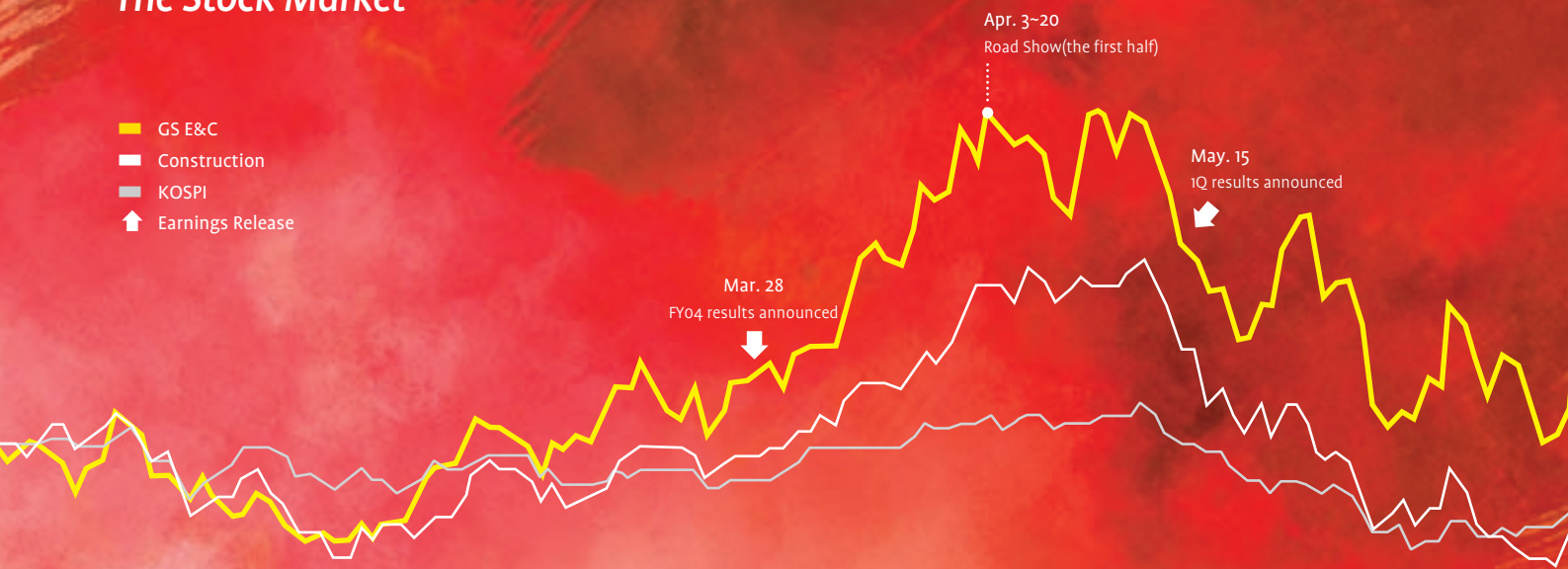


The Stock Market

- GS E&C
- Construction
- KOSPI
- ▲ Earnings Release



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

The Stock Market

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

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

An important difference in 2006 over past years was the high stability of the market despite its lackluster performance. This

constancy can be verified in the way that the market responded to changes in economic activity as well as to differences in supply and demand.

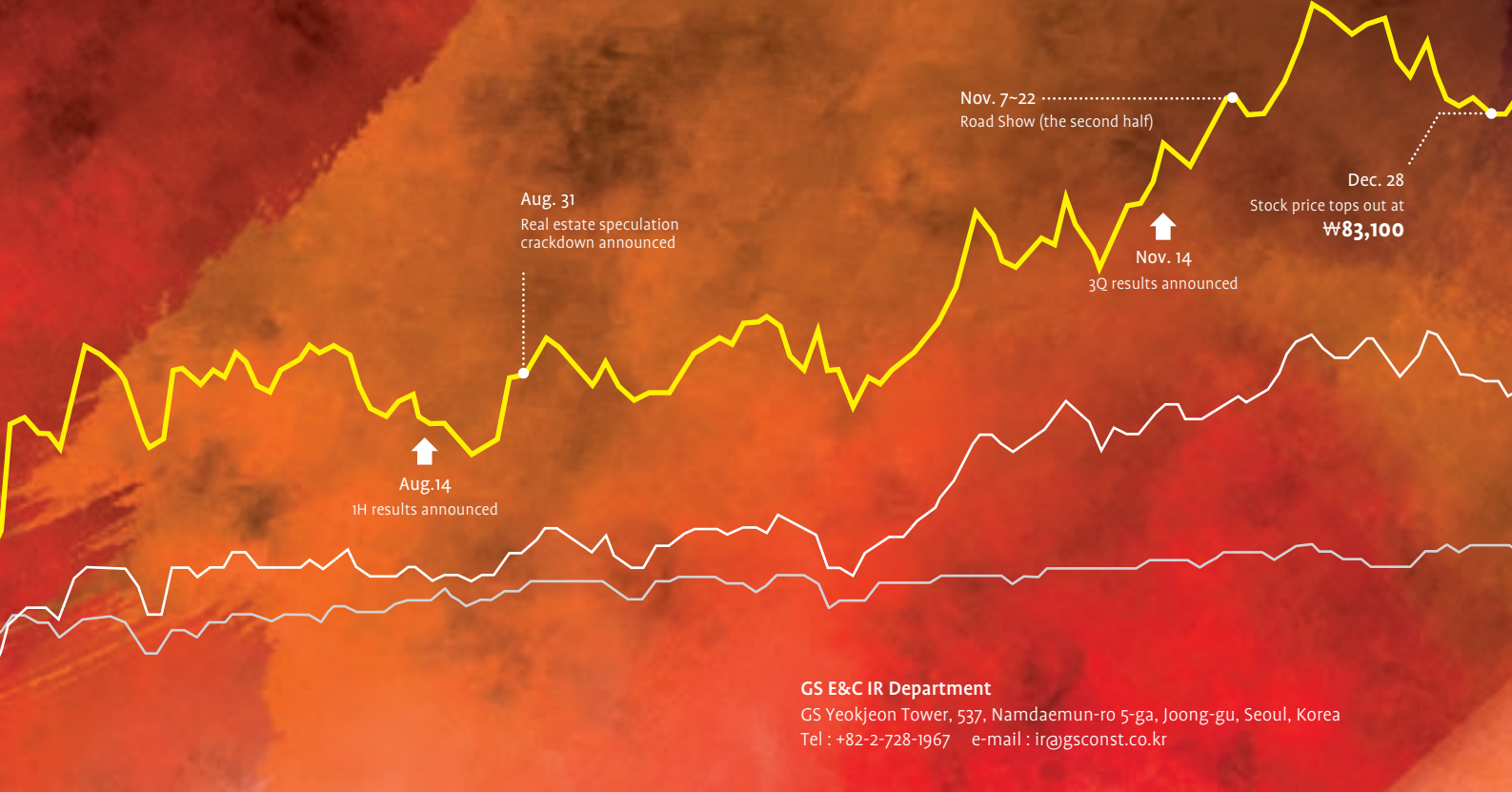
First consider share prices when the leading indicators (permits authorized for building construction, total liquidity, new orders for machinery, export credit, bank lending) are in a downward trend. The KOSPI fell forth-six percent in 1999 and twenty-four percent in 2002, but in 2006 the KOSPI experienced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

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

PER for Major Stock Markets

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

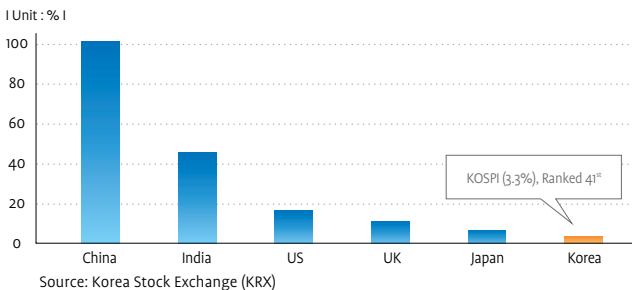
Source : Korea Stock Exchange (KRX)



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Movement of Major Stock Market Indices in 2006



Construction Stocks

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

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

The bullishness of Korean construction stocks is expected to

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

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

GS Engineering & Construction

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