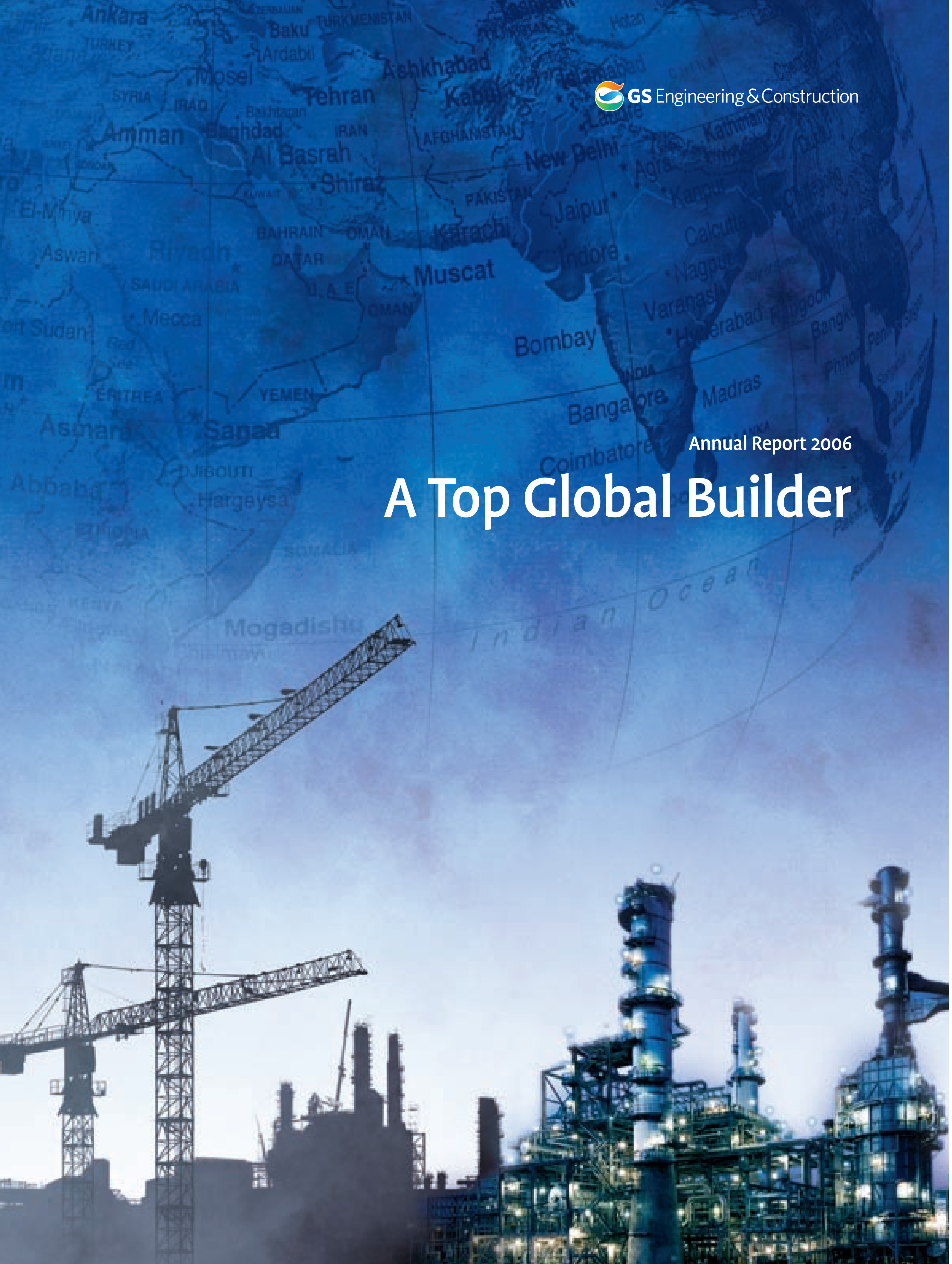


GS E&C Corporation

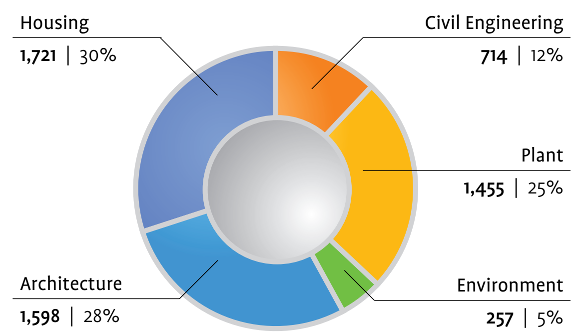
Key Financial Data

| Unit : Billions of Won |

	2006	2005	2004
Sales Revenue	5,745	5,631	4,049
Gross Profit	762	680	492
Operating Profit	403	336	229
Ordinary Profit	544	367	242
Net Profit	387	265	156
Earning Per Share(KRW)	7,741	5,317	3,134
Dividend Per Share(KRW)	1,550	1,400	1,250

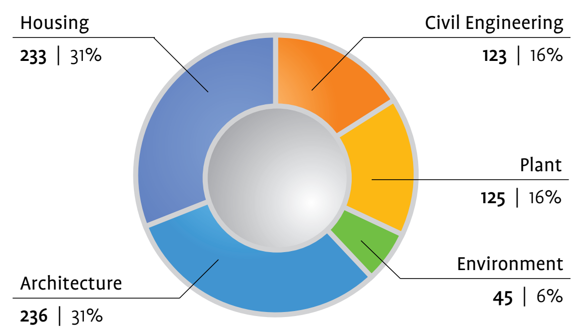
Sales Revenue by Division

| Unit : Billions of Won |



Gross Profit by Division

| Unit : Billions of Won |

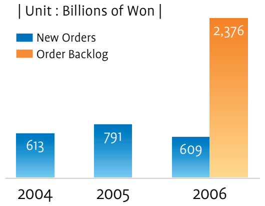


Segments

GS E&C has a diverse business portfolio that civil engineering, plant, environment, architecture and housing, enabling systematic and stable growth in domestic and overseas market.

The company is building numerous roads, railways and bridges through civil engineering projects, promoting balanced development nationwide and supporting national economic advancement. Diverse projects have also been carried out for domestic and foreign oil, gas and petrochemical companies, and the company has the technology and construction know-how to lead the Korean market for sewer rehabilitation, sewage plant construct and water treatment plant construction. A wealth of technology and experience enable the company to construct office buildings that are highly functional and aesthetically pleasing. In addition, GS E&C has been involved in the Korean housing market since 1980, building apartment complexes around the country and setting new trends in modern Korean lifestyles.

New Orders
| Unit : Billions of Won |



| Unit: Billions of Won |

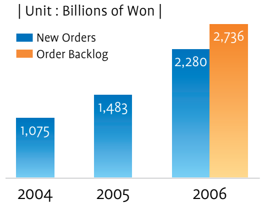
	2006	2005	YoY
Sales Revenue	714	730	-2.2%
Gross Profit	123	122	0.8%

Civil Engineering

| The Civil Engineering Division builds roads, railways, port facilities, tunnels, industrial parks and underground storage facilities under government contracts. The division will focus on profitability by expanding involvement in turnkey & PFI projects.

• Railroads • Roads / Tunnels & Bridges • Ports & Dredging • Underground Space

New Orders
| Unit : Billions of Won |



| Unit: Billions of Won |

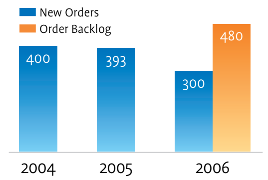
	2006	2005	YoY
Sales Revenue	1,455	1,037	40.3%
Gross Profit	125	86	45.3%

Plant

| The Division has established a solid portfolio by advancing into oil refineries, chemical plants, power plants, and gas platforms for clients mainly in Korea, the Middle East and Southeast Asia. Profitability is a key factor in bidding on new projects, while GTL and LNG projects are being cultivated as new growth engines that will bolster the competitiveness of the plant construction business. Better global sourcing, risk management systems and human resources development are paving the way for the Division to join the ranks of the world's leading players.

• Petroleum Refining • Natural Gas Processing • Oil & Gas Storage • Power Generation

New Orders
| Unit : Billions of Won |



| Unit: Billions of Won |

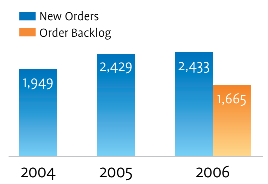
	2006	2005	YoY
Sales Revenue	257	312	-17.6%
Gross Profit	45	51	-11.8%

Environment

| The Division is distinguishing itself from the competition by creating a unique organization for the environment business while performing solid project execution. Outstanding design and construction capabilities are the basis for taking the lead in government contracts for water treatment plants, waste disposal and recycling facilities and sewer rehabilitation. New orders are assured for environmental protection facilities needed by LG Philips LCD, and the Division will diversify into the overseas marketplace.

• Water and Wastewater Treatment • Waste Disposal and Recycling • Sewer Rehabilitation • Environmental Facilities for LG Philips LCD

New Orders
| Unit : Billions of Won |



| Unit: Billions of Won |

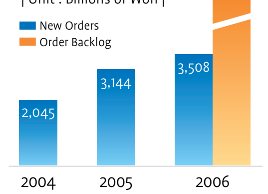
	2006	2005	YoY
Sales Revenue	1,598	2,203	-27.5%
Gross Profit	236	276	-14.5%

Architecture

| Current projects are underway in Korea as well as in China, Poland, Vietnam and Russia. The Division boasts the superior technology and human resources to undertake a wide range of projects (education and training facilities, sporting facilities, high-rise buildings, high technology factory buildings) anywhere in the world at any time.

• Commercial Buildings • Industrial Factories • Hotel / Condominium • Cultural Center / School

New Orders
| Unit : Billions of Won |



| Unit: Billions of Won |

	2006	2005	YoY
Sales Revenue	1,721	1,349	27.6%
Gross Profit	233	145	60.7%

Housing

| The Division is maximizing competitiveness in apartment reconstruction, redevelopment and apartment projects for other developers. Profitability is being increased by diversifying into private home construction, residential land development and overseas projects. In addition, the remarkable features of GS E&C-built apartments and Koreas' quest for more elegant lifestyles have firmly established "Xi" as a power brand, be the best and set technology trends for the construction industry.

• Residential Complex • Apartments • Officetels • Villa

Company Overview

GS Engineering & Construction

GS E&C was established in 1969 and has grown remarkably ever since, thanks to its excellent workforce and technology. The range of construction activities has expanded into large-scale development and public projects, laying the groundwork for growth as a global construction company.

In 2006, the company started out anew under the "GS" name. Innovative thinking and decisive execution are now being applied in preparation for a new growth surge. GS E&C achieved the highest sales in the domestic construction industry in 2006, and the prospects are bright to become the nation's top builder in every respect by 2010.

Contents

Highlights 2006

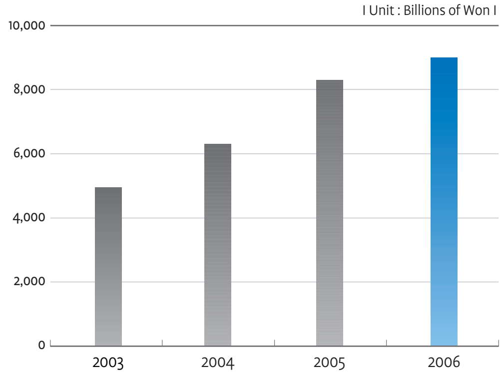
ENR announces GS Engineering & Construction as World's No 31 Construction company

GS Engineering & Construction is ranked on the Top Global Contractors as 31ST construction company in the world, and top rank in domestic. Engineering News-Record (ENR), World's leading construction magazine, announced "Top 225 Global Contractors 2006" by the companies' total 2005 construction contracting revenue both at home and abroad.
GS Engineering & Construction is listed as the 31ST construction company.

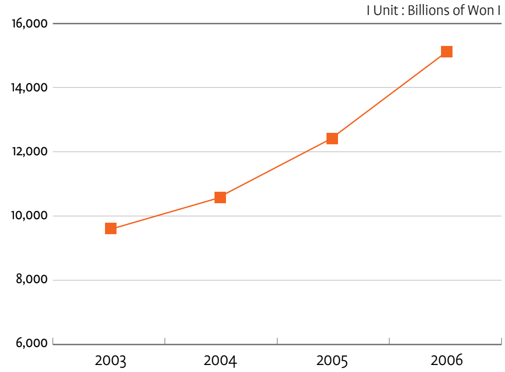
01 New Orders

Our new orders rose 11% year on year to reach ₩9.13 trillion in 2006. They have risen at a CAGR of 16% between 2003 and 2006, the highest among all Korean builders, despite the overall contraction in the construction market.

New Orders



Order Backlog



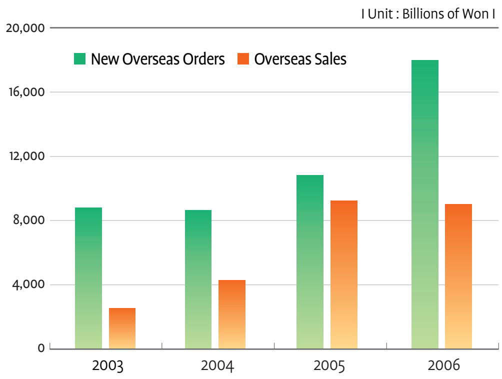
A lackluster economy and government intervention in the real estate market slowed Korean construction activities in 2006. However, GS E&C managed to maintain a balanced portfolio spanning the civil engineering, plant, environment, architecture and housing sectors, and to continue strengthening order-taking competitiveness. As a result, new orders broke a new record of ₩9.13 trillion. The order backlog, which directly effects future performance, was also higher at the end of 2006 than it had been a year before. The current backlog combined with ₩18.5 trillion in provisional orders equals ₩33.6 trillion. This is enough work to keep the company working for six years when based on 2006 sales, helping to enhance operational stability.

Achieving such strong volume growth in times of an industry downturn demonstrates the firm trust that GS E&C enjoys in the marketplace. In the future, the company will maintain its competitive advantage while continuing to expand its markets to ensure steady growth.

02 Overseas Business

Orders received outside Korea surpassed ₩1.8 trillion, a 64% increase year on year. Our ability to win overseas orders also improved, and our prospects look bright considering current market conditions.

New Overseas Orders & Sales



The year was marked by an increased issuance of new contracts, spurred by high oil prices and rising demand for new plants in the Middle East. Korean construction companies won US$16.5 billion in of new contracts overseas in 2006, fifty-two percent more than in 2005.

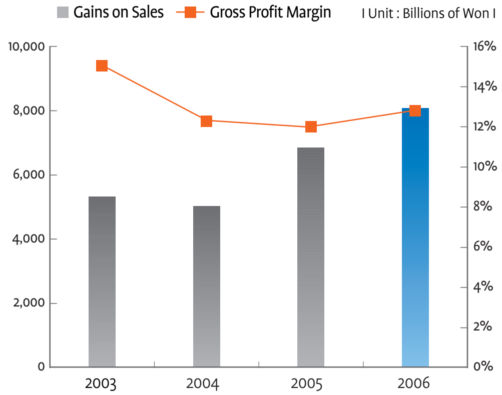
Overseas orders for GS E&C were also higher, totaling about US$1.6 billion for the year. This success reconfirms the high level of customer trust in the company's performance record and technological expertise.

Considering the growing market demand, GS E&C will most likely continue to increase its overseas business. The company will step up the marketing effort to win new orders in its mainstay areas of oil refineries, gas plants and petrochemical plants. At the same time, a concerted effort will be made to break into overseas power plant markets and expand into the area of gas-to-liquids processing plants. The overseas business segment generated ₩895 billion in Sales during 2006, about the same as the previous year. However, the recent spurt in new orders promises to boost annual sales in the future.

03 Profitability

The gross profit margin reached 13.3% (+1.2 %p), while operating profit reached 7% (+1.0%p) and ordinary profit was 9.5% (+2.9%p). This marked improvement in profitability will contribute to steady growth in our corporate value.

Gross Profit & Margin



One of the most important initiatives for profitability enhancement in 2006 was the linkup of the Total Project Management System to construction sites. TPMS will be the cornerstone for cost innovation, providing direct support to project work processes.

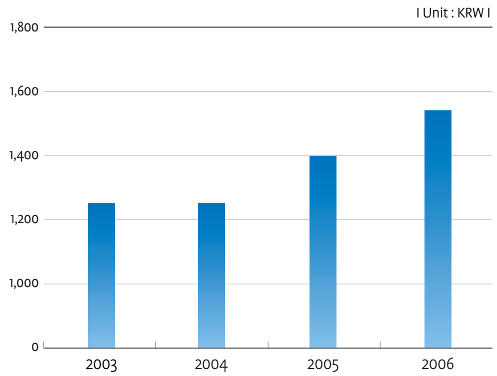
Another milestone in 2006 was order taking through the working-level Contract Deliberation Committee. A three-step process is now used to examine projects carefully to ascertain the profit margin, and all potential risks during the project are thoroughly hedged against.

Finally, a company-wide effort was launched to reduce SG & A expenses. In the future, monetary outlays will decrease in proportion to the physical growth of the company.

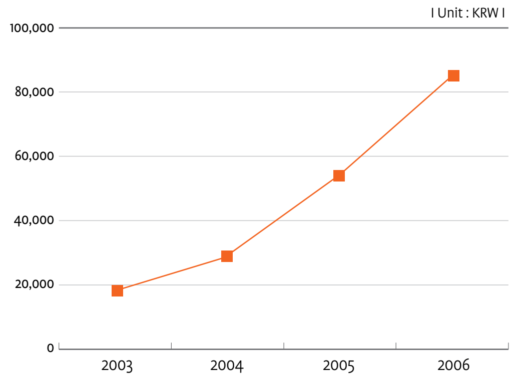
04 Investors

Our dividend payout was increased 11% to ₩1,550 per share. We will continue to maximize shareholder value through various IR activities, transparent management and steady internal and external growth.

DPS



Share Price



GS E&C is committed to earning shareholder trust by managing transparently and disclosing publicly all pertinent corporate data.

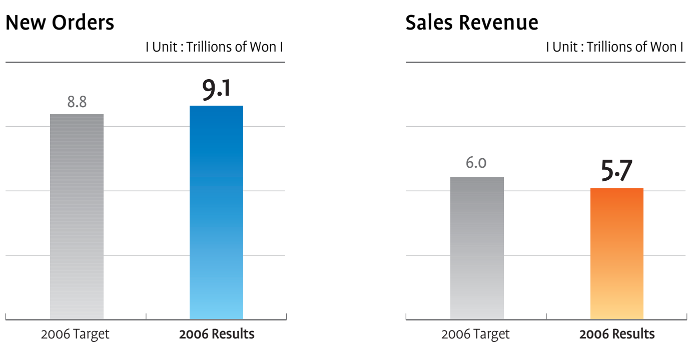
As for profit distribution, the company paid ₩800 per share in 2001, ₩1,000 in 2002, ₩1,250 in 2003 and 2004, ₩1,400 in 2005 and ₩1,550 in 2006. Increased investments for future corporate growth caused the payout ratio to drop somewhat during the past five years, but GS E&C dividends have remained high compared with competing companies.

The share price, meanwhile, has shown remarkable growth compared with the market average. The value of GS E&C has risen in capital markets, which has helped to boost shareholder returns significantly. In the future, the company will exert a multifaceted effort to maximize shareholder value.

Message from the CEO

In 2006, GS E&C took a great stride forward to become a global top constructor based on systematic management, global-scale business capacity and human resource training. We expect to see these efforts and potential come to fruition in 2007.

2006 Targets vs Results



To Our Customers and Shareholders

We experienced an eventful and difficult year in 2006. The global economy was hit by high oil prices, and competition was intense among both companies and countries. The North Korean nuclear standoff and South Korea's unstable real estate market also affected our business adversely.

Despite the uncertainties, GS E&C employees pulled together to achieve our "value growth through cost innovation" directive for the year. Indeed, our effort was so successful that we managed to break annual performance records.

We pursued residential redevelopment projects aggressively and increased the number of overseas plant projects, driving up the new order volume 10.8% year on year to just under ₩9.1 trillion. Sales revenue also rose two percent to ₩5.7 trillion. Our company-wide cost-cutting effort achieved tangible results, improving operating income by twenty percent to ₩403 billion.

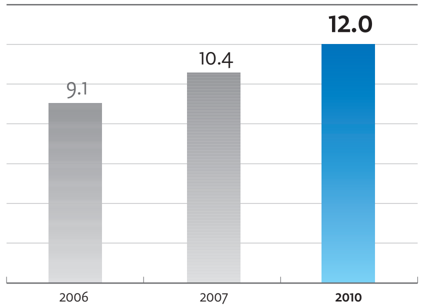
These results were made possible by our employees' concerted effort and by the support of our customers and shareholders. We will now build on the solid foundation for growth that has been achieved to expand further and emerge as a major global player with an eye to the future.

In the coming year, global economic growth is expected to be lackluster and the Won currency is likely to appreciate still more against the Dollar. This means that the growth in Korean exports will slow and long-awaited rebound in domestic consumption will be delayed further. The unstable real estate market will contribute to economic contraction as well. I believe that political issues, including the upcoming Presidential election, will also have a negative effect on the economy.

Performance & Vision

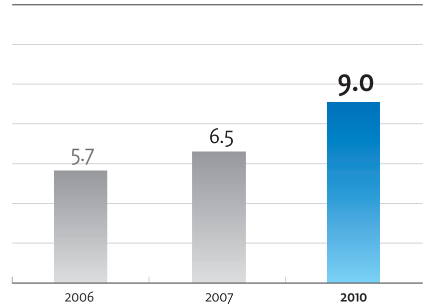
New Orders

I Unit : Trillions of Won I



Sales Revenue

I Unit : Trillions of Won I



Major Tasks for 2007

We will adeptly cope with the rapidly changing competitive environment. Our revenue structure will be further enhanced through an ongoing innovation drive designed to elevate us to the top of the global ranks. We will build on this momentum to containing raising our value by developing new growth drivers.

“Value growth through cost innovation” will remain our operational watchword in 2007, and our attention will be focused on the following tasks :

First is the Total Project Management System (TPMS). We established the most advanced supply chain management apparatus in the domestic construction industry last year. In 2007, we will lay the foundation for system-based management by requiring all construction sites in the country to be linked to TPMS. Projects can be managed more scientifically with on-site TPMS access, which together with our cost innovation program will provide us with unique core competencies.

Second, we will continue to strengthen our capabilities to perform outside Korea, continuing our advance toward global prominence. The globalization of the construction industry is integrating national markets, while domestic growth prospects have stalled as project conditions become more difficult and profit margins face downward pressure. We will break through the impasse by seeking out new markets and securing stable revenue sources. I believe that these steps are preconditions for sustainable growth, so we will broaden our portfolio by making further inroads into overseas markets as quickly as possible.

We will begin this process by diversifying the types of plants that we build overseas. We are now working to secure projects in Vietnam and will utilize our competencies in the housing, civil engineering, development and environmental facilities sectors to secure development projects overseas.

An internal reorganization in early 2007 resulted in a new system for implementing global projects. We are now devising action plans and strategies for entering national markets with promising growth potential. We also plan to bolster our strategic alliances with leading foreign construction firms.

Third, we are going to establish a new system for human resources development. GS E&C has engaged in many activities aimed at building the core values of people, technologies and systems.

Investment has been ongoing in every area-sales, construction work, customer management and support, and we have already made tangible progress in the technology sector. Our R&D program has been stepped up; we completed a new technology center at Yong-in, Korea, and we have entered into new technology-sharing arrangements with major overseas players.

Moreover, I am convinced that these activities will only generate powerful synergies if we have the most qualified people. Therefore, we inaugurated the Construction Academy last year, integrating all our training programs and providing a new HRD framework.

Our efforts to date will be stepped up in 2007 to establish a comprehensive human resources development program. The Construction Academy will be developed further, while our position profile system will be expanded and upgraded to ensure that the right people are assigned to the right places. Thus our overall HR system will continue to advance. At the same time, we will continue to recruit core personnel for overseas marketing, development projects and project estimates. Our language training courses and overseas training programs will also be expanded as part of the effort to cultivate global personnel.

Last but not least, we will steadfastly adhere to our shareholder-first policy. I know that our greatest strength for propelling us onto the global stage is derived from the continued trust and support from you, the shareholders.

Our steady profitability, transparent management and shareholder-friendly policy raise value for the company and shareholders alike. We will also offer you various IR programs to help pave the way to a new future.

Over the years, GS E&C has overcome many hardships and reached the top of Korea's construction sector. However, these achievements are merely a starting point for us. We will not be complacently satisfied with small successes but will stay at the forefront of the industry to shape a better future. I believe that construction is the both the foundation and the root of all other industries. We will solidify our position as a Korean leader and set our sights on new goals and challenges to become one of the world's very best builders.

In the coming year, our people will keep moving forward with a pioneering spirit, undaunted by changes and setbacks. I ask for your continued support in our endeavor to rise in the global ranks.

Kab-Ryul Kim President & CEO

The Stock Market

GS E&C shares closed at ₩83,100 at the end of 2006, up 56.8% from the 2005 Closing price.

The Stock Market

The Korean Composite Stock Price Index, or KOSPI, broke 1400 points for an all-time high in 2006. However, Korean stocks were weak compared with the performance of securities globally. The average share price rise (based on blue chip indices posted in the local currency) for fifty countries on the MSCI index was twenty-eight percent. By contrast, the KOSPI rose only 3.3% during the year, while the KOSDAQ index fell 15.6%.

The weakness in Korean stocks was caused by various factors. First among them was an unprecedented (₩12 trillion) net sell-off of foreign-held shares, and foreign holdings dropped from forty-one percent at the beginning of the year to thirty-seven percent, the lowest level since July 2003. Other negative factors include a sluggish economy, faltering corporate profits and a sharp appreciation of the Won against the Dollar. Growing external risks such as the North Korean nuclear program also affected the market adversely.

An important difference in 2006 over past years was the high stability of the market despite its lackluster performance. This constancy can be verified in the way that the market responded to changes in economic activity as well as to differences in supply and demand.

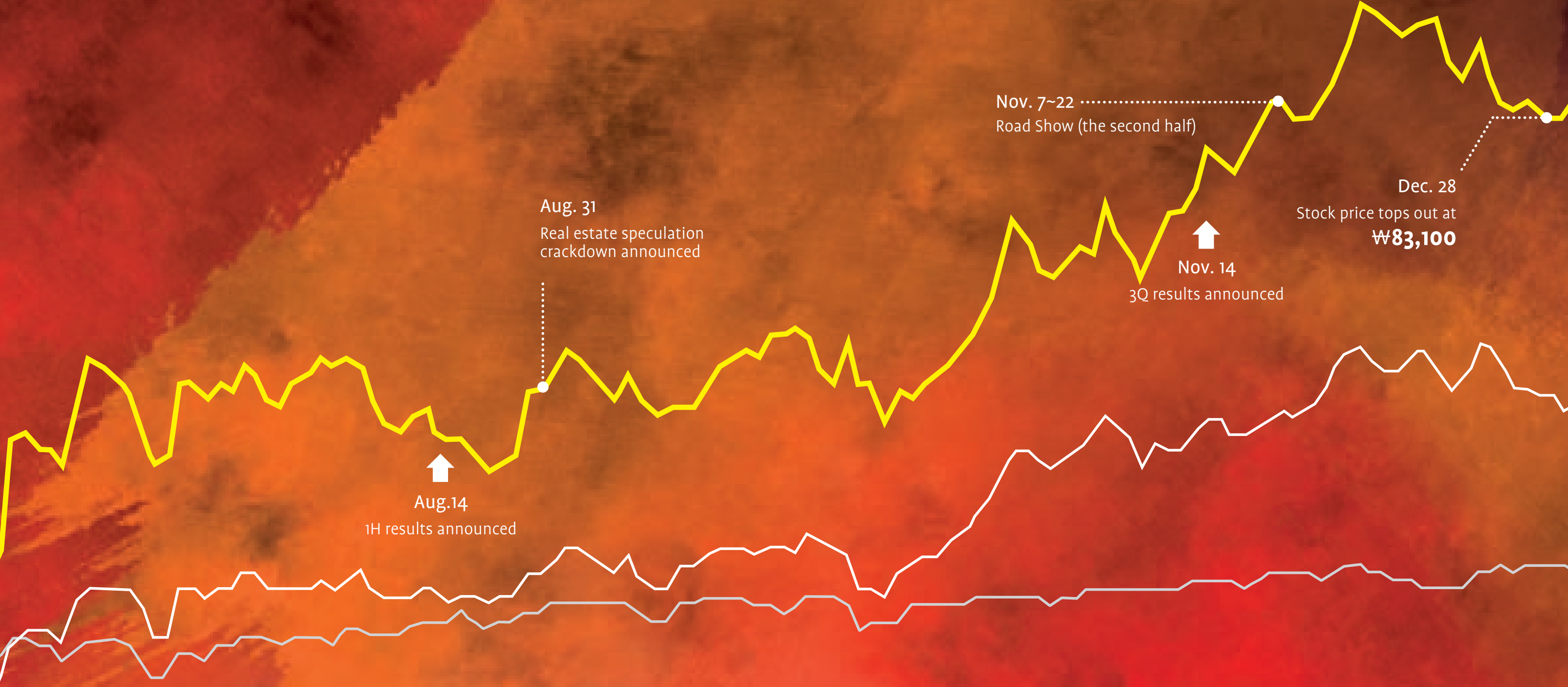
First consider share prices when the leading indicators (permits authorized for building construction, total liquidity, new orders for machinery, export credit, bank lending) are in a downward trend. The KOSPI fell forth-six percent in 1999 and twenty-four percent in 2002, but in 2006 the KOSPI experienced a brief correction and then actually rose. Thus the stock market did not react to slowing economic activity with the volatility that was seen in the past.

Meanwhile, the market experienced the largest volume of net selling by foreign investors in history, but the fluctuation in share prices was minor. This means that the domestic basis for supply and demand is solid. The rate of increase was slow compared with the global securities market, yet growth was maintained in the face of the above-mentioned risk factors. This demonstrates that the so-called “Korea discount” issue is gradually being resolved.

PER for Major Stock Markets

		Korea		US	UK	Germany	France	Japan	Hong Kong	Taiwan
		KRX100	KOSPI200	DJIA30	FTSE100	DAX	CAC40	NIKKEI225	HangSeng	TAIEX
PER	At end of 2005	10.95	10.64	18.85	13.97	12.9	15.1	29.65	15.24	14.2
	At end of 2006	10.54	11.11	21.79	13.37	13.1	15.4	21.52	15.83	15.4

Source : Korea Stock Exchange (KRX)



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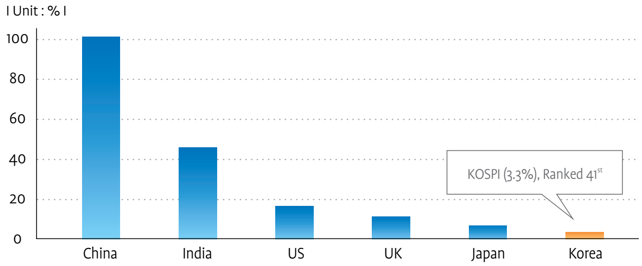
Movement of Major Stock Market Indices in 2006



Source: Korea Stock Exchange (KRX)

Construction Stocks

Stocks for construction companies began the year at 199.56 points and ended with 248.09 points, a twenty-four percent gain that was considerably higher than the 3.3% KOSPI average. Contraction of the Korean housing market was expected to pose difficulties for domestic builders, but the government redirected its real estate policy toward the supply side in the second half. The change caused the share prices to jump, and data related to mergers and acquisitions fueled further gains.

The fundamentals for a rising construction share index were in place by 2004. Last year's performance negates the negative factors (instability triggered by the changing performance of construction stocks, high volatility from the government's real estate policy, and skepticism over construction firms' performance forecasts) that previously created a market discount for construction shares. On the contrary, these stocks now appear to be highly reliable.

The bullishness of Korean construction stocks is expected to continue in 2007. Such optimism is grounded in the belief that the government will make positive changes to its real estate policy and that domestic construction activity will increase in the year ahead.

To begin with, the upcoming general and Presidential election are prompting the current administration to expand government spending in order to boost the economy. Second, investors may be concerned over the government measures to curb soaring apartment prices, but those measures are expected to have a limited effect. Ultimately, the government will have to redirect its position toward housing supply expansion. Third, Korean construction companies will continue to perform better, and their fundamentals will improve steadily.

GS Engineering & Construction

The closing price for GS E&C shares stood at ₩83,100 on December 28, 2006, a fifty-seven percent gain over the ₩53,000 share price posted a year earlier. The company's market capitalization rose from approximately ₩2.7 trillion to some ₩4.2 trillion during the same period. These gains reflect the company's strong performance despite an unstable real estate market and difficult business conditions. They are also testimony to the market's trust in and expectations for the future of GS E&C. The management directive for 2007 is "value growth through cost innovation", an effort aims to bring qualitative as well as quantitative expansion. Management will also work to elevate corporate value by adhering to a shareholder-oriented policy and by organizing diverse investor relations activities.

Overseas Market

GS E&C has managed to increase business volume as well as profitability in overseas markets by upgrading project execution capabilities amid an improving business environment. Moreover, advanced technical expertise and sophisticated risk management capabilities have allowed the company to be more selective in order-taking, which will translate into even better results in the future.

Projects for the LG and GS Groups are currently underway in China and Poland, while plant projects for “non-group” clients are in progress in the Middle East, Egypt and Thailand. Meanwhile, the company continues to promote development projects as a new growth engine and is seeking to expand into the overseas civil engineering, environment and housing sectors.

Buildings and Factories

GS Engineering & Construction entered the overseas market in 1978 by performing a project on an air base at Dhahran, Saudi Arabia. Since then, the company has built office buildings and various factories in China, Russia, Poland, Mexico and the Middle East. Projects such as the main stadium at Saudi Arabia's Imam University and the high-rise Beijing Tower have demonstrated the company's planning, construction and financing capabilities to the world.

Today, GS E&C is a Korean technology leader in the construction of specialized production facilities for liquid crystal displays(LCD's), plasma display panels(PDP's), semiconductors and pharmaceuticals. The company's expertise in industrial and biological clean rooms is particularly strong.

This technological edge has won the company large-scale projects for flat screen displays and rechargeable batteries in Korea over the years. Today, similar projects are underway in China and Poland, as well. The company now aims to sustain overseas business growth by diversifying into very tall building construction and projects that include building construction and development.

Oil Refineries, Petrochemical Plants and Gas Facilities

GS E&C began building oil and gas-related facilities in the 1980's, and this market segment has grown rapidly since 1999, when the company acquired LG Engineering. Recently, the flawless execution of high-profile projects in Kuwait and Qatar has further elevated the reputation and position of GS E&C in the region. The company is currently performing eight plant projects in seven different national markets outside Korea: Iran, Qatar, Oman, Turkey, Egypt, Thailand and China.

In 2006 a LAB plant project was won in Egypt, paving the way for more orders in North Africa. The company also received its largest project ever, an aromatics plant in Oman, providing yet another opportunity for GS E&C to demonstrate its expertise to the world.

As part of the current diversification effort, GS E&C has stepped up overseas marketing activities for LNG and gas-to-liquid plants as well as for power plant projects. Management has selected areas for focused development as future growth drivers.

At the same time, the company has leveraged its expertise in oil refineries to build a portfolio encompassing petrochemical plants, power plants and other energy-related projects. A foundation is now in place that will allow for rapid conversion of project areas in step with market trends. Meanwhile, overseas market diversification is under way as GS E&C is going after new projects in Africa, Russia and Southeast Asia. This effort will help to alleviate the country risk associated with changing market conditions.

2006 at a Glance

31st in ENR Rankings GS Engineering & Construction was ranked 31st on the Top 225 Global Contractors list by Engineering News-Record, a leading US journal for the construction industry. The ranking is based on the 2005 sales performance.

"Best-Managed Company" by AsiaMoney Asia Money included GS Engineering & Construction among Korea's best managed companies, along with Samsung Electronics and Humax. The selection was based on the company's solid financials and outstanding performance even after separating from the LG Group. The financial journal also pointed out that GS E&C has been recognized for a superior corporate governance structure each year since 2000.

Prizes for Best CFO, Financial Innovation Korea Association for Chief Financial Officers (KCFO) awarded President & CFO Myung-Soo Huh with the 2006 Best CFO Prize and named GS E&C as one of the nation's best for financial innovation in 2006. The honors were presented in recognition of the company's solid financial structure, excellent business performance and management innovation programs.

The Forbes Asian Fab 50 Forbes magazine listed GS Engineering & Construction as one of the Asia-Pacific's fifty most promising publicly traded companies with revenues or market capitalization of at least $5 billion. Criteria for selection include long-term profitability, sales and earnings growth as well as projected earnings and stock-price gains, and GS E&C's impressive performance was supported by a shareholder-first policy. Other Korean companies on the list include Samsung Fire & Marine, Daewoo Shipbuilding & Marine, Hyundai Mobis and LG Corp.

Massive Aromatics Plant in Oman GS Engineering & Construction and LG International Corp. jointly signed a US$1.21 billion engineering, procurement and construction contract with Aromatics LLC (AOL) of Oman to build an aromatics plant. This is the largest single order ever won by GS E&C, and when completed, will be the largest plant of its kind in the world, capable of producing 800,000 tons of paraxylene and 200,000 tons of benzene a year. Production is scheduled to begin in August 2009.

Industry's First TPMS Development of the Total Project Management System was completed in June; the system began to be used at construction sites in October and was operable at all domestic sites by February 2007. The TPMS makes GS E&C the first Korean construction company that can manage processes and expenses on a daily basis. This capability lowers operating costs, makes subcontractors more accountable and enhances the win-win relationship between the prime contractor and the subcontractors. Subcontractors can work with GS E&C on an equal footing, improving the way meetings are conducted and enhancing managerial transparency.

현대카드·GS건설 올해 첫 정상

Korea's Most Respected Company Korean Management Association Consulting (KMAC) selected GS E&C as "Korea's Most Respected Company" in the Construction category. The company scored particularly well in asset utilization rate, customer satisfaction programs and environmental protection activities.

Design Subsidiary in India Indian authorities granted GS E&C permission to establish a local design subsidiary on May 30, with the official opening held in September. The operation will initially help the company win new orders locally. Over the mid-/long term, the subsidiary will be developed into a center for overseas design work and will help to improve cost competitiveness.

CMMI Maturity Level 4 GS E&C, in collaboration with LG CNS, was appraised at Maturity Level 4 within Capability Maturity Model Integration. CMMI is the successor of the Compatibility Maturity Model, developed between 1987 and 1997 by the Carnegie-Mellon Software Engineering Institute with US Air Force funding. The original goal was to create an objective tool for selecting software subcontractors. Capability Maturity Model Integration today provides organizations with the essential elements for assessing and improving IT system quality. There are five maturity levels, each encompassing a predefined set of process areas. By being appraised at CMMI Maturity Level 4, GS E&C is internationally recognized for having a excellent IT organization and system. Only around ten Korean companies (LG CNS among them) have reached Maturity Level 4, and GS E&C is the only domestic builder on the list.

A "MATURITY LEVEL" is a defined evolutionary plateau of process improvement. Each maturity level stabilizes an important part of the organization's processes. Maturity levels, which belong to the staged representation, apply to an organization's overall maturity. There are five maturity levels, numbered 1 through 5. Each maturity level comprises a predefined set of process areas.

Grand Prize at Apartment Awards Apartments built by GS E&C were declared the best among seventy new complexes nationwide to win the Grand Prize at Hankyung Wow-TV's fourth annual Korean Model Apartment Awards. Fifteen complexes were honored with Korean Model Apartment Awards on this night, and the Gaepo-dong Xi Apartments took the top prize by scoring exceptionally well on architectural beauty, environment-friendly landscaping, and voluntary residential community.

Employees Asked to Volunteer GS E&C contributes funds to social service institutions as well as to universities and other academic organizations. Company President & CEO Kab-Ryul Kim has also encouraged all employees to become involved in community service programs: "Society is both the foundation and the stage for corporate activities, and enterprises are obligated to held society be strong. GS E&C puts customer value first, and in this same spirit, we will do more for society as a whole."

Sustainability & Social Responsibility

GS E&C faithfully meets all obligations to customers, shareholders, employees, local communities, the nation, and society in general. This commitment to social responsibility is the best and right way to adjust to the changing business environment and become a major world player that can sustain steady growth. Company activities in this regard are detailed on the corporate, IR and Xi homepages. Public disclosure of the company's vision and mid-/long-term strategies enable all stakeholders to confirm the sustainability and growth potential of GS Engineering & Construction.

Company officials pay close attention to social responsibilities and the public interest through honest and ethical business practices. An ethical management declaration has been promulgated to ensure that GS E&C remains a clean company at all times. Employees sign a written pledge to act ethically, and a constant effort is made to improve the way the company does business.

"Xi" Apartment model
Young-Ae Lee

Social Performance

1. Values and Leadership

GS E&C is setting the industry standard for ethical management, implementing a corporate philosophy that aims for greatness. The company generates outstanding business results by competing fairly and squarely, while doing business transparently and ethically earns the trust of customers and the general public alike. Indeed, this is the ultimate reason for the company to exist.

The GS E&C vision is to offer creative solutions for maximizing the value of buildings and other spaces. This is the way to become the best partner, trusted by customers, employees, investors and thereby be the best company.

The best people, policies and solutions result in the most favored brand as well as the highest shareholder value, market share and profitability.

- **Proactive People**

GS E&C is cultivating people who can pursue challenging targets with innovative thinking and bold implementation. They make the best use of internal and external networks, work as a team and make the field (construction site) their top priority.

- **Advanced Technology**

World-class R&D competencies are being acquired through constant effort, and technology development is directed toward the creation of new business possibilities.

- **Digital System**

A digitized system is in place that links all work processes online and serves as the platform for all business activities.

2. Governance Structure

The work of the Auditing Committee and decision-making by the Board of Directors earned GS E&C government recognition for exemplary corporate governance in 2001, 2002, and 2004.

The company established the Corporate Governance Charter in July 2003 as a means for ensuring operational transparency and efficiency.

A new accounting system was inaugurated in 2005 to enhance overall transparency, and internal audits are performed by each organizational unit each quarter.

3. Ethical Management and Social Responsibility

Customers will only trust companies that are ethical and transparent. Therefore, GS E&C has been implementing various programs (such as a campaign to discourage the practice of accepting gifts) and training employees to adhere closely to ethical standards. The unit responsible for internal audits was expanded and given greater authority in 2004. Every effort continues to be made to eliminate opportunities for unethical conduct at the Head Office as well as at construction sites.

Overview of Vision 2010

Slogan	Best & First			
Vision Statement	Be the Best Partner and Leading Company that provides, with credibility and integrity, creative solutions to maximize spatial value			
Core Value	Proactive People	Advanced Technology	Digital System	
Core Task	Improving Project Planning Skill	Establishing Networking Skill	Securing Core Technology	Reinforcing Cost Innovation

New regulations govern permissible expenses, and an online whistleblower system is now in place.

GS E&C Ethical Management Guidelines

GS Engineering & Construction conducts business fairly, honestly and sincerely to maximize customer satisfaction. In so doing the company is advancing as a top-tier company that fulfills all obligations to employees, subcontractors, shareholders and society.

GS E&C Ethical Principles

GS E&C employees share the philosophy of "creating value for the customer" and "respecting all people." The company empowers them to make decisions and take responsibility in the sprit of the management charter.

Management respects the order of a free market economy, which stresses unrestricted and fair competition. The company continues to move up the ranks of the world's best by pursuing benefits for all stakeholders on the basis of mutual trust and cooperation. Thus, all employees pledge to abide by these ethical principles, which serve as a standard for value judgment and proper conduct.

- **Responsibilities and Obligations to Customers**

GS E&C believes customers are the true reason for being in business. Therefore, the company always respects customer opinions and is steadily creating value that helps customers, earning their deep trust.

- **Fair Competition**

GS E&C strictly adheres to local laws and secures a competitive edge through fair play.

- **Fair Transactions**

GS E&C always performs transactions according to the principle of free competition, ensuring equal opportunities for participation. The company seeks to grow together with stakeholders over the long term, conducting business fairly and transparently to build relationships of mutual trust and cooperation.

- **Basic Ethics for All Employees**

GS E&C embraces honesty and fairness. All employees are required to perform their duties honestly and to develop themselves continuously, maintaining upright values as GS E&C representatives.

- **Responsibilities to Employees**

GS E&C respects all employees as human beings and compensates them fairly on the basis of their abilities and performance. The company also allows employees to exhibit their creative talents as much as possible.

- **Responsibilities to the Nation and Society**

GS E&C applies systematic, rational approaches to grow as a solid company that protects shareholder interests while contributing to people's lives and social development.

Environmental Record

GS E&C Environmental Directive

GS Engineering & Construction conducts environmental protection activities in tandem with all planning and construction work. The corporate philosophy stresses "creating new value for life while aspiring for a better tomorrow for all." In this spirit, the following environmental policies are in force to make GS E&C one of the most environment-friendly construction companies.

1. An environment management has been built in accordance with ISO 14001 stipulations; environmental targets, both overall and specific, are established each year, and improvement is an ongoing process.

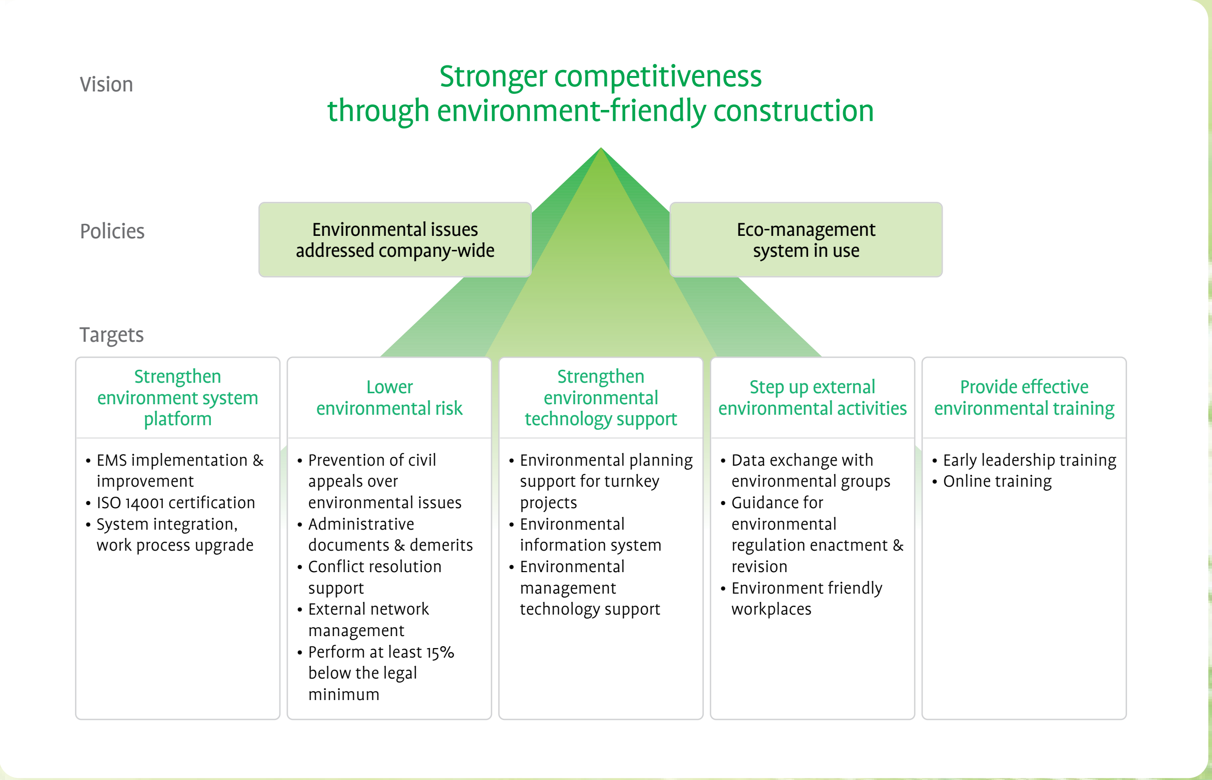
2. The company strictly complies with all environmental laws and regulations at all times. Moreover, the opinions of environmental organizations and other stakeholders are reflected in company policy.

3. The environmental impact of all company activities, to include project planning, architectural design and project execution, are assessed in pollution prevention measures are implemented proactively.

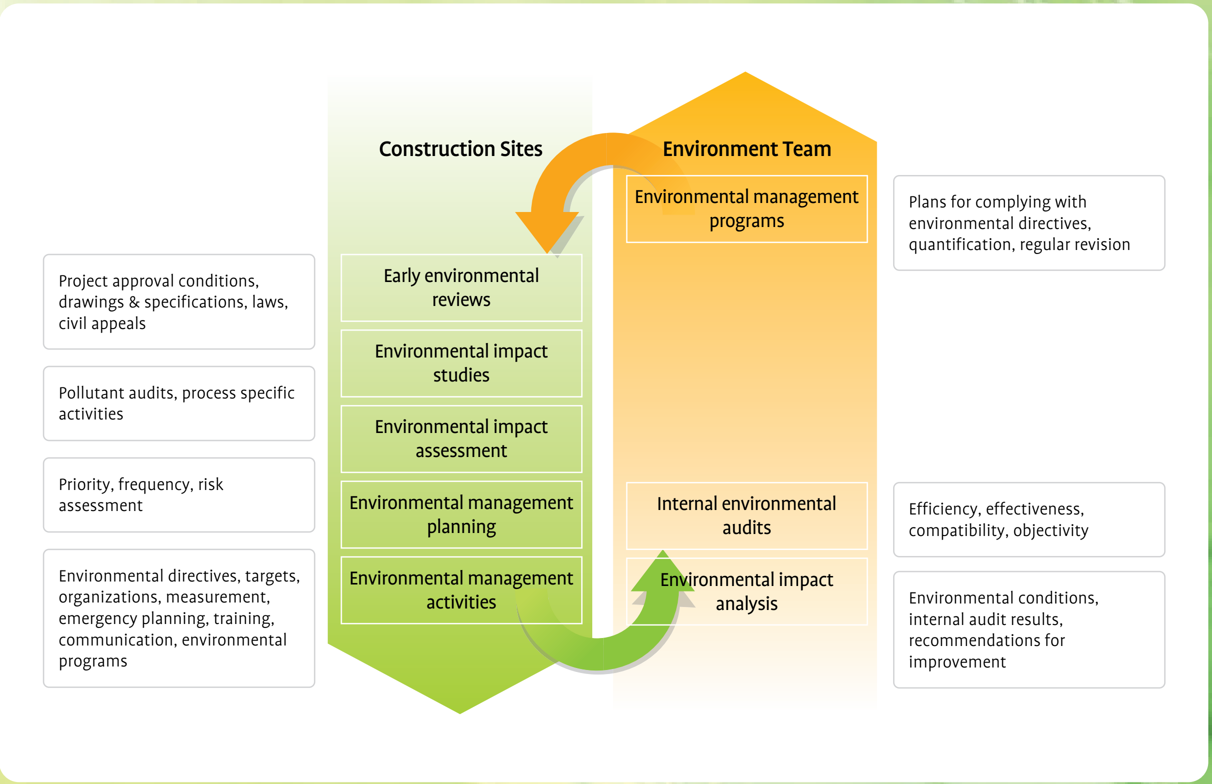
4. The company works in concert with local communities and plays an active role in local environmental protection programs.

5. All employees are encouraged to conserve energy and resources as well as recycle waste at all times.

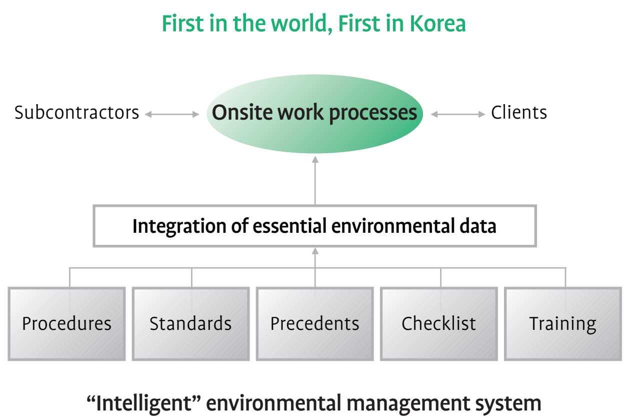
Environmental Management System



Operation System



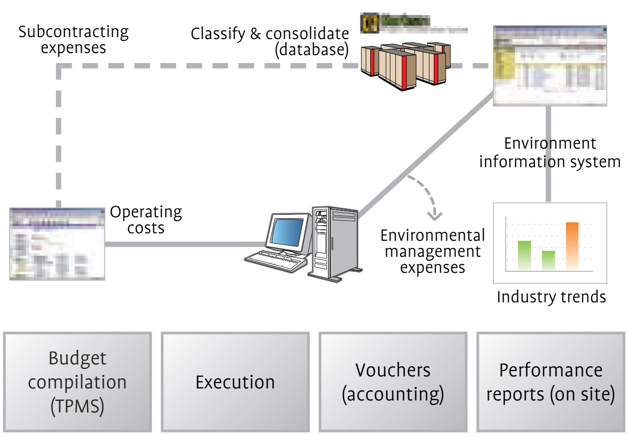
Environmental Policies



Policies for reducing environmental impact

- Strict Regulatory Compliance
  - Use TPMS to discern related regulations and provide precedents
  - Elevate employees' environmental awareness through training
- Conflict and Civil Suit Prevention
  - Use the in-house "environmental conflict prevention program" to improve performance

Environmental Investment & Resource Reuse



Resource & energy conservation, recycling

- Environmental expense consolidation system
  - Realize environment friendly project sites by compiling and executing the proper environmental management budget
- Waste reuse
  - Recycle more with better waste separation and collection

Environmental Trends

Hazardous substance emissions / Compliance with environmental laws and internal regulations

Hazardous substance emissions/ Compliance with environmental laws and internal regulations

- Environmental inspections and measurements
  - Confirm whether environmental directives are being followed and rules are being obeyed to achieve the company's environmental objectives.
  - Identify and regularly monitor factors that impact environmental quality
- Environmental Trend Analysis & Feedback
  - The suitability and effectiveness of the environment management system is examined and analyzed; the results are reflected in operations

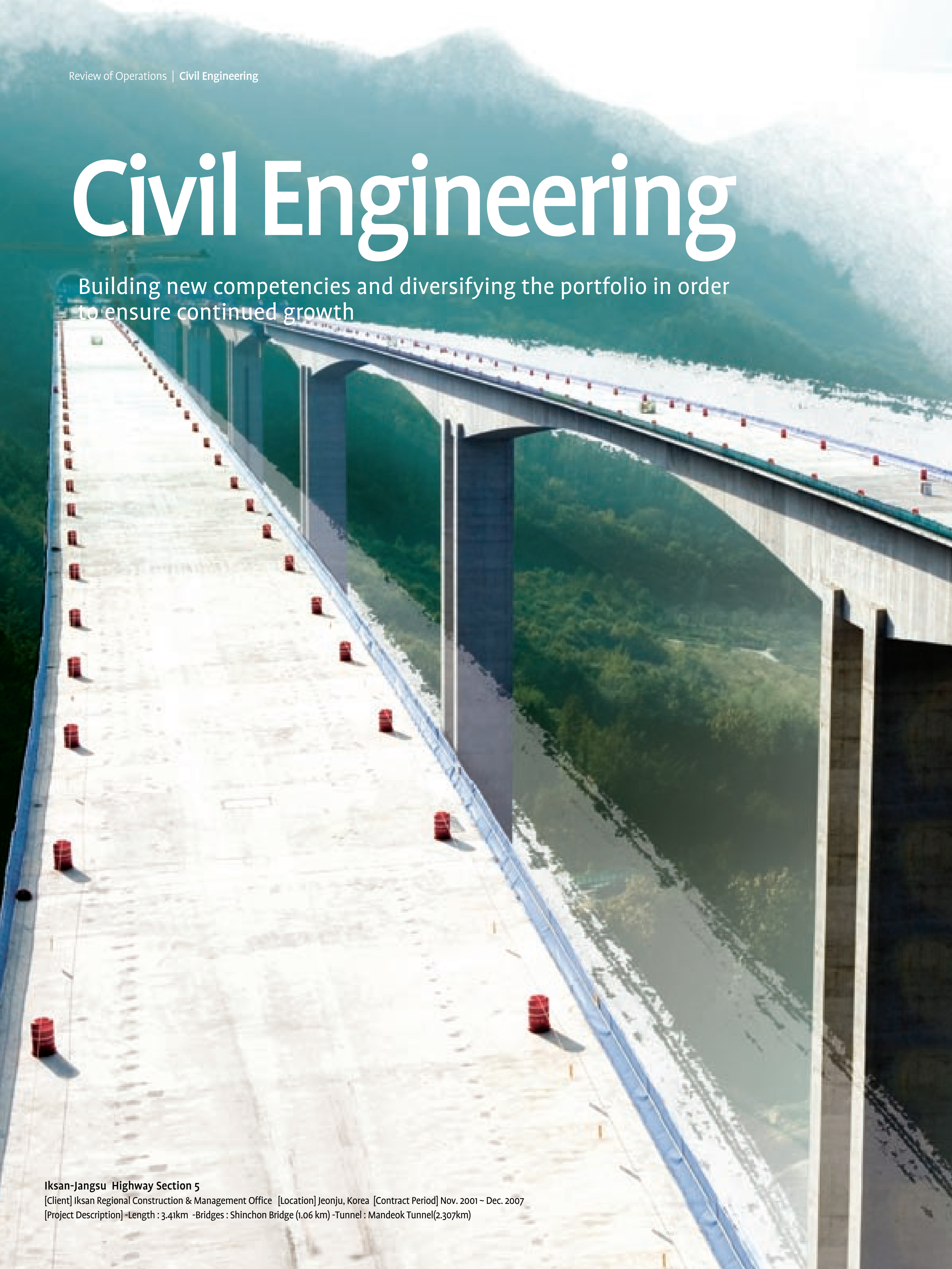
Review of Operations

A Top Global Builder

GS Engineering & Construction

Civil Engineering

Building new competencies and diversifying the portfolio in order to ensure continued growth



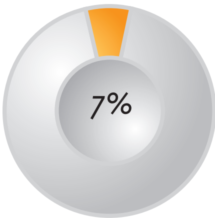
Iksan-Jangsu Highway Section 5

[Client] Iksan Regional Construction & Management Office [Location] Jeonju, Korea [Contract Period] Nov. 2001 ~ Dec. 2007

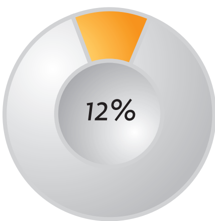
[Project Description] -Length : 3.41km -Bridges : Shinchon Bridge (1.06 km) -Tunnel : Mandeok Tunnel(2.307km)

We will keep growing by boosting our competitive edge in the government sector and by improving our abilities to execute overseas projects.

Portion of Total New Orders



Portion of Total Sales Revenue



Hwi-Sung Lee
Senior Executive Vice President,
Head of Civil Engineering Business Division

Message from the Head of Civil Engineering Business Division

The Korean government issued fewer construction contracts in 2006 than during the previous year, causing domestic builders considerable difficulties in securing new orders for turnkey and Privately Funded Infrastructure (PFI) projects. However, it was a very meaningful year for us. The competitive advantage we enjoy in our traditional areas of expertise enabled us to win a follow-up order at the Gwangyang Port from the Ministry of Maritime Affairs & Fisheries. This time we were contracted to develop the hinterland industrial park on the eastern side. We landed a new order to build the road for the Yeosu Industrial Park, and we also moved into a new field-multipurpose dams-with the receipt of contract to build the Buhang Dam.

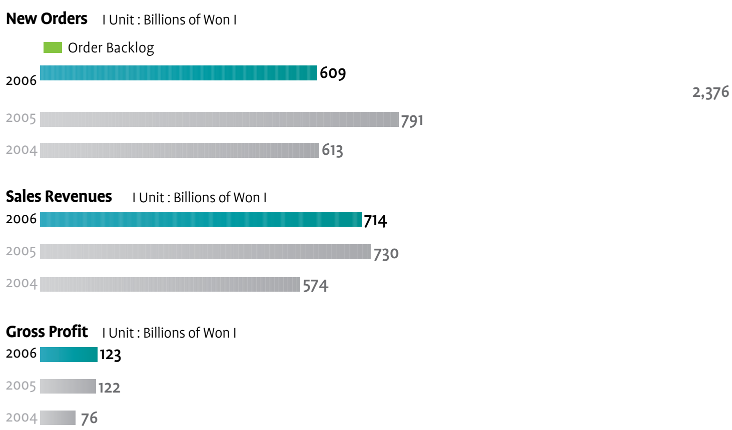
Our civil engineering business has become stronger from our winning orders in new fields and executing projects flawlessly. We have maximized productivity in all areas of project management, and we have secured strong competitiveness in cost control and construction management.

Our new strengths will allow us to make inroads into lucrative overseas markets. At home, meanwhile, we will pursue PFI and other growth drivers. Through continued diversification, we are determined to take our Division to the top of Korea's civil engineering sector by 2010.

Sales Revenues | KRW |

714 billion

New orders decreased 23% from ₩791 billion in 2005 to ₩609 billion in 2006.



2006 Performance Summary

New orders and sales were down year on year, but successful cost innovation improved profitability considerably. A combination of government policy changes, smaller project sizes and heightened competition reduced new orders by twenty-three percent, from ₩791 billion in 2005 to ₩609 billion in 2006.

Sales also fell two percent year on year, from ₩730 billion to ₩714 billion, even though the drop is mainly due to budget cuts by the central government. Seoul Beltway and Paju LCD complex projects proceeded on schedule. On the other hand, privately funded infrastructure (PFI) and turnkey projects expanded while costs were lowered, causing the gross margin to rise from 16.7% in 2005 to 17.1% a year later.

A new safety management system was installed that links the construction sites to the Head Office. The Division also continued to improve the preventative safety program while strengthening responsible management initiatives at subcontractors. The gains in accident prevention were truly remarkable.

2007 Outlook and Plans

Changes in government contract procedures and aggressive participation in turnkey projects by all of Korea's major builders will intensify competition in the industry. In response, the Division will secure a competitive advantage in building roads and light railways while strengthening the platform for entry into civil engineering markets outside Korea. The target for new orders is ₩1 trillion, a sixty-four percent increase from the 2006 figure of ₩608.6 billion. Moreover, the Division is determined to achieve ₩797 billion in sales.

All the employees will help the Division to meet these goals. An all-out-marketing campaign will be conducted and new markets will be developed. Highly qualified people will be recruited and trained to handle overseas business, and the processes of globalization and diversification will continue.

Finally, cost innovations will contribute to value growth, with innovative approaches being applied to every area--sales, estimations, construction work and process control. Significant progress is expected for the year.

01	02
	03
04	

01 Gyeongbu Line Roadbed Construction(Okcheon - Jitan)

[Client] Korea Railroad Corporation
[Location] Okcheon, Korea
[Contract Period] Dec. 2003 ~ Jul. 2007
[Project Description]
- Length : 4.28km
- Bridges : 6
- Tunnels : 2

02 Namjijae Bridge

[Client] Gyeongsangnamdo Development Corporation
[Location] Changnyeong, Korea
[Contract Period] Jan. 2004 ~ Jun. 2007
[Project Description]
- Length : 1.11km
- Bridges : 2

03 Seoul Beltway Section 6

[Client] Seoul Beltway Corporation
[Location] Namyangju, Korea
[Contract Period] Jun. 2001 ~ Jun. 2006
[Project Description]
- Length : 0.9km
- Tunnel : Bulamsan Tunnel (801m)

04 Cheongryangri - Deokso Roadbed Construction

[Client] Public Procurement Service (Korea Rail Network Authority)
[Location] Namyangju, Korea
[Contract Period] Oct. 1997 ~ Jun. 2006
[Project Description]
- Length : 9.5km
- Bridges : 15
- Stations : 4

Plant

Bolstering capabilities as a major global player in the processing plant sector

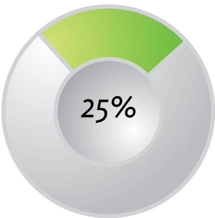
WSR Splitter

[Client] GS Caltex [Location] Yeosu, Korea [Contract Period] Jul. 2005 ~ Dec. 2006

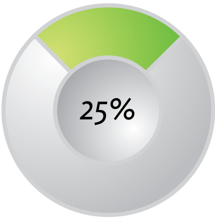
[Project Description] - Raw Materials & Usage : WSR Naphtha : 7,973 BPSD
- Manufactures & Output : HSR Naphtha : 4,093 BPSD
LSR Naphtha : 3,682.7 BPSD
LPG : 196.6 BPSD

We are honing our human resources and strengthening project performance capabilities, while our global sourcing continues to expand.

Portion of Total New Orders



Portion of Total Sales Revenue



Sang-Ryong Woo
President,
Head of Plant Business Division

Message from the Head of Plant Business Division

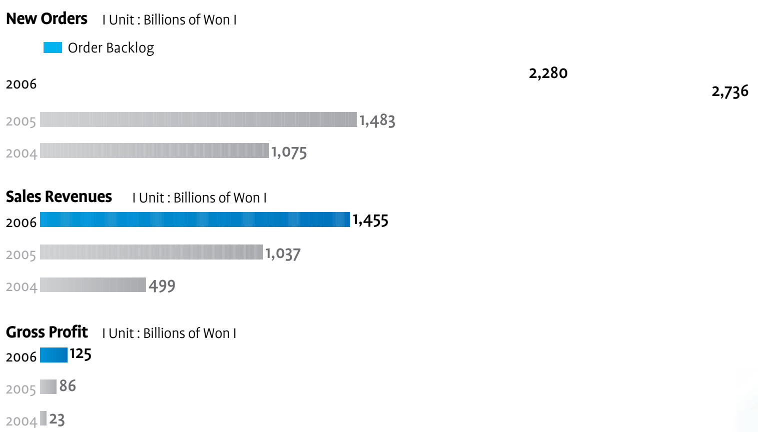
We experienced a monumental year in 2006. New orders exceeded ₩1 trillion for the fourth straight time, and our sales were over ₩1 trillion for the second year in a row. Importantly, we pursued contracts that were both large and value added, securing some through negotiation rather than bidding. This is testimony to our stronger competitiveness. Indeed, we laid the foundation for solid growth over the mid-/long term.

The linear alkyl benzene (LAB) plant we are building in Egypt will pave the way for additional work in Africa, and our stature in the Middle East continues to rise. We completed highly successful projects in Oman and Qatar, while the aromatics plant that we are to build in Oman represents the largest-scale project for our company to date. In Asia, meanwhile, we completed a major project in China and have made inroads into Thailand and other Southeast Asian markets. Thus our overseas involvement is expanding beyond the Middle East, and our project portfolio is now a well balanced mix of oil refineries, petrochemical plants, LNG processing facilities and power plants. As a result, we are better prepared to adapt flexibly to changing market requirements. In the coming year, we will continue to bid selectively on projects that will be most profitable. Our goal is to grow qualitatively as well as quantitatively. We will continue to enhance our capabilities to execute large-scale projects systematically and upgrade our risk management system so that we can become one of the major world players.

Sales Revenues | KRW |

1,455 billion

New orders increased 54% from ₩1,483 billion in 2005 to ₩2,280 billion in 2006.



2006 Performance Summary

New orders surpassed ₩2 trillion for the first time ever. The total amounted to just under ₩2.3 trillion, a fifty-four percent increase over the ₩1.5 trillion figure posted for 2005. Business volume has swelled with the receipt of new orders surpassing ₩1 trillion each of the last four years. The order backlog at the end of 2006 stood at more than ₩2.7 trillion, which is a solid platform for further expansion. Importantly, the Division is focusing on negotiation-based projects, taking the business beyond engineering, procurement and construction in order to deliver a total solution package. This "one-stop" approach shows strong growth potential.

Annual sales were over the ₩1 trillion mark for the second consecutive year, surpassing ₩1.46 trillion, a 40% increase over the ₩1.04 trillion in sales recorded during 2005. The large-scale projects carried over from 2006 will bring robust sales growth in the future as well. The gross margin rose from 8.3% in 2005 to 8.6% in 2006 as a result of selective project bidding. Profitability will continue to improve in the future from reduced fixed costs and a greater number of large-scale projects.

2007 Outlook and Plans

Escalating oil prices have driven up new facilities investment in oil producing counties inside and outside the Middle East, and this trend is likely to continue in the coming year. The Plant Business Division is looking forward to bidding on many large-scale projects in 2007, pursuing only those contracts with a high gross profit margin. The target for new orders has been set at ₩2.47 trillion, up eight percent year on year, and the Division expects sales to surpass ₩1.64 trillion, an increase of twelve percent over the 2006 total.

The mid-/long term industry outlook calls for steady growth in gas processing facilities construction. Therefore, the Division will continue to expand involvement in gas-related projects, including LNG and gas-to-liquid (GTL) plants. The Korean development market is on a downturn, prompting GS E&C to pursue more development projects overseas.

01
02
03

01 M2

[Client] LG Petrochemical
[Location] Yeosu, Korea
[Contract Period] Dec. 2004 ~ Jul. 2006
[Project Description]
- NCC Capacity : 700,000 tons/yr
  → 800,000 tons/yr

02 Lidong Aromatics

[Client] Qingdao Lidong Chemical
[Location] Qingdao, China
[Contract Period] Jun. 2004 ~ Oct. 2006
[Project Description]
- Paraxylene : 700,000 tons/yr
- Benzene : 240,000 tons/yr
- Toluene : 160,000 tons/yr

03 No.3 Reformate

[Client] GS Caltex
[Location] Yeosu, Korea
[Contract Period] Oct. 2005 ~ Oct. 2006
[Project Description]
- Reformate 30,000 BPSD (200kl/hr)
- Hydrocarbon : 20 kl/hr
- Benzene & Toluene : 110 kl/hr
- Xylene : 54 kl/hr
- Aromatic Compounds : 16 kl/hr

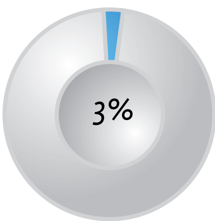
Environment

Arising as a dominant player by expanding the platform for value growth

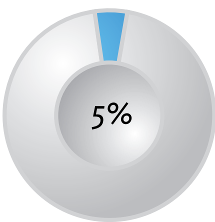
Jeonju Sewage Treatment Facility
[Client] Jeonju City [Location] Jeonju, Korea [Contract Period] Oct. 2004 ~ Jun. 2007
[Project Description] - Sewage Treatment 35,000 m^3/day

We are sharpening our competitiveness in the public sector, bolstering our global competencies and steadily improving profitability to strengthen our market dominance.

Portion of Total New Orders



Portion of Total Sales Revenue



Jong-Nam Park
Senior Executive Vice President,
Head of Environment Business Division

Message from the Head of Environment Business Division

We experienced adversity in 2006 from delays in tender notifications for public build-transfer-lease (BTL) projects and a reduction in new facilities investment by LG Philips LCD. However, we improved our capabilities to win government contracts and sought out new business areas that will allow for continued growth. At the same time, we bolstered our organization and competences in preparation for expanding overseas.

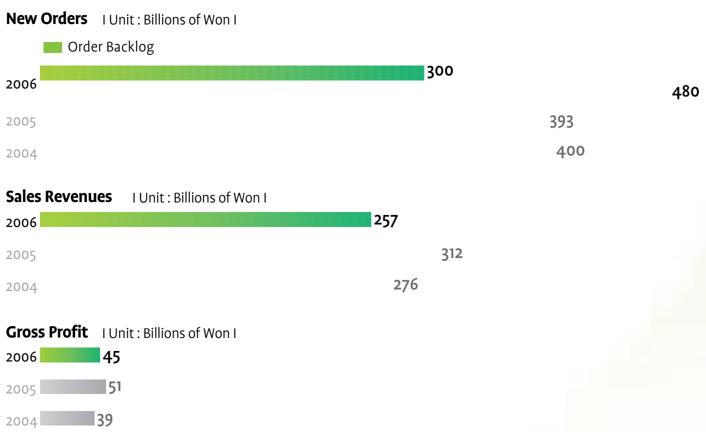
We won a balanced mix of new orders for our mainstay business areas-advanced sewage treatment plants, sewage conduit rehabilitation and incinerators. As a result we improved our sales portfolio, which had been heavily weighted toward projects from GS, LG and LS affiliates. Importantly, we were selected to build the municipal solid waste (MSW) disposal system for an urban redevelopment project in the Eunpyeong district of northeastern Seoul. The facilities include pneumatic waste collection and a pyrolysis and melting system.

In the future the Environment Business Division will continue to expand the platform for value growth to become a dominant player in the industry. To this end, we will selectively focus our resources to raise our competitiveness further. Our increased involvement in privately funded infrastructure projects on a build-transfer-operate (BTO) basis and projects requiring new technologies will bring a steady stream of new orders. We will also continue to enhance our global operational competencies and further our technological expertise to accelerate our overseas advance.

Sales Revenues | KRW |

257 billion

New orders decreased 24% from ₩393 billion in 2005 to ₩300 billion in 2006.



2006 Performance Summary

Some BTL project clients delayed their tenders and the market environment changed rapidly during 2006. As a result, competition over new orders was severe; domestic construction activity was slow and business conditions deteriorated. However, the Environment Business Division still managed to win ₩300 billion worth of new orders.

Among the major government contracts won during the year were three advanced sewage treatment plants, including the one for Gunsan city. Two sewage conduit orders were received, including Phase 2 of the Han River Watershed Project. The Division was also selected to build three incinerators, including the one that is to serve the Cheongju area. In the private sector, the Division made progress in organizing BTO projects for sewage facilities in Gwacheon and a recycling center in Ulsan.

Sales in 2006 were down to ₩257 billion from the previous year, but the Division managed to redirect the bulk of the sales volume away from GS, LG and LS affiliates and toward the public sector. The groundwork has been laid for ensuring a steady sales volume despite an expected drop in "internal" business.

2007 Outlook and Plans

Steady growth is forecasted in demand for environmental facilities, especially in the turnkey project and privately-funded infrastructure (PFI) segments, but competition over market leadership will be keen. The Environment Business Division will maintain a competitive advantage in water treatment plants, sewage conduits, and incinerators, while at the same time seeking large-scale BTO projects and expanding into areas that require new technologies. The goal for new orders has been set at ₩520 billion, an increase of 73% from 2006.

Sales are projected to reach ₩313 billion, up 22% year on year. A higher bid success rate in orders won will also reduce marketing expense, contributing to better profitability.

The Division will continue to develop and upgrade technologies in order to increase its share of the domestic government sector. Overseas competencies will also be improved steadily to help GS E&C emerge as a globally competitive player.

01 02
03

01 LCD P7

[Client] LG Philips LCD
[Location] Paju, Korea
[Contract Period] Nov. 2003 ~ Feb. 2007
[Project Description]
- Wastewater treatment : 51,000 m3/day

02 Osan Sewage Treatment Facility No. 2

[Client] Osan City
[Location] Osan, Korea
[Contract Period] Jul. 2005 ~ Aug. 2008
[Project Description]
- Wastewater treatment : 64,000 m^3/day

03 Mapo Recycling Center

[Client] Office of Infrastructure Management, Seoul
[Location] Seoul, Korea
[Contract Period] Nov. 2001 ~ May. 2005
[Project Description]
- Incineration facility : 250 tons/day x 3 unit
- Boiler : 44 tons/hr x 3 unit

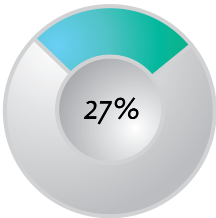
Architecture

Growing continuously by strengthening competencies and securing general contracts

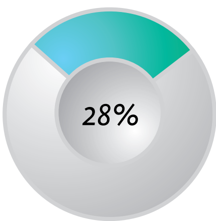
LG CNS IT CENTER
[Client] LG CNS [Location] Seoul, Korea [Contract Period] Mar. 2005 ~ Dec. 2006
[Project Description] -Total floor area : 44,255 m² (12 stories, 4 underground levels)

We are growing steadily and profitably by making over our portfolio and improving internal capabilities to make great strides in the private sector segment.

Portion of Total New Orders



Portion of Total Sales Revenue



Cheon-Soo Cha
Senior Executive Vice President,
Head of Architecture Business Division

Message from the Head of Architecture Business Division

We faced lackluster market activity and intense competition in 2006, yet our Division managed to win ₩2.4 trillion worth of new orders. As a result, we laid the groundwork for mid-/long term growth.

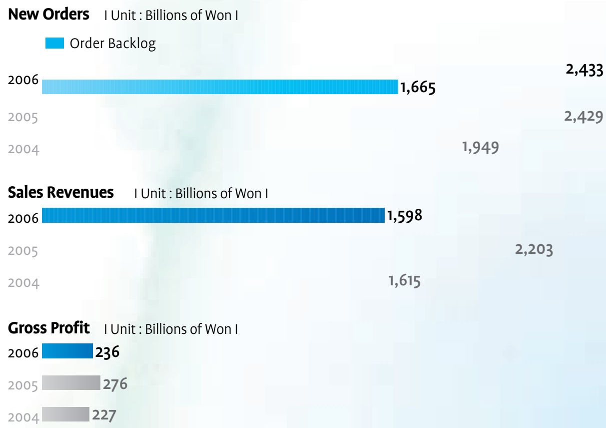
We reaffirmed our superior technology competitiveness in the turnkey project sector by being selected to build the southeastern Seoul distribution center. Our sales network and brand image were leveraged to promote our services in both the public and private sectors, and we won a number of medium- and large-scale projects there. Meanwhile, a solid volume of new orders were received from new facilities investments inside and outside Korea by LG Electronics, LG Telecom, LG Philips LCD and LG Chem.

In 2007, we will expand our business portfolio by focusing on the public sector and non-group (outside GS, LG and LS) clients. We will also establish a platform for strengthening internal competencies, and we will raise profitability by focusing on domestic development projects with a high margin and by breaking into overseas markets. In this way we will help the company to maximize shareholder value and take the first step toward being Korea's top construction company by 2010.

Sales Revenues | KRW |

1,598 billion

New orders increased 0.2% from ₩2,429 billion in 2005 to ₩2,433 billion in 2006.



2006 Performance Summary

Domestic construction activity was slow and competition over contracts was severe in 2006, but the Architecture Business Division managed to make some impressive breakthroughs nonetheless. The ₩259 billion the southeastern Seoul distribution center was a record turnkey project in the government sector. Moreover, a private sector client selected the Division for the ₩299 billion K-Project, which includes two high-rise office buildings, a hotel, a shopping mall and a department store in southwestern Seoul.

Domestic and overseas contracts valued at more than ₩1.7 trillion were also obtained from LG Philips LCD, LG Chem, LG Electronics and other affiliates of the GS, LG and LS organizations. As a result, new business received from the "internal client" segment was twenty-three percent higher than the 2005 figure. The newly established GLS-Service, which regularly inspects ninety different facilities belonging to GS, LG and LS affiliates, has reconfirmed the outstanding technological expertise and workmanship of GS E&C. The number of government and private sector contracts has grown with the ongoing diversification effort, while a steady stream of work was received from GS, LG and LS companies in 2006. As a result, the overall business volume expanded during the year.

2007 Outlook and Plans

The target for new contracts has been set at ₩3.1 trillion, up twenty-eight percent from the almost ₩2.4 trillion in new orders received in 2006. Special emphasis will be put on participating in mid-sized turnkey projects in the public sector. An ambitious goal has been set in order to maximize the probability of new contract awards and the amount of profitability.

In the private sector, the Division will aggressively pursue projects that include architectural consulting services. Internal competencies will continue to improve as well in order to expand the range of business opportunities.

The new order volume from GS, LG and LS affiliates is expected to decline with decreased new facilities investment and a weaker bottom line. However, the Division will engage in aggressive marketing cut costs and seek cooperative arrangements to bring in a steady stream of new work and maintain strong ties within the "internal client" network.

The Architecture Business Division will stay on the growth track by transitioning toward outside clients and improving internal capabilities. Thus 2007 is seen as a building year for future expansion.

01
02
03

01 Ochang Plant of Yuhan Corporation

[Client] Yuhan Corporation
[Location] Cheongwon, Korea
[Contract Period] Feb. 2004 ~ Feb. 2006
[Project Description]
-Total floor area : 54,516 m²
(4 stories, 1 underground level)

02 Sacheon City Hall

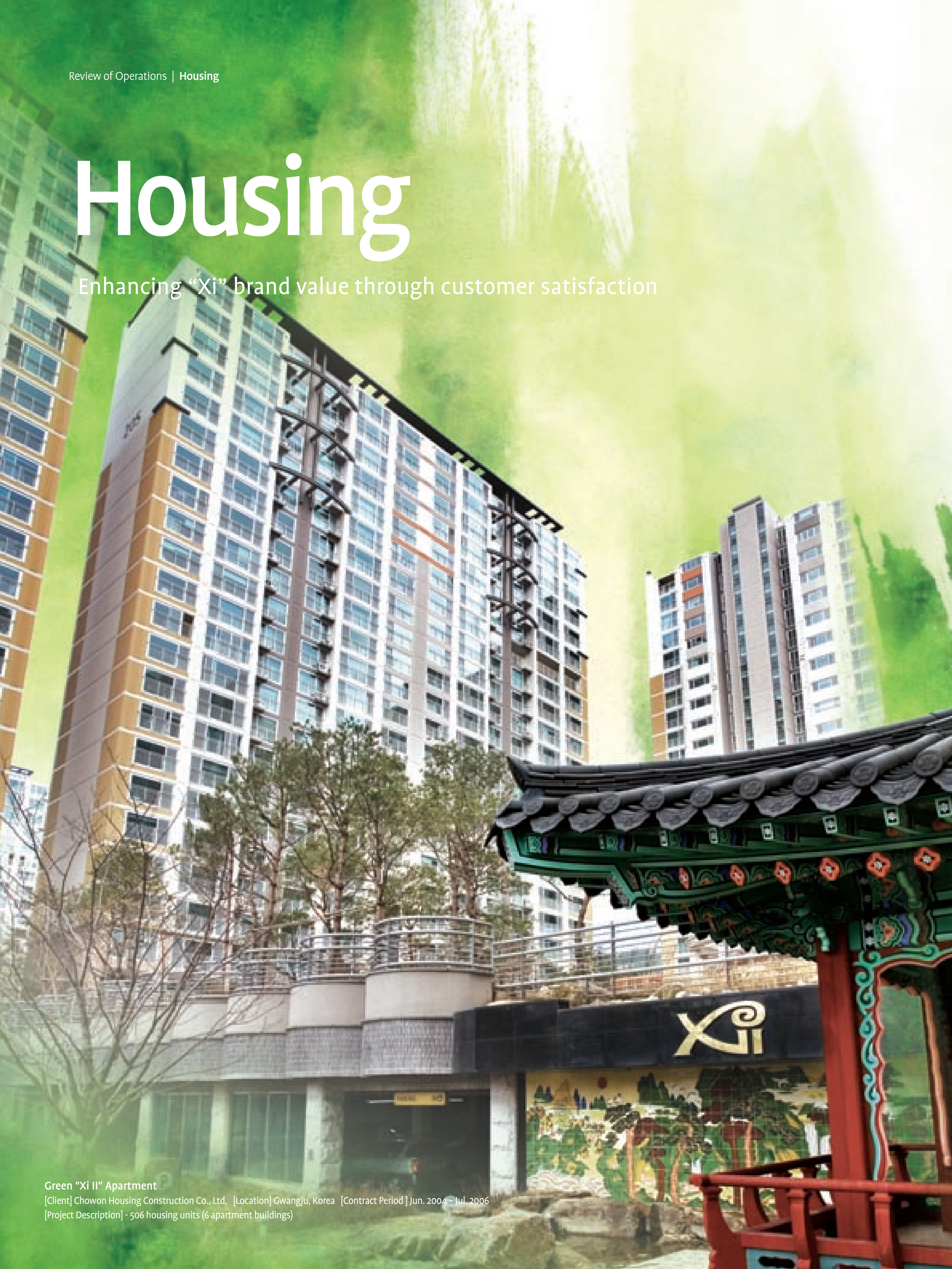
[Client] Sacheon City
[Location] Sacheon, Korea
[Contract Period] May. 2004 ~ Oct. 2006
[Project Description]
-Total floor area : 18,491 m²

03 Extension The Head Office Building of National Agricultural Cooperative Federation

[Client] National Agricultural Cooperative Federation
[Location] Seoul, Korea
[Contract Period] Dec. 2002 ~ Dec. 2004
[Project Description]
-Total floor area : 38,324 m²
(11 stories, 4 underground levels)

Housing

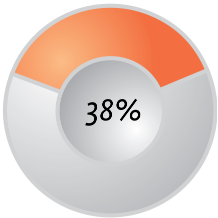
Enhancing “Xi” brand value through customer satisfaction



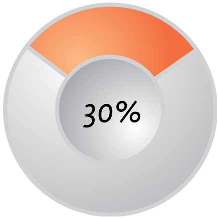
Green "Xi II" Apartment
[Client] Chowon Housing Construction Co., Ltd.   [Location] Gwangju, Korea   [Contract Period] Jun. 2004 ~ Jul. 2006
[Project Description] - 506 housing units (6 apartment buildings)

We create value in every area-customers, the environment, design, quality and lifestyles-to elevate the value of the "Xi" brand.

Portion of Total New Orders



Portion of Total Sales Revenue



Chan-Ho Lee
Senior Executive Vice President,
Head of Housing Business Division

Message from the Head of Housing Business Division

The local economy remained sluggish in 2006, and the Korean government unveiled strong measures twice-in March and November-centered on raising taxes and tightening regulations on housing loan in an effort to curb spiraling apartment and home prices. As a result, the advance sales of apartments slowed, causing difficulties for domestic construction firms.

In the face of such adversity, we focused on raising our "Xi" brand image and carving out a distinctive market niche. As a result, units in the Yeongjong "Xi" complex sold quickly and we were rated at the top of the 2006 Korea Service Quality Index.

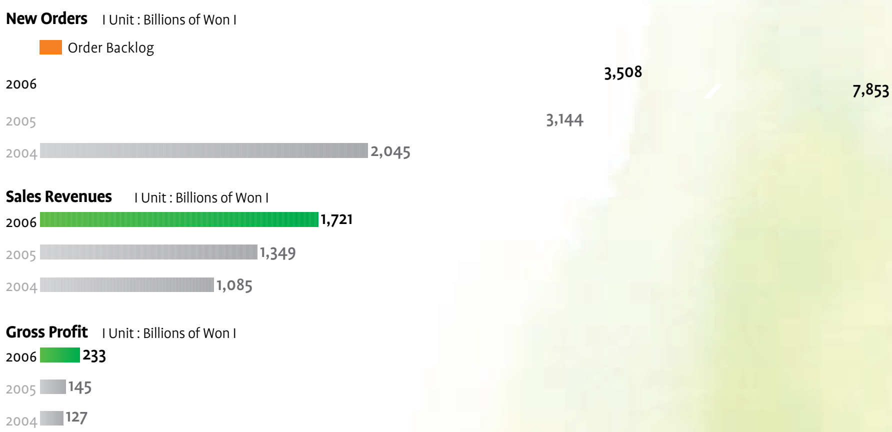
During the year, we also turned our attention to residential redevelopment and apartment reconstruction, and we were awarded the most redevelopment projects in the country during 2006. Sales offices were opened in the appropriate regions nationwide, and we ended the year with an industry-high order backlog worth ₩26 trillion, when including provisional order backlogs.

Our constant mission at the Housing Business Division is to maximize residential value and provide residents with ideal choices, setting new lifestyle trends as the nation's foremost provider of new housing. We shall remain the unquestioned market leader by achieving the highest customer satisfaction ratings and by having the most sought-after brand.

Sales Revenues | KRW |

1,721 billion

New orders increased 12% from ₩3,144 billion in 2005 to ₩3,508 billion in 2006.



2006 Performance Summary

Despite difficult market conditions, new orders in 2006 totaled ₩3.5 trillion, including orders from developers worth, reconstruction and redevelopment projects amounting to ₩1.4 trillion, and company-owned housing projects worth ₩200 billion. The total was twelve percent higher than the ₩3.14 trillion in new orders posted in 2005.

Moreover, the Housing Business Division's backlog of provisional orders (awarded contracts awaiting government. approval) stood at an industry-high ₩8.8 trillion at year's end. This figure breaks down as ₩2.1 trillion in provisional projects for contract project, ₩5.9 trillion in provisional reconstruction and redevelopment projects, and ₩800 billion in provisional projects on company-owned land. Thus a solid base for future growth has been maintained.

Sales in 2006 came to ₩1.7 trillion, up 24% year on year from the ₩1.3 trillion worth of units sold during the previous year. This strong performance was made possible by an increase in new projects as well as ongoing large-scale projects. Sales should be even higher in the coming year, with more than thirty new apartment projects, in progress nationwide.

2007 Outlook and Plans

The government will continue implementing measures to cool off the real estate market. A temporary spike in advance apartment sales is expected for the first half, but supply is predicted to fall off sharply from September, when a ceiling on advance apartment prices is scheduled to go into effect. Competition in the Korean housing market is likely to intensify further from 2008, prompting the need to be prepared.

However, the Housing Business Division will cope with the situation by conducting operations in a fiscally sound manner. All Division members are working in solidarity to achieve 2007 performance targets of ₩3.4 trillion in new orders and ₩2 trillion in sales. The goal is to sustain growth while improving profitability.

Many sales representatives have been deployed close to the customers to improve their effectiveness in securing new projects. In addition, the starting dates on numerous redevelopment and reconstruction projects will be moved up to ensure a steady supply of work. The Housing Business Division is determined to be the nation's premiere apartment builder by growing through sound business practices, creating better residential choices and remaining the most popular brand by satisfying customers fully.

01 02
03
04

01 Hanam "Xi" Apartment

[Client] Bumwoo Real Estate Development
[Location] Seoul, Korea
[Contract Period] Jun. 2003 ~ Feb. 2006
[Project Description]
- 875 housing units
  (10 apartment buildings)

02 Suji "Xi" Apartment

[Client] DSD Burim Co., Ltd.
[Location] Yongin, Korea
[Contract Period] Jan. 2004 ~ Apr. 2006
[Project Description]
- 680 housing units (12 apartment buildings)

03 Seocho "Xi" Apartment

[Client] Seocho Wooseong IV Apartment Reconstruction Committee
[Location] Seoul, Korea
[Contract Period] Jun. 2004 ~ Jun. 2006
[Project Description]
- 184 housing units (4 apartment buildings)

04 Dogok Rexle Apartment

[Client] Dogok Apartment I Reconstruction Committee
[Location] Seoul, Korea
[Contract Period] Dec. 2002 ~ Feb. 2006
[Project Description]
- 1,084 housing units (12 apartment buildings)

Technology Center

Providing global technology support

We continue to bolster our global technology support function, seek out new growth engines for future competitiveness and secure core technology through R&D.

O-Whon Kwon
Executive Vice President,
Head of Technology Center

Message from the Head of Technology Center

The Technology Center resources were focused on strengthening technology competencies in 2006. "Technology innovation" was our overriding goal, as we continued to invest in new R&D facilities and expand our research team.

We systematically researched and developed technologies in line with our mid-/long-term R&D strategies and technology roadmap, and we offered our operational divisions optimized technology solutions. At the same time, we have continued to build up our global technology support capabilities. To this end, our Technology Information Management System (TIMS) and Total Project Management System (TPMS) have been linked, and technology sharing arrangements have been established with Kajima Construction Co. (Japan), Turner Construction Co. (US), the China First Construction Group (China), and Sanki Engineering Co. (Japan). We have also organized a technology advisory group consisting of prominent people from academia.

Moreover, our R&D operation has been reinvented as a value creation center on a par with the best in the global construction industry. We completed construction of a new Technology Research Center, with 66,000m^2 in floor space, at Yong-in, Korea. The complex includes four laboratory wings and a wing dedicated to construction safety research. The Center boasts state-of-the-art facilities, the latest training and reference materials and operating systems to provide optimal technology support to each construction-related sector, accelerating technology innovation throughout the company.

The Technology Center continues to acquire core technologies through in-house research and development, and our unique technological capabilities help GS E&C to win more orders, expand the business portfolio and improve productivity. In sum, we are at the forefront of construction technology development in Korea, and we keep improving as we work toward the shared company vision of being the top value creator among domestic builders by 2010.

2006 Performance Summary

In 2006, the Technology Center embarked on a mid-/ long term strategy that aims to raise new order volume by acquiring exceptional technology expertise and adding value to on-site technology support. The Center's primary goal has been to secure core technology through in-house R&D activities, and greater effort was exerted to develop essential technologies, improve technology and safety support functions, improve support for new projects, and bolster the overall technology infrastructure.

Exploratory research and planning were stepped up for future project areas, while the main R&D thrust was toward core technologies for strategic construction projects included in the technology roadmap. In 2006, the Technology Center engaged in a total of forty-six research projects, which yielded five new technologies as well as twenty-three patents either pending or already registered. Besides completing the new facilities, the Center opened its own homepage and produced promotional materials on R&D results as part of efforts to raise technology competitiveness.

The Technology Center pursued cost innovation through value engineering to improve technology and safety support for construction sites. The Center has also devised a new Career Development Path (CDP) program to cultivate technical expertise. Finally, the technology infrastructure was strengthened in various ways. For example, the Technology Information Management System (TIMS) and Total Project Management System (TPMS) were integrated; more technology alliances were forged with major overseas construction companies, and an advisory group of prominent scholars was formed.

2007 Outlook and Plans

The priorities in 2007 will be on "securing global technology support capabilities" and "stepping up research activities that involve experimentation." Thus the Technology Center will pay close attention to new technology trends worldwide and continue striving to increase added value.

A Planning & Search Task Force has been launched to uncover future growth drivers. In addition mid-/long-term development strategies will be examined for the new Technology Research Center, while its vision and role will be clarified. The Center will work on Korea Laboratory Accreditation Scheme (KOLAS) certification and a Laboratory Information Management System, conduct more experiments, accelerate the acquisition of intellectual properties and improve the sharing and promotion of R&D results.

The new Engineering Service Support Program (ESSP) will boost the engineering work performed by the Technology Center, and technical data provision will be enhanced by the new links to the TPMS. The Technology Center will also keep expanding technology commercialization activities.

The Technology Center envisions where the construction industry is headed. Future environments will make life more pleasant and people-friendly, and spheres of human activity will expand, combining business and urban life through the application of advanced expertise. Therefore, the Center will focus on developing unique construction methods that are both high-tech and high touch.

1969
- Lackhee Development Co., Ltd. (the Company 's predecessor) established

1975
- Company name changed to Lucky Development Co., Ltd.

1977
- Lucky International Construction Co., Ltd. established

1979
- Lucky International Construction Co., Ltd. merged into Lucky Development Co., Ltd.
- The Company designated a housing contractor by the Ministry of Construction

1981
- Initial public offering issued

1983
- Lucky Development (Arabia) Co., Ltd. established

1984
- Company received Korean government 's export award for winning US$1 billion in international contracts
- Lucky Development International Inc. established in the US

1989
- Lucky Development Inc. established in Saipan
- 21^{st} Century Vision adopted for becoming a best all round de-veloper in the domestic market and a general construction company globally

1991
- Construction license acquired for Japan
- Medal of Industrial Service awarded on Tax Day
- Company 20 Year Almanac published

1993
- American Society of Mechanical Engineers accredited the Company in construction of nuclear power plant
- Lucky Thai Engineering & Construction Co., Ltd. established in Bangkok

1994
- ISO 9001 quality management certificate acquired

1995
- Company name changed to LG Construction Co., Ltd.
- "The Year of New Construction Era" announced

1996
- ISO 14001 environmental management certificate acquired

1998
- Soo-Kee Min appointed the Company's 9^{th} President & CEO
- LG-HP Sunflower International Village awarded by Haiphong People's Committee in Vietnam

1999
- LG Engineering Co., Ltd. merged into LG Construction Co., Ltd.
- Grand prize received as the Superior Company and the Best Apartment by Women Consumer Survey

2000
- Construction of the West Sea Grand Bridge completed

2001
- Best Corporate Governance Award received by the Korea Stock Exchange
- LG apartment chosen Hit Apartment Product in the 2^{nd} half of 2001 by the Korea Daily News
- Outstanding Corporate PR Award received in the World Advertisement Awards

2002
- Silver Industrial Medal received on Tax Day
- Kap-Ryul Kim appointed the Company 's 10^{th} President & CEO
- Good Corporate Governance Award received by the Korea Stock Exchange
- LG E&C's new apartment brand identity "Xi (eXtra intelligent)" introduced

2003
- Vision 2010 announced
- US$ 1.6 billion South Pars 9 &10 gas treatment project awarded in Iran
- Grand prize received in the cyber IR field at the 5^{th} Korea Economic Daily IR Awards,and in the construction and cement fields at the 1^{st} Money Today IR Awards
- Charter for Corporate Governance enacted

2004
- Environmental Management Grand Prize received in Construction Industry category
- Good Corporate Governance Award received from Korea Corporate Governance Service
- Grand prize received in the cyber IR field at the 6^{th} Korea Economic Daily IR Awards, and in the construction and cement fields at the 2^{nd} Money Today IR Awards

2005
- Changed corporate name to GS E&C Corporation
- Awarded a "Analyst Prize" at 7^{th} Annual Hankyung IR Award by the Korean Economic Daily
- Awarded a "Best IR Prize for Construction/Cement Sector" at 3^{rd} Moneytoday IR Award by Money Today

2006
- 31^{st} in Engineering News-Record (ENR) Rankings(August 21)
- Prizes for Best CFO, Financial Innovation
- CMMI Maturity Level 4

Management's Discussion and Analysis

Construction Market

News Highlights for 2006

1. Government Real Estate Policy

The purchase price of apartments continued to climb in Korea during 2006, prompting the government to announce a series of measures aimed at curbing price speculation. However, the market remained volatile despite government moves to increase the housing supply and to lower the prices of apartments sold in advance of construction. Some analysts even suggested that the government intervention had exacerbated market volatility.

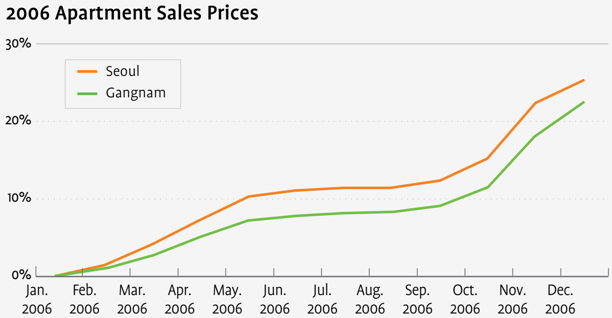
The government insisted that housing prices had stabilized in the wake of measures announced in August 2005 and March 2006. However, the actual apartment prices merely dipped and then began rising again. Finally, the government initiated a market-friendly policy in November 2006 aimed at boosting housing supply. However, the effects of the policy did not meet expectations, and apartment prices remained unstable.

The government then, as a last resort, announced in 2007 that construction companies would have to disclose construction costs publicly and that a price cap would be set on new apartments. Once the legal details have been settled, these new measures are expected to have an effect on the market. However, market watchers say that this will now be a fundamental cure the problem so long as supply does not meet demand.

Major Real Estate Policies Announced by the Korean Government in 2006

Promulgation Date	Gist of the Policy
March 30	Pay back excess profit from redevelopment projects, further restrict the debt-to-income ratio on mortgage loans for home in districts designated "speculation zones"
October 27	Establish two more localities for focused development (Geomdan in Incheon and Wooncheong in Paju)
November 15	Expand housing supply, control demand by lowering the loan-to-value ratio and further tightening the debt-to-income ratio restrictions, cut new apartment prices by 25%

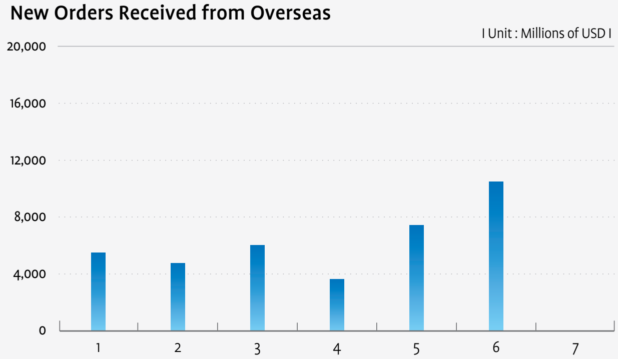
2006 Apartment Sales Prices



2. Overseas Orders Reach a Record US$16.5B

The Korean construction market, like the overall economy, slowed down in 2006, but Korean construction companies secured a record of US$16.5 in new orders from outside the country. This is the highest total since 1965, when the first Korean construction projects were begun overseas, and significantly exceeds the previous record of US$14 billion, set in 1997. The strong performance can be attributed to a spurt of new facilities construction in the Middle East, fueled by high oil prices, as well as the improved competitiveness of Korean builders. Thus, a continued growth in overseas orders is likely.

New Orders Received from Overseas



By region, the figure breaks down into US$9.5 billion (58% of the total) for the Middle East and US$4 billion for Asia (up 55% year on year), with strong growth in new orders from customers in Vietnam, the Philippines, and China. Korean construction firms also diversified their overseas markets by winning orders in Africa and Central Asia.

A noteworthy development in 2006 was the new growth momentum generated by the US$1.6 billion (some 10% of the total) in orders for invested development projects overseas. Continued growth is expected in urban development projects that include housing complexes. Finally, the number of large-scale projects (at least US$100 million) rose to twenty-seven, valued at US$12.4 billion.

3. Contraction in the Korean Public Construction Market

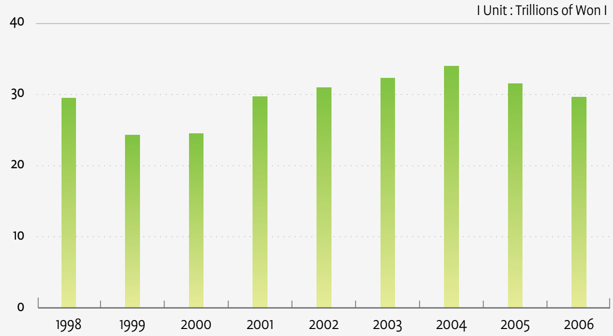
Statistics from the Korean National Statistical Office show that the government issued five percent fewer orders in terms of monetary value in 2006 than in the previous year. The amount of decline was small. However, this was the lowest total in the past three years, as many project tenders were delayed and the government adopted a new policy for awarding projects to the lowest bidder instead of to the most qualified bidder.

A revision to the enforcement ordinance for the National Contract Law in May 2006 expanded the range of the lowest bidder requirement for pre-qualifiers from projects of ₩50 billion or more to all projects that are worth at least ₩30 billion. The revised enforcement ordinance covers forty percent of all government contracts, as opposed to the previous twenty-five percent. The average asking price of the successful bidders for government lowest bidding projects was only sixty-eight percent of the governments original budget in 2006, which was thirteen percentage points lower than in 2005.

The change in the bidding award system has resulted in a drop in the volume of new projects issued by the government. In addition, the government's budget enforcement was postponed, greatly reducing the orders received for government projects and the value of construction completed. As a result, the overall market for Korean government contracts shrank during 2006.

New Public Sector orders

I Unit : Trillions of Won I



2007 Construction Market Outlook

1. New Orders Expected to Fall Below ₩96T

A rush in redevelopment projects during 2006 will naturally mean a slowdown in this segment during 2007. This is expected to lower the total new contracts in the Korean construction market to ₩95.7 billion in 2007, from the ₩107.3 figure posted during the previous year. The government budget for infrastructure projects is expected to be somewhat higher in the coming year, but railway projects are increasingly being turned over to PFI consortia. As a result, the total volume of new government contracts should be around 1.6% lower than the 2006 figure.

Office building construction in the private sector is forecasted to fall 5.2% year on year. The government's new policies regarding real estate have caused the volume of real estate transactions to fall overall, and advance sales of office space in provincial areas remain sluggish.

Turning to the housing sector, the construction company now must be selected for redevelopment projects (apartment complexes built on old private home sites) after the project is approved by the government. On the other hand, a housing cooperative has to be established before the builder can be selected for apartment complex reconstruction. These new requirements are expected to cause a sharp decline in new orders in these two sectors. On the other hand, large-scale complexes of pre-sold apartments are planned for in Paju (Wooncheong area), Suwon (Gwanggyo area) and Seoul (Ddukseom area).

The slowdown in construction activity greatly affects the domestic economy and the job market. Thus the government is likely to adjust its efforts to curb real estate speculation.

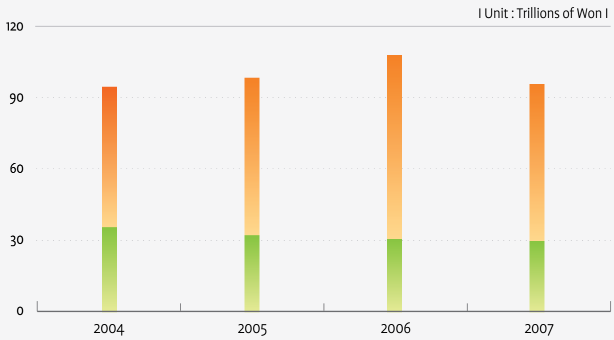
2. Housing Market to Stabilize

Housing prices in the Greater Seoul Area now seem to be stable and only rising as fast as goods and services in general. The pre-sold apartment market (where buyers pay the builder before construction begins) is expected to shrink, especially in Korea's provincial regions. Suppression of rising apartment prices will be difficult given the inadequate supply overall, but the rate of increase is expected to be limited.

The government is forecasted to maintain its anti-speculation stance. However, the National Assembly has delayed its ratification of the latest real estate policy announced on January 11 and the

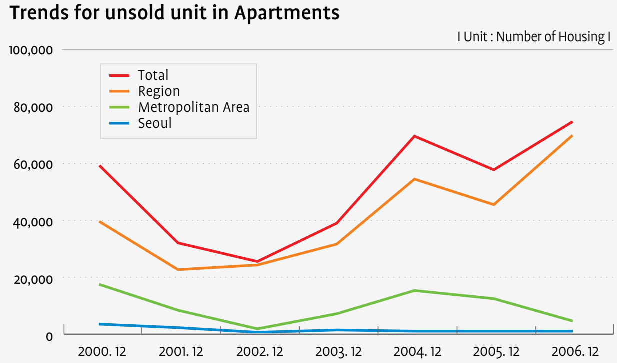
Total New Orders

I Unit : Trillions of Won I



Trends for unsold unit in Apartments

I Unit : Number of Housing I



rapid contraction of the housing market outside Greater Seoul has curtailed construction activity. In addition, a Presidential election is coming up. All these factors are increasing the likelihood of a policy change by the central government.

Thus, polarization in the construction market is predicted to continue between the Greater Seoul Area and the rest of the country. At the same time, differences in brand recognition and location will continue to widen the gap between the large construction companies and their smaller counterparts in 2007.

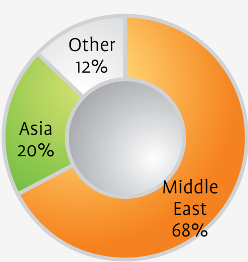
3. Overseas Boom to Boost New Orders to US$18T

Korean construction companies are anticipated to receive US$18 billion in new orders outside the country in 2007. Continued high oil prices should drive steady demand for new plant construction in the Middle East, although the portion of business in Asia and Africa is expected to drop somewhat from the 2006 level.

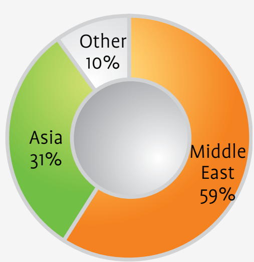
Plants will remain the largest portion of the overseas construction portfolio, as oil and gas development increased in the Middle East and North Africa, and petrochemical plant orders continue to rise. The global construction market will increase overall. Market opening pressures such as WTO entry will also mean that Korean construction companies will continue to find more of their business overseas.

Expected Value of New Orders in 2007

Expected Value of New Overseas Orders



Performance Record 1965~2006



Summary of Operations

Steady Quantitative Growth

Korean construction activity contracted during 2006 as the result of a lackluster domestic economy and the government's corresponding real estate policy. However, GS Engineering & Construction leveraged a well-balanced portfolio and strong competitiveness to achieve the industry's highest totals for new orders (₩9.13 trillion) and sales (over ₩5.74 trillion) for the second straight year. Moreover, the prestigious US journal Engineering News-Record placed GS E&C thirty-first among the top 255 global contractors, the highest ranking for a Korean builder.

Despite the adverse market conditions, GS Engineering & Construction managed to achieve sufficient quantitative growth to satisfy investors in 2006. The company also demonstrated again that it can continue to grow in the future. Management aims to increase new orders to ₩10.4 trillion (up fourteen percent year on year) and sales to ₩6.5 trillion (a thirteen percent gain) during 2007.

Surging Overseas Orders

The volume of new overseas contracts mainly for plants in the Middle East rose sixty-four percent, from ₩1.09 trillion in 2005 to just under ₩1.79 trillion in 2006. Of this total, a single aromatics plant project in Oman is valued at ₩1.1 trillion, a new company record. Moreover, the effort to diversify overseas markets yielded a linear alkyl benzene plant project in Egypt, paving the way for additional orders from African clients in the future.

Overseas, GS E&C has hedged against risk by remaining focused on oil refineries, gas production facilities and petrochemical plants. In the future, the company will selectively bid on projects with high margins.

Improved Profitability

In the past, GS E&C stressed business volume over profit margins, but the priority was redirected toward value growth through cost innovation in 2006. To this end, the company adopted the Total Project Management System and formed a working-level deliberation committee to assist in the selection of the most profitable projects. A company-wide cost-cutting campaign was also implemented. These collective efforts brought tangible results, as the gross profit margin rose 1.2 percentage points year on year to 13.3%; operating profit was up 1.0 percentage points to 7.02% and ordinary income was 2.9 percentage points higher to 9.47%. The new TPMS is expected to play a pivotal role in shortening processes and project times as well as cutting costs by eliminating unnecessary delays.

Results of Operations

Orders Received

New orders totaled ₩9.13 billion in 2006, a 10.8% increase over the previous year and the highest growth rate in the domestic construction industry. Importantly, this growth was achieved during a year when Korean construction activity contracted. The strongest gains were recorded by the Plant and Housing Business Divisions. The slowdown in Korean government contracts was offset by a surge in overseas plant orders, particularly in the Middle East. Moreover, the company saw a steady increase in apartment construction despite a sluggish domestic real estate market.

In accounting, GS E&C classifies newly received housing projects as either "new orders" or "provisional order backlogs" In the latter case, the outside developer or housing association has selected GS E&C as the contractor, but the project is still awaiting government approval. Once approval is granted, the accounting status will be changed to "new order."

The new order backlog stood at ₩15.1 trillion, while pending contracts totaled ₩18.5 trillion, for a grand total of ₩33.6 trillion at the end of 2006. Based on 2006 sales, this is enough work to keep the company operating at full capacity for 5.9 years.

Civil Engineering Business Division

The Korean government postponed bids on many projects and adopted a new system that awards contracts to the lowest bidder. For these reasons, new orders for the Civil Engineering Business Division fell twenty-three percent from the 2005 figure to ₩609 billion. The Division, however, enhanced its capabilities to win new government contracts by upgrading technology as well as the sales organization.

The focus was put on privately-funded infrastructure projects (₩177 billion in new orders received) and turnkey projects (seven contracts were signed, totaling ₩329 billion). Importantly, the Division continued to strengthen its position in the turnkey segment, achieving a bid success rate of seventy percent. The order backlog for the Division at year's end exceeded ₩2.4 trillion, or sixteen percent of the company total.

Plant Business Division

The Plant Business Division originally expected to receive ₩1.5 trillion in new orders but exceeded that target by one hundred fifty-two percent to reach ₩2.28 trillion. The 2006 total was also fifty-four percent higher year on year. The Division demonstrated its superior technology and competitiveness by negotiating a massive aromatics plant project in Oman rather than by competing for the contract in a tender. Meanwhile, efforts to diversify outside the Middle East resulted in a linear alkyl benzene plant project in Egypt.

The increase on overseas orders is attributable to high oil prices, which have boosted demand for new petroleum and gas production facilities, as well as to the Division's stronger competitiveness. Therefore, further growth in the overseas business can be expected. In addition, governments, especially in the advanced countries, are steadily tightening environmental regulations, driving demand for clean-burning LNG and other environment-friendly fuels. The environmental segment will make up an increasing portion of the Division's portfolio in the future.

Environment Business Division

The Environment Business Division received a total of ₩300 billion in new orders in 2006, a year-on-year drop due to numerous delayed government tenders. However, the Division still retained a leading position in the Korean environmental facilities by winning eight turnkey projects representing diverse areas--waste processing, incineration, advanced water treatment and sewage treatment. Moreover, the order backlog at year's end totaled ₩480 billion, which was higher than the figure posted a year earlier.

Environment Business Division still contributes the smallest amount to the company's business portfolio, but it has acquired extensive experience and technology in the performance of projects for GS, LG and LS affiliates. The fundamentals are now in place for rapid growth in the public sector. Meanwhile, the Division continues to strengthen competitiveness through new technology development and acquisition, laying the groundwork for expansion into new business areas and overseas markets.

Architecture Business Division

The Korean market saw a slowdown in government contracts, but the Architecture Business Division managed to garner more than ₩2.43 trillion in new orders, thanks to a steady stream of work from the "group" clients. Namely, projects for LG Philips LCD, LG Electronics and LG Telecom amounted to ₩1.7 trillion, about the same volume of internally generated business as in 2005.

Meanwhile, the Division saw an increase in business from outside the "group." New public orders amounted to ₩284 billion, including a turnkey project for relocating the wholesale produce market for southeastern Seoul. Private sector contracts totaled ₩412 billion.

Importantly, in 2006 the Division stepped up efforts to diversify into the development side of the business. A prime example is the new K-Project, which requires GS E&C to provide architectural consulting on a hotel, department store, multiplex theater and other facilities, which will then be built by the Architecture Business Division on a site owned by the Kyungbang Group. Expansion into such new-concept development-style construction projects will enable the Division to increase the portion of "outside" projects in the portfolio and ensure stable profitability.

Management's Discussion and Analysis (Continued)

Housing Business Division

Demand in the housing market cooled in the wake of various measures by the Korean government to curb speculation. However, the Housing Business Division leveraged an excellent brand image, selected prime locations, and targeted high-end buyers. As a result, new orders rose twelve percent, from ₩3.14 trillion in 2005 to over ₩3.5 trillion in 2006. The Division won the most redevelopment projects of any domestic builder during 2006, providing the foundation for solid growth amid adverse market conditions. Moreover, the order backlog at year's end was just under ₩7.85 trillion, up thirty-one percent from the previous term.

Projects in the housing sector are only classified as "new orders received" after the government has granted permission for construction to begin. The volume of "provisional order backlogs" (where the contracts have been signed by await government approval) stood at ₩18.5 trillion at the end of 2006, a thirty-eight percent increase over the ₩13.4 trillion figure posted the year before. The new order backlog combined with the pending orders amounts to ₩26.3 trillion in future business for the Division.

Sales Revenue

Sales revenue growth was solid, from over ₩5.63 trillion in 2005 to more than ₩5.8 trillion in 2006, on the strength of a balanced performance among the five business divisions. As a result, GS E&C managed to achieve the highest sales total among all Korean builders during a period of overall market contraction. The Korean government issued fewer contracts, adversely affecting the Civil Engineering and Environment Divisions. However, that falloff was more than offset by increased projects overseas and higher sales in the domestic housing sector.

Breaking down the sales total by business division, Civil Engineering recorded ₩714 billion and Environment posted ₩257 billion, both down somewhat year on year. On the other hand, the Plant Business Division saw sales rise forty percent year on year to more than ₩1.5 trillion, as overseas projects proceeded on schedule. The Architecture Business Division adjusted downward the amount of sales revenue put on the books for large-scale projects, reducing the sales revenue total to just under ₩1.6 trillion for the year. Despite an unstable domestic housing market, the Housing Business Division proceeded with redevelopment and reconstruction projects to boost annual sales twenty-eight percent, from almost ₩1.35 trillion in 2005 to better than ₩1.72 trillion in 2006.

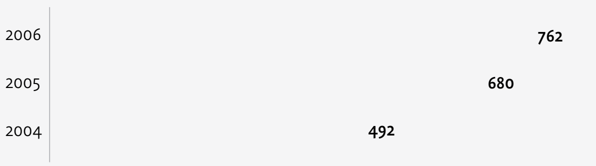
Profits

Gross Profit

The company strove to cut costs under the "value growth through cost innovation" guideline. The effort paid off with gross profit reaching ₩762 billion in 2006, a twelve percent gain from the ₩680 billion figure for 2005, despite intensifying competition and a worsening business environment. The gross profit margin, meanwhile, improved from 12.1% to 13.3% over the same period. Importantly, an improved cost-to-sales ratio for all five business divisions drove up the profit margin, thereby boosting profitability.

The total construction cost for 2006 breaks down as fifty percent for subcontractors, thirty-two percent for materials and eighteen percent for land and other expenses, as compared to a 59:37:14 cost configuration for the previous year. The changes reflect efforts to reduce subcontractor costs and shorten project times while increasing the sales of plant projects, which have relatively high material costs.

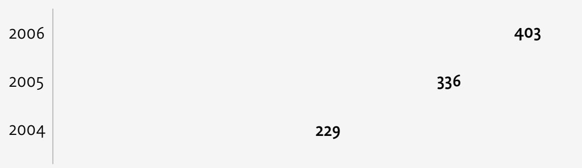
Gross Profit | Unit : Billions of Won |



Operating Profit

Operating profit rose twenty percent, from ₩336 billion in 2005 to ₩403 billion a year later, while operating profit margin improved from six to seven percent during the same period. However, selling and administrative expenses also rose from ₩344 billion to ₩359 billion as a result of new investments for sustained growth; activities to promote turnkey, infrastructure and development projects; additional hiring and higher salaries; and fees paid to develop the TPMS and other IT systems. In the future, the rate of S&A expanse growth should slow relative to the overall growth of the company, enabling operating profit to continue rising.

Operating Profit | Unit : Billions of Won |



Ordinary Profit

Ordinary profit totaled ₩544 billion in 2006, a forty-eight percent increase over the ₩367 billion posted a year earlier. The non-operating balance also surged ₩109 billion, from ₩31 billion in 2005 to ₩140 billion the following year. Non-operating income totaled ₩200 billion in 2006, as opposed to ₩108 billion the previous year, while non-operating losses for 2006 came to ₩60 billion, down ₩17 billion from the year before. The details behind these changes are as follows:

First, the company generated ₩16.5 billion by selling off LG CNS shares that had been held as saleable securities.

Second, an equity method is now being applied to invested corporations in which the company has a stake of twenty percent or more. As a result, a gain of ₩27 billion was realized from the rising profitability of invested equity assets at overseas construction contractors and subsidiaries.

Third, a strong net cash flow and high credit rating improved interest revenue by ₩16 billion.

Fourth, ongoing efforts to hedge against foreign exchange risk have included the use of foreign exchange rate risk insurance and forward transactions, which yielded ₩53 billion in non-operating income during 2006. The Exchange Rate Management Committee, formed in 2004, has minimized risk from exchange rate fluctuation and eventually aims to achieve a 100% hedge against exposure to exchange rate risks.

Ordinary Profit | Unit : Billions of Won |

Financial Position

Cash Flow

Cash and cash equivalents increased from ₩361 billion at the end of 2005 to ₩537 billion a year later. The changes in cash flow are detailed by activity type as follows:

First, operating cash flow totaled ₩518 billion. Contributing factors included ₩387 billion in net profit, ₩93 billion in non-cash income and expenses, and ₩111 billion in cash inflow resulting from changes in operating assets and liabilities. In addition, steady sales growth boosted notes receivable, which in turn increased trade accounts and notes receivable by ₩327 billion year on year.

Second, cash flow from investment activities generated a cash inflow of ₩256 billion. These activities included land purchases for future development projects and increased payments for housing project loans.

Third, cash flow from financing activities fell by ₩159 billion during the year. A cash inflow of ₩7 billion was generated by the disposal of treasury stocks to pay bonuses, while the sale of memberships to a Jeju Island resort brought an additional ₩105 billion inflow of cash. On the other hand, the repayment of short-term borrowings caused a ₩142 billion cash outflow, and ₩70 billion was paid out in dividends.

Dividends and Investments

Management decided to increase the dividend per share, which was ₩1,400 for 2005, to ₩1,550 for 2006. This raised the total dividend payout from ₩62 billion to ₩70 billion.

After distributing some profits in the form of dividends, the company invests most of the retained earnings in highly profitable projects such as apartment complexes on company owned land, PFI projects and development projects. Such investments help to elevate shareholders' future value.

In 2006, a total of ₩247 billion was invested in such activities, an increase of sixty-six percent compared to the previous year. The company plans to invest ₩314 billion in 2007 in order to step up involvement in apartment complexes on company owned land and PFI projects.

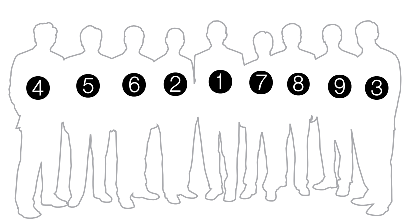
Borrowings

Borrowings totaled ₩143 billion at the end of 2006, which was ₩65 billion less than a year earlier. The drop was mainly due to deep cuts in short-term borrowings related to trade such as usance L/Cs and export financing from Korea Exim Bank. Most of the current borrowings are long term, and corporate bonds, which total ₩50 billion, will mature in 2007.

Equity

The company had two hundred million authorized stocks as of December 31, 2006. All the issued shares, which number fifty-one million, are common stocks; no preferred stocks, convertible bonds or bonds with warrant have been issued. Chairman Chang-Soo Huh and other members of the Huh family are the major shareholders, with 30.4% (15,496,248 shares) of the total shares issued. An additional 2% (1,109,831 shares) are in the form of treasury stock or part of the employee stock sharing program. Foreign investors own 50.6% of the total shares issued.

Board of Directors



01_Chang-Soo Huh CHAIRMAN OF THE BOARD

02_Kab-Ryul Kim PRESIDENT & CEO

03_Myung-Soo Huh PRESIDENT & CFO

04_Sang-Ryong Woo PRESIDENT

05_Chong-Won Ahn OUTSIDE DIRECTOR

06_Chang-Se Lee OUTSIDE DIRECTOR

07_Jong-Bin Kim OUTSIDE DIRECTOR

08_Chee-Ho Suh OUTSIDE DIRECTOR

09_Hyun-Han Shin OUTSIDE DIRECTOR

Financial Statements

Non-Consolidated Financial Statements
December 31, 2006 and 2005

GS Engineering & Construction

ERNST & YOUNG
ERNST & YOUNG HAN YOUNG
Yeoido Post Office Box 428 25-15, Yeoido-dong, Youngdeungpo-gu, Seoul 150-010 Korea

Independent Auditor's Report

The Board of Directors and Stockholders
GS Engineering & Construction Corporation

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

We 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 evaluation the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above resent fairly, in all material respects, the financial position of GS Engineering & Construction Corporation as of December 31, 2006 and 2005, and the results of its operations, appropriations of retained earnings and cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in 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 who are knowledgeable about Korean accounting principles and auditing standards and their application in practice.

January 26, 2007

Ernst & Young Han Young

This audit report is effective as of January 26, 2007, the auditors' report date. Accordingly, certain material subsequent or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

NON-CONSOLIDATED BALANCE SHEETS

As of December 31, 2006 and 2005

I Korean won in millions I

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 13 and 25)	₩ 533,337	₩ 357,680
Short-term financial instruments (Note 3)	3,646	3,646
Short-term investment securities (Note 5)	3,787	3,087
Trade accounts and notes receivable, less allowance for doubtful accounts of ₩40,534 in 2006 (₩41,469 in 2005) (Notes 13, 15 and 20)	1,737,994	1,411,575
Short-term loans receivable, less allowance for doubtful accounts of ₩13,577 in 2006 (₩23,243 in 2005) (Notes 13 and 26)	45,039	90,571
Prepaid construction costs	115,943	94,639
Other accounts receivable, less allowance for doubtful accounts of ₩3,876 in 2006 (₩1,573 in 2005) (Notes 13 and 15)	108,107	71,202
Inventories (Notes 4 and 10)	194,797	197,315
Accrued income, less allowance for doubtful accounts of ₩3,352 in 2006 (₩1,420 in 2005)	6,464	4,993
Advance payments, less allowance for doubtful accounts of ₩10,651 in 2006 (₩9,504 in 2005) (Note 15)	202,626	130,503
Prepaid expenses	39,618	21,386
Derivative assets (Note 27)	22,084	23,569
Current Portion of deferred income tax assets (Note 21)	5,303	12,379
Total current assets	3,018,745	2,422,545
Investments and other assets:		
Long-term financial instruments (Note 3)	298	298
Long-term investment securities (Note 6)	218,847	197,887
Equity method investments (Note 7)	261,091	214,319
Long-term loans receivable, less allowance for doubtful accounts of ₩14,513 in 2006 (₩4,925 in 2005) (Notes 13 and 26)	119,555	6,322
Long-term trade accounts receivable, less allowance for doubtful accounts of ₩146 in 2006 (₩894 in 2005)	14,349	13,752
Long-term guarantee deposits (Note 15)	64,104	57,476
Deferred income tax assets (Note 21)	12,638	3,703
Total investments and other assets	690,882	493,757
Property, plant and equipment, net (Notes 8, 9, 10, 25 and 32)	1,037,782	904,953
Intangible assets, net (Notes 11 and 32)	4,012	4,582
Total assets	₩ 4,751,421	₩ 3,825,837

See accompanying notes.

NON-CONSOLIDATED BALANCE SHEETS

As of December 31, 2006 and 2005

I Korean won in millions I

	2006	2005
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts and notes payable (Notes 13 ,15 and 20)	₩ 2,000,998	₩ 1,366,325
Short-term borrowings (Note 13)	2,776	144,735
Other accounts payable (Notes 13 and 15)	51,829	58,758
Other advances received	3,866	7,659
Withholdings (Note 13)	106,116	108,880
Guarantee deposits received	16,472	23,561
Accrued expenses	38,018	23,417
Income taxes payable (Note 21)	110,755	81,305
Dividends payable	19	17
Current portion of bonds, less discount ₩114 in 2006 (nil in 2005) (Note 12)	49,886	1,327
Derivative liabilities (Note 27)	3,587	32,882
Unearned revenue	446	319
Total current liabilities	2,384,768	1,849,185
Non-current liabilities:		
Bonds, less discount of nil in 2006 (₩334 in 2005) (Note 12)	-	49,666
Long-term borrowings (Note 12)	11,940	11,940
Severance and retirement benefits, net of transfers to the National Pension Fund and severance insurance deposits	60,128	56,988
Leasehold guarantee deposits received (Note 15)	84,936	83,479
Membership guarantee deposits received (Note 15)	339,984	292,857
Provision for construction losses (Note 20)	12,502	995
Provision for construction warranty	71,730	28,923
Other long-term liabilities	966	966
Total non-current liabilities	582,186	525,814
Total liabilities	2,966,954	2,374,999
Commitments and contingencies (Note 26)		
Stockholders' equity:		
Capital stock (Note 16)	255,000	255,000
Capital surplus (Note 17)	207,835	203,791
Retained earnings (Note 18)	1,173,667	856,560
Capital adjustments (Note 19)	147,965	135,487
Total stockholders' equity	1,784,467	1,450,838
Total liabilities and stockholders' equity	₩ 4,751,421	₩ 3,825,837

See accompanying notes.

NON-CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2006 and 2005

I Korean won in millions, except per share amounts I

	2006	2005
Sales (Notes 15, 20 and 32)		
Construction operations	₩ 5,583,683	₩ 5,542,382
Housing construction and sales operations	92,217	31,737
Other operations	69,265	56,694
	5,745,165	5,630,813
Cost of sales (Notes 15 and 20)		
Construction operations	4,835,521	4,852,374
Housing construction and sales operations	62,421	24,029
Other operations	85,024	74,418
	4,982,966	4,950,821
Gross profit	762,199	679,992
Selling and administrative expenses	358,829	344,414
Operating income (Note 32)	403,370	335,578
Other income (expenses):		
Interest income	25,777	15,468
Interest expense	(3,027)	(9,171)
Dividend income	1,732	1,858
Gain (loss) on foreign currency transactions, net	(2,310)	5,451
Gain (loss) on foreign currency translation, net	(3,109)	1,061
Equity in earnings of equity method investments, net (Note 7)	25,362	2,700
Gain on disposal of long-term investment securities, net	16,590	14,728
Gain on disposal of property, plant and equipment, net	3,427	12,482
Gain (loss) on settlement of derivative instruments, net	55,463	(10,754)
Gain (loss) on valuation of derivative instruments, net (Note 27)	3,501	(16,888)
Donations (Note 29)	(13,055)	(4,108)
Others, net	29,984	18,264
	140,335	31,091
Ordinary income	543,705	366,669
Extraordinary losses, net	1,195	-
Income before income taxes	542,510	366,669
Provision for income taxes (Note 21)	155,557	101,531
Net income	₩ 386,953	₩ 265,138
Basic earnings per share (Note 22):		
Ordinary income	₩ 7,758	₩ 5,317
Net income	₩ 7,741	₩ 5,317

See accompanying notes.

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

Years ended December 31, 2006 and 2005

| Korean won in millions |

	2006	2005
Retained earnings before appropriations:		
Unappropriated retained earnings carried forward from the prior year	₩ 1,470	₩ 1,424
Net income for the year	386,953	265,138
	388,423	266,562
Transfer from reserves		
Research and human resources development reserve (Note 18)	10,162	16,768
Unappropriated retained earnings available for appropriations	398,585	283,330
Appropriations:		
Legal reserve (Note 18)	8,500	7,500
Business rationalization reserve (Note 18)	90,000	60,000
Financial structure improvement reserve (Note 18)	40,000	26,514
Research and human resources development reserve (Note 18)	80,000	60,000
Other reserves (Note 18)	101,000	58,000
Cash dividends (Note 24)	77,531	69,846
	397,031	281,860
Unappropriated retained earnings carried forward to the next year	₩ 1,554	₩ 1,470

See accompanying notes.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2006 and 2005

I Korean won in millions I

	2006	2005
Cash flows from operating activities:		
Net income	₩ 386,953	₩ 265,138
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for severance and retirement benefits	32,573	41,122
Depreciation	30,697	29,760
Bad debt expense	4,448	16,680
Provision for construction warranty, net	55,481	13,591
Provision for (reversal of) construction losses, net	11,507	(1,275)
Amortization of intangible assets	570	1,366
Gain on disposal of long-term investment securities, net	(16,590)	(14,728)
Gain on disposal of property, plant and equipment, net	(3,427)	(12,482)
Loss (gain) on foreign currency translation, net	713	(2,488)
Equity in earnings of equity method investments, net	(25,362)	(2,700)
Impairment loss on long-term investment securities	-	532
Impairment loss on property, plant and equipment	4,310	-
Loss (gain) on valuation of derivative instruments, net	(3,501)	16,888
Amortization of foreign currency translation adjustments, net	1,195	-
Reversal of impairment losses of long-term investment securities	-	(7,459)
Share-based compensation expense	16,624	-
Others, net	338	(218)
Changes in operating assets and liabilities:		
Trade accounts and notes receivable	(344,851)	(325,605)
Prepaid construction costs	(20,586)	(57,217)
Other accounts receivable	(39,248)	(40,025)
Accrued income	(3,403)	(2,758)
Inventories	1,373	(71,853)
Advance payments	(74,913)	(52,693)
Prepaid expenses	(18,259)	(5,729)
Current portion of deferred income tax assets	7,077	(12,379)
Derivative assets	(27,644)	24,808
Deferred income tax assets	(13,409)	1,117
Trade accounts and notes payable	642,929	195,290
Accrued expenses	14,601	(3,267)
Income taxes payable	29,450	37,438
Payment of severance and retirement benefits	(29,433)	(33,149)
Provision for construction warranty	(12,669)	(15,922)
Others, net	(16,758)	91,185
Total adjustments	203,833	(192,170)
Net cash provided by operating activities	₩ 590,786	₩ 72,968

See accompanying notes.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2006 and 2005

I Korean won in millions I

	2006	2005
Cash flows from investing activities:		
Decrease in short-term financial instruments, net	₩ -	₩ 713
Increase in long-term financial instruments, net	-	(271)
Proceeds from disposal of short-term investment securities	2,602	41,748
Proceeds from disposal of long-term investment securities	18,202	160,826
Increase in short-term loans receivable, net	(7,533)	(53,490)
Increase in long-term loans receivable, net	(61,456)	(7,838)
Increase in long-term guarantee deposits, net	(6,707)	(2,301)
Acquisition of long-term investment securities	(26,479)	(19,155)
Acquisition of equity method investments	(27,164)	(1,690)
Proceeds from disposal of property, plant and equipment	7,506	22,068
Acquisition of property, plant and equipment	(155,295)	(67,190)
Net cash provided by (used in) investing activities	(256,324)	73,420
Cash flows from financing activities:		
Proceeds from disposal of treasury stock	7,165	1,966
Increase in membership guarantee deposits received, net	47,127	26,355
Payment of short-term borrowings	(141,925)	(15,145)
Payment of current portion of bonds	(1,327)	(1,327)
Payment of dividends	(69,845)	(62,278)
Net cash used in financing activities	(158,805)	(50,429)
Net increase in cash and cash equivalents	175,657	95,959
Cash and cash equivalents at the beginning of the year	357,680	261,721
Cash and cash equivalents at the end of the year	₩ 533,337	₩ 357,680

See accompanying notes.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

1. Corporate information

GS Engineering & Construction Corporation (the "Company") was incorporated on December 12, 1969 under the laws of the Republic of Korea to provide engineering and construction services, on-site building maintenance, as well as residential and industrial construction services within Korea and abroad. The Company merged with Lucky Foreign Construction Co., Ltd., on January 4, 1979, LG Engineering Co., Ltd. on August 1, 1999 and Baekyang Development Co., Ltd., on October 1, 2000. Subsequent to the mergers, the Company expanded its business activities to include overseas engineering construction, golf course development and other related construction services. In August 1981, the Company listed its shares on the Korea Exchange (KRX). The Company was formerly operating under the name of Lucky Development Co., Ltd. and changed its name to LG Engineering & Construction Co., Ltd. on February 24, 1995. The Company changed its name again to GS Engineering & Construction Co., Ltd. on March 18, 2005.

As of December 31, 2006, the Company maintains overseas business operations in China, India and other countries.

As of December 31, 2006, the capital stock of the Company is ₩255,000 million subsequent to several paid-in capital increase during the prior years including ₩91,954 million of common stock issued (11,789 thousand shares of common stock issued at ₩7,800 per share) on November 19, 1999.

The Company is an affiliate of the GS group of companies. The subsidiaries of the Company are Hanmoo Development Co., Ltd., Ladera Co., Ltd., EziVille Inc., GS E&C Italy S.R.L, and other entities.

The financial statements of the Company for the year ended December 31, 2006 will be approved by the board of directors at their meeting to be held on February 22, 2007.

2. Summary of significant accounting policies

Basis of financial statement preparation

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea ("Korean GAAP"). 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 for use by 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 financial statements.

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

Adoption of new Statements of Korea Accounting Standards

The Korea Accounting Standards Board has issued new Statements of Korea Accounting Standards ("SKAS") to revise the existing Korea accounting standards with the intention to meet international practices and disclosure rules. The following new SKAS have become effective for accounting periods beginning on or after January 1, 2006:

- SKAS 18 Interest in Joint Ventures
- SKAS 19 Leases
- SKAS 20 Related Party Disclosures

The Company adopted these new standards in its financial statements for the year ended December 31, 2006. Adoption of these new standards did not have any material effect on the Company's financial statements, except for additional disclosures required under SKAS 20 Related Party Disclosures.

The Company has also early adopted SKAS 22 Share-based Payments which is effective for the accounting periods beginning on or after January 1, 2007. Adoption of this new standard did not have any effect on the Company's financial statements, except for additional disclosures required under this new standard.

Cash equivalents

Highly liquid deposits and marketable securities with original maturities of three months or less, and which have no significant risk of loss in value by interest rate fluctuations, are considered as cash equivalents.

Financial instruments

Financial instruments, such as time deposits and restricted bank deposits, which are traded by financial institutions and are held for short-term cash management purposes or which will mature within one year, are accounted for as short-term financial instruments. Financial instruments other than cash equivalents and short-term financial instruments are recorded as long-term financial instruments.

Allowance for doubtful accounts

The Company provides an allowance for doubtful accounts in consideration of the estimated losses that may arise from non-collection of its receivables. The estimate of losses, if any, is based on a review of the aging and current status of the outstanding receivables.

Inventories

Inventories are stated at the lower of cost or net realizable value, with cost being determined using the weighted-average method for raw materials and supplies for construction projects. All other inventories are stated at actual cost using the specific identification method. Perpetual inventory system is used to record inventories, in which inventories are adjusted to physical inventory counts that are performed at the end of the year.

When a decline in the value of an inventory indicates that its cost exceeds net realizable value, a valuation loss will be recognized to write the inventory down to its net realizable value. The loss on valuation is recognized in cost of sales.

Financing costs on borrowings to finance the purchase or construction of inventories in connection with housing construction and sales operations are capitalized during the period of time that is required to complete and prepare the inventories for its intended use, as part of the cost of the assets. Borrowing costs capitalized amounted to ₩1,551 million and ₩1,189 million for the years ended December 31, 2006 and 2005, respectively.

Investments in securities

Investments in securities within the scope of SKAS 8 *Investments in Securities* are classified as either trading, held-to-maturity and available-for-sale securities, as appropriate, and are initially measured at cost, including incidental expenses, with cost being determined using the moving average method. The Company determines the classification of its investments after initial recognition, and, where allowed and appropriate, re-evaluates this designation at each fiscal year end.

Securities that are acquired and held principally for the purpose of selling them in the near term are classified as trading securities. Debt securities which carry fixed or determinable payments and fixed maturity are classified as held-to-maturity if the Company has the positive intention and ability to hold to maturity. Securities that are not classified as either trading or held-to-maturity are classified as available-for-sale securities.

After initial measurement, available-for-sale securities are measured at fair value with unrealized gains or losses being recognized directly in equity in the capital adjustment account. Likewise, trading securities are also measured at fair value after initial measurement, but with unrealized gains or losses reported as part of net income. Held-to-maturity securities are measured at amortized cost after initial measurement. The cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount.

The fair value of trading and available-for-sale securities that are traded actively in the open market (marketable securities) is measured at the closing price of those securities at the balance sheet date, except for non-marketable equity securities which are measured at cost subsequent to initial measurement if their fair values cannot be reliably estimated. Non-marketable debt securities are carried at a value using the present value of future cash flows discounted using an appropriate interest rate which reflects the issuer's credit rating announced by a public independent credit rating agency. If the application of such measurement method is not feasible, estimates of fair values may be made using a reasonable valuation model or quoted market prices of similar debt securities issued by entities conducting business in similar industries.

Trading securities are classified as current assets. Available-for-sale and held-to-maturity securities are classified as long-term investments, except that securities maturing within one year or are certain to be disposed of within one year from the balance sheet date are classified as short-term investments.

The Company recognizes an impairment loss on its investments in securities if there is objective evidence that the securities are impaired. The impairment loss is charged to statement of income.

Equity method investments

Investments in entities over which the Company has control or significant influence are accounted for using the equity method.

Under the equity method of accounting, the Company's initial investment in an investee is recorded at acquisition cost. Subsequently, the carrying amount of the investment is adjusted to reflect the Company's share of income or loss of the investee in the statement of income and share of changes in equity that have been recognized directly in the equity of the investee in the related equity account of the Company on the balance sheet. If the Company's share of losses of the investee equal or exceed its interest in the investee, it discontinues recognizing its share of further losses. However, if the Company has other long-term interests in the investee, it continues recognizing its share of further losses to the extent of the carrying amount of such long-term interests.

At the date of acquisition, the excess of the cost of the investment over the Company's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill which is amortized over rational period using the straight-line method. Conversely, negative goodwill represents the excess of the Company's share in the net fair value of the investee's identifiable assets and liabilities over the cost of the investment. Negative goodwill is recorded to the extent of the fair value of acquired non-monetary assets and recognized as income using the straight-line method over the remaining weighted-average useful life of those acquired non-monetary assets. The amount of negative goodwill in excess of the fair value of acquired non-monetary assets is recognized as income immediately.

The Company's share in the investee's unrealized profits and losses resulting from transactions between the Company and its investee are eliminated.

In translating the financial statements of foreign investees into Korean won, assets and liabilities are translated at the exchange rate on the balance sheet date and income and expenses are translated at the weighted-average exchange rate for the period. All resulting exchange differences are recognized as foreign currency translation adjustments in the capital adjustment account within stockholders' equity.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, except for certain assets acquired from investment in-kind and assets donated by other parties are stated at fair value less accumulated depreciation, and certain assets which were revalued in accordance with the Korean Assets Revaluation Law are stated at revalued amount less accumulated depreciation.

Maintenance and repairs are expensed in the year in which they are incurred. Expenditures which enhance the value or extend the useful life of the related assets are capitalized.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of those assets. Such capitalized borrowing costs amounted to ₩652 million and ₩961 million for the years ended December 31, 2006 and 2005, respectively.

The Company records an impairment loss on the carrying amount of an item of property, plant and equipment when there is an indication that the asset is impaired. Impairment is measured by comparing the carrying amount of the asset with its recoverable amount. An impairment loss is charged to the statement of income immediately.

Depreciation of property, plant and equipment is provided, using the straight-line method for buildings and structures and the declining-balance method for the other assets, over the estimated useful life of the assets as follows:

Description	Years
Buildings	40
Structures	40
Machinery and construction	4 - 6
equipment	4 - 12
Vehicles	4
Other assets	4

Intangible assets

Intangible assets of the Company consist of development costs and lease rights, which are stated at cost less accumulated amortization. Amortization is recognized as an expense based on the straight-line method over the estimated useful life of 5 years for development costs and 20 years for lease rights.

Prepaid construction costs

The Company capitalizes costs incurred in connection with securing a construction order as prepaid construction costs when such costs can be identified and measured reliably, and that the Company is reasonably certain that the contract will be awarded. The prepaid construction costs are expensed as part of construction costs upon the commencement of the related construction contract.

Impairment of assets

When the recoverable amount of an asset is less than its carrying amount due to obsolescence, physical damage or abrupt decline in the market value of the asset, the decline in value, if material, is deducted from the carrying amount and recognized as an asset impairment loss in the current year.

Discount on bonds

Discount on bonds is presented as a direct deduction from the nominal value of the bonds and is amortized using the effective-interest-rate method over the life of the bonds.

Provision for construction losses

From the commencement of the construction contract, the Company records the estimated construction losses expected to be incurred as a provision for construction losses and reflects such estimated losses in current construction costs immediately.

Provision for construction warranty

The Company records a provision for the estimated warranty costs relating to construction defects during the warranty period. Estimated warranty costs are charged to current operations at the time of completion of projects and are included in the balance sheet as provision for construction warranty. The provision for construction warranty made will be offset against the actual amount of rectification expense incurred on the defects in subsequent period. The actual rectification expense incurred in excess of the provision made is accounted for as an expense in the current period.

Severance and provision for retirement benefits

In accordance with the Korean Law on Guarantee of Employee's Severance and Retirement Benefits and the Company's regulations, employees terminating their employment with at least one year of service are entitled to severance and retirement benefits, based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision for the years ended December 31, 2006 and 2005 is sufficient to state the liability at the estimated obligation arising from services performed to and at rates of pay in effect as of December 31, 2006 and 2005. Funding of this liability is not required by Korean law.

The lesser of 10% of annual payroll expense or 40% of the accumulated severance and retirement benefits provision is deductible for corporate income tax reporting purposes unless benefits are actually paid or the non tax-deducted portion is deposited with financial institutions. Accordingly, the Company has deposited a portion of its severance and retirement benefits obligation with an insurance company. Since the Company's employees are individually nominated as the vested beneficiaries of the deposit in respect of what is due to them as of December 31, 2006 and 2005, such deposit has been offset against the Company's liability for severance and retirement benefits as of such dates.

In accordance with the Korean National Pension Law prior to revision, the Company had prepaid a portion of its severance and retirement benefits obligation to the Korean National Pension Corporation ("KNPC") at the rate of 3% of payroll expense up through March 31, 1999. Such prepayments have been offset against the Company's liability for severance and retirement benefits. In accordance with a revision in the Korean National Pension Law, additions to these prepayments are no longer required effective from April 1, 1999.

Actual payments of severance and retirement benefits amounted to ₩24,722 million and ₩21,189 million during the years ended December 31, 2006 and 2005, respectively.

Translation of overseas financial statements stated in foreign currency

Financial statements of overseas business locations are maintained in the currencies of the countries in which they conduct their operations. In translating the foreign currency financial statements of these foreign business branches or offices into Korean won, assets and liabilities are translated at the current exchange rate on the balance sheet date and income and expenses are translated at the weighted-average exchange rate during the year. All resulting exchange differences are recognized as foreign currency translation adjustments in the capital adjustment account within stockholders' equity.

Foreign currency translation

Transactions involving foreign currencies are recorded at the exchange rates prevailing at the time the transactions are made.

Assets and liabilities denominated in foreign currencies are translated into Korean won at the appropriate exchange rates on the balance sheet date. The resulting unrealized foreign currency translation gains or losses are credited or charged to current operations.

Derivative financial instruments

Derivative financial instruments are presented as assets or liabilities valued principally at the fair value of the rights or obligations associated with the derivative contracts. The unrealized gain or loss from a derivative transaction with the purpose of hedging the exposure to changes in the fair value of a recognized asset or liability or unrecognized firm commitment is recognized in current operations. For a derivative instrument with the purpose of hedging the exposure to the variability of cash flows of a recognized asset or liability or a forecasted transaction, the hedge-effective portion of the derivative instrument's gain or loss is deferred as a capital adjustment, a component of stockholders' equity. The ineffective portion of the gain or loss is charged or credited to current operations. Derivative instruments that do not meet the criteria for hedge accounting, or contracts for which the Company has not elected hedge accounting are measured at fair value with unrealized gains or losses reported in current operations.

Share-based payment transactions

Executives of the Company receive remuneration in the form of share-based payment transactions, whereby executive render services as consideration for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions with executives is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate of the number of equity instruments that will ultimately vest. The share-based compensation cost credited or charged to the statement of income for the year represents the movement in cumulative expense recognized as of the beginning and end of the year. The equity amount is recognized in the capital adjustment account until the award is exercised, upon which it will be transferred to the related capital account or until the option expires, upon which it will be transferred directly to retained earnings.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Revenue recognition

Revenue for construction contracts is recognized using the percentage-of-completion method, under which revenue is recognized as work progresses in the ratio of actual costs incurred to estimated total costs. Revenue, for which the Company constructs and sells residential or commercial properties, is recognized using the percentage-of-completion method starting after the sales contracts are made. The estimation of total construction costs is made by a systematic, reasonable and consistent method and the Company reflects information newly obtained during the course of its construction activities.

Income taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the tax authorities. Deferred income taxes are provided using the liability method for the tax effect of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred income tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse, and are classified as current or non-current, respectively, based on the classification of the related asset or liability in the balance sheet. In addition, current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity.

Treasury Stock

If a treasury stock was acquired by treasury stock fund, the book value will be recorded at the lower of the fair value of the treasury stock and the fair value of treasury stock fund. If a treasury stock was acquired by specified money trust, the acquisition cost will be recorded as book value of the treasury stock.

Per share amounts

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year while basic ordinary earnings per share is computed by reversing the effect of extraordinary items (net of effect of income taxes), if any. Diluted earnings per share measures the performance of the Company over the reporting period while giving effect to all potential common shares, such as options, warrants and convertible bonds, that are dilative and outstanding during the year.

Use of estimates

The preparation of financial statements in accordance with Korean GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Restricted deposits

Restricted deposits as of December 31, 2006 and 2005 consist of the following (Korean won in millions):

Account	Financial institution	2006		2005		Description
Short-term financial instruments	Shinhan Bank and others	₩	3,646	₩	4377	Collateral
Long-term financial instruments	Shinhan Bank and others		298		27	Collateral and bank overdraft facilities
		₩	3,944	₩	4,404	

4. Inventories

Inventories as of December 31, 2006 and 2005 are as follows (Korean won in millions):

Account	2006		2005	
Completed buildings	₩	662	₩	1,952
Uncompleted buildings		28,294		27,538
Land held for construction		146,147		145,704
Raw materials and supplies		16,425		17,918
Materials-in-transit		928		1,987
Other		2,341		2,216
	₩	194,797	₩	197,315

5. Short-term investments securities

Details of short-term investments securities, representing held-to-maturity securities as of December 31, 2006 and 2005, are as follows (Korean won in millions):

<2006>

Description	Acquisition cost		Recoverable value		Book value	
Government and public bonds	₩	3,787	₩	3,787	₩	3,787

<2005>

Description	Acquisition cost		Recoverable value		Book value	
Government and public bonds	₩	3,087	₩	3,087	₩	3,087

6. Long-term investments securities

Details of long-term investments securities as of December 31, 2006 and 2005 are as follows (Korean won in millions):

Account	2006		2005	
Available-for-sale securities	₩	184,160	₩	169,081
Held-to-maturity securities		34,687		28,805
	₩	218,847	₩	197,886

Available-for-sale securities as of December 31, 2006 and 2005 consist of the following (Korean won in millions):

<2006>

	Number of shares	Percentage of ownership	Acquisition cost	Fair value	Book value	Unrealized holding gain (loss)	Impairment losses	
							Up to 2005	2006
< Non-marketable securities >								
The Korea Economic Daily	646	0.00%	₩ 14	(*)	₩ 14	₩ -	₩ -	₩ -
Pusan Travel & Development Co., Ltd.	80,000	2.67%	400	(#)	-	-	(400)	-
Seoul Highway Co., Ltd.	24,840,000	27.00%	124,200	(*)	124,200	-	-	-
Kangnam Inter Circular Road Co., Ltd.	310,500	11.50%	1,552	(*)	1,552	-	-	-
Youngchun-Sangju Highway Co., Ltd.	1,000	10.00%	5	(*)	5	-	-	-
Uijeongbu LRT Inc.	2,906,808	47.54%	14,534	(*)	14,534	-	-	-
GS Retail Co., Ltd.	270,106	1.75%	15,420	(*)	11,362	(19)	-	-
LG CNS Co., Ltd.	1,041,520	2.69%	1,043	(*)	1,051	-	-	-
Manwolsan Tunnel Co., Ltd.	1,005,000	15.00%	5,025	(*)	5,025	-	-	-
Public Development Co., Ltd.	394,655	17.09%	3,946	(*)	3,946	-	-	-
Potato Co., Ltd.	60,000	10.00%	300	(*)	300	-	-	-
International Convention Center Jeju	100,000	0.30%	500	(*)	500	-	-	-
Daum Direct Car Insurance Inc.	620,000	8.27%	3,100	(*)	3,100	-	-	-
Korea Housing Guarantee Co., Ltd.	1,038,490	0.16%	21,532	(#)	-	-	(21,532)	-
Major Development Inc.	298,500	19.90%	2,985	(*)	2,985	-	-	-
Junju Drain Co., Ltd	93,710	7.90%	469	(*)	469	-	-	-
Nonsan Drain Co., Ltd.	28,000	8.15%	140	(*)	140	-	-	-
Masan Drain Co., Ltd.	10,582	8.14%	53	(*)	53	-	-	-
Youngduk&Bio Co., Ltd.	25,500	5.10%	127	(*)	127	-	-	-
M-Ciety Development Co., Ltd.	352,000	4.40%	1,760	(*)	1,760	-	-	-
M-Ciety Co., Ltd.	2,640	4.40%	13	(*)	13	-	-	-
Corona Development Co., Ltd.	76,000	7.60%	380	(*)	380	-	-	-
Metro Corona Co., Ltd.	5,952	9.92%	30	(*)	30	-	-	-
Engineering Financial Cooperative	1,449	0.30%	180	(*)	180	-	-	-
Korea Electric Engineers Association	200	0.16%	20	(*)	20	-	-	-
Electric Contractors' Fanatical Cooperative	600	0.02%	98	(*)	98	-	-	-
Korea Construction Financial Cooperative	12,801	0.34%	12,092	(*)	12,092	-	-	-
Information & Communication Financial Cooperative	440	0.06%	61	(*)	61	-	-	-
Treasury Stock Fund			1,500	(*)	5,804	-	-	-
Less: treasury stock			-	(*)	(5,641)	-	-	-
Subtotal			1,500	(*)	163	113	-	-
Others			2,444	(#)	-	-	(2,444)	-
			₩ 213,923		₩ 184,160	₩ 94	₩ (24,376)	₩ -

<2005>

	Number of shares	Percentage of ownership	Acquisition cost	Fair value	Book value	Unrealized holding gain (loss)	Impairment losses Up to 2004	Impairment losses 2005
The Korea Economic Daily	646	0.00%	₩ 14	(*)	₩ 14	₩ -	₩ -	₩ -
Pusan Travel & Development Co., Ltd.	80,000	2.67%	400	(#)	-	-	(400)	-
Daegu West-North Road Co., Ltd.	1,507	15.07%	8	(*)	8	-	-	-
Seoul Highway Co., Ltd.	24,840,000	27.00%	124,200	(*)	124,200	-	-	-
Kangnam Inter Circular Road Co., Ltd.	264,500	11.50%	1,323	(*)	1,323	-	-	-
Uijeongbu LRT Inc.	95,072	47.54%	475	(*)	475	-	-	-
GS Retail Co., Ltd.	270,106	1.75%	15,420	(*)	11,362	(19)	-	-
LG CNS Co., Ltd.	2,541,520	6.57%	2,557	(*)	2,564	-	-	-
Manwolsan Tunnel Co., Ltd.	1,005,000	15.00%	5,025	(*)	5,025	-	-	-
Public Development Co., Ltd.	394,655	17.09%	3,946	(*)	3,946	-	-	-
Potato Co., Ltd.	60,000	10.00%	300	(*)	300	-	-	-
International Convention Center Jeju	100,000	0.30%	500	(*)	500	-	-	-
Daum Direct Car Insurance Inc.	620,000	8.27%	3,100	(*)	3,100	-	-	-
P.H Korea Inc.	304	0.34%	61	(*)	61	-	-	-
Korea Housing Guarantee Co., Ltd.	1,038,490	0.16%	21,532	(#)	-	-	(21,532)	-
Major Development Inc.	298,500	19.90%	2,985	(*)	2,985	-	-	-
Engineering Financial Cooperative	1,449	0.30%	180	(*)	180	-	-	-
Korea Electric Engineers Association	200	0.16%	20	(*)	20	-	-	-
Electric Contractors' Fanatical Cooperative	600	0.02%	98	(*)	98	-	-	-
Korea Construction Financial Cooperative	12,801	0.34%	12,092	(*)	12,092	-	-	-
Information & Communication Financial Cooperative	440	0.06%	61	(*)	61	-	-	-
Treasury Stock Fund			1,500	(*)	4,773	155	-	-
Less: treasury stock			-	(*)	(4,006)	-	-	-
Subtotal			1,500	(*)	767	-	-	-
Others			2,444	(#)	-	-	(2,444)	-
			₩ 198,241		₩ 169,081	₩ 136	₩ (24,376)	₩ -

(*) The fair value of these non-marketable securities could not be measured reliably and therefore, these securities were recorded at acquisition cost.
(#) The Company has recorded full impairment loss on these available-for-sale securities due to significant decline in net asset value of the investments.

Among the Company's available-for-sale securities, shares of Manwolsan Tunnel Co., Ltd., Seoul Highway Co., Ltd. and Uijeongbu LRT Inc. are pledged as collateral for borrowings or rights for commercial operations of tunnel or roads as of December 31, 2006 and 2005.

Although the Company's ownership of Seoul Highway Co., Ltd. and Uijeongbu LRT Inc. exceeds 20%, the Company classified these securities as available-for-sale securities as the Company could not exercise significant influence on the investees.

Held-to-maturity securities as of December 31, 2006 and 2005 are as follows (Korean won in millions):

Maturity	2006 Acquisition cost	2006 Recoverable value	2006 Book value	2005 Acquisition cost	2005 Recoverable value	2005 Book value
More than 1 year	₩ 30,923	₩ 30,923	₩ 30,923	₩ 23,392	₩ 23,392	₩ 23,392
More than 5 years to 10 years	3,764	3,764	3,764	5,413	5,413	5,413
	₩ 34,687	₩ 34,687	₩ 34,687	₩ 28,805	₩ 28,805	₩ 28,805

Interest income earned from short-term and long-term investment securities amounted to ₩1,156 million and ₩1,223 million for the years ended December 31, 2006 and 2005, respectively.

7. Equity method investments

Investments in equity securities accounted for using the equity method as of December 31, 2006 and 2005 are as follows (Korean won in millions):

<2006>

	Number of shares	Ownership(%)	Acquisition cost	Net asset value	Book value
Hanmoo Development Co., Ltd.	6,654,675	67.56%	₩ 85,861	₩ 234,155	₩ 182,156
Sachun Resort Co., Ltd.	290,000	29.00%	1,450	962	962
GLS Service Co., Ltd.	60,000	100.00%	300	296	296
Ladera Co., Ltd.	365,528	65.52%	50,633	11,039	10,503
GS-HP Corp. (formerly, LG-HP Corp.)	1	30.00%	2,196	(*)	-
LG Holdings (HK), Ltd.	35,000,000	25.00%	54,823	47,111	35,810
GS Construction (Arabia), Ltd. (formerly, LG Construction (Arabia), Ltd.)	3,920	49.00%	874	(*)	-
LG Properties (S'PORE) Pte. Ltd.	25,944,630	30.00%	18,466	5,369	-
XI Service Co., Ltd. (formerly, With Service Co., Ltd.)	96,000	100.00%	480	493	493
GS E&C Nanjing, Ltd.	1	100.00%	5,330	10,457	12,015
GS E&C Italy S.R.L	300,000	100.00%	430	155	1
GS E&C Poland SP.ZO.O	100	100.00%	17	8,484	8,484
GS E&C Mexico, S.A.DEC.V.	100	100.00%	9	1,271	1,271
GS E&C India Private, Ltd.	11,374,728	100.00%	2,354	1,707	1,707
GS E&C Thai Co., Ltd.	19,600	49.00%	50	150	150
Estech Estimate Corp.	20,000	100.00%	100	96	96
EzVille Inc.	1,559,998	78.00%	9,385	6,161	7,147
Total			₩ 232,758	₩ 327,906	₩ 261,091

<2005>

	Number of shares	Ownership(%)	Acquisition cost	Net asset value	Book value
Hanmoo Development Co., Ltd.	6,654,675	67.56%	₩ 85,861	₩ 227,760	₩ 173,026
Ladera Co., Ltd.	365,528	65.52%	50,633	9,270	9,029
LG-HP Corp.	1	30.00%	2,196	(*)	-
LG Holdings (HK), Ltd.	35,000,000	25.00%	39,575	35,403	24,157
LG Construction (Arabia), Ltd.	3,920	49.00%	874	(*)	-
LG Properties (S'PORE) Pte. Ltd.	25,944,630	30.00%	18,466	6,802	245
With Service Co., Ltd.	96,000	100.00%	480	492	492
Lukindo Inc.	550	100.00%	532	(#)	-
GS E&C Nanjing, Ltd.	1	100.00%	3,452	3,180	3,180
GS E&C Italy S.R.L	300,000	100.00%	430	209	583
GS E&C Poland SP.ZO.O	50,000	100.00%	17	(3,745)	-
GS E&C Thai Co., Ltd.	19,600	49.00%	50	50	50
Estech Estimate Corp.	20,000	100.00%	100	97	97
EzVille Inc.	639,998	32.00%	3,460	2,105	3,460
Total			₩ 206,126	₩ 281,623	₩ 214,319

(*) These investees have been discontinued to be accounted for using the equity method. The Company has not been able to obtain the net asset value of the investees as of December 31, 2006 and 2005, due to unavailability of their financial statements.

(#) The investee has been placed under liquidation as of December 31, 2005. The Company had not been able to obtain the net asset value of the investee as of December 31, 2005 due to unavailability of its financial statements. The investee was dissolved following the completion of its liquidation procedures during the year ended December 31, 2006.

The summary of financial position of the investees as of December 31, 2006, and the results of their operations for the year then ended, is presented as follows (Korean won in millions):

<2006(*)>

	Assets	Liabilities	Sales	Net income (loss)
Hanmoo Development Co., Ltd.	₩ 735,093	₩ 388,482	₩ 181,649	₩ 10,174
Ladera Co., Ltd.	30,337	13,488	4,661	4,224
LG Holdings (HK), Ltd.	188,525	81	-	(1,063)
LG Properties (S'PORE) Pte. Ltd.	69,894	51,997	3	(3,811)
XI Service Co., Ltd. (formerly, With Service Co., Ltd.)	1,454	962	6,297	1
GS E&C Nanjing, Ltd.	18,941	6,900	23,034	7,173
GS E&C Italy S.R.L	67,862	67,707	78,198	(432)
GS E&C Poland SP.ZO.O	91,333	82,851	241,595	11,947
GS E&C Thai Co., Ltd.	4,196	3,890	8,965	193
GS E&C Mexico, S.A.DEC.V.	1,860	589	18,888	1,293
GS E&C India Private, Ltd.	1,765	57	350	(691)
Estech Estimate Corp.	364	268	2,960	(1)
EzVille Inc.	23,211	15,313	44,046	940
Sachun Resort Co., Ltd.	11,683	8,366	-	(1,683)
GLS Service Co., Ltd.	398	102	242	(4)

<2005(*)>

	Assets	Liabilities	Sales	Net income (loss)
Hanmoo Development Co., Ltd.	₩ 742,175	₩ 405,738	₩ 170,640	₩ 2,949
Ladera Co., Ltd.	29,111	14,963	5,357	(280)
LG Holdings (HK), Ltd.	205,321	63,707	-	(17)
LG Properties (S'PORE) Pte. Ltd.	73,144	50,592	-	(382)
With Service Co., Ltd.	1,517	1,025	4,431	12
GS E&C Nanjing, Ltd.	12,516	9,335	39,946	152
GS E&C Italy S.R.L	22,353	22,144	102,570	155
GS E&C Poland SP.ZO.O	1,718	5,433	17,013	(3,803)
GS E&C Thai Co., Ltd.	50	-	-	-
Estech Estimate Corp.	190	93	754	(3)
EzVille Inc.	12,856	6,729	16,592	103

(*) GS-HP Corp. (formerly, LG-HP Corp.) and GS Construction (Arabia), Ltd. (formerly, LG Construction (Arabia), Ltd.), which have been discontinued to be accounted for using the equity method and also for investees under establishment, are not presented.

The equity method of accounting is applied based on the investees' most recent available financial statements, one of which has not been audited as follows (Korean won in millions):

<2006>

	Net asset value before adjustment	Adjustment	Net asset value after adjustment	Proportionate ownership
LG Holdings (HK), Ltd	₩ 188,444	₩ (100,585)	₩ 87,859	₩ 21,965

<2005>

	Net asset value before adjustment	Adjustment	Net asset value after adjustment	Proportionate ownership
LG Holdings (HK), Ltd	₩ 141,614	₩ (42,515)	₩ 99,099	₩ 24,775

The net asset value of the investee was adjusted prior to equity method accounting due to differences in accounting policies adopted by the investee to that of the Company. As a result, the net asset value of the investee has been adjusted using uniform accounting policies for like transactions and other events in similar circumstances to that of the Company.

The changes in carrying amount of goodwill and (negative goodwill) for the years ended December 31, 2006 and 2005 are as follows (Korean won in millions):

<2006>

	Jan. 1, 2006	Additions	Amortization	Dec. 31, 2006
Hanmoo Development Co., Ltd.	₩ (31,691)	₩ -	₩ (1,536)	₩ (30,155)
EzVille Inc	-	1,233	247	986
	₩ (31,691)	₩ 1,233	₩ (1,290)	₩ (29,106)

<2005>

	Jan. 1, 2005	Additions	Amortization	Dec. 31, 2005
Hanmoo Development Co., Ltd.	₩ (33,227)	₩ -	₩ (1,536)	₩ (31,691)

The elimination of unrealized gains or (losses) arising from inter-company transactions for the years ended December 31, 2006 and 2005 are as follows (Korean won in millions):

<2006>

	Jan. 1, 2006	Additions	Realization	Dec. 31, 2006
Hanmoo Development Co., Ltd.	₩ 22,563	₩ -	₩ 721	₩ 21,842
LG Holdings (HK), Ltd.	617	419	-	1,036
	₩ 23,180	₩ 419	₩ 721	₩ 22,878

<2005>

	Jan. 1, 2005	Additions	Realization	Dec. 31, 2005
Hanmoo Development Co., Ltd.	₩ 23,284	₩ -	₩ 721	₩ 22,563
LG Holdings (HK), Ltd.	(398)	1,015	-	617
	₩ 22,886	₩ 1,015	₩ 721	₩ 23,180

The details of changes in carrying amount of equity method investments for the years ended December 31, 2006 and 2005 are as follows (Korean won in millions):

<2006>

	Jan. 1, 2006	Acquisition	Equity in earnings (loss) of investee	Share of changes in capital adjustments	Others	Dec.31, 2006
Hanmoo Development Co., Ltd.	₩ 173,026	₩ -	₩ 9,131	₩ -	₩ -	₩ 182,157
Ladera Co., Ltd. (*)	9,029	-	2,262	(788)	-	10,503
GS-HP Corp. (formerly, LG-HP Corp.) (**)	-	-	-	-	-	-
LG Holdings (HK), Ltd. (*)	24,157	15,248	(1,203)	(2,392)	-	35,810
GS Construction (Arabia), Ltd. (formerly, LG Construction (Arabia), Ltd.) (**)	-	-	-	-	-	-
LG Properties (S'PORE) Pte. Ltd. (*)	245	-	(245)	-	-	-
XI Service Co., Ltd. (formerly, With Service Co., Ltd.)	492	-	1	-	-	493
Sachun Resort Co., Ltd. (*)	-	1,450	(488)	-	-	962
GLS Service Co., Ltd.	-	300	(4)	-	-	296
GS E&C Nanjing, Ltd. (*)	3,180	1,878	7,173	(217)	-	12,014
GS E&C Italy S.R.L (*)	583	-	(528)	(54)	-	1
GS E&C Poland SP.ZO.O (*)	-	-	8,082	401	-	8,483
GS E&C Thai Co., Ltd. (*)	50	-	94	6	-	150
GS E&C Mexico, S.A.DEC.V. (*)	-	9	1,293	(31)	-	1,271
GS E&C India Private, Ltd. (*)	-	2,354	(691)	45	-	1,708
EzVille Inc.	3,460	5,925	486	(2,724)	-	7,147
Estech Estimate Corp.	97	-	(1)	-	-	96
Total	₩ 214,319	₩ 27,164	₩ 25,362	₩ (5,754)	₩ -	₩ 261,091

<2005>

	Jan. 1, 2005	Acquisition	Equity in earnings (loss) of investee	Share of changes in capital adjustments	Others	Dec. 31, 2005
Hanmoo Development Co., Ltd.	₩ 168,672	₩ -	₩ 4,354	₩ -	₩ -	₩ 173,026
Ladera Co., Ltd. (*)	9,507	-	(203)	(275)	-	9,029
LG-HP Corp. (**)	-	-	-	-	-	-
LG Holdings (HK), Ltd. (*)	26,471	-	(1,550)	(764)	-	24,157
LG Construction (Arabia), Ltd. (**)	-	-	-	-	-	-
LG Properties (S'PORE) Pte. Ltd. (*)	370	-	(101)	(24)	-	245
With Service Co., Ltd.	-	480	12	-	-	492
Lukindo Inc. (*)	-	532	-	-	(532)	-
GS E&C Nanjing Ltd. (*)	-	3,452	53	(325)	-	3,180
GS E&C Italy S.R.L (*)	-	430	155	(2)	-	583
GS E&C Poland SP.ZO.O (*)	-	17	(17)	-	-	-
GS E&C Thai Co., Ltd. (*)	-	50	-	-	-	50
EzVille Inc.	-	3,460	-	-	-	3,460
Estech Estimate Corp.	-	100	(3)	-	-	97
Total	₩ 205,020	₩ 8,521	₩ 2,700	₩ (1,390)	₩ (532)	₩ 214,319

(*) Unaudited financial statements were used in applying the equity method of accounting for these investees. The Company has also undertaken the following procedures to confirm the reliability of the above mentioned Unaudited financial statements:

(i) Obtained the representation from the chief executive officer and the internal auditors of each investee by affixing their signatures on the unaudited financial statements;

(ii) Review the unaudited financial statements to understand whether significant transactions or events that may have material accounting implications, either publicly announced or otherwise, are properly reflected; and

(iii) Inquired about significant issues raised by the investees' auditors relating to the year end closing; and analyzed other potential adjustments, which could be made to the unaudited financial statements.

The Company discontinued the equity method of accounting for GS-HP Corp. (formerly, LG-HP Corp.) and GS Construction (Arabia), Ltd. (formerly, LG Construction (Arabia), Ltd.) as the carrying amount of the investments has been recorded to below nil as of December 31, 2006 and 2005.

The details of changes in share of capital adjustments of the investees for the years ended December 31, 2006 and 2005 are as follows (Korean won in millions):

	2006			2005		
	Jan. 1, 2006	Increase/ (decrease)	Dec. 31, 2006	Jan. 1, 2005	Increase/ (decrease)	Dec. 31, 2005
Hanmoo Development Co., Ltd.	₩ 160,703	₩ -	₩ 160,703	₩ 160,703	₩ -	₩ 160,703
Ladera Co., Ltd.	11,975	(788)	11,187	12,250	(275)	11,975
LG Holdings (HK), Ltd.	5,891	(2,392)	3,499	6,655	(764)	5,891
LG Properties (S'PORE) Pte. Ltd.	295	-	295	319	(24)	295
GS E&C Nanjing, Ltd.	(325)	(217)	(542)	-	(325)	(325)
GS E&C Italy S.R.L	(2)	(54)	(56)	-	(2)	(2)
EzVille Inc.	-	(2,724)	(2,724)	-	-	-
GS E&C POLAND SP.ZO.O	-	401	401	-	-	-
GS E&C Mexico, S.A.DEC.V.	-	(31)	(31)	-	-	-
GS E&C Thai Co.,Ltd.	-	6	6	-	-	-
GS E&C India Private, Ltd.	-	45	45	-	-	-
	178,537	(5,754)	172,783	179,927	(1,390)	178,537
Deferred income tax effect	(49,098)		(47,515)	(49,480)		(49,098)
Total	₩ 129,439		₩ 125,268	₩ 130,447		₩ 129,439

As of December 31, 2006 and 2005, the respective accumulated losses of the investees from which the application of the equity method of accounting has been suspended due to their accumulated losses are as follows (Korean won in millions):

		2006		2005
GS-HP Corp. (formerly, LG-HP Corp.)	₩	858	₩	-
GS Construction (Arabia), Ltd. (formerly, LG Construction (Arabia), Ltd.		196		196
GS E&C Poland SP.ZO.O		-		3,786
	₩	1,054	₩	3,982

8. Government posted value of land owned

The book value of the Company-owned land and the value of land officially announced by the Korean government for tax and land policy purposes as of December 31, 2006 and 2005 are as follows (Korean won in millions):

	Book value				Publicly announced value			
		2006		2005		2006		2005
Land	₩	377,808	₩	281,319	₩	381,775	₩	298,253

9. Property, plant and equipment

Details of property, plant and equipment as of December 31, 2006 and 2005 are as follows (Korean won in millions):

<2006>

		Cost		Accumulated depreciation		Accumulated impairment losses		Net book value
Land	₩	377,808	₩	-	₩	-	₩	377,808
Golf course		171,486		-		-		171,486
Structure timber		28,796		-		-		28,796
Buildings		400,284		44,679		16,910		338,695
Structures		106,555		11,427		-		95,128
Machinery		24,486		20,101		-		4,385
Construction equipment		11,784		11,322		-		462
Vehicles		17,814		15,256		-		2,558
Others		64,339		47,045		-		17,294
Construction-in-progress		1,170		-		-		1,170
Total	₩	1,204,522	₩	149,830	₩	16,910	₩	1,037,782

<2005>

		Cost		Accumulated depreciation		Accumulated impairment losses		Net book value
Land	₩	281,319	₩	-	₩	-	₩	281,319
Golf course		171,443		-		-		171,443
Structure timber		28,733		-		-		28,733
Buildings		337,796		35,521		12,600		289,675
Structures		106,212		8,866		-		97,346
Machinery		24,473		15,995		-		8,478
Construction equipment		11,739		10,734		-		1,005
Vehicles		18,043		12,818		-		5,225
Others		50,733		36,362		-		14,371
Construction-in-progress		7,358		-		-		7,358
Total	₩	1,037,849	₩	120,296	₩	12,600	₩	904,953

Changes in the net book value of property, plant and equipment for the years ended December 31, 2006 and 2005 are as follows (Korean won in millions):

<2006>

	Jan. 1, 2006	Additions	Disposals/ transfers	Depreciation	Impairment loss	Overseas business translation adjustment	Dec. 31, 2006
Land	₩ 281,319	₩ 97,787	₩ 1,298	₩ -	₩ -	₩ -	₩ 377,808
Golf course	171,443	43	-	-	-	-	171,486
Standing timber	28,733	63	-	-	-	-	28,796
Buildings	289,675	65,839	2,974	9,536	4,309	-	338,695
Structures	97,346	343	-	2,561	-	-	95,128
Machinery	8,478	63	1	4,154	-	(1)	4,385
Construction equipment	1,005	45	-	588	-	-	462
Vehicles	5,225	337	78	2,890	-	(36)	2,558
Others	14,371	13,933	18	10,967	-	(25)	17,294
Construction-in-progress	7,358	43,023	49,211	-	-	-	1,170
Total	₩ 904,953	₩ 221,476	₩ 53,580	₩ 30,696	₩ 4,309	₩ (62)	₩ 1,037,782

<2005>

	Jan. 1, 2005	Additions	Disposals/ transfers	Depreciation	Impairment loss	Overseas business translation adjustment	Dec. 31, 2005
Land	₩ 246,611	₩ 41,803	₩ 7,095	₩ -	₩ -	₩ -	₩ 281,319
Golf course	157,674	13,769	-	-	-	-	171,443
Standing timber	25,791	2,942	-	-	-	-	28,733
Buildings	263,584	35,788	2,049	7,648	-	-	289,675
Structures	91,034	8,855	-	2,543	-	-	97,346
Machinery	6,613	5,304	1	3,436	-	(2)	8,478
Construction equipment	767	705	-	467	-	-	1,005
Vehicles	5,863	3,863	118	4,373	-	(10)	5,225
Others	17,239	8,621	192	11,294	-	(3)	14,371
Construction-in-progress	28,581	26,281	47,504	-	-	-	7,358
Total	₩ 843,757	₩ 147,931	₩ 56,959	₩ 29,761	₩ -	₩ (15)	₩ 904,953

Property, plant and equipment have been provided as collateral to the extent of ₩35,646 million as of December 31, 2006 in connection with leasehold guarantee deposits received of the Company.

Property, plant and equipment are insured against fire and other casualty losses for up to ₩628,281 million as of December 31, 2006.

10. Capitalized financing costs

The Company capitalized certain financing costs of ₩2,203 million and ₩2,150 million for the years ended December 31, 2006 and 2005, respectively, as part of the cost of the related property, equipment and inventories. Such capitalized financing costs have the following effects on the Company's financial statements as of December 31, 2006 and 2005, and for the years then ended (Korean won in millions):

	2006	2005
<Balance sheet>		
Increase in inventories	₩ 1,551	₩ 1,189
Increase in property, plant and equipment	652	961
<Statements of income>		
Decrease in interest expense	2,203	2,150
Increase in net income	1,597	1,555

11. Intangible assets

Details of intangible assets as of December 31, 2006 and 2005 are as follows (Korean won in millions):

<2006>

	Cos		Accumulated amortization		Net book value	
Rights for lease operations	₩	6,550	₩	2,729	₩	3,821
Development costs		1,212		1,021		191
Total	₩	7,762	₩	3,750	₩	4,012

<2005>

	Cos		Accumulated amortization		Net book value	
Rights for lease operations	₩	6,550	₩	2,402	₩	4,148
Development costs		3,253		2,819		434
Total	₩	9,803	₩	5,221	₩	4,582

Changes in the net book value of intangible assets for the years ended December 31, 2006 and 2005 are as follows (Korean won in millions):

<2006>

	Jan. 1, 2006		Amortization(*)		Dec. 31, 2006	
Rights for lease operations	₩	4,148	₩	327	₩	3,821
Development costs		434		243		191
Total	₩	4,582	₩	570	₩	4,012

<2005>

	Jan. 1, 2005		Amortization(*)		Dec. 31, 2005	
Goodwill	₩	388	₩	388	₩	-
Rights for lease operations		4,476		328		4,148
Development costs		1,084		650		434
Total	₩	5,948	₩	1,366	₩	4,582

(*) Amortization includes transferred cost into development cost

Details of intangible assets as of December 31, 2006 are as follows (Korean won in millions):

Description	Book value		Remaining estimated useful lives	Remarks
Rights for lease operations	₩	3,821	12 years	Dormitory, Kyunghee University
Development costs		191	3	Development of new technologies
Total	₩	4,012		

12. Long-term borrowings

Long-term loans of the Company as of December 31, 2006 and 2005 are as follows (Korean won in millions):

Financial institution	Annual interest rate as of Dec. 31, 2006 (%)	2006		2005	
Korea Housing Guarantee Co., Ltd.	1.0	₩	11,940	₩	13,267
Less current portion			-		(1,327)
Total		₩	11,940	₩	11,940

The details of bonds issued as of December 31, 2006 and 2005 are as follows (Korean won in millions):

Series	Issuance date	Maturity date	Annual interest rate in 2006 (%)	2006		2005	
117th - non-guaranteed debentures	July, 2004	July, 2007	4.5 ~ 7.0	₩	50,000	₩	50,000
Less present value discounts					(114)		(334)
Less current portion					(49,886)		-
Total				₩	-	₩	49,666

The entire principal of the bonds will mature in 2007 and interest is due at the end of each quarter. The Company issued these bonds at a discount and amortization of discount is calculated over the term of the bonds using the effective interest rate method included in interest expense.

The repayment schedules of long-term loans and bonds are as follows (Korean won in millions):

Year	Long-term loans		Bonds		Total	
2007	₩	-	₩	50,000	₩	50,000
2008		1,327		-		1,327
2009		1,327		-		1,327
2010		1,327		-		1,327
2011 and thereafter		7,959		-		7,959
Total	₩	11,940	₩	50,000	₩	61,940

13. Assets and liabilities denominated in foreign currencies

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

Account	2006				2005			
	Foreign currency		Korean won equivalent (in millions)		Foreign currency		Korean won equivalent (in millions)	
Cash and cash equivalents	USD	183,616,721	₩	170,690	USD	8,681,329	₩	8,794
	EUR	32		-	EUR	-		-
	JPY	-		-	JPY	887,661,974		7,634
	THB	11,000		-	THB	11,000		-
Trade accounts receivable	USD	100,648,957		93,563	USD	130,038,120		131,729
	SAR	1,207,710		299	SAR	1,207,710		326
	EUR	493,615		603	EUR	-		-
Short-term loans receivable	USD	14,115,367		13,122	USD	14,115,367		14,299
Other accounts receivable	USD	287,587		267	USD	515,974		523
	EUR	4,408,750		5,389	EUR	-		-
Long-term loans receivable	USD	2,265,000		2,106	USD	2,825,000		2,862
Total			₩	286,039			₩	166,167

Account	2006				2005			
	Foreign currency		Korean won equivalent (in millions)		Foreign currency		Korean won equivalent (in millions)	
Trade accounts and notes payable	USD	28,458,308	₩	26,455	USD	34,672,313	₩	35,123
	SGD	-		-	SGD	149,259		91
	OMR	-		-	OMR	8,300		22
	JPY	597,952,430		4,675	JPY	915,712,055		7,875
	EUR	7,104,252		8,683	EUR	2,935,217		3,523
	CHF	-		-	CHF	127,000		98
	GBP	1,490		3	GBP	82,126		143
Short-term borrowings	USD	2,986,691		2,776	USD	129,345,676		131,027
	JPY	-		-	JPY	648,115,050		5,574
	EUR	-		-	EUR	6,777,502		8,134
Other accounts payable	USD	1,290,105		1,199	USD	632,006		640
	EUR	1,107,830		1,354	EUR	-		-
Other advances received	USD	44,077,959		40,975	USD	64,958,138		65,803
	EUR	54,931		67	EUR	54,931		66
	GBP			-	GBP			-
Total			₩	86,187			₩	258,119

14. Financial position of overseas operations

Summary of the Company's overseas operations financial position as of December 31, 2006 and 2005 are as follows (Korean won in millions):

	2006		2005	
Current assets	₩	110,809	₩	64,123
Non-current assets		1,420		1,855
Current liabilities		216,980		112,894
Non-current liabilities		84		55

15. Related party disclosures

The subsidiaries among related parties of the Company and nature of their relationship with the Company are as follows:

Company name	Parent company	Relationship with the Company
Hanmoo Development Co., Ltd.	The Company	Subsidiary
EzVille Inc.	The Company	Subsidiary
Ladera Co., Ltd.	The Company	Subsidiary
GS E&C Italy S.R.L	The Company	Subsidiary

Compensation for key management personnel for the years ended December 31, 2006 is as follows (Korean won in millions):

	2006	
Salaries including short-term incentives	₩	33,312
Severance and retirement benefits		2,870
Stock-based compensation (*)		16,624

(*) Details of stock-based compensation as of December 31, 2006 are presented in Note 28.

Key management personnel include standing directors and outside directors who have the authority and responsibilities for planning, operation and control of the business of the Company.

Significant transactions with related parties for the years ended December 31, 2006 and 2005 are as follows (Korean won in millions):

	Relationship	Transactions	2006	2005
GS Holdings Co., Ltd.	Affiliate	Sales and other income	₩ 4	₩ 28,688
		Cost of sales and purchases	184	160
		Other expenses	2,151	1,725
GS Neotek Co., Ltd.	Affiliate	Sales and other income	2	-
		Cost of sales and purchases	4,709	609
		Outsourcing costs	103,858	130,086
		Other expenses	1,357	40
GS Retail Co., Ltd.	Affiliate	Sales and other income	3,623	3,715
		Cost of sales and purchases	393	82
		Other expenses	3,038	2,601
GS EPS Co., Ltd.	Affiliate	Sales and other income	27,354	-
GS Caltex Co., Ltd.	Affiliate	Sales and other income	364,268	115,399
		Cost of sales and purchases	2,089	1,001
		Other expenses	2,462	6,407
Seoul Highway Co., Ltd.	Affiliate	Sales and other income	91,391	-
		Cost of sales and purchases	50	-
EzVille Inc.	Subsidiary	Cost of sales and purchases	26,987	4,234
		Outsourcing costs	11,420	8,461
		Other expenses	28	-
Others		Sales and other income	124,305	32,903
		Cost of sales and purchases	16,051	26,327
		Outsourcing costs	-	1,490
		Other expenses	18,941	13,874
Total		Sales and other income	₩ 610,947	₩ 180,705
		Cost of sales and purchases	50,463	32,413
		Outsourcing costs and others	143,255	164,685

Outstanding balances with related parties as of December 31, 2006 and 2005 are as follows (Korean won in millions):

	Relationship	Accounts	2006	2005
GS Holdings Co., Ltd.	Affiliate	Long-term guarantee deposits	₩ 1,926	₩ 1,926
		Membership guarantee deposits received	954	954
		Other payable	27	-
GS Neotek Co., Ltd.	Affiliate	Other receivable	351	1,002
		Trade accounts and notes payable	49,252	14,355
		Membership guarantee deposits received	1,316	1,316
		Other payable	194	8
GS Retail Co., Ltd.	Affiliate	Trade accounts and notes receivable	192	3,164
		Other receivable	287	282
		Trade accounts and notes payable	1,177	1,138
		Leasehold guarantee deposits received	46,800	46,800
		Membership guarantee deposits received	3,325	3,325
		Other payable	-	2
GS EPS Co., Ltd.	Affiliate	Trade accounts and notes payable	8,253	50
		Membership guarantee deposits received	600	-
GS Caltex Co., Ltd.	Affiliate	Trade accounts and notes receivable	48,490	50,494
		Other receivable	19	6
		Trade accounts and notes payable	33,002	6,215
		Membership guarantee deposits received	6,675	6,675
		Other payable	29	16
Seoul Highway Co., Ltd.	Affiliate	Trade accounts and notes receivable	3,796	-
		Trade accounts and notes payable	168	-
		Membership guarantee deposits received	94	-

	Relationship	Accounts		2006		2005
EzVille Inc.	Subsidiary	Trade accounts and notes payable		18,424		322
		Membership guarantee deposits received		31		31
Others		Trade accounts and notes receivable		4,170		5,224
		Other receivable		19,785		1,406
		Trade accounts and notes payable		18,518		563
		Membership guarantee deposits received		2,779		2,779
		Other payable		1,915		1,912
		Accounts and notes receivable		79,016		63,504
		Accounts and notes payable	₩	193,533	₩	86,461

Details of guarantees provided by the Company on behalf of related parties as of December 31, 2006 are as follows:

Related party	Financial institutions	Description	Guarantee date	Expiry date	Amount	
	Kookmin Bank	Term loan	2005-09-15	2007-09-15	USD	14,000,000
Ladera Co., Ltd.	Banca Nazionale Del Lavora	Overdraft facility	2004-08-11	Until further notice	EUR	300,000
GS E&C Italy S.R.L	Servizi Assicurativi del Commercio Estero	Credit facility	2006-09-20	2018-03-31	USD	224,000,000
GS E&C Poland SP.ZO.O	NORDEA Bank Polska S.A.	Overdraft facility	2006-12-01	2007-11-30	PLN	50,000,000
	ING Bank Slaski S.A.	Overdraft facility	2006-12-01	2007-11-30	PLN	50,000,000

The Company has provided promissory notes and checks to various financial institutions as security in connection with construction performance and other related performance guarantees of its related parties including Seoul Highway Co., Ltd. and Uijeongbu LRT Inc.

As of December 31, 2006 and 2005, there are no guarantees and collateral provided to the Company by any subsidiaries or related parties.

In addition to the guarantees mentioned above, the Company has guaranteed the repayment of its employees' bank loans for the purpose of acquiring the Company's shares.

16. Capital stock

There is no change in capital stock of the Company during the years ended December 31, 2006 and 2005. Details of capital stock of the Company as of December 31, 2006 and 2005 are as follows:

Number of shares authorized	: 200,000,000 shares
Par value per share	: ₩ 5,000
Number of common shares issued	: 51,000,000 shares in 2006 and 2005

17. Capital surplus

Details of capital surplus of the Company as of December 31, 2006 and 2005 are as follows (Korean won in millions):

		2006		2005
Paid-in capital in excess of par value	₩	109,734	₩	109,734
Asset revaluation surplus		75,192		75,192
Others		22,909		18,865
Total		207,835		203,791

Paid-in capital in excess of par value

Paid-in capital in excess of par value may not be utilized for cash dividend, but may used to offset a future deficit, if any, or may be transferred to capital stock.

Asset revaluation surplus

In accordance with the Korean Assets Revaluation Act, the Company revalued certain of its property and equipment as of July 1, 1998, resulting in a gain on revaluation of ₩34,287 million and ₩33,833 million being transferred to revaluation surplus, net of revaluation tax. The total balance of revaluation surplus amounting ₩75,192 million as of December 31, 2006 and 2005 includes revaluation surplus carried forward from revaluation carried out prior to 1998. The asset revaluation surplus may not be available for cash dividends but may be used to offset a future deficit, if any, or may be transferred to capital stock.

18. Retained earnings

Retained earnings of the Company as of December 31, 2006 and 2005 are as follows (Korean won in millions):

		2006		2005
Appropriated:				
Legal reserve	₩	42,839	₩	35,339
Financial structure improvement reserve		132,849		106,335
Business rationalization reserve		224,653		164,653
Research and human resources development reserve		156,936		113,704
Other reserves		227,967		169,967
Unappropriated		388,423		266,562
	₩	1,173,667	₩	856,560

Legal reserve

In accordance with the Korean Commercial Code, an amount equal to at least 10% of cash dividends is required to be appropriated as a legal reserve until the reserve equals 50% of paid-in capital. The legal reserve may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital.

Financial structure improvement reserve

The Korean Financial Control Regulation for listed companies requires that an amount equal to at least 10% of net income, plus a 50% of net gain, if any, on extraordinary disposal of property, plant and equipment (after related income taxes), be appropriated as reserve for improvement of financial position until the ratio of stockholders' equity to total assets equals 30%.

Business rationalization reserve

Prior to December 2004, in accordance with the Korean Tax Incentives Limitation Law ("TILL"), the amounts of tax credits or exemptions taken under this law were appropriated as a reserve for business rationalization. Such reserve could not be utilized for cash dividends but could be used to offset an accumulated deficit, if any, or be transferred to paid-in capital. Effective from December 2004, such reserve is no longer required by the revised TILL.

Research and human resources development reserve

Pursuant to the TILL, the reserve for research and human development reserve are provided in order to obtain tax benefits with respect to the year for which the appropriations are proposed. These reserves may be utilized for cash dividends after the expiration of specified grace period.

19. Capital adjustments

Details of capital adjustments of the Company as of December 31, 2006 and 2005 are as follows (Korean won in millions):

		2006		2005
Treasury stock	₩	(10,728)	₩	(11,089)
Gain on valuation of long-term investment securities		69		513
Capital adjustment arising from equity method investments		125,267		129,439
Gain on valuation of derivative instruments		9,112		15,903
Stock-based compensation		16,624		-
Foreign currency translation adjustments		7,621		721
	₩	147,965	₩	135,487

Treasury stock

To stabilize the Company's share price in the KRX, the Company acquired 979,864 shares of its issued common stock carried at ₩10,728 million by treasury stock fund and specified money trust, and recorded the treasury stock as a capital adjustment in the stockholders' equity as of December 31, 2006.

20. Construction contracts

Details of cumulative construction revenue, cost and profit of constructions in-progress as of December 31, 2006 are as follows (Korean won in millions):

Activity	Work type	Cumulative construction revenue	Cumulative construction cost	Cumulative construction profit
Construction operations	Architectural operations	₩ 5,493,413	₩ 4,772,889	₩ 720,524
	Civil operations	2,554,433	2,199,617	354,816
	Housing operations	3,917,097	3,451,517	465,580
	Plants operations	4,129,380	3,890,575	238,805
	Environment operations	855,220	718,298	136,922
Housing construction and sales operations		123,570	93,032	30,538
		₩ 17,073,113	₩ 15,125,928	₩ 1,947,185

Construction losses arising from construction in-progress that are likely to be incurred at the completion of construction as of December 31, 2006 amounting to ₩12,502 million were recorded as provision for construction losses.

Changes in balances of major construction backlog for the years ended December 31, 2006 and 2005 are as follows (Korean won in millions):

<2006>

Project name	Jan. 1, 2006	New contract	Realized revenue	Dec. 31, 2006
LG Philips LCD P7 Project	₩ 124,741	₩ 67,676	₩ 188,316	₩ 4,101
LCD P7 Environment Equipment Construction	93,721	(3,823)	68,195	21,703
Seoul Outer Circular Highway 4th stage	150,080	16,991	70,546	96,525
Dangjin-Daejeon Highway 4th Stage	83,598	797	29,429	54,966
Mokpo National Road (Koha-Jukyo)	95,509	2,977	8,849	89,637
Jamsil 4th Reconstruction	87,528	26,956	98,970	15,514
Metro Xi	77,539	-	77,539	-
SP 9-10 Project (*)	409,257	46,520	283,846	171,931
QP LAB Project (*)	25,193	322	21,777	3,738
Others	6,561,674	8,027,073	4,736,215	9,852,532
Total	₩ 7,708,840	₩ 8,185,489	₩ 5,583,682	₩ 10,310,647

<2005>

Project name	Jan. 1, 2005	New contract	Realized revenue	Dec. 31, 2005
LG Philips LCD P7 Project	₩ 658,902	₩ 389,800	₩ 923,962	₩ 124,740
LCD P7 Environment Equipment Construction	229,089	52,450	187,817	93,722
Seoul Outer Circular Highway 4th stage	208,444	11,592	69,957	150,079
Dangjin-Daejeon Highway 4th Stage	113,957	(494)	29,865	83,598
Mokpo National Road (Koha-Jukyo)	89,336	6,574	401	95,509
Jamsil 4th Reconstruction	153,769	-	66,241	87,528
Metro Xi	151,462	-	73,923	77,539
SP 9-10 Project (*)	570,358	(16,295)	144,805	409,258
QP LAB Project (*)	195,475	(3,208)	167,074	25,193
Others	5,761,628	4,678,383	3,878,337	6,561,674
Total	₩ 8,132,420	₩ 5,118,802	₩ 5,542,382	₩ 7,708,840

(*) Changes in value of contract are due to adjustments arising from changes foreign currency exchange rates.

Balances of receivables from major construction contracts for the years ended December 31, 2006 are as follows (Korean won in millions):

<2006>

Project name	Cumulative revenue realized	Cumulative billed amount	Cumulative collection amount	Accounts and notes receivable			Other advance receipts
				Billed	Non-billed	total	
LG Philips LCD P7 Project	₩ 1,411,175	₩ 1,415,276	₩ 1,312,206	₩ 98,969	₩ -	₩ 98,969	₩ -
LCD P7 Environment Equipment construction	287,074	308,777	299,486	-	-	-	12,412
Seoul Outer Circular Highway 4th Stage	289,515	355,065	351,997	-	-	-	62,482
Dangjin-Daejeon Highway 4th Stage	103,906	101,042	100,567	475	2,864	3,339	-
P-8 project	553,102	529,800	368,199	161,601	23,302	184,903	-
Jamsil 4th Reconstruction	206,792	214,426	177,874	28,918	-	28,918	-
Metro Xi	176,749	176,749	156,206	20,543	-	20,543	-
SP 9-10 Project	487,840	398,525	395,848	2,677	89,315	91,992	-
QP LAB Project	237,396	240,982	240,982	-	-	-	3,586

<2005>

Project name	Cumulative revenue realized	Cumulative billed amount	Cumulative collection amount	Accounts and notes receivable			Other advance receipts
				Billed	Non-billed	total	
LG Philips LCD P7 Project	₩ 1,222,859	₩ 1,301,030	₩ 1,265,049	₩ -	₩ -	₩ -	₩ 42,190
LCD P7 Environment Equipment construction	218,879	262,956	252,792	-	-	-	33,913
Seoul Outer Circular Highway 4th Stage	218,969	269,540	262,795	-	-	-	43,826
Dangjin-Daejeon Highway 4th Stage	74,477	68,612	67,987	624	5,865	6,489	-
Mokpo National Road (Koha-Jukyo)	9,824	1,336	1,336	-	8,488	8,488	-
Jamsil 4th Reconstruction	107,822	131,103	131,103	-	-	-	23,281
Metro Xi	99,210	66,260	66,260	-	32,950	32,950	-
SP 9-10 Project	203,994	167,294	167,294	-	36,699	36,699	-
QP LAB Project	215,619	186,097	136,374	49,723	29,522	79,245	-

Total billed amount of construction contracts for the years ended December 31, 2006 and 2005 is ₩6,116,950 million and ₩6,056,668 million, respectively, and the total collected amount of construction contracts for the years ended December 31, 2006 and 2005 is ₩5,758,406 million and ₩5,696,580 million, respectively.

Details of jointly-managed construction contracts as of December 31, 2006 and 2005 are as follows (Korean won in millions):

<2006>

Project name	Period of construction	Customer	Share of contract size (amount)	Share of contract size (%)	Remarks
Seoul Outer Circular Highway 4th Stage	2001. 06. 30 ~ 2008. 06. 29	Seoul Highway Co., Ltd.	₩ 386,040	24.00%	(*)
The South-east Seoul Distribution Center	2006. 09. 01 ~ 2008. 12. 31	SH Corporation	258,647	56.00%	(*)
Jamsil 4th Reconstruction	2003. 10. 01 ~ 2007. 02. 28	Jamsil 4th Apt. Reconstruction Association	222,306	50.00%	(*)
The City Seven Xi	2005. 05. 01 ~ 2008. 12. 31	Dosisaram Co., Ltd.	199,472	50.00%	(*)
Jamsil 3rd Reconstruction	2004. 05. 01 ~ 2007. 08. 30	Jamsil 3rd APT. Reconstruction Association	172,512	33.33%	(^)
Dangjin-Daejeon Highway 4th Stage	2001. 12. 24 ~ 2009. 02. 05	Korea Highway Corporation	158,872	90.00%	(*)
Dangjin-Daejeon Highway 7th Stage	2001. 12. 24 ~ 2009. 02. 05	Korea Highway Corporation	140,389	90.00%	(*)
Dangjin-Daejeon Highway 5th Stage	2001. 12. 24 ~ 2009. 02. 05	Korea Highway Corporation	139,455	90.00%	(*)
Buhang Multipurpose Dam	2006. 11. 10 ~ 2011. 08. 15	Korea Water Resources Corporation	134,164	60.00%	(*)
Hyunpung-Kimcheon Construction 1st Stage	2001. 12. 28 ~ 2007. 12. 27	Korea Highway Corporation	125,318	90.00%	(*)
Dangjin-Daejeon Highway 6th Stage	2001. 12. 24 ~ 2009. 02. 05	Korea Highway Corporation	111,696	90.00%	(*)
Shinwolsung Atomic Power Plant main Facility No.1 and 2	2003. 07. 01 ~ 2010. 09. 30	Korea Hydro & Nuclear Power Co., Ltd.	110,558	13.50%	(@)
Incheon Grand Bridge	2005. 06. 16 ~ 2009. 10. 10	KODA Development Co., Ltd	109,545	10.00%	(#)
Mokpo National Road	2004. 11. 01 ~ 2008. 11. 01	Iksan Regional Road Construction Management Office	108,310	42.00%	(*)
Hyunpung-Kimcheon Construction 6th Stage	2001. 12. 28 ~ 2007. 12. 27	Korea Highway Corporation	107,389	90.00%	(*)
Incheon Production Base 2th Expansion	2004. 07. 27 ~ 2009. 06. 30	Korea Gas Corporation	106,180	40.00%	(*)
Busan~Ulsan electric railway	2005. 12. 26 ~ 2010. 09. 30	Korea Rail Network Authority	105,840	40.00%	(^)
Shinguro Xi	2004. 03. 16 ~ 2007. 07. 31	ARD Holdings Co., Ltd.	103,441	70.00%	(*)

<2005>

Project name	Period of construction	Customer	Share of contract size (amount)	Share of contract size (%)	Remarks
Seoul Outer Circular Highway 4th Stage	2001. 06. 30 ~ 2008. 06. 29	Seoul Highway Co., Ltd.	₩ 369,049	24.00%	(*)
Jamsil 4th Reconstruction	2003. 10. 01 ~ 2007. 02. 28	Jamsil 4th Apt. Reconstruction Association	195,350	50.00%	(*)
The City Seven Xi	2005. 05. 01 ~ 2008. 12. 31	Dosisaram Co., Ltd.	193,229	50.00%	(*)
Jamsil 3rd Reconstruction	2004. 05. 01 ~ 2007. 08. 30	Jamsil 3rd APT. Reconstruction Association	160,015	33.33%	(^)
Dangjin-Daejeon Highway 4th Stage	2001. 12. 24 ~ 2006. 02. 05	Korea Highway Corporation	158,075	90.00%	(*)
Dangjin-Daejeon Highway 7th Stage	2001. 12. 24 ~ 2006. 02. 05	Korea Highway Corporation	141,283	90.00%	(*)
Dangjin-Daejeon Highway 5th Stage	2001. 12. 24 ~ 2006. 02. 05	Korea Highway Corporation	139,264	90.00%	(*)
Hyunpung-Kimcheon Construction 1st Stage	2001. 12. 28 ~ 2006. 02. 09	Korea Highway Corporation	116,176	90.00%	(*)
Dangjin-Daejeon Highway 6th Stage	2001. 12. 24 ~ 2006. 02. 05	Korea Highway Corporation	110,219	90.00%	(*)
Incheon Grand Bridge	2005. 06. 16 ~ 2009. 10. 10	KODA Development Co., Ltd	109,545	10.00%	(#)
Shinwolsung Atomic Power Plant main Facility No.1 and 2	2003. 07. 01 ~ 2010. 09. 30	Korea Hydro & Nuclear Power Co., Ltd.	107,622	13.50%	(@)
Busan~Ulsan electric railway	2005. 12. 26 ~ 2010. 09. 30	Korea Rail Network Authority	105,840	40.00%	(^)
Hyunpung-Kimcheon Construction 6th Stage	2001. 12. 28 ~ 2006. 02. 09	Korea Highway Corporation	105,592	90.00%	(*)
Mokpo National Road	2004. 11. 01 ~ 2008. 11. 01	Iksan Regional Road Construction Management Office	105,333	42.00%	(*)
Incheon Production Base 2th Expansion	2004. 07. 27 ~ 2009. 06. 30	Korea Gas Corporation	104,444	40.00%	(*)
Shinguro Xi	2004. 03. 16 ~ 2007. 07. 31	ARD Holdings Co., Ltd.	102,545	70.00%	(*)

The legends represent the following representative companies;
(*) GS Engineering & Construction Co., Ltd.
(#) Samsung Corporation
(@) Daewoo Engineering & Construction Co., Ltd.
(^) Hyundai Engineering & Construction Co., Ltd.

Details of housing construction and sales contracts as of December 31, 2006 and 2005 are as follows (Korean won in millions):

<2006>

Project name	Contract amount	Cumulative revenue realized	Cumulative collection amount	Trade receivables	Advance receipts
Heights Xi	₩ 278,082	₩ 123,570	₩ 144,642	₩ 41	₩ 21,113

<2006>

Project name	Contract amount	Cumulative revenue realized	Cumulative collection amount	Trade receivables	Advance receipts
Heights Xi	₩ 278,082	₩ 41,980	₩ 86,194	₩ 247	₩ 44,461

The accounts receivable arising from construction contracts include certain amounts billed to project owners where payments are retained until all the conditions specified under the contracts are met construction related issues during course of construction, if any, are resolved. Retention sums on construction contracts as of December 31, 2006 and 2005 amounted to ₩36,267 million and ₩44,167 million, respectively.

21. Income taxes

The Company is subject to corporate income taxes, including resident surtax, at the aggregate rates of 14.3% on taxable income up to ₩100 million and 27.5% on taxable income in excess of ₩100 million.

The major components of provision for income taxes for the years ended December 31, 2006 and 2005 are as follows (Korean won in millions):

	2006	2005
Current income taxes (*)	₩ 161,797	₩ 113,049
Deferred income taxes arising from tax effect of temporary differences	(1,766)	37,834
Deferred income taxes recognized directly to equity	(4,474)	(49,352)
Provision for income taxes	₩ 155,557	₩ 101,531

(*) Current income taxes include additional payment of income taxes.

Reconciliations of income before income taxes for financial reporting purposes and taxable income for corporate income tax reporting purposes are summarized as follows (Korean won in millions):

		2006		2005
Income before income taxes per statements of income	₩	542,510	₩	366,669
Non-temporary differences:				
Entertainment expenses in excess of tax limit		7,700		6,943
Others		26,313		14,433
		34,013		21,376
Temporary differences:				
Appropriated retained earnings for technological development		5,162		16,768
Provision for construction warranty		41,307		(2,340)
Provision for construction losses		11,506		(1,275)
Equity loss on equity method investments		3,165		3,658
Executive incentives		7,850		3,950
Gain on valuation of derivative instruments		3,292		17,515
Impairment loss on property, plant and equipment		4,309		-
Severance and retirement benefits		5,306		-
Accrued income		(936)		(1,408)
Allowance for doubtful accounts		(1,318)		10,616
Deposits for severance indemnities and retirement		(5,306)		-
Gain on disposal of property, plant and equipment (land)		-		(9,994)
Interest on capitalized construction period		(756)		(967)
Equity gain on equity method investments		(28,523)		(4,574)
Impairment loss on long-term investment securities		(532)		(13,812)
Loss on valuation of derivative instruments		(26,102)		18,275
Reversal of loss on valuation of inventories		-		(110)
Others		(904)		(4,920)
		17,520		31,382
Taxable income for corporate income tax reporting purposes	₩	51,533	₩	52,758

Deferred income taxes reflect the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax reporting purposes. Significant changes in cumulative temporary differences and deferred income tax assets and liabilities for the years ended December 31, 2006 and 2005 are as follows (Korean won in millions):

<2006>

	As of Jan. 1, 2006	Changes in 2005 tax filing	Net increase (decrease)	As of Dec. 31, 2006
Deductible temporary Differences:				
Allowance for doubtful accounts	₩ 64,584	₩ 714	₩ (1,318)	₩ 63,980
Available-for-sale securities	21,546	-	(1,222)	20,324
Land	183	-	-	183
Buildings	11,880	(360)	3,949	15,469
Executive incentives	8,950	-	7,850	16,800
Provision for construction warranty	28,854	-	41,307	70,161
Provision for construction losses	995	-	11,506	12,501
Severance and retirement benefits	81,584	-	5,306	86,890
Government grants	-	23	52	75
Others	1,247	-	-	1,247
	219,823	377	67,430	287,630
Taxable temporary differences:				
Inventories	37,952	39	756	38,747
Accrued income	5,063	-	936	5,999
Accumulated depreciation	1,274	-	-	1,274
Equity method investments	25,376	-	19,604	44,980
Deposits for severance indemnities and retirement benefits	81,584	-	5,306	86,890
Appropriated retained earnings for technological development	26,936	-	(5,162)	21,774
Treasury stock fund	-	-	4,191	4,191
Appropriated retained earnings for loss on sale of treasury stock	2,467	-	-	2,467
Derivative instruments	(19,310)	-	35,379	16,069
	161,342	39	61,010	222,391
Deferred income taxes recognized:				
Deferred income tax assets	₩ 60,451			₩ 79,098
Deferred income tax liabilities	₩ (44,369)			₩ (61,158)

<2005>

	As of Jan. 1, 2005	Changes in 2004 tax filing	Net increase (decrease)	As of Dec. 31, 2005
Deductible temporary Differences:				
Buildings	₩ 12,600	₩ (360)	₩ (360)	₩ 11,880
Provision for construction losses	2,270	-	(1,275)	995
Allowance for doubtful accounts	53,968	-	10,616	64,584
Available-for-sale securities	34,826	-	(13,280)	21,546
Executive incentives	5,000	-	3,950	8,950
Equity method investments	154,161	(85)	(179,452)	(25,376)
Land	183	-	-	183
Provision for construction warranty	31,194	-	(2,340)	28,854
Severance and retirement benefits	68,973	-	12,611	81,584
Others	1,339	-	(92)	1,247
	364,514	(445)	(169,622)	194,447
Taxable temporary differences:				
Inventories	36,876	-	1,076	37,952
Accrued income	3,655	-	1,408	5,063
Accumulated depreciation	1,298	(24)	-	1,274
Deposits for severance indemnities and retirement benefits	68,973	-	12,611	81,584
Appropriated retained earnings for technological development	38,704	-	(11,768)	26,936
Appropriated retained earnings for loss on sale of treasury stock	2,467	-	-	2,467
Derivative instruments	16,481	-	(35,791)	(19,310)
	168,454	(24)	(32,464)	135,966
Deferred income taxes recognized:				
Deferred income tax assets	₩ 100,241			₩ 53,473
Deferred income tax liabilities	₩ (46,324)			₩ (37,391)

The Company did not recognize deferred income tax effect for temporary differences of ₩28,528 million arising from land revaluation surplus as the Company has no firm commitment to dispose of the land.

The Company recognized fully the deferred income tax assets for all the deductible temporary differences as the aggregate amount of the total of taxable temporary differences and the expected future taxable income before reflecting tax adjustment items exceed the total of all the deductible temporary differences .

Details of gross deferred income tax assets and liabilities as of December 31, 2006 and 2005 are as follows (Korean won in millions):

<2006>

	Temporary differences	Reversal of temporary differences		Deferred income taxes	
	2006	2007	2008 and thereafter	Current	Non-current
Deductible temporary differences:					
Allowance for doubtful accounts	₩ 63,980	₩ 50,655	₩ 13,325	₩ 13,930	₩ 3,664
Available-for-sale securities	20,324	-	20,324	-	5,589
Land	183	-	183	-	50
Buildings	15,469	-	15,469	-	4,254
Executive incentives	16,800	16,800	-	4,620	-
Provision for construction warranty	70,161	-	70,161	-	19,294
Provision for construction losses	12,501	-	12,501	-	3,438
Severance and retirement benefits	86,890	-	86,890	-	23,895
Government grants	75	75	-	21	-
Others	1,247	-	1,247	-	343
Deferred income tax assets	287,630	67,530	220,100	18,571	60,527
Taxable temporary differences:					
Inventories	38,747	38,747	-	10,656	-
Accrued income	5,999	5,999	-	1,650	-
Accumulated depreciation	1,274	-	1,274	-	350
Equity method investments	44,980	-	44,980	-	12,370
Deposits for severance indemnities and retirement benefits	86,890	-	86,890	-	23,895
Appropriated retained earnings for technological development	21,774	-	21,774	-	5,988
Treasury stock fund	4,191	-	4,191	-	1,152
Appropriated retained earnings for loss on sale of treasury stock	2,467	-	2,467	-	678
Derivative instruments	16,069	3,501	12,568	963	3,456
Deferred income tax liabilities	₩ 222,391	₩ 48,247	₩ 174,144	₩ 13,269	₩ 47,889
Applicable tax rate		27.5%	27.5%		

<2005>

	Temporary differences	Reversal of temporary differences		Deferred income taxes	
	2005	2006	2007 and thereafter	Current	Non-current
Deductible temporary differences:					
Allowance for doubtful accounts	₩ 64,584	₩ 59,771	₩ 4,813	₩ 16,437	₩ 1,323
Available-for-sale securities	21,546	-	21,546	-	5,925
Land	183	-	183	-	50
Buildings	11,880	-	11,880	-	3,267
Executive incentives	8,950	8,950	-	2,461	-
Provision for construction warranty	28,854	-	28,854	-	7,935
Provision for construction losses	995	-	995	-	274
Severance and retirement benefits	81,584	-	81,584	-	22,436
Derivative instruments	26,777	26,777	-	7,364	-
Equity method investments	153,487	-	153,487	-	42,209
Others	1,247	-	1,247	-	343
Deferred income tax assets	400,087	95,498	304,589	26,262	83,762
Taxable temporary differences:					
Inventories	37,952	37,952	-	10,437	-
Accrued income	5,062	5,062	-	1,392	-
Accumulated depreciation	1,274	-	1,274	-	350
Equity method investments	178,864	-	178,864	-	49,188
Deposits for severance indemnities and retirement benefits	81,584	-	81,584	-	22,436
Appropriated retained earnings for technological development	26,936	-	26,936	-	7,407
Appropriated retained earnings for loss on sale of treasury stock	2,467	-	2,467	-	678
Derivative instruments	7,468	7,468	-	2,054	-
Deferred income tax liabilities	₩ 341,607	₩ 50,482	₩ 291,125	₩ 13,883	₩ 80,059
Applicable tax rate		27.5%	27.5%		

The Company's income taxes payable amounted to ₩110,755 million and ₩81,305 million as of December 31, 2006 and 2005, respectively. Deferred income tax assets and liabilities are calculated based on the expected income tax rate of 27.5%, the tax rate that will be in effect when the temporary differences are expected to reverse.

Details of deferred income tax which are charged or credited directly to equity as of December 31, 2006 are as follows (Korean won in millions):

	Pretax amount	Tax effect
Gain on sale of treasury stock	₩ 9,360	₩ 2,574
Loss on valuation of equity method investments recognized in equity, net	(5,755)	(1,582)
Gain on valuation of available-for-sales securities recognized in equity	95	26
Gain on valuation of derivative instruments	12,569	3,456

The effective income tax rates for the years ended December 31, 2006 and 2005 are as follows (Korean won in millions):

	2006	2005
Provision for income taxes	₩ 155,557	₩ 101,531
Income before income taxes	542,510	366,669
Effective income tax rate	28.7%	27.7%

Details of deferred income tax which are charged or credited directly to extraordinary gains and losses as of December 31, 2006 is as follows (Korean won in millions):

		2006		2005
Provision for income taxes before tax effect of extraordinary items	₩	155,886	₩	101,531
Tax effect of extraordinary gains an losses		(329)		-

22. Per share amounts

The Company's per share amounts for the years ended December 31, 2006 and 2005 are computed as follows:

Basic earnings per share		2006		2005
Net income	₩	386,953,458,149	₩	265,137,666,049
Extraordinary gains		(126,551,666)		-
Extraordinary losses		1,321,758,431		-
Income tax effect of for the extraordinary gains and losses		(328,681,860)		-
Ordinary income attributable to common stock		387,819,983,054		265,137,666,049
Weighted-average number of shares of common stock outstanding (*)		49,990,703 shares		49,868,998 shares
Ordinary income per share	₩	7,758	₩	5,317
Net income per share	₩	7,741	₩	5,317

(*) Weighted-average number of shares of common stock outstanding

<2006>

	Number of shares outstanding	Days	Accumulated number of shares outstanding
Number of issued shares	51,000,000	365	18,615,000,000
Purchased shares of treasury stock	(193,921)	365	(70,781,165)
Shares on treasury stock fund	(915,910)	365	(334,307,150)
Shares granted to executives from performance incentive	50,681	286	14,494,766
Shares granted to executives from performance incentive	79,286	280	22,200,080
			18,246,606,531
			÷365
Weighted-average number of shares outstanding			49,990,703

<2005>

	Number of shares outstanding	Days	Accumulated number of shares outstanding
Number of issued shares	51,000,000	365	18,615,000,000
Purchased shares of treasury stock	(261,704)	365	(95,521,960)
Shares on treasury stock fund	(915,910)	365	(334,307,150)
Shares granted to executives from performance incentive	67,783	251	17,013,533
			18,202,184,423
			÷365
Weighted-average number of shares outstanding			49,868,998

Diluted earnings per share

As disclosed in Note 28, additional 728,042 shares of common stock would be issued if all the vesting conditions of the Company's Long-term Performance Incentive Plan are fulfilled and the weighted-average number of common shares outstanding for the year would increase to 50,718,745 shares. As diluted earnings per share amounts are calculated by dividing the net profit attributable to common stockholders of the parent (after deducting stock-based compensation expense after tax) by the weighted-average number of common shares, and the additional shares to be issued have an anti-dilutive effect. As such, diluted earnings per share amounts are not applicable to the Company.

23. Dividends

The 2005 dividends were approved at the ordinary stockholders' meeting held on March 17, 2006 and the 2006 dividend will be approved at the annual common stockholders' meeting to be held on March 16, 2007.

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

		2006		2005
Dividend per share (A)	₩	1,550(31%)	₩	1,400(28%)
Number of shares (B)		50,020,136 shares		49,890,169 shares
Dividends (A x B)	₩	77,531,210,800	₩	69,846,236,600

The dividend payout ratio for the years ended December 31, 2006 and 2005 are as follows:

		2006		2005
Dividends (A)	₩	77,531,210,800	₩	69,846,236,600
Net income (B)		386,953,458,149		265,137,666,049
Dividend payout ratio (A/B)		20.04%		26.34%

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

		2006		2005
Dividend per share (A)	₩	1,550	₩	1,400
Market value per share at balance sheet date (B)		83,100		53,000
Dividend yield ratio (A/B)		1.87%		2.64%

24. Supplementary cash flow information

Significant transactions not involving cash flows for the years ended December 31, 2006 and 2005 are as follows (Korean won in millions):

		2006		2005
Transfer of held-to-maturity securities to current portion	₩	3,302	₩	32,921
Payments in offset against receivables from construction contracts		16,972		-
Transfer of long-term borrowings to current portion		49,666		-
Transfer of construction in-progress to property, plant and equipment		49,182		47,504
Transfer of available-for-sale securities to account receivable		-		56,250
Transfer of inventories to property, plant and equipment		-		7,956

25. Insurance

As of December 31, 2006, the Company has taken up fire and other casualty losses insurance and other policies with LIG Fire Insurance Co., Ltd. on its inventories and property, plant and equipment for a total coverage of ₩628,281 million.

26. Commitments and contingencies

As of December 31, 2006, Seoul Guarantee Insurance Company, Korea Construction Financial Corporation, a government agency and other third parties have provided guarantees amounting to approximately ₩2,803,832 million on behalf of the Company, for the construction performance, housing construction and sales performance and construction warranty. Also, as of December 31, 2006, the Company has provided guarantees, jointly and severally with Korea Housing Guarantee Co., Ltd. and other parties, amounting to approximately ₩3,347,123 million on behalf of other construction companies, including ChungAng Construction Co., Ltd. As of December 31, 2006, other construction companies have provided guarantees, jointly and severally with Korea Housing Guarantee Co., Ltd. and other parties, in the amount of ₩577,931 million on behalf of the Company.

As a common practice in the Korean construction industry, construction companies exchange mutual guarantees for construction performance. Guarantees that the Company has provided to and provided by other parties amounted to ₩1,085,362 million and ₩5,725,777 million, respectively, as of December 31, 2006.

The Company has also provided guarantees amounting to ₩253,551 million in connection with export financing as of December 31, 2006.

The Export-Import Bank of Korea and other parties have guaranteed the performance of the Company's overseas construction projects. As of December 31, 2006, the outstanding guarantees amounted to ₩476,955 million.

As of December 31, 2006, the Company has pledged checks and notes to several banks and financial institutions as collateral for borrowings and construction performance guarantees.

As of December 31, 2006, the Company has provided guarantees amounting to ₩529,550 million on behalf of the Seoul Highway Co., Ltd. and other parties.

In relation to the housing loans for future tenants during the construction period, the Company has provided guarantees amounting to ₩7,056,205 million to several domestic financial institutions as of December 31, 2006.

The Company has been named as a defendant and a plaintiff in a number of legal claims in the normal course of business. As of December 31, 2006, the aggregate amount of these claims as a defendant and as a plaintiff amounted to ₩30,850 million and ₩24,954 million, respectively. In management's opinion, outcome of those claims will not have a material adverse impact on the Company's operations or financial position.

The Company provides loans to reconstruction associations for house reconstruction projects. The outstanding balance of long-term and short-term loans to those associations amounted to ₩158,659 million as of December 31, 2006.

As of December 31, 2006, the Company has also provided guarantees amounting to ₩620,613 million for house developers during the normal course of business.

27. Derivative financial instruments

The outstanding currency forward contracts as of December 31, 2006, are summarized as follows (Korean won in millions, foreign currencies in thousands):

Counterparty	Short position		Long position	
ABN AMRO Bank N.V.	USD	13,432	EUR	10,089
	USD	3,525	JPY	390,405
	USD	5,283	KRW	4,891
	EUR	823	USD	1,085
Australia and Newzeland Bank Group, Ltd.	USD	1,610	JPY	177,000
Barclays Bank PLC.	USD	50,066	EUR	39,479
	USD	1,049	GBP	587
	KRW	1,627	JPY	193,703
	USD	11,499	JPY	1,306,641
	JPY	1,858	KRW	15
	GBP	587	USD	1,077
BNP Paribas Bank	USD	4,557	KRW	4,230
Calyon Bank, Ltd.	KRW	12,486	EUR	10,083
	EUR	140	KRW	170
	USD	39,565	KRW	37,169
DBS Bank, Ltd.	USD	6,742	JPY	737,000
Deutche Bank A.G.	USD	5,778	JPY	643,350
	USD	14,388	KRW	13,412
The Hongkong & Shanghai Banking Corp., Ltd.	USD	4,228	EUR	3,225
	USD	2,281	JPY	257,236
	USD	94,227	KRW	87,810
	JPY	34,620	USD	294
ING Bank N.V.	KRW	11,425	EUR	9,525
	USD	6,738	JPY	750,170
SC First Bank Korea, Ltd.	USD	64,680	EUR	48,510
	USD	76,405	JPY	8,600,952
	USD	342,489	KRW	315,322
	EUR	775	USD	1,023
	JPY	267,150	USD	2,260
Societe Generale Bank	USD	9,514	KRW	8,883
Total	KRW	23,911	EUR	19,608
	USD	132,406	EUR	101,303
	USD	1,049	GBP	587
	KRW	1,627	JPY	193,703
	USD	114,578	JPY	12,862,754
	EUR	140	KRW	170
	JPY	1,858	KRW	15
	USD	510,023	KRW	471,717
	EUR	1,598	USD	2,108
	GBP	587	USD	1,077
	JPY	301,770	USD	2,554

The outstanding currency option contracts as of December 31, 2006, are as follows (foreign currencies in thousands):

Counterparty	Date of contract	Type	Contract amount		Maturity date	Exchange rate
Goldman Sachs	2006-12-18	Vanilla Call	JPY	4,781,700	2007-06-18	114.35
Goldman Sachs	2006-12-18	Variable Quantity	JPY	3,187,800	2007-06-18	114.35
Goldman Sachs	2006-12-18	Variable Quantity	JPY	542,264	2007-07-18	114.00
Goldman Sachs	2006-12-18	Variable Quantity	GBP	1,221	2007-07-18	1.9773
Barclays Bank PLC.	2006-12-18	Vanilla Call	EUR	41,700	2007-06-18	1.3270
Barclays Bank PLC.	2006-12-18	Vanilla Call	EUR	27,800	2007-06-18	1.3270
			EUR	69,500		
			JPY	8,511,764		
			GBP	1,221		

The outstanding foreign exchange risk insurance contracts with Korea Export Insurance Corporation as of December 31, 2006 are as follows (U.S. dollars in thousands, except for exchange rate):

Date of contract	Contract amount		Maturity date	Exchange rate
February, 2004	USD	21,250	July, 2007	1,189.46
April, 2005		34,536	August, 2008	1,003.05
October, 2005		747,759	June, 2008	1,040.30
	USD	803,545		

Details of valuation of derivative instruments as of December 31, 2006 and 2005 are as follows (Korean won in millions):

<2006>

Contracts	Fair value		Credited (charged) to net income		Capital adjustment	
Currency forwards	₩	1,184	₩	19	₩	1,165
Currency options		1,922		(505)		-
Foreign exchange risk insurance		15,391		3,987		11,404
	₩	18,497	₩	3,501	₩	12,569

<2005>

Contracts	Fair value		Credited (charged) to net income		Capital adjustment	
Currency forwards	₩	(7,943)	₩	(7,943)	₩	-
Currency options		(10,100)		(10,100)		-
Interest rate swaps		(168)		(168)		-
Foreign exchange risk insurance		17,225		1,322		15,903
	₩	(986)	₩	(16,889)	₩	15,903

28. Share-based compensation

The Company implemented a share-based compensation plan called the Long-term Performance Incentive Plan (“the LPI Plan”), an equity-settled share-based compensation plan, under which executives are entitled to receive shares on fulfillment of certain pre-defined performance conditions. Details of the LPI Plan are as follows:

The LPI plan

The Company introduced a Long-term Performance Incentive (“the LPI Plan”) to its executives, replacing the pre-existing short-term incentive plan to a balanced middle-term and long-term incentive plan, to compensate the executives by delivering the Company’s shares to the executives. Pursuant to the approval of the board of directors on September 26, 2006, the Company and the executives in service at that date reached an agreement to implement the LPI Plan. Under the agreement, the executives concerned must remain in service for a period of three years from January 1, 2006 and is subject to fulfillment of pre-defined performance conditions, so as to become fully entitled to the shares.

Details of the LPI Plan are as follows:

Grant date	: September 26, 2006
Standard number of shares (*)	: 728,042 shares
Range of number of shares to be granted(*)	: nil to 1,092,063 shares
Counterparty	: Sixty one executives
Vesting conditions	: (i) In service for a period of three years (ii) Performance conditions: - Cumulative amount of construction order; - Increase rate of amount of construction order in comparison with competitors; - Cumulative operating income; and - Indexed TSR (Total Stockholder's Return)
Method of settlement	: Shares

(*) The number of shares to be granted will depend on the extent of achievement of the pre-defined performance target level. No shares will vest unless the Company meets the minimum threshold level of more than 70% of the performance target. The standard number of shares as indicated will be granted if the Company meets 100% of the performance target and a maximum threshold level of more than 130% of the performance target is set. The number of shares that will vest will depend on the extent of achievement of the performance target from nil to 150% of the standard number of shares (see next table). The standard number of shares is determined by, among other factors, the standard share price by numerically averaging the yearly, half-yearly and one-month weighted-average share prices.

As of December 31, 2006, the Company estimated that it will fulfill 100% of the performance target, and expensed one-third of the estimated total compensation expense to the statement of income and recorded the corresponding amount in capital adjustment account within equity.

The details of number of shares to be granted and the percentage of shares to be granted in relation to the extent of achievement of performance targets are as follows:

Extent of attainment of performance targets			
More than		**Below**	**Number of shares to be granted**
130%			Standard number of shares + 50%
120%	~	130%	Standard number of shares + 20%
110%	~	120%	Standard number of shares + 10%
100%	~	110%	Standard number of shares
90%	~	100%	Standard number of shares - 10%
80%	~	90%	Standard number of shares - 20%
70%	~	80%	Standard number of shares - 50%
		70%	nil

The expense recognized in the statement of income for the share-based compensation plan for the year ended December 31, 2006 is as follows (Korean won in millions):

		2006
Accumulated compensation expense recognized from the prior years	₩	-
Compensation expense recognized for the year ended December 31, 2006		16,624
Estimated compensation expense to be recognized for the future years		33,247
Estimated total compensation expense		49,871

29. Employee welfare benefits and contributions to society

The Company lends housing-loans up to ₩40 million per employee subject to the individual employees' service periods as welfare benefits for the employees. The Company records those benefits as long-term loans and the amounts granted to employees as of December 31, 2006 and 2005 are ₩25 million and ₩40 million, respectively.

The contributions to society made by the Company for the years ended December 31, 2006 and 2005 amounted to ₩13,054 million and ₩4,108 million, respectively.

30. Environmental consideration

The Company is committed to strict observance of the law and maintenance of a cleaner environment. This is achieved by managing the environment team and programs at each site, which are dedicated to systematic and effective prohibition of air, water and soil pollution.

In an effort to eliminate various kinds of pollutants, the Company sets up certain goals to improve the environment. This includes continuously measuring and evaluating the effects of fuel usage by each process of its construction activities and the level of pollutant emission, noises and vibrations. For water management, discharge of contaminated water from the public area or from wheel washers are kept under control below the industry standard. Other wastes are sorted out by common wastes, recyclable, inflammable, etc. before being processed by outsourced service companies.

Expenditures relating to environmental matters during the years ended December 31, 2006 and 2005amounted to ₩6,411 million and ₩6,609 million, respectively.

31. Human resource development

Expenditures incurred for development of specialization in human resources during the years ended December 31, 2006 and 2005 amounted to ₩5,209 million and ₩4,470 million, respectively.

32. Segment information

The Company has six major reportable business segments - architectural work division, civil work division, housing work division, plant work division, environment work division and development work division - with each segment representing a strategic business unit that offers different services.

Division	Products or services	Major customers
Architectural work division	Building, factory and others	LG Philips LCD Co., Ltd.
Civil work division	Road, bridge and others	Korea Highway Corporation, Korea Land Corp.
Housing work division	Apartment, villa and others	Korea Real Estate Investment Trust Co., Ltd.
Plant work division	Energy plant, industrial facilities and others	Aromatics Oman LLC
Environment work division	Environment facility and others	LG Philips LCD Co., Ltd.
Development work division	Golf course and others	Unspecified
Others	Rental	Unspecified

The following table presents the financial information of the Company by business segments for the years ended December 31, 2006 and 2005 (Korean won in millions):

<2006>

Division	Sales	Operating income (loss)	Property, plant and equipment, and intangible assets	Depreciation and amortization
Architectural work division	₩ 1,584,504	₩ 164,298	₩ 218,821	₩ 4,466
Civil division	707,912	65,490	18,768	1,559
Housing division	1,694,492	116,398	187,244	2,618
Plant	1,455,193	59,015	46,522	3,421
Environment	255,268	17,808	6,377	353
Development work division	45,284	(19,882)	501,562	14,128
Others	2,512	243	62,501	4,721
	₩ 5,745,165	₩ 403,370	₩ 1,041,795	₩ 31,266

<2005>

Division	Sales	Operating income (loss)	Property, plant and equipment, and intangible assets	Depreciation and amortization
Architectural work division	₩ 2,186,435	₩ 213,015	₩ 194,443	₩ 4,327
Civil division	724,500	57,095	3,622	991
Housing division	1,339,460	24,844	50,311	1,516
Plant	1,029,065	39,227	31,528	2,722
Environment	309,831	26,561	188	268
Development work division	38,935	(24,829)	512,638	18,164
Others	2,587	(335)	116,805	3,138
	₩ 5,630,813	₩ 335,578	₩ 909,535	₩ 31,126

The following table presents the sales of the Company by geographical segments for the years ended December 31, 2006 and 2005 (Korean won in millions):

	2006	2005
Domestic sales	₩ 4,851,615	₩ 4,728,018
Central Asia	534,981	463,099
China	199,473	327,776
Others	159,096	111,920
	₩ 5,745,165	₩ 5,630,813

33. Added value information

The accounts and amounts which are required to be disclosed in connection with the calculation of the value added of the Company's operations for the years ended December 31, 2006 and 2005 are as follows (Korean won in millions):

	Construction costs		Selling and administrative expenses		Total	
	2006	2005	2006	2005	2006	2005
Labor costs	₩ 222,588	₩ 185,309	₩ 128,658	₩ 92,295	₩ 351,246	₩ 277,604
Severance and retirement benefits	22,473	28,395	10,100	12,727	32,573	41,122
Employee benefits	48,585	39,667	20,572	19,782	69,157	59,449
Rental expense	17,986	14,297	5,256	3,755	23,242	18,052
Depreciation	25,812	26,136	4,884	3,625	30,696	29,761
Amortization	81	258	489	1,108	570	1,366
Taxes and dues	46,479	33,760	8,776	7,550	55,255	41,310
	₩ 384,004	₩ 327,822	₩ 178,735	₩ 140,842	₩ 562,739	₩ 468,664

34. Operating results of the final interim period (unaudited)

Summary of operating results (unaudited) for the three months ended December 31, 2006 and 2005 are as follows (Korean won in millions except per share amounts):

	Three months ended December 31,			
	2006		2005	
Sales	₩	1,729,035	₩	1,397,741
Cost of sales		1,517,543		1,236,550
Gross profit		211,492		161,191
Operating income		84,682		73,165
Income before income taxes		100,068		102,316
Net income		66,419		78,202
Earnings per share:				
Ordinary income	₩	1,346	₩	1,567
Net income	₩	1,328	₩	1,567

35. Change of company name and assignment to GS group

The Company changed its name to GS Engineering & Construction Corporation from LG Engineering & Construction Corporation by virtue of a resolution of the common stockholders' meeting held on March 18, 2005. The Company then became an affiliate of the GS group of companies as of April 4, 2005, subject to the Limitation on Mutual Investment Rule set forth by the Fair Trade Commission.

Report on the Operations of the Internal Accounting Control System

To the Board of Directors and Internal Auditor (Audit Committee) of GS Engineering & Construction Corporation

I, as the Internal Accounting Control Officer ("ACO") of GS Engineering & Construction Corporation ("the Company"), 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 the IACO is responsible for the design and operations of its IACS. I, as the IACO, assessed whether the IACS has been effectively designed and has operated to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the financial statements, form the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external reporting purposes. I, as the IACO, applied the IACS standards 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 has operated as of December 31, 2006, in all material respects, in accordance with the IACS standard.

February 22, 2007

Kab-Ryul Kim
Chief Executive Officer

Myung-Soo Huh
Internal Accounting Control Officer

ERNST & YOUNG

ERNST & YOUNG HAN YOUNG
Yeoido Post Office Box 428 25-15, Yeoido-dong, Youngdeungpo-gu, Seoul 150-010 Korea

Internal Accounting Control System Review Report

Representative Director
GS Engineering & Construction Corporation

We have reviewed the accompanying management's report on the operations of the internal accounting control system ("IACS") of GS Engineering & Construction Corporation (the "Company") as of December 31, 2006. The Company's management is responsible for design and operations of its IACS, including the reporting of its operations. Our responsibility is to review the management's IACS report and issue a report based on our review. The management's report on the operations of the IACS report and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2006, the Company's IACS has been effectively designed and has operated as of December 31, 2006, in all material respects, in accordance with the IACS standards established by the IACS Operations Committee."

We conducted our review in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. These standards require that we plan and perform our review to obtain less assurance than an audit as to management's report on the operations of the IACS. A review includes the procedures of obtaining an understanding of the IACS, inquiring as to management's report on the operations of the IACS and performing a review of related documentation within limited scope, if necessary.

A company's IACS consists of an establishment of related policies and organization to ensure that it is designed to provide reasonable assurance on the reliability of financial reporting and the preparation of financial statements for external financial reporting purposes in accordance with accounting principles generally accepted in the Republic of Korea. However, because of its inherent limitations, the IACS may not prevent or detect material misstatements of the financial statements. Also, projections of any assessment of the IACS on future periods are subject to the risk that IACS may become inadequate due to the changes in conditions, or that the degree of compliance with the policies or procedures may be significantly reduced.

Based on our review of the management's report on the operation of the IACS, nothing has come to our attention that causes us to believe that the management's report referred to above is not presented fairly, in all material respects, in accordance with the IACS standards.

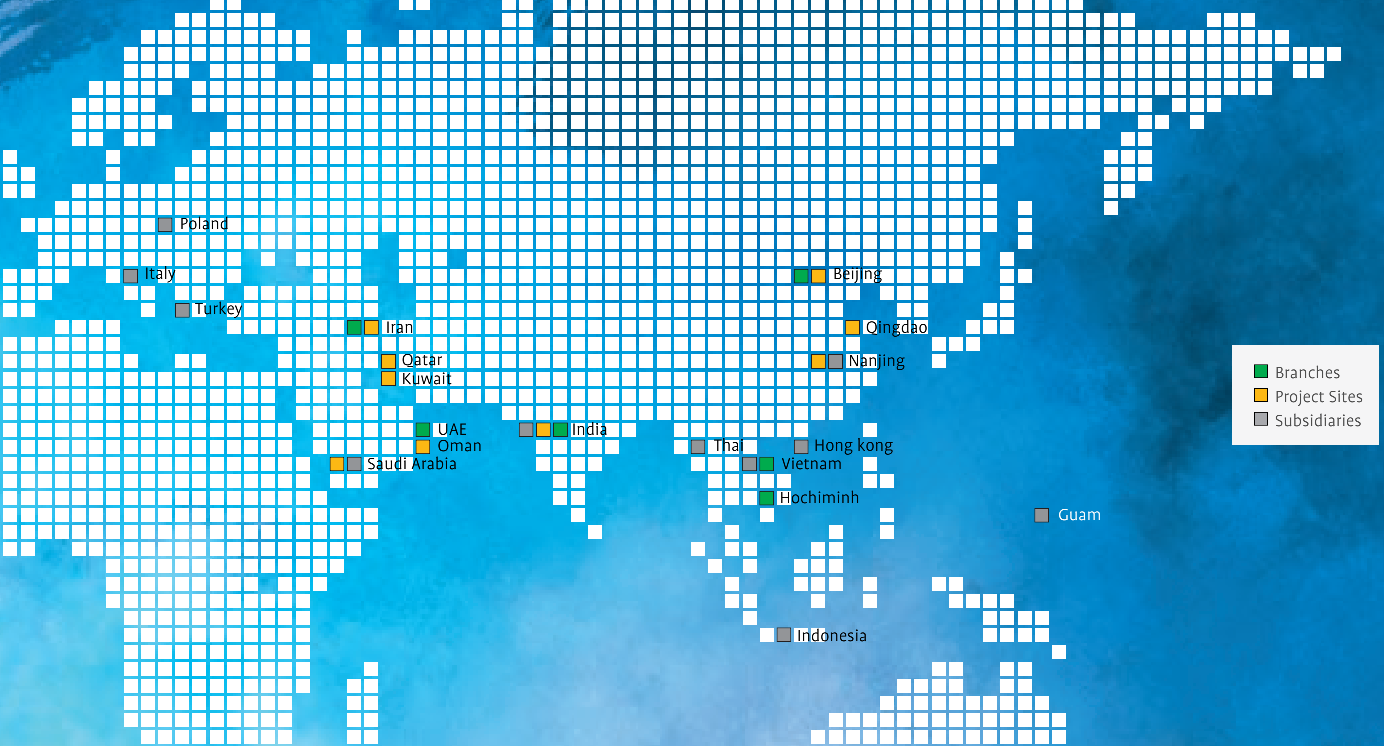
We conducted our review of the IACS in existence as of December 31, 2006, and we did not review the IACS subsequent to December 31, 2006, This report has been prepared for Korean regulatory purposes pursuant to the Act on External Audit for Joint-Stock Companies, and may not be appropriate for other purposes or for other users.

February 26, 2007

Ernst & Young Han Young

This report is annexed in relation to the audit of the 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.

Global Network



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Three-year Summary

Balance Sheet

| Unit: Billions of Won |

	2006	2005	2004
Current assets	3,019	2,423	1,775
Fixed assets	1,732	1,403	1,528
Total assets	4,751	3,826	3,303
Current liabilities	2,385	1,849	1,505
Long-term liabilities	582	526	501
Total liabilities	2,967	2,375	2,006
Paid-in capital	255	255	255
Capital surplus	208	204	201
Retained surplus	1,173	857	654
Capital adjustment	148	135	187
Shareholders' equity	1,784	1,451	1,297
Total liabilities & shareholders' equity	4,751	3,826	3,303

Income Statement

| Unit: Billions of Won |

	2006	2005	2004
Sales	5,745	5,631	4,049
Cost of sales	4,983	4,951	3,557
Gross profit	762	680	492
SG&A	359	344	263
Operating profit	403	336	229
Non-operating income	201	108	100
Non-operating expense	60	77	87
Ordinary income	544	367	242
Income tax expense	157	102	81
Net profit	387	265	156

Cash Flow

| Unit: Billions of Won |

	2006	2005	2004
Cash flows from operating activities	591	73	230
Cash flows from investing activities	-257	73	-179
Cash flows from financing activities	-159	-50	112
Net change in cash and cash equivalents	175	96	163
Cash and cash equivalents			
Beginning of the year	358	262	99
End of the year	533	358	262

Number of Employees

| Unit: Person |

	2006	2005	2004
At year end	4,147	3,778	3,458

Key data GS E&C 2006

Sales		Unit: Billions of Won	
Sales	5,745
Sales by segment	
Civil Engineering	714
Plant	1,455
Environment	257
Architecture	1,598
Housing	1,721

Earnings		Unit: Billions of Won	
Gross Profit	762
Operating Profit	403
Ordinary Profit	544
Net Profit	387

Key GS E&C share data	
Total number of shares[issued] (million)	51
Total market cap (billion of KRW)	4,238
Share price[high] (KRW)	89,700
[low] (KRW)	45,250

Per share information	
EPS (KRW)	7,741
Dividend per share(KRW)	1,550

GS Engineering & Construction

GS E&C IR Plan 2007

● Domestic ● Overseas ● Earning Release

2007 1Q			2007 2Q			2007 3Q			2007 4Q		
Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
		Annual Report		Site Tour							
Domestic Roadshow		Domestic Conference							Domestic		
	Analyst Meeting	Fund Manager Meeting					Analyst Meeting		Management Meeting		
		Overseas Roadshow (Asia)	Overseas Roadshow (Europe, USA)					Overseas Conference		Overseas Roadshow	
2006 Earning Release Business Plan for 2007			1Q Earning Release			1H Earning Release			3Q Earning Release		

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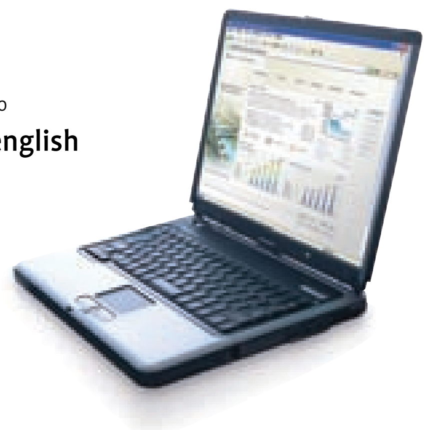

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