

Solid Growth
Excellent Investment Opportunities

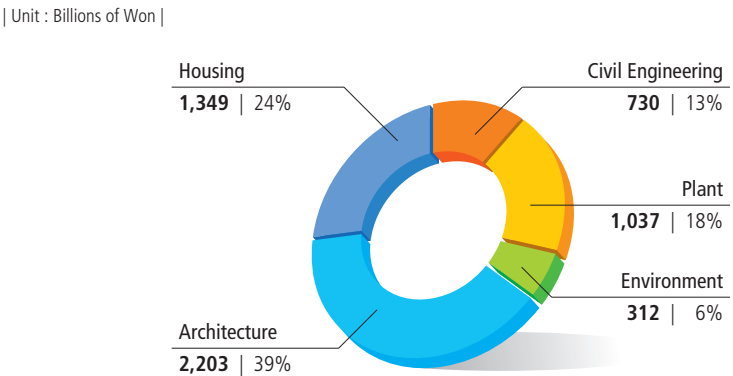


GS E&C Corporation

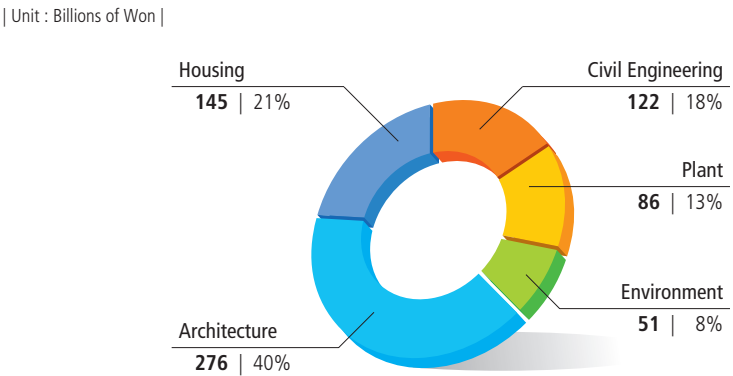
Key Financial Data

	2005	2004	2003
Sales Revenue	5,631	4,049	3,468
Gross Profit	680	492	521
Operating Profit	336	229	271
Ordinary Profit	367	242	262
Net Profit	265	156	162
Earning Per Share(KRW)	5,317	3,134	3,245
Dividend Per Share(KRW)	1,400	1,250	1,250

Sales Revenue by Division



Gross Profit by Division



Segments

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

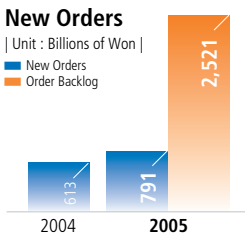
The company is building numerous roads, railways and bridges through civil engineering projects, promoting balanced development nationwide and supporting national economic advancement. Diverse projects have also been carried out for domestic and foreign oil, gas and petrochemical companies, and the company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



Civil Engineering

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

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



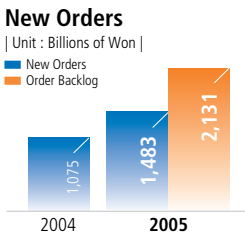
	2005	2004	YoY
Sales Revenue	730	574	27%
Gross Profit	122	76	61%



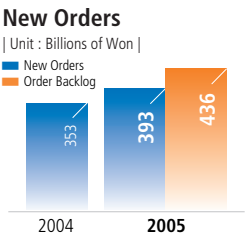
Plant

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

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



	2005	2004	YoY
Sales Revenue	1,037	499	108%
Gross Profit	86	23	274%

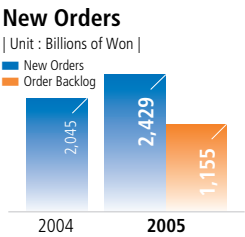


	2005	2004	YoY
Sales Revenue	312	276	13%
Gross Profit	51	39	31%

Environment

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

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

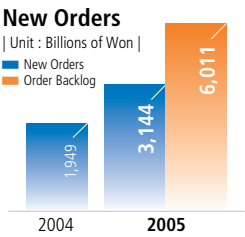


	2005	2004	YoY
Sales Revenue	2,203	1,615	36%
Gross Profit	276	227	22%

Architecture

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

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



	2005	2004	YoY
Sales Revenue	1,349	1,085	24%
Gross Profit	145	127	14%

Housing

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

- Residential Complex
- Apartments
- Officetels
- Villa

Company Overview



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

In 2005, the company started out anew under the "GS" name. Innovative thinking and decisive execution are now being applied in preparation for a new growth surge. GS E&C achieved the highest sales and new order volume in the domestic construction industry in 2005, and the prospects are bright to become the nation's top builder in every respect by 2010.

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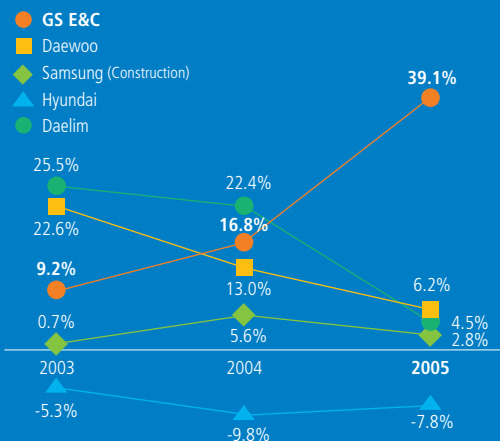
Highlights

Leader in the Korean construction industry

| **Bolstered by robust growth and a solid financial structure, the company takes an investor-friendly management approach.** New orders of ₩8.2 trillion and sales of ₩5.6 trillion made GS E&C the best performer in the Korean construction industry in 2005. The financial structure is firm, and steady growth is indicated. The company is leveraging its solid growth and stability while providing shareholders with high dividends to be the top in the industry in every respect by 2010.

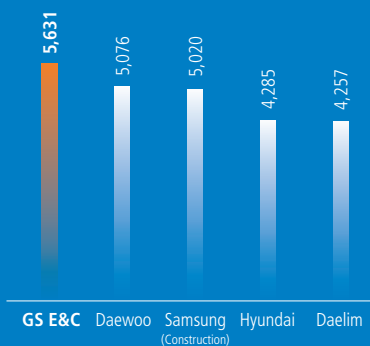
Growth Rate of Top Five

| Unit : % |



Sales of Top Five

| Unit : Billions of Won |



Growth

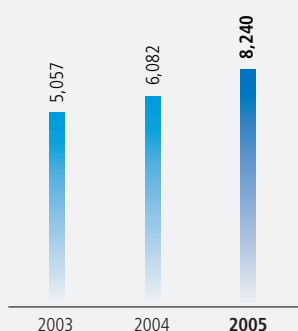
| Sales of ₩5.6 trillion in 2005 were 39.1% higher than in the previous year. GS E&C led the domestic industry in new orders and sales for 2005. The company's advanced technology and excellent brand image are the platform for continued growth. Over the last 3 years, the CAGR is 21%.

Growth |

39.1%

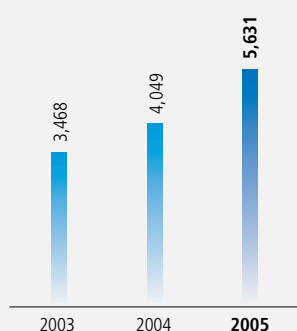
New Orders

| Unit : Billions of Won |



Sales

| Unit : Billions of Won |



New orders in 2004 amounted to ₩6.1 trillion, and sales stood at ₩4 trillion. A year later, those figures rose 35.5% and 39.1%, respectively to ₩8.2 trillion and ₩5.6 trillion. Steady new orders and sales from GS, LG and LS affiliates, the high brand image of GS E&C's "Xi" apartments, improved conditions for overseas projects and advanced technologies are all contributing to continued growth. The company ensures that its growth is accompanied by improved profitability as well.

Stability

| A current ratio of 131.0%, debt-to-equity ratio of 163.7%

and net cash position. GS E&C enjoys the best financial stability in the Korean construction industry. The company is leveraging its solid financial structure to keep growing. With the net cash position, the company will constantly invest for future growth.

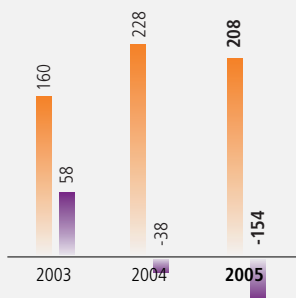
Current Ratio |

131.0%

Borrowings

| Unit : Billions of Won |

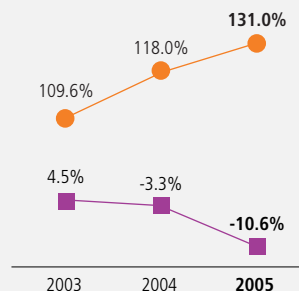
■ Total Debt
■ Net Debt



Current Ratio & Net D-E Ratio

| Unit : % |

■ Current Ratio
■ Net D-E Ratio



At the end of 2005, interest-bearing debt amounted to 208 billion. At the end of 2004, company finances moved to a net cash position, and the net cash structure has continued to broaden, reaching ₩154 billion. The current ratio has also risen 13%P, from 118% in 2004 to 131% in 2005. The net debt equity ratio is now a minus 11%. GS E&C's stable financial structure will enable aggressive investment into domestic housing projects on company-owned land as well as major development projects overseas.

Investor- friendly management

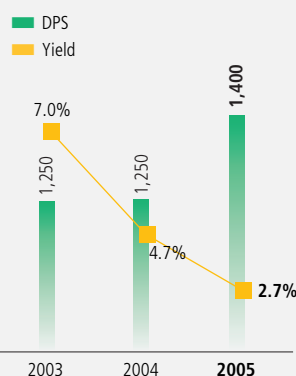
| With a payout ratio of 26.3% and a positive position toward investors, GS E&C offers the best investment value. GS E&C aims to maximize corporate value while continuing to enhance shareholder value. This shareholder-oriented policy will remain effective in the future to be recognized as the company that offers the highest shareholder value.

Payout Ratio |

26.3%

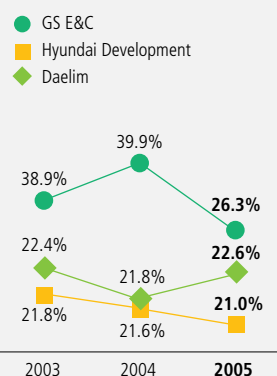
DPS & Yield

| Unit : % |



Payout Ratio

| Unit : % |



Dividends per share rose from ₩1,250 in 2004 to ₩1,400 in 2005. The payout ratio was 26.3%, down from 2004 but higher than those of other construction companies in Korea. The closing price at the end of 2005 represented a yield of 2.7%. GS E&C has not only adhered to this stable dividend policy but also become the first in the industry to adopt an "Management's Assessment System for the effectiveness of internal control". Managerial transparency is part of the ongoing effort to maximize shareholder value.

Message from the CEO

I can proudly say GS E&C keeps our word and we try to make more growth

In 2005, remarkable performance brought us increased recognition as the industry leader. In the coming year, we will pursue value growth which means achieving higher profits along with a higher quantity of work.



To Our Shareholders

The year just past was very meaningful for us. We overcame difficult conditions brought on by high oil prices, a tight domestic real estate market and other factors to achieve the highest new order and sales revenue in the Korean construction industry. Such a remarkable performance brought us increased recognition as the industry leader. We are determined to make this happen, and I believe your support has also been a key factor in our success.

The coming year is predicted to be even more difficult than 2005 was. The domestic economy is showing some signs of recovery and overall consumption is reviving, but a complete recovery is still uncertain. Moreover, private sector investment in infrastructure projects is down, and competition within the industry is getting more severe.

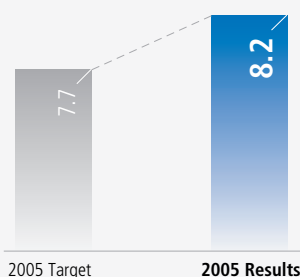
Our goal is to be a top-tier enterprise that can compete with the world's best. Therefore we are revamping our strategies, systems and policies to overcome the adversity and achieve our 2006 performance targets. Our growth in the coming year is to be both quantitative and qualitative.

In the process we will offer our customers and shareholders the most value. Ultimately, we will be recognized as being the industry's NO.1 construction company by the market, our employees and competitors.

2005 Targets vs Results

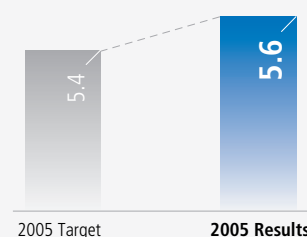
New orders

| Unit : Trillions of Won |



Sales

| Unit : Trillions of Won |



We met our performance targets for 2005, mainly thanks to a balanced portfolio, strong competitiveness and advanced management system.

2005 Performance and 2006 Goals

We were resolved and ready to take on all challenges in 2005, achieving a noteworthy ₩8.2 trillion in new orders and ₩5.6 trillion in sales. We invested to improve our safety management, which is fundamental in construction, to raise our competitiveness and to establish the foundation for an upgraded construction management system that links projects with profit and loss. As a result, our organizational capabilities were taken to the next level.

Breaking down the numbers, new orders totaled ₩8.2 trillion, up 35% from the ₩6 trillion figure for 2004. This was the highest new orders in the Korean construction industry, and each division's orders is well diversified. Especially, the Plant Business Division contributed the most new orders, which works are mainly overseas.

We have set our new order target for 2006 at ₩8.8 trillion, a 7% year-on-year increase. To achieve this goal, we will maximize our abilities to perform projects for group affiliates, while the Civil Engineering Business Division will expand involvement in PFI projects. We will also cultivate more overseas projects in order to secure new growth engines.

The Housing Business Division has reorganized its business portfolio by establishing a new team for apartment projects on sites owned in-house. Our housing construction competencies continue to be elevated, and this segment is contributing more to overall company performance, allowing us to respond effectively to a changing business environment.

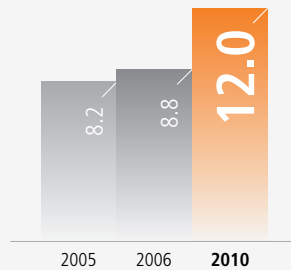
The order backlog at the end of 2005 stood at around ₩12.3 trillion. When the provisional order backlog held by the Housing Business Division is factored in, the total order backlog comes to ₩25.8 trillion, enough to keep the company fully operational for over four and a half years.

Sales in 2005 totaled an industry-high ₩5.6 trillion, up 39% from the ₩4.0 tril-

Performance & Vision

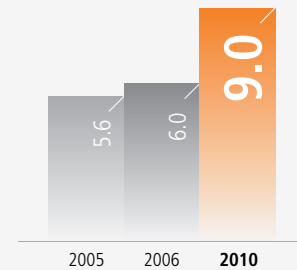
New Orders

[Unit : Trillions of Won]



Sales

[Unit : Trillions of Won]



Our vision is to be a top builder in every aspect by 2010.

lion figure for the previous year. This strong sales growth is an important cornerstone for achieving our vision to be Korea's premiere construction company by 2010.

The Plant and Housing Business Divisions will be performing more projects in 2006, and we expect our annual sales to reach ₩6 trillion.

Let's turn to the profits. Gross profit in 2005 was ₩680 billion an increase of 38% from the year before, while operating profit came to ₩336 billion, up 46% year on year.

In 2006, we will seek to bid on projects with the highest margins, and we will cut costs company-wide so that growth is accompanied by profitability. Through selective concentration of resources, we will secure an advantage in winning the projects where we are the most competitive, and we will increase the growth of new orders for strategic product areas. We will also generate profits by exploring future markets and entering new business areas where new technologies are applied. This balanced approach regarding quantitative growth and profits will be the key to reach our gross profit target of ₩737 billion in the coming year.

Major Tasks for 2006

We will develop more effective management systems to stay in step with our quantitative growth in new orders and sales. At the same time we will cultivate core competencies that enable us to break away from the long-held perceptions of competition. We will create new profit models and usher in a new way of thinking in the industry.

We will continue to pursue the same growth strategy as we did in 2005, while 2006 will mark the first year in which we achieve value growth that brings internal competencies along with profitability.

We see internal cost innovation as the most important factor for achieving such "value growth." Therefore, we have decided on "Value Growth through Cost Innovation" as our

In 2006, our management guideline is "value growth through cost innovation." To accomplish this plan, we will more effectively control costs and fully adopt our newly integrated management system.

management guideline for 2006.

We will implement this guideline by steadfastly working on the following tasks:

First, among these is "increase effectiveness in controlling costs." We control constantly rising operating costs and carry out cost structure improvement programs throughout the organization. The goal is to raise our ability to compete with other companies through the selective concentration of resources.

These efforts will secure the financial resources for new growth drivers while strengthening our competitiveness through improved project execution capabilities, technology and people skills.

The next task is to "fully adopt our newly integrated management system", which can raise overall operational efficiency. The transition to the new system can fundamentally reform the framework and structure of the work environment as well as the work habits of all employees.

To achieve advanced systems, we have already invested much time and effort in long-term programs for sales, safety, technology, knowledge management, and customer satisfaction management. In 2005, we laid the groundwork for developing a construction project management system that is site-oriented.

In the coming year, we will build on this platform. We will mobilize everything at our disposal to establish a "Total Project Management System" that can truly speak for our technology level and management capabilities.

In addition to these key tasks, we will reorganize the training system for our people, who are our most important resource. We will intensively develop topnotch people who can lead GS E&C in the future.

Human resource development is truly an investment in the future. I believe this is the surest strategy for future growth. To this end, we will strengthen our programs for cultivating next-generation executives, work specialties and global competencies by launching the new GS E&C Academy. This institution will become the training ground for highly capable business executives.

You, the shareholders, are very important to us, and we will work hard to live up to your expectations in the coming year. We will organize IR activities that provide you with the detailed information you want at the time you want it. Our management will always be transparent and our accounting practices will be consistent so that we can truly claim the position of industry leader, setting new standards for the rest to emulate.

In closing, I want to thank you for interest in our company and ask for your continued support in 2006.

Kab-Ryul Kim, President & CEO

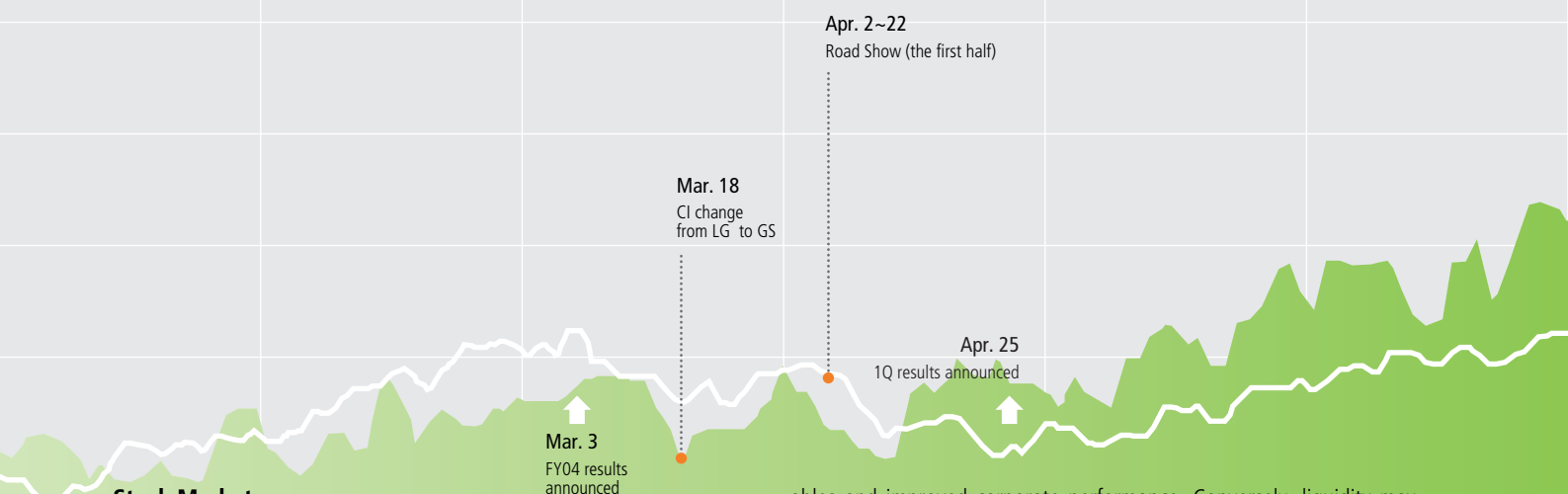
Share Data

GS E&C share closed at ₩53,000 at year's end,
up 86.0% from the beginning of 2005

■ GS E&C

■ KOSPI

▲ Earnings Release



Stock Market

The Korean stock market grew 59% in terms of market capitalization from ₩413 trillion at the end of 2004 to ₩655 trillion a year later. The average daily trading volume was ₩3.2 trillion in 2005, about ₩1 trillion higher than during the previous year. Also the KOSPI finished the year at 1,379 points, 54% higher than at the end of 2004.

Bearish foreign investor sentiment and rising interest rates were offset by a bullish run by domestic institutions led by Savings-type installment funds. Equity-type fund trust which was more than tripled from ₩8.6 trillion in 2004 to ₩26.2 trillion in 2005 (refer to Asset Management Association of Korea) was a key factor in the steadily rising share prices. This means that Koreans were actively buying domestic stocks in a market that has long been hampered by the so-called "Korea discount."

Meanwhile, the sales volume of Savings-type installment funds rose from ₩6.6 trillion in March to ₩13.8 trillion by October. (Refer to Asset Management Association of Korea) This increase allowed a steady inflow of capital and helped lead to a positive trend for the share price index.

Moreover, the following table shows that the Korean stock market still has plenty of room for greater valuation gains:

The securities, fiber, machinery, pharmaceutical and construction industries all saw market capitalization gains of over 100%, leading the overall market rally.

Positive factors for 2006 include recovery in private sector consumption, higher economic growth rate, some better macroeconomic vari-

ables and improved corporate performance. Conversely, liquidity may contract. Therefore, the forecast for the stock price index is between 1,100 and 1,600 points.

Construction Market

Rapid advances of small and medium-sized builders made the construction industry the fastest gaining sector in the entire stock market. The share price index for construction companies was up 116% year on year in terms of market capitalization, which was far above the average growth rate for the market. Therefore, the construction industry's portion of the Korean stock market rose from 2.8% at the end of 2004 to 3.9% a year later.

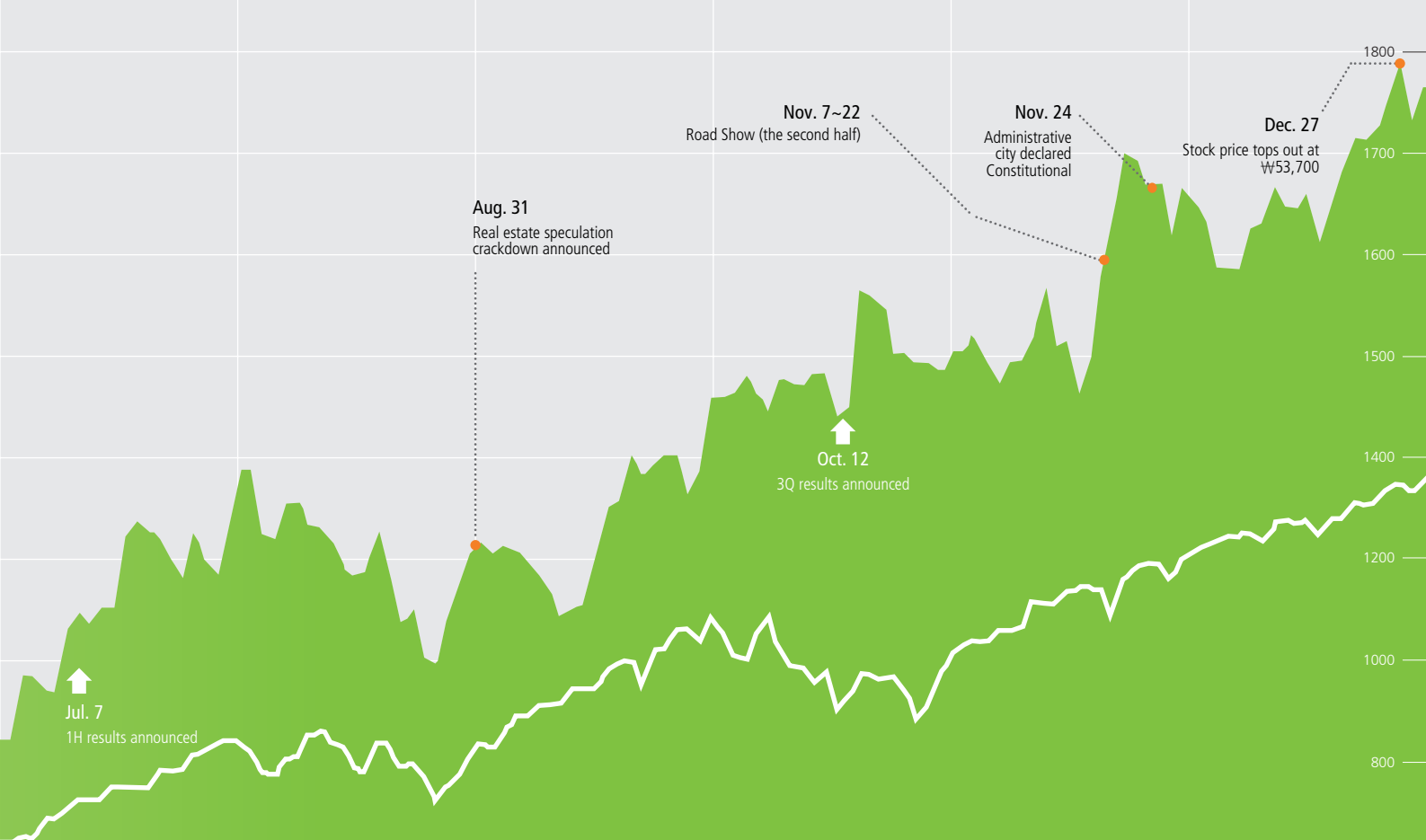
Meanwhile, prices for reconstructed apartments in southern Seoul (Gangnam) began to soar early in the year, driving up prices in neighboring areas (Pangyo, Bundang, Yongin, etc.) as well. The government responded by announcing measures to curb real estate speculation on August 31, causing the prices to come down somewhat. However, passage of detailed laws was delayed, and the real estate prices began to creep back up by the end of the year. The annual rise in apartment prices averaged over 10%.

In 2006, the real estate market will be negatively affected by the government's expanded targets for a comprehensive real estate tax and new assessment standards. The government will also put forward a plan for establishing a new administrative center away from Seoul, and the Constitutional Court ruled on the measure. Meanwhile, real estate development will proceed in "company towns" and "new towns" in the Seoul area, while yet-to-be-built apartments in the Pangyo District will go on sale. These various conflicting factors make it difficult to quickly determine the real estate

PER Comparison of National Stock Markets (in multiples)

	Hong Kong	Japan	US	Singapore	Taiwan	Netherlands	UK	Korea
PER	22.8	22.5	17.4	17.2	15.2	14.4	14.3	10.6

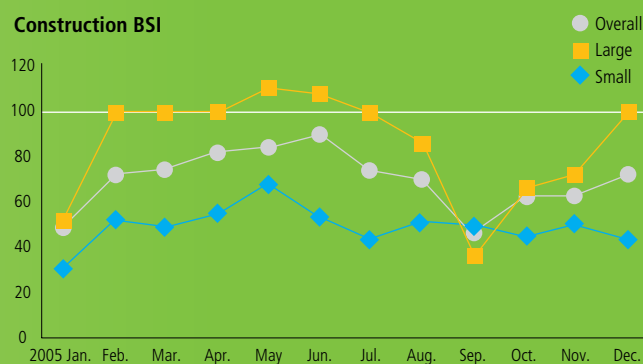
(Source : UBS)



market direction.

The Construction Business Survey Index (CBSI) rose steadily from the 4th quarter, reading 76.1 by the end of December (the Construction & Economy Research Institute of Korea), but this is far below the index base value of 100. Moreover, the gap between large construction companies and smaller ones as well as among regions continue to widen. Large construction companies marked 100 on the survey, while medium-sized companies stood at 79.4 and small companies were a mere 44.4. Companies in the Seoul area registered 87.4, but their counterparts in the provinces marked 38.8.

Construction BSI



(Source : Construction & Economy Research Institute of Korea)

The spread between companies in Seoul area and in the provinces 28.0 percentage points wider than the gap in 2004. In other words the degree of optimism over the prospects for the construction market depends on company's size and location.

GS Engineering & Construction

The price for GS E&C shares closed at ₩28,500 at the end of 2004 and ended 2005 at ₩53,000, an increase of 86%. This was about 32% higher than the KOSPI's rise of 54% for the same period. As a result, the company's market capitalization broke into new territory for the first time, rising from ₩1.45 trillion at the end of 2004 to just over ₩2.7 trillion at the end of 2005.

This remarkable rise in the face of adverse economic conditions can be attributed to the hard work of employees, who have made GS E&C a "market-friendly" enterprise. In 2006, the company will maintain balance between quantitative growth and profitability to lead Korea's construction industry. Various IR activities will also be provided to allow investors to get a fair valuation.

GS E&C IR Department

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Valuation

FY	Sales (billion of won)	Growth (%)	Operating Income (billion of won)	Net Income (billion of won)	EPS (won)	ROE (%)	PER (times)
Dec. 2003	3,468	9.2	271	162	3,245	14.7	5.5
Dec. 2004	4,049	16.8	229	156	3,134	12.7	9.1
Dec. 2005	5,631	39.1	336	265	5,317	19.3	10.0

Global Market Leadership

By enhancing our competitiveness
and improving in business environment

 **524** [KRW]
billion

262 [KRW]
billion

246 [KRW]
billion

Middle East

Oil Refineries, Petrochemical Plants and Gas Plants

Projects in the Middle East represented around 59% (based on 2005 sales) of the company's overseas business. New orders and sales revenue in 2005 were ₩524 billion and ₩533 billion, respectively. Most of projects in the region are oil and gas related.

Oil refineries are the biggest portion of the projects underway in the Middle East, followed by petrochemical plants and gas plants in descending order. Started in Iran in 2003, a US\$655 million gas field project serves as a springboard for the company to expand into gas-to-liquid (GTL) plant construction, a new area with high growth and potential profit.



Overseas activities in 2005 were mainly ongoing plant projects in the Middle East and Southeast Asia and projects for GS, LG and LS affiliates in China, Poland and Russia. The overall business environment showed improvement, and the company went after new projects that promise the greatest profitability. At the same time, the company's project management capabilities continued to improve, leading to surprising results for the year.

GS E&C has a rich technology base in selected areas and an advanced risk management program. As a result, overseas marketing activities targeted oil refinery, petrochemical plant and gas facility projects which we had good performances in and ample margins are expected on the new orders received. The company also continued to seek out business opportunities in other regions, and the future outlook is bright.

New overseas orders per year have risen 3.1 times over five years, from ₩352 billion in 2000 to ₩1,091 billion in 2005. During the same period, sales have risen 2.3 times, from ₩400 billion to ₩910 billion. Gross margin fluctuated between negative territory and 2-3% for the first four years of the new millennium. However, the figure improved significantly from 3.0% in 2004 to around 6.9% in 2005.

China



Buildings for LG, GS and petrochemical plants

About 36% (based on 2005 sales) of GS E&C's overseas work is located in China. These projects consist of office buildings, factory buildings and aromatics plants. Orders and sales in China were ₩262 billion and ₩327 billion, respectively, in 2005.

A steady flow of work in China has resulted in improved competitiveness and better local marketing networks. GS E&C is now striving to diversify the regions within China. Also, the experience of constructing high-rise building such as the Beijing Tower, provides the technological expertise to diversify the business portfolio.

Southeast Asia



Inroads into New Markets and Stronger Business Competencies

GS E&C has already built various plants in Taiwan and Thailand, and is currently working on a US\$660 million aromatics plant project (GS E&C: US\$240 million) in Thailand. The company is now cultivating development projects in Vietnam and will continue to hone its competencies in the region. Its extensive experience in Southeast Asia will be the basis upon which new business opportunities are to be found.

At a Glance

In 2005, GS E&C recoded the highest performance in the Korean construction industry.

01_ Top Sales and New Orders

GS Engineering & Construction outperformed other domestic builders in sales. Robust progress in current plant projects led the sales growth, while sales were also up strongly in the building and housing construction sectors. As a result, total sales surpassed ₩5.6 trillion, a 39.1% jump from 2004. The stable sales growth will allow the company to engage in aggressive marketing in 2006 to surpass the performance targets set for the year.

02_ CI, Philosophy Integrated Group-wide

The GS Group was officially launched at a March 31 in the GS Gangnam Tower, during which the Group's singular identity and management philosophy were announced. The proceedings were attended by over 300 people, including GS Group Chairman Chang-Soo Huh, LG Group Chairman Bon-Moo Koo and GS E&C President Kab-Ryul Kim. The employees pledged their commitment to making the GS Group an enterprise that satisfies the customer.

03_ Value to Shareholders Recognized

GS E&C won the Grand Prize at the 1st annual MoneyToday Shareholder Value Awards. The prize was presented in recognition of the company's consistent shareholder-first policy, the transparent business practices of top management, and improved performance. Award winners are selected on the basis of Total Shareholder Return and the results of questionnaires filled out by industry analysts.

04_ OHSAS 18001 Certification

On May 16, Senior Executive Vice President Woo Sang-Ryong of the Plant Business Division received the OHSAS 18001 certification from BSI Korea CEO Cheon Jung-gi. Safety management upgrades were among the company's priority objectives in 2005. To this end, GS E&C adopted the most advanced methods for on-site safety management and all employees worked together for six months to qualify for OHSAS 18001.

05_ LG Beijing Tower Award

On January 20, Korea's Construction & Transportation Minister was in Beijing to present his Commendation to GS E&C to recognize the landmark value of the LG Beijing Tower. The project demonstrated the excellence of Korean construction technology methods and safety management to the Chinese public.



06_ Cheonggye Stream Restored in Seoul

Cheonggye Stream, which runs through downtown Seoul, was hidden under concrete for 44 years. However, a 27-month restoration project has been completed and the stream is now in full view for the enjoyment of local citizens. The restored stream is 5.84 kilometers long, running from Taepyeongro through Dongdaemun, and GS E&C worked on the 2.1km section between Plaza Market and Nangyero.

07_ Awards for Overseas Plant Construction

In 2005, the Overseas Construction Association and Korea Plant Information & Technology Association declared November 1 to be "Overseas Construction Plant Day," marking the 40th anniversary of the first construction project performed by a Korean construction country outside the country. Awards were handed out to persons who have made special contributions to Korea's construction industry through the execution of overseas projects. GS E&C Vice President Yoo Kun-joon (Overseas Business Department 2) received the Industry Prize; Gen. Mgr. Kim Kwang-duk (QP Lab Project) was awarded the Prime Minister's Prize, and Gen. Mgr. Kwon Ho-sang (Legal Affairs Team 2) and Sr. Mgr. Ahn Jung-hoe (OCR Project) were jointly presented with the Construction & Transportation Minister's Prize.

08_ BTL Sewer Rehabilitation Projects in Full Swing

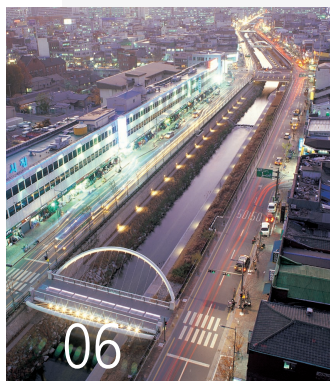
Korean government agencies have been investing heavily in environmental protection, and GS E&C has won a string of contracts related to the handling of wastewater and sewage. Notable among these are sewer rehabilitation projects carried out on a build-transfer-lease basis for the cities of Nonsan, Jeonju, Yeongdeok, and Masan. In the future, the company will focus on winning more orders for sewer rehabilitation, advanced sewage treatment facilities and incinerators.

09_ 2005 Korea Construction Culture Awards

The Bohun Building, built by GS E&C, won the Grand Prize in the Non-residential Category at the 14th annual 2005 Korea Construction Culture Awards. The Korea Construction Culture Awards are the most prestigious in the industry, and are endorsed by the Ministry of Construction and Transportation, Korea Institute of Registered Architects and *Seoul Economic Daily* Newspaper.

10_ "Xi" on Top of KS-SQI

GS E&C ranked first on the sixth annual Korea Standard Service Quality Index in the Apartment category. The index was created to rate service quality and foster improvement to elevate Korea's international competitiveness. Each year, customers vote on their level of satisfaction one company to select the best company in each industry category.



06



07



08



09

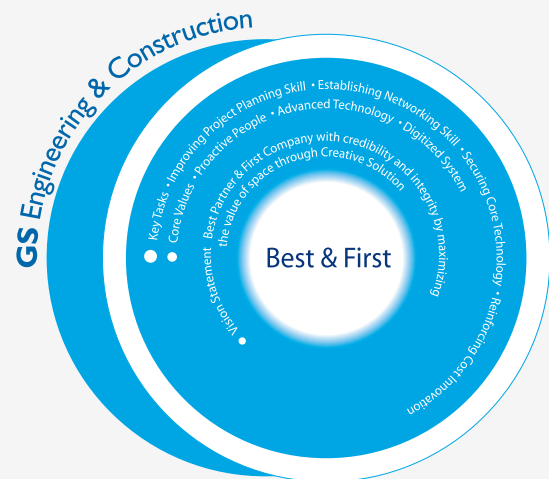


10

Vision & Strategy

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.



2010

2009

2008

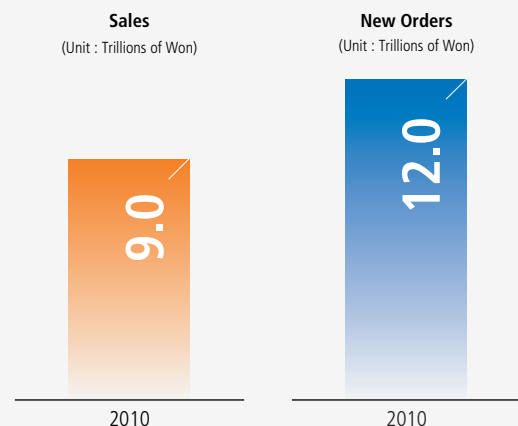
2007

2006



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 goes hand in hand with business. Risk in the construction industry involves construction time, engineering technology, finance, safety, and government policy, not to mention the world economy. In general, this risk could be classified in two categories, "Business risks and financial risks". 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 overseas projects success.

Business Risks

Business risks refer to potential losses caused by poor management decisions, employees' activities, operational system shortcomings, or negative outside factors. GS E&C only accepts projects that are identifiably profitable and associated with calculable risks. Each division has a Project Review Committee to ensure 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

Minimize Risk & Maximize 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. As an increase in overseas orders and sales, the importance of foreign exchange risk is bigger and bigger. GS E&C has Foreign Exchange Risk management Committee under the CFO once in a month and internal policy is 100% hedge against exchange risk. The company has three methods to hedge the risk ; natural hedge, foreign exchange risk insurance and derivatives. As a result, GS E&C's foreign exchange risk is minimal.

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 interest bearing assets or liabilities that will produce an interest income or expense. 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 has showed a net cash position since 2004, and interest also posted a net gain.

Environment, Safety and Health Policy

GS E&C considers environment, safety and health issues for 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 shareholders 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 environment, safety and health legislations and regulations.
- GS E&C shall make every effort to become the best company in ESH performance and 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 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, non-compliance penalties, etc. Lessons learned will be fed back to all workers on site.



Certificate of ISO 14001

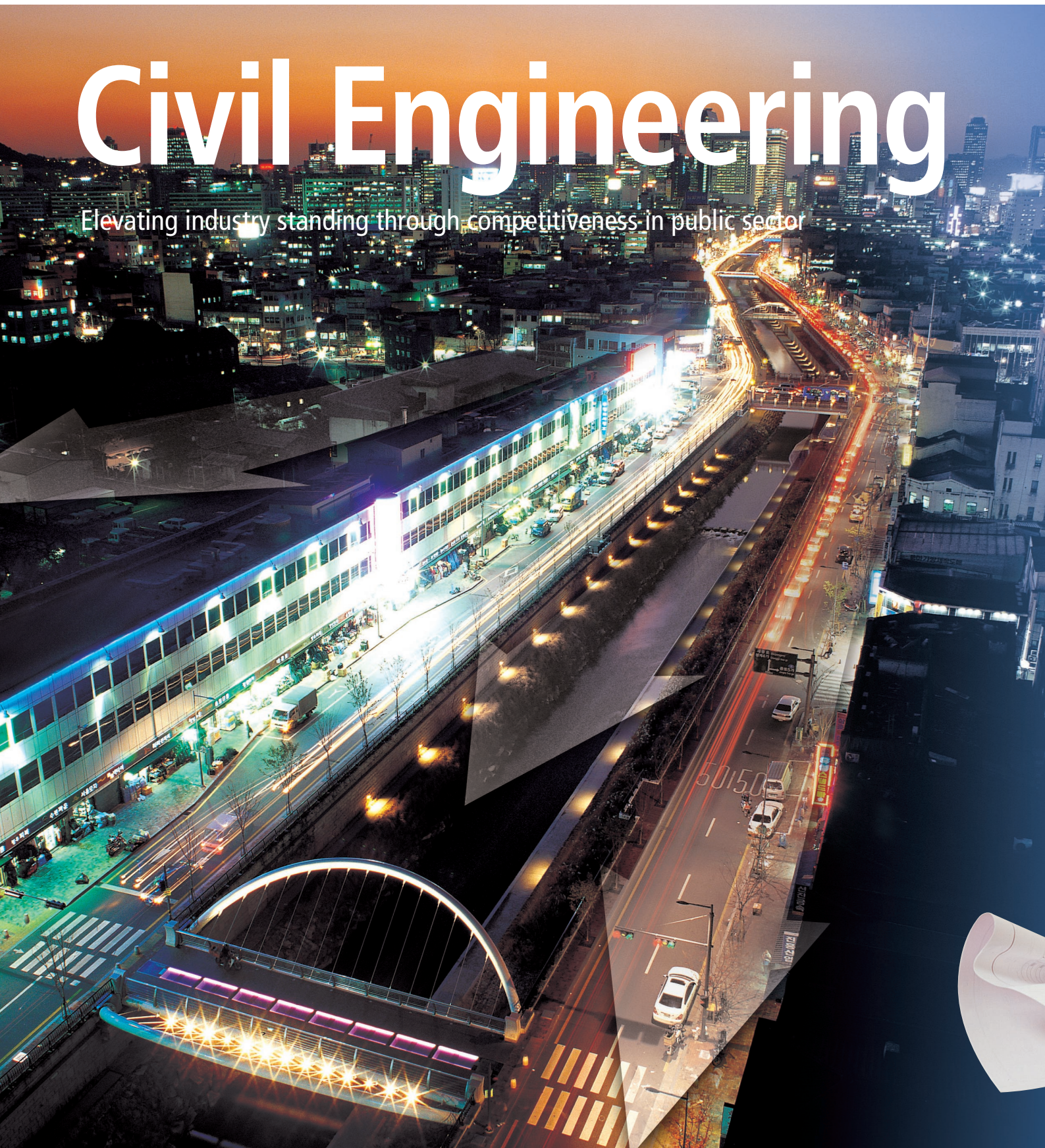
Review of Operations

Solid Growth
Excellent Investment Opportunities

Civil Engineering	22
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Civil Engineering

Elevating industry standing through competitiveness in public sector



Expand market share by securing a competitive advantage in turnkey and infrastructure projects

Message from the Head of Civil Engineering Business Division

Intensive competition over public projects meant that all the major Korean construction companies had difficulty in securing public orders. However, we did manage to win the Gwangyang Port Project ordered by the Ministry of Maritime Affairs & Fisheries. We also played a role in the successful business development of Pyeongtaek Port, a Privately-Funded Infrastructure (PFI) project. The technology we have acquired in port projects will provide us with new opportunities in one of civil engineering's important growth segments.

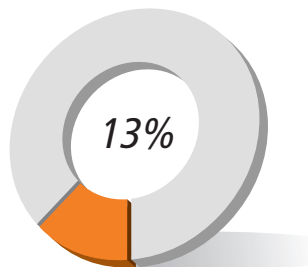
Meanwhile, our success in the Euijeongbu light railway project has led to similar projects in five other localities (including Goyang, Gimpo and Daejeon). Now we are leading the light railway sector, which will serve as a future growth engine. Our competencies are being focused on future growth through the development of overseas revenue models in Vietnam as well as alternative energy and port projects in Korea.

Internally, we have been bolstering project management capabilities since 2004. The construction and marketing functions were separated to increase organizational specialization. We have increased the number of specialists in the workforce to improve overall technical competencies. The PMS (Project Management System) is being optimized for civil engineering projects, serving as the framework for maximizing productivity in all aspects of project management.

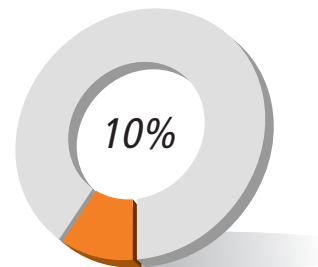
We will build on the internal competency achieved in 2005, continuously training our people, developing new markets and commercializing new business areas to emerge as Korea's premiere player in the civil engineering sector by 2010.



Portion of Total Sales
| Unit : % |



Portion of Total New Orders
| Unit : % |



Sales Revenues | KRW |

↑ 27%
in 2005

730 billion

2005 Performance Summary

Significant growth was achieved in all areas-new orders, sales and profits-in 2005.

Despite heightened competition in the public sector, the Division helped to turn the Euijeongbu light railway and Pyeongtaek port projects into viable businesses. As a result, new orders rose 29% from ₩613 billion in 2004 to ₩791 billion in 2005.

The increased government budget for ongoing expressway construction projects, the LCD production complex at Paju, and rapid progress in the Seoul Beltway enabled the Division to achieve annual sales of ₩730 billion, which was 27% higher than ₩574 billion achieved in 2004.

In addition to this quantitative growth, the Division has brought the accident rate down to a mere 0.09. The improvement was made possible through a safety management system via online links between the Head Office and the construction sites. Moreover, outside institutions were brought in to provide safety management activities.

2006 Outlook and Plans

The steadily increasing competition over public sector projects has made profitability very difficult to achieve.

However, the Division has detailed plans to overcome these difficulties and is strengthening the capabilities to see these plans through. Performance targets for the coming year are 1.25 trillion in new orders, up 58% from the 791 billion figure for 2005, and sales of ₩762 billion.

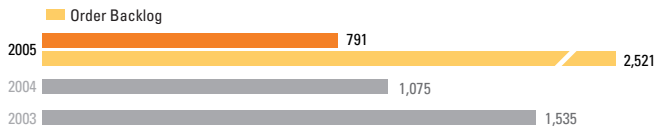
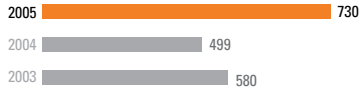
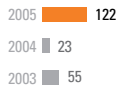
To maximize the order success rate in the public sector, the Division will strengthen marketing capabilities by expanding the organization and personnel working on port and dam projects. Investment will also be increased to improve the ability to carry out special-purpose bridges and new areas of light railways, ports and dams. This way, competitiveness will be more balanced between marketing and construction.

To ensure profitability, innovative methods have been adopted for all processes, to include estimations, project execution and maintenance. These activities will help to put GS E&C at the top of the civil engineering sector starting in 2006.



Jukbyun-Bukmyun Road Pavement

[Client] Public Procurement Service (Busan Regional Construction Management Office)
[Location] Ulsan, Korea
[Contract Period] Mar. 1998 ~ Jun. 2005
[Project Description] -Length : 10.860km -
Lanes : 4 -Bridges : 10 -Tunnels : 3

New Orders (Unit : Billions of Won)**Sales Revenues** (Unit : Billions of Won)**Gross Profit** (Unit : Billions of Won)**Busan-Eonyang Highway Expansion Section 3**

[Client] Korea Highway Corporation
 [Location] Yangsan, Korea
 [Contract Period] Dec. 2001 ~ Dec. 2005
 [Project Description] -Length : 10.274km -
 Width : 32.6m (expanded to 6 lanes) -
 Structures : 7 small bridges

**Iksan-Jangsu Highway Section 5**

[Client] Korea Highway Corporation
 [Location] Jeonju, Korea
 [Contract Period] Nov. 2001 ~ Nov. 2006
 [Project Description] -Length : 3.41 km -
 Bridge : Shinchon Bridge (1.06 km) -Tunnel :
 Mandeok Tunnel (2.307 km) -Excavation
 Method : NATMa

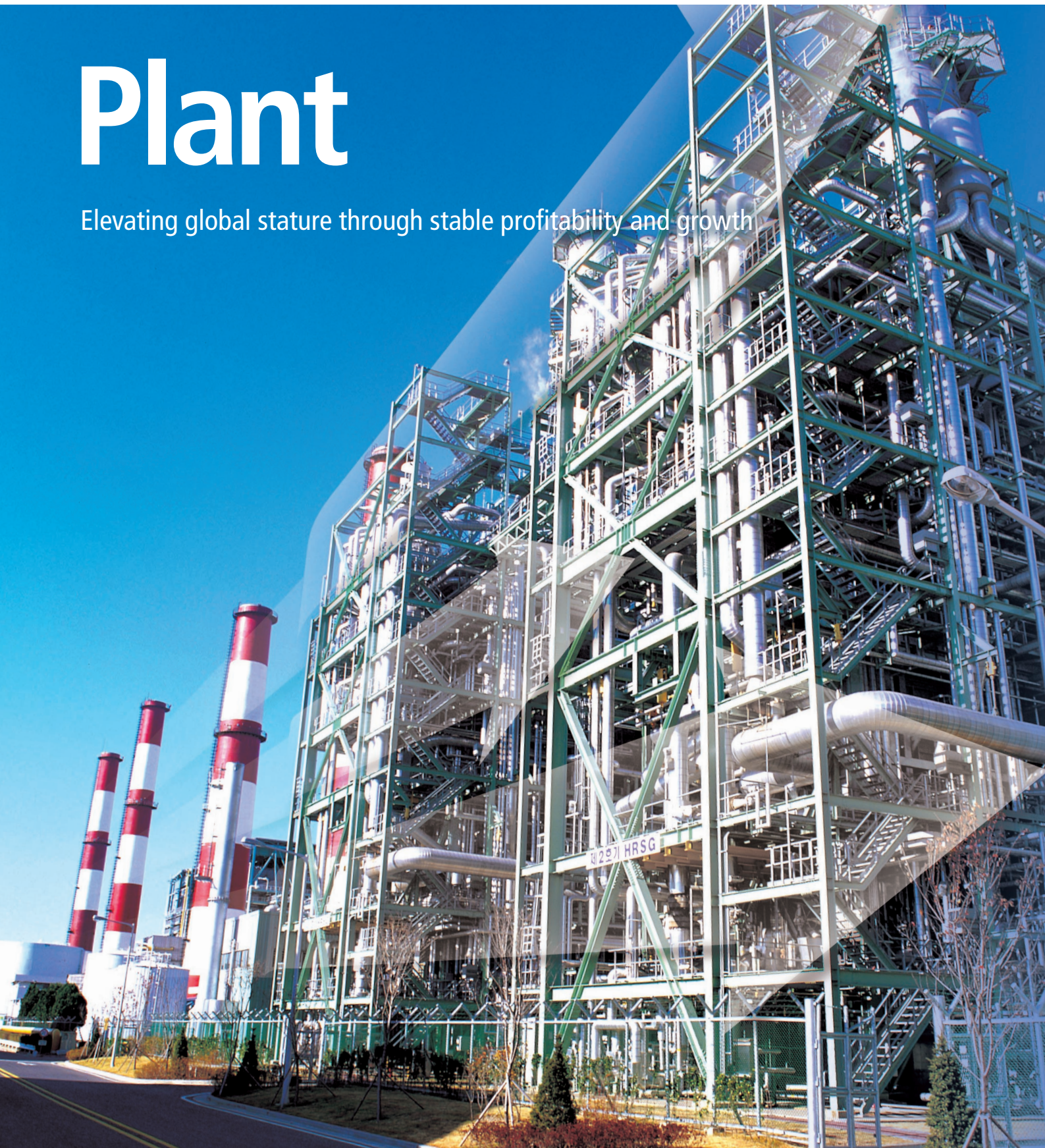
**Gyeongnam Yangsan New World Country Club**

[Client] Shinsegae Tourist Industry
 [Location] Yangsan, Korea
 [Contract Period] Mar. 2003 ~ Aug. 2005
 [Project Description] -Construction Area : 18
 holes (private) 908,000m²



Plant

Elevating global stature through stable profitability and growth



Higher competitiveness based on profitability considerations, and establishment of a system for large-scale projects

Message from the Head of Plant Business Division

We had a banner year in 2005, achieving both qualitative and quantitative growth. We balanced our business portfolio and broke the ₩1 trillion mark in sales for the first time. New orders remained over ₩1 trillion for the third straight year, laying the foundation for mid-term and long-term growth. Profits and margins reached high.

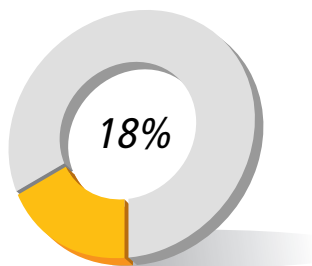
In Qatar, we completed a refinery expansion project that was begun in 2001 and we were awarded a linear alkyl-benzene plant project. New orders have remained steady throughout the Middle East.

Meanwhile, we have diversified our overseas portfolio by winning orders in China, Thailand and other Asian countries. Project types were also sufficiently diverse, encompassing oil refining, petrochemicals, power generation and gas.

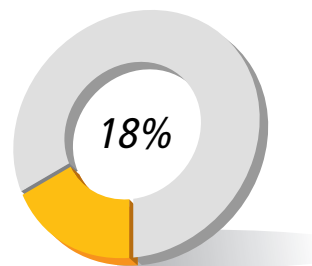
In the future, we will selectively go after those projects that promise the greatest profitability, maintaining our strategy of balancing growth volume with higher revenue. Our ultimate goal is to emerge as one of the world's foremost engineering, procurement and construction (EPC) contractors.



Portion of Total Sales
| Unit : % |



Portion of Total New Orders
| Unit : % |



Sang-Ryong Woo | Senior Executive Vice President, Head of Plant Business Division

Sales Revenues | KRW |

 **108%**
in 2005

1,037 billion

2005 Performance Summary

New orders rose 38%, from over ₩1.08 trillion in 2004 to surpass ₩1.48 trillion in 2005, the third straight year in which new orders amounted to more ₩1 trillion.

The total order backlog stood at ₩2.13 trillion at year's end, ensuring stable sales for the next several years.

The regional diversity of the new orders was considerable, to include Turkey, Qatar, Thailand and China, and the project types were a healthy mix that included an oil refinery, petrochemical plant and gas facility.

Sales doubled from ₩499 billion in 2004 to break ₩1 trillion for the first time in 2005. Considering the huge order backlog, this explosive growth in sales should continue in the coming year.

The Division has been careful in selecting new projects based on profitability.

2006 Outlook and Plans

Persistently high oil prices have stimulated investment in new facilities worldwide and particularly in the Middle East.

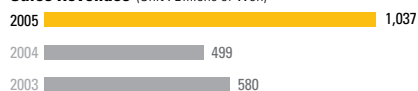
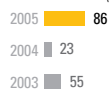
This trend is expected to continue in 2006. The Plant Business Division will continue to consider profitability first when approaching new projects. The profit margin has improved steadily and will do even better in the future as sales keep growing and fixed costs are kept down. Targets for 2006 include new orders of ₩1.5 trillion and sales of over ₩1.29 trillion, a 24% rise year on year.

The Division will also continue to diversify regions and expand the scope of projects. In particular, efforts will be made to break into the gas-to-liquid (GTL) plant segment, which is seen as having high growth potential over the mid-term to long-term.



Yeosu Phenol / BPA

[Client] LG Petrochemical
[Location] Yeosu, Korea
[Contract Period] May. 2003 ~ Apr. 2005
[Project Description] -Bis Phenol-A (BPA)
135,500 tons/yr

New Orders (Unit : Billions of Won)**Sales Revenues** (Unit : Billions of Won)**Gross Profit** (Unit : Billions of Won)**Alkylation**

[Client] GS Caltex
 [Location] Yeosu, Korea
 [Contract Period] Apr. 2004 ~ Dec. 2005
 [Project Description] -Additional isobutane to butylene enables gasoline compound material of high quality, resulting in 10,000 BPSD -Storage tank : 230,000 BBL 2 units, 120,000 BBL 1 unit

**QP LAB**

[Client] Qatar Petroleum
 [Location] Mesaieed, State of Qatar
 [Contract Period] Jan. 2004 ~ Apr. 2006
 [Project Description] -Linear Alkyl Benzene : 100,000 tons/yr -Paraffin : 80,000 tons/yr -Benzene : 36,000 tons/yr

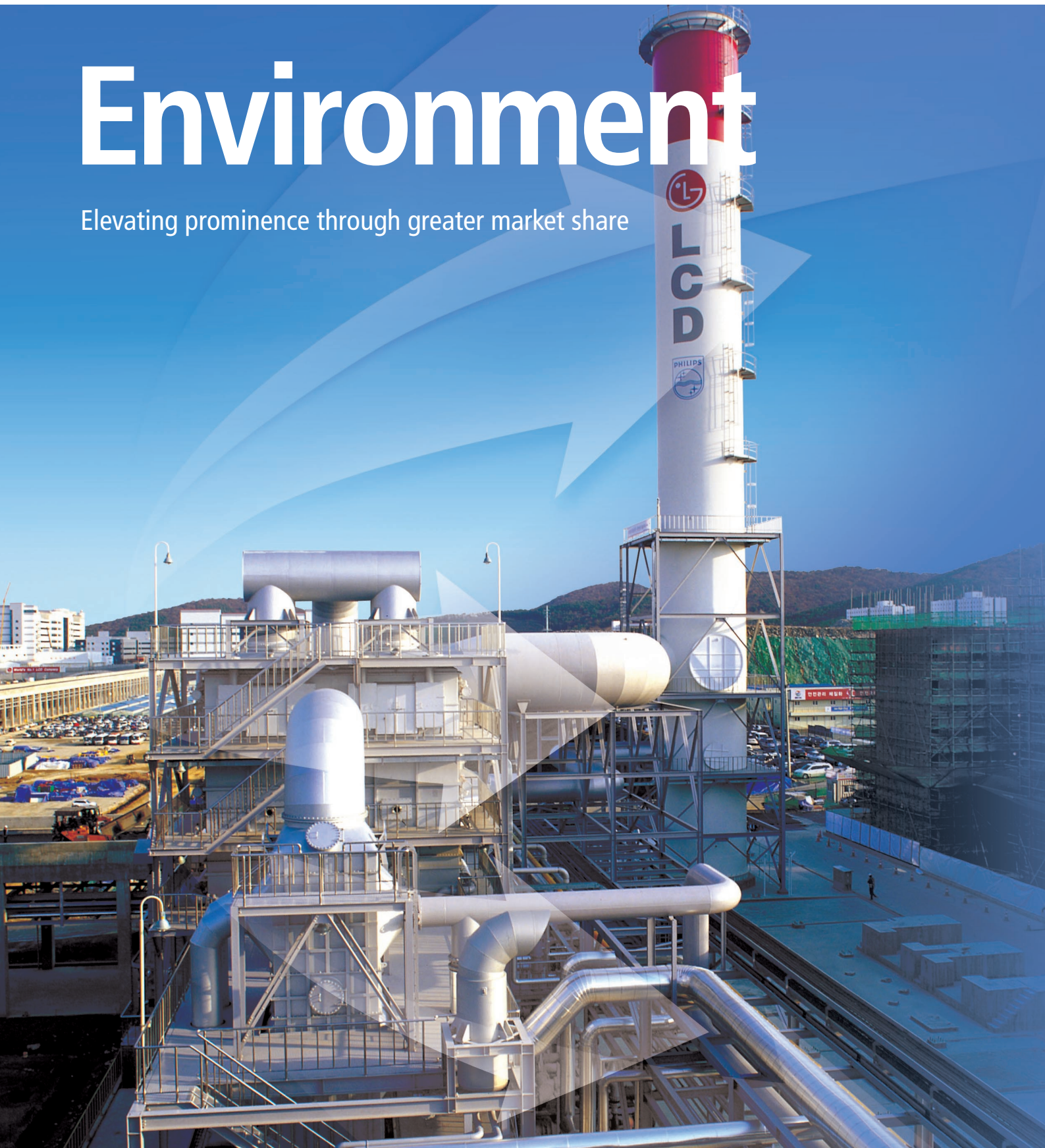
**Izmir - DHP**

[Client] TUPRAS
 [Location] Izmir, Turkey
 [Contract Period] Aug. 2002 ~ May. 2005
 [Project Description] -Diesel desulfuration facility : 60,400 barrels/day -DHP Unit : 60,400 BPSD -SRU Unit : 178.2 tons/day -SWS : 42.5 tons/day -ARU : 429 m³/hr



Environment

Elevating prominence through greater market share



Assume market leadership through distinctive competitiveness

Message from the Head of Environment Business Division

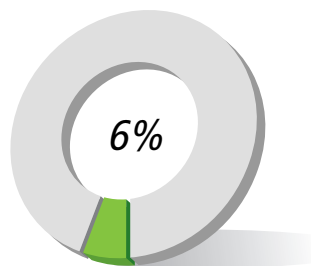
In 2005, we focused on improving competences for performing public sector projects related to water treatment, sewer rehabilitation, and solid waste disposal. To begin with, we received orders for Water Treatment Plant No.2 in Osan, as well as new wastewater treatment facilities at the Osong Life Sciences Complex and in Yeosu. Moreover, a turnkey project was received for sewage treatment facilities in Area 2 on the upper reaches of Daecheong Dam. With our improved competencies for PFI, we were named the preferred bidder for build-transfer-lease (BTL) sewage conduit repair projects in Jeonju and Nonsan, and a build-transfer-operate (BTO) waste disposal facility project in Pocheon.

Meanwhile, we received orders to prepare the site for the Jaechon Resource Management Center and build a waste disposal facility at the Dalseong Industrial Complex. We also completed the Mapo Recycling Center in Seoul and Incinerator No.2 in Daejeon.

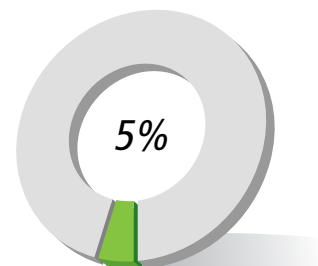
The Environment Business Division is leveraging advanced technology and construction expertise to secure a leading position in the public sector. In the future we will pursue projects in new environment-related fields as well as in overseas markets.



Portion of Total Sales
| Unit : % |



Portion of Total New Orders
| Unit : % |



Sales Revenues | KRW |


13%
in 2005

312 billion

2005 Performance Summary

Some public project tenders were delayed, along with certain changes in the business environment that made it harder to win new orders.

However, the Division still managed to obtain ₩393 billion in new orders, mainly in the public sector. A key factor in the 2005 business performance was the Division's improved capabilities to perform public projects, thereby reducing its reliance on orders from group affiliates. The Sewage Treatment No.2 Plant in Osan, a waste disposal facility at the Osong Life Sciences Complex, a wastewater treatment plant in Yeosu's Jung-heung District, and sewage treatment facilities in Area 2 on the upper reaches of Daechong Dam are all turnkey government projects awarded to the company. As for BTL projects, the Division named the preferred bidder for sewage conduit repair in Jeonju and Nonsan as well as a waste disposal facility in Pocheon.

A higher performance in projects for GS, LG and LS affiliates helped to boost 2005 sales to ₩312 billion, up 13% from the ₩276 billion figure for the year before. Profits also rose from ₩39 billion in 2004 to ₩51 billion in 2005.

2006 Outlook and Plans

The Korean market for environmental facilities is expected to continue growing in 2006, led by turnkey projects and PFI projects.

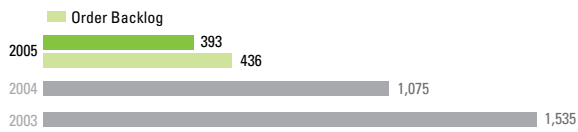
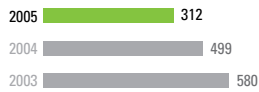
However, changes in the market condition will make competition more severe. The GS E&C Environment Business Division will build on its expertise in public sector projects to expand orders for turnkey and build-transfer-lease (BTL) projects from the government. The target for new orders has been set at ₩550 billion, which is ₩157 billion higher than the total for new orders received in 2005.

The Division aims to achieve ₩311 billion in sales. Management will make the most of the Project Management System and eWorks to control costs most effectively and help to maximize profitability. Constantly improving construction management and technology competitiveness will strengthen market dominance and increase market share in the government project sector.



Daejeon Incineration Plant

[Client] Public Procurement
Service(Daejeon Metropolitan City
Development Authority)
[Location] Daejeon, Korea
[Contract Period] Dec. 2001 ~ Jan. 2005
[Project Descriptions] - Incineration
Facility : 200 ton/day X 1 unit - Boiler :
31.2 ton/HR X 1 unit

New Orders (Unit : Billions of Won)**Sales Revenues** (Unit : Billions of Won)**Gross Profit** (Unit : Billions of Won)**Yeosu Sewage Treatment Facility**

[Client] Environment Management Corporation
 [Location] Yeosu, Korea
 [Contract Period] Oct. 2005 ~ Apr. 2008
 [Project Description] -Scale : Sewage treatment 35,000m³/day -Extension : 15,000m³/day

**Mapo Recycling Center**

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

**Osan Sewage Treatment Facility No.2**

[Client] Osan City
 [Location] Osan, Korea
 [Contract Period] Aug. 2005 ~ Aug. 2008
 [Project Description] -Waste water treatment : 64,000 tons/day



Architecture

Elevating market leadership through stable revenue generation



Pursue supreme competitiveness with higher technology and greater profitability

Message from the Head of Architecture Business Division

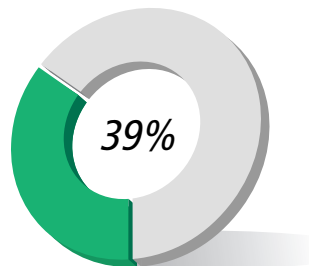
A contracted domestic construction market brought intense competition in 2005, but we still managed to achieve ₩2.43 trillion in new orders and ₩2.20 trillion in sales. Importantly, steady growth was achieved from ₩840 billion in new orders from the public and private sectors. This figure is 116% higher than in 2004, helping to solidify our position as the Korean building construction leader.

In addition Expansive investment in new facilities by LG Philips LCD, LG Electronics and LG Chem brought us a stream of major new orders that provides the momentum for steady growth.

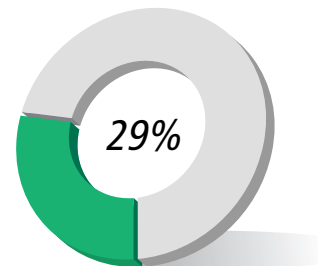
The Architecture Business Division will remain viable far into the future by capably adjusting to changes in existing markets and applying the latest technologies to create new markets. Our architectural planning expertise in the turnkey market will be leveraged to win new orders. At the same time, we will continue to elevate our technology competitiveness regarding projects in the private sector as well as for LG, LS and GS affiliates. These efforts will generate greater profitability and help maximize shareholder value.



Portion of Total Sales
| Unit : % |



Portion of Total New Orders
| Unit : % |



Sales Revenues | KRW |

 **36%**
in 2005

2,203 billion

2005 Performance Summary

Four turnkey projects in the public sector, including an "edutainment" park that teaches safety awareness, amounted to ₩269 billion, and a project at the Songdo Section 4 Apartment Complex 1 is valued at ₩88 billion.

Hence, new orders from the government totaled ₩420 billion in 2005, more than double ₩197 billion figure for the year before. At the same time, the private sector brought ₩420 billion in new orders, including ₩82 billion R&D center for Nongshim (a local food processor).

Orders from GS, LG and LS affiliates stands at nearly ₩1.34 trillion worth of new business in this segment, including a ₩595 billion project for LG Philips LCD. Thus, total new orders, boosted by the higher performance in the public and private sectors, surpassed ₩2.43 trillion, which was higher than the ₩1.95 trillion for 2004. At the same time, the Division's work portfolio achieved better balance.

The surge in orders from the private and public sectors and a steady stream of new work from group affiliates allowed sales to grow 36% year on year, from ₩1.62 trillion in 2004 to ₩2.20 trillion in 2005.

2006 Outlook and Plans

Rapid changes in the market and contracted demand are likely to intensify competition over new orders.

The Division will therefore step up marketing activities and strive to enhance competitiveness in non-group projects.

The target for new orders is set at ₩2.40 trillion. Client-centered marketing and project management will be bolstered for the turnkey segment, while technology marketing capabilities and price competitiveness will be improved for private sector projects. Through these efforts, the Division aims to achieve a 15% year-on-year increase in new orders from the public and private sectors.

As for group related business, basic technologies and services will be bolstered to create a win-win solution that attracts a steady volume of new projects.



LG Philips LCD P7

[Client] LG Philips LCD
[Location] Paju, Korea
[Contract Period] Mar. 2004 ~ Aug. 2005
[Project Description]

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- Total floor area:309,593m²
- 2 underground levels, 8 stories

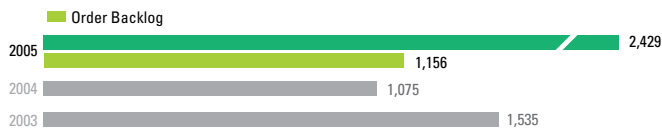
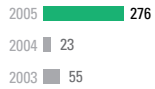
<Module>

- Total floor area:218,930m²
- 7 stories

<Dormitory>

- Total floor area:73,530m²
- 4 buildings(13, 14 stories 2 each)

<Others>

New Orders (Unit : Billions of Won)**Sales Revenues** (Unit : Billions of Won)**Gross Profit** (Unit : Billions of Won)**Dongbu Electric Rail Car Office**

[Client] Korean Rail Network Authority
 [Location] Seoul, Korea
 [Contract Period] Nov. 1997 ~ Dec. 2004
 [Project Description] -Total floor area : 208,591m² (15 buildings)

**National Museum of Korea**

[Client] Public Procurement Service (Ministry of Culture & Tourism)
 [Location] Seoul, Korea
 [Contract Period] Oct. 1997 ~ Feb. 2004
 [Project Descriptions] -Total floor area : 134,560.94m² (6 stories, 1 underground level)
 -Structure : steel frame + ferroconcrete

**Goyang SPART Complex & Park**

[Client] Goyang City
 [Location] Goyang, Korea
 [Contract Period] Nov. 2000 ~ Aug. 2005
 [Project Description] -Area : 711,977m² (215,373 pyeongs)
 -Total floor area : 55,939.2m² (16,921.6 pyeongs)



Housing

Elevating customer value through high brand competitiveness



Yongsan “Xi” Apartment | [Client] Morgan Adams Korea [Location] Seoul, Korea [Contract Period] Oct. 2002 ~ Dec. 2005
[Project Description] -310 housing units (3 apartment buildings)

Maintain a top brand by fully satisfying customers

Message from the Head of Housing Business Division

Times were tough for the Korean construction industry in 2005. The economy remained in a slump, and the government announced a set of tough measure to curb real estate speculation at the end of August. As a result, the sales of new apartments fell off.

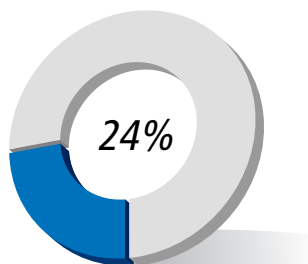
Despite the adverse conditions, our upscale "Xi" brand apartments continued to outshine the competition. We quickly concluded sale contracts in the City Seven "Xi" complex in Seoul. We were ranked first in the Apartment category in a Korea truth-in-advertising survey, won the Green (environment friendly) Residence Prize and Home Network Prize, were placed at the top of the Global Customer Satisfaction Index in the Apartment category, and were first on the Korea Wellbeing Consumer Index for the second year in a row.

Our Boutique Monaco business-penthouses sold very well, attracting the attention of the entire domestic housing industry. Meanwhile, we opened six sales offices in Korea's provincial cities and deployed more sales people outside of Seoul. As a result our volume of provisional orders in provincial areas now total some ₩2.8 trillion, which is the highest for any Korean builder.

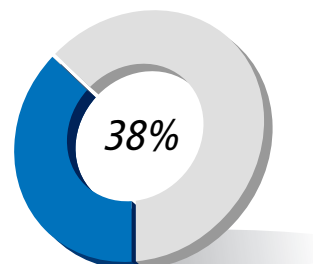
As the Korean residential market leader, we continue to set new trends that maximize homeowner value and provide the most in modern living. Our brand is the top choice among customers.



Portion of Total Sales
| Unit : % |



Portion of Total New Orders
| Unit : % |



Sales Revenues | KRW |


24%
in 2005

1,349 billion

2005 Performance Summary

Unfavorable market conditions notwithstanding, new orders in 2005 rose 54% year on year to total ₩3.14 trillion, including ₩1.79 trillion in orders from developers, ₩1.14 trillion in reconstruction and redevelopment projects and ₩211 billion in housing projects owned by the company.

In addition, the Housing Business Division has provisional order backlog worth ₩13.4 trillion at the end of 2005, the highest figure in the Korean construction industry. These include provisional projects for developers and company-owned land totaling ₩3.53 trillion and provisional reconstruction and redevelopment projects amounting to ₩9.88 trillion.

Large-scale projects such as Metro “Xi” in Busan, and Yangju “Xi” as well as expanded work existing projects boosted sales 24% from close to ₩1.08 trillion in 2004 to ₩1.35 trillion in 2005. In addition, over 20 new projects will become part of sales from 2006 on, including Phases 1 and 4 of the new Seongbok Apartments in Yongin and reconstruction of Banpo Complex 3 in Seoul.

2006 Outlook and Plans

A difficult year is expected.

The government policy to curb rising real estate prices will continue in 2006, which means sales of new apartments will remain sluggish. Competition over reconstruction and redevelopment projects will intensify as their number decreases in the Greater Seoul Area.

However, GS E&C will respond with sound management approaches to achieve ambitious performance targets for new orders totaling ₩3.10 trillion and sales amounting to ₩1.83 trillion. Reducing outsourcing and material costs will boost higher profitability.

Much of the sales force is being deployed in the field for greater effectiveness, and the starting dates for many reconstruction and redevelopment projects will be moved forward to provide a steady supply of work.

Solid business management will enable the company to grow and provide Koreans with better residential choices. Customer satisfaction is the key to remaining the country’s most popular apartment brand.



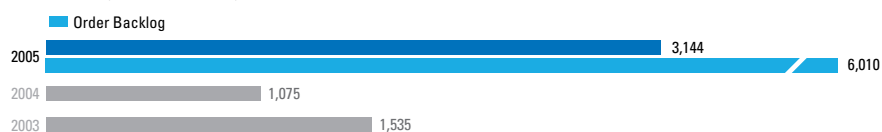
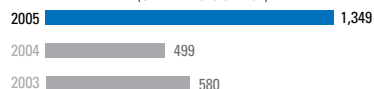
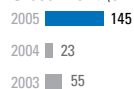
Hanbat “Xi” Apartment

[Client] Korea Real Estate Investment Trust Co., Ltd.

[Location] Daejeon, Korea

[Contract Period] Oct. 2003 ~ Aug. 2006

[Project Description] ~1,063 housing units (13 apartment buildings)

New Orders (Unit : Billions of Won)**Sales Revenues** (Unit : Billions of Won)**Gross Profit** (Unit : Billions of Won)**Bangbae Imperial "Xi" Apartment**

[Client] Imperial Apartment Reconstruction Committee
 [Location] Seoul, Korea
 [Contract Period] Dec. 2003 ~ Nov. 2005
 [Project Description] -67 housing units : 6,298 pyeongs (3 apartment building)

**Cheongam "Xi" Apartment**

[Client] Bugok Leisure
 [Location] Seoul, Korea
 [Contract Period] Jun. 2003 ~ Aug. 2005
 [Project Description] -170 housing units (5 apartment buildings)

**Busan Metro City V Apartment**

[Client] GS E&C, JoongAng Construction Co., Ltd.
 [Location] Busan, Korea
 [Contract Period] Oct. 2001 ~ Oct. 2004
 [Project Description] -466 housing units (5 apartment buildings)



Technology Center

Elevating market influence through the most advanced technologies



Assemble topnotch engineers and lay the groundwork to be the best

Message from the Head of Technology Center

In 2005, we laid the groundwork for stronger technology competitiveness. We revamped our mid-/long-term R&D strategies by adding exploratory research and plans regarding core technologies for new construction fields, as well as technologies for productivity enhancement and future applications. As a result, we implemented a new technology-related management approach that will serve as a roadmap for each operational area.

Moreover, we are in the process of building a multi-purpose laboratory wing that can provide the foundation for creative and independent research. When completed, it will be equipped with a wind tunnel and separate laboratories for residential environments, structures, and materials.

We continue to upgrade our Technology Information Management System which organizes and applies our technical know-how most efficiently. At the same time, we are developing Korea's first system designed specifically for managing and assessing construction R&D projects.

The Technology Center continues to acquire core technologies through research. Taking advantage of unique technology competitiveness, we are helping the company to move into new business areas and enhance productivity on the construction sites. Accordingly, we are helping to advance technology in the Korean construction industry.



O-Whon Kwon | Senior Vice President, Head of Technology Center

2005 Performance Summary

The Technology Center continued to develop core technologies for construction projects never before undertaken by the company.

Other areas of endeavor included bolstering construction project support capabilities, rapidly raising on-site productivity, and developing technologies for future applications. "Pioneering future technologies" was decided as the new mid-/long-term direction for the Center.

The Center continued to recruit talented engineers in order to get the most out of research activities. A total of 39 projects were conducted during the year according to a technology roadmap. Noteworthy projects among these included the development of advanced treatment processes using a submerged membrane bioreactor (a "core technology for new business"), development of automated machinery for rationalizing bridge slab construction (a "technology for improved productivity"), development of new-concept apartments that last longer (a "future technology") and a study on devising strategies for future underground spaces (part of the "planning and exploratory research" agenda).

A total of 23 construction methods developed at the Center are now in use at 105 construction sites worldwide, helping to further work efficiency. The Center has published 37 technical papers inside and outside Korea and 22 patents related to five new technologies have been either received or are pending.

To raise technology competitiveness, the Center formed a technology advisory panel of highly distinguished scholars specialized in civil engineering, architecture and environmental protection. Work progressed on the new research laboratory wing, and a technology-sharing agreement was signed with Kajima Construction of Japan. The Technology Information Management System was used more effectively and its functions were upgraded. A technology map was created to better assess technical levels within the company, while a worker rotation program was implemented to help cultivate well-rounded professionals.

2006 Outlook and Plans

Management has perceived the need to promote a better balance between corporate expansion and profitability.

Therefore, greater efforts will be made to raise added value and acquire state-of-the-art technologies to complement quantitative growth. To this end, the Technical Development Center will continue to step up its R&D activities and strive to transition from "cost center" to "profit center."

Technical exchanges will be promoted as part of the ongoing effort to acquire advanced technology. Center researchers will attend technology training courses at leading overseas companies; technology advisors and safety consultants will be engaged and joint research projects will be conducted. Research activities will be linked organizationally and electronically with the companywide Technology Information Management System. The construction of the new laboratory wing will be completed and the current R&D Center will be moved there. A new system will be developed for commercializing and expanding the practical applications of developed technologies. The effort to hire and train topnotch people will continue and accident prevention activities will be strengthened.

The Technical Research Center is creating a working environment that is warm and pleasant, and employees are provided with a generous compensation package. Constant efforts is made to predict the future direction of the construction industry, which will take into account expanded spheres of human activity that tie urban living and business together through advanced technologies. At the same time, the Center works to develop unique technologies that are both sophisticated and aesthetic.



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

1981

- Initial public offering issued

1983

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

1984

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

1989

- Lucky Development Inc. established in Saipan
- 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-Kee 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 into LG Construction Co., Ltd.
- Grand prize received as the Superior Company and the Best Apartment by Women Consumer Survey

2000

- Construction of the West Sea Grand Bridge completed

2001

- Best Corporate Governance Award received by the Korea Stock Exchange
- LG apartment chosen Hit Apartment Product in the 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
- Good Corporate 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

2005

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

Management's Discussion and Analysis

Construction Market

Construction Market in 2005

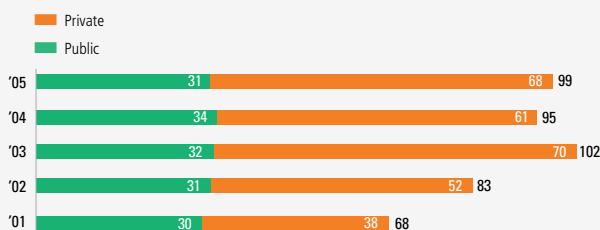
Construction market conditions in Korea were adversely affected by delayed economic recovery and a government crackdown on real estate speculation. The government's Building Construction Permit and the number of new construction orders issued are primary indicators of market activity. BCP in 2005 totaled 112 Mil. m², down 5.1% from the 117 Mil. m² registered for the year before. Within this figure, delayed economic recovery drove commercial-use BCP down 24.5% year on year to 23 Mil. m².

New orders were valued at over ₩99.38 trillion, up 5.1% from 2004. The proportion of public sector orders to private sector orders was 33:67.

Despite the small increase in new order value, the total figure includes many reconstruction and redevelopment projects. The amount of newly broken ground did not increase, and the construction industry as a whole contracted.

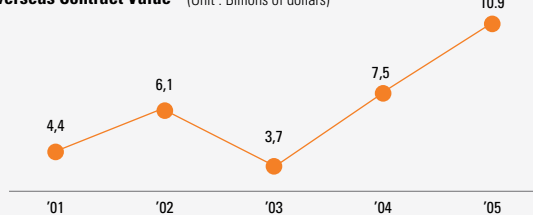
On the other hand, skyrocketing oil prices brought a surge in new construction orders outside Korea, particularly from Middle Eastern countries. Overseas orders rose 45%, from US\$750 billion in 2004 to over US\$1.08 trillion a year later.

Domestic Contract Value (Unit : Trillions of Won)



(Source: Ministry of Construction & Transportation)

Overseas Contract Value (Unit : Billions of dollars)



(Source: Ministry of Construction & Transportation)

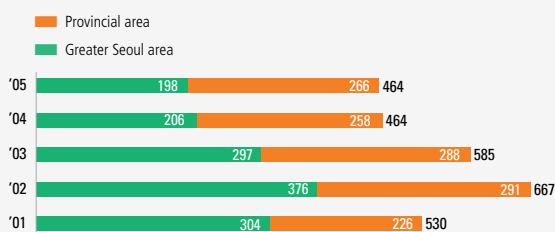
Housing Market in 2005

Housing prices had remained relatively stable since the end of 2003, but sharp rises occurred in 2005, led by apartment prices in southern Seoul, Bundang, and Yongin. In response, the Korean government announced a series of measures on August 31 to stable the housing prices through speculative demand suppression and restitution

of development gain. The announcement of the measures disrupted certain parts of the market and helped to stabilize prices somewhat. However, passage of the measures into law has been delayed and the market reaction was that such actions did not constitute fundamental reform. Subsequently, prices have begun to go back up, particularly for apartment reconstruction in Gangnam (southern Seoul).

During 2005, a total of 463,641 new residences (73% private sector and 27% public sector) were supplied, which did not meet the government target of 520,000 units. The rate of new residents supplied fell year on year in the Greater Seoul area but was up in the rest of the country. Noteworthy is the steady rise in portion of new units supplied by the nation's top construction companies from the increasing importance of apartment brand names.

Housing Supply (Unit : Thousand Houses)



Construction Market in 2006

No major changes are expected in the overall market in the coming year, and conflicting signals abound. The government budget for new infrastructure projects will be lower than it was in 2005, while tighter real estate regulations and higher taxes will also dampen market sentiment. On the other hand, the local government elections and increased public development projects should help to stimulate the market.

The proposed government budget will be 4% higher than in 2005 to surpass ₩27.46 trillion. Of this total, ₩8.3 trillion is earmarked for BTL and related projects.

The total construction orders issued in 2006 will reach ₩97 trillion, a 1.6% drop year on year reflecting curtailed activity in the housing sector.

In its 2006 forecast the Construction & Economy Research Institute of Korea says Building Construction Permit and new orders will rise only 0.9% from 2005. Such lackluster growth suggests that Korea's overall economic recovery will be delayed further, considering the linkage effects that the construction industry has on other sectors. However, the overseas construction market will continue to show robust growth and new orders received by Korean construction companies are forecast to be 20% higher than they were in 2005 to reach US\$13 billion.

Housing Market in 2006

Apartment prices are likely to fall somewhat as the government continues its market stabilization policy and adverse market sentiment. However, the range in which prices drop will be limited. Sales of new apartments are expected to be slow in the first half but then rebound in the second half.

Demand perpetually exceeds supply, and measures are now most urgently needed to address this imbalance over the mid-/long term. A look at housing related indicators starkly reveals the need for greater supply. The domestic housing availability rate still lags behind that in advanced countries: 249 units per 1,000 people in Korea (CERIK, 2005) as opposed to 399 in Japan, 417 in the UK, and 419 in the US.

The Korean government has announced a housing supply target of about 520,000 units in 2006, most of which are to come in redevelopment projects. Projects that have been delayed in Pangyo, Paju and other areas near the capital are forecasted to go forward in the coming year.

Summary of Operations

Highest New Orders and Sales in Korean Construction Industry

Economic growth was slow in Korea in 2005 and construction activities fell across the board. In the face of such adversity, GS E&C maintained a balanced portfolio (civil engineering, plants, environmental facilities, office buildings and housing) to surpass ₩8.2 trillion in new orders and exceed ₩5.6 trillion in sales. There were the highest figures for any Korean construction company during the year. Such performance was made possible by steady investment in and attention on developing new technology and improving order taking capabilities. The quantitative growth has put GS E&C on the top of the domestic construction industry.

Stable and Steady Growth in New Orders

New orders exceeded ₩8.2 trillion in 2005, which was more than ₩2 trillion higher than the ₩6.1 trillion total achieved in the previous year. This was accomplished while the volume of Korean government contracts dropped in 2005 and new apartment demand fell after a government crackdown on real estate speculation. Indeed, GS E&C won orders for noteworthy projects in many fields, demonstrating once again its potential for steady future growth.

Moreover, the company has focused on winning the more-lucrative turnkey projects rather than participating in projects that are awarded to the lowest bidder. As a result, nine turnkey projects were received in the civil engineering sector in 2005 as opposed to only four the year before. The company also garnered seven environment-related

turnkey projects in 2005, establishing a competitive edge in the field.

The target for new orders in 2006 has been set at ₩8.8 trillion. To achieve this goal, GS E&C aims to supply more apartments built on company-owned land as well as to secure more orders for plants and environmental facilities, orders from non group clients, turnkey projects and PFI projects.

An Abundance of Group Projects

GS E&C has maintained excellent relations with all the current and former LG companies since the split-up of the group. The company received ₩2 trillion in new group contracts in 2004 and ₩2.1 trillion more from the affiliates in the current GS, LG and LS Groups in 2005. The portion of the group sales in the overall portfolio has remained steady: 38% in 2004 and 39% in 2005.

One of the most important group projects is the massive investment being made by LG Philips LCD in Paju, Korea. The 7th-generation LCD production line has been almost completed and now an 8th-generation facility is under construction. Meanwhile, GS Caltex is planning a major investment and LG Electronics, LG Chemical and other group companies are expected to invest steadily in new facilities. Thus, GS E&C is confident of having a stable platform for growth from this group segment.

Growth from Overseas

The high oil prices in 2005 prompted oil producing nations to increase their investments in new facilities, and orders were up sharply worldwide. GS E&C benefited from the growing demand, winning ₩1.09 trillion worth of new projects outside Korea in 2005, which was 27% higher than the ₩860 billion figure posted in 2004. Importantly, GS E&C has extensive experience in building oil refineries, gas processing plants and petrochemical plants, which lowers the risk in new projects undertaken. The company has managed to secure some highly profitable contracts thanks to its improved design and estimation capabilities as well as to the improved business conditions in the Middle East. Plans call for increasing the company's share of the overseas gas plant projects.

PFI Project Competitiveness

Prospects for public contracts have not been bright of late. Order volume has decreased and competition over the remaining orders has intensified, prompting the government to reduce its project budget. To break away from this vicious cycle, GS E&C has been going after Privately-Funded Infrastructure projects. In-house funding of PFI projects is being stepped up to boost profitability and stimulate growth in the civil engineering sector.

Among the noteworthy accomplishments in 2005, GS E&C was selected to be the prime contractor for the Uijeongbu PFI light railway

Management's Discussion and Analysis (Continued)

and Pyeongtaek Port projects. The company is waiting for government approval on 8 PFI projects as of the end of 2005. The direction in which the company is going should pave the way for more light rail, port and subway projects. As the company leverages its technology to enter new business areas, the position and profitability of the Civil Engineering Business Division will be raised. The equity invested in previous PFI projects has been sold off, but the company will retain equity in projects with sufficient profitability and will generate additional revenue for operating PFI facilities.

Sales Revenues & Profits

Sales Revenues

The five main business divisions of GS E&C are Civil Engineering, Plant, Environment, Architecture and Housing, and their growth has been even across the board. Sales were robust in all five sectors, boosting total sales 39.1% from just under ₩4.05 trillion in 2004 to more than ₩5.63 trillion in 2005, the highest figure for the entire domestic construction industry.

Rapid progress on the TFT-LCD plant project in Paju, Korea helped to bring the group portion of total sales back to 39%, the same as in 2004. Overseas plant projects contributed the most to overall sales growth. The recent spike in oil prices has driven up new facility demand in oil producing countries, increasing the weight of overseas projects in the GS E&C sales portfolio from 10% in 2004 to 16% in 2005. Despite a difficult domestic market, meanwhile, sales growth was sustained in the housing sector, led by projects for developers. The company's industry-high sales demonstrate that the diversified portfolio provides stability.

Gross Profit

Gross profit for 2005 reached ₩680 billion, which was 38% higher than the ₩492 billion for 2004, despite increased competition and worsening business conditions. Gross margin was 12.1%, about the same as the 12.2% figure for the previous year. The gross margin for the Civil Engineering, Plant and Environment Business Divisions was higher year on year, while the profit margin was down slightly for the Architecture and Housing Business Divisions. The total construction cost breaks down as 59% for subcontractors, 27% for materials and 14% for land and other expenses. The proportions for 2005 do not differ greatly from the 59:24:17 cost configuration in 2004. This is due to the expansion of plant projects, which require a high percentage of materials.

Gross Profit (Unit : Billions of Won)



Operating Profit

Operating profit was ₩336 billion in 2005, a 46% increase over the year before. The operating profit margin improved from 5.7% to 6.0% during the period. This rise stemmed from a lower ratio of SG&A expenses to sales, even though the SG&A expenses were higher year on year. The portion of SG&A expenses in total costs fell from 6.5% in 2004 to 6.1% in 2005, part of a continuing downward trend since 2003, when SG&A expenses were 7.2%.

Important factors driving SG&A expenses are steady operational growth and greater payouts to advance the more lucrative business activities. Growth is accompanied by a larger workforce and higher wage expenses, while more must be spent on R&D and advertising as well. Technology development costs such as outsourced design services continue to escalate as part of activities to win the turnkey projects that elevate overall profitability. The company spent ₩91 billion on project development related expenses in 2005, which was 20% more than the ₩76 billion spent during 2004. A greater effort was made to raise competitiveness in turnkey projects. The new company name and aggressive "Xi" apartment brand promotion also boosted advertising by ₩18 billion from the previous year.

Operating Profit (Unit : Billions of Won)



Ordinary Profit

Ordinary profit rose 52%, from ₩242 billion in 2004 to ₩367 billion in 2005. The non-operating gain increased by ₩18 billion, from ₩13 billion to ₩31 billion. The 2005 non-operating income of ₩108 billion was ₩8 billion higher than in 2004, while the company posted non-operating losses of ₩77 billion in 2005, which was ₩10 billion lower than the year before.

A closer look will show several factors that have contributed to these changes. To begin with, ₩7 billion was recovered from the 2004 impairment loss from LG Card commercial paper and stocks upon their maturity (a partial debt-equity swap was conducted in 2005). Sale of the stocks brought an additional ₩15 billion, and another ₩12 billion was generated from the sale of tangible assets.

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 loss into a gain in 2004. An additional gain of ₩3 billion was realized in 2005 as the profitability of invested equity assets continued to rise.

Third, ongoing efforts to hedge against foreign exchange risk have included the use of foreign exchange rate risk insurance and forward transactions. The Exchange Rate Risk Management Committee, which was formed in 2004, has managed to minimize risk from exchange rate fluctuation, with an eventual goal of 100% hedge against exchange rate risk.

Ordinary Profit (Unit : Billions of Won)



Financial Position

Cash Flow

Cash and cash equivalents, which stood at ₩262 billion at the end of 2004, rose to ₩358 billion during the following year. Following is a description of changes in cash flow for each activity type:

First, operating cash flow increased by ₩73 billion in 2005 as a result of ₩265 billion in net income, an ₩80 billion increase in non-cash income and expenses, and a ₩272 billion cash outflow from changes in operating assets and liabilities.

Trade accounts and notes receivables were ₩359 billion higher at the end of 2005 than they were a year earlier, rising faster than the sales revenue growth rate. This was mainly due to increased sales from plant and housing projects. On the other hand, trade accounts and notes payable also increased by ₩96 billion.

Second, investment activities generated a cash inflow of ₩226 billion after the sale or maturity of LG Card shares and CPs, and the sale of LG EPS (formerly LG Energy) shares.

Third, cash flow from financing activities fell by ₩50 billion. The disposal of treasury stocks to pay bonuses resulted in a ₩2 billion cash inflow and sale of memberships to a Jeju Island resort resulted in a ₩26 billion increase in cash flow. Conversely, repayment of short-term borrowings generated a ₩15 billion cash outflow, and ₩62 billion was paid out in dividends.

Dividends and Investments

GS E&C paid ₩1,250 per share in dividends in 2004 and decided to pay ₩1,400 per share for 2005. Consequently, the total dividend payout increased from ₩62 billion to ₩70 billion.

After some profits were distributed in the form of dividends, the

company invests mainly in the promotion of the most lucrative business activities such as apartment complexes on company-owned land, PFI projects and development projects. This investment is aimed at further boosting corporate value in the future. The company invested ₩134 billion in such activities in 2005, which was 57% lower than the previous year's figure, but greater investment is planned for company-owned apartment construction and PFI projects in the future, including ₩255 billion for 2006.

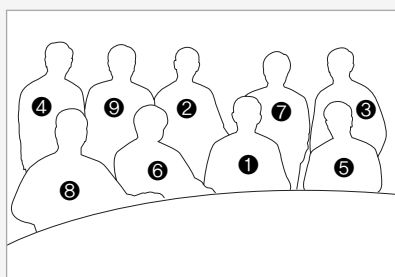
Borrowings

Total borrowings were ₩208 billion at the end of 2005, a ₩20 billion drop from a year earlier. Of this total, 70% (₩146 billion) is in short-term loans, including ₩144 billion in low-interest, trade-related loans such as the export financing provided by Korea Exim Bank and usance LCs. Long-term loans include ₩13 billion in borrowings from Korea Housing Guarantee Co. and ₩50 billion in corporate bonds that will mature in 2007.

Equity

The number of authorized stocks by the company stood at 200 million on December 31, 2005. All the issued shares, which number 51 million, are common stock; there are no preferred stocks, convertible bonds, or bonds with warrant. Chairman Chang-Soo Huh and other members of the Huh family hold 30.4% (15,496,248 shares) of the total shares issued. Another 2.2% (1,109,831 shares) of total shares are in the form of treasury stock or part of the employee stock sharing program. Foreign investors own 44.4% of the total shares.

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

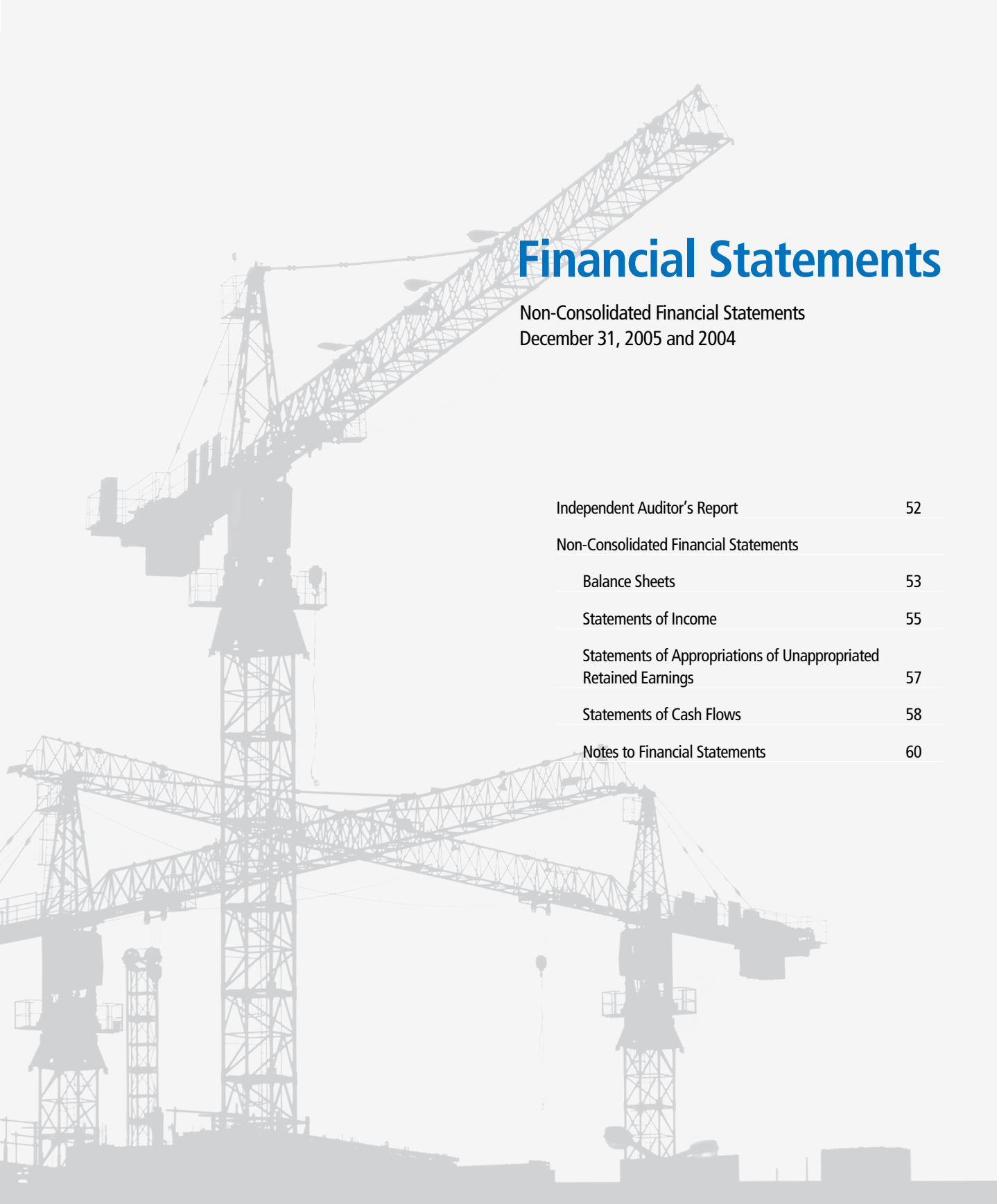
05_Kyung-Han Kim OUTSIDE DIRECTOR

06_Sang-Kee Min OUTSIDE DIRECTOR

07_Hak-Eun Lee OUTSIDE DIRECTOR

08_Chang-Se Lee OUTSIDE DIRECTOR

09_Chong-Won Ahn OUTSIDE DIRECTOR

The background of the page features a grayscale image of several large construction cranes at a site. The cranes are silhouetted against a light background, with their long jibs extending across the frame. The central crane is the most prominent, with its jib angled upwards and to the right. Other cranes are visible in the foreground and background, creating a sense of depth and industrial activity.

Financial Statements

Non-Consolidated Financial Statements
December 31, 2005 and 2004

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Independent Auditor's Report

Years ended December 31, 2005 and 2004

ERNST & YOUNG

ERNST & YOUNG HAN YOUNG

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

The Board of Directors and Stockholders GS Engineering & Construction Corporation

We have audited the accompanying non-consolidated balance sheet of GS Engineering & Construction Corporation (formerly LG Engineering & Construction Corporation, the "Company") as of December 31, 2005 and the related non-consolidated statements of income, appropriation of unappropriated retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended at December 31, 2004, presented for comparative purposes, were audited by other auditors, whose report dated January 28, 2005, expressed an unqualified opinion on those financial statements.

We conducted our audit 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 also 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 audit provides 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, 2005 and the result of its operations, appropriation of unappropriated retained earnings and cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw attention to the following:

As discussed in Note 6 to the accompanying non-consolidated financial statements on February 11, 2004, the Company acquired commercial papers of LG Card Co., Ltd. for ₩50,000 million which were issued during the course of the business normalization of LG Card Co., Ltd. On January 29, 2005, a portion of those commercial papers amounting to ₩12,707 were swapped for equity under the mutual agreement with the creditor banks and these swapped equity were later disposed off by the Company during the year ended December 31, 2005. The remaining commercial

papers of ₩37,293 million were fully redeemed at maturity date in December, 2005.

As discussed in Note 15 to the accompanying non-consolidated financial statements, the Company has significant transactions with its related parties in its normal course of business.

As discussed in Note 34 to the accompanying non-consolidated financial statements, the Company changed its name to GS Engineering & Construction Corporation from LG Engineering & Construction Corporation by virtue of a resolution of the ordinary shareholders' meeting held on March 18, 2005. The Company became an affiliate of the GS group of companies as of April 4, 2005, subject to the Limitation on Mutual Investment Rule set forth by the Fair Trade Commission.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those who are knowledgeable about Korean accounting principles and auditing standards and their application in practice.

January 27, 2006

Ernst & Young Han Young

This audit report is effective as of January 27, 2006, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying non-consolidated financial statements and may result in modifications to this report.

Non-Consolidated Balance Sheets

December 31, 2005 and 2004

Korean won in millions

ASSETS

Current assets

Cash and cash equivalents (Notes 2, 13, and 24)	₩ 357,680
Short-term financial instruments (Note 3)	3,646
Short-term investment securities (Notes 2 and 5)	3,087
Accounts and notes receivable less allowance for doubtful accounts of ₩41,469 in 2005 (₩37,064 in 2004) (Notes 2, 13, 15 and 20)	1,411,575
Short-term loans receivable less allowance for doubtful accounts of ₩23,243 in 2005 (₩15,588 in 2004) (Notes 2, 13 and 26)	90,571
Prepaid construction costs (Note 2)	94,639
Other accounts receivable less allowance for doubtful accounts of ₩1,573 in 2005 (₩1,126 in 2004) (Notes 2, 13 and 15)	71,202
Accrued income less allowance for doubtful accounts of ₩1,420 in 2005 (₩660 in 2004)	4,993
Advance payments less allowance for doubtful accounts of ₩9,504 in 2005 (₩9,021 in 2004) (Notes 2 and 15)	130,503
Prepaid expenses	21,386
Derivatives (Notes 2 and 27)	23,569
Current portion of deferred income tax assets (Notes 2 and 21)	12,379
Inventories (Notes 2, 5 and 10)	197,315
Total current assets	2,422,545

₩ 261,721	2004
4,377	
4,455	
1,094,948	
45,171	
37,448	
31,653	
2,995	
78,701	
15,671	
38,852	
—	
158,935	
1,774,927	

Property, plant and equipment (Notes 2, 8, 9, 10, 25 and 31):

Land	281,319
Golf Course	171,443
Standing timber	28,734
Buildings	337,796
Structures	106,212
Machinery	24,473
Construction equipment	11,739
Vehicles	18,042
Others	50,733
Construction-in-progress	7,359

246,611	
157,674	
25,792	
304,406	
97,357	
19,191	
11,034	
14,748	
69,573	
28,581	

Less accumulated depreciation	(120,297)
Less accumulated impairment losses	(12,600)
Property, plant and equipment, net	904,953

974,967	
(118,610)	
(12,600)	
843,757	

Other assets:

Long-term financial instruments (Note 3)	298
Long-term investment securities (Notes 2 and 6)	197,886
Equity method investment securities (Notes 2 and 7)	214,319
Long-term loans receivable less allowance for doubtful accounts of ₩4,925 in 2005 (₩3,325 in 2004) (Notes 2, 13 and 26)	6,323
Long-term trade accounts receivable less allowance for doubtful accounts of ₩894 in 2005 (nil in 2004) (Note 2)	13,752
Long-term guarantee deposits (Note 15)	57,476
Deferred income tax assets (Notes 2 and 21)	3,703
Intangible assets (Notes 2, 11 and 31)	4,582
Total other assets	498,339

27	
364,312	
205,020	
172	
—	
55,180	
53,917	
5,948	
684,576	

Total assets

₩ 3,825,837	₩ 3,303,260
-------------	-------------

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

Non-Consolidated Balance Sheets

December 31, 2005 and 2004

Korean won in millions

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Trade accounts and notes payable (Notes 13, 15 and 20)	
Short-term borrowings (Note 13)	
Other accounts payable (Notes 13 and 15)	
Other advances received	
Withholdings (Note 13)	
Guarantee deposits received	
Accrued expenses	
Income taxes payable (Notes 2 and 21)	
Dividends payable	
Current portion of long-term debts (Note 12)	
Derivatives (Notes 2 and 27)	
Unearned revenue	
Total current liabilities	

2005	2004
₩ 1,366,325	₩ 1,173,718
144,735	163,756
58,758	37,284
7,659	1,676
108,880	26,132
23,561	23,045
23,417	26,683
81,305	43,612
17	17
1,327	1,327
32,882	6,468
319	987
1,849,185	1,504,705

Long-term liabilities:

Bonds less discount ₩334 in 2005(₩542 in 2004) (Notes 2 and 12)	
Long-term debts (Note 12)	
Severance and retirement benefits net of transfers to the National Pension Fund and severance insurance deposits (Note 2)	
Leasehold guarantee deposits received (Note 15)	
Membership guarantee deposits received (Note 15)	
Provision for foreseeable losses from construction contracts (Notes 2 and 20)	
Provision for warranty (Note 2)	
Other long-term liabilities	
Total long-term liabilities	
Total liabilities	

49,666	49,458
11,940	13,267
56,988	49,014
83,479	88,457
292,857	266,502
995	2,270
28,923	31,262
966	940
525,814	501,170
2,374,999	2,005,875

Commitments and contingencies (Note 26)

Shareholders' equity:

Common stock, par value ₩5,000 (Korean won in units) (Note 16)	
Authorized - 200,000,000 shares in 2005 and 2004	
Issued - 51,000,000 shares in 2005 and 2004	
Outstanding - 49,890,169 shares in 2005 (49,822,386 shares in 2004)	

255,000	255,000
---------	---------

Capital surplus:

Paid-in capital in excess of par value	
Asset revaluation surplus (Note 18)	
Others	

109,735	109,735
75,192	75,192
18,864	16,306
203,791	201,233

Retained earnings:

Legal reserve (Note 19)	
Other reserves	
Unappropriated retained earnings	

35,339	29,111
554,659	469,843
266,561	154,745
856,559	653,699

Capital adjustments:

Treasury stock 1,109,831 shares in 2005(1,177,614 shares in 2004) (Note 17)	
Gain (Loss) on valuation of long-term investment securities (Notes 2 and 6)	
Gain on valuation of equity method investment securities (Notes 2 and 7)	
Loss on valuation of equity method investment securities (Notes 2 and 7)	
Overseas business translation debit (Note 2)	
Gain on valuation of derivative instruments (Notes 2 and 27)	

(11,088)	(10,251)
513	253
129,676	179,927
(237)	—
721	1,620
15,903	15,904
135,488	187,453
1,450,838	1,297,385

Total shareholders' equity

₩ 3,825,837	₩ 3,303,260
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Total liabilities and shareholders' equity

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

Non-Consolidated Statements of Income

Years ended December 31, 2005 and 2004

	Korean won in millions	
	2005	2004
Sales (Notes 2, 15, 20 and 31)		
Construction operations	₩ 5,542,382	₩ 3,889,153
Housing and lotting-out operations	31,737	87,632
Other operations	56,694	72,308
	5,630,813	4,049,093
Cost of sales (Notes 15 and 20)		
Construction operations	4,852,374	3,416,396
Housing and lotting-out operations	24,029	76,563
Other operations	74,418	63,889
	4,950,821	3,556,848
Gross profit	679,992	492,245
Selling and administrative expenses	344,414	263,123
Operating income (Note 31)	335,578	229,122
Other Income:		
Interest income	15,468	13,418
Dividend income	1,858	1,122
Gain on foreign currency transactions (Note 2)	18,596	12,325
Gain on foreign currency translation (Note 2)	6,426	13,993
Gain on equity method investment securities (Notes 2 and 7)	4,574	2,183
Gain on disposal of long-term investment securities	14,729	8,598
Reversal of impairment loss on long-term investment securities (Note 6)	7,459	—
Gain on disposal of property, plant and equipment	12,672	655
Reversal of allowance for doubtful accounts	—	5,230
Gain on derivatives transactions (Note 2)	5,018	3,979
Gain on derivatives valuation (Notes 2 and 28)	7,391	23,696
Others	14,124	14,825
	108,315	100,024
Other expense:		
Interest expense	9,171	6,352
Loss on foreign currency transactions (Note 2)	13,145	11,596
Loss on foreign currency translation (Note 2)	5,365	5,679
Donations (Note 28)	4,108	2,820
Loss on equity method investment securities (Notes 2 and 7)	1,874	—
Loss on disposal of long-term investment securities	1	23,494
Impairment loss on long-term investment securities (Notes 2 and 6)	532	14,212
Loss on disposal of property, plant and equipment	190	822
Additional payment of income taxes	—	11,800
Loss on disposal of trade accounts and notes receivable	933	2,004
Loss on derivatives transactions (Note 2)	15,772	716
Loss on derivatives valuation (Note 2 and 27)	24,279	6,468
Others	1,855	1,132
	77,225	87,095
Ordinary income	₩ 366,668	₩ 242,051

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

Non-Consolidated Statements of Income

Years ended December 31, 2005 and 2004

	Korean won in millions	
	2005	2004
Extraordinary loss		
Amortization of overseas business translation debit	₩ —	₩ (5,422)
Income before income taxes	366,668	236,629
Provision for income taxes (Note 21)	101,530	80,509
Net income	₩ 265,138	₩ 156,120
Earnings per share (Korean won in units) (Note 22):		
Ordinary income	₩ 5,317	₩ 3,211
Net income	₩ 5,317	₩ 3,134

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

Non-Consolidated Statements of Appropriations of Unappropriated Retained Earnings

Years ended December 31, 2005 and 2004

Korean won in millions

Unappropriated retained earnings before appropriations:

Unappropriated retained earnings carried forward from the prior year

Change in retained earnings under the equity method (Note 7)

Net income for the year

Transfer from other reserves:

Unappropriated retained earnings available for appropriations

Appropriations :

Legal reserve

Other reserves

Cash dividends (Note 23)

Unappropriated retained earnings carried forward to the next year

	2005	2004
	₩ 1,424	₩ 1,490
	—	(2,864)
	265,138	156,120
	266,562	154,746
	16,768	23,296
	283,330	178,042
	7,500	6,228
	204,514	108,112
	69,846	62,278
	281,860	176,618
	₩ 1,470	₩ 1,424

Non-Consolidated Statements of Cash Flows

Years ended December 31, 2005 and 2004

Korean won in millions

	2005	2004
	₩	₩
Operating activities :		
Net income	265,138	156,120
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for severance and retirement benefits	41,122	34,110
Depreciation	29,761	24,978
Bad debt expense	16,680	—
Provision for warranty	14,079	15,419
Amortization of intangible assets (included in other assets)	1,366	1,792
Amortization of discounts on debentures	209	397
Loss(gain) on disposal of long-term investment securities	(14,728)	14,908
Loss(gain) on disposal of property, plant and equipment, net	(12,482)	167
Gain on foreign currency translation, net	(2,488)	(8,422)
Gain on valuation of equity method investments	(2,700)	(2,183)
Impairment loss on long-term investment securities	532	14,212
Loss(gain) on derivatives valuation	16,888	(17,228)
Amortization of overseas business translation debit	—	5,422
Reversal of impairment losses of long-term investment securities	(7,459)	—
Reversal of allowance for doubtful accounts	—	(5,230)
Others, net	(916)	54
Changes in operating assets and liabilities		
Increase in trade accounts and notes receivable	(325,605)	(238,046)
Decrease(increase) in prepaid construction costs	(57,217)	10,928
Increase in other accounts receivable	(40,025)	(12,021)
Increase in accrued income	(2,758)	(266)
Increase in inventories	(71,853)	(38,687)
Increase in advance payments	(52,693)	(48,121)
Increase in prepaid expenses	(5,729)	(3,956)
Increase in current portion of deferred income tax assets	(12,379)	—
Decrease in deferred income tax assets	1,117	23,816
Increase in trade accounts and notes payable	195,290	304,222
Increase(decrease) in other accounts payable	21,502	(5,866)
Increase(decrease) in accrued expenses	(3,267)	10,143
Increase(decrease) in income taxes payable	37,438	(12,748)
Payment of accrued severance benefits	(21,189)	(18,813)
Decrease in provision for foreseeable losses from construction contracts	(1,275)	(515)
Decrease in provision for warranty	(15,922)	(11,130)
Others, net	82,531	37,114
Total adjustments	(192,170)	74,450
Net cash provided by operating activities	₩ 72,968	₩ 230,570

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

Non-Consolidated Statements of Cash Flows

Years ended December 31, 2005 and 2004

Korean won in millions

Investing activities :

Decrease(increase) in short-term financial instruments, net	₩ 713
Increase in long-term financial instruments, net	(271)
Disposal of investment securities	202,573
Decrease(increase) in short-term loans receivable, net	(53,490)
Decrease(increase) in long-term loans receivable, net	(7,838)
Disposal of property, plant and equipment	22,069
Acquisition of long-term investment securities	(19,155)
Acquisition of equity method investment securities	(1,690)
Payment of long-term guarantee deposits	(2,301)
Acquisition of property, plant and equipment	(67,190)
Acquisition of intangible assets	—
Net cash provided by (used in) investing activities	73,420

2005	2004
₩ 713	₩ (744)
(271)	—
202,573	76,002
(53,490)	2,477
(7,838)	933
22,069	2,039
(19,155)	(99,358)
(1,690)	(4,117)
(2,301)	(22,004)
(67,190)	(134,297)
—	(30)
73,420	(179,099)
1,966	1,768
—	162,861
—	49,357
26,355	91,159
(15,145)	—
(1,327)	(131,327)
(62,278)	(62,211)
(50,429)	111,607
95,959	163,078
261,721	98,643
₩ 357,680	₩ 261,721

Financing activities:

Disposal of treasury stock	1,966
Drawdown of short-term borrowings	—
Proceeds from Issuance of bonds	—
Increase in membership guarantee deposits received	26,355
Payment of short-term borrowings	(15,145)
Payment of current portion of long-term debt	(1,327)
Payment of dividends	(62,278)
Net cash provided by (used in) financing activities	(50,429)

Net increase in cash and cash equivalents

Cash and cash equivalents at the beginning of the year

Cash and cash equivalents at the end of the year

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

1. Organization and Business

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 with 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 Exchange (KRX). The Company changed its name to GS Engineering & Construction Corporation from LG Engineering & Construction Co., Ltd on March 18, 2005. The Company became an affiliate of GS group of companies as of April 4, 2005.

2. Summary of Significant Accounting Policies

The accompanying non-consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the Republic of Korea ("Korean GAAP"), Statements of Korea Accounting Standards ("SKAS") No. 1 through No. 10 and No.12 through No. 17. The Company's significant accounting policies are summarized below:

Basis of Financial Statement Preparation

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with Korean GAAP. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements.

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

Korean GAAP Revisions for 2005

The Korean Accounting Standards Board has issued new SKAS with the intention to revise Korean GAAP and disclosure rules to meet international practices. The revised accounting standards which are to be applied from the first fiscal year starting after December 31, 2004 include changes in the areas of equity method investments, income taxes, and provisions, contingent liabilities and contingent assets.

The Company adopted these new statements in its financial statements for the year ended December 31, 2005. Other than the effects arising from the adoption of SKAS No.15, "Equity method investment" and SKAS No. 16, "Income taxes" as discussed below, the adoption of these new statements did not have any material effect on the Company's financial statements for the year ended December 31, 2005.

In accordance with SKAS No. 15, "Equity method investments", the Company changed the presentation in the accounts of both gain or loss in share of investee's income or loss and increase or decrease in share of investee's capital adjustment accounts in its financial statements from net basis to gross basis. In addition, unrealized gains or losses arising from downstream transactions between the Company and the investee are eliminated only to the extent of the Company's interest in the investee while those were fully eliminated under the previous standard.

In accordance with SKAS No. 16, "Income taxes", the Company classified deferred income tax assets and liabilities into current assets and liabilities or non-current assets and liabilities based on the classification of those related assets and liabilities on the face of the balance sheet. In addition, the tax effects of changes in temporary differences are charged directly to equity if the tax relates to items that are credited or charged directly to equity.

The comparative 2004 non-consolidated financial statements were not restated according to the transitional provision on application of retrospective application for the above standards.

Allowance for Doubtful Accounts

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

Inventories

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

When the net realizable value of inventories is less than the acquisition cost, the carrying amount shall be reduced to the net realizable value and any difference is charged to cost of sales.

Financing costs 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 assets. Financing costs capitalized amounted to ₩1,189 million and ₩951 million for the years ended December 31, 2005 and 2004, respectively.

Securities

Debt and equity securities are initially stated at their acquisition costs (fair value of considerations paid) including incidental cost incurred in connection with acquisition of the related securities using the moving average method and divided into trading, available-for-sale and held-to-maturity securities depending on the holding purpose and ability. The following details the Company's accounting for securities except for the equity method investment securities accounted for using the equity method of accounting:

i) Trading Securities

Debt and equity securities bought and held for the purpose of selling them in the near term are classified as trading securities. Trading securities are recorded at their fair value and valuation gains or losses from trading securities are recorded in current earnings.

ii) Held-to-maturity Securities

Debt securities whose payment terms for principal and interest are fixed or determinable by a contract and for which the management has an intent and an ability to hold until maturity are classified as held-to-maturity securities in the long-term asset section. However, if the maturity of a held-to-maturity security is within one year from the balance sheet date, it is presented as a current asset.

Held-to-maturity securities are recorded at their amortized cost with the difference between the acquisition cost and the par value being amortized over the payment periods of the securities using the effective interest method. Such amortization is reflected in interest income.

When the amortized cost exceeds its net realizable value, an impairment loss in the amount of such excess is recognized in the current operations. If the value of impaired securities subsequently recovers and the recovery objectively relates to an event arising after the period when the impairment loss was recorded, such recovery is credited in the current operations up to the amortized cost, which would have been recorded if the impairment loss had not been recorded.

iii) Available-for-sale Securities

Debt and equity securities that do not fall under the classifications of trading or held-to-maturity securities are categorized as available-for-sale securities in the long-term asset section. However, if an available-for-sale security matures or it is certain to dispose of such security within one year from the balance sheet date, it is presented as a current asset.

Available-for-sale securities are recorded at fair value. However, available-for-sale equity securities, of which fair value cannot be reliably measured, are recorded at cost, and the fair value of available-for-sale debt securities without quoted market prices are estimated by discounting the expected future cash flows at an interest rate that commensurate with the credit rating published by independent credit rating institutions. Unrealized gains or losses from available-for-sale securities are recorded as capital adjustments and when the decline in fair value is not deemed recoverable, an impairment loss is recognized in the current operations. If the value of impaired securities subsequently recovers

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

and the recovery objectively relates to an event arising after the period when the impairment loss was recorded, such recovery is credited in the current operations up to the previously recorded impairment losses.

Equity Method Investment Securities

Investments in entities over which the Company has significant influence are accounted for using the equity method, whereby the Company's initial investments are recorded at acquisition cost and subsequently the carrying value is increased or decreased to reflect the Company's share of the investees' income or loss. If the increase or decrease is derived from changes in the investees' retained earnings, such changes are presented as an increase or decrease in the Company's retained earnings. If the increase or decrease is derived from the investees' changes in capital surplus or capital adjustments, then such changes are presented in the Company's capital adjustment account.

If the Company's share in the losses of the investee's equals or exceeds its interest in the investee's, it discontinues recognizing its share of further losses. However, if the Company has other long-term interests in the investees, it continues recognizing its share of further losses to the extent of the carrying amounts of such long-term interests.

The details of applying the equity method of accounting are as follows:

The difference between the cost of the investment and the Company's share of the net fair value of the investee arising from excess earning power in the future is amortized over rational period using the straight-line method and recognized to equity method investment securities.

Unrealized gains or losses arising from downstream transactions between the Company and the investees including sales of inventories and property, plant and equipment by the Company to the investees on the balance sheet date are eliminated to the extent of the Company's interest in the investees. However, if the investee is a subsidiary, the unrealized gains or losses arising from such transactions are fully eliminated.

For overseas affiliates whose financial statements are prepared in foreign currency, assets and liabilities are translated at the exchange rate on the balance sheet date, shareholders' equity is translated at the historical exchange rate, and statement of income items are recorded at the weighted average exchange rate for the reporting period. Net translation adjustments are recorded as a component of shareholders' equity.

For equity-method investees whose book closing has been completed but whose financial statements have not been audited, provisional financial statements are used in applying the equity method of accounting.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, except for assets revalued in accordance with the Korean Assets Revaluation Act.

Maintenance and repairs are expensed in the year in which they are incurred. Expenditures which result in the enhancement of the value of the facilities involved are capitalized as additions to property, plant and equipment.

Financing costs, including interest and foreign exchange gains or losses, incurred on debt used during the construction period of property and equipment are capitalized as part of the cost of related property and equipment. Such capitalized financing costs amounted to ₩961 million and ₩4,690 million for the years ended December 31, 2005 and 2004, respectively. As a result, net income for the years ended December 31, 2005 and 2004 increased by ₩695 million and ₩3,095 million, respectively, and retained earnings as of December 31, 2005 and 2004 increased by ₩695 million and ₩3,095 million, respectively, in comparison with the case where such financing costs were charged to the current operations.

Depreciation is computed using the straight-line method for buildings and structures and the declining-balance method for the other assets. Depreciation is provided over the following estimated useful lives:

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

Intangible Assets

Intangible assets are recorded at cost, net of accumulated amortization. Development costs resulting from development of new technologies are amortized using the straight-line method over 5 years, beginning in the year such technologies are adopted in the Company's construction activities. Lease rights are amortized over 20 years and goodwill are amortized over 5 years using the straight-line method.

Impairment of Assets

When the recoverable amount of an asset is less than its carrying amount, the decline in value, if material, is deducted from the carrying amount and recognized as an asset impairment loss in current operation.

Discount on Bonds

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

Severance and Retirement Benefits

In accordance with the Company's policy, all employees with more than one year of service are entitled to severance and retirement benefits at termination. In addition, in accordance with the National Pension Law of Korea, the Company transferred a portion of its severance and retirement benefits in cash to the National Pension Fund through March 1999, which is deducted from severance and retirement benefits.

The Company has insured a portion of its obligations for severance and retirement benefits by making deposits with LG Fire Insurance Co., Ltd. and these deposits, which will be directly paid to employees, are presented as deductions from severance and retirement benefits.

Actual payments of severance and retirement benefits amounted to ₩21,189 million and ₩18,813 million during the years ended December 31, 2005 and 2004, respectively.

Income Taxes

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

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the approximate exchange rate on the balance sheet dates, which were, for United States dollars, ₩1,013.00:US\$1 and ₩1,043.80:US\$1, for Japanese yen, ₩860.04:JPY100 and ₩1,012.07:JPY100, for European Union euro, ₩1,200.15:EUR1 and 1,422.96:EUR1, for Saudi Arabia riyal, ₩270.11:SAR1 and ₩278.34:SAR1, for Thailand baht, ₩24.7:THB1 and ₩26.79:THB1 as of December 31, 2005 and 2004, respectively and the resulting translation gains or losses arising from settlement of foreign currency translation of foreign current assets and liabilities are recognized in current operations.

Translation of Overseas Financial Statements stated in Foreign Currency

Financial statements of overseas business locations are maintained in the currencies of the countries in which they conduct their operations. In translating the foreign currency financial statements of these foreign business branches or offices into Korean won, assets and liabilities are translated at the current exchange rate on the balance sheet date and income and expenses are translated at the 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.

Derivative Financial Instruments

The Company records rights and obligations arising from derivative instruments as assets and liabilities, which are stated at fair value. The gains

Notes to Non-Consolidated Financial Statements

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and losses that result from the change in the fair value of derivative instruments are reported in current earnings.

However, for derivative instruments designated as hedging the exposure of variable cash flows, the effective portion of the gains or losses on the hedging instruments are recorded as a separate component of shareholders' equity and credited/charged to operations at the time the hedged transactions affect earnings, and the ineffective portion of the gains or losses is credited/charged immediately to operations.

Revenue Recognition for Construction Contracts

Revenue for construction contracts is recognized using the percentage-of-completion method, under which revenue is recognized as work progresses in the ratio of actual costs incurred to estimated total costs. Revenue, for which the Company constructs and sells real properties, is recognized using the percentage-of-completion method starting after the sales contracts are made.

The estimation of total construction cost is made on a systematic, reasonable and consistent basis and the Company reflects information newly obtained during the construction activities. Expected losses on contracts in progress are charged to current operations.

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.

Provision for Foreseeable Losses from Construction Contracts

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.

Provision for Warranty

The Company provides a provision for estimated warranty costs relating to construction defects during the warranty period. The provision is included in construction costs in the fiscal year of the contract's completion and reported as provision for warranty.

The provision for warranty on defects offset with the actual amount of rectification expense on defects incurred in subsequent periods. Any remaining balance of the provision shall be reversed in the fiscal year when the contractor's obligation on rectification warranty terminates in substance. The actual rectification expense incurred in excess of the provision for warranty on defects is accounted for as an expense of the current fiscal year.

Treasury Stock

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

Per Share Amounts

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year while basic ordinary earnings per share is computed by reversing the effect of extraordinary items (net of effect of income taxes), if any.

Use of Estimates

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

3. Restricted Deposits

Details of restricted deposits as collaterals with the Choheung Bank and others as of December 31, 2005 and 2004 are as follows (Korean won in millions):

Account	2005		2004	
Short-term financial instruments	₩	3,646	₩	4,377
Long-term financial instruments		298		27
	₩	3,944	₩	4,404

4. Inventories

Details of inventories as of December 31, 2005 and 2004 are as follows (Korean won in millions):

Account	2005		2004	
Completed buildings	₩	1,952	₩	9,699
Uncompleted buildings		27,538		29,263
Building lots		145,704		94,716
Raw materials and supplies		17,918		24,356
Materials-in-transit		1,987		315
Other		2,216		586
	₩	197,315	₩	158,935

5. Short-term Investments Securities

Details of short-term investments securities, representing held-to-maturity securities as of December 31, 2005 and 2004 are as follows (Korean won in millions):

<2005>

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

<2004>

Description	Acquisition cost		Recoverable value		Book value	
Government bonds and public bonds	₩	4,455	₩	4,455	₩	4,455

6. Long-term Investments Securities

(a) Details of long-term investments securities as of December 31, 2005 and 2004 are as follows (Korean won in millions):

Account	2005		2004	
Available-for-sale Securities	₩	169,081	₩	342,547
Held-to-maturity Securities		28,805		21,765
	₩	197,886	₩	364,312

Notes to Non-Consolidated Financial Statements

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(b) Details of available-for-sale securities as of December 31, 2005 and 2004 are as follows (Korean won in millions):

<2005>

	Number of shares	Percentage of ownership	Acquisition cost	Fair value	Book value	Unrealized holding gain(loss)	Impairment losses	
							Up to 2004	2005
<Non-listed>								
The Korea Economic Daily	646	0.01%	₩ 14	(*)	₩ 14	₩ -	₩ -	₩ -
Pusan Travel & Development Co., Ltd.	80,000	2.67%	400	(#)	-	-	(400)	-
Daegu West North Road Co., Ltd.	1,507	15.07%	8	(*)	8	-	-	-
Seoul Highway Co., Ltd.	24,840,000	27.00%	124,200	(*)	124,200	-	-	-
Kangnam Inter Circular Road Co., Ltd.	264,500	11.50%	1,323	(*)	1,323	-	-	-
Uijeongbu LRT Inc.	95,072	47.54%	475	(*)	475	-	-	-
GS Retail Co., Ltd.	270,106	1.75%	15,420	(*)	11,362	(19)	-	-
LGCNS Inc.	2,541,520	6.57%	2,557	(*)	2,564	-	-	-
Manwolsan Tunnel Co., Ltd.	1,005,000	15.00%	5,025	(*)	5,025	-	-	-
Public Development Co., Ltd.	394,655	17.09%	3,946	(*)	3,946	-	-	-
Potato Co. Ltd.	60,000	10.00%	300	(*)	300	-	-	-
International Convention Center Jeju	100,000	0.30%	500	(*)	500	-	-	-
Daum Direct Car insurance Inc.	620,000	8.27%	3,100	(*)	3,100	-	-	-
P.H KOREA	304	0.34%	61	(*)	61	-	-	-
Korea Housing Guarantee Co., Ltd.	1,038,490	0.16%	21,532	(#)	-	-	(21,532)	-
Major Development Inc.	298,500	19.90%	2,985	(*)	2,985	-	-	-
Engineering Financial Cooperative	1,449	0.30%	180	(*)	180	-	-	-
Korea Electric Engineers Association	200	0.16%	20	(*)	20	-	-	-
Electric Contractors' Fanatical Cooperative	600	0.02%	98	(*)	98	-	-	-
Korea Construction Financial Cooperative	12,801	0.34%	12,092	(*)	12,092	-	-	-
Information&Communication								
Financial Cooperative	440	0.06%	61	(*)	61	-	-	-
Treasury Stock Fund			1,500	(*)	4,773	155	-	-
Less:treasury stock			-	(*)	(4,006)	-	-	-
sub total			1,500	(*)	767	-	-	-
Others			2,444	(#)	-	-	(2,444)	-
Total			₩ 198,241	-	₩ 169,081	₩ 136	₩ (24,376)	₩ -

(*) The fair value of these available-for-sale securities could not be measured reliably and therefore, these securities were recorded at acquisition cost.

(#) The Company has recorded full impairment loss on these available-for-sale securities due to significant decline of fair value of the investments.

i) Among the Company's available-for-sale securities, shares of Manwolsan Tunnel Co., Ltd., Seoul Highway Co., Ltd. and Daegu West-North Road Co., Ltd. are pledged as collateral for borrowings or rights for commercial operations of tunnel or roads as of December 31, 2005.

ii) 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 which were issued in connection with the financial normalization of LG Card., Ltd. and recorded impairment loss on long-term investment securities amounting to ₩13,812 million for the year ended December 31, 2004. Under the mutual agreement with the bank creditors' committee, those commercial papers amounting to ₩12,707 million were swapped for equity on January 29, 2005. The Company then disposed off all of the swapped equity and recorded gain on disposal of long-term investment securities amounting to ₩8,888 million in current operation. The remaining commercial papers amounting to ₩37,293 million were fully redeemed at maturity date in December 2005.

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

<2004>

	Number of shares	Percentage of ownership	Acquisition cost	Book value	Fair value or Net asset value
<Non-listed equity>					
The Korea Economic Daily	1,292	0.01%	14	14	3
Pusan Travel & Development Co., Ltd.	80,000	2.67%	400	—	8
Daegu East Inter Circular Road Co., Ltd.	1,731,692	14.58%	8,658	8,658	7,097
Daegu West North Road Co., Ltd.	1,507	15.07%	8	8	8
Manwolsan Tunnel Co., Ltd.	1,005,000	15%	5,025	5,025	4,730
Korea Housing Guarantee Co., Ltd.	1,038,490	0.16%	21,532	—	2,212
LG Energy Co., Ltd.	3,551,700	14.99%	14,323	16,262	21,493
LG Mart Co., Ltd.	270,106	1.75%	15,420	11,363	8,534
LG CNS Inc.	2,541,520	6.57%	2,557	2,565	9,547
Potato Co. Ltd.	60,000	10%	300	300	277
International Convention Center Jeju	100,000	0.31%	500	500	432
Public Development Co., Ltd.	394,655	17.09%	3,947	3,947	3,927
EzVille Inc.	319,998	16%	1,600	1,600	995
Cheonan-Nonsan Highway Co., Ltd.	22,500,000	25%	112,500	112,500	112,500
Seoul Highway Co., Ltd.	24,840,000	27%	124,200	124,200	79,978
Kangnam Inter Circular Road Co., Ltd.	241,500	11.5%	1,208	1,208	946
Engineering Financial Cooperative	1,449	0.31%	180	180	193
Korea Electric Engineers Association	200	0.16%	20	20	25
Electric Contractors' Fanatical Cooperative	600	0.02%	98	98	152
Korea Construction Financial Cooperative	12,801	0.36%	12,092	12,092	15,445
Information&Communication Financial Cooperative	440	0.07%	61	61	103
Treasury Stock Fund			1,500	2,470	2,470
Less:treasury stock			—	(2,128)	(2,128)
subtotal			1,500	342	342
Others			7,860	5,416	4,779
Sub total of unlisted equity			₩ 334,003	₩ 306,359	₩ 273,726
Non-marketable debt securities:					
Commercial papers of LG card Co., Ltd.			50,000	36,188	36,188
Total			₩ 384,003	₩ 342,547	₩ 309,914

(c) Details of held-to-maturity securities consisting of government bonds and public bonds as of December 31, 2005 and 2004 are as follows (Korean won in millions):

Maturity	2005			2004		
	Acquisition cost	Recoverable value	Book value	Acquisition cost	Recoverable value	Book value
More than 1 yearto 5 years	₩ 23,392	₩ 23,392	₩ 23,392	₩ 17,067	₩ 17,067	₩ 17,067
More than 5 yearto 10 years	5,413	5,413	5,413	4,698	4,698	4,698
	₩ 28,805	₩ 28,805	₩ 28,805	₩ 21,765	₩ 21,765	₩ 21,765

Interest income earned from short-term investment securities and long-term investment securities amounted to ₩1,223 million and ₩1,294 million for the years ended December 31, 2005 and 2004, respectively.

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7. Equity Method Investment Securities

Details of equity method investment securities as of December 31, 2005 and 2004 are as follows:

(a) The percentage of ownership on investees and other information as of December 31, 2005 and 2004 are as follows (Korean won in millions):

<2005>

Investee	Number of shares	Ownership(%)	Acquisition cost	Net asset value	Book value
Han Moo Development Co., Ltd.	6,654,675	67.56%	₩ 85,861	₩ 227,760	₩ 173,026
Ladera Co., Ltd	365,528	65.52%	50,633	9,270	9,029
LG-HP Corp.	1	30.00%	2,196	857	—
LG Holdings(HK) Ltd.	35,000,000	25.00%	39,575	35,403	24,157
LG Construction(Arabia) Ltd.(*)	3,920	49.00%	874	54	—
LG Properties(S'PORE) Pte. Ltd	25,944,630	30.00%	18,466	863	245
With Service Inc.	96,000	100.00%	480	492	492
LUKINDO Inc.	550	100.00%	532	161	—
GS E&C Nanjing(*)	1	100.00%	3,452	3,180	3,180
GS E&C Italy S.R.L. (*)	300,000	100.00%	430	209	583
GS E&C Poland SP.ZO.O	50,000	100.00%	17	(3,745)	—
GS E&C Thai Co.,Ltd.	19,600	49.00%	50	50	50
Estec Inc.	20,000	100.00%	100	97	97
EzVille Inc.	639,998	32.00%	3,460	2,105	3,460
Total			₩ 206,126	₩ 276,756	₩ 214,319

(*) The investees changed their names following the change of name of the Company during 2005.

<2004>

Investee	Number of shares	Ownership(%)	Acquisition cost	Net asset value	Book value
Han Moo Development Co., Ltd.	6,654,675	67.56%	₩ 85,861	₩ 225,187	₩ 168,672
Ladera Co., Ltd	365,528	65.52%	50,633	9,507	9,507
LG-HP Corp.	1	30.00%	2,196	919	—
LG Holdings(HK) Ltd.	35,000,000	25.00%	39,575	26,073	26,471
LG Construction(Arabia) Ltd.	3,920	49.00%	874	—	—
LG Properties(S'PORE) Pte. Ltd	25,944,630	30.00%	18,466	863	370
Total			₩ 197,605	₩ 262,549	₩ 205,020

(b) Summary of investees' financial information as of December 31, 2005 and 2004 and for the years then ended are as follows (Korean won in millions):

<2005>

Investees(*)	Assets	Liabilities	Sales	Net Income(loss)
Han Moo Development Co., Ltd.	₩ 742,175	₩ 405,738	₩ 170,640	₩ 2,949
Ladera Co., Ltd	29,111	14,963	5,357	(280)
LG-HP Corp.	8,801	5,945	2,339	499
LG Holdings(HK) Ltd.	205,321	63,707	—	(17)
LG Properties(S'PORE) Pte. Ltd	73,144	50,592	—	(382)
With Service Inc.	1,517	1,025	4,431	12
GS E&C Nanjing	12,516	9,335	39,946	152
GS E&C ITALY S.R.L	22,353	22,144	102,570	155
GS E&C POLAND SP.ZO.O	1,718	5,433	17,013	(3,803)
GS E&C Thai Co.,Ltd.	50	—	—	—
Estec Inc.	190	93	754	(3)
EzVille Inc.	₩ 12,856	₩ 6,729	₩ 16,592	₩ 103

(*) Investees in which equity method accounting method have been discontinued are not presented

<2004>

Investees(*)	Assets	Liabilities	Sales	Net Income(loss)
Han Moo Development Co., Ltd.	₩ 748,408	₩ 414,920	₩ 170,602	₩ 3,224
Ladera Co., Ltd	31,365	15,667	5,845	(683)
LG Holdings(HK) Ltd.	210,340	65,225	—	(22)
LG Properties(S'PORE) Pte. Ltd	₩ 73,144	₩ 50,592	₩ —	₩ (383)

(c) Details of adjustment on an investee's net asset value as of December 31, 2005 and 2004 are as follows (Korean won in millions):

<2005>

Investee	Financial Statements date	Net assets value before adjustment	Adjustment	Net assets value after adjustment	The Company's proportionate ownership
LG Holdings(HK) Ltd.	2005.12.31	₩ 141,614	₩ (42,515)	₩ 99,099	₩ 24,775

<2004>

Investee	Financial Statements date	Net assets value before adjustment	Adjustment	Net assets value after adjustment	The Company's proportionate ownership
LG Holdings(HK) Ltd.	2004.12.31	₩ 145,936	₩ (41,643)	₩ 104,293	₩ 26,073

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

(d) The accumulated unamortized differences between the purchase price and the underlying proportionate net book value of an investee, along with changes in such amounts, for the years ended December 31, 2005 and 2004 are as follows (Korean won in millions):

<2005>

Investee	Beginning balance	Increase	Amortization	Ending balance
Han Moo Development Co., Ltd.	₩ 33,245	₩ —	₩ (1,536)	₩ 31,709

<2004>

Investee	Beginning balance	Increase	Amortization	Ending balance
Han Moo Development Co., Ltd.	₩ 34,781	₩ —	₩ (1,536)	₩ 33,245

(e) Details of the elimination of unrealized gains or losses from inter-company transactions for the years ended December 31, 2005 and 2004, are as follows (Korean won in millions):

Investee	2005	2004
Han Moo Development Co., Ltd.	₩ 22,563	₩ 23,284
LG Holdings(HK) Ltd.	618	(398)
	₩ 23,181	₩ 22,886

Notes to Non-Consolidated Financial Statements

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(f) Details of valuation of each equity method investment securities for the years ended December 31, 2005 and 2004 are as follows (Korean won in millions):

<2005>

Investee	Beginning balance	Acquisition	Share of investee's income(loss)	Decrease in share of investee's capital adjustments	Others	Ending balance
Han Moo Development Co., Ltd.	₩ 168,672	₩ —	₩ 4,354	₩ —	₩ —	₩ 173,026
Ladera Co., Ltd	9,507	—	(203)	(275)	—	9,029
LG-HP Corp.	—	—	—	—	—	—
LG Holdings(HK) Ltd.	26,471	—	(1,550)	(764)	—	24,157
LG Construction(Arabia) Ltd.	—	—	—	—	—	—
LG Properties(S'PORE) Pte. Ltd	370	—	(101)	(24)	—	245
With Service Inc.	—	480	12	—	—	492
LUKINDO Inc.	—	532	—	—	(532)	—
GS E&C Nanjing(*)	—	3,452	53	(325)	—	3,180
GS E&C ITALY S.R.L (*)	—	430	155	(2)	—	583
GS E&C POLAND SP.ZO.O	—	17	(17)	—	—	—
GS E&C Thai Co.,Ltd.	—	50	—	—	—	50
EzVille Inc.	—	3,460	—	—	—	3,460
Estec Inc.	—	100	(3)	—	—	97
Total	₩ 205,020	₩ 8,521	₩ 2,700	₩ (1,390)	₩ (532)	₩ 214,319

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

- Obtained the representation from chief executive officer and the internal auditors of the investee by affixing their signatures on the unaudited financial statements;
- Read the unaudited financial statements to understand whether significant transactions or events that may have material accounting implications, either publicly announced or otherwise, are properly reflected;
- Inquired about significant issues raised by the investees' auditors relating to the year end closing; and
- Analyzed other potential adjustments, which could be made to the provisional financial statements

The Company discontinued equity method accounting for GS Construction (Arabia) Ltd. and LG-HP Corp. as their book value has been recorded to below zero as of December 31, 2005 and 2004.

<2004>

Investee	Beginning balance	Acquisition/ substitution	Share of investee's income(loss)	Decrease in share of investee's retained earnings	Increase(decrease) in share of investee's 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	(364)	—	(2,874)	26,471
LG Properties(S'PORE) Pte. Ltd	—	4,117	(115)	(3,951)	319	370
Total	₩ 194,985	₩ 15,787	₩ 2,182	₩ (3,951)	₩ (3,983)	₩ 205,020

(g) Details of changes in share of investees' capital adjustments for the years ended December 31, 2005 and 2004, are as follows (Korean won in millions):

Investee	2005			2004		
	Beginning balance	Decrease	Ending balance	Beginning balance	Increase/Decrease	Ending balance
Han Moo Development Co., Ltd.	₩ 160,703	₩ –	₩ 160,703	₩ 160,703	₩ –	₩ 160,703
Ladera Co., Ltd.	12,250	(275)	11,975	13,678	(1,428)	12,250
LG Holdings(HK) Ltd.	6,655	(764)	5,891	9,529	(2,874)	6,655
LG Properties(S'PORE) Pte. Ltd.	319	(24)	295	–	319	319
GS E&C Nanjing Ltd.	–	(325)	(325)	–	–	–
GS E&C ITALY S.R.L.	–	(2)	(2)	–	–	–
Totals	₩ 179,927	₩ (1,390)	₩ 178,537	₩ 183,910	₩ (3,983)	₩ 179,927

(h) Details of accumulated amount of unrecorded losses of investee due to discontinuation of equity method accounting for the years ended December 31, 2005 and 2004 are as follows (Korean won in millions):

Investee	2005	2004
GS Construction(Arabia) Ltd.	₩ 196	₩ 196
GS E&C Poland SP.ZO.O	3,786	–
Total	₩ 3,982	₩ 196

8. Government Posted Value of Land Owned

The value of land owned publicly posted by the Korean government for tax purposes as of December 31, 2005 and 2004 are as follows:

<2005>

Account	Standard Value		Book Value	
	2005	2004	2005	2004
Land	₩ 298,253	₩ 235,202	₩ 281,319	₩ 246,611

9. Property, Plant and Equipment

Changes in net property, plant and equipment for the years ended December 31, 2005 and 2004, are as follows (Korean won in millions):

<2005>

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

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

<2004>

Description	Beginning balance	Acquisition/ capitalized	Disposal	Depreciation	Overseas business translation debit	Ending balance
Land	₩ 219,114	₩ 27,687	₩ 190	₩ —	₩ —	₩ 246,611
Golf Course	106,391	51,283	—	—	—	157,674
Standing timber	12,730	13,061	—	—	—	25,791
Buildings	210,749	59,144	78	6,231	—	263,584
Structures	49,146	43,956	468	1,600	—	91,034
Machinery and equipment	10,835	1,525	1,400	4,182	(165)	6,613
Vehicles	5,239	4,585	23	3,930	(8)	5,863
Tools and fixtures	10,741	15,138	39	8,595	(6)	17,239
Construction-in-progress	83,499	115,393	170,311	—	—	28,581
Others	907	300	—	440	—	767
Total	₩ 709,351	₩ 332,072	₩ 172,509	₩ 24,978	₩ (179)	₩ 843,757

A substantial portion of the Company's property, plant and equipment as of December 31, 2005 and 2004 have been pledged for tenant deposits up to the maximum of ₩34,162 million and ₩35,482 million, respectively.

10. Capitalized Financing Costs

The Company capitalized certain financing costs of ₩2,150 million (2004: ₩5,641 million) as part of the cost of the related property, equipment and inventories. Such capitalized financing costs have the following effects on the Company's financial statements as of December 31, 2005 and 2004 and for the years then ended (Korean won in millions):

	2005	2004
<Balance sheet>		
Increase in inventories	₩ 1,189	₩ 951
Increase in property, plant and equipment	961	4,690
<statement of income>		
Decrease in interest expense	2,150	5,641
Increase in net income	₩ 1,555	₩ 3,723

11. Intangible Assets

(a) Intangible assets as of December 31, 2005 and 2004 are as follows (Korean won in millions):

<2005>

Description	At cost	Accumulated depreciation	Accumulated impairment loss	Book value
Right for lease operations	₩ 6,550	₩ 2,402	₩ —	₩ 4,148
Development costs	3,253	2,819	—	434
Total	₩ 9,803	₩ 5,221	₩ —	₩ 4,582

<2004>

Description	At cost	Accumulated depreciation	Accumulated impairment loss	Book value
Goodwill	₩ 3,883	₩ 3,495	₩ —	₩ 388
Right for lease operations	6,550	2,074	—	4,476
Development costs	3,253	2,169	—	1,084
Total	₩ 13,686	₩ 7,738	₩ —	₩ 5,948

(b) Changes in intangible assets for the years ended December 31, 2005 and 2004 are as follows (Korean won in millions):

<2005>

Description	Beginning of period	Acquisition	Amortization(*)	End of period
Goodwill	₩ 388	₩ —	₩ 388	₩ —
Right for lease operations	4,476	—	328	4,148
Development costs	1,084	—	650	434
Total	₩ 5,948	₩ —	₩ 1,366	₩ 4,582

<2004>

Description	Beginning of period	Acquisition	Amortization(*)	End of period
Goodwill	₩ 1,164	₩ —	₩ 776	₩ 388
Right for lease operations	4,803	—	327	4,476
Development costs	1,771	30	717	1,084
Total	₩ 7,738	₩ 30	₩ 1,820	₩ 5,948

(*) Amortization includes transferred cost into development cost.

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

Description	Amount	Remaining estimated useful lives	Remarks
Right for lease operations	₩ 4,148	13 years	Dormitory Kyunghee University
Development costs	434	4	Development of new technologies

12. Long-Term Debt and Bonds

Long-term debt and bonds as of December 31, 2005 and 2004, are as follows (Korean won in millions):

(a) Long-term debt

Lender	Interest Rate(%)	2005	2004
Korea Housing Guarantee Co., Ltd.	1.0	₩ 13,267	₩ 14,593
Less : current portion		(1,327)	(1,326)
		₩ 11,940	₩ 13,267

(b) Bonds (non-guaranteed debentures)

Issue date	Maturity date	Interest Rate(%)	2005	2004
2004-07	2007-07	4.5	₩ 50,000	₩ 50,000
Less : current portion			—	—
Discount on debentures issued			(334)	(542)
			₩ 49,666	₩ 49,458

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

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

(c) The annual maturities of long-term debt and bonds as of December 31, 2005, are as follows (Korean won in millions):

	Long-term borrowings		Bonds	
2006	₩	1,327	₩	—
2007		1,327		50,000
2008		1,327		—
2009		1,327		—
2010 and thereafter		7,959		—
	₩	13,267	₩	50,000

13. Assets and Liabilities denominated in Foreign Currencies

Details of assets and liabilities denominated in foreign currencies as of December 31, 2005 and 2004 are as follows (Korean won in millions):

Account	2005		2004	
	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent
Cash and Cash	USD 8,681,329	8,794	USD 2,274,825	2,375
Equivalents	JPY 887,661,974	7,634	JPY 168,072,169	1,701
	THB 11,000	—	THB —	—
Account	USD 130,038,120	131,729	USD 27,040,623	28,225
Receivable-	SAR 1,207,710	326	SAR 1,207,710	336
Construction	LRK —	—	LRK 591,542	6
	JPY —	—	JPY 11,400,000	115
Short-term loans receivables	USD 14,115,367	14,299	USD 14,115,367	14,734
Receivables	USD 515,974	523	USD 790,807	825
Long-term loans receivables	USD 2,825,000	2,862	USD 3,185,000	3,325
Asset total		166,167		51,642
	USD 34,672,313	35,123	USD 15,474,141	16,152
	SGD 149,259	91	SGD 13,073	8
	OMR 8,300	22	SAR 72,340	20
Trade accounts and notes payable	JPY 915,712,055	7,875	JPY 1,084,189,300	10,973
	EUR 2,935,217	3,523	EUR 3,194,696	4,546
	CHF 127,000	98	CHF 127,000	117
	GBP 82,126	143	GBP 1,831	4
Short-term borrowings	USD 129,345,676	131,027	USD 144,917,897	151,265
	JPY 648,115,050	5,574	JPY —	—
	EUR 6,777,502	8,134	EUR 103,128	147
Other accounts payable	USD 632,006	640	USD 172,492	180
	EUR —	—	THB 321,487	9
Other advances received	USD 64,958,138	65,803	USD 301,920	315
	EUR 54,931	66	EUR 54,931	78
	GBP —	—	GBP 1,873	4
Liabilities total		258,119		183,818

14. Financial Position of Overseas Operations

Summary of the Company's overseas operations as of December 31, 2005 and 2004 are as follows (Korean won in millions):

	2005	2004
Current assets	₩ 64,123	₩ 98,890
Non-current assets	1,855	1,106
Current liabilities	112,894	84,672
Non-current liabilities	55	336

15. Related Party Transactions

Significant transactions which occurred in the ordinary course of business with related companies for the year ended December 31, 2005 are summarized as follows (Korean won in millions):

(a) Transactions

Related Party(*)	Sales and others	Purchase and others
GS Neotek Co., Ltd.	₩ —	₩ 130,735
GS Caltex Co., Ltd.	115,399	7,408
Cosmo Chemical Co., Ltd.	—	25,503
Seung San Leisure Co., Ltd.	12,927	9
GS Holdings Co., Ltd.	28,688	1,885
Others	23,691	31,558
Total	₩ 180,705	₩ 197,098

(*)The Company became an affiliate of the GS group of companies as of April 4, 2005, subject to the Limitation on Mutual Investment Rule set forth by the Fair Trade Commission. As a result, the Company's related parties have been changed therefrom.

(b) Account Balances

Related Party(*)	Accounts and notes receivable	Trade accounts and notes payable
GS Holdings Co., Ltd.	₩ 1,926	₩ 954
GS Neotek Co., Ltd.	1,002	15,678
GS Retail Co., Ltd.	3,446	51,264
Seung San Leisure Co., Ltd.	3,930	—
GS Caltex Co., Ltd.	50,500	12,955
Others	2,700	5,609
Total	₩ 63,504	₩ 86,460

(c) Guarantees to Related Parties

Related Party(*)	Financial institution	Description	Guarantee Date	Expiry Date	Amount
Ladera Co., Ltd.	Kook-min bank	Term loan	05-09-16	06-09-15	USD 14,000,000
LG Holdings(HK) Ltd.	The Exim Bank of Korea	Term loan	03-06-03	07-06-02	USD 20,000,000
GS E&C Italy S.R.L.	Banca Nazion-ale Del Lavora	Over draft	04-08-15	Until further notice	EUR 300,000
	Banca Nazion-ale Del Lavora	Credit facility	05-01-12	Until further notice	EUR 3,000,000

(d) As of December 31, 2005 and 2004, there are no guarantees provided to the Company by any subsidiaries or related parties.

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

16. Capital Stock

There is no change in capital stock for the year ended December 31, 2005. Details of capital stock as of December 31, 2005 are as follows:

(a) Numbers of shares of common stock authorized: 200,000,000 shares

(b) Par value per share: ₩5,000

(c) Number of shares issued: 51,000,000 shares

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

17. Treasury Stock

To stabilize share prices in the KRX, the Company acquired 1,109,831 shares of its issued common stock carried at ₩11,088 million by treasury stock fund and specified money trust, and recorded the treasury stock as a capital adjustment account in the shareholders' equity as of December 31, 2005.

18. Asset Revaluation Surplus

In accordance with the Korean Assets Revaluation Act, the Company revalued certain of its property and equipment as of July 1, 1998, resulting in gain on revaluation of ₩34,287 million and ₩33,833 million was transferred to revaluation surplus, net of revaluation tax. The total balance of revaluation surplus amounting ₩75,192 million as of December 31, 2005 and 2004 includes revaluation surplus carried forward from revaluation carried out prior to 1998. The asset revaluation surplus may not be available for cash dividends but may be used to offset a future deficit, if any, or may be transferred to capital stock.

19. Legal Reserve

The Regulation for Financial Management of Listed Companies in Korea requires that at least 10% (or 5%) of net income (net of accumulated deficit, if any), and 50% of net gain (net of related taxes, if any) on the disposal of property and equipment be appropriated as a reserve for improvement of financial structure until the ratio of shareholders' equity to total assets reaches 30%. The reserve may not be utilized for cash dividends, but may be used to offset a future deficit, if any, or may be transferred to capital stock.

20. Construction Contracts

(a) Cumulative construction revenue, cost and profit

Details of cumulative construction revenue, cost and profit of constructions in- progress as of December 31, 2005 are as follows (Korean won in millions):

Activity	Work type	Cumulative construction revenue		Cumulative construction cost		Cumulative construction profit	
Construction operations	Architectural work	₩	4,645,325	₩	4,071,538	₩	573,787
	Civil work		2,379,172		2,028,138		351,034
	Housing work		2,588,027		2,302,793		285,234
	Plants work		2,957,747		2,811,392		146,355
	Environment work		786,396		667,523		118,873
Lotting-out work			41,979		31,900		10,079
Total		₩	13,398,646	₩	11,913,284	₩	1,485,362

Foreseeable losses arising from construction in-progress that are likely to be incurred at the completion of construction as of December 31, 2005 amounting to ₩995 million were recorded as provision for foreseeable losses from construction contracts.

(b) Balance of cumulative construction contract as of December 31, 2005 and 2004 are as follows (Korean won in millions):

<2005>

Project	Beginning balance	New construction contract	Realized revenue	Ending balance
LG Philips LCD P7 Project	₩ 658,902	₩ 389,800	₩ 923,962	₩ 124,740
LCD P7 Environment Equipment Construction	229,089	52,450	187,817	93,722
Seoul Outer Circular Highway 4th Stage	208,444	11,592	69,957	150,079
Dangjin-Daejeon Highway 4th Stage	113,957	(494)	29,865	83,598
Mokpo National Road (Koha-Jukyo)	89,336	6,574	401	95,509
Jamsil 4th Reconstruction	153,769	—	66,241	87,528
Metro Xi	151,462	—	73,923	77,539
SP 9-10 Project1(*)	570,358	(16,295)	144,805	409,258
QP LAB Project(*)	195,475	(3,208)	167,074	25,193
Others	5,761,628	4,678,383	3,878,337	6,561,674
Total	₩ 8,132,420	₩ 5,118,802	₩ 5,542,382	₩ 7,708,840

<2004>

Project	Beginning balance	New construction contract	Realized revenue	Ending balance
LG Philips LCD P7 Project	₩ —	₩ 957,800	₩ 298,898	₩ 658,902
LCD P7 Environment Equipment Construction	—	260,150	31,061	229,089
Seoul Outer Circular Highway 4th Stage	256,620	22,860	71,036	208,444
Dangjin-Daejeon Highway 4th Stage	123,029	6,271	15,343	113,957
Mokpo National Road (Koha-Jukyo)	—	98,759	9,423	89,336
Jamsil 4th Reconstruction	—	195,350	41,581	153,769
Metro Xi	—	176,749	25,287	151,462
Incheon Production Base 4th Expansion	—	104,443	5,568	98,875
SP 9-10 Project1(*)	695,978	(89,687)	35,933	570,358
QP LAB Project(*)	—	244,019	48,544	195,475
Others	5,279,150	3,690,083	3,306,480	5,662,753
Total	₩ 6,354,777	₩ 5,666,797	₩ 3,889,154	₩ 8,132,420

(*) Changes in value are due to differences from foreign currency exchange rates.

(c) Balance of major construction contracts in-progress as of December 31, 2005 and 2004 are as follows (Korean won in millions):

<2005>

Project	Cumulative revenue realized	Cumulative billed amount	Cumulative collection amount	Accounts and notes receivable			Other advance receipts
				Billed	Non-billed	Total	
LG Philips LCD P7 Project	₩ 1,222,859	₩ 1,301,030	₩ 1,265,049	₩ —	₩ —	₩ —	₩ 42,190
LCD P7 Environment Equipment construction	218,879	262,956	252,792	—	—	—	33,913
Seoul Outer Circular Highway 4th Stage	218,969	269,540	262,795	—	—	—	43,826
Dangjin-Daejeon Highway 4th Stage	74,477	68,612	67,987	624	5,865	6,489	—
Mokpo National Road (Koha-Jukyo)	9,824	1,336	1,336	—	8,488	8,488	—
Jamsil 4th Reconstruction	107,822	131,103	131,103	—	—	—	23,281
Metro Xi	99,210	66,260	66,260	—	32,950	32,950	—
SP 9-10 Project1	203,994	167,294	167,294	—	36,699	36,699	—
QP LAB Project	215,619	186,097	136,374	49,723	29,522	79,245	—

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<2004>

Project	Cumulative revenue realized	Billed amount In 2004	Cumulative billed amount	Cumulative collection amount	Accounts and notes receivable
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	—
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 Project1	59,189	32,468	32,468	29,151	3,317
QP LAB Project	48,544	68,571	68,571	60,618	7,953

Total billed amount of construction contracts for the year ended December 31, 2005 is ₩6,056,668 million (2004: ₩3,976,527 million) and total collected amount of construction contracts for the year ended December 31, 2005 is ₩5,696,580 million (2004: ₩3,943,652 million).

(d) Details of jointly-managed construction contracts in-progress as of December 31, 2005 and 2004 are as follows (Korean won in millions):

<2005>

Project	Period of construction	customer	Share of contract size (amount)	Share of contract size (%)	Remarks
Seoul Outer Circular Highway 4th Stage	2001.06.30 ~ 2008.06.29	Seoul Highway Co., Ltd.	₩ 369,049	24.00%	(a)
Jamsil 4th Reconstruction	2003.10.01 ~ 2007.02.28	Jamsil 4th Apt. Reconstruction Association	195,350	50.00%	(a)
The City Seven Xi	2005.05.01 ~ 2008.12.31	Dosisaram Co.,Ltd	193,229	50.00%	(a)
Jamsil 3th Reconstruction	2004.05.01 ~ 2007.08.30	Jamsil 3th APT. Reconstruction Association	160,015	33.33%	(a)
Dangjin-Daejeon Highway 4th Stage	2001.12.24 ~ 2006.02.05	Korea Highway Corporation	158,075	90.00%	(a)
Dangjin-Daejeon Highway 7th Stage	2001.12.24 ~ 2006.02.05	Korea Highway Corporation	141,283	90.00%	(a)
Dangjin-Daejeon Highway 5th Stage	2001.12.24 ~ 2006.02.05	Korea Highway Corporation	139,264	90.00%	(a)
Hyunpung-Kimcheon Construction 1st Stage	2001.12.28 ~ 2006.02.09	Korea Highway Corporation	116,176	90.00%	(a)
Dangjin-Daejeon Highway 6th Stage	2001.12.24 ~ 2006.02.05	Korea Highway Corporation	110,219	90.00%	(a)
Incheon Grand Bridge	2005.06.16 ~ 2009.10.10	KODA Development Co.,Ltd	109,545	10.00%	(b)
Shinwolsung Atomic Power Plant main Facility No.1 and 2	2003.07.01 ~ 2010.09.30	Korea Hydro & Nuclear Power Co., Ltd	107,622	13.50%	(c)
Busan~Ulsan electric railway	2005.12.26 ~ 2010.09.30	Korea Rail Network Authority	105,840	40.00%	(d)
Hyunpung-Kimcheon Construction 6th Stage	2001.12.28 ~ 2006.02.09	Korea Highway Corporation	105,592	90.00%	(a)
Mokpo National Road	2004.11.01 ~ 2008.11.01	Iksan Regional Road Construction Management Office	105,333	42.00%	(a)
Incheon Production Base 4th Expansion	2004.07.27 ~ 2009.06.30	Korea Gas Corporation	104,444	40.00%	(a)
GS Shinguro Xi	2004.03.16 ~ 2007.07.31	ARD Holdings Co., Ltd.	102,545	70.00%	(a)

<2004>

Project	Period of Construction	Customer	Share of contract size (amount)	Share of contract size (%)	Remarks
Seoul Outer Circular Highway 4th Stage	2001.06.30 ~ 2006.06.29	Seoul Highway Co., Ltd.	₩ 357,456	27.00%	(a)
Jamsil 4th Reconstruction	2003.10.01 ~ 2007.02.28	Jamsil 4th Apt. Reconstruction Association	195,350	50.00%	(a)
Jamsil 3th Reconstruction	2004.05.01 ~ 2007.08.30	Jamsil 3th APT. Reconstruction Association	160,015	33.30%	(a)
Dangjin-Daejeon Highway 4th Stage	2001.12.24 ~ 2006.02.05	Korea Highway Corporation	158,569	90.00%	(a)
Dokokdong Reconstruction	2002.07.10 ~ 2005.12.31	Dokokdong 1st Apt. Reconstruction Association	144,326	33.30%	(a)
Dangjin-Daejeon Highway 5th Stage	2001.12.24 ~ 2006.02.05	Korea Highway Corporation	142,791	90.00%	(a)
Dangjin-Daejeon Highway 7th Stage	2001.12.24 ~ 2006.02.05	Korea Highway Corporation	142,115	90.00%	(a)
Dongbu Electric Train Office	1997.02.28 ~ 2005.06.30	Korea National Railroad	130,461	63.00%	(a)
Donghae Highway Expansion 2nd Stage	2000.01.05 ~ 2005.02.28	Korea Highway Corporation	114,169	90.00%	(a)
Hyunpung-Kimcheon Construction 1st Stage	2001.12.28 ~ 2006.02.09	Korea Highway Corporation	113,123	90.00%	(a)
Dangjin-Daejeon Highway 6th Stage	2001.12.24 ~ 2006.02.05	Korea Highway Corporation	110,425	90.00%	(a)
Incheon Production Base 4th Expansion	2004.07.27 ~ 2009.06.30	Korea Gas Corporation	104,444	40.00%	(a)
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%	(c)
GS Shinguro Xi	2004.03.16 ~ 2007.07.31	ARD Holdings Co., Ltd.	102,545	70.00%	(a)
Hyunpung-Kimcheon Construction 6th Stage	2001.12.28 ~ 2006.02.09	Korea Highway Corporation	104,393	90.00%	(a)
Hyunpung-Kimcheon Construction 3th Stage	2001.12.28 ~ 2006.02.09	Korea Highway Corporation	99,892	90.00%	(a)

Remarks present a representative company such as;

- (a) GS Engineering & Construction Co., Ltd
- (b) Samsung Corporation
- (c) Daewoo Engineering & Construction Co., Ltd
- (d) Hyundai Engineering & Construction Co., Ltd

(e) Summary of housing and lotting-out construction contracts as of December 31, 2005 and 2004 are as follows (Korean won in millions):

<2005>

Project	Contract amount	Cumulative revenue realized	Cumulative collection amount	Trade receivables	Advance receipts
Heights Xi	₩ 278,082	₩ 41,980	₩ 128,174	₩ 247	₩ 86,441

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

<2004>

Project	Contract amount	Cumulative revenue realized	Cumulative collection amount	Trade receivables	Advance receipts
Heights Xi	₩ 278,082	₩ 9,671	₩ 37,132	₩ —	₩ 27,461
Seocho Eclat	93,714	93,198	91,788	1,410	—
LG Metrocity 5th Stage	71,412	71,413	69,697	1,716	—
Total	₩ 443,208	₩ 174,282	₩ 198,617	₩ 3,126	₩ 27,461

(f) Retention sums on construction contracts

The accounts receivable for construction contracts include certain amounts invoiced where payments are retained until all the conditions specified under the contract are met or until problems occurred in the course of construction, if any, are resolved. Retention sums on construction contracts as of December 31, 2005 amounted to ₩44,167 million (2004: ₩56,198 million).

21. Income Taxes

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

(a) Components of provision for income taxes

The major components of provision for income taxes for the years ended December 31, 2005 and 2004 are as follows (Korean won in millions):

	2005	2004
Current income taxes (*)	₩ 113,049	₩ 56,692
Change in deferred income tax assets arising from temporary differences	(7,415)	—
Change in deferred income tax liabilities arising from temporary differences	45,249	23,817
Current tax and differed tax which are charged or credited directly to equity	(49,352)	—
Provision for income taxes relating to ordinary income	₩ 101,531	₩ 80,509

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

(b) Reconciling items between accounting income and taxable income

Reconciling items between accounting income and taxable income for the years ended December 31, 2005 and 2004 are as follows:

	Temporary differences		Non temporary differences	
	2005	2004	2005	2004
<Additions>				
Appropriated retained earnings for technological development	₩ 16,768	₩ 21,816	₩ —	₩ —
Provision for warranty	14,079	15,419	—	—
Interest on construction period	1,269	7,658	—	—
Gain(loss) on of equity method investments	3,658	3,964	—	—
Accrued revenues	1,804	1,636	—	—
Allowance for doubtful accounts	64,159	53,575	—	—
Provision for foreseeable losses from construction contracts	1,326	1,768	—	—
Gain on derivatives valuation	24,906	1,466	—	—
Loss on derivatives valuation	24,279	6,468	—	—
Impairment loss on investments	—	14,212	—	—
Entertainment expenses in excess of tax limit	—	—	6,943	4,868
Taxes and other expenses	—	—	11,389	9,291
Additional payment of income taxes	—	—	—	11,800
Others	39,357	(32,975)	3,869	3,078
Sub total	₩ 191,605	₩ 95,007	₩ 22,201	₩ 29,037

	Temporary differences				Non temporary differences			
	2005		2004		2005		2004	
<Deductions>								
Accrued revenues	₩	3,212	₩	1,903	₩	—	₩	—
Interest on construction period		2,236		5,641		—		—
Gain(loss) on of equity method investments		4,574		20,295		—		—
Provision for warranties		16,419		11,182		—		—
Provision for foreseeable losses form construction contracts		2,601		2,283		—		—
Allowance for Doubtful Accounts		53,577		73,903		—		—
Gain on derivatives valuation		7,391		23,696		—		—
Loss on derivatives valuation		6,004		1,516		—		—
Disposal of land		9,994		—		—		—
Executive incentives		2,750		2,022		—		—
Impairment loss on investments		13,812		—		—		—
Loss on valuation of inventories, net		110		16,928		—		—
Others		37,543		4,179		825		1,085
Sub Total		160,223		163,548		825		1,085
Total	₩	31,382	₩	(68,541)	₩	21,376	₩	27,952

(c) Temporary differences and changes in deferred tax assets and liabilities

Temporary differences and changes in deferred tax assets and liabilities during the years ended December 31, 2005 and 2004 are as follows:

<2005>

Temporary differences	Beginning balance	Payment reconciliations	Increase	Decrease	Ending balance	Recognized deferred income tax assets(liabilities)
Inventories	₩ (36,876)	₩ —	₩ (2,236)	₩ (1,159)	₩ (37,952)	₩ (10,437)
Accrued interest	(3,655)	—	(3,212)	(1,804)	(5,063)	(1,392)
Derivatives	(16,481)	—	16,888	(18,902)	19,310	5,310
Available-for-sale securities	34,827	—	532	13,812	21,546	5,925
Equity method investment securities	154,161	(85)	(174,878)	4,574	(25,376)	(6,980)
Land	183	—	9,994	9,994	183	50
Buildings	12,600	(360)	—	360	11,880	3,267
Accumulated depreciation	(1,298)	24	—	—	(1,274)	(350)
Accrued expenses	5,000	—	6,700	2,750	8,950	2,461
Provision for foreseeable losses from construction contracts	2,270	—	1,326	2,601	995	274
Appropriated retained earnings for technological development	(38,704)	—	(5,000)	(16,768)	(26,936)	(7,407)
Provision for warranties	31,194	—	14,079	16,419	28,854	7,935
Allowance for doubtful accounts	53,969	—	64,193	53,577	64,584	17,761
Appropriated retained earnings on losses on sale of treasury stock	(2,467)	—	—	—	(2,467)	(678)
Others	₩ 1,339	₩ —	₩ 64	₩ 156	₩ 1,247	₩ 343
Total	196,062	(421)	(71,550)	65,610	58,481	16,082

The Company did not recognize deferred income tax effect for temporary differences of ₩45,466 million arising from land revaluation surplus as the Company has no firm commitment to dispose off the land.

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

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

<2004>

Temporary differences	Beginning balance	Increase	Decrease	Ending balance	Recognized deferred income tax
Provision for warranty	₩ 26,958	₩ 15,419	₩ 11,182	₩ 31,195	₩ 8,579
Allowance for doubtful accounts	74,297	53,575	73,903	53,969	14,841
Provision for foreseeable losses from construction contracts	2,785	1,768	2,283	2,270	624
Gain (loss) on equity method investment securities	170,491	3,964	20,295	154,160	42,394
Depreciation of overseas operation translation debit	34,202	—	34,202	—	—
Executive incentives	2,522	4,500	2,022	5,000	1,375
Impairment loss on investments	2,444	14,212	—	16,656	4,580
Gain (loss) on valuation of foreign exchange forward contracts	797	(25,212)	(7,934)	(16,481)	(4,532)
Losses on valuation of inventories	17,038	—	16,928	110	30
Appropriated retained earnings for technology development	(62,000)	1,480	(21,816)	(38,704)	(10,644)
Accrued income	(3,390)	(1,903)	(1,636)	(3,657)	(1,006)
Interest on construction period	(39,003)	(5,641)	(7,658)	(36,986)	(10,170)
Others	37,462	(3,273)	5,659	28,530	7,846
Total	₩ 264,603	₩ 58,889	₩ 127,430	₩ 196,062	₩ 53,917

(d) Details of gross deferred income tax assets and liabilities as of December 31, 2005 and 2004 are as follows : (Korean won in thousands):

	Temporary differences at Dec 31, 2005		Extinguishment period of temporary differences		Deferred income tax assets/liabilities	
			2006	2007 and after	Current	Non Current
<Deductible temporary differences:>						
Derivatives	₩	26,777	₩	26,777	₩	7,364
Available-for-sale securities		25,917		25,917		7,127
Equity method investment securities		153,487		153,487		42,209
Land		183		183		50
Buildings		11,880		11,880		3,267
Accrued expenses		8,950		8,950		2,461
Provision for foreseeable losses from construction contracts		995		995		274
Provision for warranty		28,854		28,854		7,935
Allowance for doubtful accounts		64,585		59,772		16,437
Severance and retirements benefits		81,584		81,584		22,436
Others		1,247		1,247		343
Total	₩	404,459	₩	95,499	₩	26,262
<Taxable temporary differences:>						
Inventories	₩	(37,952)	₩	(37,952)	₩	(10,437)
Accrued interest		(5,062)		(5,062)		(1,392)
Derivatives		(7,468)		(7,468)		(2,054)
Available-for-sale securities		(4,371)		(4,371)		(1,202)
Equity method investment securities		(178,864)		(178,864)		(49,188)
Accumulated depreciation		(1,274)		(1,274)		(350)
Appropriated retained earnings for technology development		(26,936)		(26,936)		(7,407)
Appropriated retained earnings on losses on sale of treasury stock		(2,467)		(2,467)		(678)
Severance and retirements benefits		(81,584)		(81,584)		(22,436)
Total	₩	(345,978)	₩	(50,482)	₩	(13,883)
The expected income tax rate				27.50%		27.50%

The Company's accrued income taxes amounted to ₩81,305 million and ₩43,612 million as of December 31, 2005 and 2004, respectively. Deferred income tax assets and liabilities are calculated based on the expected income tax rate of 27.5%, the tax rate that will be in effect when the temporary differences are expected to reverse.

(e) Details of current tax and deferred tax which are charged or credited directly to equity as of December 31, 2005 is as follows (Korean won in millions):

Description	Amount	Income tax effect
Gains on sale of treasury stock	₩ 925	₩ 254
Gain on valuation of equity method investment securities recognized in equity	178,864	49,188
Loss on valuation of equity method investment securities recognized in equity	(328)	(90)

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December 31, 2005 and 2004

(f) The effective tax rates for the years ended December 31, 2005 and 2004 are as follows (Korean won in millions):

	2005	2004
Provision for income taxes	₩ 101,531	₩ 80,509
Income Before Income Tax Expense	366,668	236,629
Effective income tax rate	27.7%	34.0%

22. 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 as follows:

	2005	2004
Net income	₩ 265,137,666,049	₩ 156,119,585,786
Extraordinary gains	—	—
Extraordinary losses	—	5,421,881,449
Income tax for the Extraordinary gains and losses	—	(1,610,298,790)
Ordinary income of common stock	265,137,666,049	159,931,168,445
Weighted-average number of shares of outstanding common stock (*)	49,868,998 shares	49,811,222 shares
Ordinary income per share	₩ 5,317	₩ 3,211
Earnings per share	₩ 5,317	₩ 3,134

(*) The weighted-average number of common stock outstanding is computed by deducting treasury stock from the number of shares issued

23. Dividends

The 2004 dividend was approved at the ordinary shareholders' meeting held on March 17, 2005 and the 2005 dividend will be approved at the annual ordinary shareholders' meeting to be held on March 17, 2006.

Dividend rate, the dividend payment ratio and yield ratio for the years ended December 31, 2005 and 2004, are as follows (Korean won in millions):

(a) Dividends calculation

	2005	2004
Number of common shares outstanding	49,890,169 shares	49,822,386 shares
Dividend rate per share	₩ 1,400(28%)	₩ 1,250(25%)
Dividend amount	₩ 69,846,236,600	₩ 62,277,982,500

(b) Dividend payout ratio

	2005	2004
Dividends	₩ 69,846,236,600	₩ 62,277,982,500
Net income	265,137,666,049	156,119,585,786
Dividend payout ratio	26.34%	39.89%

(c) Dividend yield ratio

	2005	2004
Dividend per share	₩ 1,400	₩ 1,250
Market value per share at the end of the year	53,000	28,500
Dividend yield ratio	2.64%	4.39%

24. Statements of Cash Flows

Significant non-cash transactions during the years ended December 31, 2005 and 2004 are as follows (Korean won in millions):

	2005	2004
Transfer of long-term debt to current portion	₩ 1,327	₩ 1,327
Transfer of construction in-progress to property, plant and equipment	47,504	170,311
Transfer of long-term loans to equity method investment securities	—	11,669
Transfer of advanced payments to property, plant and equipment	—	27,464
Transfer of held-to-maturity securities to current portion	32,921	4,411

25. Insurance

As of December 31, 2005, the Company has taken up fire insurance and other policies on its inventories and property, plant and equipment (Korean won in millions):

Insurance policy	Insured assets	Insurance company	Insured amount
Fire insurance and others	Inventories and property, plant and equipment	LG Fire Insurance Co., Ltd.	₩ 538,812

26. Commitments and Contingencies

As of December 31, 2005, Seoul Guarantee Insurance Company., Korea Construction Financial Corporation, a government agency and others have provided guarantees amounting to approximately ₩2,194,595 million, on behalf of the Company for the construction performance, lotting-out performance and construction warranty. Also, as of December 31, 2005, the Company has provided guarantees, jointly and severally with Korea Housing Guarantee Co., Ltd. and others, amounting to approximately ₩4,089,279 million on behalf of other construction companies, including ChungAng Construction Co., Ltd. As of December 31, 2005, other construction companies have provided guarantees, jointly and severally with Korea Housing Guarantee Co., Ltd. and others, in the amount of ₩613,272 million on behalf of the Company.

As a common practice in the Korean construction industry, construction companies exchange mutual guarantees for construction performance. Guarantees that the Company has provided to and provided by others amount to ₩1,382,513 million and ₩5,396,992 million, respectively, as of December 31, 2005. The Company has also provided guarantees amounting to ₩38,402 million in connection with export financing as of December 31, 2005.

The Export-Import Bank of Korea and others have guaranteed the performance of construction of the Company in overseas projects. As of December 31, 2005, the outstanding guarantees amounted to ₩291,143 million.

As of December 31, 2005, the Company has pledged checks and notes to several banks and financial institutions as collateral for borrowings and construction performance guarantees.

As of December 31, 2005, the Company has provided guarantees and collateral amounting to ₩529,550 million on behalf of the Seoul Highway

Notes to Non-Consolidated Financial Statements

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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 ₩5,312,273 million to several domestic financial institutions as of December 31, 2005.

The Company has been named as a defendant and plaintiff in a number of claims in the normal course of performing construction and engineering services. As of December 31, 2005, the aggregate amount of these claims as a defendant and as a plaintiff are ₩45,974 million and ₩29,997 million, respectively. In management's opinion, those claims will not have a material adverse impact on the Company's operations or financial position.

The Company provides loans to reconstruction associations for house reconstruction projects. The outstanding balance of long-term and short-term loans to those associations amounts to ₩99,516 million as of December 31, 2005. As of December 31, 2005, the Company has also provided guarantees to house developers during the normal course of business.

27. Derivatives

(a) The outstanding currency forward contracts as of December 31, 2005, are summarized as follows (Korean won in millions, foreign currencies in thousands):

Counterpart	Sell		Buy	
ABN AMRO	USD	68,726	KRW	70,312
	JPY	4,076,608	USD	36,980
	EUR	9,289	USD	11,705
Barclays	EUR	84,445	USD	108,501
	GBP	748	USD	1,397
	USD	20,162	KRW	20,372
BNP PARIBAS	JPY	1,179,837	USD	11,712
	USD	6,267	KRW	6,304
	EUR	61,325	USD	75,703
CALYON	JPY	630,000	USD	5,515
	USD	29,923	KRW	30,624
	EUR	5,395	USD	6,783
HSBC	JPY	1,095,166	USD	10,967
	USD	66,434	KRW	69,862
	JPY	94,762	USD	930
SCB	USD	112,908	KRW	111,340
	JPY	11,237	USD	96
	USD	10,000	KRW	10,188
SOCIETE GENERALE	EUR	160,454	USD	202,692
	GBP	748	USD	1,397
	JPY	7,087,610	USD	66,200
Total	USD	314,420	KRW	319,002

(b) The outstanding currency option contracts as of December 31, 2005, are as follows (foreign currencies in thousands):

Counterpart	Date of Contract	Type	Contract Amounts		Maturity Date	Exchange Rate
Barclays	2005.01.10	PUT	EUR	46,000	2006.01.10	1.2280
Barclays	2005.01.10	CALL	EUR	23,000	2006.01.10	1.2280
Barclays	2005.01.18	PUT	EUR	24,012	2006.02.17	1.2265
Barclays	2005.01.18	CALL	EUR	12,006	2006.02.17	1.2265
ABN AMRO	2005.01.18	PUT	EUR	40,000	2006.01.18	1.2530
ABN AMRO	2005.01.18	PUT	EUR	20,000	2006.01.18	1.2530
CALYON	2005.07.29	Rebound Forward	EUR	30,769	2006.03.10	1.2290
CALYON	2005.07.29	PABF	EUR	50,000	2006.06.28	1.2465
CALYON	2005.10.12	CALL	JPY	687,492	2006.02.10	111.65
CALYON	2005.10.12	PUT	JPY	687,492	2006.02.10	111.65
CALYON	2005.10.12	PUT	JPY	687,492	2006.02.10	114.65
CALYON	2005.10.12	CALL	EUR	2,900	2006.02.10	1.2260
CALYON	2005.10.12	PUT	EUR	2,900	2006.02.10	1.2260
CALYON	2005.10.12	PUT	EUR	2,900	2006.02.10	1.1960
Total			JPY	254,487		
			EUR	2,062,476		

(c) The outstanding foreign exchange risk insurance contracts with Korea Export Insurance Corporation as of December 31, 2005 are as follows (foreign currencies in thousands):

Date of Contract	Contract Amounts		Maturity Date	Exchange Rate
2003.10.15	USD	32,723	2006. 7	1,199.80
2004.02.06	USD	42,780	2007. 6	1,159.40 ~ 1,165.80
2004.08.19	USD	33,169	2007. 10	1,200.50 ~ 1,207.30
2005.04.13	USD	59,044	2008. 8	997.80 ~ 1,012.60
2005.12.26	USD	106,471	2008.12	1,038.10 ~ 1,045.40
Total	USD	274,187		

(d) The outstanding interest rate swap contracts as of December 31, 2005 are as follows (foreign currencies in thousands):

Counterpart	Contract Amounts		Interest to pay	Interest to receive	Maturity date
ABN AMRO	USD	20,000	Min(3M LIBOR, previous coupon+25bp)	3M LIBOR(A) - 0.42%	2006.04.01
ABN AMRO	USD	20,000	Min(3M LIBOR, previous coupon+25bp)	3M LIBOR(A) - (0.73%~0.25%)	2007.07.28
CALYON	USD	20,000	Min(3M LIBOR, previous coupon+25bp)	3M LIBOR(A) - (0.73%~0.25%)	2007.07.28
Total	USD	60,000			

(*) 3M Libor (A) : 3month Libor in arrears

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

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

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28. Employees' Benefit and Contribution to Society

- (a) The Company lends housing-loans up to ₩40 million per employee subject to the employees' service period for the benefits of employees. The Company records those benefits as long-term loans and the amounts granted to employees as of December 31, 2005 and 2004 were ₩40 million and ₩172 million, respectively.
- (b) The contributions to society made by the Company for the years ended December 31, 2005 and 2004 were ₩4,108 million and ₩2,820 million, respectively.

29. Environmental Consideration

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

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

Expenditures relating to environmental matters during the years ended December 31, 2005 and 2004 amounted to ₩6,609 million and ₩5,140 million, respectively.

30. Human Resource Development

Expenditures incurred for development of specialization in human resources during the years ended December 31, 2005 and 2004 amounted to ₩4,470 million and ₩5,260 million, respectively.

31. Segment Information

(a) Divisions

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

Division	Products or Services	Major Customers
Architectural Work Division	Building, factory and others	LG Philips LCD Co., Ltd. and others
Civil Work Division	Road, bridge and others	Korea Highway Corporation, Korea Land Corp. and others
Housing Work Division	Apartment, villa and others	Korea Real Estate Investment Trust CO., LTD and others
Plant Work Division	Energy plant, industrial facilities and others	National Qatar 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	Unspecified

ii) Financial information on division segments (Korean won in millions):

<2005>

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

<2004>

	Sales	Operating income (loss)	Property, plant and equipment and intangible assets	Depreciation and amortization
Architectural Work Division	₩ 1,606,160	₩ 176,721	₩ 184,964	₩ 3,287
Civil Division	561,622	28,672	3,039	1,035
Housing Division	1,072,588	47,688	46,832	558
Plant	498,988	(20,784)	31,754	2,082
Environment	276,202	17,305	124	79
Development Work Division	30,838	(19,739)	513,640	15,667
Others	2,695	(741)	69,353	4,062
Total	₩ 4,049,093	₩ 229,122	₩ 849,706	₩ 26,770

(b) Geographical Segments

Sales by geographical segments for the years ended December 31, 2005 and 2004, are summarized as follows (Korean won in millions):

	2005	2004
Domestic sales	₩ 4,728,018	₩ 3,634,699
China	327,776	122,558
Central Asia	463,099	263,341
Others	111,920	28,495
Total	₩ 5,630,813	₩ 4,049,093

32. Added Value Information

Details of value added information included in construction costs and selling and administrative expenses for the years ended December 31, 2005 and 2004 are as follows :

Accounts	Construction cost		Selling and administrative expenses		Total	
	2005	2004	2005	2004	2005	2004
Wages and salaries	₩ 185,309	₩ 133,265	₩ 92,295	₩ 64,801	₩ 277,604	₩ 198,066
Provision for severance benefits	28,395	22,736	12,727	11,374	41,122	34,110
Other employee benefits	39,667	32,767	19,782	17,693	59,449	50,460
Rent	14,297	11,873	3,755	3,124	18,052	14,997
Depreciation	26,135	20,954	3,625	4,024	29,760	24,978
Amortization	258	259	1,108	1,533	1,366	1,792
Tools and fixtures	33,760	34,593	7,550	5,691	41,310	40,284
Total	₩ 327,821	₩ 256,447	₩ 140,842	₩ 108,240	₩ 468,663	₩ 364,687

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

33. Operating Results of the Final Interim Period (Non-audited financial information)

Significant operating results for the three-month periods ended December 31, 2005 and 2004 are as follows (Korean won in millions):

	2005	2004
Sales	₩ 1,397,741	₩ 1,239,946
Costs of sales	1,236,550	1,107,221
Gross Profit	161,191	132,725
Operating income	73,165	52,959
Ordinary income	102,316	77,847
Net income	78,202	48,178
Ordinary income per share (in units)	1,567	1,011
Earnings per share (in units)	₩ 1,567	₩ 967

34. Change of Company Name and Assignment to GS Group

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

35. Approval of Financial Statements

The Company's 2005 financial statements will be approved by the Board of Directors at their meeting to be held on February 23, 2006.

Internal Accounting Control System Review Report

January 27, 2006

Representative Director

GS Engineering & Construction Corporation

We have reviewed the report of management's assessment of internal accounting control system ("IACS") of GS Engineering & Construction Corporation (formerly LG ENGINEERING & CONSTRUCTION CORPORATION, the "Company") as of December 31, 2005. In accordance with Article 2-2 of the Act on External Audit for Joint-Stock Companies (the "External Audit Law") of the Republic of Korea, the Company's management is responsible for assessing the design and operations of its IACS. Our responsibility is to review management's assessment and issue a report based on our review.

We conducted our review in accordance with Article 2-3 of the External Audit Law. Our review is limited primarily to inquiries of management and employees, reading of related documents and checking of the operations of the Company's IACS. We did not perform an audit of the Company's IACS and accordingly, we do not express an audit opinion.

Based on our review, no material weakness in the design or operations of the Company's IACS under Article 2-2 of the External Audit Law as of December 31, 2005 has come to our attention.

This report applies to the Company's IACS in place as of December 31, 2005. We did not review the Company's IACS for the period subsequent to December 31, 2005. This report has been prepared for Korean regulatory reporting purposes pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

As this report is based on Interim Guidelines on Auditors' Review and Report on Management's Assessment of IACS, issued by the Auditing Standards Committee of the Korean Institute of Certified Public Accountants on March 29, 2005, it applies only from that date until the date the Standard for Management's Assessment of IACS and Standard for Auditors' Review on Management Assessment of IACS become effective. A review performed based on the standards may have different results and accordingly, the content of our report may be different.

Notice to Readers

This report is annexed in relation to the audit of the financial statements for the year ended December 31, 2005 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Joint-Stock Companies of the Republic of Korea.

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Three-year Summary

Balance Sheet

| Unit: Billions of Won |

	2005	2004	2003
Current assets	2,423	1,775	1,298
Fixed assets	1,403	1,528	1,392
Total assets	3,826	3,303	2,690
Current liabilities	1,849	1,505	1,185
Long-term liabilities	526	501	350
Total liabilities	2,375	2,006	1,535
Paid-in capital	255	255	255
Capital surplus	204	201	200
Retained surplus	857	654	564
Capital adjustment	135	188	136
Shareholders' equity	1,451	1,297	1,155
Total liabilities & shareholders' equity	3,826	3,303	2,690

Income Statement

| Unit: Billions of Won |

	2005	2004	2003
Sales	5,631	4,049	3,468
Cost of sales	4,951	3,557	2,947
Gross profit	680	492	521
SG&A	344	263	250
Operating profit	336	229	271
Non-operating income	108	100	38
Non-operating expense	77	87	47
Ordinary income	367	242	262
Income tax expense	102	81	79
Net profit	265	156	162

Cash Flow

| Unit: Billions of Won |

	2005	2004	2003
Cash flows from operating activities	73	230	247
Cash flows from investing activities	73	-179	-88
Cash flows from financing activities	-50	112	-193
Net change in cash and cash equivalents	96	163	-34
Cash and cash equivalents			
Beginning of the year	262	99	133
End of the year	358	262	99

Number of Employees

| Unit: Person |

	2005	2004	2003
At year end	3,778	3,458	3,190

Key data GS E&C 2005

Sales	Unit: Billions of Won
Sales	5,631
Sales by segment	
Civil Engineering	730
Plant	1,037
Environment	312
Architecture	2,203
Housing	1,349
Earnings	Unit: Billions of Won
Gross Profit	680
Operating Profit	336
Ordinary Profit	367
Net Profit	265
Key GS E&C share data	
Total number of shares[issued] (million)	51
Total market cap (billion of KRW)	2,703
Share price[high] (KRW)	53,000
[low] (KRW)	26,600
Per share information	
EPS (KRW)	5,317
Dividend per share(KRW)	1,400

GS E&C IR Plan 2006

● Domestic ● Overseas ● Earning Release												
2006 1Q			2006 2Q			2006 3Q			2006 4Q			
Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	
		● Annual Report			● Site Tour							
	● Domestic Conference								● Domestic Investment Forum			
● Analyst Meeting	● Management Meeting						● Analyst Meeting	● Management Meeting				
	● Overseas Conference	● Overseas Roadshow					● Overseas Conference	● Overseas Roadshow				
● 2005 Earning Release Business Plan for 2006~2008		● 1Q Earning Release				● 1H Earning Release			● 3Q Earning Release			

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