provision for Construction Warranty Costs

The Company provides a reserve for estimated warranty costs relating to construction defects during the warranty period based on past experience.

Notes to Non-consolidated Financial Statements

December 31, 2006 and 2005

(r) Income Taxes

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

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

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

(s) Use of Estimates

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

(2) Basis of Translating Financial Statements

The non-consolidated financial statements are expressed in Korean Won and have been translated into U.S. dollars at the rate of W929.60 to US$1, the basic exchange rate on December 31, 2006, solely for the convenience of the reader. This translation should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.

(3) Restricted Deposits

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

	Won (millions)			
	2006		2005	
Cash and cash equivalents	₩	-	₩	38
Short-term financial instruments		41,643		10,000
Long-term financial instruments		37		37
	₩	41,680	₩	10,075

(4) Inventories

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

	Won (millions)			
	2006		2005	
Raw materials	₩	190,255	₩	223,658
Goods-in-transit		415,816		258,876
Others		8,659		14,483
	₩	614,730	₩	497,017

(5) Other Current Assets

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

Won (millions)

	2006	2005
Short-term loans	₩ -	₩ 17,900
Accrued income	20,276	9,655
Prepaid expenses	19,049	18,402
	₩ 39,325	₩ 45,957

(6) Investments in Securities

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

(a) Available-for-sale securities

(i) Marketable securities:

Won (millions)

Description	Percentage of ownership (%)	2006 Acquisition cost	2006 Fair value	2006 Book value	2005 Fair value
Long-term investment securities:					
KTB Network Corp.	0.10	₩ 169	₩ 409	₩ 409	₩ 464
Korea Line Corp.	7.56	25,702	37,416	37,416	19,501
Bergensen Worldwide	0.09	1,619	1,465	1,465	1,602
		₩ 27,490	₩ 39,290	₩ 39,290	₩ 21,567

(ii) Non-marketable securities:

Won (millions)

Description	Percentage of ownership (%)	2006 Acquisition cost	2006 Fair value	2006 Book value	2005 Book value
Long-term investment securities:					
Kyungnam Daily Newspaper	0.02	₩ 10	₩ 2	₩ 2	₩ 3
Namyang Metal Co., Ltd. (*1)	17.04	3,689	5,271	3,689	3,689
Korea Delphi Automotive Systems Corporation (*1)	6.12	7,289	15,379	7,288	7,289
Daewoo Information System Co., Ltd. (*1)	6.64	694	3,313	694	694
Kyungnam Trading Inc. (*1)	6.10	183	170	183	183
Kihyup Technology Banking Corp. (*1)	6.90	2,000	2,463	2,000	2,000
Cheju International Convention Center Co.,Ltd. (*1)	2.70	4,497	4,120	4,497	4,497
Doosan Engine Co., Ltd. (*1)	17.00	5,100	36,400	5,100	5,100
Korea Housing Guarantee Corp.	0.01	889	138	138	109
DAEWOO Auto & Technology	0.02	92	-	-	-
DSME UTech Co., Ltd. (*2)	80.15	616	649	616	616
KNOC West (321) (*1)	-	8	8	8	-
KNOC East (323) (*1)	-	8	8	8	-
Dolphin Property Limited (*1)	-	8	8	8	-

(continued)

Notes to Non-consolidated Financial Statements

December 31, 2006 and 2005

Description	Percentage of ownership (%)	2006 Acquisition cost	2006 Fair value	2006 Book value	2005 Book value
		Won (millions)			
Machinery Insurance Association (*1)	-	₩ 100	₩ 128	₩ 100	₩ 100
Korea Construction Insurance Association (*1)	-	742	863	742	742
Busan Materials Industrial Cooperative (*1)	10.50	210	204	210	210
MIC 2001-15 KDBC	8.00	1,000	908	1,000	1,000
Korea Ship Finance Co., Ltd. (*1)	3.54	300	385	300	300
Beneficiary certificates	-	115	108	108	103
		₩ 27,550	₩ 70,525	₩ 26,691	₩ 26,635

(*1) The companies above are recorded at book value as fair value is not available or readily determinable.
(*2) Investments in small affiliates with total assets amounting to less than ₩70 billion are accounted for by the cost method.

(iii) Changes in unrealized gains (losses) for the years ended December 31, 2006 and 2005 are summarized as follows:

	2006	2005
	Won (millions)	
Beginning balance	₩ (5,923)	₩ 1,052
Changes in unrealized gains (losses)	17,722	(6,976)
Deferred income tax adjustment	(3,245)	1,629
Ending balance	₩ 8,554	₩ (4,295)

(b) Held-to-maturity securities

	2006	2005
	Won (millions)	
Short-term investment securities:		
Government and public bonds	₩ 345	₩ 105
Other bonds	1,500	12,017
Specified money trust	-	15,000
	1,845	27,122
Long-term investment securities:		
Government and public bonds	1,752	1,913
	₩ 3,597	₩ 29,035

(c) Investments in affiliates

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

Company	Shares owned (thousands)	Percentage of ownership (%)	Cost	Market value or net assets	Balance at Dec 31, 2006
			Won (millions)		
Unlisted:					
DW Mangalia Heavy Industries S.A. (*)	530	51.00	₩ 44,805	₩ 3,863	₩ 3,863
DSEC Co., Ltd.	6,000	100.00	11,653	21,289	17,161
Welliv Corp.	2,000	100.00	23,617	27,118	20,826
Korea Marine Fund Corp. (*)	400	23.53	2,000	2,513	2,513
DSME Construction Co., Ltd. (**)	3,699	52.85	18,498	19,396	15,601
DSME Shandong Co., Ltd.	-	100.00	48,971	41,851	41,851
			₩ 149,544	₩ 116,030	₩ 101,815

(*) The Company used unaudited financial statements of the above affiliated companies when applying the equity method of accounting.
(**) This company changed its corporate name from JR Construction Co., Ltd. to DSME Construction Co., Ltd., pursuant to a resolution of a general meeting of stockholders held on March 21, 2006.

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

Won (millions)

Company	Shares owned (thousands)	Percentage of ownership (%)	Cost	Market value or net assets	Balance at Dec 31, 2005
Unlisted:					
DW Mangalia Heavy Industries S.A.(*)	530	51.00	₩ 44,805	₩ 9,699	₩ 23,178
DSEC Co., Ltd.	1,036	100.00	10,671	16,078	13,287
Welliv Corp.	2,000	100.00	23,617	24,999	18,707
Korea Marine Fund Corp. (*)	400	23.50	2,000	2,499	2,499
DSME Construction Co., Ltd.(**)	3,699	58.50	18,497	12,365	18,498
DSME Shandong Co., Ltd.	-	100.00	20,353	20,353	20,353
			₩ 119,943	₩ 85,993	₩ 96,522

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

Won (millions)

Affiliate	2006			
	Balance at Jan 1, 2006	Increase	Amortized amount	Balance at Dec 31, 2006
DSEC Co., Ltd.	₩ (701)	₩ -	₩ 49	₩ (652)
DSME Construction Co., Ltd.	-	1,109	(222)	887
	₩ (701)	₩ 1,109	₩ (173)	₩ 235

Won (millions)

Affiliate	2005			
	Balance at Jan 1, 2006	Increase	Amortized amount	Balance at Dec 31, 2006
DSEC Co., Ltd.	₩ (750)	₩ -	₩ 49	₩ (701)
DSME Construction Co., Ltd.	-	6,133	-	6,133
	₩ (750)	₩ 6,133	₩ 49	₩ 5,432

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

Won (millions)

Affiliate	2006		
	Current assets	Property & equipment	Total
DSEC Co., Ltd.	₩ (3,476)	₩ -	₩ (3,476)
Welliv Corp.	-	(6,293)	(6,293)
DSME Construction Co., Ltd.	-	(4,681)	(4,681)
	₩ (3,476)	₩ (10,974)	₩ (14,450)

Won (millions)

Affiliate	2005		
	Current assets	Property & equipment	Total
DSEC Co., Ltd.	₩ 516	₩ -	₩ 516
Welliv Corp.	(2,090)	-	(2,090)
DSME Construction Co., Ltd.	-	(6,292)	(6,292)
	₩ (1,574)	₩ (6,292)	₩ (7,866)

Notes to Non-consolidated Financial Statements

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

Won (millions)

		Adjustment to				
Affiliate	%	Beginning balance	Net income (loss)	Capital adjustment	Other increase (decrease)	Balance at December 31, 2006
DW Mangalia Heavy Industries S.A.	51.00	₩ 23,178	₩ (18,335)	₩ (980)	₩ -	₩ 3,863
DSEC Co., Ltd.	100.00	13,287	2,907	(15)	982(*1)	17,161
Welliv Corp.	100.00	18,707	2,119	-	-	20,826
Korea Marine Fund Corp.	23.53	2,499	213	5	(204)(*2)	2,513
DSME Construction Co., Ltd.	52.85	18,498	(3,111)	214	-	15,601
DSME Shandong Co., Ltd.	100.00	20,353	(5,904)	(1,216)	28,618(*3)	41,851
		₩ 96,522	₩ (22,111)	₩ (1,992)	₩ 29,396	₩ 101,815

(*1) Increase due to additional paid-in capital of DSEC Co., Ltd. on January 31, 2006.
(*2) Change in retained earnings
(*3) Increase due to additional paid-in capital of DSME Shandong Co., Ltd. on April 28, 2006.

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

Won (millions)

		Adjustment to				
Affiliate	%	Beginning balance	Net income (loss)	Capital adjustment	Other increase (decrease)	Balance at December 31, 2005
DW Mangalia Heavy Industries S.A.	51.00	₩ 32,890	₩ (8,316)	₩ (1,150)	₩ (246)	₩ 23,178
DSEC Co., Ltd.	100.00	6,224	3,414	(798)	4,447	13,287
Welliv Corp.	100.00	-	(4,910)	-	23,617	18,707
Korea Marine Fund Corp.	23.53	2,176	339	(16)	-	2,499
DSME Construction Co., Ltd.	52.85	-	-	-	18,498	18,498
DSME Shandong Co., Ltd.	100.00	-	-	-	20,353	20,353
		₩ 41,290	₩ (9,473)	₩ (1,964)	₩ 66,669	₩ 96,522

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

Won (millions)

Affiliate	Total assets	Total liabilities	Sales	Net income (loss)
DW Mangalia Heavy Industries S.A.	₩ 521,980	₩ 514,405	₩ 244,959	₩ (3,862)
DSEC Co., Ltd.	79,333	58,044	171,325	4,244
Welliv Corp.	34,023	6,904	61,202	2,120
Korea Marine Fund Corp.	12,949	2,271	2,775	903
DSME Construction Co., Ltd.	67,647	30,947	85,359	3,391
DSME Shandong Co., Ltd.	54,516	12,665	-	(5,904)

(7) Other Investments

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

Won (millions)

	2006	2005
Long-term financial instruments	₩ 37	₩ 37
Guarantee deposits	645	3,006
Membership	10,816	9,636
Long-term accrued income	7,455	10,838
Long-term prepaid expenses	1,948	3,470
Long-term accounts receivable - other	20	-
Other investment	11,210	-
	₩ 32,131	₩ 26,987

(8) Transactions and Balances with Related Companies

(a) The affiliated companies as of December 31, 2006 are listed below.

Company	Relationship
KDB (*1)	Ultimate controlling party
DMHI (*2)	Subsidiary
DSMEC (*3)	Subsidiary
DSEC Co., Ltd.	Subsidiary
Welliv Corp.	Subsidiary
DSSC (*4)	Subsidiary
DSME UTech Co., Ltd. (*5)	Subsidiary

(*1) The Korea Development Bank
(*2) Daewoo Mangalia Heavy Industries, S.A.
(*3) Daewoo Shipbuilding & Marine Engineering Construction Co., Ltd.
(*4) DSME Shandong Co., Ltd.
(*5) This company is a very small entity in which investment is not accounted for by the equity method.

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

Won (millions)

Related company		2006			
		Sales	Interest income and other	Purchases	Interest expense and other
Ultimate controlling party	KDB	₩ 19,349	₩ 58,985	₩ -	₩ 26,936
Subsidiary	DMHI	-	1,184	-	-
	DSEC Co., Ltd.	-	3,650	49,974	-
	Welliv Corp.	-	752	31,710	-
	DSMEC	-	205	56,024	-
	DSSC	-	4,293	-	-
	DSME UTech Co., Ltd.	-	11	949	-
		₩ 19,349	₩ 69,080	₩ 138,657	₩ 26,936

Notes to Non-consolidated Financial Statements

December 31, 2006 and 2005

Won (millions)

Related company		2005 Sales	Interest income and other	Purchases	Interest expense and other
Ultimate controlling party	KDB	₩ 32,044	₩ 28,243	₩ -	₩ 24,774
Subsidiary	DMHI	-	1,211	-	652
	DSEC Co., Ltd.	80	421	47,895	99
	Welliv Corp.	17	6,921	24,771	6
	DSME UTech Co., Ltd.	-	-	-	580
		₩ 32,141	₩ 36,796	₩ 72,666	₩ 26,111

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

Won (millions)

Related company	2006 Due from: Financial instruments	Due from: Accounts receivable - trade	Due from: Accounts receivable - other	Due from: Currency forwards, etc.	Due to: Short-and long-term borrowings	Due to: Accrued expenses, etc.
KDB	₩ 512,302	₩ -	₩ -	₩ 86,094	₩ 210,995	₩ 4,101
DSMEC	-	-	110	755	-	20,031
DSSC	-	-	4,100	-	-	-
DSEC Co., Ltd.	-	43	1,375	-	-	3,631
Welliv Corp.	-	-	-	-	-	3,440
DSME UTech Co., Ltd.	-	-	-	-	-	100
	₩ 512,302	₩ 43	₩ 5,585	₩ 86,849	₩ 210,995	₩ 31,303

Won (millions)

Related company	2005 Due from: Financial instruments	Due from: Accounts receivable - trade	Due from: Accounts receivable - other	Due from: Currency forwards, etc.	Due to: Short-and long-term borrowings	Due to: Accrued expenses, etc.
KDB	₩ 447,646	₩ -	₩ -	₩ 23,251	₩ 308,497	₩ 5,724
DMHI	-	3,545	10,904	-	-	-
DSEC Co., Ltd.	-	22	80	-	-	6,363
DSME UTech Co., Ltd.	-	-	-	-	-	2,366
	₩ 447,646	₩ 3,567	₩ 10,984	₩ 23,251	₩ 308,497	₩ 14,453

(d) Key management personnel compensation in total and for each of the following categories for the year ended December 31, 2006 are as follows:

	Won (millions)
Short-term salaries	₩ 1,200
Post-retirement payments	1,568
Long-term compensation	2
Termination benefits	-
Stock granted for services	319
	₩ 3,089

(e) The Company has provided guarantees for related companies as of December 31, 2006 are as follows:

Related party	Creditor	Type of obligations guaranteed	Won (millions), U.S. dollars (thousands)
DSEC Co., Ltd.(*)	NASSCO.	Performance of contracts and others	$ 251,000
DSMEC	PLD & C	Performance of contracts	₩ 49,200

(*) The Company has provided guarantees for DSEC Co., Ltd. in regard to the latter's performance of contracts and warranties for material supply contracts amounting to $1 million and $250 million, respectively. However, the Company has a right to indemnity in regard to the warranties because DSEC Co., Ltd. has similar guarantee contracts with its own suppliers.

(f) The guarantees provided by related parties as of December 31, 2006 and 2005 are as follows:

U.S. dollars (thousands)

		2006	
Guarantor	Type of obligations guaranteed	Guaranteed amount	Borrowings
KDB	Usance bills	$ 300,000	$ 41,322
KDB	Advance payment bonds	1,341,992	-
		$ 1,641,992	$ 41,322

U.S. dollars (thousands)

		2005	
Guarantor	Type of obligations guaranteed	Guaranteed amount	Borrowings
KDB	Usance bills	$ 300,000	$ 137,365
KDB	Advance payment bonds	1,255,124	-
		$ 1,555,124	$ 137,365

(g) Detail of equity securities issued by related companies which are included in investments in securities and equity method investments as of December 31, 2006 and 2005 are as follows:

Won (millions)

			2006		
Company	Shares owned (thousands)	Percentage of ownership (%)	Cost	Market value or net assets	Balance at December 31, 2006
Unlisted:					
DW Mangalia Heavy Industries S.A.	530	51.00	₩ 44,805	₩ 3,863	₩ 3,863
DSEC Co., Ltd.	6,000	100.00	11,653	21,289	17,161
Welliv Corp.	2,000	100.00	23,617	27,118	20,826
Korea Marine Fund Corp.	400	23.53	2,000	2,513	2,513
DSME Construction Co., Ltd.	3,699	52.85	18,498	19,396	15,601
DSME Shandong Co., Ltd.	-	100.00	48,971	41,851	41,851
DSME UTech Co., Ltd.	124	80.15	616	649	616
			₩ 150,160	₩ 116,679	₩ 102,431

Notes to Non-consolidated Financial Statements

December 31, 2006 and 2005

Won (millions)

Company	Shares owned (thousands)	Percentage of ownership (%)	Cost	Market value or net assets	Balance at December 31, 2005
		2005			
Unlisted:					
DW Mangalia Heavy Industries S.A. (*)	530	51.00	₩ 44,805	₩ 9,699	₩ 23,178
DSEC Co., Ltd.	1,036	100.00	10,671	16,078	13,287
Welliv Corp.	2,000	100.00	23,617	24,999	18,707
Korea Marine Fund Corp. (*)	400	23.50	2,000	2,499	2,499
DSME Construction Co., Ltd.	3,699	58.50	18,497	18,498	18,498
DSME Shandong Co., Ltd.	-	100.00	20,353	20,353	20,353
DSME UTech Co., Ltd.	124	80.15	616	616	616
			₩ 120,559	₩ 92,742	₩ 97,138

(9) Property, Plant and Equipment

(a) Changes in property, plant and equipment for the year ended December 31, 2006 are as follows:

Won (millions)

	Beginning balance	Acquisition	Disposals	Depreciation	Other	Ending balance
Land	₩ 537,659	₩ 4,101	₩ 636	₩ -	₩ -	₩ 541,124
Land on capital lease	-	1,374	-	-	63,810	65,184
Buildings	435,800	1,161	1,763	17,805	35,861	453,254
Buildings on capital lease	-	22,918	-	815	31,428	53,531
Structures	337,675	545	115	16,165	133,297	455,237
Machinery	216,066	51,160	962	36,059	7,716	237,921
Vehicles	30,086	11,557	11	12,047	-	29,585
Ships and aircraft	39,985	1,233	-	6,802	55,237	89,653
Tools	36,997	28,789	187	15,591	3,625	53,633
Furniture and fixtures	52,064	9,488	932	16,838	1,198	44,980
Construction-in-progress	236,740	162,629	-	-	(238,322)	161,047
	₩ 1,923,072	₩ 294,955	₩ 4,606	₩ 122,122	₩ 93,850	₩ 2,185,149

(b) Changes in property, plant and equipment for the year ended December 31, 2005 are as follows:

Won (millions)

	Beginning balance	Acquisition	Disposals	Depreciation	Other	Ending balance
Land	₩ 527,034	₩ 5,551	₩ 4,160	₩ -	₩ 9,234	₩ 537,659
Buildings	419,152	5,204	3,795	17,143	32,382	435,800
Structures	335,219	688	-	13,255	15,023	337,675
Machinery	208,469	30,599	869	32,667	10,534	216,066
Vehicles	38,663	3,688	82	12,176	(7)	30,086
Ships and aircraft	24,020	455	-	3,986	19,496	39,985
Tools	42,617	6,390	72	13,297	1,359	36,997
Furniture and fixtures	56,307	11,569	129	16,726	1,043	52,064
Construction-in-progress	153,943	185,629	-	-	(102,832)	236,740
	₩ 1,805,424	₩ 249,773	₩ 9,107	₩ 109,250	₩ (13,768)	₩ 1,923,072

(10) Insurance

(a) The Company's insurance coverage as of December 31, 2006 is as follows (in million Won, thousand U.S. dollars):

Type of insurance	Property / Persons covered	Coverage		Insurer
Fire insurance	Buildings, structures, machines and inventory	₩	104,061	Meritz Fire & Marine Insurance Co., Ltd. and others
Property all risks policy	Inventory, property, plant and equipment	₩	819,728	Fire Insurance Association and others
Ship insurance	Vessels	₩	76,713	Cheil Fire and Marine Insurance and others
		$	10,000	Samsung Fire and Marine Insurance
Aircraft insurance	Helicopters	$	30,500	Cheil Fire and Marine Insurance and others
Shipbuilding insurance	Vessels in progress	$	2,626,667	Hyundai Marine and Fire Insurance
Crew personal accident insurance	Pilots and other crew	$	6,100	Cheil Fire and Marine Insurance and others
Indemnity liability insurance	High pressure gas	₩	300	Meritz Fire & Marine Insurance Co., Ltd.
	Officers	₩	30,000	Cheil Fire and Marine Insurance and others
Shipbuilding indemnity liability insurance	A vessel other than #2230	$	55,000	Hyundai Marine and Fire Insurance
Marine indemnity liability insurance	3 vessels other than #6043	$	20,000	Hyundai Marine and Fire Insurance
Transportation insurance	7302	₩	4,000	Korea Fire Protection Association
Assembly insurance	7028(KDX II No.5)	₩	245,968	Korea Fire Protection Association
		₩	1,280,770	
		$	2,748,267	

(b) Additionally, the Company maintains comprehensive and liability policies coverage for vehicles, business interruption, employee indemnification, industrial disaster and gas casualties as of December 31, 2006.

(11) Officially Declared Value of Land

The officially declared value of land at December 31, 2006 and 2005, as announced by the Minister of Construction and Transportation, are as follows:

Won (millions)

	2006		2005	
Location	Book value	Declared value	Book value	Declared value
Geoje, Kyungnam	₩ 598,071	₩ 555,134	₩ 529,422	₩ 463,659
Yong-in, Kyung-gi	8,237	12,810	8,237	9,777
	₩ 606,308	₩ 567,944	₩ 537,659	₩ 473,436

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

Notes to Non-consolidated Financial Statements

December 31, 2006 and 2005

(12) Pledged Assets and Guarantees

(a) Collateral pledged for the Company's borrowings as of December 31, 2006 is as follows:

Won (millions), U.S. dollars (thousands)

Asset	Lender	Collateralized amount
Short-term financial instruments	Gyeongsangnam-do (Provincial government)	₩ 10,000
Accounts receivable -trade	Export-Import Bank of Korea	$ 3,376
Long-term accounts receivable - trade	Export-Import Bank of Korea	$ 4,124
Long-term investment securities	Korea Housing Guarantee Co., Ltd.	₩ 138
Property, plant and equipment	KDB and other	₩ 410,320
		$ 880,000
		₩ 420,458
		$ 887,500

(b) Guarantees the Company has provided for others as of December 31, 2006 are as follows:

Provided for	Lender	Won (millions)
Daewoo Corp.	AIG and other	₩ 24,478
Korea Line Corp.	KDB and others	220,016
Doosan Infracore China Co., Ltd.	KAMCO	582
		₩ 245,076

(c) As of December 31, 2006, the Korea Export and Import Bank and others have provided performance guarantees amounting to $6,174 million for the Company in relation to exports of ships and other. In return, the Company has provided shipbuilding materials, ships under construction and receivables as collateral to the Bank.

(13) Intangible Assets

(a) Details of changes in intangible assets of the Company for the years ended December 31, 2006 and 2005 are as follows:

Won (millions)

	2006		2005	
	Development costs	Other	Development costs	Other
Beginning balance	₩ 28,185	₩ 7,799	₩ 35,877	₩ 9,753
Increase	-	219	-	169
Amortization	(7,693)	(2,132)	(7,692)	(2,123)
Ending balance	₩ 20,492	₩ 5,886	₩ 28,185	₩ 7,799

(b) Research and development expenses charged to current operations for the years ended December 31, 2006 and 2005 are as follows:

Won (millions)

	2006	2005
Research	₩ -	₩ 20
Development	36,229	41,575
	₩ 36,229	₩ 41,595

(14) Government Subsidies

(a) Details of government subsidies received by the Company for the year ended December 31, 2006 are as follows:

(i) The Company received government subsidies, totaling ₩1,589 million, during the year ended December 31, 2006 from the Ministry of Labor Tongyeong Office in relation to the operation of a job training consortium for small and medium-sized enterprises. ₩1,300 million used out of the ₩1,338 million received for the purpose of purchasing property and equipment has been recorded as a reduction of property and equipment, with the remaining ₩38 million used and set off with education and training expenses. Also, ₩243 million out of the ₩251 million received for defraying operating expenses has been recorded as other income, with the rest amounting to ₩8 million being recognized as unearned income.

(ii) Details of the government subsidies received for acquisition of plant assets for year ended December 31, 2006 are as follows:

Won (millions)

	Buildings	Machinery	Vehicles	Tools	Furniture and fixtures	Construction-in-progress
Plant assets:						
Acquisition cost	₩ 1,092	₩ 426	₩ 6	₩ 29	₩ 785	₩ 424
Accumulated depreciation	(28)	(27)	(2)	(4)	(79)	-
	₩ 1,064	₩ 399	₩ 4	₩ 25	₩ 706	₩ 424
Government subsidies:						
Total amount used to acquire assets	₩ 1,092	₩ 426	₩ 6	₩ 29	₩ 785	₩ 424
Beginning balance of accumulated depreciation	-	(6)	(1)	(1)	(7)	-
Amount of the setoff	(28)	(21)	(1)	(3)	(72)	-
Accumulated depreciation as of December 31, 2006	(28)	(27)	(2)	(4)	(79)	-
Balance at end of designated period	₩ 1,064	₩ 399	₩ 4	₩ 25	₩ 706	₩ 424

(iii) The Company entered into an agreement with the Ministry of Commerce, Industry and Energy for the development of certain equipment. Out of the total amount received amounting to ₩2,696 million during the year ended December 31, 2006, ₩1,673 million was recorded as unearned income with the remaining ₩1,023 million recognized as withholdings. The portion recognized as unearned income is recorded as an offset of research and development expenses when the related expenses are defrayed.

(b) Details of government subsidies received by the Company for the year ended December 31, 2005 are as follows:

(i) The Company received government subsidies, totaling ₩1,665 million, during the year ended December 31, 2005 from the Ministry of Labor Tongyeong Office in relation to the operation of a job training consortium for small and medium-sized enterprises.

₩1,462 million used out of the ₩1,500 million received for the purpose of purchasing property and equipment has been recorded as a reduction of property and equipment, with the remaining ₩38 million accounted for as a reduction of cash and cash equivalents. Also, W160 million out of the ₩165 million received for defraying operating expenses has been recorded as other income, with the rest amounting to ₩5 million being recognized as unearned income.

Notes to Non-consolidated Financial Statements

December 31, 2006 and 2005

(ii) Details of the government subsidies received for acquisition of plant assets in the year ended December 31, 2005 are as follows:

	Won (millions)				
	Machinery	Vehicles	Tools	Furniture and fixtures	Construction-in-progress
Plant assets:					
Acquisition cost	₩ 193	₩ 6	₩ 13	₩ 128	₩ 1,122
Depreciation	(6)	(1)	(1)	(7)	-
	₩ 187	₩ 5	₩ 12	₩ 121	₩ 1,122
Government subsidies:					
Total amount used to acquire assets	₩ 193	₩ 6	₩ 13	₩ 128	₩ 1,122
Beginning balance of accumulated depreciation	-	-	-	-	-
Amount of the setoff	(6)	(1)	(1)	(7)	-
Accumulated depreciation as of December 31, 2005	(6)	(1)	(1)	(7)	-
Balance at end of designated period	₩ 187	₩ 5	₩ 12	₩ 121	₩ 1,122

(iii) The Company entered into an agreement with the Ministry of Commerce, Industry and Energy for the development of certain equipment. Out of the total amount received amounting to ₩2,750 million during the year ended December 31, 2005, ₩1,707 million was recorded as unearned income with the remaining ₩1,043 million recognized as withholdings. The portion recognized as unearned income is recorded as an offset of research and development expenses when the related expenses are defrayed.

(15) Other Current Liabilities

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

	Won (millions)	
	2006	2005
Income taxes payable	₩ 395	₩ 8,376
Unearned revenues	2,960	1,789
Withholdings	12,695	20,463
Guarantee deposits payable	13,286	12,498
	₩ 29,336	₩ 43,126

(16) Long-term Borrowings

(a) Long-term borrowings as of December 31, 2006 and 2005 are summarized as follows:

(i) Long-term borrowings in local currency

		Won (millions)	
Lender	Annual interest rate (%)	2006	2005
Korea Housing Guarantee Corp.	1.05	₩ 520	₩ 520
KDB	Pr(*)+1.2, 1	16,865	23,298
		17,385	23,818
Less current portion		(6,433)	(6,485)
		₩ 10,952	₩ 17,333

(*) Pr: Prime rate

(ii) Long-term borrowings in foreign currency

		U.S. dollars (thousands)		Won equivalent (millions)	
Lender	Annual interest rate (%)	2006	2005	2006	2005
KDB	3ML(*1)+1.22- 2.7	$ 167,510	$ 144,174	₩ 155,717	₩ 146,048
KNOC (*2)	2.50	4,946	-	4,598	-
		172,456	144,174	160,315	146,048
Less current portion		(42,248)	(9,959)	(39,273)	(10,088)
		$ 130,208	$ 134,215	₩ 121,042	₩ 135,960

(*1) 3ML: Three-month London inter-bank offered rates
(*2) Korea National Oil Corporation

(b) Payment Schedule
Aggregate maturities of the Company's long-term borrowings as of December 31, 2006 are as follows:

	Won (millions)	
December 31,	Local currency	Foreign currency(*)
2007	₩ 6,433	₩ 39,273
2008	6,484	52,046
2009	752	44,056
2010	852	17,820
Thereafter	2,864	7,120
	₩ 17,385	₩ 160,315

(*) Won equivalent

(17) Capital Leases

(a) The Company entered into a capital lease contract on March 1, 2006 with the 7th Cocrap in relation to the lease of its new office premises, and recognized related land and building as capital lease assets and present value of future minimum lease payments as capital lease liabilities. The Company agreed to purchase the capital lease assets in October 2010 for W81,900 million.

(b) As of December 31, 2006, the gross amounts of land and building and related accumulated depreciation recorded under capital leases are as follows:

	Won (millions)	
	Land	Building
Acquisition value	₩ 65,184	₩ 54,346
Accumulated depreciation	-	(815)
Book value	₩ 65,184	₩ 53,531

(c) Future minimum lease payments under the lease contracts are as follows:

	Won (millions)
2007.1.1~2007.12.31	₩ 5,572
2008.1.1~2008.12.31	5,739
Thereafter	87,217
Total	98,528
Interest expense payable	(18,185)
Present value of net minimum capital lease payments	₩ 80,343

Notes to Non-consolidated Financial Statements

December 31, 2006 and 2005

(18) Retirement and Severance Benefits

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

	Won (millions)	
	2006	2005
Estimated severance benefit accrual at beginning of year	₩ 194,021	₩ 198,923
Provision	56,043	53,295
Payments	(33,155)	(58,197)
Estimated severance benefit accrual liability at end of year	216,909	194,021
Transfer to the National Pension Fund	(3,071)	(3,812)
Deposit for severance benefit trust	(188,511)	(110,747)
Net balance at end of year	₩ 25,327	₩ 79,462

The Company maintains employees' severance benefit trust arrangements with KDB and others. Under these arrangements, the Company has made a deposit in the aggregate amount equal to 86.9% and 57.1% of the reserve balances of retirement and severance benefits as of December 31, 2006 and 2005, respectively. This deposit is to be used to make the required payments to the retirees and accounted for as a reduction of the reserve balance.

₩117,732 million of provision for contingent liabilities has not been accounted for as estimated severance benefit accrual, for the ultimate outcome of the related lawsuit is not estimable at present.

(19) Contingent Liabilities

(a) Details of provision for contingent liabilities as of December 31, 2006 are as follows:

	Won (millions)
Beginning balance	₩ 140,516
Estimated accrued contingent losses	29,610
Reversal of reserve for contingencies	(17,565)
Transfer to accounts payable - other	(34,829)
Balance at end of year	₩ 117,732

The Company recorded W117,732 million of the contingent liabilitiy associated with the lawsuit pending for the redetermination of average salaries involved in the computation of retirement payment.

(b) Lawsuit related to retirement and severance benefits

(i) Lawsuit for the redetermination of average salaries

The lawsuit is for the redetermination of retirement and severance benefits by way of recalculating average salaries and the Company has additionally recognized ₩21,136 million, ₩276 million and ₩3,466 million as cost of sales, selling and administrative expenses and other expenses, respectively, in relation to the litigation.

Changes in the related reserve balance during the year ended December 31, 2006 are as follows:

	Won (millions)
Beginning balance	₩ 110,171
Contingent loss	24,878
Reversal of reserve for contingencies	(17,317)
Balance at end of year	₩ 117,732

(ii) Other lawsuits related to other personnel expenses

The Company recognized ₩2,052 million, ₩190 million and ₩2,490 million as additional cost of sales, selling and administrative expenses and other expenses, respectively, in relation to the litigation.

The Company reached an out-of-court settlement of the lawsuit with the Committee for Labor-Management Relationship Improvement on August 10, 2006, and decided to pay the settlement amount in cash with the contingent liability transferred to accounts payable - other and paid the amount on November 17, 2006.

Changes in the related reserve balance during the year ended December 31, 2006 are as follows:

	Won (millions)
Beginning balance	₩ 30,097
Estimated accrued contingent losses	4,732
Transfer to accounts payable - other	(34,829)
Balance at end of year	₩ -

(c) Liabilities for Guarantees

The Company recorded ₩248 million as other income because there was no payment call for the guarantees from the creditor during the five-year statute of limitations for commercial credit.

	Won (millions)
Beginning balance	₩ 248
Reversal of reserve for contingencies	(248)
Balance at end of year	₩ -

(20) Assets and Liabilities Denominated in Foreign Currency

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

	2006			2005		
	Foreign currency (thousands)		Won equivalent (millions)	Foreign currency (thousands)		Won equivalent (millions)
Assets:						
Cash and cash equivalents	USD	27,114	₩ 25,205	USD	150,357	₩ 152,312
Accounts receivable - trade		1,310,547	1,218,285		1,187,476	1,202,913
Accounts receivable - other		2,374	2,207		10,793	10,933
Long-term loans		48,953	45,507		48,954	49,590
Long-term accounts receivable - trade		4,124	3,833		7,500	7,598
Accrued income		16,716	15,539		17,422	17,649
Total	USD	1,409,828	₩ 1,310,576	USD	1,422,502	₩ 1,440,995
Liabilities:						
Accounts payable - trade	DKK	600	98	DKK	-	-
	EUR	16,597	20,286	EUR	7,016	8,421
	GBP	210	383	GBP	147	256
	JPY	1,356,929	10,609	JPY	1,923,111	16,539
	NOK	2,179	323	NOK	22,335	3,359
	CAD	4	3	CAD	-	-
	SEK	82	11	SEK	7	1
	USD	75,537	70,219	USD	63,075	63,895

(continued)

Notes to Non-consolidated Financial Statements

December 31, 2006 and 2005

	2006				2005			
	Foreign currency (thousands)		Won equivalent (millions)		Foreign currency (thousands)		Won equivalent (millions)	
Accounts payable - other	CAD	1,009	₩	808	CAD	275	₩	240
	EUR	102		125	EUR	6,139		7,368
	GBP	-		-	GBP	92		161
	JPY	480		4	JPY	100,020		860
	SEK	2,609		352	SEK	1,295		165
	USD	72,806		67,680	USD	73,203		74,154
Accrued expenses	EUR	5,921		7,237	EUR	5,252		6,303
	USD	422		393	USD	-		-
Short-term borrowings	USD	67,910		63,130	USD	288,203		291,949
Withholdings	EUR	236		288	EUR	647		776
	USD	1,015		944	USD	450		457
Long-term accounts payable - other	USD	102,364		95,158	USD	94,613		95,843
Current portion of long-term borrowings	USD	42,248		39,273	USD	9,959		10,089
Long-term borrowings	USD	130,208		121,041	USD	134,215		135,960
	DKK	600		98	DKK	-		-
	CAD	1,013		811	CAD	275		240
	EUR	22,856		27,936	EUR	19,054		22,868
Total	GBP	210		383	GBP	239		417
	JPY	1,357,409		10,613	JPY	2,023,131		17,399
	NOK	2,179		323	NOK	22,335		3,359
	SEK	2,691		363	SEK	1,302		166
	USD	492,510		457,838	USD	663,718		672,347
			₩	498,365			₩	716,796

(21) Commitments and Contingencies

(a) The Company pledged 12 blank notes, 1 blank check and 9 notes with an aggregate face value of ₩4,331 million to financial institutions as collateral for certain borrowings as of December 31, 2006.

(b) The Company sold notes from NITC (National Iranian Tanker Company) to financial institutions in relation to 6 ships for which installment payments are to be made. The Company is contingently liable for the notes aggregating $52,500 thousand for the 6 ships.

(c) In relation to the contingencies described in (b) above, the Company obtained payment guarantees from NIOC (an Iranian government-owned petroleum company) for the entire principal and interest amount. As a safeguard measure, the Company bought insurance policies from the Korea Export Insurance Corp. to cover 70% of the total installment payment obligations upon default. Additionally, the Company placed mortgages on 6 ships.

(d) As of December 31, 2006, the Company is involved as a defendant and plaintiff in various lawsuits seeking claims or damages in the aggregate amounts of ₩50,898 million and ₩1,058 million, respectively. These lawsuits arose in the ordinary course of business and their ultimate disposition is not predictable as of December 31, 2006 (see note 19).

(e) The Company formed a consortium with Korea National Oil Corporation to invest in overseas oil fields and the Company's shareholding in the consortium is 10%. The Consortium invested in the KNOC WEST 321 lot and KNOC EAST 323 lot in

Nigeria with Equator in England and a local enterprise in Nigeria owns 60% of total shares, with the Company's interest equaling 6% of the total investments. The Consortium acquired the right to developing the mining lot; however, agreement among the parties is currently in the process of preparation.

The Company recorded the amount of the investment as a component of other investments and has provided to the Nigerian government a contractual performance guarantee in regard to the investment amounting to $16,545 thousand and has been provided a guarantee in the same amount from Seoul Guarantee Insurance Co., Ltd.

(f) The Company entered into bank overdraft agreements with NongHyup and others with aggregate limit amounting to ₩60,000 million and a credit facility arrangement with the Korea Development Bank and others regarding the opening of letter of credit with the limit set at $1,015,000 thousand.

(22) Derivative Instruments - Currency Forward Contracts

(a) The Company has outstanding currency forward contracts with the Korea Development Bank and others to hedge risks, such as those that may arise from fluctuation of foreign exchange rates in association with receipt of payments for future shipbuilding contracts.

(b) Details of the outstanding forward contracts as of December 31, 2006 and 2005 are as follows:

Description	Outstanding contract balance U.S. dollars (thousands), EUR (thousands), NOK(thousands), JPY (thousands), SEK (thousands)		
	2006		2005
For cash flow hedging	USD	6,699,000	4,074,859
	USD	2,556,000	1,079,141
	EUR	372,911	68,825
	NOK	271,123	323,671
	JPY	16,709,240	9,774,000
	SEK	15,800	31,600
For trading	USD	9,255,000	5,154,000
	EUR	372,911	68,825
	NOK	271,123	323,671
	JPY	16,709,240	9,774,000
	SEK	15,800	31,600

(c) Details of currency forward contracts as of December 31, 2006

(i) Details of adjustment for and valuation of currency forward contracts during the year ended December 31, 2006 are as follows:

	Won (millions)			
Description	Adjustment to sales	Other income (expense)	Capital adjustments (*)	Currency forwards - asset (liability)
For cash flow hedging	₩ 148,690	-	249,040	407,101 (12,464)
For trading	-	187,435	-	
	₩ 148,690	187,435	249,040	

(*) ₩180,553 million out of the total capital adjustments amount of ₩249,040 million has been recognized as a gain on valuation of currency forwards (a capital adjustment) with the remainder of ₩68,487 million adjusted as deferred income tax.

Notes to Non-consolidated Financial Statements

(ii) The Company transferred certain cash flow hedging contracts to trading-purpose contracts because the Company cannot expect effective cash flow hedging from those contracts and a ₩7,561 million gain on valuation of those contracts is recognized as other income.

(iii) Company entered into certain Knock-out contracts, which become cancelled automatically in cases where the spot rates fall below designated levels in designated periods, and the Company recorded a ₩4,567 million gain on valuation of such currency forwards contracts for the year ended December 31, 2006. Also, the Company made certain Knock-in contracts, which go into effect automatically in cases where the spot rates are over specified levels, and their effect on profit (loss) cannot be estimated reasonably at present.

(d) Details of currency forward contracts as of December 31, 2005

(i) Details of adjustment for and valuation of currency forward contracts during the year ended December 31, 2005 are as follows:

Won (millions)

Description	Adjustment to sales	Other income (expense)	Capital adjustments (*)	Currency forwards - asset (liability)
For cash flow hedging	₩ 230,871	-	82,175	204,195
For trading	-	46,241	-	(15,975)
	₩ 230,871	46,241	82,175	

(*) ₩59,577 million out of the total capital adjustments amount of ₩82,175 million has been recognized as a gain on valuation of currency forwards (a capital adjustment) with the remainder of ₩22,598 million adjusted as deferred income tax.

(ii) The Company transferred certain cash flow hedging contracts to trading-purpose contracts because the Company cannot expect effective cash flow hedging from those contracts and a ₩35,445 million gain on valuation of those contracts is recognized as other income.

(iii) The Company entered into certain Knock-out contracts. However, those contracts were rescinded prior to the balance sheet date. Consequently, the Company recognized a ₩13,688 million loss on currency forward transactions as other expense for the year ended December 31, 2005.

(23) Stockholders' Equity

(a) Details of stockholders' equity as of December 31, 2006 are as follows:
The Company has 400,000,000 authorized shares of common stock (₩5,000 par value), of which 191,390,758 shares have been issued as of December 31, 2006. There have been no changes in capital stock during the year ended December 31, 2005.

(b) Retirement of treasury stock
The Company has retired 1,000,000 shares of treasury stock acquired for W15,146 million on August 23, 2004 by approval of the board of directors' meeting. Accordingly, the number of shares issued has decreased; however, the amount of paid-in capital has not been reduced.

(24) Retained Earnings

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

	Won (millions)	
	2006	2005
Legal reserve	₩ 16,840	₩ 14,000
Reserve for research and human resource development	86,667	111,667
Reserve for facility expansion	270,000	270,000
Reserve for dividend equalization	70,000	70,000
Reserve for loss on reissuance of treasury stock	9,000	9,000
Unappropriated retained earnings	62,711	10,190
	₩ 515,218	₩ 484,857

(a) Legal reserve

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

(b) Reserve set up for tax purposes

Under the Tax Exemption and Reduction Control Law, the Company is allowed certain deductions from taxable income for research and manpower development by appropriating retained earnings. The reserve is generally added back to taxable income after certain grace periods and may be used to pay dividends.

(25) Capital Adjustments

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

	Won (millions)	
	2006	2005
Treasury stock	₩ (30,000)	₩ (30,000)
Gain on valuation of equity method investments	251	32
Loss on valuation of equity method investments	(33,114)	(30,904)
Gain (loss) on valuation of long-term investment securities	8,554	(4,295)
Gain on valuation of currency forwards	180,553	59,577
	₩ 126,244	₩ (5,590)

Notes to Non-consolidated Financial Statements

December 31, 2006 and 2005

(26) Selling, General and Administrative Expenses

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

	Won (millions)	
	2006	2005
Salaries	₩ 47,666	₩ 41,854
Provision for retirement and severance benefits	5,450	4,688
Other employee benefits	17,738	17,032
Rent	6,650	4,871
Entertainment	751	857
Depreciation	11,125	9,327
Amortization	8,710	8,711
Taxes and public dues	4,247	5,150
Advertising	1,566	1,329
Research and development	35,290	39,587
Supplies	1,745	2,097
Printing	1,382	1,558
Communications	1,788	1,952
Water, light and heating	1,438	981
Repairs and maintenance	11,205	11,001
Insurance	6,193	5,869
Travel	4,925	3,655
Commissions	27,796	25,693
Training	5,044	4,257
Maintenance service fees	6,889	5,328
Warranty	19,703	2,623
Stock compensation	1,602	4,698
Contingent loss	466	521
Others	2,364	2,110
	₩ 231,733	₩ 205,749

(27) Income Taxes

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

Taxable income	Tax rates
Up to ₩100 million	14.3%
Over ₩100 million	27.5%

In December 2003, the Korean government reduced the corporate income tax rate (including resident tax) beginning in 2005. Specifically, effective January 1, 2005, the income tax rate was reduced from 29.7% to 27.5%.

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

	2006	2005
Current income tax expense	₩ 4,910	₩ 11,731
Deferred income tax expense (benefit)	₩ 17,935	₩ (8,283)
	₩ 22,845	₩ 3,448

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

	Won (millions)	
	2006	2005
Deferred tax assets:		
Retirement and severance benefits	₩ 34,945	₩ 30,965
Accrued warranty costs	14,370	13,565
Provision for estimated loss on construction contracts	15,461	14,250
Allowance for contingent losses	32,753	40,621
Other	26,120	20,050
Total deferred tax assets	123,649	119,451
Deferred tax liabilities:		
Deposit for severance benefit trust	(34,945)	(30,456)
Reserve for research and human resources development	(16,958)	(23,833)
Loss on valuation of currency forward contracts	(34,534)	(6,213)
Other	(11,096)	(9,959)
Total deferred tax liabilities	(97,533)	(70,461)
	26,116	48,990
Deferred tax directly credited to capital adjustment	(71,731)	(20,969)
Utilization of tax credit, etc.	4,267	-
Net deferred tax assets (liabilities)	(41,348)	28,021
Current portion of deferred tax assets	(17,371)	(13,364)
Non-current portion of deferred tax assets (liabilities)	₩ (58,719)	₩ 14,657

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

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

	Won (millions)	
	2006	2005
Unrealized gain on valuation of available-for-sale securities, net available-for-sale securities, net	₩ (3,245)	₩ 1,629
Unrealized gain on currency forward contracts, net	(68,486)	(22,598)
	₩ (71,731)	₩ (20,969)

Notes to Non-consolidated Financial Statements

December 31, 2006 and 2005

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

Won (millions)

	Temporary differences at Dec.31, 2006	Deferred tax assets (liabilities)	
		Current	Non-current
Assets:			
Accrued expenses	₩ 22,281	₩ 6,127	₩ -
Retirement and severance benefits	127,075	-	34,946
Accrued warranty costs	52,256	-	14,370
Provision for estimated loss on construction contracts	56,221	15,462	-
Allowance for contingent losses	119,104	-	32,754
Other	73,062	6,926	17,432
	449,999	28,515	99,502
Liabilities:			
Deposit for severance benefit trust	(127,075)	-	(34,946)
Reserve for research and manpower development	(61,667)	(7,792)	(9,166)
Loss on transaction of currency forward contracts	(125,578)	-	(34,534)
Loss on valuation of currency forward contracts (capital adjustment)	(249,040)	-	(68,486)
Other	(52,512)	(3,353)	(11,089)
	(615,872)	(11,145)	(158,221)
	₩ (165,873)	₩ 17,370	₩ (58,719)

(28) Earnings Per Share

Earnings per share are calculated by dividing net income by the weighted-average number of shares of common stock outstanding for the years ended December 31, 2006 and 2005.

Won (millions, except earnings per share)

	2006	2005
Net income	₩ 58,723	₩ 7,594
Weighted-average number of shares of common stock outstanding	189,046,888	189,046,888
Earnings per share in Won	₩ 311	₩ 40

(29) Dividends

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

Won (millions, except for per share amount)

	2006	2005
Cash dividends	₩ 47,262 (*)	₩ 28,357
Net income	58,723	7,594
Dividends as a percentage of net income	80.48%	373.41%
Par value per share in Won	5,000	5,000
Dividends as a percentage of aggregate par value	5%	3%

(*) This amount includes ₩47,262 million of dividends that was not recorded in the 2006 financial statements. It will be recorded upon declaration by the Board of Directors in 2006.

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

	Won	
	2006	2005
Dividend per share	₩ 250	₩ 150
Market price as of year end	29,200	27,550
Dividend yield ratio	0.86%	0.54%

(30) Stock Options

As of December 31, 2006, details of stock options are as follows:

(i) Number of shares remaining to be issued : 252,387
(ii) Grant date : June 21, 2002
(iii) Type of compensation : The difference between the exercise price and the market price at exercise date is paid in cash or by treasury stock, at the option of the option holders.
(iv) Precondition : The following conditions both should be met to exercise the options.
① The ratio of net income to equity should be 26.5% or more on average for 2 consecutive years.
② The mean average of closing stock prices over the previous one-month period is ₩12,000 or higher on the second anniversary of the grant date.
(v) Exercise price: the greater of the following -
① Price calculated according to Article 84-9, paragraph 2 of the Korean Securities Exchange Act.
② ₩11,500
(vi) Exercisable period: June 22, 2004 - June 21, 2009
(vii) Adjustments of the number of shares in the year ended December 31, 2006:

	Number of shares	Market price in Won	Compensation expense in million Won
Balance as of January 1, 2006	486,977	25,000	6,574
Compensation expense recorded			1,602
Stock options exercised in 2006	(234,590)	-	(3,798)
Balance as of December 31, 2006	252,387	28,848	4,378

The Company records compensation expense based on the difference between the quoted market price of the Company stock and the exercise price at the balance sheet date. The Company recognized the related long-term accrued expenses aggregating ₩1,602 million as selling and administrative expenses for the year ended December 31, 2006. The long-term accrued expenses as of December 31, 2006 amount to ₩4,378 million.

(31) Non-cash Investing and Financing Activities

Details of non-cash transactions for the year ended December 31, 2006 and 2005 are as follows:

	Won (millions)	
	2006	2005
Contribution of land as investment in kind (to Welliv Corp.)	₩ -	₩ 11,987
Transfer of long-term borrowings to current portion	45,706	16,573
Transfer of construction-in-progress to plant assets	238,932	101,709

Notes to Non-consolidated Financial Statements

December 31, 2006 and 2005

(32) Date of Approval of the Financial Statements

The 2006 financial statements are expected to be approved by the board of directors' meeting scheduled for February 22, 2007, except for the case of being adjusted and reapproved by the stockholders' meeting on March 16, 2007.

(33) Added Value

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

Won (millions)

	2006	2005
Salaries	₩ 582,315	₩ 539,832
Retirement allowance and severance benefits	55,634	53,150
Other employee benefits	154,356	143,208
Rent	27,113	28,458
Depreciation	122,036	109,139
Tax and dues	8,036	8,758
	₩ 949,490	₩ 882,545

(34) Environment-related Standards and Policy

The Company established an exclusive department dealing with environmental issues in 1993. It also declared its operation motto "Green Shipyard" as part of its environmental awareness campaign in May 1996. Since then, it has made strenuous efforts for environmental preservation, equipped with excellent environmental management facilities and system. The "Environment First" policy is implemented throughout the relevant categories including contract, design, production, and delivery, based on the three objectives of minimizing discharge of environment pollutants, minimizing energy expenditure, and continuous development of "green" technology.

(35) Employee Welfare and Contributions to Society

For employee welfare, the Company maintains a refectory, an infirmary, athletic facilities, a scholarship fund, workmen's accident compensation insurance, unemployment insurance and medical insurance. The amounts of welfare spending for the years ended December 31, 2006 and 2005 are estimated at ₩154,356 million and ₩143,208 million, respectively.

The Company donated ₩135 million and ₩93 million to charities and others for the years ended December 31, 2006 and 2005, respectively.

(36) Expense for Human Resource Development

The Company has spent ₩36,691 million for recent three years to develop professional manpower. The amount spent for each year is as follows:

Won (millions)

	2006	2005	2004	Total
Recruitment	₩ 324	₩ 285	₩ 212	₩ 821
Education and training	13,424	14,185	8,261	35,870
	₩ 13,748	₩ 14,470	₩ 8,473	₩ 36,691

(37) Outstanding Contracts

(a) The changes in outstanding contracts for the years ended December 31, 2006 and 2005 are summarized as follows:

Won (millions)

	2006			
	January 1, 2006	New contracts	Revenue recognized (*)	December 31, 2006
Shipbuilding	₩ 11,023,525	₩ 5,455,739	₩ 3,950,309	₩ 12,528,955
Offshore plants	1,610,596	4,351,348	1,277,630	4,684,314
Other	15,846	110,825	24,032	102,639
	₩ 12,649,967	₩ 9,917,912	₩ 5,251,971	₩ 17,315,908

Won (millions)

	2005			
	January 1, 2005	New contracts	Revenue recognized (*)	December 31, 2005
Shipbuilding	₩ 9,204,219	₩ 5,257,823	₩ 3,438,518	₩ 11,023,525
Offshore plants	868,161	1,747,215	1,004,779	1,610,596
Other	47,618	5,423	37,195	15,846
	₩ 10,119,998	₩ 7,010,461	₩ 4,480,492	₩ 12,649,967

(*) Valuation gains on forward currency contracts and merchandise sales are excluded.

Notes to Non-consolidated Financial Statements

December 31, 2006 and 2005

(b) Details of the significant elements of profits and losses on construction as of December 31, 2006 are as follows:

Won (millions)

	2006			
	Accumulated cost of construction	Accumulated revenues of construction	Advances from customers	Account receivable - trade
Shipbuilding	₩ 3,012,873	₩ 3,119,220	₩ 2,275,037	₩ 980,038
Offshore plants	2,680,420	2,778,532	683,598	244,985
Other	3,125	6,826	-	2,190
	₩ 5,696,418	₩ 5,904,578	₩ 2,958,635	₩ 1,227,213

Won (millions)

	2005			
	Accumulated cost of construction	Accumulated revenues of construction	Advances from customers	Account receivable - trade
Shipbuilding	₩ 2,534,371	₩ 2,777,011	₩ 1,981,596	₩ 1,001,830
Offshore plants	2,840,775	2,893,221	85,410	215,276
Other	34,112	37,638	406	11,046
	₩ 5,409,258	₩ 5,707,870	₩ 2,067,412	₩ 1,228,152

(c) The Company has recorded provision for losses on construction contracts in the amount of ₩56,222 million and ₩51,818 million as of December 31, 2006 and 2005, respectively.

(38) Segment Information

(a) The Company has three reportable operating segments. General information on segments of the Company as of December 31, 2006 is as follows:

Segment	Items	Major customer	Proportion of sales
Shipbuilding	Liquefied natural gas ("LNG") container and other	Naviera F LNG and other other	75.9%
Offshore plants	Platform and other	Chevron Texaco and other	23.7%
Other	Apartments, welding machines and other	Various	0.4%
			100%

(b) Financial information on segments of the Company for the years ended December 31, 2006 and 2005 are as follows:

Won (millions)

	2006			
	Shipbuilding	Offshore plants	Other	Total
Sales	₩ 4,097,875	₩ 1,278,754	₩ 24,032	₩ 5,400,661
Operating income (loss)	(34,449)	93,511	3,386	62,448
Plant and intangible assets	2,091,507	(*)	120,654	2,212,161
Depreciation and other expenses	129,974	(*)	1,887	131,861

Won (millions)

	2005			
	Shipbuilding	Offshore plants	Other	Total
Sales	₩ 3,668,600	₩ 1,005,571	₩ 40,073	₩ 4,714,244
Operating income	49,651	28,673	3,394	81,718
Plant and intangible assets	1,956,146	(*)	2,910	1,959,056
Depreciation and other expenses	117,638	(*)	1,315	118,953

(*) Plant and intangible assets and depreciation and other expenses could not be segregated into the shipbuilding segment and the offshore plant segment. Accordingly, these are included in the shipbuilding segment.

(c) Adjustments to operating income for the years ended December 31, 2006 and 2005 are as follows:

Won (millions)

	2006	2005
Total operating income (loss) of segments	₩ 62,447	₩ 81,717
Non-allocated selling, general and administrative expenses	(231,733)	(205,749)
	₩ (169,286)	₩ (124,032)

(39) Operating Results of the Last Interim Period

Won (millions)

	2006	2005
Sales	₩ 1,510,296	₩ 1,375,421
Operating income	24,039	22,506
Net income	73,616	31,939
Earnings per share of common stock in Won	389	169

(40) Export Sales and Cost of Sales

Export sales for the years ended December 31, 2006 and 2005 were ₩5,328,771 million and ₩4,571,533 million and cost of sales for the years ended December 31, 2006 and 2005 were ₩5,192,850 million and ₩4,514,088 million, respectively.

Independent Accountants' Review Report on Internal Accounting Control System

English translation of a Report Originally Issued in Korean

KPMG SAMJONG

KPMG Samjong Accounting Corp.
10th Floor, Star Tower, 737 Yeoksam-dong, Gangnam-gu, Seoul 135-984 Republic of Korea
Tel +82 (2) 2112 0100 Fax +82 (2) 2112 0101 www.kr.kpmg.com

To the President of
Daewoo Shipbuilding & Marine Engineering Co., Ltd.:

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

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

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

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

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

KPMG Samjong Accounting Corp.

Seoul, Korea
February 7, 2007

Notice to Readers

This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2006 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

Report on the Operations of Internal Accounting Control System

To the Board of Directors and Audit Committee of
Daewoo Shipbuilding & Marine Engineering Co., Ltd.:

I, as the Internal Accounting Control Officer ("IACO") of Daewoo Shipbuilding & Marine Engineering Co., Ltd. (the "Company"), have assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2006.

The Company's management including IACO is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS Framework for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2006, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.

Name, Internal Accounting Control Officer 김 동 각

Name, Chief Executive Officer or President 남 상 태

January 22, 2007

OUTSTANDING VESSELS IN 2006

1. AL MARROUNA (Delivered: Oct. 31, 2006)
151,700 CBM LNG Carrier
Owner: Teekay Shipping Corporation, Canada

2. OTELLO (Delivered: Aug. 25, 2006)
6,700 units Pure Car/Truck Carrier
Owner: Wallenius Lines AB, Sweden

3. BLUESKY (Delivered: Aug. 10, 2006)
145,700 cbm LNG Carrier
Owner: Taiwan Maritime Transportation, Taiwan

4. BW SOMBEKE (Delivered: Oct. 31, 2006)
38,000 cbm LPG Carrier
Owner: Bergesen Worldwide Gas ASA, Norway

5. MSC HEIDI (Delivered: Oct. 4, 2006)
8,400 teu Container Carrier
Owner: Mediterranean Shipping Company, Switzerland

6. ETON (Delivered: Apr. 13, 2006)
162,000 dwt Crude Oil Tanker
Owner: SOVCOMFLOT, Russian Federation

7. ARTEMIS GLORY (Delivered: Jul. 27, 2006)
306,000 dwt Crude Oil Tanker
Owner: Gulf Marine Management S.A., Greece

2

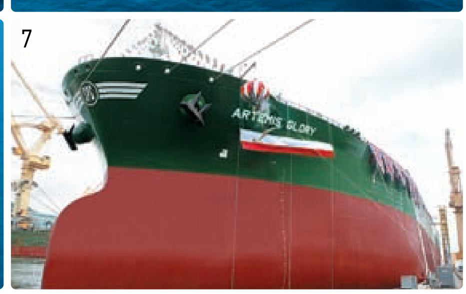
3

4

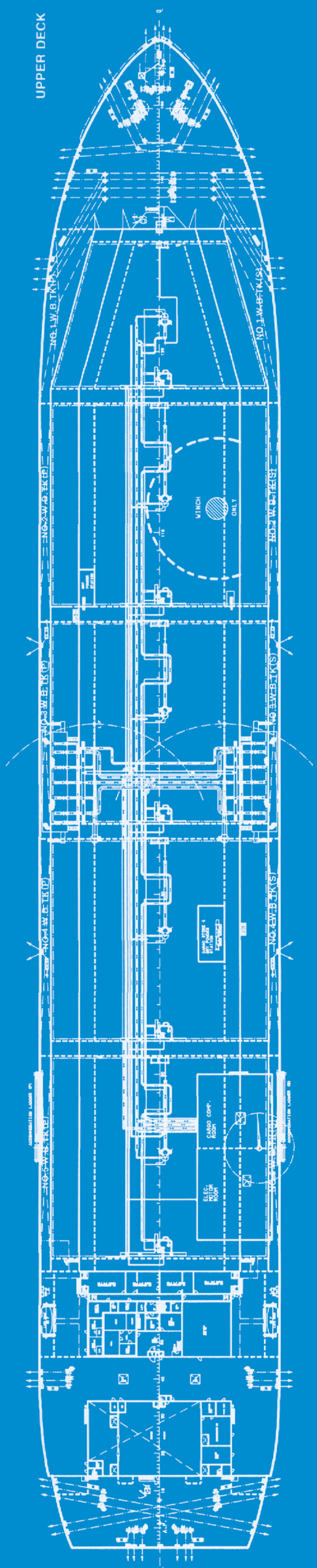
5

6

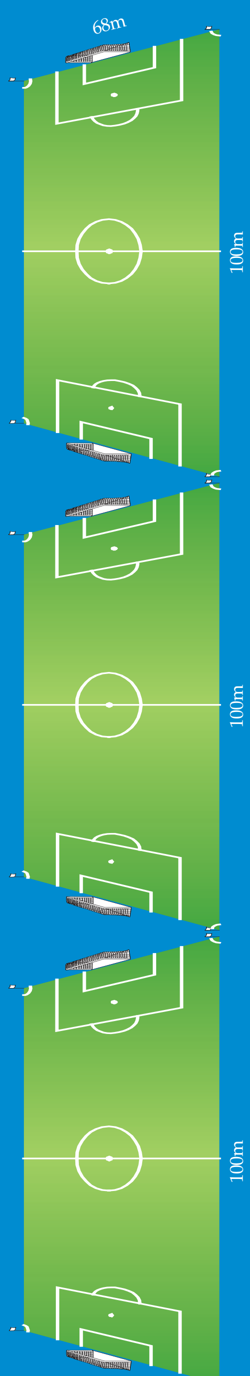
7



SIZE DOES MATTER

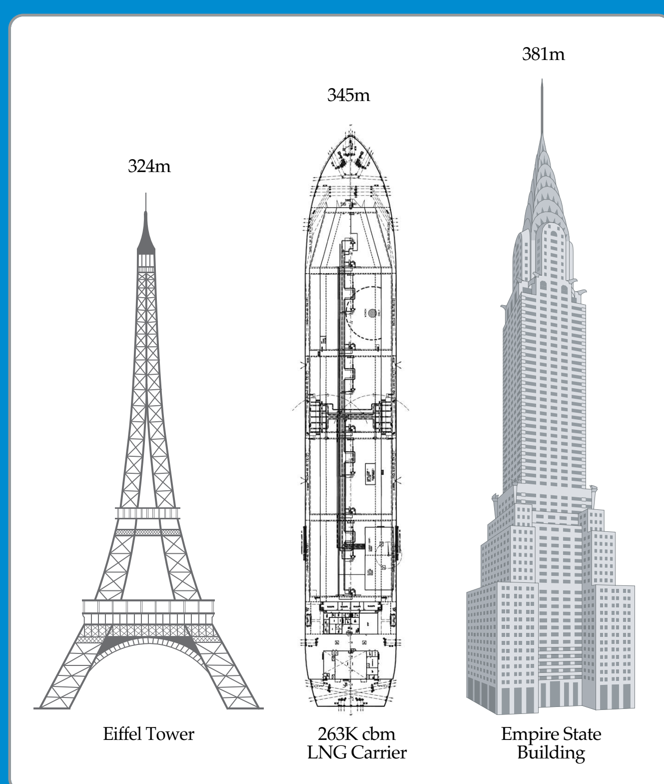


263K cbm LNG Carrier

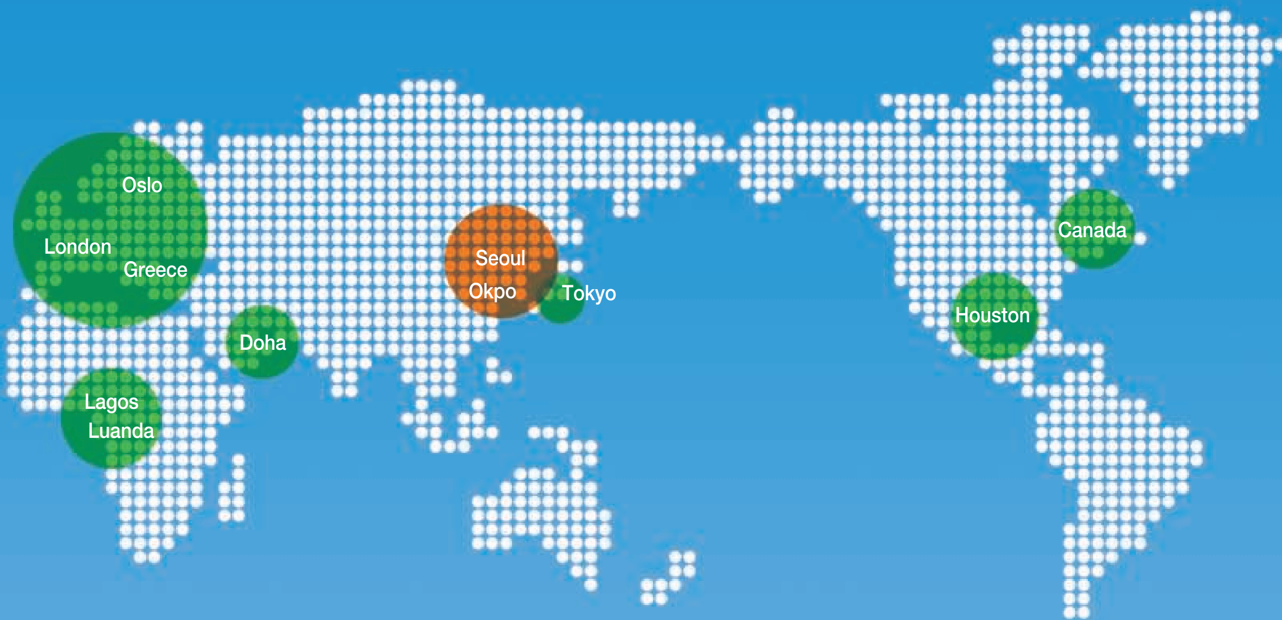


Principal Dimensions

Length	O.A.	345.0M
Length	B.P.	333.0M
Breadth	Mld	55.0M
Depth	Mld	27.0M
Designed	Draft	12.0M
Service	Speed	19.5Knots
Cargo Containment System		GT NO96E.2
Cargo Capacity	100% Full	263,000m³
	98% Filling	257,740m³
Boil-off	Rate	0.132%/Day



GLOBAL NETWORK



HEAD OFFICE

- **Seoul** 85, Da-dong, Jung-Gu, Seoul, Korea Tel: 82-2-2129-0114 Fax: 82-2-2129-0077

SHIPYARD

- **Okpo** 1 Ajoo-dong, Geoje-si, Gyeongnam, Korea Tel: 82-55-680-2114 Fax: 82-55-681-4030
- **Mangalia** DMHI 1, Portului Street 905500, Mangalia, Romania Tel: 40-241-70-6200 Fax: 40-241-75-6060

AFFILIATES

KOREA • DSEC Co., Ltd. • Korea Marine Fund Corporation • WELLIV Corp.
• DSME UTech Co., Ltd. • DSME Construction Co., Ltd.

CHINA • DSME Shandong Co., Ltd.

OVERSEAS OFFICES

• **Canada** • **Doha** • **Greece** • **Houston** • **Lagos** • **London** • **Luanda** • **Oslo** • **Tokyo**

CORPORATE HISTORY

1973	Started construction of Okpo Shipyard
1978	Daewoo Conglomerate took over Okpo Shipyard
1981	Held dedication ceremony for Okpo Shipyard
1989	Appointed as an industrial rationalization company
1994	Merged into Daewoo Heavy Industries Ltd. (DHI)
1997	Daewoo Mangalia Heavy Industry Ltd. (DMHI) was established in Romania
1999	Announced Daewoo Conglomerate's restructuring plan and began the corporate workout program in DHI
2000	DHI's Shipbuilding and Heavy Machinery Division became an independent co. and spun off from the former Daewoo Conglomerate
2001	Concluded the corporate workout program and listed stocks on the Korea Stock Exchange
2002	Changed official corporate title to DSME
2003	Issued Global Depository Receipts
2005	Established DSME Shandong Co., LTD (DSSC) in Shandong, China
2006	Established DSME Construction Co. Exceeds target of US$ 10 billion in new orders for the first time