



*Message from
the CEO*

To Our Shareholders

Business conditions were difficult globally in 2007, but we achieved ₩10.6 trillion in new orders, ₩6 trillion in sales and ₩442 billion in operating profit thanks to a balanced portfolio and systematized management approaches. Moreover, our profit indicators improved significantly, laying the groundwork for value-driven growth.

Meanwhile, we have been building the Total Project Management System (TPMS) for more than ten years and completed its implementation at all work sites during 2007. As a result, we have an effective platform for lowering costs and managing construction sites in real time. We also bolstered our internal foundation for growing into a global leader. We obtained approval from the Vietnamese government to conduct local development projects and build-transfer (BT) projects. Our presence in overseas markets with high growth potential also expanded during the year.

These results were made possible by the hard work of our people as well as your support as customers and shareholders.

However, we see a very difficult year ahead. Macroeconomic indicators will be unstable in 2008 with soaring oil prices and a lackluster global economy from restricted credit. Domestically, the public sector will experience intense competition and the housing industry is expected to remain sluggish. Despite the adversity at home and abroad, we have set our 2008 targets at ₩12.2 trillion in new orders and ₩6.65 trillion in sales.

Five years ago, we announced our Vision 2010 with the intention of becoming Korea's foremost construction company. We were ranked fourth in the nation at the time, and many were pessimistic about our chances of realizing that ambitious goal. However, we continued to take on the challenges and to perform well, not only becoming the domestic market leader but also preparing for growth on the global stage.

Vision 2010 was the framework for us to rise to the top of the domestic construction industry. We are now leveraging that success in pursuit of Vision 2015, which aims for a new growth surge. Our new vision can be summed up as "Building World Values with Creative Passion Reliable Best Partner and First Company." We have decided on "creative entrepreneurship," "global perspectives," and "mutual respect" as the core values needed to attain this new vision. In the process, we aim to achieve ₩24 trillion in new orders and ₩18 trillion in sales a year by 2015, putting us with the ranks of the world's top ten construction firms.

We have declared 2008 to be the first year of our "Global Growth" initiative. Our direction is to encourage employees to help make GS Engineering & Construction a top-tier global player and maintain a consensus on Vision 2015. In the process, we will be adept in meeting the challenge of the rapidly changing competitive environment. Our focus will be on the following top priority tasks, which must be carried out to implement the management plan and new vision in our transition to major global player.

The first task is to solidify our power plant and environmental businesses as quickly as possible.

In 2007, we took our first step into overseas power generation by winning the contract to build a power plant in Armenia. In the coming year we will establish an operations headquarters system that allows each business division to manage its affairs independently. We will seek out business opportunities in new markets in the Middle East and Asia to expedite the establishment of a power plant construction business outside Korea.

The Environment Business Division will be reorganized to create a global operation focusing on specialized competencies such as machinery and chemical engineering. A system will be built for performing engineering-procurement-construction (EPC) contracts, and the Division will enter the water treatment segment for the first time in the overseas market. At the same time, firms with specialized technologies will be acquired. The

concerned personnel in the Power Plant and Environment Business Divisions will dedicate themselves to achieving self-sufficiency in power plant and environmental facility construction, which will serve as a new growth engine. Companywide cooperation and support will also be encouraged to maximize the synergy among the various business divisions.

Second, we will transition to a system for doing business on a global scale. We have already performed the preliminary steps for expanding overseas. For example, extensive surveys on overseas markets have been conducted; targets for global markets have been identified, and action plans have been devised. Now we are cultivating the abilities to advance decisively with specialized expertise.

To switch over to a global operation system, we have established a new unit that acts as the control tower for all overseas businesses. This unit reports directly to the CEO, and over time a powerful project promotion system will be built that specializes in global procurement.

Meanwhile, we will become fully involved in Vietnamese projects in 2008 and we will aggressively seek new development projects in Cambodia and other strategic markets. Overseas general contracting, which was suspended for several years, will be restarted selectively on the basis of profitability.

In the future, careful planning and studies will be conducted on the overall profitability of overseas projects

that are performed under various arrangements. Risk factors that are uncovered will be addressed early on as part of an enhanced risk management approach.

Finally, we will create a "Position Profile." We will begin to execute projects from a global perspective as regions and project types multiply. To this end, we must get away from the old personnel training methods and adopt a unique approach that is both scientific and systematic. Our training system overhaul began in 2006 with the development of key position profiles for senior executives. That program will be expanded to team chiefs and project managers from this year.

The "Position Profile" is a new personnel system designed to put the right person in the right place. It reexamines the way individual duties are assigned. The proper specialized knowledge, foreign language skills and leadership qualities are identified for a specific position, and then employees are provided with various training courses to meet the duty requirements. Thus the competencies of each individual are maximized and people with leadership potential are identified and cultivated.

The "capable leader" is a new definition for the GS E&C employee. This refers to persons with the diverse work experience that provides insight into the project at hand. They must understand their specific roles accurately and know how to perform those roles to achieve organizational objectives. Finally, they must be able to get their people perform voluntarily.

Therefore, the company now offers a roadmap on executing the roles required of key positions within the



organization. Job rotation is employed to cultivate core leadership personnel constantly. To conduct an effective training system, the conventional classroom approach is being replaced by online courses.

Last but not least, we will continue to enforce shareholder-centered management policies.

We recognize that shareholder support and trust are crucial for us to emerge as a major global player. With your support, we will continue generating a profit, operate transparently, and put your interests first, thereby raising both corporate and shareholder value. Our investor relations and other such activities will be carried out proactively, opening up the frontier to a new future.

In the coming year, we at GS Engineering & Construction will remain undaunted by change and work hard to create a global leader that helps to pioneer the new age. We will take on new challenges and go after new objectives to become a global developer. I ask for the continued support and interest of you, our customers and shareholders, in the days ahead.

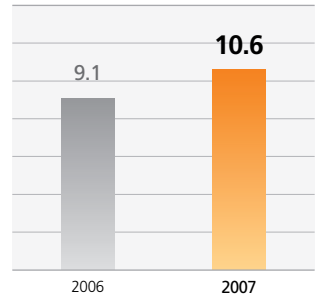


Kab-Ryul Kim, President & CEO
GS Engineering & Construction

2006 vs 2007

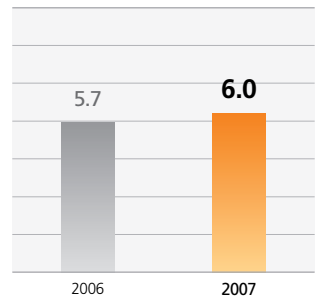
New Orders

Unit : Trillions of Won



Sales Revenue

Unit : Trillions of Won



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