

Financial Statements

Non-Consolidated Financial Statements
December 31, 2006 and 2005

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Independent Auditor's Report

The Board of Directors and Stockholders GS Engineering & Construction Corporation

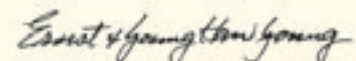
We have audited the accompanying non-consolidated balance sheets of GS Engineering & Construction Corporation (the "Company") as of December 31, 2006, and 2005, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended. These financial 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 present 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



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

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

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

Years ended December 31, 2006 and 2005

I Korean won in millions I

	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

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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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 equipment	4 - 6
Vehicles	4 - 12
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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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	₩	437	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

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December 31, 2006 and 2005

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	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			2005		
	Acquisition cost	Recoverable value	Book value	Acquisition cost	Recoverable value	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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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.

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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

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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

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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

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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
GS Caltex Co., Ltd.	Affiliate	Membership guarantee deposits received	600	-
		Trade accounts and notes receivable	48,490	50,494
Seoul Highway Co., Ltd.	Affiliate	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
		Trade accounts and notes receivable	3,796	-
		Trade accounts and notes payable	168	-
		Membership guarantee deposits received	94	-

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	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 be 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

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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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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

<2005>

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.

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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)

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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<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%			

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<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 and 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.

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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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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.	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
Deutsche 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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

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 2005 amounted 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

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December 31, 2006 and 2005

<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

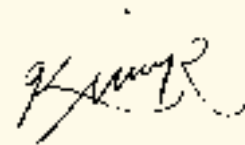
I, as the Internal Accounting Control Officer (“ACO”) of GS Engineering & Construction Corporation (“the Company”), assessed the status of the design and operations of the Company’s internal accounting control system (IACS) for the year ended December 31, 2006.

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.

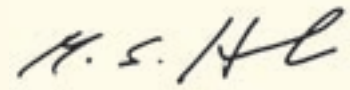
Based on the assessment of the operations of the IACS, the Company’s IACS has been effectively designed and has operated as of December 31, 2006, in all material respects, in accordance with the IACS standard.

February 22, 2007

Kab-Ryul Kim
Chief Executive Officer



Myung-Soo Huh
Internal Accounting Control Officer



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."

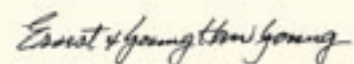
We conducted our review in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. These standards require that we plan and perform our review to obtain less assurance than an audit as to management's report on the operations of the IACS. A review 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



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.