

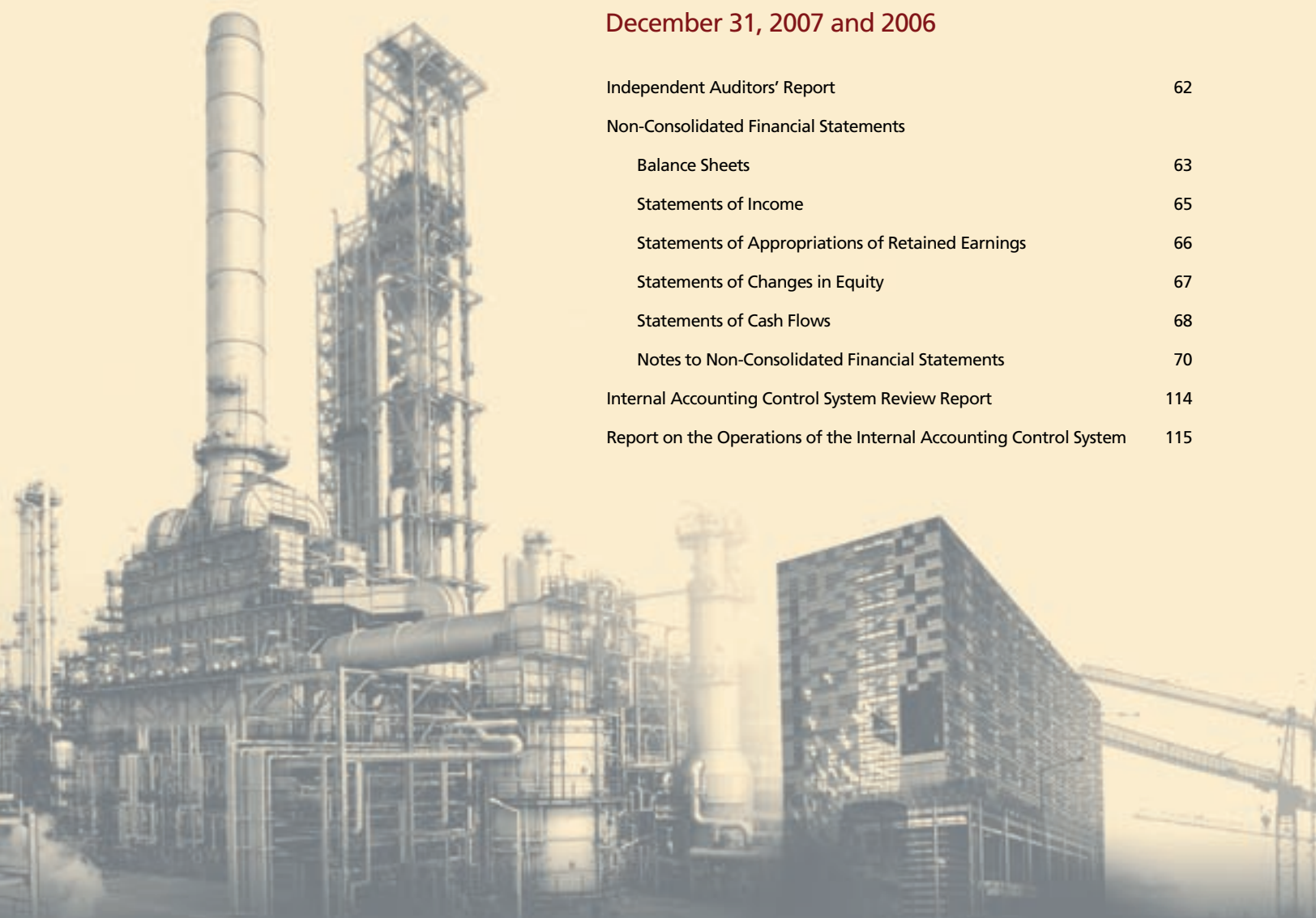


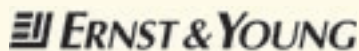
Your Trusted Global Partner

Financial Statements

**Non-Consolidated Financial Statements
December 31, 2007 and 2006**

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ERNST & YOUNG HAN YOUNG

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

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, 2007 and 2006, and the related non-consolidated statements of income, appropriation of retained earnings and cash flows for the years then ended, and the related non-consolidated statement of changes in equity for the year ended December 31, 2007. 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 evaluating 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, 2007 and 2006, and the results of its operations, its changes in retained earnings and its cash flows for the years then ended, and its changes in equity for the year ended December 31, 2007 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.

February 5, 2008

A handwritten signature in black ink that reads 'Ernst & Young Han Young'.

This audit report is effective as of February 5, 2008, the auditors' report date. Accordingly, certain material subsequent events 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, 2007 and 2006

I Korean won in millions I

| | 2007 | | 2006 | |
|--|------|-----------|------|-----------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents (Note 13) | ₩ | 379,649 | ₩ | 533,337 |
| Short-term financial instruments (Note 3) | | 6,161 | | 3,646 |
| Short-term investment securities (Note 5) | | 4,220 | | 3,787 |
| Trade accounts and notes receivable, less allowance for doubtful accounts of ₩46,631 in 2007 (₩40,534 in 2006) (Notes 13, 15 and 20) | | 2,119,838 | | 1,737,994 |
| Short-term loans receivable, less allowance for doubtful accounts of ₩13,986 in 2007 (₩13,577 in 2006) (Notes 13 and 25) | | 73,576 | | 45,039 |
| Prepaid construction costs | | 133,840 | | 115,943 |
| Other accounts receivable, less allowance for doubtful accounts of ₩4,685 in 2007 (₩3,876 in 2006) (Notes 13 and 15) | | 223,589 | | 108,107 |
| Inventories (Notes 4 and 10) | | 424,439 | | 194,797 |
| Accrued income, less allowance for doubtful accounts of ₩3,939 in 2007 (₩3,352 in 2006) | | 9,435 | | 6,464 |
| Advance payments, less allowance for doubtful accounts of ₩11,551 in 2007 (₩10,651 in 2006) (Note 15) | | 292,911 | | 202,626 |
| Prepaid expenses | | 39,325 | | 39,618 |
| Derivative assets (Note 26) | | 47,032 | | 22,084 |
| Current portion of deferred income tax assets (Note 21) | | 4,227 | | 5,303 |
| Total current assets | | 3,758,242 | | 3,018,745 |
| Non-current assets: | | | | |
| Long-term financial instruments (Note 3) | | 298 | | 298 |
| Long-term investment securities (Note 6) | | 258,504 | | 218,847 |
| Equity method investments (Note 7) | | 349,167 | | 261,091 |
| Long-term loans receivable, less allowance for doubtful accounts of ₩13,036 in 2007 (₩14,513 in 2006) (Notes 13 and 25) | | 182,048 | | 119,555 |
| Long-term trade accounts receivable, less allowance for doubtful accounts of ₩4 in 2007 (₩299 in 2006) | | 347 | | 14,349 |
| Long-term guarantee deposits (Note 15) | | 78,824 | | 64,104 |
| Deferred income tax assets (Note 21) | | 5,220 | | 12,638 |
| Property, plant and equipment, net (Notes 8, 9, 10 and 31) | | 1,089,422 | | 1,037,782 |
| Intangible assets, net (Notes 11 and 31) | | 3,516 | | 4,012 |
| Total non-current assets | | 874,408 | | 690,882 |
| Total assets | ₩ | 5,725,588 | ₩ | 4,751,421 |

(Continued)
See accompanying notes.

NON-CONSOLIDATED BALANCE SHEETS

As of December 31, 2007 and 2006

₩ Korean won in millions ₩

| | 2007 | 2006 |
|--|-------------|-------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Trade accounts and notes payable (Notes 13, 15 and 20) | ₩ 2,158,569 | ₩ 2,000,998 |
| Short-term borrowings (Note 12 and 13) | 401,300 | 2,776 |
| Other accounts payable (Notes 13 and 15) | 117,528 | 51,829 |
| Other advances received | 3,060 | 3,866 |
| Withholdings (Note 13) | 85,994 | 106,116 |
| Guarantee deposits received | 8,717 | 16,472 |
| Accrued expenses | 72,044 | 38,018 |
| Income taxes payable (Note 21) | 82,484 | 110,755 |
| Dividends payable | 21 | 19 |
| Current portion of bonds, less discount of nil in 2007 (₩114 in 2006) (Note 12) | 1,327 | 49,886 |
| Derivative liabilities (Note 26) | 15,524 | 3,587 |
| Unearned revenue | 641 | 446 |
| Total current liabilities | 2,947,209 | 2,384,768 |
| Non-current liabilities: | | |
| Bonds, less discount of ₩260 in 2007 (nil in 2006) (Note 12) | 49,740 | - |
| Long-term borrowings (Note 12) | 10,613 | 11,940 |
| Severance and retirement benefits, net of transfers to the National Pension Fund and severance insurance deposits | 56,662 | 60,128 |
| Leasehold guarantee deposits received (Note 15) | 87,518 | 84,936 |
| Membership guarantee deposits received (Note 15) | 342,404 | 339,984 |
| Provision for construction losses (Note 20) | 24,137 | 12,502 |
| Provision for construction warranty (Note 2) | 74,467 | 71,730 |
| Other long-term liabilities | 659 | 966 |
| Total non-current liabilities | 646,200 | 582,186 |
| Total liabilities | 3,593,409 | 2,966,954 |
| Commitments and contingencies (Notes 20, 25 and 26) | | |
| Stockholders' equity: | | |
| Capital stock (Note 16) | 255,000 | 255,000 |
| Capital surplus (Note 17) | 212,342 | 207,836 |
| Capital adjustments (Note 19) | 13,915 | 5,895 |
| Accumulated other comprehensive income (Note 19) | 154,774 | 142,069 |
| Retained earnings (Note 18) | 1,496,148 | 1,173,667 |
| Total stockholders' equity | 2,132,179 | 1,784,467 |
| Total liabilities and stockholders' equity | ₩ 5,725,588 | ₩ 4,751,421 |

(Continued)
See accompanying notes.

NON-CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2007 and 2006

I Korean won in millions, except per share amounts I

| | 2007 | | 2006 | |
|---|------|-----------|------|-----------|
| Sales (Notes 15, 20 and 31) | | | | |
| Construction operations | ₩ | 5,752,697 | ₩ | 5,583,683 |
| Housing construction and sales operations | | 191,136 | | 92,217 |
| Other operations | | 67,703 | | 69,265 |
| | | 6,011,536 | | 5,745,165 |
| Cost of sales (Notes 15 and 20) | | | | |
| Construction operations | | 4,920,604 | | 4,835,521 |
| Housing construction and sales operations | | 151,945 | | 62,421 |
| Other operations | | 79,369 | | 85,024 |
| | | 5,151,918 | | 4,982,966 |
| Gross profit | | 859,618 | | 762,199 |
| Selling and administrative expenses | | 417,574 | | 358,829 |
| Operating income (Note 31) | | 442,044 | | 403,370 |
| Other income (expenses): | | | | |
| Interest income | | 34,505 | | 25,777 |
| Interest expense | | (153) | | (3,027) |
| Dividend income | | 1,274 | | 1,732 |
| Loss on foreign currency transactions, net | | (3,635) | | (2,310) |
| Gain (loss) on foreign currency translation, net | | 1,367 | | (3,109) |
| Equity in earnings of equity method investments, net (Note 7) | | 29,887 | | 25,362 |
| Gain on disposal of equity method investments, net | | 11,118 | | - |
| Gain on disposal of long-term investment securities, net | | - | | 16,590 |
| Gain on disposal of property, plant and equipment, net | | 73 | | 3,427 |
| Gain on settlement of derivative instruments, net | | 13,373 | | 55,463 |
| Gain on valuation of derivative instruments, net (Note 26) | | 860 | | 3,501 |
| Donations (Note 28) | | (4,189) | | (13,055) |
| Others, net | | 41,242 | | 28,789 |
| | | 125,722 | | 139,140 |
| Income before income taxes | | 567,766 | | 542,510 |
| Provision for income taxes (Note 21) | | 167,754 | | 155,557 |
| Net income | ₩ | 400,012 | ₩ | 386,953 |
| Earnings per share (Note 22) | ₩ | 8,009 | ₩ | 7,741 |

(Continued)
See accompanying notes.

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

Years ended December 31, 2007 and 2006

₩ Korean won in millions

| | 2007 | 2006 |
|--|----------------|----------------|
| Retained earnings before appropriations: | | |
| Unappropriated retained earnings carried forward from the prior year | ₩ 1,554 | ₩ 1,470 |
| Net income for the year | 400,012 | 386,953 |
| | 401,566 | 388,423 |
| Transfer from reserves: | | |
| Research and human resources development reserve (Note 18) | 8,440 | 10,162 |
| Reserves for losses on sale of treasury stock | 1,204 | - |
| | 9,644 | 10,162 |
| Appropriations: | | |
| Legal reserve (Note 18) | 9,000 | 8,500 |
| Business rationalization reserve (Note 18) | 90,000 | 90,000 |
| Financial structure improvement reserve (Note 18) | 45,000 | 40,000 |
| Research and human resources development reserve (Note 18) | 90,000 | 80,000 |
| Other reserves (Note 18) | 94,000 | 101,000 |
| Cash dividends (Note 23) | 82,372 | 77,531 |
| | 410,372 | 397,031 |
| Unappropriated retained earnings to be carried forward to the next year | ₩ 838 | ₩ 1,554 |

See accompanying notes.

NON-CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended December 31, 2007

I Korean won in millions I

| | Capital stock | Capital surplus | Capital adjustment | Accumulated other comprehensive income | Retained earnings | Total |
|---|------------------|--------------------|-----------------------|---|----------------------|-------------|
| As of January 1, 2007 | ₩ 255,000 | ₩ 207,836 | ₩ 5,895 | ₩ 142,069 | ₩ 1,173,667 | ₩ 1,784,467 |
| Dividends | | | | | (77,531) | (77,531) |
| Acquisition of treasury stock | | | (19,324) | | | (19,324) |
| Disposal of treasury stock | | 4,506 | 5,623 | | | 10,129 |
| Share-based compensation expense | | | 21,721 | | | 21,721 |
| Gain on valuation of available-for-sales securities | | | | 5 | | 5 |
| Exchange differences on translation of foreign operations | | | | (88) | | (88) |
| Gain on valuation of derivatives instruments | | | | 30,654 | | 30,654 |
| Loss on valuation of derivatives instruments | | | | (13,590) | | (13,590) |
| Credit equity adjustment arising from equity method investments | | | | (4,694) | | (4,694) |
| Debit equity adjustment arising from equity method investments | | | | 418 | | 418 |
| Net income for the year | | | | | 400,012 | 400,012 |
| As of December 31, 2007 | ₩ 255,000 | ₩ 212,342 | ₩ 13,916 | ₩ 154,774 | ₩ 1,496,148 | ₩ 2,132,179 |

See accompanying notes.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2007 and 2006

₩ Korean won in millions ₩

| | 2007 | 2006 |
|---|-------------|-----------|
| Cash flows from operating activities: | | |
| Net income | ₩ 400,012 | ₩ 386,953 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Provision for severance and retirement benefits | 40,565 | 32,573 |
| Depreciation of property, plant and equipment | 27,941 | 30,697 |
| Bad debt expense | 7,168 | 4,448 |
| Provision for construction warranty, net | 27,552 | 55,481 |
| Provision for construction losses, net | 11,635 | 11,507 |
| Amortization of intangible assets | 496 | 570 |
| Gain on disposal of long-term investment securities, net | - | (16,590) |
| Gain on disposal of property, plant and equipment, net | (73) | (3,427) |
| Loss (gain) on foreign currency translation, net | (215) | 713 |
| Equity in earnings of equity method investments, net | (29,887) | (25,362) |
| Gain on disposal of equity method investments, net | (11,118) | - |
| Impairment loss on property, plant and equipment | - | 4,310 |
| Loss on valuation of derivative instruments, net | (860) | (3,501) |
| Amortization of foreign currency translation adjustments, net | 4 | 1,195 |
| Share-based compensation expense | 21,720 | 16,624 |
| Others, net | (1,648) | 338 |
| Changes in operating assets and liabilities: | | |
| Trade accounts and notes receivable | (385,701) | (344,851) |
| Prepaid construction costs | (17,859) | (20,586) |
| Other accounts receivable | (115,133) | (39,248) |
| Accrued income | (3,558) | (3,403) |
| Inventories | (232,170) | 1,373 |
| Advance payments | (90,800) | (74,913) |
| Prepaid expenses | 296 | (18,259) |
| Current portion of deferred income tax assets | 1,076 | 7,077 |
| Derivative assets | 8,860 | (27,644) |
| Derivative liabilities | (4,210) | - |
| Deferred income tax assets | 9,301 | (13,409) |
| Trade accounts and notes payable | 154,104 | 642,929 |
| Accrued expenses | 34,447 | 14,601 |
| Income taxes payable | (30,019) | 29,450 |
| Payment of severance and retirement benefits | (44,032) | (29,433) |
| Provision for construction warranty | (23,468) | (12,669) |
| Others, net | 53,296 | (16,758) |
| Total adjustments | (592,290) | 203,833 |
| Net cash provided by (used in) operating activities | ₩ (192,278) | ₩ 590,786 |

(Continued)
See accompanying notes.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2007 and 2006

I Korean won in millions I

| | 2007 | 2006 |
|---|------------------|------------------|
| Cash flows from investing activities: | | |
| Increase in short-term financial instruments, net | ₩ (2,515) | ₩ - |
| Proceeds from disposal of short-term investment securities | 3,787 | 2,602 |
| Proceeds from disposal of long-term investment securities | - | 18,202 |
| Proceeds from disposal of equity method investments | 18,437 | - |
| Decrease (increase) in short-term loans receivable, net | 21,396 | (7,533) |
| Increase in long-term loans receivable, net | (111,219) | (61,456) |
| Increase in long-term guarantee deposits, net | (14,698) | (6,707) |
| Acquisition of long-term investment securities | (46,880) | (26,479) |
| Acquisition of equity method investments | (68,422) | (27,164) |
| Proceeds from disposal of property, plant and equipment | 314 | 7,506 |
| Acquisition of property, plant and equipment | (77,296) | (155,295) |
| Net cash used in investing activities | (277,096) | (256,324) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of bonds | 49,693 | - |
| Proceeds from disposal of treasury stock | 7,631 | 7,165 |
| Acquisition of treasury stock | (15,053) | - |
| Increase in membership guarantee deposits received, net | 2,420 | 47,127 |
| Proceeds from short-term borrowings | 398,524 | - |
| Repayment of short-term borrowings | - | (141,925) |
| Redemption of current portion of bonds | (50,000) | (1,327) |
| Payment of dividends | (77,530) | (69,845) |
| Net cash provided by (used in) financing activities | 315,685 | (158,805) |
| Net increase (decrease) in cash and cash equivalents | (153,689) | 175,657 |
| Cash and cash equivalents at the beginning of the year | 533,337 | 357,680 |
| Cash and cash equivalents at the end of the year | ₩ 379,649 | ₩ 533,337 |

See accompanying notes.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

1. Corporate information

GS Engineering & Construction Corporation (the "Company") was incorporated on December 19, 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 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 on April 4, 2005, subject to the Limitation on Mutual Investment Rule set forth by the Fair Trade Commission.

As of December 31, 2007, the Company maintains overseas business operations in China, Oman, Qatar and other countries.

As of December 31, 2007, 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., EziVille Inc., GS E&C Italy S.R.L, and other entities.

The financial statements of the Company for the year ended December 31, 2007 will be approved by the board of directors at their meeting to be held on February 18, 2008.

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 non-consolidated 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, 2007:

- SKAS 11 Discontinuing Operations
- SKAS 21 Preparation and Presentation of Financial Statements
- SKAS 22 Share-based Payments (early adopted)

- SKAS 23 Earnings per Share

Other than SKAS 22 which the Company early adopted for the financial period beginning January 1, 2006, the Company has adopted these new standards in its financial statements for the year ended December 31, 2007. Adoption of these new standards did not have any material effect on the Company's financial statements, except for the effects of SKAS 21 as described below.

The adoption of SKAS 21 has resulted in the addition of a statement of changes in equity in the 2007 financial statements. A statement of changes in equity is not required to be presented for the comparative 2006 financial statements according to the transitional provision of SKAS 21 on application of retrospective application

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.

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 as other comprehensive income. Likewise, trading securities are also measured at fair value after initial measurement, but with

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

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 other comprehensive income within 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.

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 | 4 - 6 |
| Construction equipment | 4 - 12 |
| Vehicles | 4 |
| Other assets | 4 |

Intangible assets

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

Prepaid construction costs

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

Impairment of assets

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

Discount on bonds

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

Provision for construction losses

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

Provision for construction warranty

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

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, 2007 and 2006 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, 2007 and 2006. Funding of this liability is not required by Korean law.

The lesser of 5% of annual payroll expense or 35% 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, 2007 and 2006, 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 ₩30,323 million and ₩24,722 million during the years ended December 31, 2007 and 2006, 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 other comprehensive income within 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 an other comprehensive income in equity. The ineffective portion of the gain or loss is charged or credited to current operations. Derivative instruments that do not meet the criteria for hedge accounting, or contracts for which the Company has not elected hedge accounting are measured at fair value with unrealized gains or losses reported in current operations.

Share-based payment transactions

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

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

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

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

Revenue recognition

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

Income taxes

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

Treasury Stock

If a treasury stock is 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 is 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 are computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would have been outstanding assuming the conversion of all dilutive potential common shares.

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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

3. Restricted deposits

Restricted deposits as of December 31, 2007 and 2006 consist of the following (Korean won in millions):

| | Financial institution | 2007 | | 2006 | | Description |
|----------------------------------|-------------------------|------|-------|------|-------|--|
| Short-term financial instruments | Shinhan Bank and others | ₩ | 6,161 | ₩ | 3,646 | Collateral |
| Long-term financial instruments | Shinhan Bank and others | | 298 | | 298 | Collateral and bank overdraft facilities |
| | | | 6,459 | | 3,944 | |

4. Inventories

Inventories as of December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | 2006 | |
|----------------------------|------|---------|------|---------|
| Completed buildings | ₩ | 219 | ₩ | 662 |
| Uncompleted buildings | | 282,438 | | 28,294 |
| Land held for development | | 116,925 | | 146,147 |
| Raw materials and supplies | | 17,702 | | 16,425 |
| Materials-in-transit | | 198 | | 928 |
| Other | | 6,957 | | 2,341 |
| | ₩ | 424,439 | ₩ | 194,797 |

5. Short-term investments securities

Details of short-term investments securities, representing held-to-maturity securities as of December 31, 2007 and 2006, are as follows (Korean won in millions):

| | 2007 | | | 2006 | | |
|-----------------------------|------------------|-------------------|------------|------------------|-------------------|------------|
| | Acquisition cost | Recoverable value | Book value | Acquisition cost | Recoverable value | Book value |
| Government and public bonds | ₩ 4,220 | ₩ 4,220 | ₩ 4,220 | ₩ 3,787 | ₩ 3,787 | ₩ 3,787 |

6. Long-term investments securities

Details of long-term investments securities as of December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | 2006 | |
|-------------------------------|------|---------|------|---------|
| Available-for-sale securities | ₩ | 212,420 | ₩ | 184,160 |
| Held-to-maturity securities | | 46,084 | | 34,687 |
| | ₩ | 258,504 | ₩ | 218,847 |

Available-for-sale securities as of December 31, 2007 and 2006 consist of the following (Korean won in millions):

| | 2007 | | | | | | | Impairment losses | |
|--|------------------|-------------------------|------------------|------------|------------|--------------------------------|------------|-------------------|---|
| | Number of shares | Percentage of ownership | Acquisition cost | Fair value | Book value | Unrealized holding gain (loss) | Up to 2006 | 2007 | |
| < Non-marketable securities > | | | | | | | | | |
| The Korea Economic Daily | 646 | 0.00% | ₩ 14 (*) | ₩ 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 | 124,200 | - | - | - | - |
| Uijeongbu LRT Inc.(**) | 3,724,428 | 47.54% | 18,622 (*) | 18,622 | 18,622 | - | - | - | - |
| Kangnam Inter Circular Road Co., Ltd. | 414,000 | 11.50% | 2,070 (*) | 2,070 | 2,070 | - | - | - | - |
| Youngchun-Sangju Highway Co., Ltd. | 7,000 | 10.00% | 35 (*) | 35 | 35 | - | - | - | - |
| Manwolsan Tunnel Co., Ltd.(**) | 1,005,000 | 15.00% | 5,025 (*) | 5,025 | 5,025 | - | - | - | - |
| GS Retail Co., Ltd. | 270,106 | 1.75% | 15,420 (*) | 11,362 | 11,362 | (19) | - | - | - |
| LG CNS Co., Ltd. | 2,603,800 | 2.99% | 1,043 (*) | 1,051 | 1,051 | - | - | - | - |
| Public Development Co., Ltd. | 394,655 | 17.09% | 3,946 (*) | 3,946 | 3,946 | - | - | - | - |
| Potato Co., Ltd. | 60,000 | 10.00% | 300 (*) | 300 | 300 | - | - | - | - |
| International Convention Center Jeju | 100,000 | 0.30% | 500 (*) | 500 | 500 | - | - | - | - |
| Daum Direct Car Insurance Inc. | 620,000 | 4.43% | 3,100 (*) | 3,100 | 3,100 | - | - | - | - |
| Junju Drain Co., Ltd(**) | 196,410 | 7.90% | 982 (*) | 982 | 982 | - | - | - | - |
| Nonsan Drain Co., Ltd.(**) | 91,868 | 11.90% | 459 (*) | 459 | 459 | - | - | - | - |
| Masan Drain Co., Ltd.(**) | 15,792 | 8.14% | 79 (*) | 79 | 79 | - | - | - | - |
| Youngduk&Bio Co., Ltd.(**) | 41,270 | 5.00% | 206 (*) | 206 | 206 | - | - | - | - |
| M-Ciety Development Co., Ltd. | 396,000 | 4.40% | 1,980 (*) | 1,980 | 1,980 | - | - | - | - |
| M-Ciety Co., Ltd. | 2,640 | 4.40% | 13 (*) | 13 | 13 | - | - | - | - |
| Corona Development Co., Ltd. | 653,600 | 7.60% | 3,268 (*) | 3,268 | 3,268 | - | - | - | - |
| Metro Corona Co., Ltd. | 5,952 | 9.92% | 30 (*) | 30 | 30 | - | - | - | - |
| Lippo Incheon Development Co., Ltd(**) | 1,809,760 | 12.60% | 9,049 (*) | 9,049 | 9,049 | - | - | - | - |
| Jei Youngdong Highway Co., Ltd | 313,600 | 16.00% | 1,568 (*) | 1,568 | 1,568 | - | - | - | - |
| Eumseong Drain Co., Ltd(**) | 31,500 | 6.30% | 158 (*) | 158 | 158 | - | - | - | - |
| Gangneung Drain Co., Ltd(**) | 38,280 | 3.30% | 191 (*) | 191 | 191 | - | - | - | - |
| Gaya Railway Co., Ltd(**) | 305,490 | 23.00% | 1,527 (*) | 1,527 | 1,527 | - | - | - | - |
| Ulsan Green Co., Ltd. | 4,166 | 41.66% | 21 (*) | 21 | 21 | - | - | - | - |
| MILESEUM Co., Ltd. | 63,517 | 12.50% | 318 (*) | 318 | 318 | - | - | - | - |
| Dream Hub Project Financial Investment Co., Ltd.(**) | 20,000 | 2.00% | 100 (*) | 100 | 100 | - | - | - | - |
| Alpha Dome City Co., Ltd. | 1,920,000 | 4.00% | 9,600 (*) | 9,600 | 9,600 | - | - | - | - |
| Alpha Dome City Asset Management Co., Ltd. | 4,000 | 4.00% | 20 (*) | 20 | 20 | - | - | - | - |
| Seoul Northern Highway Co., Ltd. | 1,408 | 14.08% | 7 (*) | 7 | 7 | - | - | - | - |
| Seoul-Munsan Highway Co., Ltd. | 4,550 | 45.50% | 23 (*) | 23 | 23 | - | - | - | - |
| Engineering Financial Cooperative | 1,449 | 0.30% | 180 (*) | 180 | 180 | - | - | - | - |
| Korea Electric Engineers Association | 200 | 0.16% | 20 (*) | 20 | 20 | - | - | - | - |
| Electric Contractors' Fanatical Cooperative | 600 | 0.02% | 98 (*) | 98 | 98 | - | - | - | - |
| Korea Construction Financial Cooperative | 12,801 | 0.34% | 12,092 (*) | 12,092 | 12,092 | - | - | - | - |
| Information & Communication Financial Cooperative | 440 | 0.06% | 61 (*) | 61 | 61 | - | - | - | - |
| Korea Housing Guarantee Co., Ltd. | 1,038,490 | 0.16% | 21,532 (#) | - | - | - | (21,532) | - | - |
| Treasury Stock Fund | | | 1,500 (*) | 10,057 | 10,057 | - | - | - | - |
| Less: treasury stock | | | - (*) | (9,912) | (9,912) | - | - | - | - |
| Subtotal | | | 1,500 (*) | 145 | 145 | 120 | - | - | - |
| Others | | | 2,444 (#) | - | - | - | (2,444) | - | - |
| | | | ₩ 242,201 | ₩ 212,420 | ₩ 212,420 | ₩ 101 | ₩ (24,376) | ₩ - | - |

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

| | 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 | ₩ 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 | 124,200 | - | - | - |
| Kangnam Inter Circular Road Co., Ltd. | 310,500 | 11.50% | 1,552 (*) | 1,552 | 1,552 | - | - | - |
| Youngchun-Sangju Highway Co., Ltd. | 1,000 | 10.00% | 5 (*) | 5 | 5 | - | - | - |
| Uijeongbu LRT Inc.(**) | 2,906,808 | 47.54% | 14,534 (*) | 14,534 | 14,534 | - | - | - |
| GS Retail Co., Ltd. | 270,106 | 1.75% | 15,420 (*) | 11,362 | 11,362 | (19) | - | - |
| LG CNS Co., Ltd. | 1,041,520 | 2.69% | 1,043 (*) | 1,051 | 1,051 | - | - | - |
| Manwolsan Tunnel Co., Ltd. | 1,005,000 | 15.00% | 5,025 (*) | 5,025 | 5,025 | - | - | - |
| Public Development Co., Ltd. | 394,655 | 17.09% | 3,946 (*) | 3,946 | 3,946 | - | - | - |
| Potato Co., Ltd. | 60,000 | 10.00% | 300 (*) | 300 | 300 | - | - | - |
| International Convention Center Jeju | 100,000 | 0.30% | 500 (*) | 500 | 500 | - | - | - |
| Daum Direct Car Insurance Inc. | 620,000 | 8.27% | 3,100 (*) | 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 | 2,985 | - | - | - |
| Junju Drain Co., Ltd(**) | 93,710 | 7.90% | 469 (*) | 469 | 469 | - | - | - |
| Nonsan Drain Co., Ltd. (**) | 28,000 | 8.15% | 140 (*) | 140 | 140 | - | - | - |
| Masan Drain Co., Ltd. (**) | 10,582 | 8.14% | 53 (*) | 53 | 53 | - | - | - |
| Youngduk&Bio Co., Ltd. | 25,500 | 5.10% | 127 (*) | 127 | 127 | - | - | - |
| M-Ciety Development Co., Ltd. | 352,000 | 4.40% | 1,760 (*) | 1,760 | 1,760 | - | - | - |
| M-Ciety Co., Ltd. | 2,640 | 4.40% | 13 (*) | 13 | 13 | - | - | - |
| Corona Development Co., Ltd. | 76,000 | 7.60% | 380 (*) | 380 | 380 | - | - | - |
| Metro Corona Co., Ltd. | 5,952 | 9.92% | 30 (*) | 30 | 30 | - | - | - |
| Engineering Financial Cooperative | 1,449 | 0.30% | 180 (*) | 180 | 180 | - | - | - |
| Korea Electric Engineers Association | 200 | 0.16% | 20 (*) | 20 | 20 | - | - | - |
| Electric Contractors' Fanatical Cooperative | 600 | 0.02% | 98 (*) | 98 | 98 | - | - | - |
| Korea Construction Financial Cooperative | 12,801 | 0.34% | 12,092 (*) | 12,092 | 12,092 | - | - | - |
| Information & Communication Financial Cooperative | 440 | 0.06% | 61 (*) | 61 | 61 | - | - | - |
| Treasury Stock Fund | | | 1,500 (*) | 5,804 | 5,804 | - | - | - |
| Less: treasury stock | | | - (*) | (5,641) | (5,641) | - | - | - |
| Subtotal | | | 1,500 (*) | 163 | 163 | 113 | - | - |
| Others | | | 2,444 (#) | - | - | - | (2,444) | - |
| | | | ₩ 213,923 | ₩ 184,160 | ₩ 184,160 | ₩ 94 | ₩ (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.

(**) These available-for-sale securities are pledged as collateral for borrowings or rights for commercial operations of tunnel or roads as of December 31, 2007 and 2006.

Although the Company's ownership of Seoul Highway Co., Ltd., Gaya Railway Co., Ltd, Uijeongbu LRT Inc., Ulsan Green Co., Ltd. and Seoul-Munsan Highway Co., Ltd exceeds 20%, the Company classified these securities as available-for-sale securities as the Company is not able to exercise significant influence on the investees.

Held-to-maturity securities as of December 31, 2007 and 2006 are as follows (Korean won in millions):

| Maturity | 2007 | | | 2006 | | |
|-------------------------------|------------------|-------------------|------------|------------------|-------------------|------------|
| | Acquisition cost | Recoverable value | Book value | Acquisition cost | Recoverable value | Book value |
| More than 1 year to 5 years | ₩ 37,331 | ₩ 37,331 | ₩ 37,331 | ₩ 30,923 | ₩ 30,923 | ₩ 30,923 |
| More than 5 years to 10 years | 8,753 | 8,753 | 8,753 | 3,764 | 3,764 | 3,764 |
| | ₩ 46,084 | ₩ 46,084 | ₩ 46,084 | ₩ 34,687 | ₩ 34,687 | ₩ 34,687 |

Interest income earned from short-term and long-term investment securities amounted to ₩1,347 million and ₩1,156 million for the years ended December 31, 2007 and 2006, respectively.

7. Equity method investments

Investments in equity securities accounted for using the equity method as of December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | | | |
|---------------------------------------|------------------|---------------|------------------|-----------------|------------|
| | Number of shares | Ownership (%) | Acquisition cost | Net asset value | Book value |
| Hanmoo Development Co., Ltd. | 6,654,675 | 67.56% | ₩ 85,862 | ₩ 242,918 | ₩ 193,213 |
| EzVille Inc. | 1,559,998 | 78.00% | 9,385 | 7,698 | 8,438 |
| XI Service Co., Ltd. | 96,000 | 100.00% | 480 | 501 | 501 |
| Estech Estimate Corp.. | 20,000 | 100.00% | 100 | 105 | 105 |
| Sachun Resort Co., Ltd. | 290,000 | 29.00% | 1,450 | 385 | 392 |
| GLS Service Co., Ltd. | 60,000 | 100.00% | 300 | 296 | 296 |
| LG Holdings (HK), Ltd. | 51,000,000 | 25.00% | 54,824 | 47,554 | 36,155 |
| GS E&C Nanjing | 1 | 100.00% | 5,330 | 8,614 | 8,994 |
| GS-HP Corp. | 1 | 30.00% | 2,196 | (*) | - |
| GS E&C Italy S.R.L | 300,000 | 100.00% | 430 | 393 | 224 |
| LG Properties (S'PORE) Pte. Ltd. | 25,944,630 | 30.00% | 18,466 | (*) | - |
| GS E&C Thai Co., Ltd. | 19,600 | 49.00% | 50 | 847 | 790 |
| GS E&C Poland SP.ZO.O | 100 | 100.00% | 17 | 28,121 | 27,807 |
| GS E&C India Private Ltd. | 11,374,728 | 100.00% | 2,354 | 868 | 845 |
| GS Construction (Arabia), Ltd. | 3,920 | 49.00% | 874 | (*) | - |
| GS Cu Chi Development One-member LLC. | 1 | 100.00% | 9,281 | (#) | 9,281 |
| GS Nha Be Development One-member LLC. | 1 | 100.00% | 18,700 | (#) | 18,700 |
| GS Saigon Development One-member LLC. | 1 | 100.00% | 37,124 | (#) | 37,124 |
| GS PP Development Co., Ltd. | 490 | 49.00% | 2 | (#) | 2 |
| GCS PLUS Co., Ltd | 60,000 | 100.00% | 300 | (#) | 300 |
| Major Development Co., Ltd. | 600,000 | 40.00% | 6,000 | (10,076) | 6,000 |
| | | | ₩ 253,525 | ₩ 328,224 | ₩ 349,167 |

(#) The Company has not been able to obtain the net asset value of the investees as of December 31, 2007, due to the unavailability of their financial statements because these companies was newly established in the year ended December 31, 2007.

(*) 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, 2007, due to unavailability of their financial statements.

GS E&C Mexico, S.A.DEC.V and Ladera Co., Ltd. are not shown in the above table as they have completed their liquidation procedures during the year ended December 31, 2007.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

| | 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 | 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 | |
| | | | ₩ 232,758 | ₩ 327,906 | ₩ 261,091 | |

(*) 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, due to unavailability of their financial statements.

The summary of financial position of the investees as of December 31, 2007, and the results of their operations for the year then ended, is presented as follows (Korean won in millions):

| | 2007(*) | | | |
|------------------------------|-----------|-------------|-----------|-------------------|
| | Assets | Liabilities | Sales | Net income (loss) |
| Hanmoo Development Co., Ltd. | ₩ 718,059 | ₩ 358,477 | ₩ 189,613 | ₩ 12,310 |
| EzVille Inc. | 30,307 | 20,437 | 41,564 | 2,091 |
| XI Service Co., Ltd. | 1,990 | 1,488 | 7,470 | 10 |
| Estech Estimate Corp | 806 | 701 | 4,632 | 9 |
| Sachun Resort Co., Ltd. | 19,027 | 17,700 | - | (2,505) |
| GLS Service Co., Ltd. | 500 | 204 | 1,289 | - |
| LG Holdings (HK), Ltd | 190,218 | 4 | - | 25 |
| GS E&C Nanjing | 16,932 | 8,317 | 26,575 | 2,465 |
| GS E&C Italy S.R.L | 68,641 | 68,248 | 13,570 | (20) |
| GS E&C Thai Co., Ltd. | 17,678 | 15,949 | 43,662 | 1,377 |
| GS E&C Poland SP.ZO.O. | 55,146 | 27,025 | 113,799 | 14,684 |
| GS E&C India Private Ltd. | 1,578 | 710 | 2,342 | (1,009) |
| Major Development Co., Ltd. | 374,409 | 399,599 | | (24,658) |

(*) GS-HP Corp., LG Properties (S'PORE) Pte.Ltd. and GS Construction (Arabia) Ltd. have been discontinued to be accounted for using the equity method. The Company has not been able to disclose the financial information of these investees in the above table for the year ended December 31, 2007, due to unavailability of their financial statements.

On the other hand, GS E&C Mexico, S.A.DEC.V and Ladera Co., Ltd. have completed their liquidation procedures during the year ended December 31, 2007.

The financial information for GCS PLUS Co., Ltd., GS Cu Chi Development One-member LLC., GS Nha Be Development One-member LLC., GS PP Development Co., Ltd. could not be disclosed in the above table for the year ended December 31, 2007, due to the unavailability of their financial statements because these companies were newly established during the year ended December 31, 2007.

| | 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 | 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) |

(*) GS-HP Corp., LG Properties (S'PORE) Pte.Ltd. and GS Construction (Arabia) Ltd. have been discontinued to be accounted for using the equity method. These investees are not presented in the above table for the year ended December 31, 2006, due to unavailability of their financial statements.

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):

| | 2007 | | | |
|------------------------|-----------------------------------|------------|----------------------------------|-------------------------|
| | Net asset value before adjustment | Adjustment | Net asset value after adjustment | Proportionate ownership |
| LG Holdings (HK), Ltd. | ₩ 190,214 | ₩ (41,477) | ₩ 148,737 | ₩ 37,184 |

| | 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 |

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

The changes in carrying amount of goodwill and (negative goodwill) for the years ended December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | | |
|------------------------------|-------------|-----------|--------------|--------------|
| | Jan.1, 2007 | Additions | Amortization | Dec.31, 2007 |
| Hanmoo Development Co., Ltd. | ₩ (30,155) | ₩ - | ₩ (1,536) | ₩ (28,619) |
| EzVille Inc. | 986 | - | 247 | 739 |
| Major Development Co., Ltd. | - | 16,076 | - | 16,076 |
| | (29,169) | 16,076 | (1,289) | (11,804) |

| | 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 | ₩ (1,289) | ₩ (29,169) |

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Years ended December 31, 2007 and 2006

The elimination of unrealized gains or (losses) arising from inter-company transactions for the years ended December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | | |
|------------------------------|-------------|-----------|-------------|--------------|
| | Jan.1, 2007 | Additions | Realization | Dec.31, 2007 |
| Hanmoo Development Co., Ltd. | ₩ 21,842 | ₩ - | ₩ (721) | ₩ 21,121 |
| LG Holdings (HK), Ltd. | 1,036 | - | - | 1,036 |
| | ₩ 22,878 | ₩ - | ₩ (721) | ₩ 22,157 |

| | 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 |

The details of changes in carrying amount of equity method investments for the years ended December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | | | | |
|---------------------------------------|-------------|------------------|---------------------------------------|--|---------|--------------|
| | Jan.1, 2007 | Acquisition cost | Equity in earnings (loss) of investee | Share of changes in equity adjustments | Others | Dec.31, 2007 |
| Hanmoo Development Co., Ltd. | ₩ 182,157 | ₩ - | ₩ - | ₩ 11,056 | ₩ - | ₩ 193,213 |
| EzVille Inc. | 7,147 | - | - | 1,291 | - | 8,438 |
| XI Service Co., Ltd. | 493 | - | - | 8 | - | 501 |
| Estech Estimate Corp | 96 | - | - | 9 | - | 105 |
| Sachun Resort Co., Ltd. | 962 | - | - | (570) | - | 392 |
| GLS Service Co., Ltd. | 296 | - | - | - | - | 296 |
| LG Holdings (HK), Ltd | 35,810 | - | - | 5 | 340 | 36,155 |
| Ladera Co., Ltd | 10,503 | - | (10,597) | 127 | (33) | - |
| GS E&C Nanjing | 12,014 | - | (6,574) | 2,466 | 1,088 | 8,994 |
| GS E&C Italy S.R.L | 1 | - | - | 219 | 4 | 224 |
| GS E&C Thai Co., Ltd. | 150 | - | - | 616 | 24 | 790 |
| GS E&C Poland SP.ZO.O. | 8,483 | - | - | 15,656 | 3,668 | 27,807 |
| GS E&C Mexico, S.A.DEC.V. | 1,271 | - | (1,302) | - | 31 | - |
| GS E&C India Private Ltd. | 1,708 | - | - | (997) | 134 | 845 |
| GS Cu Chi Development One-member LLC. | - | 9,281 | - | - | - | 9,281 |
| GS Nha Be Development One-member LLC. | - | 18,700 | - | - | - | 18,700 |
| GS Saigon Development One-member LLC. | - | 37,124 | - | - | - | 37,124 |
| GS PP Development Co., Ltd. | - | 2 | - | - | - | 2 |
| GCS PLUS Co., Ltd. | - | 300 | - | - | - | 300 |
| Major Development Co., Ltd. (*) | - | 6,000(*) | - | - | - | 6,000 |
| Total | ₩ 261,091 | ₩ 71,407 | ₩ (18,473) | ₩ 29,886 | ₩ 5,256 | ₩ 349,167 |

(*) Included in acquisition cost is the amount of ₩2,985 million which was transferred from available-for-sale securities to equity method investments as a result of the increase in equity ownership.

2006

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

(*) 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) Reviewed 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.
- (iv) Analyzed differences which can be occur between other unaudited financial statements and audited 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, 2007 and 2006.

(***) The Company has not applied the equity method of accounting to GCS PLUS Co., Ltd., GS Cu Chi Development One-member LLC., GS Nha Be Development One-member LLC., GS Saigon Development One-member LLC, GS PP Development Co., Ltd, due to the unavailability of their financial statements because these companies were newly established during the year ended December 31, 2007.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

The details of changes in share of equity adjustments of the investees for the years ended December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | | 2006 | | |
|----------------------------------|-------------|-------------------------|---------------|-------------|-------------------------|---------------|
| | Jan.1, 2007 | Increase/ (decrease) | Dec. 31, 2007 | Jan.1, 2006 | Increase/ (decrease) | Dec. 31, 2006 |
| Hanmoo Development Co., Ltd. | ₩ 160,703 | ₩ - | ₩ 160,703 | ₩ 160,703 | ₩ - | ₩ 160,703 |
| EzVille Inc. | (2,724) | - | (2,724) | - | (2,724) | (2,724) |
| LG Holdings (HK), Ltd | 3,499 | 342 | 3,841 | 5,891 | (2,392) | 3,499 |
| Ladera Co., Ltd.(*) | 11,187 | (11,187) | - | 11,975 | (788) | 11,187 |
| GS E&C Nanjing | (542) | 1,087 | 545 | (325) | (217) | (542) |
| GS E&C Italy S.R.L | (56) | 3 | (53) | (2) | (54) | (56) |
| LG Properties (S'PORE) Pte. Ltd. | 295 | - | 295 | 295 | - | 295 |
| GS E&C POLAND SP.ZO.O | 401 | 3,668 | 4,069 | - | 401 | 401 |
| GS E&C Mexico, S.A.DEC.V.(*) | (31) | 31 | - | - | (31) | (31) |
| GS E&C Thai Co.,Ltd. | 6 | 24 | 30 | - | 6 | 6 |
| GS E&C India Private Ltd. | 45 | 134 | 179 | - | 45 | 45 |
| | 172,783 | (5,898) | 166,885 | 178,537 | (5,754) | 172,783 |
| Deferred income tax effect | (47,515) | | (45,894) | (49,098) | | (47,515) |
| | ₩ 125,268 | | ₩ 120,991 | ₩ 129,439 | | ₩ 125,268 |

(*) GS E&C Mexico, S.A.DEC.V. and Ladera Co., Ltd. have completed their liquidation procedures during the year ended December 31, 2007.

As of December 31, 2007 and 2006, 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):

| | 2007 | 2006 |
|----------------------------------|---------|---------|
| GS-HP Corp. | ₩ 858 | ₩ 858 |
| GS Construction (Arabia), Ltd. | 196 | 196 |
| LG Properties (S'PORE) Pte. Ltd. | 1,070 | - |
| | ₩ 2,124 | ₩ 1,054 |

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, 2007 and 2006 are as follows (Korean won in millions):

| | Book value | | Publicly announced value | |
|------|------------|-----------|--------------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Land | ₩ 383,448 | ₩ 377,808 | ₩ 422,910 | ₩ 381,775 |

9. Property, plant and equipment

Details of property, plant and equipment as of December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | | |
|--------------------------|-------------|--------------------------|-------------------------------|----------------|
| | Cost | Accumulated depreciation | Accumulated impairment losses | Net book value |
| Land | ₩ 383,448 | ₩ - | ₩ - | ₩ 383,448 |
| Golf course | 171,486 | - | - | 171,486 |
| Structure timber | 29,000 | - | - | 29,000 |
| Buildings | 452,722 | (54,458) | (16,910) | 381,354 |
| Structures | 106,485 | (14,008) | - | 92,477 |
| Machinery | 24,586 | (22,222) | - | 2,364 |
| Construction equipment | 11,784 | (11,535) | - | 249 |
| Vehicles | 19,416 | (16,703) | - | 2,713 |
| Others | 74,660 | (57,398) | - | 17,262 |
| Construction-in-progress | 9,068 | - | - | 9,068 |
| | ₩ 1,282,655 | ₩ (176,324) | ₩ (16,910) | ₩ 1,089,421 |

| | 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 |
| | ₩ 1,204,522 | ₩ (149,830) | ₩ (16,910) | ₩ 1,037,782 |

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

Changes in the net book value of property, plant and equipment for the years ended December 31, 2007 and 2006 are as follows (Korean won in millions):

| | | 2007 | | | | | | |
|--------------------------|--------------|-----------|-------------------------|--------------|--------------------|---|---------------|--|
| | Jan. 1, 2007 | Additions | Disposals/ transfers | Depreciation | Impairment loss | Overseas business translation adjustment | Dec. 31, 2007 | |
| Land | ₩ 377,808 | ₩ 5,640 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ 383,448 | |
| Golf course | 171,486 | - | - | - | - | - | 171,486 | |
| Standing timber | 28,796 | 204 | - | - | - | - | 29,000 | |
| Buildings | 338,695 | 49,887 | - | (9,779) | - | 2,551 | 381,354 | |
| Structures | 95,128 | 4 | (70) | (2,585) | - | - | 92,477 | |
| Machinery | 4,385 | 82 | - | (2,104) | - | 1 | 2,364 | |
| Construction equipment | 462 | - | - | (213) | - | - | 249 | |
| Vehicles | 2,558 | 2,326 | (65) | (2,103) | - | (3) | 2,713 | |
| Others | 17,294 | 11,255 | (134) | (11,157) | - | 4 | 17,262 | |
| Construction-in-progress | 1,170 | 61,298 | (53,400) | - | - | - | 9,068 | |
| Total | ₩ 1,037,782 | ₩ 130,696 | ₩ (53,669) | ₩ (27,941) | ₩ - | ₩ 2,553 | ₩ 1,089,421 | |

| | | 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 | 48,866 | (2,974) | (9,536) | (4,309) | 16,973 | 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 | 42,994 | (49,182) | - | - | - | 1,170 | |
| Total | ₩ 904,953 | ₩ 204,474 | ₩ (53,551) | ₩ (30,696) | ₩ (4,309) | ₩ 16,911 | ₩ 1,037,782 | |

Property, plant and equipment have been provided as collateral to the extent of ₩39,799 million as of December 31, 2007 in connection with leasehold guarantee deposits received.

Property, plant and equipment are insured against fire and other casualty losses for up to ₩714,433 million as of December 31, 2007.

10. Capitalized financing costs

The Company capitalized certain financing costs of ₩5,931 million and ₩2,203 million for the years ended December 31, 2007 and 2006, respectively, as part of the cost of the related property, plant and equipment and inventories. Such capitalized financing costs have the following effects on the Company's financial statements as of December 31, 2007 and 2006, and for the years then ended (Korean won in millions):

| | 2007 | | 2006 | |
|---|------|-------|------|-------|
| <Balance sheet> | | | | |
| Increase in inventories | ₩ | 4,248 | ₩ | 1,551 |
| Increase in property, plant and equipment | | 1,683 | | 652 |
| <Statements of income> | | | | |
| Decrease in interest expense | | 5,931 | | 2,203 |
| Increase in net income | | 4,300 | | 1,597 |

11. Intangible assets

Details of intangible assets as of December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | |
|-----------------------------|---------|--------------------------|----------------|
| | Cost | Accumulated amortization | Net book value |
| Rights for lease operations | ₩ 6,550 | ₩ (3,057) | ₩ 3,493 |
| Development costs | 1,212 | (1,189) | 23 |
| | ₩ 7,762 | ₩ (4,246) | ₩ 3,516 |

| | 2006 | | |
|-----------------------------|---------|--------------------------|----------------|
| | Cost | Accumulated amortization | Net book value |
| Rights for lease operations | ₩ 6,550 | ₩ (2,729) | ₩ 3,821 |
| Development costs | 1,212 | (1,021) | 191 |
| | ₩ 7,762 | ₩ (3,750) | ₩ 4,012 |

Changes in the net book value of intangible assets for the years ended December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | |
|-----------------------------|-------------|------------------|---------------|
| | Jan.1, 2007 | Amortization (*) | Dec. 31, 2007 |
| Rights for lease operations | ₩ 3,821 | ₩ (328) | ₩ 3,493 |
| Development costs | 191 | (168) | 23 |
| | ₩ 4,012 | ₩ (496) | ₩ 3,516 |

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

(*) Amortization includes transferred cost into development cost

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

Details of intangible assets as of December 31, 2007 are as follows (Korean won in millions):

| | Book value | Remaining estimated useful life | Remarks |
|-----------------------------|------------|---------------------------------|---------------------------------|
| Rights for lease operations | ₩ 3,493 | 11 years | Dormitory, Kyunghee University |
| Development costs | 23 | 2 years | Development of new technologies |
| | ₩ 3,516 | | |

12. Short-term & long-term borrowings

Short-term borrowings as of December 31, 2007 and 2006 consist of the following (Korean won in millions):

| Financial institution | Description | Annual interest rate (%) as of Dec. 31, 2007 | 2007 | 2006 |
|---|------------------|--|-----------|---------|
| Shinhan Bank | Commercial paper | 6.03~7.08 | ₩ 210,000 | ₩ - |
| Woori Bank | Commercial paper | 5.98~6.35 | 91,300 | - |
| Woori Investment & Securities Co., Ltd. | Commercial paper | 6.23 | 100,000 | - |
| Kookmin Bank | Usance | 5.65 | - | 2,515 |
| Korea Development Bank | Usance | 5.85 | - | 261 |
| Total | | | ₩ 401,300 | ₩ 2,776 |

Long-term loans of the Company as of December 31, 2007 and 2006 are as follows (Korean won in millions):

| Financial institution | Annual interest rate as of Dec. 31, 2007 (%) | 2007 | 2006 |
|-----------------------------------|--|----------|----------|
| Korea Housing Guarantee Co., Ltd. | 1.0 | ₩ 11,940 | ₩ 11,940 |
| Less current portion | | (1,327) | - |
| | | ₩ 10,613 | ₩ 11,940 |

The details of bonds issued as of December 31, 2007 and 2006 are as follows (Korean won in millions):

| Series | Issuance date | Maturity date | Annual interest rate in 2007 (%) | 2007 | 2006 |
|---|---------------|---------------|----------------------------------|----------|----------|
| 117 th - non-guaranteed debentures | July, 2004 | July, 2007 | 4.5 | ₩ - | ₩ 50,000 |
| 118 th - non-guaranteed debentures | July, 2007 | July, 2010 | 5.6 | 50,000 | - |
| Less present value discount | | | | (260) | (114) |
| Less current portion | | | | - | (49,886) |
| Long-term bonds | | | | ₩ 49,740 | ₩ - |

In July 2007, the Company issued its 118th - non-guaranteed debentures after the maturity of its 117th - non-guaranteed debentures. The entire principal amount of the bonds will be redeemed at their maturity after 3 years, and interest is due at the end of each quarter. Amortization of discount is calculated over the term of the bonds using the effective interest rate method as part of interest expense.

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

| Year | Long-term loans | | Bonds | | Total | |
|---------------------|-----------------|--------|-------|--------|-------|--------|
| 2008 | ₩ | 1,327 | ₩ | - | ₩ | 1,327 |
| 2009 | | 1,327 | | - | | 1,327 |
| 2010 | | 1,327 | | 50,000 | | 51,327 |
| 2011 | | 1,327 | | - | | 1,327 |
| 2012 and thereafter | | 6,632 | | - | | 6,632 |
| | ₩ | 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, 2007 and 2006 are as follows:

| Account | 2007 | | | 2006 | | |
|----------------------------------|------------------|-------------------------------------|-----------|------------------|-------------------------------------|-----------|
| | Foreign currency | Korean won equivalent (in millions) | | Foreign currency | Korean won equivalent (in millions) | |
| Cash and cash equivalents | USD | 63,244,783 | ₩ 59,336 | USD | 183,616,721 | ₩ 170,690 |
| | EUR | 24 | - | EUR | 32 | - |
| | JPY | 9,700,874,866 | 80,840 | JPY | - | - |
| | THB | 11,000 | - | THB | 11,000 | - |
| Trade accounts receivable | USD | 21,668,333 | 20,329 | USD | 100,648,957 | 93,563 |
| | SAR | 1,207,710 | 302 | SAR | 1,207,710 | 299 |
| | EUR | 1,035,056 | 1,430 | EUR | 493,615 | 603 |
| Short-term loans receivable | USD | 14,115,367 | 13,243 | USD | 14,115,367 | 13,122 |
| Other accounts receivable | USD | 43,271,852 | 40,598 | USD | 287,587 | 267 |
| | EUR | 7,286,105 | 10,064 | EUR | 4,408,750 | 5,389 |
| Long-term loans receivable | USD | 1,965,000 | 1,844 | USD | 2,265,000 | 2,106 |
| Total | | | ₩ 227,986 | | | ₩ 286,039 |
| Trade accounts and notes payable | USD | 28,605,483 | ₩ 26,838 | USD | 28,458,308 | ₩ 26,455 |
| | AED | 299,939 | 77 | AED | - | - |
| | JPY | 453,763,719 | 3,781 | JPY | 597,952,430 | 4,675 |
| | EUR | 15,076,701 | 20,825 | EUR | 7,104,252 | 8,683 |
| | GBP | 592,214 | 1,110 | GBP | 1,490 | 3 |
| Short-term borrowings | USD | - | - | USD | 2,986,691 | 2,776 |
| Other accounts payable | CNY | 547,000 | 70 | CNY | - | - |
| | JPY | 12,417,354 | 103 | JPY | - | - |
| | USD | 1,897,010 | 1,780 | USD | 1,290,105 | 1,199 |
| | EUR | 194,000 | 268 | EUR | 1,107,830 | 1,354 |
| Withholdings | EGP | 92,398 | 16 | EGP | - | - |
| | USD | 22,502,545 | 21,112 | USD | 44,077,959 | 40,975 |
| | EUR | 64,575 | 89 | EUR | 54,931 | 67 |
| | JPY | 162,515,271 | 1,354 | JPY | - | - |
| Total | | | ₩ 77,423 | | | ₩ 86,187 |

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

14. Financial position of overseas operations

Summary of the Company's overseas operations financial position as of December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | 2006 | |
|-------------------------|------|---------|------|---------|
| Current assets | ₩ | 82,824 | ₩ | 110,809 |
| Non-current assets | | 2,817 | | 1,420 |
| Current liabilities | | 142,820 | | 216,980 |
| Non-current liabilities | | 336 | | 84 |

15. Related party disclosures

The subsidiaries of the Company are as follows:

| Company name |
|---------------------------------------|
| Hanmoo Development Co., Ltd. |
| EzVille Inc. |
| GS E&C Nanjing |
| GS E&C Italy S.R.L |
| GS E&C POLAND SP.ZO.O |
| GS Cu Chi Development One-member LLC. |
| GS Nha Be Development One-member LLC. |
| GS Saigon Development One-member LLC. |

Compensation for key management personnel for the years ended December 31, 2007 is as follows (Korean won in millions):

| | 2007 | |
|--|------|--------|
| Salaries including short-term incentives | ₩ | 32,537 |
| Severance and retirement benefits | | 4,367 |
| Share-based compensation (*) | | 21,720 |
| | 2006 | |
| Salaries including short-term incentives | ₩ | 33,312 |
| Severance and retirement benefits | | 2,870 |
| Share-based compensation (*) | | 16,624 |

(*) Details of share-based compensation as of December 31, 2007 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, 2007 and 2006 are as follows (Korean won in millions):

| | Relationship | Transactions | 2007 | 2006 |
|-------------------------|--------------|-----------------------------|---------|---------|
| GS Holdings Co., Ltd. | Affiliate | Sales and other income | ₩ 1 | ₩ 4 |
| | | Cost of sales and purchases | 231 | 184 |
| | | Other expenses | 8,366 | 2,151 |
| GS Neotek Co., Ltd. | Affiliate | Sales and other income | 13 | 2 |
| | | Cost of sales and purchases | 5,408 | 4,709 |
| | | Outsourcing costs | 209,614 | 103,858 |
| GS Retail Co., Ltd. | Affiliate | Other expenses | 1,321 | 1,357 |
| | | Sales and other income | 3,609 | 3,623 |
| | | Cost of sales and purchases | 423 | 393 |
| GS EPS Co., Ltd. | Affiliate | Other expenses | 2,352 | 3,038 |
| | | Sales and other income | 41,030 | 27,354 |
| | | Cost of sales and purchases | 529,114 | 364,268 |
| GS Caltex Co., Ltd. | Affiliate | Other expenses | 3,372 | 2,089 |
| | | Sales and other income | 2,639 | 2,462 |
| | | Cost of sales and purchases | 121,497 | 91,391 |
| Seoul Highway Co., Ltd. | Affiliate | Other expenses | 102 | 50 |
| | | Sales and other income | 1 | - |
| | | Cost of sales and purchases | - | 333 |
| SUNGSAN LEISURE LTD. | Affiliate | Other expenses | 4 | 1 |
| | | Sales and other income | 20 | - |
| | | Cost of sales and purchases | 4,162 | - |
| GS E&C POLAND SP.ZO.O | Subsidiary | Other expenses | 319 | - |
| | | Sales and other income | 19,921 | 26,987 |
| | | Cost of sales and purchases | 13,437 | 11,420 |
| EzVille Inc. | Subsidiary | Other expenses | 62 | 28 |
| | | Sales and other income | 40,676 | 123,972 |
| | | Cost of sales and purchases | 72,252 | 16,050 |
| Others | - | Other expenses | 11,800 | 18,941 |
| | | Sales and other income | 740,102 | 610,947 |
| | | Cost of sales and purchases | 102,032 | 50,463 |
| Total | | Outsourcing costs | 223,051 | 115,278 |
| | | Other expenses | 26,561 | 27,977 |
| | | Sales and other income | | |

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

Outstanding balances with related parties as of December 31, 2007 and 2006 are as follows (Korean won in millions):

| | Relationship | Accounts | 2007 | 2006 |
|---------------------------------------|--------------|--|-----------|-----------|
| GS Holdings Co., Ltd. | Affiliate | Long-term guarantee deposits | ₩ 1,983 | ₩ 1,926 |
| | | Membership guarantee deposits received | 2,454 | 954 |
| | | Other payable | 407 | 27 |
| GS Neotek Co., Ltd. | Affiliate | Other receivable | 866 | 351 |
| | | Trade accounts and notes payable | 79,385 | 49,252 |
| | | Membership guarantee deposits received | 1,316 | 1,316 |
| | | Other payable | 294 | 194 |
| GS Retail Co., Ltd. | Affiliate | Trade accounts and notes receivable | 105 | 192 |
| | | Other receivable | 403 | 287 |
| | | Trade accounts and notes payable | 1,059 | 1,177 |
| | | Leasehold guarantee deposits received | 46,800 | 46,800 |
| | | Membership guarantee deposits received | 3,325 | 3,325 |
| GS EPS Co., Ltd. | Affiliate | Other payable | 3 | - |
| | | Trade accounts and notes receivable | 6,278 | - |
| | | Trade accounts and notes payable | - | 8,253 |
| | | Membership guarantee deposits received | 300 | 600 |
| GS Caltex Co., Ltd. | Affiliate | Trade accounts and notes receivable | 49,260 | 48,490 |
| | | Other receivable | 48 | 19 |
| | | Trade accounts and notes payable | 22,484 | 33,002 |
| | | Membership guarantee deposits received | 6,675 | 6,675 |
| | | Other payable | 4 | 29 |
| Chungdoridonghwagong Co., Ltd. | Affiliate | Trade accounts and notes payable | 2,294 | 11,053 |
| Seoul Highway Co., Ltd. | Affiliate | Trade accounts and notes receivable | 16,356 | 3,796 |
| | | Trade accounts and notes payable | 12 | 168 |
| | | Membership guarantee deposits received | 94 | 94 |
| SUNGSAN LEISURE Ltd. | Affiliate | Long-term guarantee deposits | 600 | - |
| | | Other receivable | - | 580 |
| GS POWER Co., Ltd | Affiliate | Trade accounts and notes receivable | 4,111 | 3,618 |
| | | Trade accounts and notes payable | 708 | 13 |
| GS PP Development Co., Ltd. | Affiliate | Other receivable | 170,770 | - |
| Cosmo Chemical Co., Ltd. | Affiliate | Membership guarantee deposits received | 66 | 66 |
| | | Other payable | 1,500 | 1,500 |
| GS E&C POLAND SP.ZO.O EzVille Inc. | Subsidiary | Other receivable | ₩ 10,433 | ₩ - |
| | Subsidiary | Trade accounts and notes payable | 17,720 | 18,424 |
| | | Membership guarantee deposits received | 31 | 31 |
| | | Other payable | 28 | - |
| Others | | Trade accounts and notes receivable | 11,199 | 552 |
| | | Long-term guarantee deposits | 66 | - |
| | | Other receivable | 29,900 | 19,205 |
| | | Trade accounts and notes payable | 17,743 | 7,452 |
| | | Membership guarantee deposits received | 2,713 | 2,713 |
| | | Other payable | 7,003 | 415 |
| Total | | Accounts and notes receivable | ₩ 302,378 | ₩ 79,016 |
| | | Accounts and notes payable | ₩ 214,418 | ₩ 193,533 |

Details of guarantees provided by the Company on behalf of related parties as of December 31, 2007 are as follows:

| Related party | Financial institutions | Description | Guarantee date | Expiry date | Amount |
|-----------------------|---|----------------------|----------------|----------------------|-----------------|
| GS E&C Italy S.R.L. | Banca Nazionale Del Lavoro | Overdraft facility | 2004-08-11 | Until further notice | EUR 300,000 |
| | Servizi Assicurativi del Commercio Estero | Contract performance | 2006-09-20 | 2018-03-31 | USD 224,000,000 |
| GS E&C Poland SP.ZO.O | LG Electronics Wroclaw SP Zo.o. | Contract performance | 2007-04-02 | 2010-04-01 | EUR 1,950,000 |
| | LG CHEM Poland SP Zo.o. | Contract performance | 2007-04-02 | 2017-04-02 | PLN 2,258,000 |
| | LG INNOTEK Poland SP Zo.o.. | Contract performance | 2007-04-02 | 2009-01-31 | PLN 4,995,000 |
| | Dong Seo Display Poland SP Zo.o. | Contract performance | 2007-09-01 | 2009-03-21 | PLN 1,660,000 |

The Company has provided promissory notes and checks to various financial institutions as security in connection with construction performance and other related performance guarantees for its related parties including Seoul Highway Co., Ltd. and Uijeongbu LRT Inc.,etc. In addition, the Company has guaranteed the borrowings of Major Development Co., Ltd. and Sachun Resort Co., Ltd. to the extent of ₩417,655 million and ₩22,000 million, respectively, as of December 31, 2007.

As of December 31, 2007 and 2006, 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, 2007 and 2006. Details of capital stock of the Company as of December 31, 2007 and 2006 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 2007 and 2006 |

17. Capital surplus

Details of capital surplus of the Company as of December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | 2006 |
|--|-----------|-----------|
| Paid-in capital in excess of par value | ₩ 109,735 | ₩ 109,735 |
| Asset revaluation surplus | 75,192 | 75,192 |
| Gain on merger and other | 27,415 | 22,909 |
| | ₩ 212,342 | ₩ 207,836 |

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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

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, 2007 and 2006 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, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | 2006 | |
|--|------|-----------|------|-----------|
| Appropriated: | ₩ | 51,339 | ₩ | 42,839 |
| Legal reserve | | 172,849 | | 132,849 |
| Financial structure improvement reserve | | 314,653 | | 224,653 |
| Business rationalization reserve | | 226,773 | | 156,935 |
| Research and human resources development reserve | | 328,967 | | 227,968 |
| Other reserves | | 1,094,581 | | 785,244 |
| | | 401,567 | | 388,423 |
| Unappropriated | ₩ | 1,496,148 | ₩ | 1,173,667 |

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 and accumulated other comprehensive income

Details of capital adjustments of the Company as of December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | 2006 | |
|--|------|----------|------|----------|
| Treasury stock | ₩ | (24,429) | ₩ | (10,728) |
| Share-based compensation (see Note 27) | | 38,344 | | 16,623 |
| | ₩ | 13,915 | ₩ | 5,895 |

Treasury stock

To stabilize the Company's share price in the KRX, the Company acquired 1,077,556 shares of its issued common stock carried at ₩24,429 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, 2007.

Details of accumulated other comprehensive income of the Company as of December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | 2006 | |
|---|------|----------|------|---------|
| Gain on valuation of available-for-sale securities | ₩ | 87 | ₩ | 82 |
| Loss on valuation of available-for-sale securities | | (13) | | (13) |
| Credit equity adjustment arising from equity method investments | | 123,004 | | 127,698 |
| Debit equity adjustment arising from equity method investments | | (2,013) | | (2,431) |
| Foreign currency translation adjustments | | 7,533 | | 7,620 |
| Gain on valuation of derivative instruments | | 41,370 | | 10,716 |
| Loss on valuation of derivative instruments | | (15,194) | | (1,603) |
| | ₩ | 154,774 | ₩ | 142,069 |

20. Construction contracts

Details of cumulative construction revenue, cost and profit of constructions in-progress as of December 31, 2007 are as follows (Korean won in millions):

| Activity | Work type | Cumulative construction revenue | Cumulative construction cost | Cumulative construction profit |
|---|--------------------------|---------------------------------|------------------------------|--------------------------------|
| Construction operations | Architectural operations | ₩ 5,326,293 | ₩ 4,593,445 | ₩ 732,848 |
| | Civil operations | 3,053,638 | 2,519,970 | 533,668 |
| | Housing operations | 4,053,473 | 3,527,382 | 526,091 |
| | Plants operations | 5,171,325 | 4,776,285 | 395,040 |
| | Environment operations | 771,238 | 668,566 | 102,672 |
| Housing construction and sales operations | | 305,234 | 230,321 | 74,913 |
| | | ₩ 18,681,201 | ₩ 16,315,969 | ₩ 2,365,232 |

Construction losses arising from construction in-progress that are likely to be incurred at the completion of construction as of December 31, 2007 amounting to ₩24,137 million were recorded as provision for construction losses.

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Years ended December 31, 2007 and 2006

Changes in balances of major construction contracts backlog for the years ended December 31, 2007 and 2006 are as follows (Korean won in millions):

| Project name | 2007 | | | |
|---|--------------|--------------|------------------|--------------|
| | Jan. 1, 2007 | New contract | Realized revenue | Dec.31, 2007 |
| LG Philips LCD P7 Project | ₩ 4,101 | ₩ - | ₩ (2,847) | ₩ 1,254 |
| LCD P7 Environment Equipment Construction | 21,703 | - | (21,703) | - |
| Seoul Outer Circular Highway 4th stage | 96,525 | 1,178 | (97,703) | - |
| Dangjin-Daejeon Highway 4th Stage | 54,966 | 13,875 | (33,750) | 35,091 |
| Mokpo National Road (Koha-Jukyo) | 89,637 | 3,096 | (14,008) | 78,725 |
| Jamsil 4th Reconstruction | 15,514 | (1,079) | (14,413) | 22 |
| Banpo Xi | 662,522 | 29,358 | (303,520) | 388,360 |
| SP 9-10 Project (*) | 171,930 | (10,938) | (87,536) | 73,456 |
| QP LAB Project (*) | 3,738 | 58 | (1,472) | 2,324 |
| Others | 9,190,011 | 9,933,532 | (5,175,744) | 13,947,799 |
| | ₩ 10,310,647 | ₩ 9,969,080 | ₩ (5,752,696) | ₩ 14,527,031 |

| Project name | 2006 | | | |
|---|--------------|--------------|------------------|--------------|
| | 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 |
| | ₩ 7,708,840 | ₩ 8,185,489 | ₩ (5,583,682) | ₩ 10,310,647 |

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

Balances of receivables from major construction contracts for the years ended December 31, 2007 and 2006 are as follows (Korean won in millions):

| Project name | 2007 | | | | | | |
|---|-----------------------------|--------------------------|-----------------------------|-------------------------------|------------|-------------|------------------------|
| | Cumulative revenue realized | Cumulative billed amount | Cumulative collected amount | Accounts and notes receivable | | | Other advance receipts |
| | | | | Billed | Non-billed | total | |
| LG Philips LCD P7 Project | ₩ 1,414,022 | ₩ 1,414,136 | ₩ 1,414,136 | ₩ - | ₩ - | ₩ - | ₩ 114 |
| LCD P7 Environment Equipment construction | 308,777 | 308,777 | 308,777 | - | - | - | - |
| Seoul Outer Circular Highway 4th Stage | 387,218 | 387,218 | 376,182 | 11,036 | - | 11,036 | - |
| Dangjin-Daejeon Highway 4th Stage | 137,656 | 134,394 | 133,879 | 515 | 3,262 | 3,777 | - |
| Mokpo National Road | 32,682 | 25,898 | 25,898 | - | 6,784 | 6,784 | - |
| Jamsil 4th Reconstruction | 221,206 | 213,323 | 213,323 | - | 7,883 | 7,883 | - |
| Banpo Xi | 406,139 | 481,587 | 481,587 | - | - | - | 75,448 |
| SP 9-10 Project | 575,376 | 510,926 | 509,866 | 1,060 | 64,450 | 65,510 | - |
| QP LAB Project | 238,868 | 241,163 | 240,842 | - | - | - | 1,974 |
| Other | 14,654,022 | 14,354,706 | 13,200,286 | 1,047,687 | 712,209 | 1,759,896 | 306,160 |
| Total | ₩ 18,375,966 | ₩ 18,072,128 | ₩ 16,904,776 | ₩ 1,060,298 | ₩ 794,588 | ₩ 1,854,886 | ₩ 383,696 |

| Project name | 2006 | | | | | | |
|--|-----------------------------|--------------------------|-----------------------------|-------------------------------|------------|-------------|------------------------|
| | Cumulative revenue realized | Cumulative billed amount | Cumulative collected 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 4 th Stage | 289,515 | 355,065 | 351,997 | - | - | - | 62,482 |
| Dangjin-Daejeon Highway 4 th Stage | 103,906 | 101,042 | 100,567 | 475 | 2,864 | 3,339 | - |
| Mokpo National Road (Koha-Jukyoo) | 553,102 | 529,800 | 368,199 | 161,601 | 23,302 | 184,903 | - |
| Jamsil 4 th 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 |
| Other | 13,198,000 | 13,297,631 | 12,588,705 | 771,140 | 305,221 | 1,076,361 | 467,066 |
| Total | ₩16,951,549 | ₩17,038,273 | ₩15,992,070 | ₩ 1,084,323 | ₩ 420,702 | ₩ 1,505,025 | ₩ 545,546 |

Total billed amount of construction contracts for the years ended December 31, 2007 and 2006 is ₩5,750,837 million and ₩6,116,950 million, respectively, and the total collected amount of construction contracts for the years ended December 31, 2007 and 2006 is ₩5,758,515 million and ₩5,758,406 million, respectively.

Details of jointly-managed construction contracts as of December 31, 2007 and 2006 are as follows (Korean won in millions):

| Project name | Period of construction | Customer | 2007 | | Remarks |
|---|-------------------------|--|---------------------------------|---------------------------|---------|
| | | | Share of contract size (amount) | Share of contract size(%) | |
| Seoul Outer Circular Highway 4 th Stage | 2001.06.30 ~ 2007.12.31 | Seoul Highway Co., Ltd. | ₩ 387,218 | 24.00% | (*) |
| The South-east Seoul Distribution Center | 2006.10.01 ~ 2008.12.31 | SH Corporation | 258,647 | 56.00% | (*) |
| The City Seven Xi | 2005.05.01 ~ 2008.12.31 | Dosisaram Co., Ltd. | 199,472 | 50.00% | (*) |
| Daegwallyeong Alpensia | 2006.10.01 ~ 2008.10.31 | Kang-won do Development Corporation | 190,092 | 62.00% | (*) |
| Dangjin-Daejeon Highway 4 th Stage | 2001.12.24 ~ 2008.12.31 | Korea Highway Corporation | 172,747 | 90.00% | (*) |
| Dangjin-Daejeon Highway 5 th Stage | 2001.12.24 ~ 2008.12.31 | Korea Highway Corporation | 141,524 | 90.00% | (*) |
| Dangjin-Daejeon Highway 7 th Stage | 2001.12.24 ~ 2008.12.31 | Korea Highway Corporation | 140,709 | 90.00% | (*) |
| Buhang Multipurpose Dam | 2006.09.30 ~ 2011.07.31 | Korea Water Resources Corporation | 133,795 | 60.00% | (*) |
| Hyunpung-Kimcheon Construction 1 st Stage | 2001.12.28 ~ 2007.12.27 | Korea Highway Corporation | 131,959 | 90.00% | (*) |
| Dangjin-Daejeon Highway 6 th Stage | 2001.12.24 ~ 2008.12.23 | Korea Highway Corporation | 116,265 | 90.00% | (*) |
| Shinwolsung Atomic Power Plant main Facility No.1 and 2 | 2003.07.01 ~ 2010.09.30 | Korea Hydro & Nuclear Power Co., Ltd. | 113,244 | 13.50% | (@) |
| Mokpo National Road | 2004.11.01 ~ 2008.11.01 | Iksan Regional Road Construction Management Office | 111,406 | 42.00% | (*) |
| Hyunpung-Kimcheon Construction 6 th Stage | 2001.12.28 ~ 2007.12.27 | Korea Highway Corporation | 110,394 | 90.00% | (*) |
| Incheon Grand Bridge | 2005.06.16 ~ 2009.10.10 | KODA Development Co., Ltd | 109,545 | 10.00% | (#) |
| Busan~Ulsan electric railway | 2005.12.26 ~ 2010.09.30 | Korea Rail Network Authority | 108,990 | 40.00% | (^) |
| Hyunpung-Kimcheon Construction 3 rd Stage | 2001.12.28 ~ 2007.12.31 | Korea Highway Corporation | 108,959 | 90.00% | (*) |
| Incheon Production Base 2 nd Expansion | 2004.07.27 ~ 2009.06.30 | Korea Gas Corporation | 107,111 | 40.00% | (*) |
| Iksan~Jangsu Highway 5 th Stage | 2001.11.22 ~ 2007.12.31 | Korea Rail Network Authority | 102,600 | 90.00% | (*) |
| Songdo Apartment Construction 4 th Stage | 2005.05.03 ~ 2008.01.31 | Incheon City Development Corporation | 95,767 | 63.00% | (*) |

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| 2007 | | | | | |
|---|-------------------------|--|---------------------------------|---------------------------|---------|
| Project name | Period of construction | Customer | Share of contract size (amount) | Share of contract size(%) | Remarks |
| Seoul Outer Circular Highway 4 th Stage | 2001.06.30 ~ 2008.06.29 | Seoul Highway Co., Ltd. | ₩ 386,040 | 24.00% | (*) |
| The South-east Seoul Distribution Center | 2006.10.01 ~ 2008.12.31 | SH Corporation | 258,647 | 56.00% | (*) |
| Jamsil 4 th Reconstruction | 2003.10.01 ~ 2007.02.28 | Jamsil 4 th Apt. Reconstruction Association | 222,306 | 50.00% | (*) |
| The City Seven Xi | 2005.05.01 ~ 2008.12.31 | Dosisaram Co., Ltd. | 199,472 | 50.00% | (*) |
| Jamsil 3 rd Reconstruction | 2004.05.01 ~ 2007.08.30 | Jamsil 3 rd APT. Reconstruction Association | 172,512 | 33.33% | (^) |
| Dangjin-Daejeon Highway 4 th Stage | 2001.12.24 ~ 2009.02.05 | Korea Highway Corporation | 158,872 | 90.00% | (*) |
| Dangjin-Daejeon Highway 7 th Stage | 2001.12.24 ~ 2009.02.05 | Korea Highway Corporation | 140,389 | 90.00% | (*) |
| Dangjin-Daejeon Highway 5 th Stage | 2001.12.24 ~ 2009.02.05 | Korea Highway Corporation | 139,455 | 90.00% | (*) |
| Buhang Multipurpose Dam | 2006.09.30 ~ 2011.08.15 | Korea Water Resources Corporation | 134,164 | 60.00% | (*) |
| Hyunpung-Kimcheon Construction 1 st Stage | 2001.12.28 ~ 2007.12.27 | Korea Highway Corporation | 125,318 | 90.00% | (*) |
| Dangjin-Daejeon Highway 6 th Stage | 2001.12.24 ~ 2009.02.05 | Korea Highway Corporation | 111,696 | 90.00% | (*) |
| Shinwolsung Atomic Power Plant main Facility No.1 and 2 | 2003.07.01 ~ 2010.09.30 | Korea Hydro & Nuclear Power Co., Ltd. | 110,558 | 13.50% | (@) |
| Mokpo National Road | 2004.11.01 ~ 2008.11.01 | Iksan Regional Road Construction Management Office | 108,310 | 42.00% | (*) |
| Hyunpung-Kimcheon Construction 6 th Stage | 2001.12.28 ~ 2007.12.27 | Korea Highway Corporation | 107,389 | 90.00% | (*) |
| Incheon Production Base 2 nd Expansion | 2004.07.27 ~ 2009.06.30 | Korea Gas Corporation | 106,180 | 40.00% | (*) |
| Busan~Ulsan electric railway | 2005.12.26 ~ 2010.09.30 | Korea Rail Network Authority | 105,840 | 40.00% | (^) |
| Shinguro Xi | 2004.03.16 ~ 2007.07.31 | ARD Holdings Co., Ltd. | 103,441 | 70.00% | (*) |

The legends represent the following representative (project owner) 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, 2007 and 2006 are as follows (Korean won in millions):

| Project name | 2007 | | | | |
|--------------|-----------------|-----------------------------|-----------------------------|-------------------|------------------|
| | Contract amount | Cumulative revenue realized | Cumulative collected amount | Trade receivables | Advance receipts |
| Heights Xi | ₩ 286,932 | ₩ 227,254 | ₩ 192,248 | ₩ 35,006 | ₩ - |
| Susaek Xi | 230,918 | 77,980 | 44,587 | 33,393 | - |
| Chungla Xi | 519,725 | 13,100 | 36,964 | | 23,864 |

| Project name | 2006 | | | | |
|--------------|-----------------|-----------------------------|-----------------------------|-------------------|------------------|
| | Contract amount | Cumulative revenue realized | Cumulative collected 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 and any construction related issues during course of construction, if any, are resolved. Retention sums on construction contracts as of December 31, 2007 and 2006 amounted to ₩45,752 million and ₩36,267 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, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | 2006 | |
|--|------|---------|------|---------|
| Current income taxes (*) | ₩ | 158,594 | ₩ | 161,797 |
| Deferred income taxes arising from tax effect of temporary differences | | 8,906 | | (1,766) |
| Deferred income taxes recognized directly to equity | | 715 | | (3,053) |
| Current-income taxes recognized directly to equity | | (541) | | (1,421) |
| Additional payment of income taxes | | 80 | | - |
| Provision for income taxes | ₩ | 167,754 | ₩ | 155,557 |

(*) Current income taxes include additional payment of income taxes arising from tax filing of prior year's tax reconciliation.

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):

| | 2007 | | 2006 | |
|--|------|----------|------|----------|
| Income before income taxes per statements of income | ₩ | 567,766 | ₩ | 542,510 |
| Non-temporary differences: | | | | |
| Entertainment expenses in excess of tax limit | | 10,287 | | 7,700 |
| Taxes and dues | | 16,299 | | 10,953 |
| Share-based compensation expense | | 21,720 | | 16,623 |
| Others | | 1,198 | | (1,264) |
| | | 49,504 | | 34,012 |
| Temporary differences: | | | | |
| Appropriated retained earnings for technological development | | 9,644 | | 5,162 |
| Provision for construction warranty | | 2,738 | | 41,307 |
| Provision for construction losses | | 11,635 | | 11,506 |
| Equity in loss of equity method investments | | 9,433 | | 3,165 |
| Executive incentives | | (16,800) | | 7,850 |
| Gain on valuation of derivative instruments | | 188 | | 3,292 |
| Impairment loss on property, plant and equipment | | (470) | | 4,309 |
| Severance and retirement benefits | | 14,710 | | 5,306 |
| Accrued income | | (3,012) | | (936) |
| Allowance for doubtful accounts | | 284 | | (1,318) |
| Deposits for severance benefits and retirement | | (14,244) | | (5,306) |
| Interest on capitalized construction period | | (461) | | (756) |
| Equity in earnings of equity method investments | | (62,280) | | (28,523) |
| Impairment loss on long-term investment securities | | - | | (532) |
| Loss on valuation of derivative instruments | | (675) | | (26,102) |
| Others | | 14,324 | | (903) |
| | | (34,986) | | 17,521 |
| Taxable income for corporate income tax reporting purposes | ₩ | 14,518 | ₩ | 51,533 |

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

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, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | | |
|--|--------------------|-------------------------------|----------------------------|---------------------|
| | As of Jan. 1, 2007 | Changes in 2006 tax filing | Net increase (decrease) | As of Dec. 31, 2007 |
| Deductible temporary Differences: | | | | |
| Allowance for doubtful accounts | ₩ 63,980 | ₩ (0.50) | ₩ 284 | ₩ 64,264 |
| Available-for-sale securities | 24,376 | - | - | 24,376 |
| Land | 183 | - | - | 183 |
| Buildings | 15,469 | - | (470) | 14,999 |
| Executive incentives | 16,800 | - | (16,800) | - |
| Provision for construction warranty | 70,162 | 1,500 | 2,738 | 74,400 |
| Provision for construction losses | 12,502 | - | 11,635 | 24,137 |
| Severance and retirement benefits | 86,890 | - | 14,710 | 101,600 |
| Government grants | 74 | - | 14,324 | 14,398 |
| Derivative instruments | 675 | - | (675) | - |
| Equity method investments | 127,801 | - | (52,847) | 74,954 |
| Bonus Stock | 414 | - | - | 414 |
| Others | 1,247 | - | - | 1,247 |
| | ₩ 420,573 | ₩ 1,500 | ₩ (27,101) | ₩ 394,972 |
| Taxable temporary differences: | | | | |
| Inventories | (38,748) | - | 461 | (39,209) |
| Accrued income | (5,998) | - | 3,012 | (9,010) |
| Accumulated depreciation | (1,274) | - | - | (1,274) |
| Available-for-sale securities | (4,371) | - | - | (4,371) |
| Deposits for severance indemnities and retirement benefits | (86,890) | - | 14,244 | (101,134) |
| Appropriated retained earnings for technological development | (21,773) | - | (9,644) | (12,129) |
| Appropriated retained earnings for loss on sale of treasury stock | (2,467) | - | - | (2,467) |
| Derivative instruments | (4,176) | - | (188) | (3,988) |
| | ₩ (165,697) | ₩ - | ₩ 7,885 | ₩ (173,582) |
| Deferred income taxes recognized: | | | | |
| Deferred income tax assets, net | ₩ 70,091 | ₩ 412 | ₩ (9,621) | ₩ 60,882 |
| Deferred income tax liabilities recognized directly to equity, net | ₩ (52,150) | ₩ - | ₩ 715 | ₩ (51,435) |

| | 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 | ₩ (1,317) | ₩ 63,981 |
| Available-for-sale securities | 24,908 | - | (532) | 24,376 |
| Land | 183 | - | - | 183 |
| Buildings | 11,880 | (360) | 3,950 | 15,470 |
| 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 | 51 | 74 |
| Equity method investments | 153,159 | - | (25,358) | 127,801 |
| Others | 29,035 | - | (26,699) | 2,336 |
| | ₩ 404,132 | ₩ 377 | ₩ 16,064 | ₩ 420,573 |
| Taxable temporary differences: | | | | |
| Inventories | (37,952) | (39) | (756) | (38,747) |
| Accrued income | (5,062) | - | (936) | (5,998) |
| Accumulated depreciation | (1,274) | - | - | (1,274) |
| Available-for-sale securities | (4,371) | - | - | (4,371) |
| 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 | (7,468) | - | 3,292 | (4,176) |
| | ₩ (167,114) | ₩ (39) | ₩ 1,456 | ₩ (165,697) |
| Deferred income taxes recognized: | | | | |
| Deferred income tax assets, net | ₩ 65,180 | ₩ 92 | ₩ 4,819 | ₩ 70,091 |
| Deferred income tax liabilities recognized directly to equity, net | ₩ (49,097) | ₩ - | ₩ (3,053) | ₩ (52,150) |

The Company did not recognize the 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.

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Years ended December 31, 2007 and 2006

Details of gross deferred income tax assets and liabilities as of December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | | | |
|---|-----------------------|-----------------------------------|-------------|-----------------------|------------|
| | Temporary differences | Reversal of temporary differences | | Deferred income taxes | |
| | | 2007 | 2008 | 2009 and thereafter | Current |
| Deductible temporary differences: | | | | | |
| Allowance for doubtful accounts | ₩ 64,264 | ₩ 53,179 | ₩ 11,085 | ₩ 14,625 | ₩ 3,048 |
| Available-for-sale securities | 24,376 | - | 24,376 | - | 6,703 |
| Land | 183 | - | 183 | - | 50 |
| Buildings | 14,999 | - | 14,999 | - | 4,125 |
| Bonus stock | 414 | - | 414 | - | 114 |
| Provision for construction warranty | 74,400 | - | 74,400 | - | 20,460 |
| Provision for construction losses | 24,137 | - | 24,137 | - | 6,638 |
| Severance and retirement benefits | 101,600 | - | 101,600 | - | 27,940 |
| Equity method investments | 74,954 | - | 74,954 | - | 20,612 |
| Government grants | 14,398 | 14,398 | - | 3,959 | - |
| Others | 1,247 | - | 1,247 | - | 343 |
| | ₩ 394,972 | ₩ 67,577 | ₩ 327,395 | ₩ 18,584 | ₩ 90,033 |
| Taxable temporary differences: | | | | | |
| Inventories | ₩ (39,209) | ₩ (39,209) | ₩ - | ₩ (10,782) | ₩ - |
| Accrued income | (9,010) | (9,010) | - | (2,478) | - |
| Accumulated depreciation | (1,274) | - | (1,274) | - | (350) |
| Deposits for severance and retirement benefits | (101,134) | - | (101,134) | - | (27,813) |
| Appropriated retained earnings for technological development | (12,129) | - | (12,129) | - | (3,335) |
| Available-for-sale securities | (4,371) | - | (4,371) | - | (1,202) |
| Appropriated retained earnings for loss on sale of treasury stock | (2,467) | - | (2,467) | - | (678) |
| Derivative instruments | (3,988) | (3,988) | - | (1,097) | - |
| Deferred income taxes recognized directly to equity | (187,035) | - | (187,035) | - | (51,435) |
| | ₩ (360,617) | ₩ (52,207) | ₩ (308,410) | ₩ (14,357) | ₩ (84,813) |
| Net | ₩ 34,355 | ₩ 15,370 | ₩ 18,985 | ₩ 4,227 | ₩ 5,220 |
| Applicable tax rate | | 27.5% | 27.5% | | |

| | 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 | ₩ 63,981 | ₩ 50,656 | ₩ 13,325 | ₩ 13,930 | ₩ 3,665 |
| Available-for-sale securities | 24,376 | - | 24,376 | - | 6,703 |
| Land | 183 | - | 183 | - | 50 |
| Buildings | 15,470 | - | 15,470 | - | 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 | 74 | 74 | - | 20 | - |
| Others | 130,137 | 675 | 129,462 | 206 | 35,602 |
| | ₩ 420,573 | ₩ 68,205 | ₩ 352,368 | ₩ 18,756 | ₩ 96,901 |
| Taxable temporary differences: | | | | | |
| Inventories | (38,747) | (38,747) | - | (10,655) | - |
| Accrued income | (5,998) | (5,998) | - | (1,649) | - |
| Available-for-sale securities | (4,371) | - | (4,371) | - | (1,202) |
| Accumulated depreciation | (1,274) | - | (1,274) | - | (350) |
| Derivative instruments | (4,176) | (4,176) | - | (1,148) | - |
| 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) |
| Appropriated retained earnings for loss on sale of treasury stock | (2,467) | - | (2,467) | - | (678) |
| Deferred income taxes recognized directly to equity | (189,637) | - | (189,637) | - | (52,150) |
| | ₩ (355,334) | ₩ (48,921) | ₩ (306,413) | ₩ (13,452) | ₩ (84,263) |
| Net | ₩ 65,239 | ₩ 19,284 | ₩ 45,955 | ₩ 5,304 | ₩ 12,637 |
| Applicable tax rate | | 27.5% | 27.5% | | |

The Company's income taxes payable amounted to ₩82,484 million and ₩110,755 million as of December 31, 2007 and 2006, 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, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | 2006 |
|--|-----------|-----------|
| Gain on disposal of treasury stock | ₩ (8,437) | ₩ (2,320) |
| Gain on valuation of available-for-sales securities recognized in equity | (101) | (28) |
| Credit equity adjustment arising from equity method investments | (169,660) | (46,657) |
| Debit equity adjustment arising from equity method investments | 2,777 | 764 |
| Gain on valuation of derivative instruments | (11,614) | (3,194) |
| | (187,035) | (51,435) |

The effective income tax rates for the years ended December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | 2006 |
|----------------------------|-----------|-----------|
| Provision for income taxes | ₩ 167,754 | ₩ 155,557 |
| Income before income taxes | 567,766 | 542,510 |
| Effective income tax rate | 29.5% | 28.7% |

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Years ended December 31, 2007 and 2006

22. Per share amounts

The Company's per share amounts for the years ended December 31, 2007 and 2006 are computed as follows:

| Basic earnings per share | 2007 | | 2006 | |
|---|------|-------------------|------|-------------------|
| Net income | ₩ | 400,012,516,333 | ₩ | 386,953,458,149 |
| Weighted-average number of shares of common stock outstanding (*) | | 49,943,657 shares | | 49,990,703 shares |
| Basic earnings per share | ₩ | ₩ 8,009 | ₩ | ₩ 7,741 |

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

| | 2007 | | |
|---|------------------------------|------|--|
| | 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 | (63,954) | 365 | (23,343,210) |
| Additional purchase of treasury stock | (58,579) | 285 | (16,695,015) |
| Additional purchase of treasury stock | (58,579) | 284 | (16,636,436) |
| Additional purchase of treasury stock | (33,921) | 281 | (9,531,801) |
| Additional purchase of treasury stock | (33,921) | 280 | (9,497,880) |
| Shares granted to executives under share-based compensation | 87,308 | 280 | 24,446,240 |
| Shares on treasury stock fund | (915,910) | 365 | (334,307,150) |
| | | | 18,229,434,748 |
| | | | ÷ 365 |
| Weighted-average number of shares outstanding | | | 49,943,657 |

| | 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 under share-based compensation | 50,681 | 286 | 14,494,766 |
| Shares granted to executives share-based compensation | 79,286 | 280 | 22,200,080 |
| | | | 18,246,606,531 |
| | | | ÷ 365 |
| Weighted-average number of shares outstanding | | | 49,990,703 |

Diluted earnings per share

As disclosed in Note 27, an additional 775,415 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 50,719,072 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 2006 dividends were approved at the ordinary stockholders' meeting held on March 16, 2007 and the 2007 dividends are proposed for an approval at the annual common stockholders' meeting to be held on March 7, 2008.

Details of dividends declared for the years ended December 31, 2007 and 2006 are as follows:

| | 2007 | | 2006 | |
|------------------------|------|-------------------|------|-------------------|
| Dividend per share (A) | ₩ | 1,650(33%) | ₩ | 1,550(31%) |
| Number of shares (B) | | 49,922,444 shares | | 50,020,136 shares |
| Dividends (A x B) | ₩ | 82,372,032,600 | ₩ | 77,531,210,800 |

The dividend payout ratio for the years ended December 31, 2007 and 2006 are as follows:

| | 2007 | | 2006 | |
|-----------------------------|------|-----------------|------|-----------------|
| Dividends (A) | ₩ | 82,372,032,600 | ₩ | 77,531,210,800 |
| Net income (B) | | 400,012,516,333 | | 386,953,458,149 |
| Dividend payout ratio (A/B) | | 20.59% | | 20.04% |

The dividend yield ratio for the years ended December 31, 2007 and 2006 are as follows:

| | 2007 | | 2006 | |
|--|------|---------|------|--------|
| Dividend per share (A) | ₩ | 1,650 | ₩ | 1,550 |
| Market value per share at balance sheet date (B) | | 156,000 | | 83,100 |
| Dividend yield ratio (A/B) | | 1.06% | | 1.87% |

24. Supplementary cash flow information

Significant transactions not involving cash flows for the years ended December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | 2006 | |
|---|------|---------|------|--------|
| Transfer of held-to-maturity securities to current portion | ₩ | 4,220 | ₩ | 3,302 |
| Payments offset against receivables from construction contracts | | - | | 16,972 |
| Transfer of long-term borrowings to current portion | | 1,327 | | 49,666 |
| Transfer of construction in-progress to property, plant and equipment | | 53,401 | | 49,182 |
| Transfer of available-for-sale securities to account receivable | | 296,297 | | - |
| Transfer of inventories to property, plant and equipment | | 50,221 | | - |

Years ended December 31, 2007 and 2006

25. Commitments and contingencies

As of December 31, 2007, Seoul Guarantee Insurance Company, Korea Construction Financial Corporation, a government agency and other third parties have provided guarantees amounting to approximately ₩5,013,493 million on behalf of the Company, for the construction performance, housing construction and sales performance and construction warranty. Also, as of December 31, 2007, the Company has provided guarantees, jointly and severally with Korea Housing Guarantee Co., Ltd. and other parties, amounting to approximately ₩9,158,714 million on behalf of other construction companies, including ChungAng Construction Co., Ltd. As of December 31, 2007, other construction companies have provided guarantees, jointly and severally with Korea Housing Guarantee Co., Ltd. and other parties, in the amount of ₩138,815 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 ₩1,068,600 million and ₩5,223,389 million, respectively, as of December 31, 2007.

The Company has also provided guarantees of ₩414 million for payment guarantees, ₩132,873 million for construction performance and ₩6,112 million for construction warranty on behalf of its overseas corporations as of December 31, 2007.

The Export-Import Bank of Korea and other parties have guaranteed the performance of the Company's overseas construction projects. As of December 31, 2007, the outstanding guarantees amounted to ₩659,711 million.

As of December 31, 2007, 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, 2007, the Company has provided guarantees amounting to ₩550,941 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 ₩10,811,605 million to several domestic financial institutions as of December 31, 2007.

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, 2007, the aggregate amount of these claims as a defendant and as a plaintiff amounted to ₩29,463 million (6 cases) and ₩19,551 million (28 cases), respectively. In management's opinion, the outcome of those claims will not have a material adverse impact on the Company's financial position or results of operation.

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 ₩238,724 million as of December 31, 2007.

As of December 31, 2007, the Company has also provided guarantees amounting to ₩114,200 million for the corporation placing an apartment order (Taesung Genesis Co., Ltd, etc).

26. Derivative financial instruments

The outstanding currency forward contracts as of December 31, 2007, are summarized as follows (Korean won in millions, foreign currencies in thousands):

| Counter party | Long position | | Short position | |
|---|---------------|------------|----------------|------------|
| ABN AMRO Bank N.V. | EUR | 3,778 | USD | 5,113 |
| | USD | 4,698 | EUR | 3,257 |
| Australia and Newzeland Bank Group, Ltd. | JPY | 159,300 | USD | 1,430 |
| Barclays Bank PLC. | EUR | 145,965 | USD | 200,025 |
| | KRW | 13,865 | USD | 14,994 |
| | USD | 4,411 | EUR | 3,034 |
| BNP Paribas Bank | CHF | 12,167 | JPY | 1,182,990 |
| | EUR | 6,245 | JPY | 998,438 |
| | JPY | 1,002,249 | USD | 8,816 |
| | KRW | 64,832 | USD | 70,000 |
| Calyon Bank, Ltd. | USD | 60,481 | JPY | 6,582,327 |
| | EUR | 50,000 | USD | 68,520 |
| | EUR | 1,418 | KRW | 1,906 |
| Citi bank Korea Inc. | KRW | 9,524 | USD | 10,217 |
| | EUR | 417 | KRW | 560 |
| | EUR | 22,378 | USD | 32,123 |
| DBS BANK LTD. | GBP | 3,026 | USD | 5,970 |
| | JPY | 470,120 | USD | 4,276 |
| | JPY | 113,763 | USD | 1,030 |
| | EUR | 50,000 | USD | 68,520 |
| Deutsche Bank A.G. | JPY | 176,415 | USD | 1,571 |
| | KRW | 13,307 | USD | 14,329 |
| | USD | 762 | KRW | 698 |
| GOLDMAN SACHS | USD | 5,420 | EUR | 3,820 |
| | JPY | 8,786,600 | USD | 77,470 |
| | USD | 21,343 | JPY | 2,431,797 |
| The Hongkong & Shanghai Banking Corp., Ltd. | EUR | 33,494 | USD | 45,818 |
| | JPY | 27,935 | USD | 249 |
| | KRW | 297,234 | USD | 321,108 |
| ING BANK N.V. | CHF | 26,186 | JPY | 2,506,606 |
| | EUR | 1,995 | USD | 2,927 |
| | EUR | 10,298 | JPY | 1,594,815 |
| | JPY | 86,970 | USD | 780 |
| SC First Bank Korea, Ltd. | KRW | 17,053 | JPY | 2,013,824 |
| | EUR | 77,658 | USD | 106,881 |
| | JPY | 6,243,512 | USD | 55,961 |
| | KRW | 240,697 | USD | 260,991 |
| UBS AG | USD | 4,861 | JPY | 549,948 |
| | EUR | 50,000 | USD | 68,275 |
| Total | CHF | 38,353 | EUR | 10,111 |
| | EUR | 453,229 | JPY | 17,860,745 |
| | GBP | 3,026 | KRW | 3,164 |
| | JPY | 17,066,864 | USD | 1,446,834 |
| | KRW | 656,512 | | |
| | USD | 101,976 | | |

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

The outstanding currency option contracts as of December 31, 2007, are as follows (foreign currencies in thousands):

| Date of contract | Exercise Price | Long Position | | Short Position | | Maturity date |
|------------------|----------------|---------------|-----------|----------------|--------|---------------|
| 2007-10-31 | 113.52 | JPY | 3,221,919 | USD | 28,382 | 2008-02-05 |
| 2007-10-31 | 1.4456 | EUR | 12,290 | USD | 17,766 | 2008-02-05 |
| 2007-10-31 | 2.0660 | GBP | 209 | USD | 431 | 2008-02-05 |
| 2007-10-31 | 164.10 | JPY | 152,000 | EUR | 926 | 2008-02-01 |
| 2007-12-03 | 109.10 | JPY | 1,136,000 | USD | 10,412 | 2008-04-03 |
| 2007-12-03 | 1.4708 | EUR | 10,795 | USD | 15,878 | 2008-04-03 |

The outstanding foreign exchange risk insurance contracts with Korea Export Insurance Corporation as of December 31, 2007 are as follows (U.S. dollars in thousands, except for exchange rate):

| Counter party | Contract amount | | Guaranteed exchange rate (USD/KRW) | Date of contract | Maturity date |
|------------------------------------|-----------------|-----------|---------------------------------------|------------------|---------------|
| Korea Export Insurance Corporation | USD | 5,591 | 1,204 | 2004-02-06 | 2008-06-30 |
| Korea Export Insurance Corporation | USD | 6,267 | 999.30 | 2005-04-14 | 2008-08-31 |
| Korea Export Insurance Corporation | USD | 16,011 | 1,038.83 | 2005-10-13 | 2008-06-30 |
| Korea Export Insurance Corporation | USD | 225,840 | 926.76 | 2006-12-15 | 2010-03-31 |
| Korea Export Insurance Corporation | USD | 42,366 | 920.41 | 2007-05-21 | 2009-12-31 |
| Korea Export Insurance Corporation | JPY | 2,501,000 | 8.2162 | 2007-08-06 | 2010-04-30 |
| Korea Export Insurance Corporation | USD | 285,753 | 918.50 | 2007-08-14 | 2011-10-31 |
| Total | USD | 581,828 | | | |
| | JPY | 2,501,000 | | | |

Details of valuation of derivative instruments as of December 31, 2007 and 2006 are as follows (Korean won in millions):

| Contracts | 2007 | | |
|---------------------------------|------------|-------------------------------------|-----------------------------------|
| | Fair value | Credited (charged) to net income | Other comprehensive income (*) |
| Currency forwards | ₩ 31,400 | ₩ 695 | ₩ 30,705 |
| Currency options | 1,295 | 17 | - |
| Foreign exchange risk insurance | (1,187) | 148 | (1,335) |
| | ₩ ₩ 31,508 | ₩ ₩ 860 | ₩ ₩ 29,370 |

| Contracts | 2006 | | |
|---------------------------------|------------|-------------------------------------|-----------------------------------|
| | Fair value | Credited (charged) to net income | Other comprehensive income (*) |
| 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 |

(*) Before deducting deferred income taxes

27. Share-based compensation

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

The LPI plan

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

Details of the LPI Plan are as follows:

| | |
|---|--|
| Grant date | : September 26, 2006 |
| Standard number of shares (*) | : 775,415 shares |
| Range of number of shares to be granted (*) | : nil to 1,163,123 shares |
| Counterparty | : executives |
| Vesting conditions | : (i) In service for a period of three years (ii) Performance conditions: <ul style="list-style-type: none"> • 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, 2007, 68 executives are eligible to participate in the LPI Plan. The Company estimated that it will meet 116% 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 the other comprehensive income 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 | | | Number of shares to be granted |
|---|---|-------|---------------------------------|
| More than | | Below | |
| 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 |

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

The expense recognized in the statement of income for the share-based compensation plan for the year ended December 31, 2007 is as follows (Korean won in millions):

| | 2007 | |
|---|------|--------|
| Accumulated share-based compensation expense recognized as of December 31, 2007 | ₩ | 38,344 |
| Accumulated share-based compensation expense recognized in the prior years | ₩ | 16,624 |
| Share-based compensation expense recognized in 2007 | | |
| · Selling and administrative expenses | | 20,725 |
| · Construction cost | | 995 |
| | | 21,720 |
| Estimated compensation expense to be recognized for the future years | | 15,422 |
| Estimated total compensation expense | ₩ | 53,766 |

28. 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, 2007 and 2006 are ₩23 million and ₩25 million, respectively.

The contributions to society made by the Company for the years ended December 31, 2007 and 2006 amounted to ₩4,189 million and ₩13,054 million, respectively.

29. 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 draws 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, 2007 and 2006 amounted to ₩9,659 million and ₩6,411 million, respectively.

30. Human resource development

Expenditures incurred for development of specialization in human resources during the years ended December 31, 2007 and 2006 amounted to ₩5,745 million and ₩5,209 million, respectively.

31. 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 customer |
|-----------------------------|--|--|
| Architectural work division | Building, factory and others | LG Philips LCD Co., Ltd., Kyungbang Ltd., etc. |
| Civil work division | Road, bridge and others | Public Procurement Service, Korea Land Corp., Korea rail network authority |
| Housing work division | Apartment, villa and others | Korea Real Estate Investment Trust Co., Ltd., Banpo Jugong Rebuilding Association |
| Plant work division | Energy plant, industrial facilities and others | Aromatics Oman LLC, Qatar Petroleum, etc. |
| Environment work division | Environment facility and others | LG Philips LCD Co., Ltd., Environmental Management Corporation, etc. |
| 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, 2007 and 2006 (Korean won in millions):

| Division | 2007 | | | |
|-----------------------------|-------------|-------------------------|--|-------------------------------|
| | Sales | Operating income (loss) | Property, plant and equipment, and intangible assets | Depreciation and amortization |
| Architectural work division | ₩ 1,048,081 | ₩ 42,169 | ₩ 223,704 | ₩ 4,395 |
| Civil division | 789,560 | 145,885 | 18,638 | 1,389 |
| Housing division | 1,941,461 | 136,840 | 240,523 | 3,013 |
| Plant | 1,972,837 | 144,548 | 47,299 | 3,569 |
| Environment | 212,257 | (7,621) | 6,370 | 504 |
| Development work division | 44,509 | (14,172) | 499,205 | 10,604 |
| Others | 2,831 | (5,605) | 57,199 | 4,962 |
| | ₩ 6,011,536 | ₩ 442,044 | ₩ 1,092,938 | ₩ 28,436 |

| Division | 2006 | | | |
|-----------------------------|-------------|-------------------------|--|-------------------------------|
| | 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 |

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

The following table presents the sales of the Company by geographical segments for the years ended December 31, 2007 and 2006 (Korean won in millions):

| | 2007 | | 2006 | |
|----------------|------|-----------|------|-----------|
| Domestic sales | ₩ | 5,054,534 | ₩ | 4,851,615 |
| Central Asia | | 831,067 | | 534,981 |
| China | | 21,815 | | 199,473 |
| Others | | 104,120 | | 159,096 |
| | ₩ | 6,011,536 | ₩ | 5,745,165 |

32. 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, 2007 and 2006 are as follows (Korean won in millions):

| | Construction costs | | Selling and administrative expenses | | Total | |
|-----------------------------------|--------------------|-----------|-------------------------------------|-----------|-----------|-----------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Labor costs | ₩ 230,228 | ₩ 222,588 | ₩ 171,752 | ₩ 128,658 | ₩ 401,980 | ₩ 351,246 |
| Severance and retirement benefits | 26,834 | 22,473 | 13,731 | 10,100 | 40,565 | 32,573 |
| Employee benefits | 44,456 | 48,585 | 23,684 | 20,572 | 68,140 | 69,157 |
| Rental expense | 18,451 | 17,986 | 8,119 | 5,256 | 26,570 | 23,242 |
| Depreciation | 22,638 | 25,812 | 5,303 | 4,884 | 27,941 | 30,696 |
| Amortization | 45 | 81 | 451 | 489 | 496 | 570 |
| Taxes and dues | 40,025 | 46,479 | 8,085 | 8,776 | 48,110 | 55,255 |
| | ₩ 382,677 | ₩ 384,004 | ₩ 231,125 | ₩ 178,735 | ₩ 613,802 | ₩ 562,739 |

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

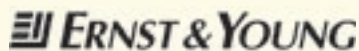
Summary of operating results (unaudited) for the three months ended December 31, 2007 and 2006 are as follows (Korean won in millions, except per share amounts):

| | Three months ended December 31, | |
|---------------------|---------------------------------|-------------|
| | 2007 | 2006 |
| Sales | ₩ 2,132,916 | ₩ 1,729,035 |
| Cost of sales | 1,835,670 | 1,517,543 |
| Gross profit | 297,246 | 211,492 |
| Operating income | 148,378 | 84,682 |
| Net income | 124,088 | 66,419 |
| Earnings per share: | ₩ 2,485 | ₩ 1,328 |

34. Comprehensive income

The details of comprehensive income for the years ended December 31, 2007 and 2006 are as follows (Korean won in millions):

| | 2007 | | 2006 | |
|--|------|----------|------|---------|
| Net income | ₩ | 400,013 | ₩ | 386,953 |
| Other comprehensive income: | | | | |
| Gain on valuation of available-for-sale securities | | 5 | | 449 |
| Loss on valuation of available-for-sale securities | | - | | (5) |
| Credit equity adjustment arising from equity method investments | | (4,694) | | (1,978) |
| Debit equity Capital adjustment arising from equity method investments | | 418 | | (2,914) |
| Gain on translation of foreign currency | | - | | 6,900 |
| Loss on translation of foreign currency | | (88) | | - |
| Gain on valuation of derivative instruments | | 30,654 | | (6,790) |
| Loss on valuation of derivative instruments | | (13,591) | | - |
| | | 12,704 | | (4,338) |
| Comprehensive income | ₩ | 412,717 | ₩ | 382,447 |



ERNST & YOUNG HAN YOUNG

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

**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, 2007. 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 of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2007, the Company's IACS has been effectively designed and has operated as of December 31, 2007, 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 operations 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, 2007, and we did not review the IACS subsequent to December 31, 2007. 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 15, 2008

A handwritten signature in black ink that reads "Ernst & Young Han Young".

This report is annexed in relation to the audit of the financial statements as of December 31, 2007 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.

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

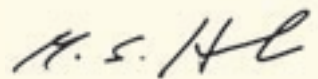
I, as the Internal Accounting Control Officer (“IACO”) of GS Engineering & Construction Corporation (“the Company”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2007.

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 purpose of establishing the reliability of financial reporting and the preparation of financial statements for external financial 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, 2007, in all material respects, in accordance with the IACS standard.

February 13, 2008

Myung-Soo Huh
Chief Operating Officer



Jae-Seung Doe
Internal Accounting Control Officer

