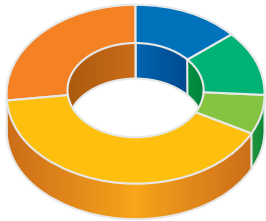


Annual Report 2004
Creating Value through Growth

Key financial data

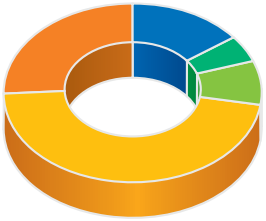
	2004	2003	2002
Sales revenue	4,049	3,468	3,175
Gross profit	492	521	473
Operating profit	229	271	276
Ordinary profit	242	262	245
Net profit	156	162	161
Earning per share (KRW)	3,134	3,245	3,225
Dividend per share (KRW)	1,250	1,250	1,000

Sales revenue by division



	Amount	Portion
Civil Engineering	574	(14%)
Plant	499	(12%)
Environment	276	(7%)
Architecture	1,615	(40%)
Housing	1,085	(27%)

Gross profit by division



	Amount	Portion
Civil Engineering	76	(15%)
Plant	23	(5%)
Environment	39	(8%)
Architecture	227	(46%)
Housing	127	(26%)

Overview

Civil Engineering Business Division

The track record spans numerous infrastructure projects (roads, bridges, railways) as well as leisure facilities such as golf courses and ski resorts. Recently, the Division has also expanded into port facilities and light rail lines, securing a stable supply of work and greater profitability.

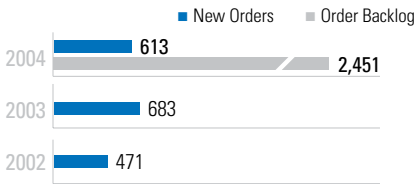


- Railroads
- Roads / Tunnels & Bridges
- Ports & Dredging
- Underground Space

Key Data

	2004	2003	YoY
Sales Revenue	574	573	0.2%
Gross Profit	76	98	-22%

New Orders



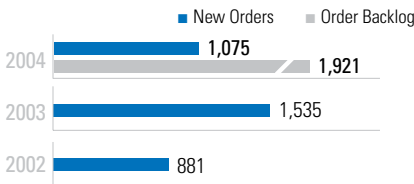
Plant Business Division

Most projects involve oil refineries, gas processing facilities, petrochemical plants and power plants—many of which are built outside Korea. Backed by advanced engineering capabilities, the Division has grown by leveraging a distinctive competitive advantage as a world-class engineering, procurement and construction contractor that can carry out all project phases, from preliminary design to startup. The Division has diversified overseas markets lately by winning orders in Russia and China.



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

	2004	2003	YoY
Sales Revenue	499	580	-14%
Gross Profit	23	55	-58%



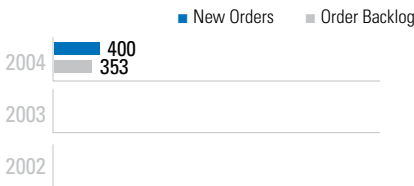
Environment Business Division

Previously a subdivision of the company’s plant business, the Environment Business Division was made into a separate unit in 2004 to better respond to a steadily growing market for wastewater treatment plants, air pollution control systems and incineration systems. The new Division is now seeking to expand into the Middle East, Southeast Asia, China and other overseas markets.



- Wastewater Treatment
- Water Treatment
- Sewage Treatment
- Air Pollution Control
- Waste Disposal & Recycling

	2004	2003	YoY
Sales Revenue	276	-	-
Gross Profit	39	-	-



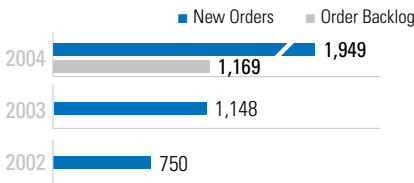
Architecture Business Division

The Division constructs as well as remodels office buildings, commercial and industrial facilities, training centers and schools, research centers, and various cultural facilities such as museums and halls for the performing arts. With long experience in building hotels and vacation condominiums, the Division is well known for its beautiful and styl- ish interior work.



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

	2004	2003	YoY
Sales Revenue	1,615	1,258	28%
Gross Profit	227	188	21%



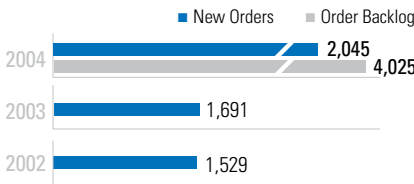
Housing Business Division

The Division constructs a wide range of residential structures, including high-rise apartments and commercial-residential buildings. Recently, business has been brisk in the areas of apartment reconstruction and residential redevelopment. The Division applies state-of-the-art information and environmental technologies to elevate the quality of life for residents. As a result, the Division’s ‘Xi’ brand enjoys great popularity among Korean home buyers.



- Residential Complex
- Apartments
- Officetels
- Villa

	2004	2003	YoY
Sales Revenue	1,085	1,056	3%
Gross Profit	127	180	-29%



Company Overview

The company was established as Lackhee Development Co. in 1969 and has grown into a Korean construction industry leader while engaging in a wide range of domestic and overseas projects.

In 2004, sales totaled ₩4 trillion, and over ₩6 trillion worth of new orders was achieved for the first time. GS E&C is starting out anew in 2005 with a firm resolve to prevail in the marketplace while adhering carefully to business fundamentals. The corporate vision is to reach the top of Korea's construction market by 2010.

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New Corporate Identity



Reasons for Group Split-up

Competitiveness has been raised from the increased operational efficiency and specialization achieved by separating the service-related businesses from the manufacturing-based ones

Reason 1 : Specialization of Service-related Operations

Service businesses, which include construction, energy and retailing, differ from the traditional manufacturing businesses such as electronics and chemicals in business culture, management style and many other respects. Thus, the GS split off from LG to enhance specialization and professionalism in the service areas, raising operational efficiency and the synergy effect among the service companies. Indeed, this move reflects business trends around the world.

Reason 2 : Concentration of Business Resources

The old LG Group encompassed both manufacturing and service companies, and most major investment decisions were made in favor of the manufacturing side. Therefore, the service businesses eventually needed to be separated in order to focus management resources on services in an increasingly competitive global market.

Reason 3 : Transparency of Company Operations

One of the purposes of the separation was to enhance operational transparency clarifying shareholding relationships in the partnership between the major shareholders that lasted for three generations under the name of LG Group, and by centering corporate governance on a holding company.

Symbol & Logotype



Symbol

- Expression of dynamics in energy business and growth/vitality in retail and service business
- Simple and dynamic feelings including the meaning of the Sun, the Sky, the Sea and the Earth

Logo

- Being as itself, not as an acronym
- The word, GS, can extend to variable meanings according to the needs.
Ex.) Good Service, Great Satisfaction, Great Solution, Great Success.

Corporate Color



Orange

Energy, Dynamics, Sun, Passion



Green

Environment, Earth, Limitless Possibility, Growth, Willingness



Blue

Leadership, Best, Stability, Sky, Creativity

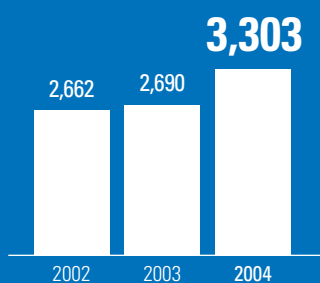
Financial Highlights

New performance records achieved :

₩4 trillion in sales, ₩6 trillion in new contracts

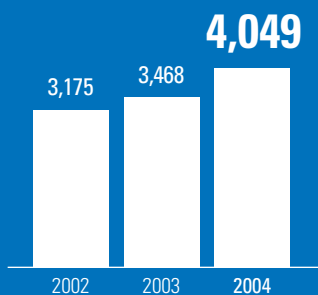
Total Assets

(Unit : billions of Won)



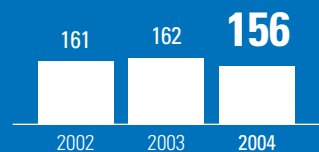
Sales Revenue

(Unit : billions of Won)



Net Profit

(Unit : billions of Won)

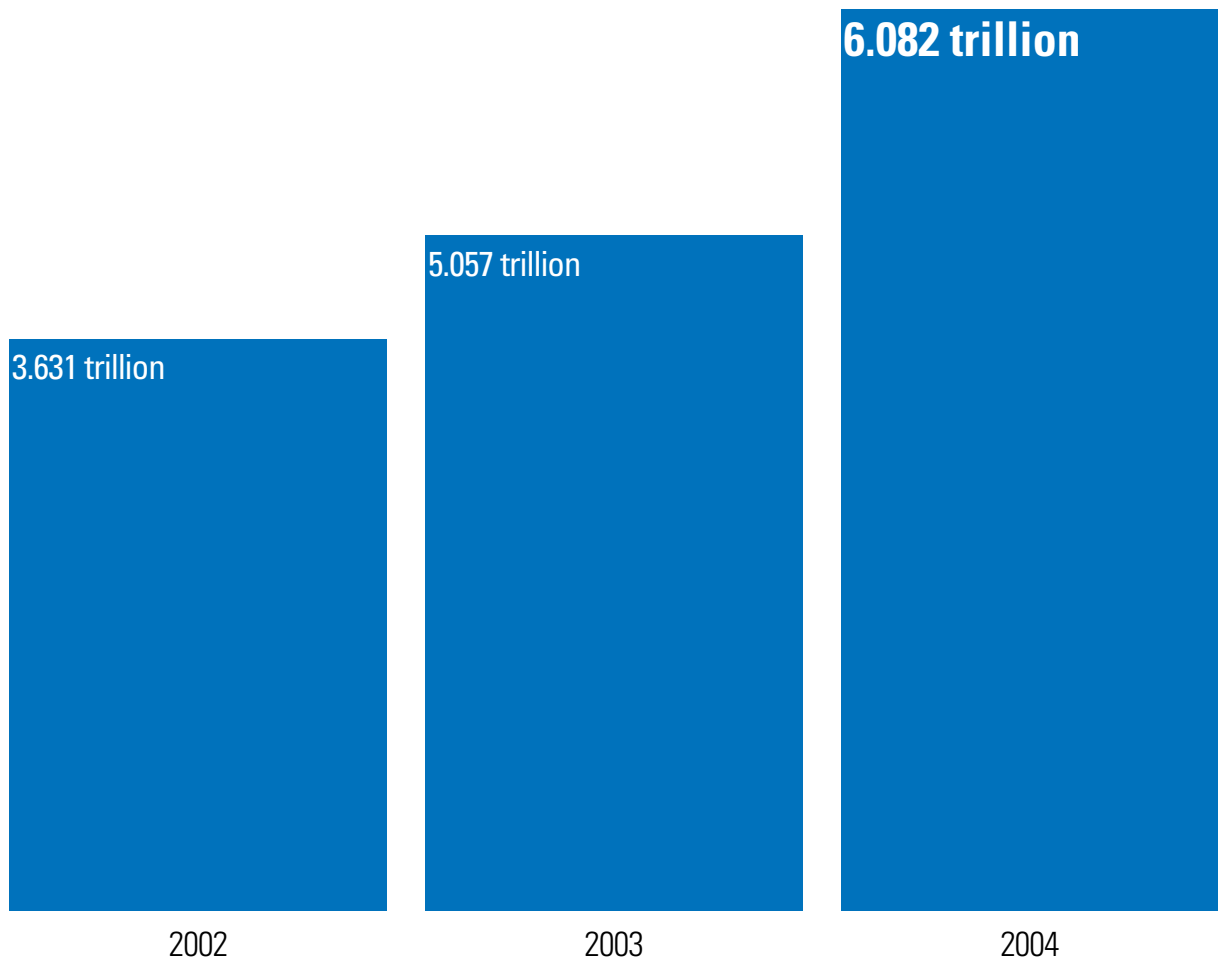


New Orders

20.3%  *year-on-year growth in new orders in 2004*

order backlog ~~₩~~9.919 trillion

(Unit : trillions of Won)



GS E&C shares closed at ₩28,500 at year's end, up 60% from the beginning of 2004

Macroeconomic conditions were unfavorable in 2004, with an overall economic slowdown and slumping real estate market. Despite the adversity, GS E&C performed very well, thanks to a concerted effort by all employees. The solid performance and certain dividends attracted many domestic and foreign investors to the company stock. Market analysts predict continued market interest in GS E&C in the coming year.

The Stock Market

The Korean stock market was adversely affected by such factors as high oil prices, sluggish domestic demand, China's credit tightening policy to cool down an overheated market, and surging raw material prices in 2004. Yet, the market at year's end closed 11% higher than it had been at the beginning of the year.

Most securities firms predict the market will surpass 1,000 points in 2005, while government policy to boost domestic demand and very low interest rates will fuel interest in the stock market. Therefore, the market is likely to remain bullish.

Construction Industry Outlook

On October 29, 2003, Korean government enacted measures to stabilize real estate prices. The policy has remained in effect and the market slowdown has continued. Among the leading indicators,

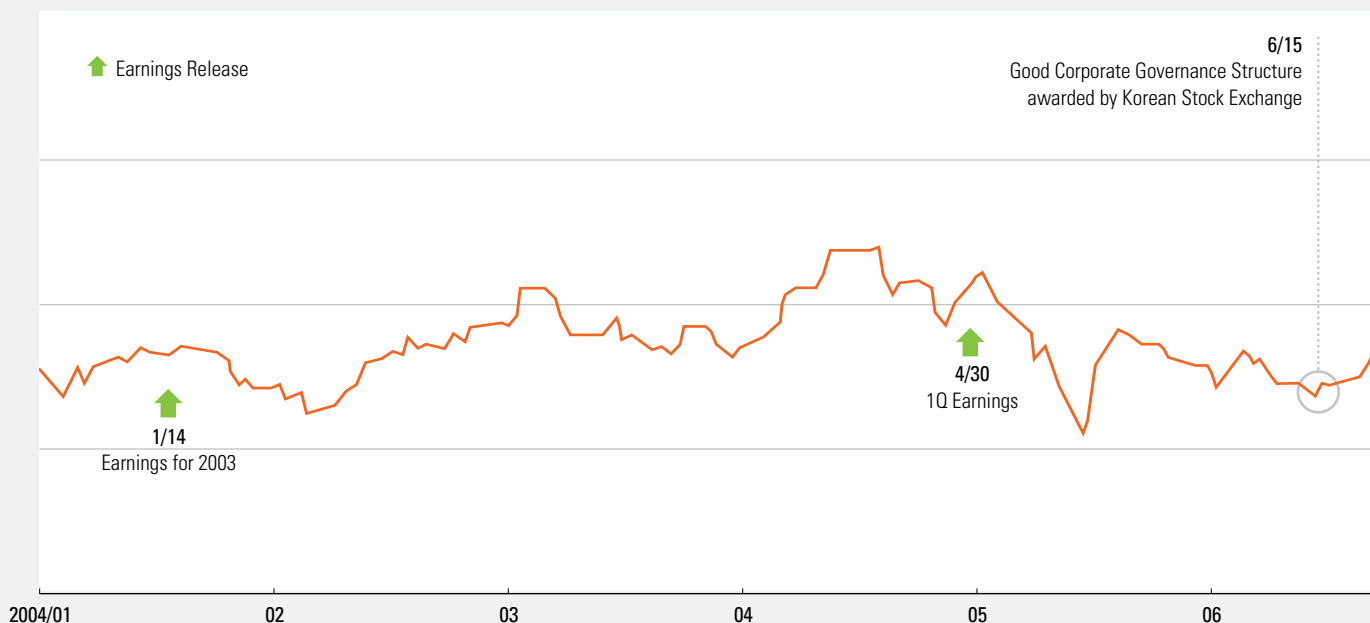
Stock Performance Indicators

	2004	2003
Total Number of Shares (Million)	51	51
Total Market Cap (Billions of KRW)	1,454	910
Share Price (At year end, KRW)	28,500	17,850
Foreign Ownership (%)	45.7	40.8

new construction order volume and construction permit area have continued to fall.

However, the government has decided to accelerate reform to promote construction activity. Privately Funded Infrastructure (PFI) projects will be accelerated, and more invested funds will be induced. Reconstruction regulations will also be improved as part of the overall economic stimulus package.

Major construction companies such as GS E&C are expected to have strong performances in the coming year despite the poor market conditions. In their favor are massive order backlogs, increasingly profitable PFI projects, high recognition in the housing sector, and surplus capital built up during the past several boom years.



Dividends

	2004	2003
Common Shares Issued	51,000,000	51,000,000
Common Share Dividend Per Share	1,250	1,250
Common Share Dividend Amount	62,277,982,500	62,211,975,000
Dividend Payout Ratio	39.9%	38.5%
Dividend Yield Ratio	4.7%	6.6%

GS E&C Stock Price Trend and IR Activities

The GS E&C share price climbed 60% from ₩17,850 at the end of 2003 to a record ₩28,500 a year later. The growth was phenomenal compared with other growth figures for the same period. The KOSPI rose just 11%, while the construction industry index was up 38%. Share price increases for other companies within the industry include 34% for Hyundai Development, 28% for Daelim Industrial, and 13% for Daewoo E&C.

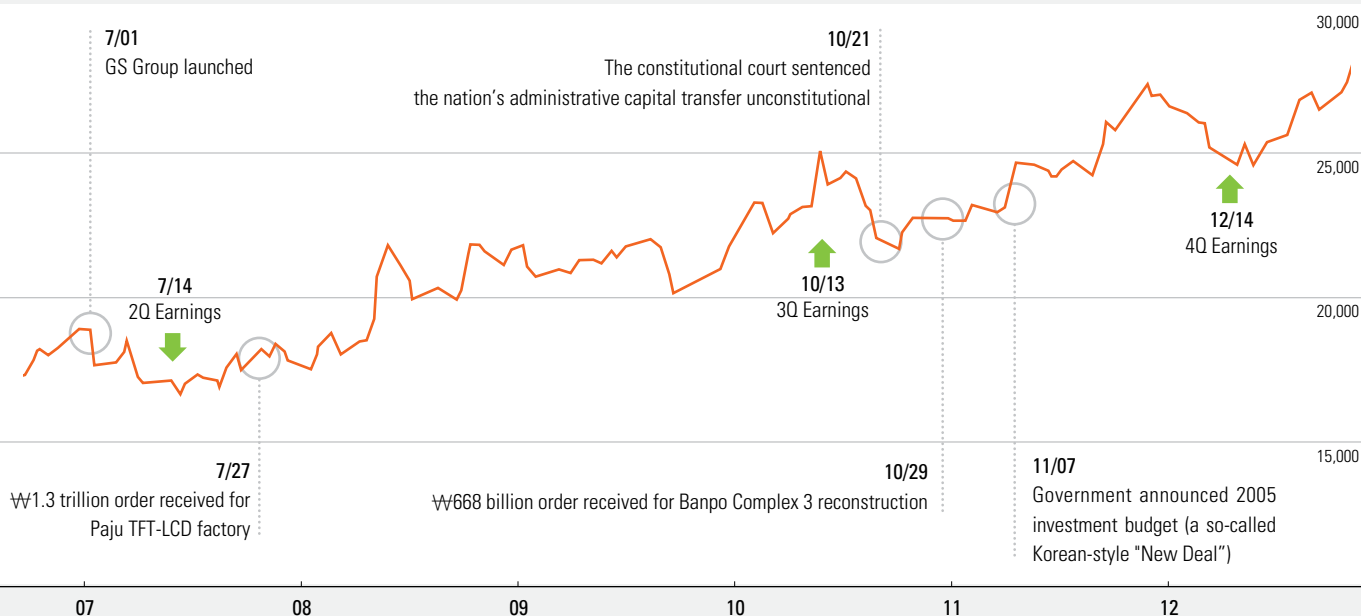
Solid fundamentals and outstanding growth potential have made GS E&C stock the recognized leader in the construction sector. In 2004, the company held 293 one-on-one meetings with domestic and foreign investors and organized two overseas IR roadshows and participated in one overseas IR conference. As a result, foreign ownership of company stocks increased from 40.8% to 45.7% during the year, driving up the share price.

GS E&C has exerted continued effort to raise shareholder value.

The dividend payout ratio and dividend amount have increased steadily since 1999. Dividends per share were ₩1,250 in 2004, and a total of ₩62 billion was paid out, about the same as for 2003. Net income in 2004 was ₩6 billion lower than in 2003, but the payout ratio increased from 38.5% in 2003 to 39.9% in 2004. This level is far higher than that offered by competing companies in the industry and indicates the priority that GS E&C puts on investors.

In the future, the company will continue working to meet investor expectations through dividends and management activities geared toward higher shareholder value.

Foreign Ownership (%)



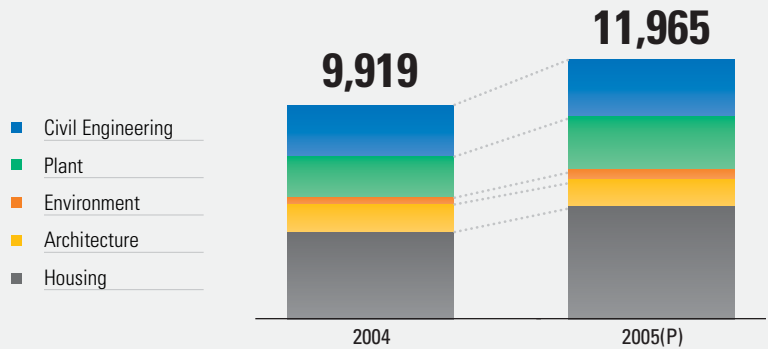


Message from the CEO

In 2005, improved safety management, stronger technology competitiveness and more effective procurement controls will help make GS E&C "a company that adheres to fundamentals and is resolved to win"

Order Backlog by Division

(Unit : billions of Won)



Greetings, Investors

Our company left the LG Group in 2004 and our corporate name was changed from LG Engineering & Construction to GS Engineering & Construction (GS E&C). The move was part of a new Group policy aimed at raising competitiveness by improving operational efficiency and corporate specialization by separating the service-related units from those involved in manufacturing. GS E&C, a core member of the new GS Group, will focus management resources and improve operational transparency to achieve a new, more developed stature that will be even more attractive in investors.

Business conditions were tough at home and overseas during 2004, yet we continued to advance toward our goal of being at the top of Korea's construction industry by 2010. Under the watchword "Challenge and Change for Growth," we managed to carry out four major goals for the year: improve marketing capabilities, raise customer satisfaction through customer relationship management, build a platform for knowledge management, and instill safety awareness in everyone's mind. Our concerted effort achieved tangible results and elevated the competencies of our entire organization. It was also a year in which we asserted our leadership.

Our effort will continue in the coming year as well. We will increase our orders for public projects and keep striving to achieve the highest share the Korean housing market. We will make GS E&C a top-tier company by maintaining firm resolve and sticking to fundamentals. At the same time, we will work on developing our competencies further while maximizing corporate value and steadily raising shareholder value.

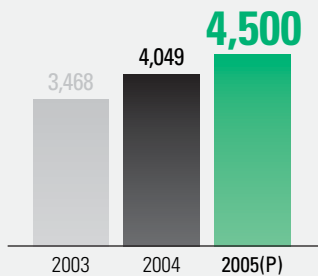
Now, I will touch on our performance in 2004, plans for 2005 and key tasks for accomplishing those plans.

2004 Results & 2005 Goals

To begin with, new orders in 2004 totaled ₩6.08 trillion, up 20.3% from the ₩5.06 trillion figure for 2003. We also aim to increase our new orders by 6.9% to ₩6.5 trillion in 2005. We are confident that we can achieve this target despite the adverse construction market because the new orders will be well balanced among all divisions, and we will receive a major increase in orders from our affiliated companies.

Sales Revenue

(Unit : billions of Won)



We will develop a more balanced portfolio for the mid-/long term, increasing the portions for the Civil Engineering and Plant Business Divisions.

We will work hard to increase our market share in the public project and housing segments to achieve our 2005 target. In the plant segment, rising oil prices are expected to drive up order volume from oil producing countries, prompting us to continue diversifying our overseas markets.

At the end of 2004, we had an order backlog worth around ₩10 trillion. If this is combined with the ₩11 trillion in provisional order backlogs for housing projects, we already have enough work to remain fully operational for about five years. With such a healthy project backlog, I am certain we can achieve stable growth.

Next, I will turn to sales. Last year our performance broke the ₩4 trillion mark, reaching ₩4.0491 trillion. However, the Korean construction market is faced with a macroeconomic slowdown, falling housing industry and increased competition over public projects. Thus, growth in volume and profitability are presumed to be difficult to achieve. However, we aim to obtain ₩4.5 trillion in sales despite the sluggish market conditions in 2005.

Since we will proceed with many projects for affiliated companies, sales will be most heavily weighted toward our Architecture Business Division, but we plan to develop a more balanced portfolio for the mid-/long term, increasing the portions for the Civil and Plant Business Divisions.

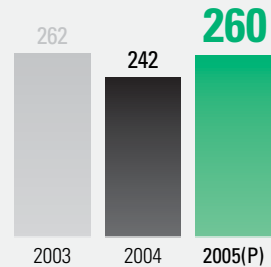
Ordinary profit was ₩242 billion in 2004, somewhat below our original target. The lower figure was due to a higher cost ratio from sharply rising material prices as well as unexpected one-time losses from the disposal of LG Investment Securities shares and from the recognition of impairment loss on LG Card CPs. In 2005, we will reflect the higher material prices and worsened market environment in our planning and expect ordinary profit to be ₩260 billion.

Major Tasks for 2005

We must change the ways we think and do things if we are to overcome the adverse business environment and achieve our 2005 performance targets. Therefore, I am calling on our people to “firm up their resolve and stick to fundamentals.” We will focus on the following three tasks to attain our goals:

Ordinary Profit

(Unit : billions of Won)



In 2005, we expect ordinary income to total ₩260 billion, as we reflect higher material prices and the adverse business climate in our planning.

First, we will upgrade our safety management. Everyone in the construction industry understands the importance of safety. Last year we focused our attention on building a system that would ensure no major accidents occur on construction sites. Our effort will continue this year. We will introduce and implement policies deemed to be helpful to the safety management program from the organizational perspective.

Second, we will improve our technology competitiveness. Like electronics, communications and other industries, distinctive technological expertise to satisfy changing customer needs is rapidly becoming the key to success in the construction business. I consider 2005 the first year in which we embark on an ongoing technology innovation program. We will invest heavily into R&D to build our reputation as a technology-intensive company.

Third, we will improve the effectiveness of our procurement management. At the end of last year, GS E&C formed a task force to establish a scientific and standardized material management approach by linking the material and process management systems. We are now experimenting with the Korean construction industry's first Just-In-Time system. If successful, the unobstructed communication between the Head Office and the construction sites will lead to highly efficient decision making and support. The procurement people, too, will be better able to predict material supply amounts and timing, shortening lead time and reducing financial costs.

We must set ourselves apart from the competition by displaying unique technological capabilities and synergy to enhance our ability to attract new orders as well as raise our profit margin. This will be an important asset for us to achieve profitable growth over the long term.

In conclusion, we will focus intently on safety, technology and procurement innovations in 2005 to make the changes that will take our company to the next level. As in 2004, we will also carry out various IR activities, including overseas roadshows, to gather your feedback and reflect it in our policies.

I thank you for your trust and for investing in us.

Kab-Ryul Kim, President & CEO

2004 at a Glance

GS E&C emerged as an industry leader in 2004 under the banner of
“Challenge and Innovation for Growth”



01 New Environment Business Division

The business of building environmental protection facilities continues to grow, prompting the formation of the new Environment Business Division, separate from the Plant Business Division. In its first year, the new unit received many significant orders, including an advanced sewage treatment plant at Jeonju, Korea and environmental facilities at the LG-Philips LCD factory at Paju, Korea.

02 LG-Philips LCD Complex Begun at Paju

Over the next decade, the world's largest TFT-LCD complex will be built on a 3,300,000m² site at Paju, Korea. A 7th-generation LCD production facility belonging to LG-Philips will occupy half the site, while some 50 subcontracted suppliers will set up operations on the other half. This project, begun in March 2004, will be completed in August 2005.

03 Xi Apartments Gaining Popularity Korea-wide

The company's Xi brand apartments, already proven to be a big hit in the Seoul metropolitan area, caught on with new home buyers around the country during 2004. The units at three complexes in provincial areas—Busan Heights Xi, Haman Gwangryecheon Metro Xi and Jeonju Songcheon Xi—were sold out in 2004, elevating the brand status in the eyes of all Koreans.

04 Series of New Turnkey Projects

GS E&C won a steady stream of turnkey project orders in 2004 by achieving top marks in design evaluations. The projects include operation support facilities for Gwangyang Port, Boramae Hospital in Seoul, the Jinju Medical Institution, Bosung municipal sewage conduit cleaning and repair, and Gulpo River tailrace construction. Importantly, the company continues to win new orders for hospital construction or remodeling, solidly establishing a leadership position in this market segment.

05 World's Largest 6G TFT-LCD Factory Completed

The company broke ground for the largest-ever 6th-generation TFT-LCD factory on a 223,648m² site at Gumi, Korea in November 2002. Twenty-two months later, the state-of-the-art facility (3 stories and 1 basement) was dedicated in an October 14 ceremony.



06_ Grand Prize for New-concept Apartments

In November, the Xi Apartment complex at Jukjeon received the Grand Prize in the New-concept Apartment category in Korea Economic Daily TV's annual awards for the nation's best apartments. The prize was presented in recognition of excellent complex environment, interior design, information system access and brand.

07_ Plant Projects in New Markets

The company managed to win a linear alkyl-benzene plant project from Qatar Petroleum as well as major plant projects for the first time in Oman and China.

08_ Advanced Technology R&D

In 2004, the company made a priority of securing the latest technology and drew up a new Technology Related Management roadmap for each operations division. Twenty-seven R&D projects are now underway for core technologies needed to break into new fields, productivity enhancement technologies and new technologies for future applications. This ambitious program has already resulted in various new technologies that can raise operational efficiency.

09_ Improved Corporate Governance Recognized

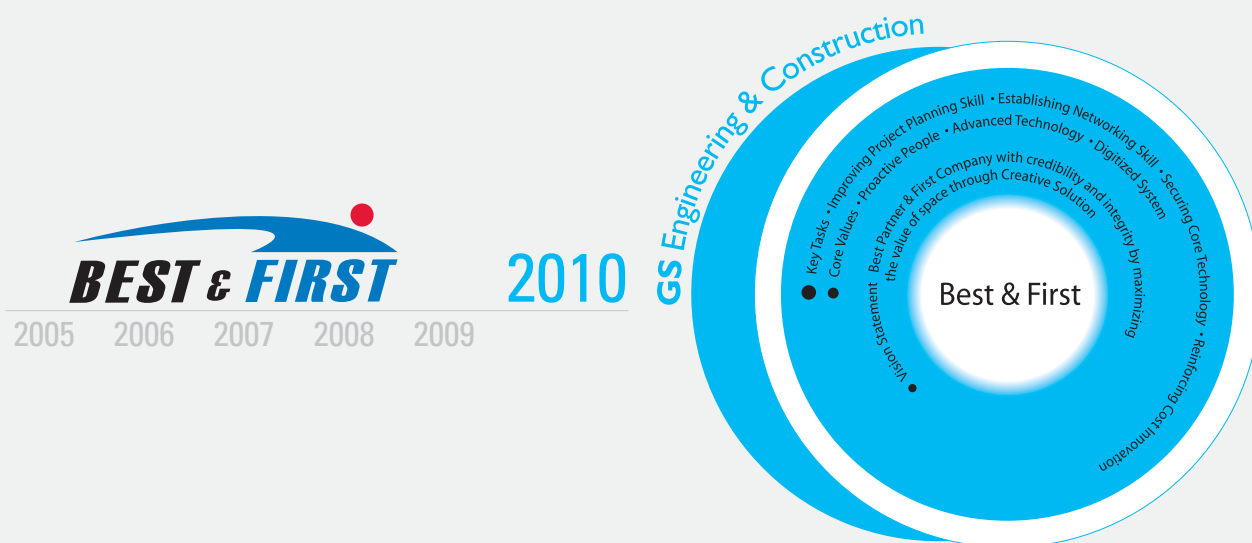
GS E&C was presented with the Good Corporate Governance Award in a June event organized by the Korean Stock Exchange. This was the third time since 2001 that the company has been so recognized for its excellent operational transparency.

10_ Best Cyber IR Award

The GS E&C exclusive homepage for individual as well as institutional investors was recognized again for its superior effectiveness during the 6th annual Cyber IR Awards sponsored by the Korea Economic Daily newspaper on November 11. This is the second year in a row that the company website has received the Best Cyber IR Award. Site visitors can get the latest stock price update in real time, read public disclosures, check the IR schedule, or make an appointment to visit the company.

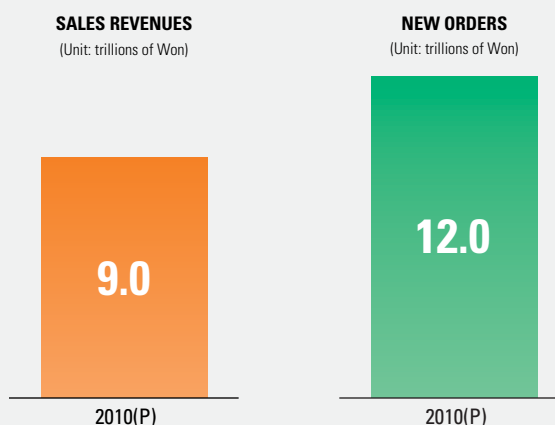
VISION

We are committed to becoming the “best and first” in our industry by creating the finest living and working environments. We will bring together talented people and equip them with state-of-the-art technology to establish an unparalleled standard of quality in the product we deliver to our clients. Our shareholders will prosper as we establish the highest standards in brand identity, market leadership and profitability.



STRATEGY

We will “select and focus” on the five business cores; civil engineering, plant, environment, architecture and housing. While we continue to hone our skills and expertise in these areas, we will pursue opportunities in new arenas as well. To this end, we will remain vigilant for profitable opportunities that compliment the skills and disciplines we have developed. We will look to broaden our business base hence become a world-class total service provider.



RISK MANAGEMENT

Risk and opportunity go hand in hand in business. Risk in the construction industry involves construction time, engineering technology, finance, safety, and government policy, not to mention the world economy. As for GS E&C, any poor managerial decisions or mishaps at worksites can result in diminishing quality in products, jeopardizing financial position and compromising the safety of people. The Company-developed, proactive risk management system minimizes this potential and thereby makes a valuable contribution to the Company's continued growth and profitability. An integrated efficient risk management is an integral element for success, GS E&C continues to raise the risk awareness of employees.

Business Risks

Business risks refer to potential losses caused by poor management decisions, employees' activities, operational system shortcomings, or negative outside factors. The Corporate Project Review Steering Committee ensures that only projects that are identifiably profitable and associated with calculable risks are accepted. Each division has the Project Review Committee as part of risk management process, which ensures that projects are handled in accordance with the Company's risk management guidelines. GS E&C carries appropriate insurance against liability risks and casualties. The scope of this insurance is reviewed on an ongoing basis and revised as necessary.

Formal Project Risk Management Procedure

1. Divisions

: Identify & review their respective risks

2. Project Review Committee

: Categorize risks & prepare for the potential risks at the divisional level

3. Corporate Project Review Steering Committee

: Evaluate & quantify overall risks at the corporate level

Minimal Risk & Maximal Profit

Financial Risks

Foreign Exchange Risk

Foreign exchange risk is the effect that unanticipated or fluctuating exchange rate changes have on the value of assets, liabilities, and potential gain or loss on foreign currency transactions. GS E&C's foreign exchange risk is minimal. Overseas projects represent only a small portion of sales revenue, and many of the materials used in these projects are purchased locally, limiting foreign exchange exposure. Exchange rate fluctuations, too, have little effect on income. The company's foreign exchange policy with regard to overseas projects is to match cash received with cash paid out to minimize foreign exchange exposure.

To this end, an Exchange Risk Management Committee is operated under the company CFO. Moreover, overseas plant projects are protected by foreign exchange risk insurance that provides a 100% hedge against exchange risk from bidding to project estimates. This coverage is applied to separate processes after the formal contract is finalized.

Interest Rate Risk

Interest rate risk is defined as the variability of a corporate value due to an unexpected change in market interest rates. This can result from cash flows from material interest bearing assets or liabilities that will produce an interest return or cost. GS E&C has reduced large amounts of debt each year, and the company keeps reducing debt to ensure it can weather any business circumstance, uncertain financial markets or long-term recession. As a result, the company showed a net cash flow at the end of 2004, and interest also posted a net gain.

ENVIRONMENTAL, SAFETY, AND HEALTH POLICY

GS E&C incorporates environmental, safety and health considerations into every project. These concerns for our clients, employees, and the public are an integral part in our corporate ethic. We feel that embracing these highest standards will ultimately create value for our customers and share-holders by enhancing the Company's reputation as a solid corporate citizen. It is our Company policy that we protect the natural environment, safety and health of the public, clients and employees by all means throughout the execution of our business activities with the following principles; GS E&C shall establish and maintain the ESH Management System, objectives and targets in accordance with ISO 14001 standard to contribute to continual improvement of natural environment.

- GS E&C shall observe customers' requirements as well as relevant environmental, safety and health legislation and regulations.
- GS E&C shall make every effort to become the best company in ESH performance and to create an accident and injury free culture for the benefit of public, clients and employees by means of identifying ESH issues and controlling them.
- GS E&C shall take part in regional ESH programs and cooperate closely with the regional society.
- All of the GS E&C employees shall reduce the consumption of materials and energy and shall eliminate unnecessary waste generation.

The Management Representative shall ensure that this ESH Policy is fully understood, implemented and maintained at relevant functions and all levels of organizations by means of monitoring its continued suitability and improving the effectiveness of the documented ESH management system.

At GS E&C, all of employees take part in the ESH Management System and make efforts to enhance the ESH mindset. We will continue to expand on the environmental protection, safety and health management while taking a critical look at existing measures.

ESH Management Overview

1. Leadership & Culture

Management from top down will demonstrate, encourage, and participate in ESH activities.

2. ESH Policy & Goal

The Company aims to ensure customer satisfaction and reach the ZERO INJURY GOAL.

3. Organization & Coordination

For successful handling of ESH matters, we established a network between the central committee and area management committee. Also we operate different delegations to enable participation by all levels of management supervision.

4. Planning & Risk Management

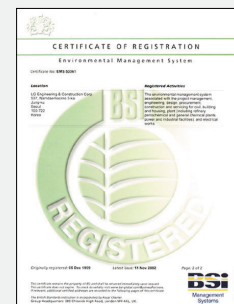
Instructions/procedures for risk reduction in accordance with our ESH policy.

5. Implementation & Monitoring

We have developed detailed instructions and systems and safety promotion programs as well as a work permit system and site patrol.

6. Auditing & Reviewing

To effectively carry out our regular inspection and audit, we have developed risk classification, reporting sequence, and non-compliance penalties, etc. Lessons learned will be fed back to all workers on site.



Certificate of ISO 14001

REVIEW OF OPERATIONS

Creating Value through Growth

GS E&C is growing as a trusted company that provides the creative solutions to maximize the value of space. All competencies are being mobilized for one goal: reach the top of the industry.

➤ civil engineering

Growth through Infrastructure Projects

Laying the groundwork for growth by developing new markets and moving into new fields such as flood control and port construction

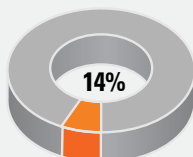
Daegu-Pohang Highway Lot 3

- Client : Korea Highway Corp.
- Location : Youngchun, Korea
- Contract Period : Oct. 1998 ~ Dec. 2004
- Project Descriptions :
 - Total Length : 10.012 km
 - Cutting : 2,494,646m³
 - Embankment : 2,729,620m³

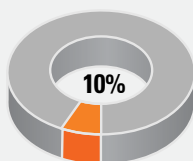
Message from the Civil Engineering Business Division Chief

Hwi-Sung Lee,

Senior Executive Vice President, Head of Civil Engineering Business Division



Portion of Total Sales



Portion of New Orders



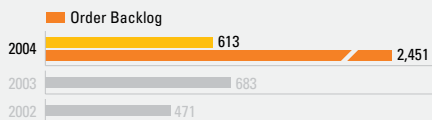
Construction in the public sector was slow in 2004, and numerous tenders were delayed, resulting in a disappointing amount of new orders. On the other hand, we won a civil suit in the Euijeongbu light railway case and we aggressively pursued privately funded infrastructure (PFI) projects. We focused on strengthening internal project execution during 2004. Specialists in special construction methods were hired to help us upgrade our technology. At the same time, all Division members continued to receive training on civil engineering technology related to their specific areas of responsibility. Our PMS+ project management system was reinforced to accommodate on-site supervision of civil works projects. Thorough process and profitability controls have resulted in a fast and efficient management system at both the construction sites and the Head Office. As a result, we laid the groundwork for maximizing overall work productivity. We pledge to build on the internal competency improvements gained in 2004 and continue to train our human resources as well as develop and amass new technologies. We are committed to advancing steadily so that we reach our goal of being the best in Korea by 2010.

2004 Sales Revenue

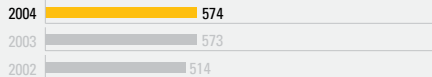
₩574 billion

2005 Targets : New Orders of ₩850 billion,
Sales of ₩607 billion

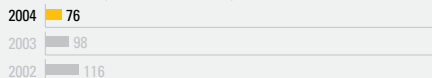
New Orders (Unit : billions of Won)



Sales Revenues (Unit : billions of Won)



Gross Profit (Unit : billions of Won)



2004 Performance Summary

The most noteworthy accomplishment by the Civil Business Division in 2004 was inroads into new markets and project areas, paving the way for operational diversification. Korea Water Resources Corp. awarded its Gulpo River flood control project to GS E&C, the first time for the Civil Business Division to engage in this particular project area. The Division is also taking part in a PFI project for the Port of Pyeongtaek and is looking to win orders in the Vietnamese market. This diversification is expected to boost revenue for the Division in the future.

New orders in 2004 totaled ₩613.4 billion, down somewhat from the ₩682.6 billion in new orders won during the previous year. This figure was still respectable, considering the extremely difficult market conditions in Korea.

A reduced government budget for an ongoing expressway construction project raised concern that sales would drop year on year. However, steady progress in the Seoul Beltway project and increased sales from overseas projects enabled the Division to achieve sales of ₩574.0 billion in 2004, about the same performance as a year earlier.

2005 Outlook and Plans

The Korean government has expressed a strong intention to jumpstart the construction market in 2005, but the slowdown in the private sector will intensify competition over new orders. Hence, profitability will not be easy for construction companies. Nevertheless, the GS E&C Civil Business Division has set ambitious targets of ₩850 billion in new orders and ₩607 billion in sales for the year. Every effort will be made to reach these goals.

Importantly, the on-site budget for road construction is expected to be substantially higher than it was in 2004, so the target in this segment should be reached or surpassed. In fact, all the major performance indicators will most likely show growth in the coming year.

The company-wide project management system, PMS+, was augmented during 2004 to better accommodate civil engineering site conditions. In 2005, it will be implemented at all construction sites, and tangible performance improvements are sure to happen. The new system will enhance safety, work quality, and environmental management activities.

Diversification into new markets and fields

GS E&C Civil Business Division has set ambitious targets of ₩850 billion in new orders

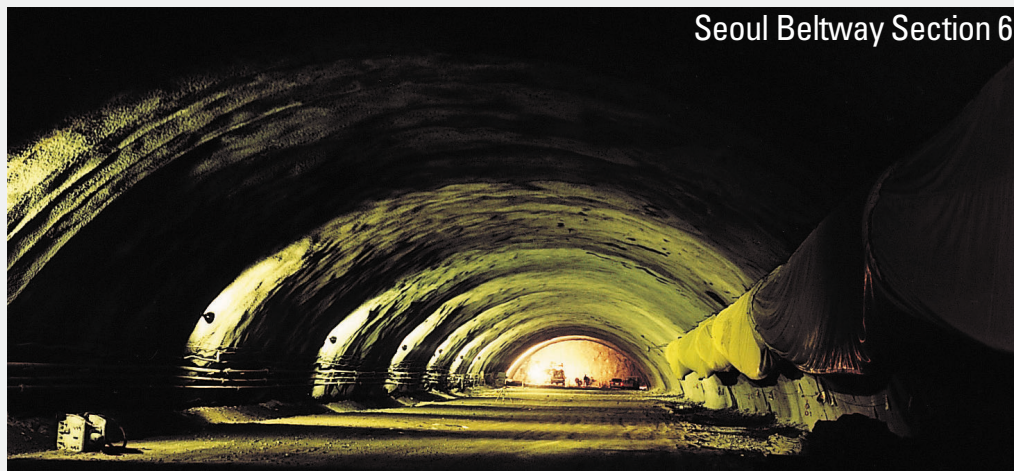
The Division recently expanded into the construction of port facilities and light railways, and is leveraging its sound finances and technology to secure more PFI and turnkey projects.



Donghae Highway



Double Line Electric Railway Lot 7



Seoul Beltway Section 6



Elysian Golf Club

A
B
C
D

A. Donghae Highway

Client : Korea Highway Corp.
Location : Donghae, Korea
Contract Period : Mar. 2000 ~ Dec. 2004
Project Descriptions :
- Length : 9km
- 4 Lanes
- Concrete Pavement

B. Double Line Electric Railway Lot 7

Client : Korail
Location : Chuncheon, Korea
Contract Period : Dec. 1999 ~ Dec. 2007
Project Descriptions :
- Open Tunnel : 210m, NATM : 7,988m
- Bridge : 3,224m
- 2 Stations (4,603m²)

C. Seoul Beltway Section 6

Client : Seoul Beltway Corp.
Location : Namyangju, Korea
Contract Period : Jun. 2001 ~ Jun. 2006
Project Descriptions :
- Length : 0.9km
- Open Tunnel : 50m
- NATM : 801m

D. Elysian Golf Club

Client : GS E&C
Location : Jeju Island, Korea
Contract Period : Nov. 2002 ~ Jul. 2005
Project Descriptions :
- Site Approx. 1,750,000m²
- 27 Hole Golf Club



Growth through Global Markets

Employing the most advanced engineering methods to expand business in the Middle East, Russia and Southeast Asia

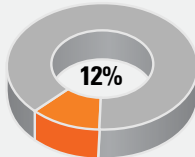
Phenol-BPA Project

- Client : LG Petrochemical
- Location : Yeosu, Korea
- Contract Period : Nov. 2003 ~ May. 2005
- Project Descriptions :
 - Bis Phenol-A (BPA) Plant
 - Engineering, Procurement

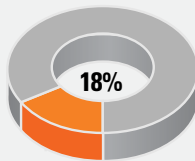
Message from the Plant Business Division Chief

Sang-Ryong Woo,

Senior Executive Vice President, Head of Plant Business Division



Portion of Total Sales



Portion of New Orders



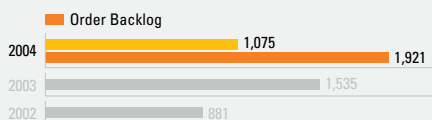
In 2004, the Plant Business Division recorded more than ₩1 trillion in new orders for the second year in a row. Our success in a previous project for Qatar Petroleum, the Qatari national oil company, enabled us to win an order for a linear alkyl-benzene plant from the same client. We also received large-scale orders in China and Oman for the first time. Thus, 2004 was a time for us to build upon our solid position in established overseas markets and to diversify into new markets. Meanwhile, our success in the domestic market continued unabated. We were awarded an alkylation plant project from GS Caltex, and an “E-chem” project from LG Chem. We were also named the lead company in a consortium to build an LNG storage facility at Incheon for Korea Gas Corp. We demonstrated exceptional construction work capabilities by completing the on-stream catalyst replacement (OCR) project for Kuwait National Petroleum Co. and the linear alkyl-benzene plant project in Iran ahead of schedule. Domestic projects completed during the year include the caprolactam output expansion for Capro Corp. and paraxylene plant for GS Caltex. In the future, we will continue to break into new markets and expand our project capabilities to emerge as a world-class engineering, procurement and construction (EPC) contractor.

2004 Sales Revenue

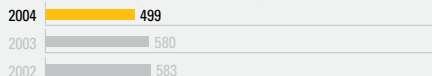
₩ 499 billion

Market Diversification from Major Orders in Oman and China

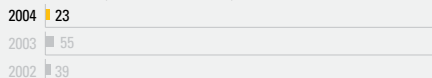
New Orders (Unit : billions of Won)



Sales Revenues (Unit : billions of Won)



Gross Profit (Unit : billions of Won)



2004 Performance Summary

New orders for the Plant Business Division totaled ₩1.075 trillion, down 29.9% from the previous year. The lower numbers are due to the separation of the environment business unit and a lack of projects on the scale of the US\$655 million order received in 2003 for South Pars Gas Treatment Plants 9 & 10 in Iran. Considering these circumstances, the Division fared well in 2004.

New domestic orders fell year on year because of the formation of the separate Environmental Business Division. However, the Division did receive ₩292 billion in new orders, thanks in large measure to the LNG storage terminal project at Incheon.

Sales for 2004 totaled ₩499 billion, which was somewhat lower than the 2003 figure, but this, too, can be attributed to the separation of the Environmental Business Division. Importantly, new orders topped ₩1 trillion for each of the past two years, and high growth is predicted for 2005.

The Division has taken careful measures to address the uncertain business climate in 2005. At the same time, sales are likely to surge, which should bring fixed costs down. Therefore, profitability is expected to be higher in 2005.

2005 Outlook and Plans

High oil prices in the wake of the Iraq War are expected to drive new facilities investments in oil producing countries in the Middle East, Russia and Central Asia. The global economy is beginning to rebound as well, which should result in increased investment in Southeast Asia.

The Plant Business Division will continue working hard to secure new orders in the Middle East as well as elevate its stature in new overseas markets such as Russia and China. The effort to diversify markets will extend to Southeast Asia as well. Over the mid-/long term, the Division will also move into projects related to natural gas in order to develop new growth engines.

The current One Stop Total Service program will be upgraded further as the Division improves its ability to conduct project feasibility studies, offer financing, carry out product off-take and provide operation and maintenance services.

Lower performance figures after separation of environment business

Growth expected on increased investment in oil producing countries and Southeast Asia

Backed by advanced engineering technology, the Division is growing steadily by focusing on the construction of oil refineries, gas processing plants, petrochemical plants and power plants.



Incheon Combined Cycle Power Plant



LNG Storage Facilities



A Incheon Combined Cycle Power Plant

Client : Korea Midland Power

Location : Incheon, Korea

Contract Period : Apr. 2003 ~ Jun. 2005

Project Descriptions :

- Total Power Generation Capacity 450mw

- Gas Turbine (150mw 2 units),

Steam Turbine (150mw 1 unit)

B LNG Storage Facilities

Client : Korea Gas Corporation

Location : Tongyoung, Korea

Contract Period : Jan. 2002 ~ Dec. 2003

Project Descriptions :

- 140 thousand tonnes

C Onstream Catalyst Replacement

Client : KNPC

(Kuwait National Petroleum Company)

Location : Kuwait National Petroleum Co.

(KSC)

P.O Box 9400 61400 Ahmadi,

Kuwait

Contract Period : Nov. 2002 ~ Oct. 2004

Project Descriptions :

- ARDS Revamping(66,000 → 84,000 BPSD)

D Caprolactam Expansion Project 2

Client : Capro Corporation

Location : Ulsan, Korea

Contract Period : Jun. 2002 ~ Mar. 2004

Project Descriptions :

- A Yearly Output :

Caprolactam 120,000 MTPY



Onstream Catalyst Replacement



Caprolactam Expansion Project 2

➤ environment

Growth through Contributions to Society

Platform for future growth achieved in first year as independent entity

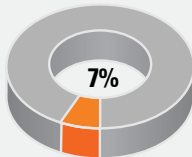
Environmental Facilities in P6 Factory

- Client : LG Philips LCD
- Location : Gumi, Korea
- Contract Period : Nov. 2002 ~ Sep. 2004
- Project Descriptions :
 - Wastewater Treatment : 92,500m³/day
 - Scrubber : 61,200m³/min

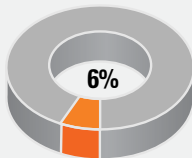
Message from the Environment Business Division Chief

Jong-Nam Park,

Executive Vice President, Head of Environment Business Division



Portion of Total Sales



Portion of New Orders



The market for environmental protection facilities continued to grow in 2004, and the company responded by forming a specialized unit, separate from the Plant Business Division. The foundation has thus been laid for a growth surge in this important business area. Our new Environmental Business Division won many major orders in 2004, including an advanced sewage treatment plant in Jeonju, a sewage conduit repair project in Bosung, and pollution control systems for the LG Philips TFT-LCD factory at Paju. We are carrying out a significant number of these projects on a turnkey basis, which will serve as a springboard for expanding involvement in the public sector. More projects related to the LG Philips TFT-LCD complex are forthcoming, giving us the opportunity to gain valuable experience and acquire new technology. In the future, we will continue to strengthen our technological expertise and expand our presence in the turnkey market. We will also selectively take part in PFI projects to elevate our position in this segment.

2004 Sales Revenue

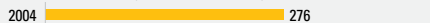
₩276 billion

First Year as a Separate Business Division

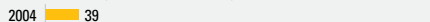
New Orders (Unit : billions of Won)



Sales Revenues (Unit : billions of Won)



Gross Profit (Unit : billions of Won)



2004 Performance Summary

Public sector turnkey projects, including an advanced sewage treatment plant in Jeonju and sewage conduit repair in Bosung, were up 76% year on year, from ₩44.2 billion in 2003 to ₩77.9 billion in 2004. The Bosung project was the second of its kind won by the Division, raising expectations that GS E&C will become a strong player in the cleaning and repair of sewage conduit systems.

Orders for environmental protection facilities in 2004 totaled ₩400 billion, including the ₩259.7 billion project for the LG Philips TFT-LCD factory at Paju. Sales for the year came to ₩276.2 billion.

Major projects completed in 2004 included the pollution control system for the LG Philips TFT-LCD P6 factory and stabilization of Landfill No. 1 for the Greater Seoul Area. Workers have been well trained in safety issues, and not accidents occurred in the Division during the year.

Accident-free operation
achieved

2005 Outlook and Plans

The Environment Business Division has established challenging targets in an effort to be ranked No. 1 in Korea for new orders received in 2005. The Division's competencies will be focused on expanding the business base as well.

Clients for environmental facility projects will increasingly demand the most advanced process technologies. Local government organizations in Korea are also expected to expand their involvement in privately-funded environmental facility construction. In preparation for this future market, the Environment Business Division will continue to pursue its technical roadmap by upgrading technology competitiveness, expanding involvement in turnkey projects, and strategically participating in PFI projects to strengthen its market position. A solid foundation will also be laid in 2005 to place the Division first in Korea for public sector projects received.

Process management linked to the company-wide project management system and effective procurement control will enable the Division to continue cutting costs, while the 2005 sales target has been set at ₩320 billion.

Safety awareness among workers will remain a top priority, as the Division strives to achieve another accident-free year in 2005. Processes related to work safety will be upgraded as well.

Win the most public
sector orders to achieve
sales target of ₩320
billion

The Division is involved in a variety of fields, including sewage and wastewater treatment plants, dust collector and scrubber systems, and waste incinerators.

A
B
C
D

A Daejeon 2nd Refuge Incineration Plant

Client : Office of Supply
 Location : Daejeon, Korea
 Contract Period : Dec. 2001 ~ Jan. 2005
 Project Descriptions :
 - Incineration Facility (200 ton/day 1 unit)
 - Boiler 31.2 ton/HR X 1 unit

B Mapo Recycling Center

Client : Seoul Municipality
 Location : Seoul, Korea
 Contract Period : Nov. 2001 ~ Apr. 2005
 Project Descriptions :
 - Incineration Facility (250 ton/day 3 units)

C Environmental Facilities in P5 Factory

Client : LG Philips LCD
 Location : Gumi, Korea
 Contract Period : Apr. 2002 ~ Feb. 2003
 Project Descriptions :
 - Wastewater Treatment & Recycling,
 VOC Removal, Scrubber etc.

D Jeonju Wastewater Treatment

Client : Municipality of Jeonju
 Location : Jeonju, Korea
 Project Period : Oct. 2004 ~ Apr. 2007
 Brief Descriptions :
 - Ultra Pure Water Plant (300,000 ton/day)



➤ architecture

Powerful Growth Engine for GS E&C

Performance driven by massive order from LG Philips LCD

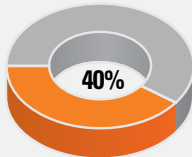
New Office Building for Jollanamdo Provincial Office

- Client : Jeonnam Provincial Office
- Location : Muan, Korea
- Contract Period : Dec. 2001 ~ May. 2005
- Project Descriptions :
 - 23 Story Office Building
 - Structure : RC+SRC

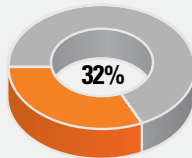
Message from the Architecture Business Division Chief

Won-Jai Maing,

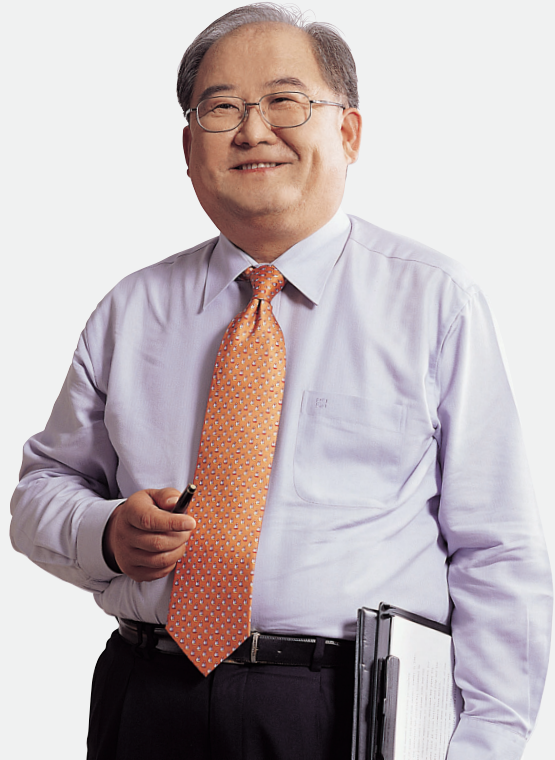
Senior Executive Vice President, Head of Architecture Business Division



Portion of Total Sales



Portion of New Orders



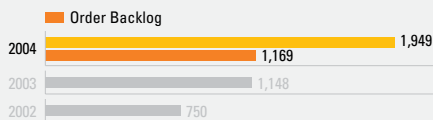
The Architecture Business Division overcame difficulties in the overall construction market to record approximately ₩2 trillion in new orders for 2004. We also won all five of the public turnkey project tenders in which we participated. This is the second year in a row that we have had 100% success in public bids, furthering our turnkey market leadership. Meanwhile, we received a major order from LG Philips LCD and several orders from other affiliates as well, including LG Chem and LG Electronics. Our order volume from the private sector was down somewhat from a slumping domestic construction market. However, our excellent marketing network and brand image enabled us to secure enough significant projects to have an above-average year. Sales and profitability were also substantially higher in 2004 than in the previous year. For the future, however, we must bolster our ability to survive on our own by swiftly responding to rapidly-changing markets as well as the new business circumstances we face as we separate from the LG Group. Therefore, we aim to leverage our profitability in the turnkey market to pursue new orders aggressively while boosting our competitiveness in the private sector market. By generating greater profits, the Architecture Business Division will also contribute greatly to maximizing shareholder value.

2004 Sales Revenue

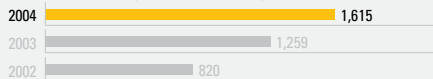
₩1.615 trillion

New Orders 70% Higher to ₩1.949 trillion

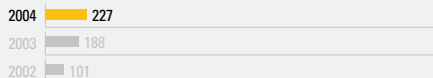
New Orders (Unit : billions of Won)



Sales Revenues (Unit : billions of Won)



Gross Profit (Unit : billions of Won)



2004 Performance Summary

The Architecture Business Division received over ₩1.95 trillion in new orders during 2004, up 70% year on year.

Breaking this figure down, new orders in the public sector totaled ₩197.1 billion, which included the ₩34.9 billion project to build additional support facilities for Gwangyang Port, four other turnkey projects and a second data processing center for the National Agricultural Cooperative Federation. The Division also received over ₩1.6 trillion in orders from LG affiliates, including the ₩1.37 trillion project for LG Philips LCD.

In the private sector, meanwhile, the domestic construction market was sluggish, yet the Architecture Business Division secured ₩150 billion in new orders, including the ₩48 billion project at Ochang for Yuhan Corp.

The Division has been bolstered by steady growth in the public sector and major orders from LG affiliates. Both profitability and stable sales growth have thus been assured.

Sales rose 28% year on year from ₩1.26 trillion in 2003 to over ₩1.62 trillion in 2004. The sales totals for the public and private sectors are both lower than a year earlier, but the strong growth in sales to LG affiliates resulted in an overall increase for the year.

2005 Outlook and Plans

The external environment is changing radically for the company, and the domestic construction industry is forecasted to contract during 2005. In response, the Architecture Business Division will step up marketing activities to strengthen competitiveness in external (non-LG) projects. In the public sector, a marketing blitz will be aimed at turnkey clients, while price competitiveness and marketing will be improved in the private sector as well. As a result, the Division expects to increase orders from outside the LG organization 27% year on year.

Meanwhile, the Division will improve its services to ensure a steady stream of new orders from affiliates.

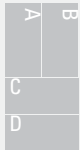
Everyone in the Division will work to improve new order volume, organizational competencies and management effectiveness by rallying behind this year's directive to "strengthen the resolve to win and adhere to fundamentals."

Thus, the ground will be laid for achieving the Vision 2010 goals.

100% success in public sector turnkey project bids

Aggressively respond to changing market and thrive independently of LG Group

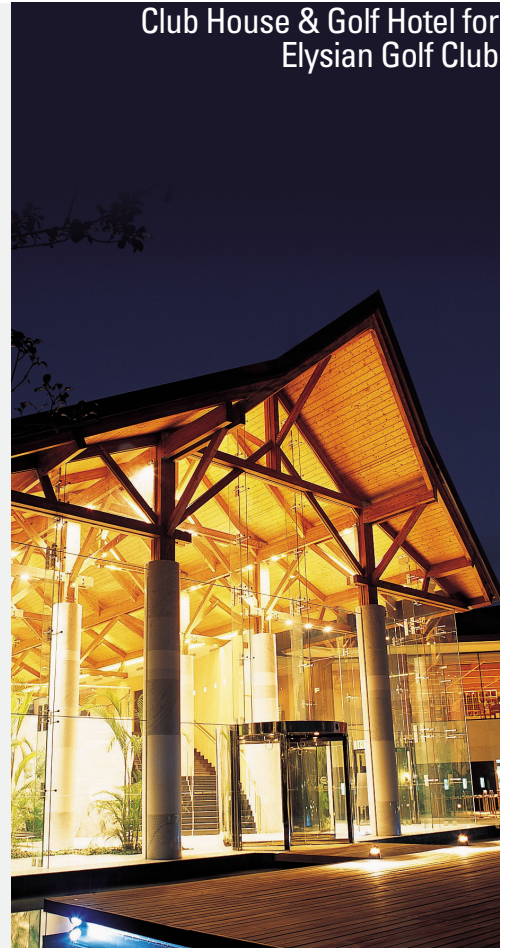
The Division boasts outstanding technology, project management and work experience in the construction of office buildings and commercial facilities, creating future-oriented working spaces that are both beautiful and efficient.



LG Beijing Tower



Club House & Golf Hotel for Elysian Golf Club



A. LG Beijing Tower

Client : LG Group
Location : Beijing, China
Contract Period : Aug. 2002 ~ Aug. 2005
Project Descriptions :
- Total Floor Aarea :150,400m²
(30 Stories, 4 Underground Levels)

B. Club House & Golf Hotel for Elysian Golf Club

Client : GS E&C
Location : Jeju Island, Korea
Contract Period : Nov. 2002 ~ Dec. 2004
Project Descriptions :
- Total Floor Area : 23,197.81m²

LG Philips LCD P6



C. LG Philips LCD P6

Client : LG Philips LCD
Location : Gumi, Korea
Contract Period : Sep. 2002 ~ Dec. 2004
Project Descriptions :
- Total Floor Area 530,000m²
(6 Stories, 3 Underground Levels)

D. Koyang-Dukyang Cultural Health Center

Client : Koyang Municipality
Location : Koyang, Korea
Contract Period : Nov. 2000 ~ Aug. 2005
Project Descriptions :
- Total Floor Area : 55,939.2m²
- Structure : RC+SRC

Koyang-Dukyang Cultural Health Center



➤ housing

Growth as a Premium Brand

Xi image rises as brand popularity spreads nationwide

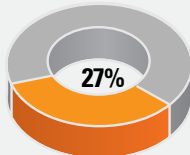
Gaepo Xi Apartment

- Client : Hwaum Construction
- Location : Seoul, Korea
- Contract Period : Nov. 2001 ~ Jun. 2004
- Project Descriptions :
 - 4 Apartment Buildings
 - Housing Units : 212

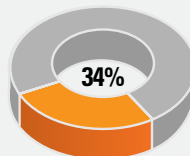
Message from the Housing Business Division Chief

Hee-Yoon Park,

Senior Executive Vice President, Head of Housing Business Division



Portion of Total Sales



Portion of New Orders

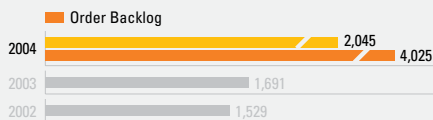


In addition to an overall sluggish economy in 2004, the Korean government continued a rigorous policy to curb real estate market speculation. As a result, we faced one of our toughest times ever. Yet, the year was very important to us in many ways. We managed to maintain growth in both new orders and provisional orders. Our ongoing customer-oriented management initiative, announced in December 2003, showed tangible results as well. We worked hard to finalize provisional orders for apartment reconstruction and residential redevelopment projects. As a result, we received government permission for two large-scale projects—Banpo Complex 3 in Seoul and Ganseokju-dong in Incheon. We also sold all units in Jamsil Complexes 3 and 4 in Seoul. Meanwhile, our brand name soared in provincial markets—regions outside the Greater Seoul Area. We sold all units in the Busan Heights Xi, Haman Gwanggyecheon Metro Xi, and Jeonju Songcheon Xi complexes. In the future, the GS E&C Housing Business Division will reemerge as the Korean market leader both qualitatively and quantitatively. All of our people remain committed to offering our customers ever-higher value and better living environments.

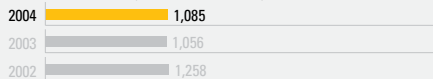
2004 Sales Revenue

₩1.085 trillion
 New Orders Increased 21% to ₩2.045 trillion

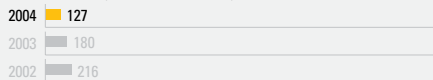
New Orders (Unit : billions of Won)



Sales Revenues (Unit : billions of Won)



Gross Profit (Unit : billions of Won)



2004 Performance Summary

New orders topped ₩2.05 trillion in 2004. This total breaks down as nearly ₩802 billion in orders from developers, ₩953.5 billion in apartment reconstruction and residential redevelopment projects, and ₩289.7 billion in apartment projects owned by the company. This was a 21% increase from the ₩1.7 trillion figure achieved in 2003.

GS E&C also secured more provisional orders for housing projects than any other Korean builder in 2004: ₩1.1 trillion in orders from developers, ₩3.6 trillion in reconstruction/redevelopment projects. The total provisional order backlog for housing projects stood at ₩11.4 trillion at the end of 2004, meaning a steady supply of work for the Division in the future.

Sales for the year surpassed ₩1.08 trillion, up some 3% from the ₩1.06 trillion in sales for 2003. In 2005, sales will be generated from 22 projects supplied in 2004, and the Division estimates its sales figure will reach nearly ₩1.32 trillion in 2005. The company supplied 11,886 apartment units in 2004, up 48% from the 8,014 new units provided a year earlier. The strong performance was boosted by highly successful Xi apartment sales in Jeonju and Busan.

2005 Outlook and Plans

The Housing Business Division will focus on strengthening internal capabilities. The marketing apparatus, which until now has approached its duties on a project basis, will be reorganized under five Regional Offices nationwide. This way, project risk can be managed more systematically, and an extensive marketing network can be established. On the technology side, the Division will continue to follow a strategy of differentiating the 'Xi' brand from the competition. New technology will be amassed while the company proceeds with very tall apartment structures. Safety awareness will be heightened among workers on construction sites to eliminate mishaps, and pre-project services will be linked construction sites to raise quality further and maximize customer satisfaction. Finally, diverse support will be provided to ensure that the most qualified managers are in charge and that managers' skills are constantly improving. Advance project management will minimize risk, while every effort will be made to raise cost competitiveness.

GS E&C secured more provisional orders for housing projects than any other Korean builder in 2004

Continue to promote Xi as a distinctive product for discriminating customers

The Division's Xi brand stand for premium apartments that are both environmentally friendly and equipped with the most advanced home networking systems.



Jukjeon Xi Apartment



Yangju Xi Apartment

A
B
C
D

A Jukjeon Xi Apartment

Client : Serim L&D
Location : Yongin, Korea
Contract Period : Oct. 2001 ~ Jun. 2004
Project Descriptions :
- 4 Apartment Buildings
- Housing Units : 238

B Yangju Xi Apartment

Client : Korea Reits
Location : Yangju, Korea
Contract Period : May. 2003 ~ Aug. 2005
Project Descriptions :
- 44 Apartment Buildings
- Housing Units : 2,864



Hanbat Xi Apartment

C Hanbat Xi Apartment

Client : Korea Land Corporation
Location : Daejeon, Korea
Contract Period : Oct. 2001 ~ Aug. 2006
Project Descriptions :
- 13 Apartment Buildings
- Housing Units : 1,063

D Yongsan Xi Apartment

Client : Morgan Adams
Location : Seoul, Korea
Contract Period : Oct. 2001 ~ Dec. 2005
Project Descriptions :
- Housing Units : 1,272

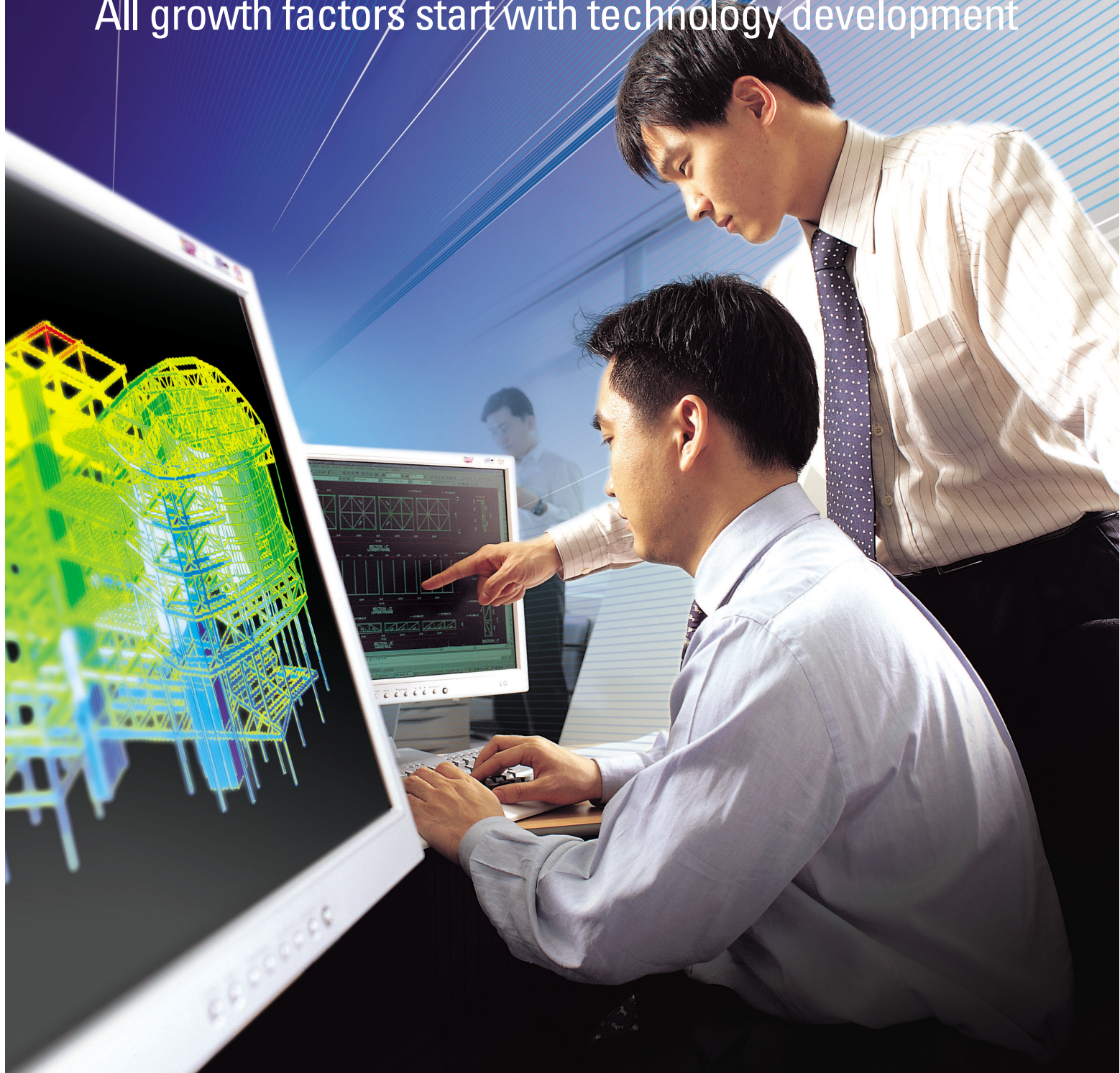


Yongsan Xi Apartment

➤ technical research center

Source of Future Growth

All growth factors start with technology development



Message from the Technical Research Center Chief

O-Whon Kwon,

Senior vice president, Head of Technical Research Center



The year 2004 was very meaningful for us as we began to take concrete steps to realize our Vision 2010 aspirations for advanced technology. Our mid-/long-term R&D strategy was clearly established concerning core technologies for new business areas, for improving productivity and for future applications. We drew up the new Technology Related Management (TRM) roadmaps for each operations division as well. Moreover, we improved the overall R&D program in a joint study with the LG Economic Research Institute. A new technology information system was installed to coordinate management of all R&D projects and to more efficiently amass and utilize data. The Technical Research Center will continue to secure core technology through in-house R&D, while strengthening competencies for supporting the order-taking process and on-site construction work. We will set new trends in Korean construction technology as we boost our contributions to winning new projects, creating new business areas and improving productivity for the company. Our focus in 2005 will be on making the innovations and taking on the challenges that will take GS E&C to the next level.

2004 Performance Summary

The Technical Research Center hired some outstanding new researchers in 2004, continued to promote the TRM program and strengthened the program for developing basic technologies. The Center's finest researchers were assigned to 27 separate projects for developing core technologies for new business pursuits, technologies for raising productivity and technologies for future applications. Technology development and application efforts resulted in greater work efficiency.

Some of the most important projects currently underway include a bridge runoff pollution control system (a "future technology"), activated sludge process and apparatus with high biomass concentration using a downflow sludge blanket filtration (a "core technology for new business") and pre-cast concrete system for underground parking structures at apartment complexes (a "technology for improved productivity"). Already, 24 construction methods developed in-house have been employed on 64 different construction sites.

An R&D Project Vitalization Process is being jointly carried out by the Division and the LG Economic Research Institute. Various projects were decided upon to bolster the overall R&D effort, and a master plan was drawn up for the construction of new research facilities.

In addition, a Technology Information Management System (TIMS) is being developed at the Division that can be linked to company-wide work processes. This way, experience and technical know-how obtained by the company in the course of operation can be more systematically stored and used.

2005 Outlook and Plans

The main tasks selected for 2005 are to step up R&D activities, improve technology related systems and bolster project support capabilities.

Elemental technologies will be developed and/or upgraded according to the new TRM initiative to heighten R&D operations. Advanced technologies will be outsourced as well, and construction of the new laboratory wing will proceed. Various R&D vitalization projects will be carried out to lay the groundwork for greater technology innovation.

A new Project Management System will be implemented, while the Technology Information Management System will be installed to better gather and utilize technical data from in-house research, company projects and all Technical Research Center processes.

In addition, technical support to construction sites will be improved with regard to dangerous construction work or construction work untried by the company to date. The Center's support for winning new orders will be expanded to turnkey project bids, alternative proposal bids, infrastructure projects and development projects. Also, project support competencies will be improved in the prevention of accidents on construction sites.



Company Milestones

1969

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

1975

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

1977

- Lucky International Construction Co., Ltd. established

1979

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

1981

- Initial public offering issued

1983

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

1984

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

1989

- Lucky Development Inc. established in Saipan
- 21st Century Vision adopted for becoming a best all round developer in the domestic market and a general construction company globally

1991

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

1993

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

1994

- ISO 9001 quality management certificate acquired

1995

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

1996

- ISO 14001 environmental management certificate acquired

1998

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

1999

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

2000

- Construction of the West Sea Grand Bridge completed

2001

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

2002

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

2003

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

2004

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

Management's Discussion and Analysis

Introduction

The GS and LG Groups have been split into independent entities to improve their specialization and secure separate business domains. This move also required that the name of the present company, a GS Group affiliate be changed to GS E&C Corporation. The GS Group is starting out anew by focusing on oil refining, construction, retail and other services. GS E&C is involved in the full range of engineering and construction areas, including civil engineering projects, environmental facilities, industrial plants, commercial buildings and apartment complexes.

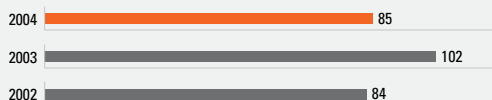
Construction Market

The Construction Association of Korea reports that new contracts in the Korean construction market grew from ₩83 trillion in 2002 to ₩102.4 trillion in 2003. Since then, the economy has slumped and the real estate market has worsened, causing new contracts to fall 17% to ₩85 trillion in 2004. The figure for 2005 is forecasted to be about ₩84 trillion.

The Korean government previously announced a policy promising five million new housing units over ten years. In 2003, 585,000 new units were supplied nationwide, but the economic slowdown caused privately-financed building to contract, and only 464,000 units were supplied in 2004, a drop of 20.7% from the previous year.

New Contracts

(Unit : trillion of Won)



Source : Construction Association of Korea

Breaking down the 2004 data, new public sector housing totaled 124,000 units, up 3.3% from the 120,000 units supplied in 2003. By contrast, the private sector built 340,000 units, 26.9% lower than the 465,000 units provided a year earlier. New apartment construction reached 405,000 units in 2004, up 12.6% from the 360,000 units averaged annually between 1999 and 2003. On the other hand, construction of non-apartment housing fell 49.5% from 116,000 units in 2003 to 59,000 units in 2004.

The Korean construction market can also be divided between the Greater Seoul Area (Seoul, Incheon and Gyeonggi Province) and all the other provinces. In 2003, the capital region gained 297,000 units, while housing in the provincial regions increased by 288,000 new units. The figures

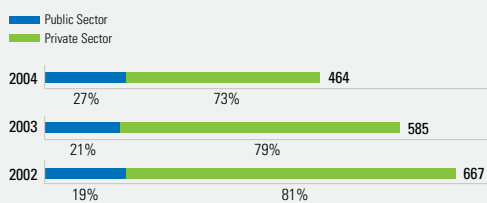
for 2004 were 206,000 for the Seoul vicinity (down 30.8%) and 258,000 (10.4% lower) for the rest of the country. The decline (49.8%) was most apparent in the capital region, from 116,000 units to 58,000 units.

The average housing price nationwide fell 2.1% in 2004 from the previous year, the sharpest price decline being for single-family homes(-3.6%) and low-rise townhouses (-5.5%) rather than high-rise apartments (-0.6%).

The gap between large residential builders and small and medium-sized enterprises continues to widen. Most of the large companies have increased their supply volumes. GS E&C supplied around 8,000 units in 2003 and 12,000 units in 2004, while plans call for doubling that figure to 14,000 units in the coming year.

Housing Construction by Sector

(Unit : thousands of Units)



Source : Construction Association of Korea

The government has been implementing measures to stabilize housing prices since late October 2003, causing the construction market to remain lackluster. A total of 57 areas around Korea were initially named as "real estate speculation and housing transaction notification zones," but some of those areas were subsequently de-listed in August and December 2004 as well as January 2005. Now the number of these intensely regulated zones stands at 31.

Public project bids are mainly awarded in one of three ways: turnkey, general eligibility, and lowest bidder. Currently the lowest bidder and turnkey methods are the most prevalent approaches. Price competitiveness is the most important factor for projects awarded to the lowest bidder, but recently the winning bids have fallen to around 50% of the government budget. Therefore, GS E&C rarely engages in these kinds of projects.

Winning turnkey bids requires not only a competitive price but also design expertise, financing capabilities, and skillful negotiation with rival companies to form a consortium. Now in Korea, private capital is being mobilized for infrastructure projects. PFI projects, which are steadily growing in number, require the abilities to uncover potential new projects, analyze project feasibility, provide financing, and operate the facilities once completed. Major Korean construction companies, GS E&C included, are increasingly involved in such endeavors.

Project Successes

GS E&C completed the 6th-generation LCD production facility (a total construction cost of ₩1 trillion) for LG Philips LCD in Korea success of this project paved the way for the company's receipt of an additional for a 7th-generation LCD plant.

Major overseas projects completed in 2004 include a ₩160 billion on-stream catalyst replacement plant for Kuwait National Petroleum Co. and a linear alkyl-benzene plant in Iran. The company received bonuses from both clients for finishing these projects ahead of schedule and for the outstanding performance of the completed facilities.

Growing Value for New Contracts

New orders have risen steadily in value in the past two years. New contracts in 2004 exceeded ₩6 trillion as opposed to the ₩5 trillion total received in 2003, and the Housing Business Division received the highest provisional order amount in the Korean housing sector for both 2003 and 2004, moving the company a step closer to its goal of securing the overall top market share by 2010.

Importantly, the company continues to pursue the more profitable turnkey projects instead of the lowest bid/general eligibility bid types. In 2003, eleven turnkey projects were awarded to GS E&C, and the company won thirteen such projects in 2004. Among these, the Architecture Business Division received contracts for five turnkey projects (worth ₩126 billion), and the Environment Business Division obtained four turnkey projects (worth ₩78 billion). Thus, the company has firmly demonstrated its competitiveness in these two sectors.

The 2005 target for new contracts has been set at ₩6.5 trillion. To achieve this goal, GS E&C will work to attract more turnkey/PFI projects as well as projects unrelated to affiliated companies. The company will also supply more housing units and aggressively pursue more plant and environmental facility projects.

New Overseas Markets, New Fields

GS E&C expanding its business scope in 2004, penetrating the Russia and Oman markets with large-scale plant projects. The company is also carrying out feasibility studies on development projects in Vietnam as part of an ongoing overseas market diversification effort.

Meanwhile, GS E&C continues to break into new project areas in order to achieve balanced operational growth. For example, the company will build tall apartments in the new Yongsan Xi and Yeouido Hansung Xi complexes in Seoul and has entered the apartment remodeling business with new contracts for the Apgujeong Misung and New Banpo complexes also in Seoul. Another new area undertaken by the company is constructing light railway lines as part of the government program to help alleviate congestion on the nation's roads.

More and Larger Captive Projects

In 2004, LG-Philips LCD announced plans to invest US\$20 billion in new facilities over the next decade, and GS E&C received a ₩1.3 trillion

contract to build the first installment of this plan-a 7th-generation TFT-LCD factory. The company also increased the value of orders received from LG and GS affiliated companies, such as LG Electronics, LG Chem and GS Caltex.

Given the nature of the rapidly changing TFT-LCD market, the plant project is being expedited via "fast-track" approach in which design and construction are carried out simultaneously. Thus, project completion is set for 2005. LG Philips also plans to build 8th-, 9th-, and 10th-generation production lines successively. Given the advanced technology and close cooperative relationship being built up in the course of these projects, LCD factory construction looks to be an important growth driver for GS E&C. Captive projects represented 38% of total sales in 2004, up from the 30% figure for the previous year.

Ongoing Pursuit of PFI Projects

Privately-funded infrastructure construction is among the most profitable endeavors for the company. GS E&C sells its operation rights after project completion to free up investment funds for reinvestment in other PFI projects. By 2004, the company has completed and is operating five PFI projects, and two more are currently under construction. At the end of 2004, the company's total investment in PFI stood at ₩252 billion, which is 37% of invested assets and 8% of total assets. Here are examples of how PFI projects are managed: In 2003, the company sold its equity in the New Airport Highway and Daegu West-North Road to improve its capital liquidity. In 2004, the company negotiated the sale of its ₩113 billion stake in the Cheonan-Nonsan highway to the Korea Road Infrastructure Fund.

Changing Equity in LG Affiliates

At the end of 2004, GS E&C sold part of its shares in LG CNS and LG Energy to comply with laws on affiliate separation and holding company launch. Official separation of the LG and GS Groups begins in 2005. The LG Card insolvency prompted the company to sell its 4.36% stake in LG Investment Securities in 2004. The equity was transferred to LG Card creditors, who assumed managerial control of LG Card in 2003. GS E&C also purchased ₩50 billion in LG Card CP in 2004 as obligatory support for additional bad debt amassed by the credit card company. Subsequently, ₩12.7 billion of the total was converted into invested capital and the remainder has been retained as CP.

Stronger Knowledge Management

GS E&C has been investing steadily into information technology to respond more effectively to a fast-changing market environment and to raise competitiveness by improving intra-organizational information sharing. In addition, an ongoing effort is underway to acquire intellectual properties such as new technologies, patents, practical new ideas, programs and copyrights.

As a result, the new e-Works program was installed that can links global clients, partners and subcontractors in real time. Meanwhile,

the on-site project management system, known as PMS+, continues to be upgraded.

Finally, the new Knowledge Management Team was formed to develop work manuals. Required individual work competencies are also being entered into a database to promote competitiveness over the mid-/long term.

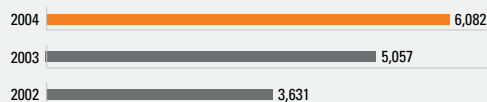
Results of Operations

New Orders

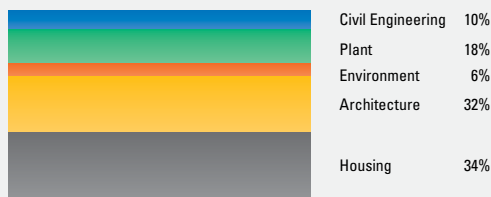
New orders increased 20.3% year on year in 2004 to surpass ₩6.08 trillion, establishing the foundation for steady company growth. Growth in new contracts was particularly strong in the Architecture and Housing Business Divisions, and projects from affiliated companies represented 34% of the total new orders received, boosted by the massive investment program at LG Philips LCD.

NEW ORDERS

(Unit : billions of Won)



NEW ORDERS BY DIVISION



Civil Engineering Business Division

The Civil Engineering Business Division suffered a 10% year-on-year decline in new orders, which totaled ₩613 billion in 2004. The Division represented 10% of the company's total new order business, down 4 percentage points from 2003.

The seven turnkey projects awarded to the Division in 2003 comprised 68% of the total new contracts it received for the year, whereas only 4 turnkey projects, or 44% of the total new business, were obtained in 2004. However, many projects were either postponed or delayed, and the new order volume is expected to pick up in 2005 and beyond.

Importantly, the Division paved the way for market and operational diversification with the award of the turnkey Gulpo River flood control project and participation in the Pyeongtaek Port PFI project. This foundation for business expansion should allow the Division a greater role the company, as civil engineering projects tend to be highly profitable. The Division's involvement in new PFI projects also reached ₩28 bil-

lion in 2004, up ₩20 billion from the year before. Despite numerous project postponements, the Division also received ₩317 billion in new general government contracts, an increase of ₩106 billion from 2003. At the end of 2004, the order backlog for the Civil Engineering Division stood at ₩2.45 trillion, up 2% from a year earlier and 25% of the company's total order backlog.

Plant Business Division

The Plant Business Division received just over ₩1 trillion in new contracts in 2004, down 30% from the year before. This figure equals 18% of the total new contracts received for the year.

However, the lower numbers are mainly due to the formation of a separate division for the environment-related projects and the lack of massive new orders such as the ₩670 billion Iranian South Pars Gas Treatment Plant project received in 2003. On a positive note, the Division's order backlog exceeded ₩1.9 trillion at the end of 2004, up 22% year on year and 19% of the company total.

Overall construction demand is forecast grow in 2005, driven up by facilities expansion in oil producing countries in response to recently soaring global oil prices.

Environment Business Division

Public interest in environmental protection is at an all-time high, causing the market to grow rapidly. To meet this surging demand, GS E&C formed a separate Environment Business Division in 2004 and is leveraging its advanced to achieve rapid growth in this segment.

New contracts totaled ₩400 billion, or 6% of the new business for the company, in 2004. In 2003, only one turnkey project in the environmental protection field was secured. A year later, the new Division was awarded four such projects, including sewage conduit repair in Bosung and an advanced sewage treatment plant in Jeonju. Thus, the Division's proven technology and experience have laid the groundwork for future growth.

Architecture Business Division

The Architecture Business Division received ₩1.6 trillion in new contracts from affiliated companies, including the 7th-generation TFT-LCD production facility project for LG Philips LCD. As a result, total new orders were up 70% year on year to just under ₩1.95 trillion in 2004. The Division represented 32% of the new orders for GS E&C in 2004, an increase of 9 percentage points from 2003.

New orders are quickly turned into sales for projects such as LCD factories. Despite this fact, the massive increase in new contracts created a backlog of almost ₩1.17 trillion at the end of 2004, which was 42% higher than the year before. The scope of new work from affiliates coupled with the substantial backlog will provide a solid foundation for future growth.

Of special note, the three turnkey orders received in 2003 totaled only ₩83 billion in value, while the five turnkey orders awarded the follow-

ing year were worth ₩126 billion, helping to secure the company's leading position in this market segment.

Housing Business Division

The slumping Korean business environment notwithstanding, the Housing Business Division secured more than ₩2.04 trillion in new contracts in 2004, which was 20.9% higher than the ₩1.69 trillion figure for the previous year. As a result, the Division's order backlog increased 31.8%, from over ₩3.05 trillion at the end of 2003 to just under ₩4.03 trillion a year later.

In the housing business, only contracts that have been approved by the government are recognized as "new orders." Substantially more contracts have actually been received and are awaiting government approval. The amount of these provisional order backlog rose 31.3%, from ₩8.67 trillion at the end of 2003 to over ₩11.38 trillion at the end of 2004. Housing Business Division sales increased 2.7%, from more than ₩1.06 trillion in 2003 to over ₩1.09 trillion in 2004. However, the Division's portion of total company sales revenue fell from 34% to 26% during the same period. Despite a 21% rise in new contracts, sales remained about the same because many projects were in their initial stages and their contribution to total sales was small.

Sales Revenue & Profit

In general, construction costs are categorized as materials, labor, outsourcing and other G&A expenses. When apartments are constructed on land owned by the builder, the construction cost will include the land cost. For major construction companies such as GS E&C, outsourcing will comprise 50% of the total cost, and this expense continues to rise in proportion to other costs.

At the end of 2004, outsourcing represented 60% of the cost of sales for GS E&C. This statistic reflects the increasingly important role that project management plays as construction projects become larger and more complex. This also means that material and labor costs increasingly become part of the subcontractors' work scope. The composition of expenses varies according to project type as well. Outsourcing expenses are relatively high for civil engineering and architecture projects, while the material cost portion is lower. On the other hand, plant and apartment projects will incur higher costs for materials while outsourcing is less prominent as an expense.

Here is a look at changing costs for construction materials (based on Producer Price Index, or PPI, data from the Bank of Korea covering unprocessed and processed industrial materials; 100 represents the year 2000): Raw materials used in construction rose 24.7% on the PPI, from 118.0 at the end of December 2003 to 147.2 a year later. During the same period, the index for intermediate construction materials moved from 112.5 to 129.4, a 15% increase. Thus, the cost of raw materials rose faster than that for intermediate (or processed) materials. The BOK data show, for example, that the price for regular reinforcement bar surged 33.2% during the one-year period, from 134.4 on

the index to 179.0. The rising costs naturally exert downward pressure on the company's gross margin.

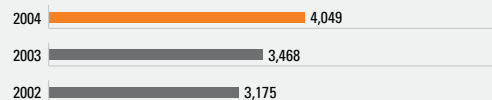
Sales Revenue

GS E&C's operations are currently divided into the civil engineering, plant, environment, architecture and housing sectors. The rapid growth in demand for environment protection facilities prompted the company to form a separate unit, independent of the Plant Business Division, for this business segment.

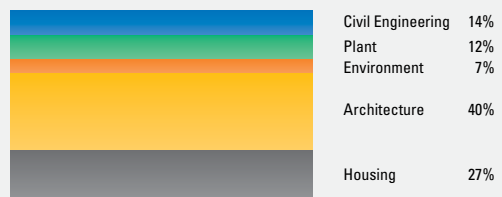
Sales rose 16.8%, from nearly ₩3.47 trillion in 2003 to just under ₩4.05 trillion in 2004, boosted by the Architecture Business Division's rapid progress on TFT-LCD factory projects. This also increased the sales portion of captive projects from 30% in 2003 to 38% of total sales in 2004. The recent rise in oil prices has also led to increased orders from oil producing countries, driving up overseas sales revenue from 8% to 10% of total sales.

SALES REVENUE

(Unit : billions of Won)



SALES BY DIVISION



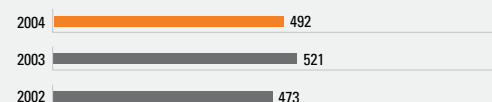
Gross Profit

Construction work costs in 2004 break down as 59% for outsourcing, 24% for materials and 17% for other G&A expenses. This was similar to the 60%/23%/17% cost configuration for 2003. The increase in the material cost portion was mainly due to higher raw material prices and to the increase in architecture projects, which incur relatively high material costs, while the amount of civil engineering projects, which require fewer materials, fell.

Rising raw material prices and worsening market conditions brought on by intensified competition caused gross profit to fall 5.6% year on year to ₩492 billion in 2004. Gross margin was also slid to 12.2%, from 15.0% in 2003.

GROSS PROFIT

(Unit : billions of Won)



Operating Profit

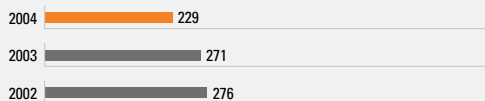
The company earned ₩229 billion in operating profit in 2004, a 15.5% decline year on year. Likewise, the operating profit margin dropped from 7.8% to 5.7% because gross profit was ₩29 billion lower than the 2003 figure. At the same time, sales and administrative expenses rose 5.4% to ₩263 billion, causing the ratio of S&A expenses to sales to drop from 7.2% in 2003 to 6.5% in 2004.

This increase in S&A expenses reflects efforts to break into new fields and to lay the groundwork for long-term growth, with the ultimate goal of leading Korea's construction market. Part of the rising cost is attributed to pay hikes for employees and the establishment of a new Customer Service Center by the Housing Business Division to maximize customer satisfaction.

Meanwhile, the company is aggressively pursuing turnkey projects in order to build the foundation for steady growth. As part of this effort, more is being invested in technology development, including money paid to outside design specialists, driving the associated expenses up from ₩74 billion in 2003 to ₩76 billion in 2004. The Housing Business Division must also continue to make outlays in order to secure new contracts for residential redevelopment and apartment reconstruction.

OPERATING PROFIT

(Unit : billions of Won)



Ordinary Profit

Ordinary profit for 2004 totaled ₩242 billion, down 7.6% from the ₩262 billion recorded the year before. However, the balance between non-operating income and non-operating expenses improved by ₩23 billion during 2004.

One-time expenses surged as a result of ₩14 billion in LG Card CP impairment losses, a ₩23 billion loss from the disposal of LG Investment Securities shares, and the payment of an additional ₩12 billion in income taxes for prior years. As a result, non-operating expenses increased ₩40 billion, from ₩47 billion in 2003 to ₩87 billion in 2004.

On the other hand, non-operating income rose ₩62 billion, from ₩38 billion to ₩100 billion over the same period. This figure includes a ₩29 billion increase in foreign exchange gains (gains/losses on foreign currency transactions/losses on foreign currency translation and derivatives transactions/valuation losses) resulting from an effective currency exchange risk management effort.

Second, the equity method applied to invested corporations in which the company has a stake of 20% or more resulted in the conversion of a ₩16 billion loss in 2003 into a ₩2 billion gain in 2004. (GS E&C has excluded PFI Companies such as Seoul Beltway Co. from this equity valu-

ation method since 2002 based on the opinion of the financial supervisory service)

Thus, Hanmoo Development, which comprises the largest portion of GS E&C's invested stocks, has been converted into a gain. Meanwhile, the decreased value of fixed assets belonging to Ladera, a local subsidiary on Guam, was shown as an ₩11 billion loss on evaluation of equity method in 2003, but that figure does not appear on the books in 2004.

Third, interest rates for financing have fallen and borrowings have been converted into net cash flow, improving interest income by ₩12 billion.

ORDINARY PROFIT

(Unit : billions of Won)



Extraordinary Income & Loss

When the foreign currency figures in the financial statements for overseas invested companies are converted into Won, the balance sheet entries are based on the exchange rate prevailing for the Balance Sheet date (but capital account conversions are calculated according to date of acquisition). On the other hand, the average exchange rate for the fiscal period is applied for Income Statement entries, resulting in gains or losses on foreign currency translation. These figures are entered in the Overseas Business Translation Credit/Debit accounts, which either add to or deduct from shareholders' equity. Should overseas branches or other operations be closed, the gains or losses are applied in that same fiscal year.

Therefore, the overseas business translation debit of ₩12 billion is amortized in 2003 as an extraordinary loss, and ₩5 billion is also amortized as an extraordinary loss in 2004. As a result, a business operation translation credit of ₩1.6 billion remained as a capital adjustment within the Shareholders' Equity account at the end of 2004.

Financial Position

Cash Flow

Cash and cash equivalents, which stood at ₩99 billion at the end of 2003, rose to ₩262 billion during the following year. Following is a description of changes in cash flow for each activity type:

First, operating cash flow increased to ₩230 billion in 2004 as a result of ₩156 billion in net income, ₩78 billion in non-cash income and expenses as well as a ₩4 billion cash outflow from changes in operating assets and liabilities.

Trade accounts and notes receivables were ₩238 billion higher at the end of 2004 than they were a year earlier, rising faster than the sales

revenue growth rate. This was mainly due to increased sales from affiliated companies. On the other hand, trade accounts and notes payable also increased ₩175 billion.

Second, investment activities generated a cash inflow of ₩7 billion after the sale of LG Investment Securities shares and the partial sale of equity in LG CNS and LG Energy to satisfy the legal requirements for separating from the LG Group. At the same time, a cash outflow of ₩179 billion resulted from payments for long-term investment securities and assets for construction projects now in progress.

Third, cash flow from financing activities rose ₩112 billion during 2004. An increase in borrowings coupled with a reduction in corporate bonds increased cash flow by ₩81 billion and strong sales of memberships to a golf course on Jeju Island also raised ₩91 billion. Meanwhile, a total of ₩62 billion was paid out in dividends.

Capital Expenditures

Much of the company's capital expenditure in both 2003 and 2004 was directed at the construction of the Elysian Country Club on Jeju Island, and the project was completed in 2004. GS E&C capital expenditure came to ₩134 billion in 2004, a 60% increase over the ₩5 billion figure for the previous year.

Large construction companies such as GS E&C invest in project companies in the process of performing PFI projects. Technically, this is not classified as CAPEX, but it is similar because it is directly linked to generating income and new orders.

A PFI project involves both construction companies and financial institutions, who jointly establish the project company. Participants' invested capital, borrowings and national treasury funds are used to finance the construction of roads, railways, ports, sewage treatment plants and other infrastructure. Once built, the project company operates the infrastructure for a fixed period to generate revenue. Construction companies that take part in PFI projects invest in the project company, providing them with the opportunity to earn revenue by carrying out various construction orders for the project company. Once the construction work is completed, the construction company can either collect a share of the income generated, proportionate to equity owned, or it can withdraw cash by selling its stake.

GS E&C's first PFI project was the New Airport Highway construction. The company initially invested ₩2 billion in 1995, followed by additional investments of ₩48 billion in 2002, ₩36 billion in 2003 and ₩36 billion in 2004.

The company may try to liquidate its investment while the construction work is still underway or after it is complete. For example, GS E&C sold ₩22 billion worth of its equity in the New Airport Highway to the project company in 2003 and was repaid ₩3 billion from the Daegu West-North Road project in 2004. An agreement was reached in 2004 to repatriate ₩113 billion of the GS E&C equity investment in the Cheonan-Nonsan Highway project. Of this total, ₩56 billion was returned in February 2005 and the rest is to be paid back before the

end of the year. In this way, the company keeps circulating its capital for reinvestment in other projects to maximize return.

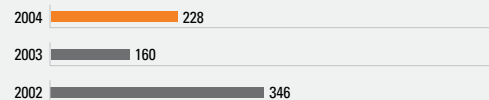
GS E&C is currently involved in a number of PFI projects and will continue to invest in new ones in the future.

Borrowings

Total borrowings increased by 68 billion in 2004, from ₩160 billion at the end of 2003 to ₩228 billion a year later. Of the total, 72% (₩164 billion) is in short-term loans, including ₩151 billion in low-interest, trade-related loans such as the manufacturing financing provided by Korea Exim Bank and usance LCs. Long-term loans include ₩15 billion in borrowings from Korea Housing Guarantee Co. and ₩50 billion in corporate bonds; the latter will mature in 2007.

DEBT

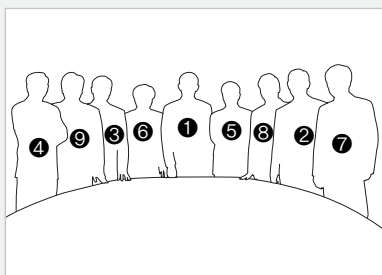
(Unit : billions of Won)



Equity

The number of shares issued by the company stood at 51 million on December 31, 2004. All shares are common stock; there are no preferred shares, convertible bonds or bonds with warrant. Chairman Chang-Soo Huh and other members of the Huh family hold 30.4% of the total shares issued. Treasury stocks and employee-held stocks amount to 1,271,040 shares, or 2.5% of the total. In 2004, the company purchased 85,806 shares of treasury stock and provided them to employees, and additional purchases and provisions to employees will be made in the future.

Board of Directors



- 01_Chang-Soo Huh CHAIRMAN OF THE BOARD
- 02_Kab-Ryul Kim PRESIDENT & CEO
- 03_Myung-Soo Huh SENIOR EXECUTIVE VICE PRESIDENT & CFO
- 04_Sang-Ryong Woo SENIOR EXECUTIVE VICE PRESIDENT
- 05_Kyung-Han Kim OUTSIDE DIRECTOR
- 06_Sang-Kee Min OUTSIDE DIRECTOR
- 07_Hak-Eun Lee OUTSIDE DIRECTOR
- 08_Chang-Se Lee OUTSIDE DIRECTOR
- 09_Chong-Won Ahn OUTSIDE DIRECTOR

Financial Statements

Non-Consolidated Financial Statements

December 31, 2004 and 2003

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Samil PricewaterhouseCoopers

Kukje Center Building 191 Hangangro 2 ga, Yongsanku Seoul 140-702, KOREA (Yongsan P.O.Box 266, 140-600)

To the Shareholders and Board of Directors of GS E&C Corporation

We have audited the accompanying non-consolidated balance sheets of GS E&C Corporation (the "Company") as of December 31, 2004 and 2003, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, expressed in Korean won. 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 non-consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of GS Engineering & Construction Corporation as of December 31, 2004 and 2003, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw your attention to the following matters.

As discussed in Note 20 to the non-consolidated financial statements, for the year ended December 31, 2004, the Company's total sales to related parties amounted to ₩1,561,620 million (2003: ₩1,092,286 million) and total purchases from related parties amounted to ₩108,973 million (2003: ₩98,414 million). As of December 31, 2004, the related receivables amounted to ₩603,785 million (2003: ₩604,724 million) and the related payables amounted to ₩86,931 million (2003: ₩85,891 million).

As discussed in Note 8 to the non-consolidated financial statements, following the approval of the business normalization plan of LG Card Co., Ltd. and the resolution by the Board of Directors on December, 29, 2003, the Company entrusted Woori Bank, the representative of the bank creditors' committee, with the disposal and voting rights for the 5,325,572 shares of LG Investments and Securities Co., Ltd. The Company recognized losses of ₩23,494 million from the disposal of LG Investments and Securities Co., Ltd. for the year ended December 31, 2004.

Following the resolution by the Board of Directors on January 27, 2004, the Company purchased commercial papers of LG Card Co., Ltd. for ₩50,000 million on February 11, 2004. Under the mutual agreement with the bank creditors' committee, commercial papers amounting to ₩12,707 million of LG Card Co., Ltd. are scheduled to be swapped for equity after December 31, 2004, and the maturity of commercial papers amounting to ₩37,293 million are to be extended by December 31, 2005. The Company recorded impairment loss on investments of commercial papers amounting to ₩13,812 million for those commercial papers for the year ended December 31, 2004.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used 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 financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea / January 28, 2005

Samil Accounting Corporation

This report is effective as of January 28, 2005, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

NON-CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

	in millions of Korean Won	
	2004	2003
ASSETS		
Current assets		
Cash and cash equivalents	₩ 261,721	₩ 98,643
Short-term investment securities (Note 4)	4,377	3,633
Trade accounts and notes receivable, net (Notes 3, 5 and 20)	1,094,948	874,474
Other accounts receivable, net (Notes 5 and 20)	31,653	20,219
Short-term investment securities (Note 8)	4,455	5,358
Short-term loans receivable, net (Notes 5, 12 and 20)	45,171	48,216
Inventories (Note 6)	158,935	121,288
Accrued income , net (Note 5)	2,995	3,386
Advance payments, net (Notes 5 and 20)	78,701	59,628
Prepaid expenses	15,671	11,882
Prepaid construction costs	37,448	48,376
Derivatives (Note 12)	38,852	2,753
Total current assets	1,774,927	1,297,856
Property, plant and equipment, net (Notes 7, 13 and 21)	843,757	709,351
Long-term investment securities (Note 8)	364,312	335,756
Equity method investments (Note 9)	205,020	194,985
Long-term loans receivable, net (Notes 5, 12 and 20)	172	3,802
Long-term financial instruments (Note 4)	27	28
Long-term trade accounts receivable, net (Note 5)	-	31,052
Long-term guarantee deposits (Note 20)	55,178	33,217
Deferred income tax assets (Note 16)	53,917	76,647
Intangible assets (Notes 2 and 21)	5,950	7,738
Total assets	₩ 3,303,260	₩ 2,690,432
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings (Note 10)	₩ 163,756	₩ 14,403
Current maturities of long-term debts, net (Note 11)	1,327	131,030
Trade accounts and notes payable (Note 20)	1,173,718	875,850
Other accounts payable (Note 20)	37,284	43,207
Other advances received	1,676	6,478
Withholdings	26,132	22,348
Guarantee deposits received	23,045	14,180
Accrued expenses	26,683	16,541
Derivatives (Note 12)	6,468	3,550
Unearned revenue	987	639
Income taxes payable (Note 16)	43,612	56,360
Dividends payable	17	16
Total current liabilities	1,504,705	1,184,602

The accompanying notes are an integral part of these non-consolidated financial statements.

NON-CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

in millions of Korean Won

	2004	2003
Bonds payable, net (Note 11)	49,458	-
Long-term debts, net (Note 11)	13,267	14,593
Accrued severance benefits, net (Note 2)	49,014	43,064
Provision for warranty	31,262	27,026
Provision for foreseeable losses from construction contracts	2,270	2,785
Leasehold guarantee deposits received (Note 20)	88,457	86,451
Membership guarantee deposits received (Note 20)	266,502	175,343
Other long-term liabilities	940	940
Total liabilities	2,005,875	1,534,804
Commitments and contingencies (Note 12)		
Shareholders' equity		
Common stock (Note 1)	255,000	255,000
Capital surplus (Note 13)		
Paid-in capital in excess of par value	109,735	109,735
Asset revaluation surplus	75,192	75,192
Others	16,306	15,002
	201,233	199,929
Retained earnings (Note 14)		
Legal reserve	29,111	22,890
Other reserves	469,843	378,555
Retained earnings before appropriations	154,745	163,115
	653,699	564,560
Capital adjustments		
Treasury stock (Note 15)	(10,251)	(10,313)
Gain (Loss) on valuation of investment securities (Note 8)	253	(33,849)
Gain on valuation of equity method investments (Note 9)	179,927	183,910
Loss on disposal of treasury stock	-	(1,667)
Overseas business translation debit	1,620	(1,942)
Gain on valuation of derivative instruments	15,904	-
	187,453	136,139
Total shareholders' equity	1,297,385	1,155,628
Total liabilities and shareholders' equity	₩ 3,303,260	₩ 2,690,432

The accompanying notes are an integral part of these non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2004 and 2003

	in millions of Korean Won, except per share amounts	
	2004	2003
Sales (Notes 3, 20 and 21) :		
Construction operations	₩ 3,889,153	₩ 3,216,673
Housing and lotting-out operations	87,632	214,177
Other operations	72,308	36,734
	4,049,093	3,467,584
Cost of sales (Note 20) :		
Construction operations	3,416,396	2,703,333
Housing and lotting-out operations	76,563	192,923
Other operations	63,889	50,320
	3,556,848	2,946,576
Gross profit	492,245	521,008
Selling and administrative expenses :	263,123	249,597
Operating income (Note 21)	229,122	271,411
Non-operating income :		
Interest income	13,418	11,142
Dividend income	1,122	1,786
Gain on foreign currency transactions	12,325	5,547
Gain on foreign currency translation	13,993	218
Gain on valuation of equity method investments (Note 9)	2,183	-
Gain on disposal of investments	8,598	1,173
Gain on disposal of property, plant and equipment	655	481
Reversal of allowance for doubtful accounts	5,230	-
Gain on derivatives transactions (Note 12)	3,979	1,887
Gain on derivatives valuation (Note 12)	23,696	2,713
Others	14,825	12,702
	100,024	37,649

NON-CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2004 and 2003

in millions of Korean Won, except per share amounts

	2004	2003
Non-operating expenses :		
Interest expense	6,352	16,078
Loss on foreign currency transactions	11,596	4,702
Loss on foreign currency translation	5,679	1,635
Loss on disposal of investments	23,506	497
Loss on valuation of equity method investments (Note 9)	-	15,948
Impairment loss on investments	14,212	-
Loss on disposal of property, plant and equipment	822	130
Loss on derivatives transactions (Note 12)	716	14
Loss on derivatives valuation (Note 12)	6,468	3,550
Loss on disposal of trade accounts and notes receivable	2,004	545
Additional payment of income taxes	11,800	860
Donations	2,820	1,973
Others	1,120	1,376
	87,095	47,308
Ordinary income	242,051	261,752
Extraordinary loss :		
Amortization of overseas business translation debit	(5,422)	(21,457)
	(5,422)	(21,457)
Income before income tax expense	236,629	240,295
Income tax expense (Note 16)	80,509	78,758
Net income	₩ 156,120	₩ 161,537
Basic and diluted ordinary income per share (in Korean Won) (Note 17)	₩ 3,211	₩ 3,548
Basic and diluted earnings per share (in Korean Won) (Note 17)	₩ 3,134	₩ 3,245

The accompanying notes are an integral part of these non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

Years Ended December 31, 2004 and 2003

(Dates of Appropriations: March 18, 2005 and March 17, 2004 for the years ended December 31, 2004 and 2003, respectively)

	in millions of Korean Won	
	2004	2003
Retained earnings before appropriations :		
Unappropriated retained earnings		
carried forward from prior year	₩ 1,490	₩ 1,578
Change in retained earnings under the equity method (Note 9)	(2,864)	-
Net income	156,120	161,537
	154,746	163,115
Transfer from other reserves	23,296	8,629
	178,042	171,744
Appropriations of retained earnings :		
Legal reserve	6,228	6,221
Other reserves	108,112	101,821
Cash dividends (Note 18)	62,278	62,212
	176,618	170,254
Unappropriated retained earnings		
carried forward to subsequent year	1,424	1,490

The accompanying notes are an integral part of these non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2004 and 2003

in millions of Korean Won

	2004	2003
Cash flows from operating activities :		
Net income	₩ 156,120	₩ 161,537
Adjustments to reconcile net income to		
net cash provided by operating activities :		
Depreciation and amortization	26,770	27,348
Bad debt expense	-	9,402
Provision for severance benefits	34,110	24,777
Provision for warranty	15,419	17,268
Loss(Gain) on foreign currency translation, net	(8,422)	1,509
Amortization of discounts on debentures	397	1,450
Impairment loss on investments	14,212	-
Loss(Gain) on disposal of investments, net	14,908	(676)
Loss(Gain) on valuation of equity method investments	(2,183)	15,948
Loss(Gain) on disposal of property, plant and equipment, net	167	(351)
Loss(Gain) on derivatives valuation	(17,228)	837
Amortization of overseas business translation debit	5,422	21,457
Reversal of allowance for doubtful accounts	(5,230)	-
Others, net	54	(1,895)
	78,396	117,074
Changes in operating assets and liabilities		
Increase in trade accounts and notes receivable	(238,046)	(49,815)
Increase in other accounts receivable	(12,021)	(4,176)
Decrease(Increase) in inventories	(38,687)	60,700
Decrease(Increase) in accrued income	(266)	2,457
Increase in advance payments	(48,121)	(11,737)
Decrease(Increase) in prepaid expenses	(3,956)	256
Decrease(Increase) in prepaid construction costs	10,928	(30,821)
Decrease(Increase) in deferred income tax assets	23,816	(14,550)
Increase in trade accounts and notes payable	304,222	47,041
Increase(Decrease) in other accounts payable	(5,866)	4,495
Increase(Decrease) in accrued expenses	10,143	(4,295)
Decrease in income taxes payable	(12,748)	(2,264)
Payment of accrued severance benefits	(18,813)	(8,709)
Decrease in provision for warranty	(11,130)	(9,753)
Decrease in provision for foreseeable losses from	(515)	(6,654)
construction contracts		
Others, net	37,114	(3,944)
	(3,946)	(31,769)
Net cash provided by operating activities	230,570	246,842

The accompanying notes are an integral part of these non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2004 and 2003

	in millions of Korean Won	
	2004	2003
Cash flows from investing activities :		
Disposal of property, plant and equipment	2,039	961
Disposal of investment securities	76,002	46,058
Proceeds from short-term loans receivable	2,477	-
Proceeds from long-term loans receivable	933	12,459
Disposal of long-term financial instruments	-	11
Acquisition of short-term financial instruments	(744)	(134)
Short-term loans provided	-	(8,462)
Acquisition of property, plant and equipment	(134,297)	(83,904)
Acquisition of long-term investment securities	(99,358)	(47,498)
Acquisition of equity method investments	(4,117)	-
Payment of long-term guarantee deposits	(22,004)	(7,905)
Acquisition of intangible assets	(30)	-
Net cash used in investing activities	(179,099)	(88,414)
Cash flows from financing activities		
Disposal of treasury stock	1,768	2,460
Proceeds of short-term borrowings	162,861	-
Issuance bonds payable	49,357	-
Increase in membership guarantee deposits received	91,159	46,547
Payment of short-term borrowings	-	(17,519)
Payment of current maturities of long-term debt	(131,327)	(120,000)
Payment of dividends	(62,211)	(49,844)
Payment of long-term debt	-	(50,000)
Acquisition of treasury stock	-	(4,212)
Net cash provided by (used in) financing activities	111,607	(192,568)
Net increase (decrease) in cash and cash equivalents	163,078	(34,140)
Cash and cash equivalents		
Beginning of the year	98,643	132,783
End of the year	₩ 261,721	₩ 98,643

The accompanying notes are an integral part of these non-consolidated financial statements.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

1. The Company

GS Engineering & Construction Corporation (the "Company") was incorporated in 1969 under the laws of the Republic of Korea to provide engineering and construction services. In 1979, 1999 and 2000, the Company merged Lucky Foreign Construction Co., Ltd., LG Engineering Co., Ltd. and Baekyang Development Co., Ltd., respectively, to engage in overseas construction, engineering construction, golf course development and management, and other related services.

In August 1981, the Company listed its shares on the Korea Stock Exchange. The Company changed its name from LG Construction Co., Ltd. to LG Engineering & Construction Co., Ltd. in 1999.

The Company is authorized to issue 200 million shares of common stock with a par value of ₩5,000 per share. As of December 31, 2004, 51 million shares of common stock, amounting to ₩255,000 million, are issued and outstanding.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements are summarized below:

Basis of Financial Statement Presentation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations, or cash flows, is not presented in the accompanying non-consolidated financial statements.

Accounting Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. As SKFAS Nos. 1 through 10 became applicable to the Company on January 1, 2003, the Company adopted these standards in its financial statements covering periods beginning on or after this date. And as SKFAS Nos. 12 and 13 became applicable to the Company on January 1, 2004, the Company adopted these standards in its financial statements as of and for the year ended December 31, 2004.

Revenue Recognition

Revenues from construction contracts, housing, lotting-out operations and technical services are recognized using the percentage-of-completion method, measured principally by the percentage of costs incurred to date to estimated total contract costs. Other sales revenues are recognized upon delivery of services.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts and notes receivable based on historical collection experience and estimated collectibility of the receivables.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Investment Securities

The Company accounts for equity and debt securities under the provision of SKFAS No. 8, Investments in Securities. This statement requires investments in equity and debt securities to be divided into one of three categories: trading, available-for-sale and held-to-maturity. Securities accounted for as available-for-sale and held-to-maturity are classified into long-term investment securities. However, available-for-sale securities anticipated to be sold within a year and held-to-maturity securities maturing within a year are reclassified into short-term investment securities.

Securities are initially carried at cost, including incidental expenses, with cost being determined using the gross average method. Debt securities, which the Company has the intent and ability to hold to maturity, are generally carried at cost, adjusted for the amortization of discounts or premiums. Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Trading and available-for-sale securities are carried at fair value, except for non-marketable securities classified as available-for-sale securities, which are carried at cost. Non-marketable debt securities are carried at a value using the present value of future cash flows, discounted at a reasonable interest rate determined considering the credit ratings by the independent credit rating agencies.

Unrealized valuation gains or losses on trading securities are charged to current operations, and those resulting from available-for-sale securities are recorded as a capital adjustment, the accumulated amount of which shall be charged to current operations when the related securities are sold, or when an impairment loss on the securities is recognized. Impairment losses are recognized in the income statement when the recoverable amounts are less than the acquisition cost of securities or adjusted cost of debt securities after the amortization of discounts or premiums.

Investments in equity securities of companies, over which the Company exercises a significant control or influence (controlled investees), are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership of the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee. The Company discontinues the equity method of accounting for investments in equity method investees when the Company's share in the accumulated losses equals the costs of the investments, and until the subsequent cumulative changes in its proportionate net income of the investees equals its cumulative proportionate net losses not recognized during the periods when the equity method was suspended.

Differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized over a reasonable period using the straight-line method.

Unrealized profit arising from sales by the Company to equity method investees is fully eliminated. The Company's proportionate unrealized profit arising from sales by the equity method investees or sales between equity method investees is also eliminated.

Foreign currency financial statements of equity method investees are translated into Korean Won using the basic exchange rates in effect as of the balance sheet date for assets and liabilities, and annual average exchange rates for income and expenses. Any resulting translation gain or loss is included in the capital adjustments account, a component of shareholders' equity.

The Company discontinued the equity method of accounting for investments in the securities of the companies related to Social Overhead Capital since the Company is restricted from exercising a significant influence over those companies due to an agreement between the creditors' committee and those companies' shareholders.

Inventories

Inventories are stated at the lower of cost or market, 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.

Interest expense on borrowings to finance the purchase or construction of inventories in connection with lotting-out 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 asset. Interest expense capitalized for the year ended December 31, 2004 amounted to ₩951 million (2003: ₩3,137 million), of which ₩687 million (2003: ₩4,171 million) was transferred to cost of sales.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Prepaid Construction Costs

The costs that relate to a construction contract and that are incurred in securing the contract are capitalized if they can be separately identified and measured reliably and if it is certain that the contract will be obtained.

Property, Plant and Equipment and Related Depreciation

The cost of property, plant and equipment includes the purchase price, any directly attributable costs in bringing the asset to the working condition for its intended use, and the net present value of estimated costs associated with dismantling and removing the asset and restoring the site, to the extent that those estimated costs meet the conditions for the recognition of liabilities.

Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method for buildings and structures and the declining-balance method for the other assets over the following estimated useful lives of the assets:

	Estimated Useful Lives
Buildings	40 years
Structures	40 years
Machinery and equipment	4 - 12 years
Vehicles	4 years
Other assets	4 years

Routine maintenance and repairs are charged to current operations as incurred. Expenditures which enhance the value or extend the useful life of the related assets, are capitalized.

The Company assesses the potential impairment of property, plant and equipment when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely. The carrying value of the assets is reduced to the estimated realizable value by recording an impairment loss charged to current operations presenting it as a reduction from the said carrying value. However, any recovery of the impaired assets is recorded in current operations and should not exceed the carrying amount of the assets before impairment.

The Company capitalizes interest expense on borrowings to finance the purchase or construction of property, plant and equipment as a part of the cost of the related assets. The amount capitalized for the year ended December 31, 2004 is ₩4,690 million (2003: ₩2,210 million).

Intangible Assets

Intangible assets are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the following estimated useful lives of the assets:

	Estimated Useful Lives
Goodwill	5 years
Lease rights	20 years
Development costs	5 years

Research costs are charged to current operations as incurred. Development costs incurred for new products or technologies which can be specifically identified and reliably measured and which have probable future economic benefits are capitalized. Other development costs are recognized in the period incurred as normal development expenses. Capitalized development costs are amortized using the straight-line method over the period during which the related economic benefits are recognized, not to exceed 20 years, from the initial commercial sale of new products or utilization of such technology. The Company performs periodic assessments of the recoverability of development costs, and the carrying value of the assets is reduced to the estimated recoverable amount and an impairment loss is recorded as a reduction in the carrying value of the related assets and is charged to current operations. For the year ended December 31, 2004, the Company capitalized ₩30 million (2003: ₩160 million) of development costs, and recognized ₩96,898 million (2003: ₩103,998 million) as normal research and development costs.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

The details of the changes in capitalized development costs for the years ended December 31, 2004 and 2003, are as follows:

	in millions of Korean Won	
	2004	2003
Beginning balance	₩ 1,771	₩ 2,310
Increase	30	160
Amortization	(716)	(699)
Ending balance	₩ 1,085	₩ 1,771

The excess of the price paid over an acquired company's net book value is recorded as goodwill and amortized over reasonable period within 20 years using the straight-line method. The Company performs periodic assessments of the recoverability of goodwill, and the impaired amounts are charged to current operations in the period that they are first identified.

The details of the changes in goodwill for the years ended December 31, 2004 and 2003, are as follows:

	in millions of Korean Won	
	2004	2003
Beginning balance	₩ 1,164	₩ 1,941
Increase	-	-
Amortization	(776)	(777)
Ending balance	₩ 388	₩ 1,164

The details of the changes in the right of lease for the years ended December 31, 2004 and 2003, are as follows:

	in millions of Korean Won	
	2004	2003
Beginning balance	₩ 4,803	₩ 5,130
Increase	-	-
Amortization	(326)	(327)
Ending balance	₩ 4,477	₩ 4,803

Provision for Warranty

The Company provides a provision for estimated warranty costs relating to construction defects during the warranty period. Estimated costs of product warranties are charged to current operations at the time of sale and are included in the balance sheet as a provision for warranty.

Provision for Foreseeable Losses from Construction Contracts

When a loss on construction is expected based on cost estimates, the expected loss is charged to current operations when first identified, and is included in the balance sheet as a provision for foreseeable losses from construction contracts.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Present Value Discount Account

Trade receivables and payables arising from long-term installment transactions, long-term cash loans (borrowings) and other similar loans (borrowings) are stated at the net present value of future cash flows, calculated using the effective interest rate at the time of the contract. Differences between the nominal and present values are presented as present value discounts and directly deducted from the nominal value of the related trade receivables or payables.

The present value discount account is amortized or recovered using the effective interest rate method over the term of the contract, and is recorded as interest expense or interest income.

Discounts on Debentures

Discounts on debentures are amortized using the effective interest rate method over the term of the debentures, and the resulting amortization is recorded as interest expense.

Derivative Financial Instruments

All derivative instruments are accounted for at fair value with the resulting valuation gain or loss recorded as an asset or liability. If the derivative instrument is not designated as a hedging instrument, the gain or loss is recognized in earnings in the period of change. Fair value hedge accounting is applied to a derivative instrument with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss, both on the hedging derivative instrument and on the hedged item attributable to the hedged risk, is reflected in current operations.

Cash flow hedge accounting is applied to a derivative instrument with the purpose of hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of the gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of the gain or loss recorded as a capital adjustment is reclassified to current operations in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss recognized as a capital adjustment is added to or deducted from the asset or the liability.

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date. The actual severance payments for the year ended December 31, 2004 amounted to approximately ¥18,813 million (2003: ¥8,709 million).

Accrued severance benefits are funded at approximately 56.3% (2003: 54.9%) as of December 31, 2004, through a severance insurance plan, and are presented as a deduction from accrued severance benefits.

The Company has made deposits to the National Pension Fund in accordance with National Pension Act. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheets are presented net of this deposit.

Asset Impairment Loss

Assets other than marketable securities, investment securities, restructured receivables and assets with present value discounts are stated at cost. However, declines in fair value arising from obsolescence, physical damage or a sharp decline in the market value are recorded as impairment losses and included in current operations.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Income Taxes

The Company recognizes deferred income taxes for the tax consequences in future years of the temporary differences between the tax and financial reporting bases of assets and liabilities at each year-end, including available net operating loss carry-forwards, based on enacted tax laws and statutory tax rates applicable to the periods in which such differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized. Income tax expense comprises the tax payable for the current period and the change in the balance of deferred income tax assets and liabilities during the current period.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the rates in effect at the balance sheet dates (₩1,043.8: US\$1 as of December 31, 2004; ₩1,197.8: US\$1 as of December 31, 2003) and resulting translation gains or losses are recognized in current operations.

Translation of Foreign Currency Financial Statements

Accounts 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 average exchange rate during the year. The resulting translation gains and losses are offset against each other and the net amount is recorded as overseas business translation debit(credit), presented as an addition to or deduction from shareholders' equity. Overseas business translation debit(credit) is offset against subsequent overseas business translation debit(credit) until it is recognized as a gain or loss at the time when the foreign business branches or offices are liquidated.

A summary of the Company's overseas operations as of December 31, 2004 and 2003, is as follows:

	in millions of Korean Won	
	2004	2003
Assets	₩ 99,996	₩ 75,592
Liabilities	85,008	52,094

Prior Period Error Corrections

Prior period error corrections are accounted for using the cumulative effect method, under which the cumulative effect of the error corrections is recognized on the beginning balance of retained earnings. Only material error corrections are accounted for under the retroactive method.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

3. Summary of Major Construction Contracts

Balance of Construction Contracts

In millions of Korean Won					
Project	Customer	Beginning Balance	New Construction Contracts	Beginning Balance	Beginning Balance
LG Philips LCD P7 Project	LG Philips LCD Co., Ltd.	₩ -	₩ 957,800	₩ 298,898	₩ 658,902
LCD P7 Environment Equipment Construction	LG Philips LCD Co., Ltd.	-	260,150	31,061	229,089
Seoul Outer Circular Highway 4th Stage	Seoul Highway Co., Ltd.	256,620	22,860	71,036	208,444
Dangjin-Daejeon Highway 4th Stage	Korea Highway Corporation	123,029	6,271	15,343	113,957
Mokpo National Road (Koha-Jukyo)	Supply Administration	-	98,759	9,423	89,336
Jamsil 4th Reconstruction	Jamsil 4st APT Reconstruction Association	-	195,350	41,581	153,769
LG Metro Xi	Gyelim Development Company	-	176,749	25,287	151,462
Incheon Production Base 4th Expansion	Korea Gas Corporation	-	104,443	5,568	98,875
SP 9-10 Project*	National Iranian Oil Company	695,978	(89,687)	35,933	570,358
QP LAB Project	Qatar Petroleum	-	244,019	48,544	195,475
Others		5,279,150	3,690,083	3,306,480	5,662,753
2004		₩ 6,354,777	₩ 5,666,797	₩ 3,889,154	₩ 8,132,420
2003		₩ 5,871,558	₩ 3,699,892	₩ 3,216,673	₩ 6,354,777

* Changes in Korean won amounts are due to the fluctuations in foreign currency exchange rates.

Cumulative Balance of Construction Contracts

in millions of Korean Won					
Project	Cumulative Revenue Realized	Billed Amount In 2004	Cumulative Billed Amount	Cumulative Collection Amount	Trade Receivables
LG Philips LCD P7 Project	₩ 298,898	₩ 292,789	₩ 293,140	₩ 232,340	₩ 60,800
LCD P7 Environment Equipment Construction	31,061	43,200	43,200	36,100	7,100
Seoul Outer Circular Highway 4th Stage	149,012	97,798	191,830	171,525	20,305
Dangjin-Daejeon Highway 4th Stage	44,612	14,825	36,074	36,074	-
Mokpo National Road (Koha-Jukyo)	9,423	191	191	191	-
Jamsil 4th Reconstruction	41,581	64,181	64,181	64,181	-
LG Metro Xi	25,287	13,608	13,608	13,608	-
Incheon Production Base 4th Expansion	5,568	2,102	2,102	2,102	-
SP 9-10 Project*	59,189	32,468	32,468	29,151	3,317
QP LAB Project	48,544	68,571	68,571	60,618	7,953

* Changes in Korean won amounts are due to the fluctuations in foreign currency exchange rates.

Total billed amount under construction contracts for the year ended December 31, 2004 is ₩3,976,527 million (2003: ₩3,362,432 million) and total collected amount under construction contracts for the year ended December 31, 2004 is ₩3,943,652 million (2003: ₩3,286,964 million).

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Balance of Co-Construction Contracts

in millions of Korean Won					
Project	Period of Construction	Customer	Share of the Company (Amount)	Share of the Company (%)	Representative Company
Seoul Outer Circular Highway 4th Stage	2001.06.30 ~ 2006.06.29	Seoul Highway Co., Ltd.	₩ 357,456	27.00%	GS Engineering & Construction Co., Ltd
Jamsil 4th Reconstruction	2003.10.01 ~ 2007.02.28	Jamsil 4th Apt. Reconstruction Association	195,350	50.00%	"
Jamsil 3th Reconstruction	2004.05.01 ~ 2007.08.30	Jamsil 3th APT. Reconstruction Association	160,015	33.30%	"
Dangjin-Daejeon Highway 4th Stage	2001.12.24 ~ 2006.02.05	Korea Highway Corporation	158,569	90.00%	"
Dokokdong Reconstruction	2002.07.10 ~ 2005.12.31	Dokokdong 1st Apt. Reconstruction Association	144,326	33.30%	"
Dangjin-Daejeon Highway 5th Stage	2001.12.24 ~ 2006.02.05	Korea Highway Corporation	142,791	90.00%	"
Dangjin-Daejeon Highway 7th Stage	2001.12.24 ~ 2006.02.05	Korea Highway Corporation	142,115	90.00%	"
Dongbu Electric Train Office	1997.02.28 ~ 2005.06.30	Korea National Railroad	130,461	63.00%	"
Donghae Highway Expansion 2nd Stage	2000.01.05 ~ 2005.02.28	Korea Highway Corporation	114,169	90.00%	"
Hyunpung-Kimcheon Construction 1st Stage	2001.12.28 ~ 2006.02.09	Korea Highway Corporation	113,123	90.00%	"
Dangjin-Daejeon Highway 6th Stage	2001.12.24 ~ 2006.02.05	Korea Highway Corporation	110,425	90.00%	"
Incheon Production Base 4th Expansion	2004.07.27 ~ 2009.06.30	Korea Gas Corporation	104,444	40.00%	"
Shinwolsung Atomic Power Plant main Facility No.1 and 2	2003.07.01 ~ 2009.09.30	Korea Hydro & Nuclear Power Co., Ltd.	107,622	13.50%	Daewoo Engineering & Construction Co., Ltd
LG Shinguro Xi	2004.03.16 ~ 2007.07.31	ARD Holdings Co., Ltd.	102,545	70.00%	GS Engineering & Construction Co., Ltd
Hyunpung-Kimcheon Construction 6th Stage	2001.12.28 ~ 2006.02.09	Korea Highway Corporation	104,393	90.00%	"
Hyunpung-Kimcheon Construction 3th Stage	2001.12.28 ~ 2006.02.09	Korea Highway Corporation	99,892	90.00%	"

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Summary of Housing and Lotting-Out Construction Contracts

in millions of Korean Won				
Project	Period of Construction	Realized Revenue	Cumulative Revenue Realized	Unrealized Revenue Carried Forward
Heights Xi	2004.12 ~ 2008.03	₩ 9,671	₩ 9,671	₩ 268,411
Seocho Eclat	2001.10 ~ 2004.09	38,935	92,626	566
LG Metrocity 4th Stage	2000.03 ~ 2003.08	-	367,735	314
LG Metrocity 5th Stage	2001.10 ~ 2004.10	34,734	72,840	-
Sinsanbon 1st Stage	2000.05 ~ 2003.02	-	87,918	-
Sinsanbon 2nd Stage	2000.06 ~ 2003.04	-	164,931	-
Others		4,292	-	-
2004		₩ 87,632	₩ 795,721	₩ 269,291
2003		₩ 214,176	₩ 712,513	₩ 73,647

4. Restricted Bank Deposits

As of December 31, 2004, short-term financial instruments amounting to ₩4,377 million (2003: ₩3,632 million) and long-term financial instruments amounting to ₩27 million (2003: ₩28 million) are deposited in connection with bank overdrafts. The withdrawal of these deposits is restricted.

5. Receivables

The Company's receivables, including trade accounts and notes receivable, as of December 31, 2004 and 2003, consist of the following:

2004				
in millions of Korean Won				
	Gross Amount	Allowance for Doubtful Accounts	Discounts on Present Value	Carrying Value
Trade accounts and notes receivable	₩ 1,132,012	₩ (37,064)	₩ -	₩ 1,094,948
Other accounts receivable	32,779	(1,126)	-	31,653
Short-term loans receivable	60,759	(15,588)	-	45,171
Long-term loans receivable	3,496	(3,324)	-	172
Accrued income	3,655	(660)	-	2,995
Advance payments	87,722	(9,021)	-	78,701
	₩ 1,320,423	₩ (66,783)	₩ -	₩ 1,253,640

2003				
in millions of Korean Won				
	Gross Amount	Allowance for Doubtful Accounts	Discounts on Present Value	Carrying Value
Trade accounts and notes receivable	₩ 899,970	₩ (25,496)	₩ -	₩ 874,474
Other accounts receivable	21,228	(1,009)	-	20,219
Short-term loans receivable	65,041	(16,821)	(4)	48,216
Long-term loans receivable	16,594	(12,792)	-	3,802
Long-term trade accounts receivable	51,264	(20,212)	-	31,052
Accrued income	3,389	(3)	-	3,386
Advance payments	68,462	(8,834)	-	59,628
	₩ 1,125,948	₩ (85,167)	₩ (4)	₩ 1,040,777

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

6. Inventories

Inventories as of December 31, 2004 and 2003, are as follows

	in millions of Korean Won	
	2004	2003
Completed buildings	₩ 9,699	₩ 12,613
Uncompleted buildings	29,263	29,736
Building lots	94,716	44,649
Raw materials and supplies	24,356	18,183
Materials-in-transit	315	13,605
Others	586	2,502
	₩ 158,935	₩ 121,288

7. Property, Plant and Equipment

Changes in property, plant and equipment as of and for the years ended December 31, 2004 and 2003, are as follows:

	2004							in millions of Korean Won
	Land	Golf Course	Buildings	Structures	Tolls and furniture	Construction -in-progress	Others	Total
Balance as of January 1, 2004	₩ 219,114	₩ 106,391	₩ 210,749	₩ 49,146	₩ 10,741	₩ 83,499	₩ 29,711	₩ 709,351
Acquisition	27,687	51,283	59,144	43,956	15,138	115,393	19,471	332,072
Disposal	190	-	78	468	39	170,311	1,423	172,509
Depreciation	-	-	6,231	1,600	8,595	-	8,552	24,978
Overseas business translation debit	-	-	-	-	6	-	173	179
Balance as of December 31, 2004	₩ 246,611	₩ 157,674	₩ 263,584	₩ 91,034	₩ 17,239	₩ 28,581	₩ 39,034	₩ 843,757
Accumulated depreciation	₩ -	₩ -	₩ 40,822	₩ 6,323	₩ 52,334	₩ -	₩ 31,730	₩ 131,209

	2003							in millions of Korean Won
	Land	Golf Course	Buildings	Structures	Tolls and furniture	Construction -in-progress	Others	Total
Balance as of January 1, 2003	₩ 217,360	₩ 105,904	₩ 212,804	₩ 44,117	₩ 12,828	₩ 29,277	₩ 29,354	₩ 651,644
Acquisition	1,993	487	3,784	6,248	6,456	66,742	10,715	96,425
Disposal	239	-	-	7	192	12,520	170	13,128
Depreciation	-	-	5,839	1,212	8,358	-	10,165	25,574
Overseas business translation debit	-	-	-	-	(7)	-	23	16
Balance as of December 31, 2003	₩ 219,114	₩ 106,391	₩ 210,749	₩ 49,146	₩ 10,741	₩ 83,499	₩ 29,711	₩ 709,351
Accumulated depreciation	₩ -	₩ -	₩ 34,606	₩ 4,762	₩ 56,473	₩ -	₩ 26,350	₩ 122,191

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

A substantial portion of the Company's property, plant and equipment as of December 31, 2004 has been pledged as leasehold guarantee deposits up to a maximum of ₩35,482 million (2003: ₩36,148 million).

As of December 31, 2004, the government-posted value of land for tax purposes amounts to ₩235,202 million (2003: ₩184,458 million).

As of December 31, 2004, a portion of both inventories and property, plant and equipment are insured against fire and other casualty losses up to ₩265,226 million (2003: ₩217,352 million). In addition, certain amounts of courses and machinery are covered by civil engineering works insurance and personal property general insurance. In relation to the construction sites located locally and abroad, several job-sites are covered by construction works insurance.

8. Investment Securities

Investment securities consist of short-term investment securities and long-term investment securities.

Short-Term Investment Securities

As of December 31, 2004 and 2003, short-term investment securities, mainly representing held-to-maturity securities classified as current assets, are as follows:

in millions of Korean Won					
	Annual Interest Rate (%) as of December 31, 2004	Face Value		Book Value	
		2004	2003	2004	2003
Government bonds and public bonds	2.5 ~ 6.0	₩ 4,455	₩ 5,358	₩ 4,455	₩ 5,358

Long-Term Investment Securities

Long-term investment securities as of December 31, 2004 and 2003, are as follows:

in millions of Korean Won							
	Percentage of Ownership (%) as of December 31, 2004	Acquisition Cost		Book Value		Fair Value or Net Asset Value*	
		2004	2003	2004	2003	2004	2003
Available for-sale securities							
Marketable equity securities							
LG Investment & Securities Co., Ltd.	-	₩ -	₩ 97,534	₩ -	₩ 44,202	₩ -	₩ 44,202
Non-marketable equity securities							
The Korea Economic Daily	0.01	14	14	14	14	3	5
Pusan Travel & Development Co., Ltd.	2.67	400	400	-	400	8	-
Daegu East Inter Circular Road Co., Ltd.	14.58	8,658	8,658	8,658	8,658	7,097	7,980
Daegu West North Road Co., Ltd.	15.07	8	3,316	8	3,316	8	3,240
Manwolsan Tunnel Co., Ltd.	15.00	5,025	5,025	5,025	5,025	4,730	4,157
Korea Housing Guarantee Co., Ltd.	0.16	21,532	21,532	-	-	2,212	1,635
LG Energy Co., Ltd.	14.99	14,323	14,432	16,262	16,386	21,493	20,678
LG Mart Co., Ltd.	1.75	15,420	15,420	11,363	11,363	8,534	7,394
LG CNS Inc.	6.57	2,557	3,522	2,565	3,533	9,547	9,887
Potato Co. Ltd.	10.00	300	300	300	300	277	278

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

in millions of Korean Won

	Percentage of Ownership (%) as of December 31, 2004	Acquisition Cost		Book Value		Fair Value or Net Asset Value*	
		2004	2003	2004	2003	2004	2003
International Convention Center Jeju Public Development Co., Ltd.	0.31	500	500	500	500	432	882
EzVille Inc.	17.09	3,947	3,947	3,947	3,947	3,927	3,590
	16.00	1,600	1,600	1,600	1,600	995	1,039
Cheonan-Nonsan Highway Co., Ltd.	25.00	112,500	112,500	112,500	112,500	112,500	93,868
Seoul Highway Co., Ltd.	27.00	124,200	88,371	124,200	88,371	79,978	86,235
Kangnam Inter Circular Road Co., Ltd.	11.50	1,208	1,093	1,208	1,093	946	932
Engineering Financial Cooperative	0.31	180	180	180	180	193	294
Korea Electric Engineers Association	0.16	20	20	20	20	25	27
Electric Contractors' Fanatical Cooperative	0.02	98	98	98	98	152	206
Korea Construction Financial Cooperative	0.36	12,092	12,092	12,092	12,092	15,445	18,305
Information & Communication Financial Cooperative	0.07	61	61	61	61	103	107
Stock Market Stabilization Fund	-	-	616	-	1,842	-	1,842
Treasury Stock Fund	-	1,500	1,500	342	1,059	342	1,059
Others		7,860	3,393	5,416	949	4,779	588
		334,003	298,590	306,359	273,307	273,726	264,228
Non-marketable debt securities							
Commercial papers of LG card Co., Ltd.		50,000	-	36,188	-	36,188	-
				-		-	
Held-to-maturity securities		21,765	18,247	21,765	18,247	21,765	18,247
		₩ 405,768	₩ 414,371	₩ 364,312	₩ 335,756	₩ 331,679	₩ 326,677

* The Company's share in the net asset value was calculated based on the most recent available unaudited financial statements of the investees.

Following the approval of the business normalization plan of LG Card Co., Ltd. and the resolution by the Board of Directors on December, 29, 2003, the Company entrusted Woori Bank, the representative of the bank creditors' committee, with the disposal and voting rights of the 5,325,572 shares of LG Investments and Securities Co., Ltd. The Company recognized losses of ₩23,494 million from the disposal of LG Investments and Securities Co., Ltd. for the year ended December 31, 2004.

Following the resolution by the Board of Directors on January 27, 2004, the Company purchased commercial papers of LG Card Co., Ltd. for ₩50,000 million on February 11, 2004. Under the mutual agreement with the bank creditors' committee, commercial papers amounting to ₩12,707 million of LG Card Co., Ltd. are scheduled to be swapped for equity after December 31, 2004, and the maturity of commercial papers amounting to ₩37,293 million are to be extended by December 31, 2005. The Company recorded impairment loss on investments of commercial papers amounting to ₩13,812 million for those commercial papers for the year ended December 31, 2004.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Maturities of Held-To-Maturity Securities

The maturities of held-to-maturity securities as of December 31, 2004 and 2003, are as follows:

	in millions of Korean Won	
	2004	2003
More than one year to five years	₩ 17,067	₩ 16,077
More than five year to ten years	4,698	2,170
	₩ 21,765	₩ 18,247

Unrealized Holding Gains or Losses from Available-For-Sale Securities

The changes in the unrealized holding gains or losses from available-for-sale securities for the year ended December 31, 2004, are as follows:

	in millions of Korean Won			
	Beginning Balance	Valuation	Disposal	Ending Balance
Marketable equity securities	₩ (35,119)	₩ -	₩ (35,119)	₩ -
Non-marketable equity securities	1,270	(19)	998	253
	₩ (33,849)	₩ (19)	₩ (34,121)	₩ 253

Interest income earned from short-term investment securities and long-term investment securities for the year ended December 31, 2004 amounts to ₩1,294 million (2003: ₩2,250 million).

9. Equity Method Investments

Equity method investments as of December 31, 2004 and 2003, are as follows:

		in millions of Korean Won					
	Percentage of Ownership (%) as of December 31, 2004	Acquisition Cost		Book Value		Fair Value or Net Asset Value under the Equity Method*	
		2004	2003	2004	2003	2004	2003
Han Moo Development Co., Ltd.	67.56	₩ 85,861	₩ 85,861	₩ 168,672	₩ 164,341	₩ 225,187	₩ 223,113
Ladera Co., Ltd.	65.52	50,633	50,633	9,507	12,605	9,507	12,605
LG-HP Corp.	30.00	2,196	2,196	-	-	919	1,011
LG Holdings (HK) Ltd.	25.00	39,575	27,907	26,471	18,039	26,073	18,386
LG Construction (Arabia) Ltd.	49.00	874	874	-	-	-	-
LG Properties (S' Pore) Pte. Ltd.	30.00	18,466	14,349	370	-	863	-
		₩ 197,605	₩ 181,820	₩ 205,020	₩ 194,985	₩ 262,549	₩ 255,115

* The equity method was applied and the Company's share in the net asset value was calculated based on the most recent available unaudited financial statements of the investees.

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The changes in the Company's share in the investees' net asset values for the years ended December 31, 2004 and 2003 are as follows:

in millions of Korean Won						
	Beginning Balance	Acquisition	Valuation Gain or Loss	Retained Earnings	Capital Adjustments	Ending Balance
Han Moo Development Co., Ltd.	₩ 164,341	₩ -	₩ 4,331	₩ -	₩ -	₩ 168,672
Ladera Co., Ltd.	12,605	-	(1,670)	-	(1,428)	9,507
LG Holdings (HK) Ltd.	18,039	11,669	(363)	-	(2,874)	26,471
LG Properties (S' Pore) Pte. Ltd.	-	4,117	(115)	(3,951)*	319	370
2004	₩ 194,985	₩ 15,786	₩ 2,183	₩ (3,951)	₩ (3,983)	₩ 205,020
2003	₩ 199,771	₩ 11,842	₩ (15,948)	₩ -	₩ (680)	₩ 194,985

* During 2003, the Company participated in the capital increase of LG Properties (S'PORE) Pte. Ltd. The Company recorded unrecognized losses of prior year amounting to ₩2,864 million, net of a deferred tax amounting to ₩1,087 million, as a decrease in the beginning balance of unappropriated retained earnings.

As of December 31, 2004, the Company discontinued applying the equity method of accounting for LG Construction (Arabia) Ltd. as its book value has been reduced to below zero. As of December 31, 2004, the unrecognized loss for the investment in LG Construction (Arabia) Ltd. amounts to ₩196 million.

The changes in the unrealized gains or losses from equity method investments for the year ended December 31, 2004, are as follows:

in millions of Korean Won				
	Beginning Balance	Valuation	Disposal	Ending Balance
Han Moo Development Co., Ltd.	₩ 160,703	₩ -	₩ -	₩ 160,703
Ladera Co., Ltd.	13,678	(1,428)	-	12,250
LG Holdings (HK) Ltd.	9,529	(2,874)	-	6,655
LG Properties(S'PORE) Pte. Ltd.	-	319	-	319
	₩ 183,910	₩ (3,983)	₩ -	₩ 179,927

The accumulated unamortized differences between the purchase price and the underlying proportionate net book value of equity method investments, along with changes in such amounts, for the years ended December 31, 2004 and 2003 are as follows:

in millions of Korean Won		
	Credit	
	2004	2003
Beginning balance	₩ 34,781	₩ 36,317
Increase	-	-
Amortization	(1,536)	(1,536)
Ending balance	₩ 33,245	₩ 34,781

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The details of the elimination of unrealized gains or losses from equity method investments for the years ended December 31, 2004 and 2003, are as follows:

	in millions of Korean Won	
	2004	2003
Han Moo Development Co., Ltd.	₩ 23,284	₩ 24,005
LG Holdings (HK) Ltd.	(398)	(903)
	₩ 22,886	₩ 23,102

10. Short-Term Borrowings

Short-term borrowings as of December 31, 2004 and 2003, are as follows:

	Annual Interest Rate (%) as of December 31, 2004	in millions of Korean Won	
		2004	2003
Bank overdrafts	3.85	₩ 12,344	₩ 3,101
Foreign currency loans of	1.10 ~ 2.54	151,412	11,302
US\$ 145,058,000 (2003: US\$ 9,436,000)			
		₩ 163,756	₩ 14,403

11. Long-Term Debts

Long-term debts as of December 31, 2004 and 2003, are as follows:

	in millions of Korean Won	
	2004	2003
Debentures	₩ 49,458	₩ -
Loans	13,267	14,593
	₩ 62,725	₩ 14,593

	in millions of Korean Won		
Debentures:	Annual Interest Rate (%) as of December 31, 2004	2004	2003
Non-guaranteed debentures	4.5 ~ 7.0	₩ 50,000	₩ 130,000
Less: Current maturities*		-	(130,000)
Discount on debentures issued		(542)	-
		₩ 49,458	₩ -

* Related discount on debentures issued as of December 31, 2003, amounted to ₩297 million.

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		in millions of Korean Won	
Loans:	Annual Interest Rate (%) as of December 31, 2004	2004	2003
Won currency loans			
Korea Housing Guarantee Co., Ltd.	2.0	₩ 14,593	₩ 15,920
Less: Current maturities		(1,326)	(1,327)
		₩ 13,267	₩ 14,593

The annual maturities of long-term debt as of December 31, 2004, are as follows:

	in millions of Korean Won	
For the years ending December 31,	2004	
2006	₩	1,327
2007		51,327
2008		1,327
2009		1,327
2010 and thereafter		7,959
	₩	63,267

12. Commitments and Contingencies

As of December 31, 2004, Korea Housing Guarantee Co., Ltd., Korea Construction Financial Corporation, a government agency and others have provided guarantees amounting to approximately ₩1,907,037 million (2003: ₩1,443,794 million), to the Company for the construction performance, lotting-out performance and construction warranty. Also, as of December 31, 2004, the Company has provided guarantees, jointly and severally, with Korea Housing Guarantee Co., Ltd. and others, amounting to approximately ₩3,631,263 million (2003: ₩2,734,039 million) to other construction companies, including ChungAng Construction Co., Ltd. As of December 31, 2004, other construction companies has provided guarantees, jointly and severally, with Korea Housing Guarantee Co., Ltd. and others, ₩833,280 million (2003: ₩332,034 million) to the Company.

As a common practice in the Korean construction industry, the construction companies have exchanged mutual guarantees of construction performance. Guarantees that the Company has provided and has been provided by others amount to ₩1,482,472 million and ₩3,413,631 million, respectively, as of December 31, 2004 (2003: ₩1,320,354 million and ₩914,011 million).

As of December 31, 2004 the Company has provided guarantees amounting to ₩6,472 million (2003: ₩7,426 million) for the performance of construction to Guris Construction and Engineering Co., Inc. in connection with the Turkish Petroleum Refineries Co. ("IZMIR") Project. The guarantees that the Company has been provided by the same party amount to ₩3,518 million as of December 31, 2004 (2003: ₩4,037 million).

The Export-Import Bank of Korea and others have guaranteed the performance of construction of the Company in overseas projects. As of December 31, 2004, the outstanding guarantees amount to ₩245,034 million (2003: ₩208,913 million).

As of December 31, 2004, the Company has pledged checks and notes to several banks and financial institutions as collateral for borrowings and construction performance guarantees.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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As of December 31, 2004, the Company has provided guarantees and collateral amounting to ₩779,867 million (2003: ₩587,383 million) on behalf of the Cheonan-Nonsan Highway Co., Ltd. and others. Also, in relation to the housing loans for future tenants during the construction period, the Company has provided guarantees amounting to ₩4,469,561 million (2003: ₩2,051,207 million) to several domestic financial institutions as of December 31, 2004.

The Company has been named as a defendant and plaintiff in a number of claims arising in the normal course of performing construction and engineering services. As of December 31, 2004, the aggregate amount of these claims as a defendant and as a plaintiff is ₩49,203 million and ₩13,273 million, respectively. In management's opinion, the claims will not have a material adverse impact on the Company's operations or financial position.

The Company provides loans to reconstruction associations for house reconstruction projects. The outstanding balance of long-term and short-term loans to those associations amounts to ₩35,524 million (2003: ₩41,274 million) as of December 31, 2004. As of December 31, 2004 and 2003, the Company, during the normal course of business, provides notes to developers.

The outstanding currency forward contracts as of December 31, 2004, are as follows:

Counterpart	Date of Contract	In Thousands				Maturity Date	Contract
		Sell		Buy			Exchange Rate
							(US\$/ JPY), (US\$/EUR), (US\$/KRW), (KRW/US\$), (US\$/SG\$)
ABN AMRO	2004.08.31	US\$	12,000	KRW	13,932	2005.02.28	1,161.00
"	2004.01.16	US\$	9,465	JPY	988,341	2005.02.28	104.42
"	2004.12.20	US\$	176	SGD	290	2005.03.31	1.6402
CALYON	2004.04.12	US\$	9,836	EUR	8,193	2005.03.31	1.2006
"	2004.04.22	US\$	1,272	JPY	137,000	2005.03.31	107.72
"	2004.05.17	US\$	33,812	KRW	40,609	2005.05.19	1,201.03
"	2004.06.17	US\$	149	JPY	16,000	2005.05.31	107.66
"	2004.06.16	KRW	7,157	US\$	6,100	2005.05.18	1,173.30
"	2004.09.08	KRW	26,634	US\$	23,000	2005.04.20	1,158.00
"	2003.10.16	US\$	28,509	KRW	35,351	2005.04.18	1,240.00
"	2004.05.14	US\$	8,880	KRW	10,931	2005.05.16	1,231.00
"	2004.11.29	JPY	71,138	US\$	678	2005.11.29	105.00
NAB	2004.10.12	KRW	23,166	US\$	20,000	2006.04.03	1,158.30
Societe General	2004.05.03	US\$	2,949	KRW	3,509	2005.04.15	1,189.70
"	2004.05.12	US\$	2,589	KRW	3,100	2005.04.29	1,197.50
"	2004.05.12	US\$	6,000	KRW	7,185	2005.04.29	1,197.50
"	2004.05.17	US\$	856	JPY	95,280	2005.05.17	111.25

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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The outstanding currency option contracts as of December 31, 2004, are as follows:

Counterpart	Type	Contract Amounts (In Thousands)		Contract Exchange rate (KRW/US\$), (US\$/EUR), (KRW /JPY)	Maturity Date
ABN AMRO	SELL CALL	US\$	40,000	1,239	2005.04.14
"	BUY PUT	US\$	20,000	1,239	2005.04.14
CALYON	BUY CALL	EUR	9,265	1.35	2005.04.28
"	SELL PUT	EUR	9,265	1.35	2005.04.28
"	BUY PUT	EUR	9,265	1.32	2005.04.28
"	BUY CALL	JPY	245,501	100.3	2005.04.27
"	SELL PUT	JPY	245,501	100.3	2005.04.27
"	BUY PUT	JPY	245,501	103.3	2005.04.27
Societe General	BUY CALL	EUR	30,000	1.212	2005.12.22
"	SELL PUT	EUR	30,000	1.212	2005.12.22

The outstanding foreign exchange risk insurance contracts as of December 31, 2004 are as follows:

Counterpart	Contract Amounts (In Thousands)		Contract Exchange rate (KRW/US\$)	Maturity
Korea Export Insurance Corporation	US\$	38,486	1,194.20~1,199.80	July 2006
"	US\$	42,780	1,154.50~1,165.40	June 2007
"	US\$	37,251	1,191.90~1,207.30	Oct 2007

The outstanding interest rate swap contracts as of December 31, 2004 are as follows:

Counterpart	Contract Amounts (In Thousands)		Interest to Pay	Interest to receive	Maturity Date
ABN AMRO	US\$	20,000	Min(3M LIBOR, previous coupon+25bp)	"3M LIBOR(A)* - 0.42%"	2006.04.01
"	US\$	20,000	Min(3M LIBOR, previous coupon+25bp)	"3M LIBOR(A)* - (0.73% ~ 0.25%)"	2007.07.28
CALYON	US\$	20,000	Min(3M LIBOR, previous coupon+25bp)	"3M LIBOR(A)* - (0.73% ~ 0.25%)"	2007.07.28

* 3M LIBOR(A) : 3Month Libor in Arrears

The Company has recorded gain on valuation of derivative instruments amounting to ₩15,904 relating to the currency fluctuation insurance contracts as capital adjustments. In relation to the other derivative contracts, the Company recognized a net valuation gain amounting to ₩17,228 million and a net transaction gain amounting to ₩3,263 million for the year ended December 31, 2004

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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13. Capital Surplus

Capital surplus shall not be used for the payment of cash dividends. However, it may be transferred to capital stock through an appropriate resolution by the Company's Board of Directors or may be used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.

In accordance with the Asset Revaluation Law, the Company revalued a substantial portion of its property, plant and equipment on July 1, 1998, based primarily on the current replacement costs. The revaluation increments amounting to ₩34,287 million, net of revaluation taxes amounting to ₩33,833 million, were credited to revaluation surplus. Revaluation surplus balance as of December 31, 2004 amounted to ₩75,192 million.

14. Retained Earnings

Legal Reserve

The Korean Commercial Code requires the Company to appropriate an amount equal to a minimum of 10% of its cash dividends as a legal reserve, until such reserve equals 50% of its issued capital stock. This reserve is not available for the payment of cash dividends. Subject to the approval of the Board of Directors, it may be transferred to common stock or may be used to reduce accumulated deficit, if any.

Other Reserves

Other reserves as of December 31, 2004 and 2003, are as follows:

	in millions of Korean Won	
	2004	2003
Reserve for improvement of financial structure	₩ 90,723	₩ 74,569
Reserve for technological development	107,000	84,143
Reserve for overseas business losses	105,000	91,486
Reserve for loss on disposal of treasury stock	2,467	1,204
Reserve for business rationalization	134,653	104,653
Others	30,000	22,500
	₩ 469,843	₩ 378,555

The Financial Control Regulations for publicly listed companies require the Company to appropriate, as a reserve for improvement of its financial structure, an amount equal to at least 50% of the net gain from the disposal of property, plant and equipment and 10% of net earnings for each year until the Company's net worth equals 30% of total assets. This reserve is not available for the payment of cash dividends but may be transferred to capital stock or used to reduce accumulated deficit, if any.

Pursuant to the Korean tax laws, the Company is allowed to claim the amount of retained earnings appropriated for reserves for technology development, overseas business losses, overseas investment losses and loss on disposal of treasury stock as deductions in its income tax return. These reserves are not available for the payment of dividends until used for the specified purposes or reversed. However, the reserves which are not deducted in its income tax return are available for the payment of dividends.

15. Treasury Stock

As of December 31, 2004, the Company retains 1,177,614 shares (2003: 1,230,420 shares) of its issued and outstanding common stock carried at ₩10,251 million (2003: ₩10,313 million). The treasury stock was recorded as a capital adjustment and will be sold depending on stock market conditions.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

16. Income Tax Expense

Income tax expense for the years ended December 31, 2004 and 2003, are as follows:

	in millions of Korean Won	
	2004	2003
Current income taxes	₩ 56,692	₩ 93,308
Deferred income taxes*	23,817	(14,550)
Income tax expense	₩ 80,509	₩ 78,758

* The changes in deferred income tax assets and liabilities for the years ended December 31, 2004, are as follows:

	Accumulated Temporary Differences	Income Tax Effects	Deferred Income Tax Assets
January 1, 2004	₩ 264,603	₩ 76,647	₩ 76,647
December 31, 2004	196,062	53,917	53,917
			(22,730)
Deferred income tax added to shareholder's equity			(1,087)
			(23,817)

The income tax effect of temporary differences, including tax credits, as of December 31, 2004 and 2003, are as follows:

	in millions of Korean Won	
	2004	2003
Provision for warranty	₩ 8,579	₩ 7,633
Allowance for doubtful accounts	14,841	21,503
Provision for foreseeable losses from construction contracts	624	827
Construction costs	-	66
Equity method investments	42,394	47,975
Amortization of overseas business translation debit	-	10,158
Bonus for directors	1,375	749
Investment securities	4,580	7,410
Inventories	30	5,036
Capitalized interest expense	(10,170)	(10,878)
Accrued income	(1,006)	93
Derivatives	(4,532)	-
Others	(2,798)	(13,925)
	₩ 53,917	₩ 76,647

Temporary differences, net of the related income tax effects, deducted from shareholders' equity for the year ended December 31, 2004 are as follows:

	in millions of Korean Won	
	Amount	Income Tax Effects
Loss on valuation of equity		
method investments (retained earnings)	₩ 3,951	₩ 1,087

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The reconciliations from income before income taxes to taxable income for years ended December 31, 2004 and 2003, are as follows:

	in millions of Korean Won	
	2004	2003
Income before income taxes	₩ 236,629	₩ 240,294
Temporary differences:		
Transfer from reserve for technological development, net	23,296	(2,857)
Provision for warranty	4,237	7,513
Capitalized interest expense, net	2,017	15,476
Loss on valuation of investment securities using the equity method	(16,331)	15,565
Provision for foreseeable losses from construction contracts, net	(515)	(6,654)
Allowance for doubtful accounts, net	(20,328)	(2,656)
Impairment loss on investments	14,212	-
Loss on valuation of inventories, net	(16,928)	(6,631)
Amortization of overseas business translation debit	(34,202)	34,202
Bonus for directors	2,478	(2,623)
Loss on derivatives valuation	(17,278)	-
Others	(9,199)	4,188
	(68,541)	55,523
Permanent differences:		
Additional payment of income taxes	11,800	-
Entertainment expenses in excess of tax limit	4,868	6,765
Taxes and other expenses	9,291	8,761
Others	1,993	1,797
	27,952	17,323
Taxable income	₩ 196,040	₩ 313,140

The statutory income tax rate, including resident tax surcharges, applicable to the Company is approximately 29.7%.

The effective income tax rates applicable to the Company differs from the statutory income tax rate due to temporary differences in recognizing certain income and expenses for financial reporting and income tax purposes. The effective tax rate of the Company for the year ended December 31, 2004 is 34% (2003: 32.8%).

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

17. Earnings Per Share

Earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the year. Ordinary income per share is computed by dividing ordinary income allocated to common stock, which is net income allocated to common stock as adjusted by extraordinary gains or losses, net of related income taxes, by the weighted-average number of common shares outstanding during the year.

	in millions of Korean Won	
	2004	2003
Ordinary income (A)	₩ 242,050,918,383	₩ 261,751,612,203
Income tax effects (B)	82,119,749,938	85,130,417,398
Ordinary income of common stock (C=A-B)	159,931,168,445	176,621,194,805
Net income (D)	156,119,585,786	161,536,664,712
Weighted-average number of shares of outstanding common stock (E)	49,811,222 shares	49,783,051 shares
Basic ordinary income per share (C/E)	₩ 3,211	₩ 3,548
Basic earnings per share (D/E)	₩ 3,134	₩ 3,245

There are no outstanding convertible bonds or other dilutive securities as of December 31, 2004 and 2003. Accordingly, basic earnings per share and basic ordinary income per share are equal to fully diluted earnings per share and fully diluted ordinary income per share.

18. Dividends

Details of dividends declared for the years ended December 31, 2004 and 2003, are as follows:

	2004	2003
Number of common shares (A)	49,822,386 shares	49,769,580 shares
Dividend per share (ratio) (B)	₩ 1,250 (25%)	₩ 1,250 (25%)
Dividend amount (AXB)	₩ 62,277,982,500	₩ 62,211,975,000

Dividend Payout Ratio

	2004	2003
Dividend (A)	₩ 62,277,982,500	₩ 62,211,975,000
Net income (B)	156,119,585,786	161,536,664,712
Dividend payout ratio (A/B)	39.89%	38.51%

Dividend Yield Ratio

	2004	2003
Dividend per share (A)	₩ 1,250	₩ 1,250
Market value per share at the end of the year (B)	28,500	17,850
Dividend yield ratio (A/B)	4.39%	7.00%

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

19. Approval of Financial Statements

The Company's non-consolidated financial statements will be approved by the Board of Directors on February 16, 2005.

20. Transactions with Related Parties

Significant transactions which occurred in the ordinary course of business with related companies for the years ended December 31, 2004 and 2003, are summarized as follows:

Description	in millions of Korean Won	
	2004	2003
Sales and others	₩ 1,561,620	₩ 1,092,286
Purchases and others	108,973	98,414
Receivables	603,785	604,724
Payables	86,931	85,891

The Company has guaranteed the repayment of obligations of its subsidiaries and related parties. As of December 31, 2004, the balance of guarantees provided by the Company on behalf of its subsidiaries and related parties, including LG Holdings(HK) Ltd., amounted to ₩35,916 million. As of December 31, 2004, there are no guarantees provided to the Company by any subsidiaries or related parties.

The Company has pledged 3,551,700 shares, with a face value amounting to ₩17,759 million, of LG Energy Co., Ltd. as collateral to Kreditanstalt für Wiederaufbau and the Korea Development Bank in relation to the borrowings of LG Energy Co., Ltd., a related company.

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

21. Segment Information

Divisions

The Company defines its divisions by the type of construction as follows:

Type	Products or Services	Major Customers
Architectural Work Division	Building, factory and others	Korea National Railroad and others
Civil Work Division	Road, bridge and others	Korea Highway Corporation, Korea Land Corp. and others
Housing Work Division	Apartment, villa and others	Various and unspecified persons
Plant Work Division	Energy plant, industrial facilities and others	National Iranian Oil Company and others
Environment Work Division	Environment facility and others	LG Philips LCD Co., Ltd. and others
Development Work Division	Golf course and others	Unspecified
Others	Rental	"

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Financial Information on Industry Segments

	in millions of Korean Won							
	Architectural	Civil	Housing	Plant	Environment	Development	Others	Total
1. Sales								
2004	₩ 1,606,160	₩ 561,622	₩ 1,072,588	₩ 498,988	₩ 276,202	₩ 30,838	₩ 2,695	₩ 4,049,093
2003	₩ 1,250,397	₩ 562,895	₩ 1,040,820	₩ 357,248	₩ 222,945	₩ 26,208	₩ 7,071	₩ 3,467,584
2. Operating income (loss)								
2004	₩ 176,721	₩ 28,672	₩ 47,688	₩ (20,784)	₩ 17,305	₩ (19,739)	₩ (741)	₩ 229,122
2003	₩ 154,201	₩ 38,620	₩ 96,639	₩ (22,448)	₩ 23,948	₩ (19,064)	₩ (485)	₩ 271,411
3. Property, plant and equipment and intangible assets								
2004	₩ 184,964	₩ 3,039	₩ 46,832	₩ 31,754	₩ 124	₩ 513,640	₩ 69,353	₩ 849,706
2003	₩ 188,035	₩ 5,161	₩ 13,229	₩ 31,517	₩ 81	₩ 411,257	₩ 67,811	₩ 717,091
4. Depreciation and amortization								
2004	₩ 3,287	₩ 1,035	₩ 558	₩ 2,082	₩ 79	₩ 15,667	₩ 4,062	₩ 26,770
2003	₩ 3,334	₩ 1,455	₩ 409	₩ 1,835	₩ 50	₩ 16,398	₩ 3,867	₩ 27,348

Geographical Segments

Sales by geographical segments for the years ended December 31, 2004 and 2003, are summarized as follows:

	in millions of Korean Won	
	2004	2003
Domestic sales	₩ 3,634,699	₩ 3,205,896
China	122,558	42,266
Central Asia	263,341	179,872
Others	28,495	39,550
	₩ 4,049,093	₩ 3,467,584

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

22. Supplemental Cash Flow Information

Significant transactions not affecting cash flows for the years ended December 31, 2004 and 2003 are as follows:

	in millions of Korean Won	
	2004	2003
Transferred to current maturities of long-term debt	₩ 1,327	₩ 131,327
Transferred to property, plant and equipment	170,311	12,520
Transferred to equity method investments from long-term loans	11,669	11,842
Transferred to property, plant and equipment of advanced payments	27,464	-

23. Operating Results of the Final Interim Period

Significant operating results for the three-month periods ended December 31, 2004 and 2003 are as follows:

	in millions of Korean Won, except for the number of shares and per share amounts	
	2004	2003
Sales	₩ 1,239,946	₩ 1,075,408
Operating income	77,847	90,274
Net income	48,178	43,219
Weighted-average number of common shares Outstanding*	49,822,386	48,946,103
Basic ordinary income per share (in Korean won)	₩ 1,011	₩ 1,191
Basic earnings per share (in Korean won)	₩ 967	₩ 883

* This is calculated based on the number of shares of common stock issued deducted by the number of shares of treasury stock.

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24. Foreign Currency Translation

Monetary assets and liabilities, excluding the accounts of overseas business and foreign currency borrowings, denominated in foreign currency as of December 31, 2004 and 2003, are as follows:

	in thousands of Foreign Currency, in millions of Korean Won			
	2004		2003	
Cash and cash equivalents	US\$ 2,275	US\$ 7,227	₩ 4,075	₩ 8,656
	JPY 168,072			
Trade accounts and notes receivable	US\$ 27,041	US\$ 19,484	28,682	23,968
	LRK 592	LRK 592		
	JPY 11,400	QAR 166		
	SAR 1,208	SAR 1,781		
Other accounts receivable	US\$ 791	US\$ 35	825	42
Short-term loans receivable	US\$ 14,115	US\$ 20,700	14,734	24,795
Long-term loans receivable	US\$ 3,185	US\$ 3,485	3,325	4,174
Long-term trade accounts receivable	US\$ -	US\$ 42,799	-	51,264
Trade accounts and notes payable	US\$ 15,474	US\$ 23,013	31,820	48,557
	SAR 72	SAR 72		
	EUR 3,195	EUR 6,374		
	JPY 1,084,189	JPY 973,036		
	GBP 2	GBP 225		
	CHF 127	CHF 19		
	SGD 13			
Other accounts payable	US\$ 172	US\$ 166	189	215
	THB 321	EUR 11		
Guarantee deposits received	US\$ 302	US\$ 119	397	143
	EUR 55			
	GBP 2			

25. Reclassification of Prior Year Amounts

Certain amounts in the financial statements as of and for the year ended December 31, 2003 have been reclassified to conform to the 2004 presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.



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Three-year Summary

Balance Sheet

	2004	2003	2002
Current assets	1,775	1,298	1,301
Fixed assets	1,528	1,392	1,361
Total assets	3,303	2,690	2,662
Current liabilities	1,505	1,185	1,126
Long-term liabilities	501	350	487
Total liabilities	2,006	1,535	1,613
Paid-in capital	255	255	255
Capital surplus	201	200	203
Retained surplus	654	564	453
Capital adjustment	188	136	138
Shareholders' equity	1,297	1,155	1,049
Total liabilities & shareholders' equity	3,303	2,690	2,662

Income Statement

	2004	2003	2002
Sales	4,049	3,468	3,175
Cost of sales	3,557	2,947	2,702
Gross profit	492	521	473
SG&A	263	250	197
Operating profit	229	271	276
Non-operating income	100	38	45
Non-operating expense	87	47	76
Ordinary income	242	262	245
Income tax expense	81	79	70
Net profit	156	162	161

Cash Flow

	2004	2003	2002
Cash flows from operating activities	230	247	264
Cash flows from investing activities	-179	-88	-129
Cash flows from financing activities	112	-193	-155
Net change in cash and cash equivalents	163	-34	-20
Cash and cash equivalents			
Beginning of the year	99	133	153
End of the year	262	99	133

Number of Employees

	2004	2003	2002
At year end	3,458	3,190	3,017

Key data GS E&C 2004

Sales	(Unit: billions of Won)
Sales	4,049
Sales by segment	
Civil Engineering	574
Plant	499
Environment	276
Architecture	1,615
Housing	1,085

Earnings	(Unit: billions of Won)
Gross profit	492
Operating profit	229
Ordinary profit	242
Net profit	156

Key GS E&C share data	
Total number of shares[issued] (million)	51
Total market cap (billion of KRW)	1,454
Share price[high] (KRW)	28,500
[low] (KRW)	15,600

Per share information	
EPS (KRW)	3,134
Dividend per share(KRW)	1,250

GS E&C IR Plan 2005

	1Q			2Q			3Q			4Q		
	1	2	3	4	5	6	7	8	9	10	11	12
GS Site Tour									●			
IR Forum					●					●		
Analyst & Management IR Meeting				●					●		●	
Overseas IR Conference			●						●			
Overseas IR Road Show				●							●	
Others	Earnings for 2004 ● Annual Report			1Q Earnings ●			2Q Earnings ●			3Q Earnings ● Plan for 2006		

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