

ANNUAL REPORT 2007

Your Trusted Global Partner

GS E&C Corporation

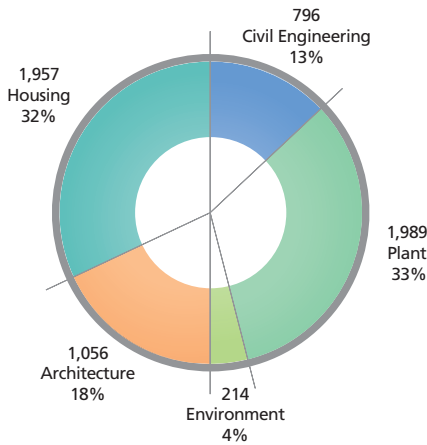
Key Financial Data

Unit : Billions of Won

	2007	2006	2005
Sales Revenue	6,012	5,745	5,631
Gross Profit	860	762	680
Operating Profit	442	403	336
Ordinary Profit	568	544	367
Net Profit	400	387	265
Earning Per Share(KRW)	8,009	7,741	5,317
Dividend Per Share(KRW)	1,650	1,550	1,400

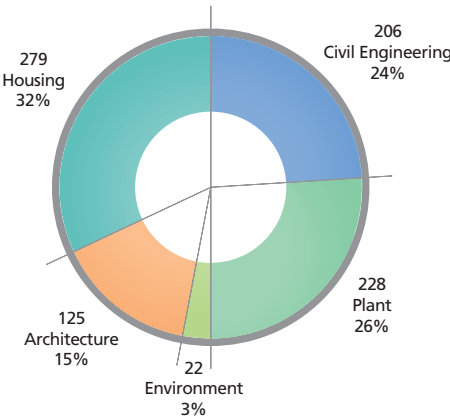
Sales Revenue by Division

Unit : Billions of Won



Gross Profit by Division

Unit : Billions of Won



Segments

GS E&C has a diverse business portfolio that encompasses civil engineering as well as the construction of industrial plants, environmental facilities, office buildings and apartments. This range of activities ensures solid growth amid market fluctuations inside and outside Korea. At the same time, it provides the competencies necessary to advance steadily into domestic and foreign residential-commercial complex development. Indeed, development business is a growth area for the company.

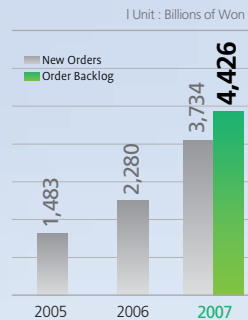


Plant

The Division has established a solid portfolio by advancing into oil refineries, petro/gas chemical plants, power plants, and gas plants for clients mainly in the Middle East, Southeast Asia and Korea. Profitability is a key factor in bidding on new projects, while gas sector 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.

- Oil Refining
- Gas Processing
- Petro/Gas Chemical
- Oil & Gas Storage
- Power Generation

New Orders

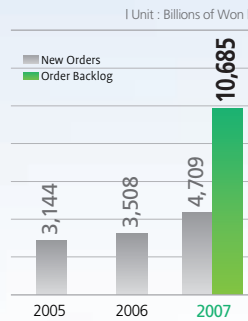


Housing

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 Korea's 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 Complexes
- Apartments
- Mixed-use Buildings

New Orders

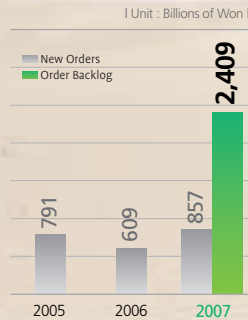


Civil Engineering

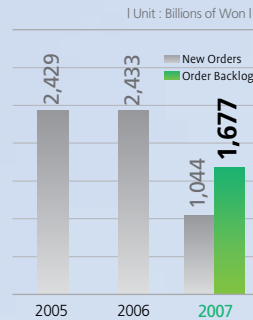
The Division builds roads, railroads, port facilities, industrial complex and underground storage facilities under government contracts. The division will focus on profitability by expanding involvement in PFI projects & private-proposed projects in overseas.

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

New Orders



New Orders



Architecture

Current projects are underway in Korea as well as in China, Poland and Vietnam. 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.

- Office Building
- Education / Research / Hospitals
- Culture / Leisure / Sports
- Cleanroom / Manufacturing Facilities
- Logistics / Remodeling



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



Development

The Division enjoys a diverse project portfolio, promoting PPP (public-private partnership), large mixed-use complex, new town development and industrial complex development projects around the globe. Base on meticulous financial feasibility analysis and risk management, the division will further pave its way as a top tier developer globally.

- Public-Private Partnership
- Mixed-use Complex
- New Town
- Industrial Complex



Technology

The Division acquires core technologies through research and development, helps to create new businesses for the company, and supports efforts to improve overall productivity. The Division also provides the optimal technology for each business division and technical support to individual construction sites.

- R&D
- Site Technical Support
- Support for Taking in Order
- Technology Management



Company Overview

GS Engineering & Construction was established as LG Construction Co. in 1969 and since then has achieved remarkable results in many fields, thanks to an outstanding workforce and topnotch technologies. The business portfolio has expanded steadily to include large-scale development and plant projects inside and outside Korea as well as growing involvement in environmental projects. As a result, the groundwork has been laid for becoming a major global player.

In 2005, the corporate name was changed to GS Engineering & Construction, and a concerted effort has been made to get off to a powerful new start. The company achieved the highest sales of any Korean builder in 2006, solidly establishing a leadership position. At the beginning of 2008, Vision 2015 was announced as an ambitious plan to offer top value to customers on the global stage. To this end, people, technology and systems are being harmonized, while innovative thinking and bold action plans are being pursued to advance steadily forward.

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Global Contractors

HOW TO USE THE TABLES

Contractors

HOW TO USE THE TABLES

- **COMPANIES** are listed in the Top Global Contractors list by their 1998 construction contracting revenue, both at home and abroad. The others from the Top International Contractors ranking (see 200-400, 401-495, which ranked firms based only on overseas work) are given outside their home countries. Ranked in it is 512. A company's 1998 revenue (in millions) is listed on the right. The others may not add up to 100% due to omission of "other" miscellaneous highest ranked companies and rounding.
- **INDUSTRY** includes prime contractors, makers of joint ventures, subcontractors, design-build contractors and construction management. "Other" contracts make a firm's revenues are similar to those of a general contractor. Figures give indicate the value of installed equipment when a firm has prime responsibility for specifying and procuring it, either the scope of a construction contract.
- **GENERAL BUILDING**—commercial buildings, offices, stores, educational facilities, government buildings, hospitals, medical facilities, hotels, apartment, housing etc.
- **MANUFACTURING**—auto assembly, electronic assembly, metals plants, etc.
- **POWER**—thermal, hydroelectricity, geothermal, wind, bi-energy plants, biomass, gas-turbine, solarthermal, cogeneration, pumped storage, etc.
- **WATER SUPPLY**—dams, reservoirs, transmission systems, distribution systems, irrigation, desalination, and drinking water treatment plants, pumping stations, etc.
- **SEWER, WASTEWATER** and drinking water treatment plants, sewage treatment plants, storm water treatment, industrial waste facilities, etc.
- **TRANSPORTATION**—airports, bridges, roads, ports, locks, dredging, marine facilities, harbors, industrial water facilities, etc.
- **HAZARDOUS WASTE**—chemical and nuclear waste treatment, asbestos abatement, etc.
- **TELECOMMUNICATIONS**—cable and coaxial, fiber optics, towers and antennas, etc.

REPORTS BY ENR GLOBAL EDITOR
JAMES WARD, JR.

		NEW CONTRACTS		TOTAL ASSETS		TOTAL LIABILITIES		TOTAL EQUITY		TOTAL ASSETS		TOTAL LIABILITIES		TOTAL EQUITY	
		2000		2001		2000		2001		2000		2001		2000	
		(\$ MIL.)		(\$ MIL.)		(\$ MIL.)		(\$ MIL.)		(\$ MIL.)		(\$ MIL.)		(\$ MIL.)	
31	GS ENGINEERING & CONSTRUCTION, Seoul, S. Korea		6,177.6		961.9										
32	SAITAMA CORP., Saitama-shi, S. Korea	5,004.0	1,715.5	2,037.2	43	36	5	1	0	4	14	0	0	0	0
33	HYUNDAI ENGINEERING & CONSTRUCTION, Seoul, S. Korea	5,044.2	1,285.1	3,811.5	0	0	10	3	1	0	23	0	0	0	0
34	SHANGHAI SHIPYARD, Shanghai, China	5,127.3	879.8	3,241.5	0	0	11	0	0	10	49	0	0	0	0
35	SHANGHAI SHIPYARD, Shanghai, China	4,035.4	944.9	3,100.5	10	0	11	0	0	10	49	0	0	0	0
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GS E&C won more than ₩10 trillion in new orders for the first time in 2007, thanks to a diverse business portfolio. The company was the first in the Korean construction industry to receive an international credit rating, evidence of sound financial and operational structures. In addition, superior planning expertise and mixed-use development capabilities have enabled GS E&C to become a major player in development projects inside and outside Korea. Finally, an outstanding cost management system has improved profitability each of the past three years.



ENR Ranks GS Engineering & Construction 31st among the World's Construction Companies

GS Engineering & Construction is ranked 31st among the world's top contractors and is first in the domestic Korean market. *Engineering News Record*, a leading construction industry journal, announced its Top 225 Global Contractors for 2007 based on 2006 construction contracting revenue. GS E&C came in 31st on that list.



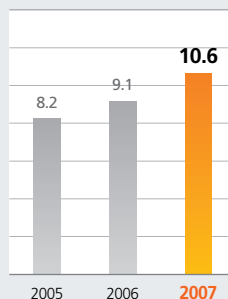
PROFUSE ORDER FLOW

The diversified business portfolio has yielded an ample order backlog. A steady stream of new orders is also expected, given the company's growing involvement in large-scale plant projects overseas as well as major development projects at home and abroad.

New orders topped ₩10 trillion for the first time and were 16% higher than in 2006. The current backlog stands at ₩19.7 trillion, and when combined with the ₩17.5 trillion in provisional order backlog for apartment complexes, the total backlog amounts to ₩37.2 trillion. This, the largest figure for any Korean construction company, was made possible by massive plant projects from overseas as well as by major mixed-use complex development projects. In the future, the company will continue such quantitative growth by expanding involvement in overseas development, securing additional domestic residential-commercial development contracts, and winning more large-scale plant orders.

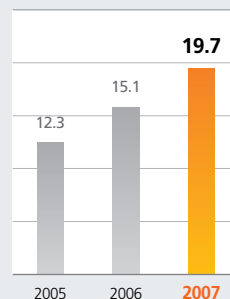
New Orders

Unit : Trillions of Won



Order Backlog

Unit : Trillions of Won



WORLD-CLASS COMPETENCIES IN DEVELOPMENT PROJECTS

GS Engineering & Construction has been named the preferred bidder for a wide range of mixed-use development projects in Korea and has made inroads into Vietnam's development market.

The superior planning capabilities have earned GS E&C a strong reputation for organizing development projects of all kinds. Recent orders won in Korea include the Ansan Sadong 90 Block New Town development, the Central Pangyo Multiplex Commercial Zone and the Yongsan International Business Complex in Seoul.

In December 2007, meanwhile, the Vietnamese government finalized its approval for GS E&C to invest in projects that should bring more than US\$7 billion in sales over the next 10 to 12 years. The company will build on this success to secure more development project contracts in Cambodia and other new growth markets. This expansion into the overseas development sector will serve as a platform for reaching the 2015 Vision and boost overall company growth and profitability significantly.

FINANCIAL STABILITY

GS Engineering & Construction's sound financial structure, solid business base and upbeat future outlook earned it the highest international credit rating ever for the Korean construction industry.

Moody's gave GS Engineering & Construction a "Baa1" long-term foreign currency credit rating, while Standard & Poors gave the company a "BBB." Thus, the two agencies were both impressed by the balanced business portfolio, sound financial structure and stable order backlog. The solid fundamentals and positive business outlook were strong enough to warrant investment grade credit ratings, which will strengthen the company's ability to operate globally. For example, the cost of raising capital for development projects in Vietnam and Cambodia will be lowered, while the company's enhanced credibility will facilitate the hiring of topnotch personnel.

IMPROVED PROFITABILITY FROM A COMPANYWIDE COST-CUTTING EFFORT

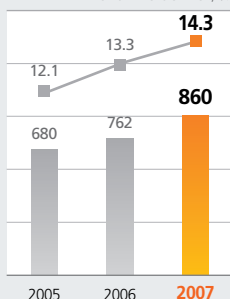
A successful reduction in overall production costs during 2007 raised the gross margin 1%P on year to 14.3%. The operating margin also improved 0.4%P to 7.4% over the same period.

Implementation of the Total Project Management System (TPMS) sparked gross margin growth in 2006. The company continued to cut costs across the board in 2007 to raise corporate value, and the gross margin rose a whole percentage point.

The gross margin for overseas operations stood at 6.4% in 2006 but improved 2.3%P to 8.7% in 2007. Meticulous project feasibility studies prior to bidding and proactive cost management have boosted the profitability of overseas projects. Moreover, the company carefully hedges against the various risks that can occur during project execution. In the housing sector, the percentage of company-owned projects, which are more lucrative than others, has increased in the portfolio. This trend is expected to continue, while future large-scale development projects inside and outside Korea will generate high revenue for the company.

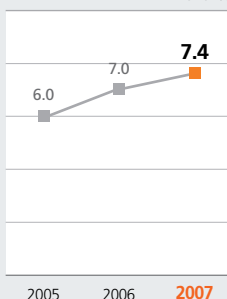
Gross Profit & Margin

Unit : Billions of Won, %



Operating Margin

Unit : %





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.

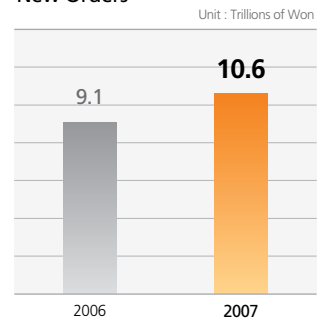
In the coming year, we at GS Engineering & Construction will remain undaunted by change and work hard to create a global leader that helps to pioneer the new age. We will take on new challenges and go after new objectives to become a global developer. I ask for the continued support and interest of you,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



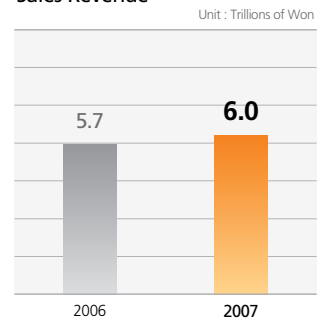
Kab-Ryul Kim, President & CEO
GS Engineering & Construction

2006 vs 2007

New Orders



Sales Revenue



*GS Engineering & Construction
will remain undaunted by change and work
hard to create a global leader
that helps to pioneer the new age.*

Share Data



*GS E&C
shares closed
at ₩156,000
at the end of
2007, up 88%
from the 2006
closing price.*

The Stock Market

The Korean Composite Stock Price Index (KOSPI) was 32.3% higher at the close of 2007 than it had been a year earlier. This was the fifth straight year and the first time since the late 1980s for the Korean stock market to rise for five straight years. Moreover, the index surpassed the 2,000-point barrier for the first time. The stock market grew 752% over ten years after hitting the historical low of 277.37 points on June 15, 1998. Moreover, total market capitalization has reached one quadrillion won. On the other hand, the KOSPI fell sharply in the wake of the subprime mortgage crisis that broke out in the US. Thus, the Korean stock market broke records and showed various peculiarities during 2007.

Breaking 2,000 points was interpreted as a symbolic change showing that the Korean stock market was no longer boxed in and had achieved an upward slope. This rise in the index can also be attributed to the healthy inflow of capital from indirect investments. Moreover, despite the rise in

savings interest rates, capital continued to flow into stocks and funds. The underpinning of the Korean financial market had clearly shifted from savings to investments. Market movement is following quality capital, so the capital flow is considered stable. If this paradigm shift continues through 2008, it should bolster the attractiveness of investing in the stock market.

Overseas stocks emerged as the greatest issue in the 2007 Korean stock market. Korean stock investors were not particularly interested in foreign stocks, but indirect investments raised the attention paid to overseas stock markets. During the past eleven years, emerging stock markets have had a higher PER evaluation than the advanced stock markets. Korea, too, has been quickly shedding its discount over the past decade. Korea had a disappointing showing compared with global stock markets in 2006, but in 2007 the KOSPI gains were far higher than the 16.4%



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average figure for indices in the world's top fifty economies. The message here is that the emerging markets have been driving global growth. That feature is why the Korean stock market had a very memorable year in 2007.

Construction Stocks

The Korean construction market entered a correction phase after the government enacted a series of measures to curb speculation. Delayed passage of a Housing Act that imposes a price ceiling on the advanced sale of new apartments caused the price of construction company stocks to fluctuate. The uncertainty eased and prices stabilized after an amended version of the Housing Act was finally passed on April 2. Subsequently, the issuance of public contracts was slow while the private sector, which centered on housing construction, worsened. The number of advance units left unsold increased, but Korea's largest contractors led the increase in overseas orders as well as large-scale

development projects at home. This provided the momentum to drive construction stocks up 61.2% (399.88 points) during 2007, which was much higher than the KOSPI average.

The most important factor for forecasting the share prices of Korean construction companies in 2008 will be unequivocal performance improvements and positive news that can enhance the business environment. Key examples include continued growth in profitable overseas orders, particularly in the Middle East, and pro-business changes in housing policy by the newly elected Korean government. The effects of these factors on share prices must be watched carefully.

GS Engineering & Construction

The price for GS Engineering & Construction stocks closed at ₩156,000 at the end of 2007, which was 88% higher than the ₩83,100 figure posted at the end of 2006. The gain was 56% higher than the KOSPI average, and the company's market

capitalization increased from ₩4.2 trillion at the beginning of the year to ₩7.96 trillion twelve months later. The strong growth was accomplished at a time when the real estate market was unstable and the overall business environment was difficult. Thus, it can be attributed to the market's trust in and expectations for GS E&C's performance and future vision. During the coming year, GS Engineering & Construction will launch an all-out drive for global growth, getting off to a strong early start in the power generation and environmental sectors. The focus will also be on quality growth as business operations globalize. Management will continue to put shareholder needs first and will engage in diverse IR activities as part of efforts to increase corporate value.

Overseas Operations

GS Engineering & Construction is expanding beyond the domestic construction market, with its limited growth potential, to operate on the vast global stage. The portfolio is being diversified from the traditional strengths of petrochemical plants to include gas-to-liquid (GTL) plants, power plants, and environmental facilities. The company is also approaching developing markets with high growth potential such as Vietnam and Cambodia, pursuing large-scale development projects after thorough feasibility studies and with systematic and scientific risk management. To this end, the internal reorganization has been underway since 2007 to strengthen global competencies, and all employees are working on their foreign language skills. The goal is to have overseas operations represent at least half of the total by 2015.





*GS E&C is expanding beyond the
domestic construction market
to operate on the vast global stage.*



Korea's Unrivaled Leader in Overseas Plant Construction

Diverse competencies are required to be successful in plant construction. First, great technological expertise is required. Almost 800 people who work in the GS E&C Plant Business Division are engineers skilled in design or some other technology. The company established a design company in India in 2006 and continues to attract talent in Europe, India and elsewhere.

Second, a builder must be able to pioneer new markets. GS E&C is confident that they can carry out successful projects anywhere they go, including UAE, Kuwait, Oman, Qatar, Egypt and Thailand.

Third, a broad range of abilities is necessary. GS E&C people are recognized for excellence in the core aspects of plant construction—namely engineering, procurement and construction—as well as in related areas such as project financing, feasibility study, operation and maintenance. As a result, the company is in a very advantageous position for winning orders outside of Korea.

These various capabilities in overseas plant construction allowed GS E&C to win a US\$1.95 billion contract from Egyptian Refining Co.(ERC). This is the largest refinery-related project ever in Egypt and the largest contract for either a refinery or petrochemical plant to be performed by a Korean firm.

GS E&C is not satisfied with this strong performance. The company continues to develop new technology to increase project scale and maximize profitability. A cartel of the world's leading construction companies has created barriers to the fast growing, value-added projects in gas sector such as LNG plants and power plants. However, GS E&C won the US\$700 million Oman gas based Methanol EPC Contract in 2007, laying the groundwork for greater involvement in this field. Moreover, extensive know-how and experience acquired while building combined cycle power plant at Tangjin and Incheon, Korea, pave the way for expansion into the overseas power plant sector. Multifaceted approaches, to include strategic alliances with leading power plant main equipment makers have been taken to make a solid entry into the "blue ocean" of the plant sector. As a result, GS Engineering & Construction won a US\$218 million co-generation power plant project in Armenia in October 2007. This is the first contract for a Korean company in the former CIS.



Overseas Development Projects for New Growth

GS E&C has leveraged its experience in projects ranging from civil works and plants to environmental facilities, office buildings and housing to lead Korea's development sector. Such comprehensive development capabilities are now being applied to secure mixed-use development projects in emerging markets such as Vietnam and Cambodia.

To start, GS E&C will build futuristic residential areas in Ho Chi Minh City, the economic capital of Vietnam. Three projects are now underway, including a build-transfer (BT) Road, a "new town" in Nha Be and a resort at Cu Chi. Approval for these projects was received from the Vietnamese government in 2007.

These three projects will result in a superior road network for Ho Chi Minh City and more luxurious housing for the Vietnamese. GS E&C, meanwhile, will improve its profitability and gain valuable experience in the Vietnamese construction market.

GS E&C is also expanding into the Cambodian market. A commercial-residential project in Phnom Penh calls for the construction of a 52-story skyscraper and high-end apartments. GS E&C is also involved in the development of a "new town" on the outskirts of the Cambodian capital.

GS E&C is applying a systematic approach to risk management to ensure profitability and enhance corporate value. At the same time, the current expansion of overseas projects is increasing involvement by all business divisions. The company continues to innovate operations, strengthen internally, and bolster core competencies to become a top player on the global stage. In the process, new horizons are being opened for the company.

2007 *at a glance*



31st Global Ranking by ENR for 2nd Year

GS Engineering & Construction was ranked 31st on the *Engineering News Record's* list of Top 225 Global Contractors (based on sales) for the second straight year.

Investment Grade International Credit Ratings

GS Engineering & Construction received a "Baa1" from Moody's and a "BBB" from Standard & Poor's for long-term foreign currency corporate credit. Both agencies rated the company highly for its balanced business portfolio, sound financial structure, leading market position, and solid



Top Prize for Xi Brand

The *Korea Economic Daily* and Korea Consumers' Forum co-hosted the 2007 Brand Awards, and Xi won the top award in the Apartment category. The prizewinners are selected according to the vote of 13 million Korean consumers. This was the second year in the row that GS E&C

Gold Tower Medal on Tax Day

GS Engineering & Construction received the Gold Tower Medal on Korea's 41st annual Tax Day. This top honor recognizes the company for its contributions as a corporate taxpayer to the National Treasury. The company paid ₩187 billion in taxes, including ₩99.3 billion in corporate income tax and ₩87.7 billion in other taxes during 2005. One company out of 3,000 receives the Gold Medal each year on the basis of recommendations by 104 tax offices across the country.



Approval to Invest in Vietnamese Projects

GS Engineering & Construction began its activities in Vietnam after concluding an MOU with the Ho Chi Minh City People's Committee in October 2004. The company obtained a certificate to invest in a golf resort project in Cu Chi in March 2007, followed by approval in May to develop a new town in the Nha Be area. During the second half of the year, the company also obtained approval from the Vietnamese government to conduct a build-transfer (BT) project in Ho Chi Minh City. These projects are expected to bring some ₩7 trillion in sales, and the business models will be applied to development projects in other countries such as Cambodia.



Presidential Prize for Xi Gallery

The Seogyo-dong Xi Gallery won the Presidential Prize—a first for a construction company—at the 2007 Good Design Exposition. The Xi Gallery was given high marks for its open, multifunctional aspects as well as aesthetics and public benefits. During the year, the company won five other government awards, including one for a home system that is helping to usher in ubiquitous connectivity.



Record Overseas Project

GS E&C won a US\$1.95 billion contract to build a new refinery in Egypt. This is the largest single project ever obtained by a Korean builder in the Middle East and is worth more than all the other projects in progress by Korean firms in that country. The refinery will be in Mostorod, about 20km north of Cairo and annual capacity will be 150,000 barrels.



IFLA Award for Yangju Xi

The Xi apartment complex at Yangju, Gyeonggi Province was honored at the 44th annual World Congress of the International Federation of Landscape Architects. The “Eco-system Flow” playground and creek at the apartment complex were given the top prize.



Top Awards for IR and Shareholder Value

GS Engineering & Construction won the top award at the 7th annual Korea IR awards, organized by the Korea Investor Relations Association and sponsored by the Korea Stock Exchange. The award candidates are selected through an extensive evaluation process that includes surveys to gather investors’ recommendations and assessments. Then the Korea IR Awards Selection Committee conducts an objective examination of the candidates to determine which companies offer the best IR programs.

Meanwhile GS E&C also was selected for the top honor in the 3rd annual Shareholder Value Awards, held by *Money Today* magazine.



Record ₩10T in New Orders

The company received ₩10 trillion in new orders for the first time in 2007. The order backlog at the end of the year stood at ₩37.2 trillion when the ₩17.5 trillion in provisional order backlog is included. This is enough work to keep the company fully employed for at least five years. Management has also set the new order target for 2008 at an ambitious ₩12.2 trillion, which is 15% higher than in the previous year. Steady expansion of overseas business will enable GS E&C to overcome the limitations of a stagnant domestic market.

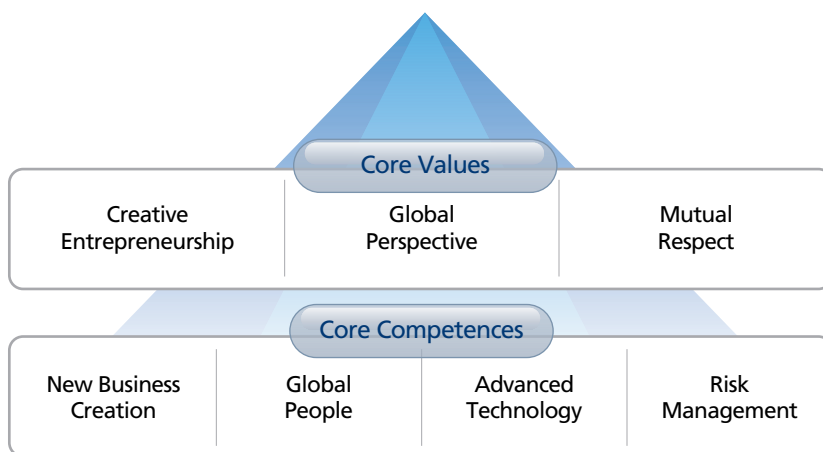


Vision 2015

*Building World Values with Creative Passion
Reliable Best Partner and First Company*

OVERVIEW OF VISION 2015

Global Best & First



Vision 2015 Global Top 10

New Orders: 24 Trillions Won
Sales Revenues: 18 Trillions Won

Direction

Target

Strategy

Move into new growth businesses

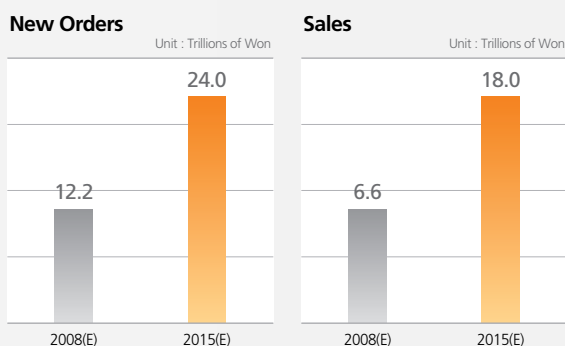
Build a "globalized" business system

Engineering capabilities will be furthered

Cost competitiveness secured

Ensure corporate sustainable management

GS E&C is now going beyond the Vision 2010 goals and expanding the business scope in step with a rapidly changing business environment and fast growing overseas market. Vision 2015 has been established to grow GS E&C into a major global player. The vision statement is to “Building World Values with Creative Passion Reliable Best Partner and First Company.” This expresses the determination to make the transition to major global player. Specifically, annual targets of ₩24 trillion in new orders and ₩18 trillion in sales have been set by 2015. Importantly, at least fifty percent of the company’s total business will be performed outside Korea, and GS Engineering & Construction will rank among the Global Top 10 on the *Engineering News Record* list.



The new vision and slogan are a natural progression from the “Best & First” slogan of Vision 2010, which was announced in 2003. Now, the aim is to be the “Global Best and First,” which means the company that offers the highest value on the world stage. To achieve Vision 2015, all GS E&C people must share and pursue the same core values, namely the “employee ideal,” “competencies,” and “organizational culture.”

The “employee ideal” is to be a leader with “creative entrepreneurship” and to use innovative thinking to uncover new business opportunities. “Competencies” refers to the kinds of superior technologies and human resources with “global perspectives” needed to engage in global business successfully. The desired “organizational culture” is one that emphasizes open communication, performance sharing, and social contributions to promote caring,

teamwork, trust and mutual prosperity on the basis of mutual respect.

GS E&C is now transitioning from a domestic market orientation to a construction-focused way of business. The company is now moving in the direction of global expansion, stronger EPC capabilities, full utilization of outsourcing, and authority delegation in a decentralized management system. Five mid/long-term tasks have been determined for achieving Vision 2015. In terms of growth, the company will aggressively move into new growth businesses and build a “globalized” business system. On the innovation side, engineering capabilities will be furthered and cost competitiveness secured. The organizational culture, meanwhile, will be cultivated to ensure corporate sustainable management. While carrying out these tasks, the company will take on its future shape as envisioned in 2015.

Vision 2010 was announced to the world as an expression of the “can-do” spirit and ambitious goals to make GS Engineering & Construction the best in Korea. Since then, the company has continued to evolve and improve to achieve results that no one could have predicted. The performance has surpassed the originally set targets both quantitatively and qualitatively. Today, GS E&C is showing the Korean construction industry a new way to go. Vision 2015 is the new goal of emerging as a world-class organization that can stand among the very best in the hotly contested global arena. To this end, much effort will be made to strengthen global competencies.

The first full year since the declaration of Vision 2015 falls in 2008. All employees are excited about going global and the management direction is global growth. This will be carried out by (1) becoming quickly engaged in the environmental and power plant sectors, (2) transitioning to a global operations system, and (3) use “Position Profiles” to build employees’ careers.

Sustainability & Social Responsibility

GS Engineering & Construction is committed to fulfilling all obligations to customers, shareholders, employees, local communities, the nation and society as a whole. Thus, management is proactively changing the corporate environment to foster a world-class enterprise that can continue to grow and advance. Transparent and ethical management practices are strictly followed to create a clean company that can be trusted by customers and the public.



Ethical Management

GS E&C management recognizes that customers will only trust and be loyal to companies that operate transparently and ethically. Therefore, business ethics have been stressed within the organization, management systems and training programs for years. For example, employees were given strict guidelines on receiving gifts. In 2004, the unit responsible for watching over ethical behavior was expanded and strengthened in an effort to eradicate improprieties that can occur both at the Head Office and on the construction sites.

New rules and guidelines have been enacted on spending company funds as part of measures to prevent bribery and other forms of corruption. Employees can report irregularities online, and compliance monitoring has been bolstered with regular audits at the Head Office and on the construction sites. Subcontractors are also centrally managed by the Head Office as part of a constant effort to ensure clean operations.

GS E&C Ethical Management Guidelines

GS Engineering & Construction conducts business fairly, honestly and sincerely to maximize customer satisfaction. In so doing GS E&C is advancing as a top-tier company that fulfills all obligations to employees, subcontractors, shareholders and society.

GS Ethical Principles

GS E&C employees share the philosophy of “creating value for the customer” and “respecting all people.” The company empowers them to make decisions and take responsibility in the spirit of the management charter. Management respects the order of a free market economy, which stresses unrestricted and fair competition. The company continues to move up the ranks of the world’s best by pursuing benefits for all stakeholders on the basis of mutual trust and cooperation. Thus, all employees pledge to abide by these ethical principles, which serve as a standard for value judgment and proper conduct.

- **Responsibilities and Duties toward Customers**

GS E&C believes customers are the true reason for being in business. Therefore, the company always respects customer opinions and is steadily creating value that helps customers, thereby earning their deep trust.

- **Fair Competition**

GS E&C strictly adheres to local laws and secures a competitive edge through fair play.

- **Fair Transactions**

GS E&C always conducts transactions according to the principle of free competition, ensuring equal opportunities for participation. The company seeks to grow together with stakeholders over the long term, conducting business fairly and transparently to build relationships of mutual trust and cooperation.

- **Basic Ethics for All Employees**

GS E&C embraces honesty and fairness. All employees are required to perform their duties honestly and to develop themselves continuously, maintaining upright values as GS E&C representatives.

- **Responsibilities to Employees**

GS E&C respects all employees as human beings and compensates them fairly on the basis of their abilities and performance. The company also allows employees to exhibit their creative talents as much as possible.

- **Responsibilities to the Nation and Society**

GS E&C applies systematic, rational approaches to grow as a solid company that protects shareholder interests while contributing to people’s lives and social development.

Social Responsibilities

In recent years, corporations have had to expand their focus beyond making a profit and put greater weight on social contribution activities. Moreover, social contributions become an intangible asset that positively reflects on the corporate image. In 2006, GS E&C launched an umbrella organization for voluntary community service called "Xi Love Sharing." This organization integrates and systematically oversees the diverse public service activities that have been performed under company auspices until now.

"Xi Love Sharing" can be viewed as a customized volunteer service program. Instead of the conventional one-sided giving, the volunteer and beneficiary establish a one-on-one relationship.

Employees have been divided into a total of 127 volunteer service units and programs have been selected and assigned to individual organizations. Starting in February 2006, employees have linked up with local government agencies to organize visits to nursing homes, childcare centers and orphanages. Through the volunteer service programs, the company donates necessities, and the volunteer services include cleaning, laundry, and bathing infirm inmates. The volunteers also repair the homes of people in need.



· Dangjin-Daejeon Expressway Section 6 Project Workers: Donating heating oil to needy families in the local vicinity

"Xi Love Sharing" program volunteers were busy in 2007. They visited a rehabilitation center for the disabled at Mokpo, site of the Koha-Juckyo Grand Bridge project, and cheered up senior citizens living alone in the Paju area, location of the LCD P8 project. GS E&C employees helped low-income families in the vicinity of Dangjin-Daejeon Expressway Section Six and donated to charity for needy families living in Gwangjang-dong. They also visited elderly living alone in Masan, where the March 15th Cultural Center is being built, and took fruit baskets to a welfare facility in Sang-am Island.



· Masan March 15th Cultural Center Project Workers: Calling on elderly persons living alone

In addition, GS E&C established "sisterhood" ties with Seoul's Junggu (Central Ward) Office, and people from the Head Office participate in "customized" community service targeting elders without families as well as needy families who live in the Ward. Head Office employees are divided into twenty different volunteer teams, each taking responsibility for five households. Thus one hundred households are visited at least once a month to ascertain what is needed, and then support is provided accordingly. In addition, the company cafeteria prepares side dishes every Wednesday for volunteers to pick up and deliver to elderly persons living alone near the Head Office building.



· LCD P8 Project Workers: Calling on elderly persons living alone

In 2008, case studies of service activities will also be shared to foster a companywide consensus on volunteering. At the same time, individual worksites are preparing to perform the services they do best such as repairing homes or improving local environments.



· Gwangjang Xi Project Workers: Raising money to support 5 needy families in Seoul Gwangjang district



Your Trusted Global Partner

Review of Operations

Plant	26
Housing	30
Civil Engineering	34
Architecture	38
Environment	42
Development	46
Technology	50



Plant

Growing as a World-class Plant Business Partner

The Plant Business Division achieved the best record among all Korean engineering, procurement and construction (EPC) contractors in 2007. New orders surpassed US\$3.9 billion, including a US\$1.95 billion refinery project being constructed by Egyptian Refining Co. (ERC) This was the largest project ever received by a Korean company in the refinery/petrochemical plant category.

The importance of the ERC order goes beyond sheer scale. It signifies that major clients are confident that we have the capabilities and competitiveness to perform mega-projects to their full satisfaction.

We have worked continuously to expand our presence overseas in order to overcome the limited opportunities of the domestic Korean power plant market. This effort has resulted in our winning an order for a combined cycle power plant in Armenia, and we intend to pursue more overseas power plant bids in order to diversify our business portfolio.

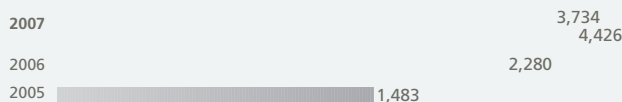
Despite the unprecedented boom in the global plant market, we also labored to develop new growth drivers for the future. The Salalah methanol project in Oman represents our entry into the market for gas-based chemical facilities. We will continue to go after projects in this area, where we boast strong price competitiveness. The better-balanced portfolio will bring greater overall business stability, given the fluctuating demand for oil-based petrochemical plants.

We will not rest on our laurels as Korea's foremost EPC contractor. Instead, we continue to enhance our operational system, infrastructure and capabilities to compete head to head with the world's best. Our efforts to expand our business regions and involvement in gas projects are ongoing, and our overseas design and construction subsidiaries are being used to the maximum. At the same time we are establishing strategic partnerships with leading overseas companies to lay the groundwork for world-class competitiveness.

New Orders

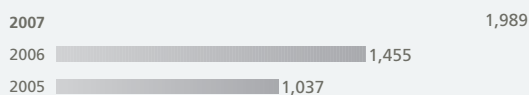
Unit : Billions of Won

Order Backlog



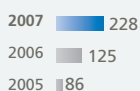
Sales Revenues

Unit : Billions of Won



Gross Profit

Unit : Billions of Won



Sang-Ryong Woo

President

Head of the Plant Business Division



YM-3
[Client] LG MMA
[Location] Yeosu, Korea
[Contract Period] June, 2005 ~ Dec. 2007
[Project Description] - Methyl Methacrylate (MMA) 76,000 ton/year

2007 Performance Summary

New orders surpassed ₩3.73 trillion in 2007. This was the first annual total to top ₩3 trillion and 63.8% higher than the approximately ₩2.28 trillion in new orders for the previous year. The Division broke ₩1 trillion in new orders for the first time in 2004 and has seen new business average 36.5% growth each year since then. The order backlog at the end of 2007 was close to ₩4.4 trillion, providing a solid platform for future operations.

Annual sales have remained over ₩1 trillion for the past three years and exceeded ₩1.99 trillion in 2007, which was 37% higher than the ₩1.46 trillion achieved in 2006. The steady stream of new contracts for large-scale projects since 2006 suggests that sales will continue their rising trend in coming years, adding stability to the overall business structure.

2008 Outlook and Plans

High oil prices will persist in 2008; many leading international institutions forecast a yearly average of between US\$80 and US\$100 a barrel. This means that oil producing nations in the Middle East and elsewhere are likely to continue investing in new facilities. The Plant Business Division will selectively bid on large-scale projects that promise to be the most profitable. New orders for the year are set at ₩4.3 trillion, up 15.2% year on year, while the sales target is ₩2.05 trillion, a 3.9% increase over 2007.

The Division will continue diversifying the portfolio in preparation for a slowdown in plant demand over the mid-/long term. The focus will be on entering new developing markets overseas and expanding into new project areas related to gas. The global network will also be supplemented to strengthen overseas operations and make up for shortages in key personnels.

Egypt E-LAB

[Client] Egypt LAB Co. [Location] Alexandria, Egypt [Contract Period] Feb. 2006 ~ Jul. 2008
[Project Description] - Linear Alkyl Benzene 100,000 ton/year





*An ongoing “glocalization”
(global + localization)
strategy, coupled with
business diversification and
ever-better competitiveness*



01_ LG DOW Polycarbonol

[Client] LG Dow Polycarbonate [Location] Yeosu, Korea
[Contract Period] Nov. 2005 ~ Jul. 2007
[Project Description] - Polycarbonate 85,000 → 170,000 ton/year

02_ LG Daesan Revemping

[Client] LG Chemical Co. [Location] Daesan, Korea
[Contract Period] Oct. 2005 ~ Sep. 2007
[Project Description] - Ethylene 450,000 → 650,000 ton/year
- BRU 180,000 → 260,000 ton/year
- Butadiene 65,000 → 115,000 ton/year

03_ No.2 HOU

[Client] GS Caltex [Location] Yeosu, Korea
[Contract Period] Sep. 2005 ~ Feb. 2008
[Project Description] - VDU 150,000 BPSD - HCR 55,000 BPSD
- LOP 17,000 BPSD - HMP 110 MMSCFD
- SRC 300 ton/day



Jamsil Complex 3

[Client] Jamsil complex-3 reconstruction union [Location] 35-jamsil,songpa-gu,seoul [Contract Period] May. 2004 ~ Aug. 2007
[Project Description] 23~31 story-apartment 17 towers 1318units total floor area: 207,750m²

Jamsil Complex 4

[Client] Jamsil complex-4 reconstruction union [Location] 44-jamsil,songpa-gu,seoul [Contract Period] Feb. 2004 ~ Dec. 2006
[Project Description] 32 story-apartment 17 towers 1170 units total floor area: 247,470m²

Housing

Asserting Global Leadership by Maximizing the Value of the Xi Brand

The slowdown in the 2007 domestic housing market was exacerbated by government policy aimed at curbing apartment price speculation. Measures included a ceiling on new apartment prices as well as credit restrictions based on the debt-to-income ratio of buyers and the loan-to-value ratio of homes purchased.

Despite the adverse conditions, we won a record of 18 domestic and international awards and achieved a new high for the advance sale of new units. These results can be attributed to ongoing efforts to promote the luxury image of the “Xi” brand and a commitment to unrivaled quality. The Songdo Xi Harbor View complex quickly posted a high percentage of contracts amid a sluggish market. The world-renowned Good Design Award and a No. 1 Global Customer Satisfaction rating were among the many accolades presented to our Division in 2007. We firmly established ourselves as Korea’s top apartment brand.

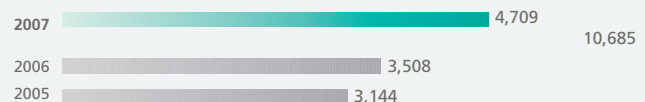
In the future, we will cater to the specific housing needs of customers in specific regions and maximize the value of residential space. In the process, we can continue to grow the Xi brand and emerge as a true global leader.



New Orders

Unit : Billions of Won

Order Backlog



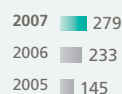
Sales Revenues

Unit : Billions of Won



Gross Profit

Unit : Billions of Won



Chan-Ho Lee

Senior Executive Vice President
Head of the Housing Business Division

2007 Performance Summary

The market conditions were adverse but the Division still managed to finalize new contracts valued at ₩4.7 trillion, up 34% from the ₩3.5 trillion achieved in 2006. This figure includes ₩1.7 trillion from outside developers, ₩2.2 trillion worth of residential redevelopment and apartment reconstruction projects, and ₩818 billion in apartment construction on land owned by GS E&C. Add 3.5 trillion worth of provisional contracts and the order backlog amounts to ₩4.6 trillion, the highest of any Korean home builder. Thus a solid foundation is in place for future growth.

Sales revenue rose 14% year on year, from ₩1.7 trillion to ₩1.9 trillion, thanks to increases sales at large-scale projects such as Banpo Xi and Jochiwon Xi as well as to expanded construction work at new projects. Moreover, sales revenue is expected to rise sharply in 2008, with income from twelve new projects such as Siksa Block 1, Po-il Jugong, Incheon Cheongna and Sincheon Xi.

2008 Outlook and Plans

The price cap policy is expected to result in a temporary surge in housing supplies, but supply is forecast to diminish over the longer term. This will create difficulties in the overall housing business. However, the Housing Business Division will overcome the adversity by securing new growth drivers. The Division will expand into new business segments at home while stepping up involvement overseas to sustain growth. At the same time, redevelopment and reconstruction contracts already finalized will be begun as quickly as possible to maintain a stable business base for the near term.

The Division has set its 2008 targets at ₩5.2 trillion in new orders and ₩2.5 trillion in sales. These goals will be met by taking the appropriate proactive measures in conjunction with fiscally sound project execution and management. Top management and all employees are united in their resolve to overcome adversity, reach the performance objectives and achieve growth along with improved profitability.

In addition to financial soundness, the Division will continue to help shape new lifestyles and maximize customer satisfaction to ensure that Xi remains the customers' preferred brand. The ultimate goal is to go beyond being Korea's best builder and join the ranks of the global leaders.

Sajik Xi

[Client] MD D&C [Location] 93-8 Sajik-dong, Dongrae-gu, Busan [Contract Period] Dec. 2004 ~ Apr. 2004
[Project Description] 23-story apartment 3 towers, 249 units, total floor area :59,870m²





A global Xi brand and enhanced consumer value from designs, construction and services tailored to individual customer environments

01_ Singuro Xi

[Client] AR Holdings
[Location] 501 Guro-dong, Guro-gu, Seoul
[Contract Period] Mar. 2004 ~ May. 2007
[Project Description] - 36-story residential complex
- 299units, total floor area : 117,610m²

02_ Osan Xi

[Client] MIREA E&C
[Location] 12-1, Cheongho-dong, Osan-city, Gyeonggi
[Contract Period] Jul. 2005 ~ Aug. 2007
[Project Description] 20-story apartment 14towers 1060units,
total floor area : 168,050m²

03_ Ssangyong Xi

[Client] Modern E&C
[Location] Block3, Development District, ssangyong, cneonan-city
[Contract Period] Dec. 2004 ~ Jan. 2007
[Project Description] 15-story apartment 10 tower 564units,
total floor area : 95,450m²



01



02



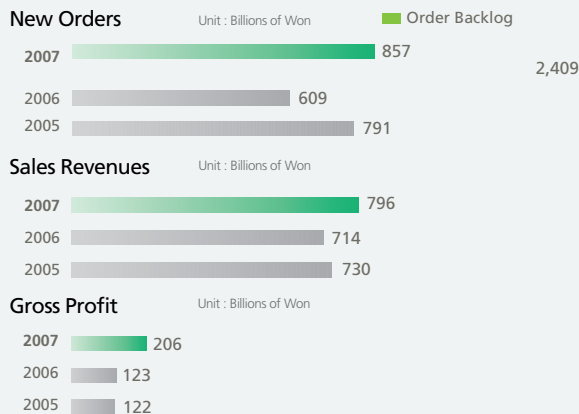
03

Civil Engineering

Strengthening Global Business Competencies and Finding New Growth Engines

Competition in the domestic market intensified during 2007, while changes in government policy and systems made this the most difficult year ever for winning government contracts. However, we demonstrated our competitive edge once again in Korean government infrastructure projects by securing a wide range of new projects. For example, we were named the preferred bidder for the Seoul-Munsan Expressway, submitted the winning bid for site preparation of Yeongjong Sky City and won the turnkey order for developing the Gwangyang Port west hinterland.

Overseas, meanwhile, we achieved tangible results regarding projects we have been pursuing in Vietnam, and we expanded our presence in high growth-potential markets like Cambodia. Building on these accomplishments, we will advance our stature in the government contract market and seek out profitable development projects in Korea during 2008. At the same time, we will expand our channels into overseas markets and work to make the coming year our takeoff point for joining the ranks of the world's top construction companies.



Hwi-Sung Lee
Senior Executive Vice President
Head of Civil Engineering Business Division



Iksan-Jangsu Highway Section 5

[Client] Korea Expressway Corporation

[Location] Jeonju, Korea

[Contract Period] Nov. 2001 ~ Dec. 2007

[Project Description] -Length : 3.41km

-Bridges : Mandeok Bridge (1.06 km)

-Tunnel : Gonti Tunnel (2.307km)

2007 Performance Summary

New orders, sales and profitability all showed strong growth in 2007. New orders for large infrastructure projects and contracts won under the government's lowest bidder policy boosted the annual total to ₩857 billion, up 41% from the ₩609 billion in new orders posted for 2006. Sales amounted to ₩796 billion, an 11% increase from the ₩714 billion total in 2006. Gross margin surged 17.1% in 2006 to 25.9% in 2007, thanks to the increased sales revenue from profitable large-scale projects and tangible results from the cost control effort that has been in place since 2006.

2008 Outlook and Plans

A tighter budget and changes in the tendering policy are expected to exert downward price pressure on government projects. On the other hand, private sector capital is increasingly flowing into the infrastructure sector. Therefore, the Division will pursue the most lucrative infrastructure contracts in Korea while expanding involvement in overseas civil engineering projects that include private-proposed projects. The target for new orders has been set at ₩1.15 trillion, up 34% from the ₩857 billion in contracts received during 2007, while sales are expected to reach ₩719 billion.

The Division will continue to train personnel and acquire technologies needed for core public sector projects. The coming year will be a turning point in global expansion as well. Therefore, business approaches will be diversified and greater inroads will be made into strategic national markets.

Hyeonpung-Gimcheon Highway Section 6

[Client] Korea Expressway Corporation [Location] Daegu, Korea [Contract Period] Dec. 2001 ~ Dec. 2007

[Project Description] - Length : 6.04km

- Bridges : Joongbu Naeryuk Nakdong Bridge (0.90km)

- Tunnel : Goryung Tunnel No.4 (0.91km)





Steady improvement of global and domestic operations through in-house training, and new technology acquisition for core sector projects.



01



02



03

01_ Seoul Belt Highway(Ilsan-Toegyewon) Section 4

[Client] Korea Expressway Corporation [Location] Yangju, Korea
[Contract Period] Jun. 2001 ~ Dec. 2007
[Project Description] - Length : 7.48km
- Tunnel : Sapaesan Tunnel (3.89km)

02_ Incheon International Airport Runway No.4 Foundation

[Client] Incheon International Airport Corporation
[Location] Incheon, Korea [Contract Period] Nov. 2005 ~ Aug. 2008
[Project Description] - Hill Cutting : 3.82 Million M3
- Reclamation : 2.60 Million M3

03_ Seoul Subway Line No.9 Section 4

[Client] Seoul Metro [Location] Seoul, Korea
[Contract Period] Dec. 2001 ~ Dec. 2009
[Project Description] - Length : 1.95km
- Station : 2EA



Seoul Central Post Office

[Client] Ministry of Information and Communication

[Location] Seoul, Korea

[Contract Period] Sep. 2003 ~ Sep. 2007

[Project Description] -Total floor area : 72,718 m² (21 stories, 7 underground levels)

Architecture

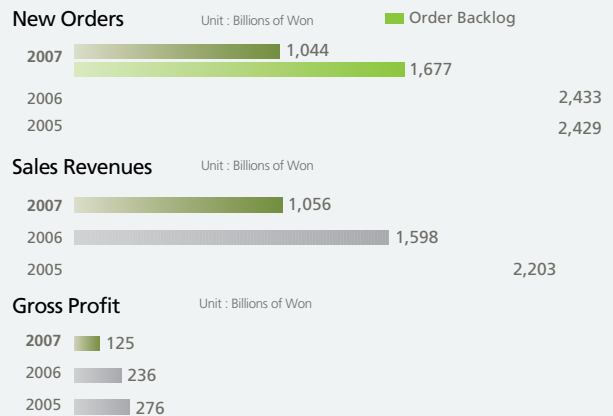
Building Overseas Business Infrastructure to Bolster Competencies and Global Price Competitiveness

We maintained our domestic market share despite a contracted demand for construction in 2007. Our expanded presence overseas enabled us to reach our targets, while we prepared for market diversification. Importantly, we set the stage for accelerated overseas activity, breaking ground for development projects in Vietnam and Cambodia. An overseas network is now in place, with the essential infrastructure as well as MOUs with excellent local partners.

Major new projects of note in Korea includes the Dongkuk Dangjin Plate Mill Project and the Seoul International Finance Center in the Yeoueido district. Construction of the landmark Seoul Central Post Office building and Nongshim R&D center proceeded smoothly, reaffirming the great pride we take in our high-tech intelligent building projects.

We will build on the progress made overseas in 2007 to win orders for office and mixed-used building development projects in 2008. Our goal for the year is to find well-paid contractor projects in the Middle East as well as in nations where we are already stationed.

In Korea, meanwhile, we aim to go beyond from simply performing the construction work to providing a total service package. This approach will be applied in an effort to be the nation's top performer in our segment during 2008 and to maximize shareholder value.



Geon-Soo Jang
Executive Vice President
Head of the Architecture Business Division

2007 Performance Summary

New orders and sales were down in 2007 from the previous year, but progress was achieved in reducing reliance on orders from GS, LG and LS affiliates. The new order total was down year on year, but private sector contracts (e.g. excluding group "works") rose 24.3%, from ₩557.2 billion in 2006 to ₩692.4 billion in 2007. Thus, the portfolio is becoming more heavily weighted toward "outside" customers, paving the way for strong growth. Overseas, the Division won orders for the Cu Chi Golf Resort (Vietnam), Lucky-Union Food plant (Poland) and SKC LCD film plant (Poland), and overseas projects will continue to increase in the future.

Postponed new investments by LG affiliates dragged sales down 65.9%, from over ₩1.6 trillion in 2006 to some ₩1.06 trillion a year later.

On-site surveys and performance management inspections were conducted to reconsider and reestablish methods for calculating the cost of work performed. As a result, subcontractor fees were reduced 9%; material costs were adjusted 5% downward, and a unit cost system was established. This approach enhances cost competitiveness and provides a solid advantage when submitting bids or estimates. As a result, the Division managed to win the Dongkuk Dangjin Plate Mill Project in heated competition with rival builders.

2008 Outlook and Plans

The portfolio will be overhauled to increase the percentage of overseas contracts in the mix, thereby securing new growth drivers. Overseas networks will be used extensively, and risk hedging plans will be implemented to maximize profitability in all markets.

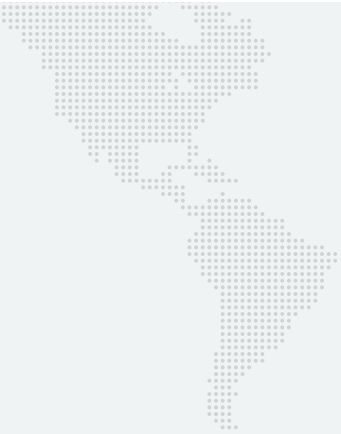
The target for new orders has been set at more than ₩1.43 trillion, a 37.5% increase over the 2007 total of ₩1.04 trillion. Profitability will be assured with maximized new contracts through a concerted effort to secure office building development projects outside Korea. At the same time, the Division will take part in simple contracting services and continue honing competencies to win more orders and earn better profit.

Part of the new contracts will be determined by the new facilities investments made by GS, LG and LS affiliates. Also in the private sector, an aggressive marketing campaign, cost cutting activities and cooperative efforts will help to ensure a stable inflow of new business and to maintain close partnerships. The emphasis on winning overseas projects and ongoing efforts to raise profitability will be the key to making 2008 a year of strong growth.

Gwangyang Port Business Support Facility

[Client] Korea Container Terminal Authority [Location] Jeollanam-do, Korea [Contract Period] Dec. 2004 ~ May, 2007
[Project Description] Total floor area : 18,247m²(19 stories, 1 underground levels)



New quantification tools and execution plans for enhanced project execution overseas, and a new overseas preliminary cost estimation system and adjusted ACWP(actual cost of work performance) standards for better price competitiveness

01_ Nongshim R&D Center
 [Client] Nongshim [Location] Seoul, Korea
 [Contract Period] Apr. 2005 ~ Jul. 2007
 [Project Description] Total floor area : 68,382m²(20 stories, 3 underground levels)

02_ LG CNS IT Center
 [Client] LG CNS [Location] Seoul, Korea
 [Contract Period] Mar. 2005 ~ Dec. 2006
 [Project Description] Total floor area : 44,255m²(12 stories, 4 underground levels)

03_ New Jeollanam-do government complex
 [Client] Jeollanam-do Province [Location] Muan, Korea
 [Contract Period] Dec. 2001 ~ Nov. 2005
 [Project Descriptions] Total floor area : 79,167m²



01



02



03

Environment

Expanding the Value Growth Platform by Securing an Advantage and Diversifying the Portfolio

Competition over public sector contracts intensified in 2007 as medium-sized firms waged a bidding price war and certain large firms made strategic inroads into the environmental facility construction market. Yet, we managed to expand our business base by pursuing a strategy of differentiating ourselves from our rivals.

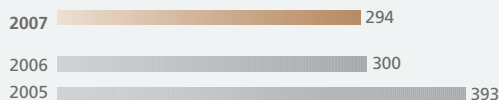
For public turnkey projects in Korea, we accumulated broad experience in both water treatment and waste treatment. Indeed, our know-how spans sewage and wastewater treatment, recycling facilities, waste incineration, pneumatic waste collection, and sludge drying and solidation.

In the private sector, meanwhile, we began our first build-transfer-operate (BTO) projects, in addition to the current build-transfer-lease (BTL) approach. We will overcome future limitations on domestic market growth by restructuring the portfolio mainly around the water industry and solid waste market. At the same time we plan to build a global organizational system and secure the competencies necessary to make overseas projects an increasingly larger part of our business.

New Orders

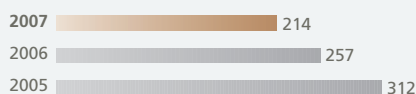
Unit : Billions of Won

Order Backlog



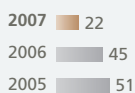
Sales Revenues

Unit : Billions of Won



Gross Profit

Unit : Billions of Won



Sang-Ryong Woo
President
Head of the Environment Business Division



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

2007 Performance Summary

The Division moved into new turnkey project categories in 2007 by winning contracts for a sewage water recycling facility in Osan and a sludge drying & solidation treatment facility in Daegu.

New orders for incineration facilities in Hwaseong, Gumi and Chungju also demonstrated strong competitiveness in the solid waste treatment sector.

Intense competition and contracts being awarded to the lowest bidders have made BTL sewage network projects less attractive. The Division has responded by successfully pursuing BTO projects in the water treatment, incineration and solid waste recycling areas.

2008 Outlook and Plans

Domestic market share will be restricted by intensifying competition in the coming year. On the other hand, demand for water treatment facilities is expected to rise overseas, particularly in the Middle East and Southeast Asia.

Domestically, therefore, the Division will focus on profitable turnkey and BTO projects as well as on strategies for advancing into the facility operation business. The overseas focus, meanwhile, will be on advancing in stages into EPC projects as well as projects that include the Design-Build-Own-Operate (DBOO) phases.

The business will be restructured to put the greatest weight on the water industry and overseas markets. The staff of specialized engineers will be augmented and redeployed to bolster the professionalism of the overall organization. Project planning, engineering and facility operation capabilities will all be enhanced to make GS E&C highly competitive in the environmental facility segment inside and outside Korea.

LCD P7

[Client] LG Philips LCD [Location] Paju, Korea [Contract Period] May, 2004 ~ Jan. 2007

[Project Description] - Wastewater treatment : 51,000 m³/day

- Wastewater recycling : 18,000 m³/day





Sustaining a competitive advantage in the domestic market from selective resource allocation, intensifying global businesses, and diversifying the portfolio based on technology competitiveness.



01



02



03

01_ Jeonju Advanced Sewage Treatment Facility

[Client] Jeonju City [Location] Jeonju, Korea
[Contract Period] Oct. 2004 ~ Nov. 2007
[Project Description] Sewage Treatment 303,000m³/day

02_ Goyang Advanced Sewage Treatment Facility

[Client] Goyang City [Location] Goyang, Korea
[Contract Period] Dec. 2006 ~ Dec. 2008
[Project Description] Sewage Treatment 270,000m³/day

03_ Osan Sewage Treatment Facility No. 2

[Client] Osan City [Location] Osan, Korea
[Contract Period] Aug. 2005 ~ Aug. 2008
[Project Description] Sewage treatment : 64,000m³/day



Ansan Sadong 90 Block New Town

[Location] Ansan, Korea [Project Period] 2007 ~ 2014

[Project Description] - Site area : 369,835 m²

- Total floor area : 1,533,891 m²

- R&D, residential, commercial, culture



Development

Emerging as a Global Developer Through the Creation of New Growth Engines

In Korea, we took part in selected public-private partnership (PPP) projects and were named the preferred bidder for some of the largest projects: the Ansan Sadong 90 Block New Town development; the Central Pangyo Multiplex Commercial Zone and the Yongsan International Business Complex in Seoul, firmly establishing a competitive edge in the PPP segment.

Meanwhile, we achieved tangible results from projects in Vietnam. The government there granted us permission to invest in the development of "Nha Be New Town", Build-Transfer Road Project and Cu Chi Golf Resort in Ho Chi Minh City. We are also pursuing a large-scale development project in Cambodia for the purpose of further expanding our overseas business portfolio, securing an important revenue source for the longer term.

In 2008, we will install the new Project Management System, which will enhance the project performance capability of our orders, minimize project-related risks as well as maximize our profitability. We will also seek out private - proposed projects, resort development projects and natural resources development business that will be the driving force behind our future growth. Moreover, our activities in Vietnam and Cambodia are proceeding well and we are leading the way into other emerging markets. Our aim is to leap beyond and become a top-tier developer with the ability to create new growth engines on the global stage.



Sung-Keun Yoon
Executive Vice President
Head of the Development Division

2007 Performance Summary

The Division joined four major public-private partnerships and was selected as the preferred bidder for three of them. This year, GS E&C has again proved itself as a superior competing power in winning orders.

In the overseas business sector, the Division received the Vietnamese government's approval to proceed with several investment projects in 2007, helping the Civil Engineering and Housing Business Divisions to raise the amount of new orders achieved this year. The groundwork has also been laid for GS E&C to advance into more development projects outside of Korea.

The Division has made inroads into the Cambodian development market, purchasing 6.8 hectares of land southeast of the Phnom Penh Central Business District and an additional 150 hectares (in the Chroy Changva area) just outside the Cambodian capital.

2008 Outlook and Plans

Competition over PPP projects will intensify in 2008, and their form will also change. Therefore, securing a large volume of work will become more difficult in this segment. However, the Division will step up its project planning capabilities to win PPP projects, diversify the business portfolio and proceed with mixed-use (offices, residences, commercial space and a hotel) development projects in Cambodia.

With the broader perspective in mind, the Division will focus on private - proposed projects and portfolio diversification in Korea, for a sustainable growth. GS E&C has also declared 2008 to be the first year of all-out global expansion. In step, the Development Business Division will proceed with major projects in Cambodia and Vietnam; continue to look for opportunities in strategically important new markets such as Russia, Kazakhstan, Poland and Saudi Arabia; and expand into new kinds of projects. The goal for the year is to lay the groundwork for becoming a true global leader.

Nha Be New Town

[Location] Ho Chi Minh, Vietnam [Project Period] 2007 ~ 2019

[Project Description] - Site area : 349ha

- Residential, commercial, office, school, hospital





*A new business platform
built on the basis of large
mixed-use projects, domestic
and overseas, integrating
competencies along the
value chain*



01



02



03

01_ Hapjung-Dong Mixed-use Complex

[Location] Seoul, Korea [Project Period] 2007 ~ 2011
[Project Description] - Site area : 26,426m²
- Total floor area : 294,613m²
- Residential, commercial, office, cultural center

02_ Woonbuk Leisure Complex

[Location] Incheon, Korea [Project Period] 2006 ~ 2014
[Project Description] - Site area : 1,841,049m²
- Total floor area : 2,975,454m²
- Residential, commercial, office, hotel, leisure

03_ IFC

[Location] Phnom Penh, Cambodia [Project Period] 2008 ~ 2012
[Project Description] - Site area : 6.8ha
- Total floor area : 531,405m²
- Office, residential, commercial, convention center, international school





Technology

Securing Global Technology Competitiveness

In 2007, we carefully reviewed past activities to find ways to enhance our main functions: technology support and R&D. As a result, the Engineering Service Support Program (ESSP) was newly designed for us to focus our competencies more on specialization, while common technical support can be delivered through ready-made electronic guidance.

We also worked to commercialize many of the technologies already developed in-house, while our ongoing R&D effort in 2007 yielded eight new technologies and thirty-seven patents.

Along with these internal improvements, we have been supporting our corporate globalization and business diversification drive. Last year, our Division continued to hunt for new functions and reinforce areas that were deficient. As a first step for cultivating global technology support capabilities, a database has been established covering the specifications used in each country where GS E&C operates. Preparations have also been made to advance into overseas water treatment markets, and plans have been finalized for bolstering the organizational unit and personnel dedicated to water treatment.

We will continue to secure the core technology and cultivate the core personnel necessary to serve as a global technology hub that delivers in a timely manner.



O-Whon Kwon
Executive Vice President
Head of Technology Division

2007 Performance Summary

The Technology Center established a mid-/long-term strategy in 2007 that includes “finding new growth drivers for future competitiveness” and “strengthening global technology support capabilities.” R&D activities continued, and studies were begun for commercializing technologies. Efforts were also made to bolster the technology infrastructure and technology/safety support services in close cooperation with the construction sites.

A total of fifty-five research projects were carried out, resulting in the development of eight new technologies and the receipt of the intellectual property rights to thirty-seven patents. Some of the research projects were conducted specifically for the commercializing technologies related to clean room and geothermal energy. In addition, the Research Institute’s testing facilities were qualified for the Korea Laboratory Accreditation Scheme (KOLAS), and technology PR activities were stepped up. Meanwhile, the Division provided technology support and technical data for the company’s Total Project Management System (TPMS). It also conducted technology safety inspections and compiled a technology safety guidebook.

As for technology infrastructure, the Engineering Service Support Program was implemented and detailed technical alliance programs were carried out with Kajima Corporation and Turner Construction International. The technology development program with our partner companies was extended to one hundred subcontractors involved in nineteen different types of construction work. To nurture technology expertise, the Technology Division expanded its Career Development Path (CDP) initiative and job rotation program.

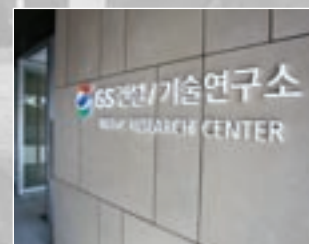
New core technology from R&D, stronger global technology support capabilities and a search for new growth engines to ensure a competitive edge in the future

2008 Outlook and Plans

The new direction set for 2008 is to “become a technology hub that offers core technologies and personnel for global operations.” Four major tasks will be pursued to this end: “secure technologies befitting an industry leading brand” “bolster research for commercializing technology,” “enhance technical management of construction site safety,” and “attract and train globally competent engineers.”

Action plans have been established to secure nine technologies befitting an industry-leading brand. At the same time, research on technology commercialization will continue in close cooperation with the other business divisions to boost the competitiveness of current business sectors and identify new areas with platform technologies.

Technical management of construction site safety will be established companywide; GS standards will be set for each construction work type, and a system will be put in place to prevent technology-related accidents. The Division will oversee an individual CDP that includes position profiles for each specialty. The technology team will be brought up to the global standard through target recruiting and rigorous training.



Management's Discussion and Analysis

Construction Market

2007 Review & 2008 Outlook

1. Domestic Construction Orders

2007

New contracts in Korea in 2008 totaled ₩128 trillion, which was much higher than the original forecast of ₩96 trillion. The increase is due to the early start of many private sector housing projects to avoid the application of the presale price ceiling. Thus, the volume of housing contracts in the private sector did not grow as small as expected. At the same time, government contracts were implemented ahead of schedule and privately funded projects orders were robust.

Civil engineering projects, which represented about 70% of all government contracts, increased with the government's early implementation. Public housing construction also saw major growth.

Non-government civil engineering projects were up with the surge in privately funded projects. Private sector redevelopment projects were launched before the Housing Act amendment, while non-housing construction orders rose with Korea's economic recovery.

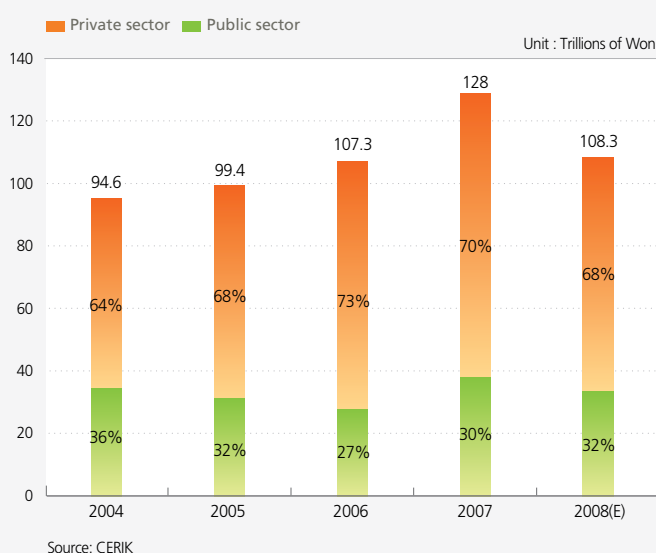
2008

The Construction & Economy Research Institute of Korea (CERIK) predicts that new domestic construction orders will amount to ₩108.3 trillion in 2008, down from the previous year's figure. Orders related to the government's ambitious Balanced National Development Project will begin in earnest. Moreover, orders will be forthcoming for the second round of "new towns," as well as for delayed turnkey projects and projects awarded to the lowest bidder. By contrast, the volume of private sector housing orders that receive government permission will fall with the enforcement of the presale price ceiling.

The government will offer site preparation and basic infrastructure contracts for massive state-sponsored projects that include the Multifunctional Administrative City, "innovation" cities, "enterprise" cities and second-phase "new towns." In addition, turnkey and lowest-bidder projects that were deferred until 2008 will add to the public sector project total.

Meanwhile, the volume of new housing orders on privately owned land will fall with the enforcement of the presale price ceiling. The scale of available BTL contracts will also shrink. These trends will be countered by an increase in building construction and other non-housing projects.

Construct Amount



2. Housing Market

2007

The effects of the Roh Moo-Hyun administration's policies to curb real estate speculation were fully felt in 2007. Increased transfer and property taxes helped to reduce demand regionally. In addition, tighter regulations on home loans have contributed to the falling demand. Enactment of the price threshold on new units and the subscription points system also increased the number of home purchases that were either delayed or indefinitely postponed. On the other hand, the government took steps to stimulate the stagnant real estate market outside the Greater Seoul Area. Some wards and cities were removed from a list of areas designated as housing speculation zones, and a plan was enacted to reduce the number of units that remain unsold in advance of construction.

2007 Real Estate Policy Initiatives by the Roh Moo-hyun Government

Promulgation Date	List of the Policy
January 11	Presale price ceiling, greater disclosure of construction costs, extended period before resale of pre-sold units, subscription points system
January 31	Increased supply in long-term rental homes, greater financial support for lower-class homebuyers
September 20	Removal of 12 areas (Joong-gu and Seo-gu in Daejeon, and Gumi city North Gyeongsang Province among them) from the housing speculation zone list

Meanwhile, construction companies began vigorously to pre-sell apartments before the price ceiling was imposed. The number of unsold units soared toward the end of the year as demand for homes fell.

2008

Expectations are high that the newly elected administration will ease real estate restrictions in the coming year. Yet, the regulations that were passed under the previous government are now part of law. A major overhaul is needed rather than partial amendments. Most analysts believe that tangible changes will be few in the short term.

However, the lackluster real estate market could adversely affect the real economy in Korea's provincial areas during the first half of 2008. If that happens, the government would be prompted to expedite changes to the current real estate policy.

Concerning demand, market analysts are maintaining a wait-and-see attitude while expecting it to contract further. The government's tight regulations governing housing loans and the increased interest rates in 2007 detract from purchasing power. Therefore, the effects of an artificial government policy will lower demand in 2008, and the research institutions believe effort will be required to bring it back within normal market forces.

On the supply side, construction companies offered a massive volume of units for presale during the second half of 2007, and the unsold units have increased. Therefore, they will be forced to

adjust the timing of new presale offerings. Presale unit availability in the Greater Seoul Area will only increase in the coming year for apartments to be built on public land such as the second-phase "new towns".

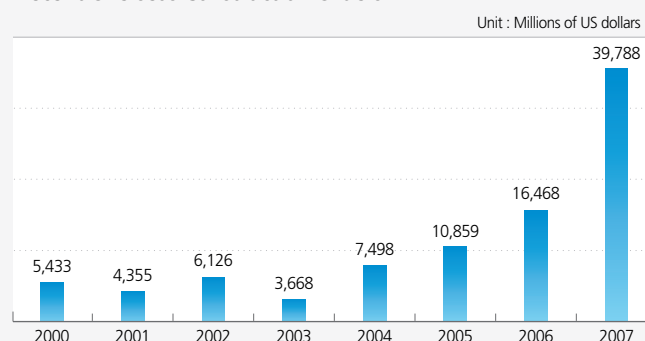
3. Overseas Construction Orders

2007

Korean companies performed their first construction contracts outside the country in 1965. In 2007, a total of 290 Korean construction companies won 619 orders, worth US\$39.8 billion in 76 countries, an increase of 142% from 2006. This was also the first year on record that overseas orders surpassed US\$30 billion.

Middle East projects, which were mainly plants, totaled US\$22.8 billion. In Asia, Korean companies were awarded contracts for large-scale projects involving plants, civil works, building and housing. Overseas construction activity was robust overall in 2007. Three key features can be identified regarding the overseas orders received by Korean companies during 2007. First, the persistently high oil prices drove up demand for large-scale plant projects in the oil producing countries of the Middle East. Second, recovery of

Recent Overseas Construction Orders



Recent Overseas Construction Orders

Unit : Millions of US dollars

	2005	2006	2007
Total	10,859	16,468	39,788
Middle East	6,445 (59.4%)	9,530 (57.9%)	22,801(57.3%)
Asia	2,611 (24.0%)	4,046 (24.5%)	12,849(32.3%)
Other	1,803 (16.6%)	2,892 (17.6%)	4,138(10.4%)

the Asian construction market brought a surge in new orders. Third, real estate development projects became prevalent in both the Middle East and Asia, allowing both large construction companies and smaller ones to work outside Korea.

2008

The outlook is bright for overseas orders in 2008. Some even predict that Korean companies will receive US\$40 billion worth of new contracts for the first time. The overall size of the overseas construction market is expected to grow to US\$795 billion in 2008, providing ample opportunities for Korean builders. To achieve the new record, they are expected to engage in aggressive marketing as well as conclude contracts currently under negotiation. In fact, Korean companies can achieve at least US\$40 billion in new contracts simply by winning 5% of all the new work that will be available around the world.

Conversely, the outlook for the Korean construction market is dim, with new orders likely to total less than US\$30 billion. Potential opportunities will diminish for highly capable domestic construction companies. They are expected to confine themselves to finishing up current projects while only accepting the most profitable new contracts. Therefore, their overall growth will be minimal despite their continued expansion overseas.

2008 Overseas Construction Market and International Oil Price

	Minimum	Average	Maximum
International Oil Price	US\$80/bbl	US\$85/bbl	US\$105/bbl
Overseas Construction Market	US\$606B	US\$644B	US\$795B

Summary of Operations

Continued Quantitative Growth

The Korean government’s anti-speculation policy continued to restrain construction activity in 2007 as it had the year before. However, GS Engineering & Construction managed to win a record ₩10.6 trillion in new orders thanks to a well-balanced portfolio spanning civil engineering, plants, environmental facilities, buildings and housing; sound finances and strong

competitiveness. Sales also topped ₩6 trillion for the year. Both of these figures were the highest among all of Korea’s construction companies. Also, *Engineering News Record* magazine ranked GS E&C 1st in Korea and 31st among the top 225 global contractors in 2007. These achievements satisfied the market’s expectations for quantitative growth amid adverse market conditions. They also reaffirmed the potential for GS E&C to keep growing in the future. Thus, management expects new orders to reach ₩12.2 trillion and sales to total ₩6.6 trillion in 2008.

Rapid Expansion Overseas

The total value of new overseas orders, led by plant projects, surged for the second straight year. GS Engineering & Construction was awarded more than ₩3.86 trillion worth of new contracts outside Korea in 2007, a 116% jump from the almost ₩1.79 trillion figure posted a year earlier.

To diversify the portfolio, GS E&C bid on and won a linear alkyl benzene plant in Egypt in 2006. The company then received a US\$1.95 billion plant project in Egypt in 2007, the single largest contract ever for a Korean construction company. Now, the groundwork has been laid for GS E&C to advance further into the African plant market.

The overseas plant projects have mainly been related to oil, gas and petrochemicals areas where GS E&C has enjoyed great success. Thus risks associated with project execution have been reduced. Along with the increased volume of new orders, the company is focusing on profitability and will be careful to bid only on quality projects in the days ahead. Meanwhile, GS Engineering & construction obtained permission to invest in three Vietnamese development projects in 2007. These include a BT project in Ho Chi Minh City, a massive housing development in Nha Be, and a resort in Cu Chi. The purchase of land in Cambodia was also finalized in 2007. Therefore, the company is ready to go forward on development projects that will become future growth drivers.

Improved Profitability

In the past quantitative growth was put ahead of profitable growth. Corporate competencies were focused on winning new orders, and the volume increased significantly as a result. Then in

2006, the company instituted a cost reduction campaign aimed at growing value. The drive for “quality growth” included the introduction of the Total Project Management System (TPMS), a working level committee to ascertain project profitability prior to bidding, and a companywide campaign to reduce sales and administrative expenses. The efforts paid off, with a gross profit margin of 14.3%, operating profit of 7.4%, and ordinary profit of 9.4%. The TPMS was extended to the construction sites in 2006. It has played a pivotal role in shortening processes and project times, lowering costs, and reducing waste from unnecessary delays and expenses.

Operation Results

Orders Received

New orders in 2007 rose 17% year on year to surpass ₩10.63 trillion. This growth continues to lead the Korean construction industry despite a contraction in construction activity. The Plant and Housing Business Divisions posted the highest increases in new orders. The volume of plant contracts surged despite a slowdown in public projects in Korea. Most of the new plant orders came from the Middle East and North Africa. Meanwhile, the domestic housing market was unsettled by the government's anti-speculation policy, but new orders for housing continued to rise nonetheless.

In accounting, GS E&C classifies newly received housing projects as either “new contracts” or “provisional contracts.” In the latter case, the outside developer or housing association has selected GS E&C as the contractor, but the project is still awaiting government approval. Once approval is granted, the accounting status will be changed to “new order.” The new order backlog stood at ₩19.7trillion, while pending contracts totaled ₩17.5 trillion, for a grand total of ₩37.2 trillion at the end of 2007. Based on 2007 sales, this is enough work to keep the company operating at full capacity for six years.

Civil Engineering Business Division

The civil engineering business environment was difficult in 2007,

but the Civil Engineering Business Division leveraged its excellent technical expertise and sales organization to bolster the capability to win new government contracts. The focus was on privately funded infrastructure projects and turnkey projects, and the volume of new orders rose 41% over 2006 to reach ₩857 billion. Sales also surged 11% year on year to ₩796 billion, thanks to stronger revenue from the Seoul Beltway Project. The order backlog for the Division at year's end exceeded ₩2.41 trillion, or 11% of the company total.

Plant Business Division

The Plant Business Division received more than ₩3.73 trillion in new orders, which was some 50% higher than the original target of ₩2.47 trillion. Efforts to diversify outside the Middle East resulted in a linear alkyl benzene (LAB) plant project in Egypt in 2006. This laid the groundwork for greater inroads into the African plant market, and helped the company to win a US\$1.95 billion hydrocracker project in Egypt in 2007. This was the highlight of the year for the Division: the most expensive plant project ever for both GS E&C and the Korean construction industry as a whole.

Sales of just under ₩2 trillion were posted for 2007, boosted by the second heavy oil upgrading (HOU) facilities now being built for GS Caltex.

Environment Business Division

The Environment Business Division received a total of ₩294 billion in new orders in 2007, lower than the previous year because of delayed government tenders. However, the Division was awarded a diverse range of projects, including solid waste processing, incineration, advanced water treatment and sewage treatment, to retain a leading position in the Korean environmental sector. Moreover, the order backlog at year's end totaled ₩550 billion, which was higher than the figure posted a year earlier.

The Environment Business Division has acquired extensive experience and technology in the performance of projects for GS and LG affiliates. The fundamentals are now in place for rapid growth in the public sector. Meanwhile, the Division continues to strengthen competitiveness through new technology

development and acquisition, and is now ready to expand rapidly into water-related projects.

Architecture Business Division

The Architecture Business Division received just over ₩1.04 trillion in new orders, down from the previous year because of a sharp decline in work from LG Philips LCD and LG Electronics. Orders from these two clients totaled ₩247 billion, or 24% of the total. Although the total volume was smaller, the projects were widely varied. In the private sector, the Division was awarded the contract for the AIG Seoul International Finance Center, keeping it active the construction of very tall buildings.

The Division has been working to diversify its portfolio since 2006, resulting in the winning of projects that include the development side of the business in addition to the construction work. Expansion into the new-concept development-style construction projects will enable the Division to increase the portion of “non-group” projects in the portfolio and ensure stable profitability.

Housing Business Division

New orders rose 34% year on year to more than ₩4.7 trillion, thanks to a sharp rise in reconstruction contracts. The new order surge boosted the backlog 37% to just under ₩10.69 trillion.

Projects in the housing sector are only classified as “new orders received” after the government has granted permission for construction to begin. The volume of “provisional projects” (the signed contracts await government approval) stood at ₩17.5 trillion at the end of 2007, making the combined backlog ₩28.2 trillion.

The Division has also been improving profitability by increasing the percentage of projects performed on land owned in-house. This segment rose from 6% of the total in 2006 to 17% in 2007 with the addition of the Susaek Xi and Incheon Cheongla projects. The Division will continue to purchase residential sites that are attractive to potential homebuyers in order to increase the amount of in-house apartment construction in the portfolio.

Sales Revenue

Sales revenue grew from over ₩5.74 trillion in 2006 to more than ₩6.01 trillion in 2007 thanks to balanced results among the five business divisions.

Breaking down the sales total by business division, Civil Engineering recorded ₩796 billion, up from the previous year on strong sales from infrastructure projects.

Plant saw sales rise thirty-seven percent year on year to more than ₩1.98 trillion, as the domestic HOU project and overseas plant projects proceeded on schedule. Environment sales fell to ₩214 billion and Architecture sales were also down to under ₩1.06 trillion with the ongoing reduction in “group” projects from 2006.

Despite an unstable domestic housing market, the Housing Business Division proceeded with large-scale redevelopment projects as well as projects on company owned land to boost annual sales 14%, from ₩1.72 trillion in 2006 to over ₩1.96 trillion a year later.

Profits

Gross Profit

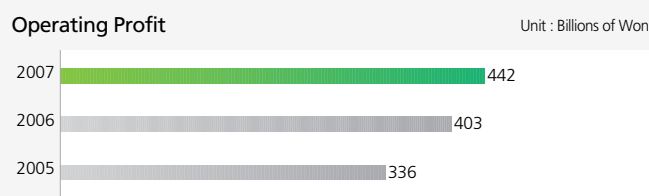
The companywide effort to cut costs for “value growth” boosted gross profit 13%, from ₩762 billion in 2006 to ₩860 billion in 2007, despite intensifying competition and a worsening business environment. The gross profit margin also improved from 13.3% to 14.3% over the same period. Importantly, the Civil Engineering Business Division achieved a 25% margin on the Seoul Beltway Project, and cost cutting efforts raised the gross profit of the Plant Business Division’s overseas projects by three percentage points. Finally, gross profit for the Housing Business Division rose from 13.5% in 2006 to 14.3% in 2007 as a result of lower costs from use of the TPMS as well as higher sales from large-scale reconstruction projects. The rising trend is expected to continue in 2008.

Gross Profit		Unit : Billions of Won
2007	860	
2006	762	
2005	680	

Operating Profit

Operating profit rose ten percent, from ₩403 billion in 2006 to ₩442 billion a year later, while operating profit margin improved from 7.0% to 7.4% during the same period. A higher gross

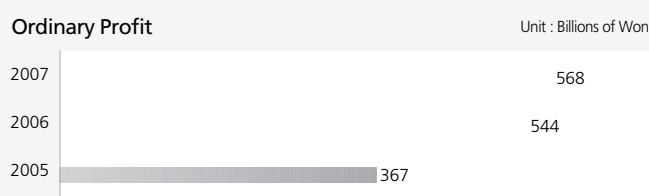
margin allowed operating profit to rise even as the ratio of sales and administrative expenses to sales revenue went up. The main factors driving S&A expenses has been investments for continued growth, increased costs to perform key revenue generating projects, and additional hiring and higher salaries. In the future, the rate of S&A expense growth should slow relative to the overall growth of the company, enabling operating profit to continue rising.



Ordinary Profit

Ordinary profit totaled ₩568 billion in 2007, a four percent increase over the ₩544 billion posted a year earlier. The non-operating balance fell from ₩140 billion to ₩126 billion during the period.

Non-operating income breaks down as follows: Interest income amounted to ₩34 billion, while gains on equity method, which went into the black in 2004, posted around ₩30 billion in 2007. Ongoing efforts to hedge against foreign exchange risk have included the use of foreign exchange rate risk insurance and forward transactions, which yielded ₩12 billion in non-operating income during 2006.



Financial Position

Cash Flow

Cash and cash equivalents dropped from ₩537 billion at the end of 2006 to ₩386 billion a year later. The changes in cash flow are detailed by activity type as follows:

First, operating cash flow totaled ₩192 billion. Contributing factors included ₩400 billion in net profit, ₩94 billion in non-

cash income and expenses, and ₩686 billion in cash inflow resulting from changes in operating assets and liabilities.

Second, cash flow from investment activities generated a cash outflow of ₩277 billion. These activities included investments for future development projects and land purchases for in-house projects.

Third, cash flow from financing activities increased by ₩315 billion during the year. Inflow and outflow from short-term borrowings resulted in a ₩399 billion cash increase, and ₩78 billion was paid out in dividends.

Dividends and Investments

Management decided to increase the dividend per share, which was ₩1,550 for 2006, to ₩1,650 for 2007. This raised the total dividend payout from ₩70 billion to ₩82 billion.

After distributing some profits in the form of dividends, the company invests most of the retained earnings in highly profitable projects such as apartment complexes on company owned land, PFI projects and development projects. Such investments help to elevate shareholders' future value.

Borrowings

Borrowings at the end of 2007 totaled ₩463 billion, up sharply from the ₩65 billion figure posted a year earlier. These funds will mainly be used to invest in overseas development projects and land in Korea for in-house projects.

Equity

The company had two hundred million authorized stocks as of December 31, 2007. All the issued shares, which number fifty-one million, are common stocks; no preferred stocks, convertible bonds or bonds with warrant have been issued. Chairman Chang-Soo Huh and other members of the Huh family are the major shareholders, with 30.4% of the total shares issued. An additional 2.1% are in the form of treasury stock or part of the employee stock sharing program. Foreign investors own 39.55% of the total shares issued.



01_Chang-Soo Huh CHAIRMAN OF THE BOARD

02_Kab-Ryul Kim PRESIDENT & CEO

03_Myung-Soo Huh PRESIDENT & COO

04_Sang-Ryong Woo PRESIDENT

05_Chang-Se Lee OUTSIDE DIRECTOR

06_Chong-Won Ahn OUTSIDE DIRECTOR

07_Jong-Bin Kim OUTSIDE DIRECTOR

08_Chee-Ho Suh OUTSIDE DIRECTOR

09_Hyun-Han Shin OUTSIDE DIRECTOR

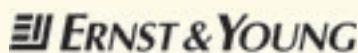


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Financial Statements

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

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ERNST & YOUNG HAN YOUNG

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

The Board of Directors and Stockholders GS Engineering & Construction Corporation

We have audited the accompanying non-consolidated balance sheets of GS Engineering & Construction Corporation (the "Company") as of December 31, 2007 and 2006, and the related non-consolidated statements of income, appropriation of retained earnings and cash flows for the years then ended, and the related non-consolidated statement of changes in equity for the year ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GS Engineering & Construction Corporation as of December 31, 2007 and 2006, and the results of its operations, its changes in retained earnings and its cash flows for the years then ended, and its changes in equity for the year ended December 31, 2007 in conformity with accounting principles generally accepted in the Republic of Korea.

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

February 5, 2008

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

This audit report is effective as of February 5, 2008, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

NON-CONSOLIDATED BALANCE SHEETS

As of December 31, 2007 and 2006

[Korean won in millions]

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

(Continued)
See accompanying notes.

NON-CONSOLIDATED BALANCE SHEETS

As of December 31, 2007 and 2006

I Korean won in millions I

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

(Continued)
See accompanying notes.

NON-CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2007 and 2006

I Korean won in millions, except per share amounts I

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

(Continued)
See accompanying notes.

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

Years ended December 31, 2007 and 2006

I Korean won in millions I

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

See accompanying notes.

NON-CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended December 31, 2007

[Korean won in millions]

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

See accompanying notes.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2007 and 2006

₩ Korean won in millions ₩

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

(Continued)
See accompanying notes.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2007 and 2006

I Korean won in millions I

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

See accompanying notes.

Years ended December 31, 2007 and 2006

1. Corporate information

GS Engineering & Construction Corporation (the "Company") was incorporated on December 19, 1969 under the laws of the Republic of Korea to provide engineering and construction services, on-site building maintenance, as well as residential and industrial construction services within Korea and abroad. The Company merged with Lucky Foreign Construction Co., Ltd., on January 4, 1979, LG Engineering Co., Ltd. on August 1, 1999 and Baekyang Development Co., Ltd., on October 1, 2000. Subsequent to the mergers, the Company expanded its business activities to include overseas engineering construction, golf course development and other related construction services. In August 1981, the Company listed its shares on the Korea Exchange (KRX). The Company was formerly operating under the name of Lucky Development Co., Ltd. and changed its name to LG Engineering & Construction Co., Ltd. on February 24, 1995. The Company changed its name to GS Engineering & Construction Corporation from LG Engineering & Construction Corporation by virtue of a resolution of the common stockholders' meeting held on March 18, 2005. The Company then became an affiliate of the GS group of companies on April 4, 2005, subject to the Limitation on Mutual Investment Rule set forth by the Fair Trade Commission.

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

As of December 31, 2007, the capital stock of the Company is ₩255,000 million subsequent to several paid-in capital increase during the prior years including ₩91,954 million of common stock issued (11,789 thousand shares of common stock issued at ₩7,800 per share) on November 19, 1999.

The Company is an affiliate of the GS group of companies. The subsidiaries of the Company are Hanmoo Development Co., Ltd., EziVille Inc., GS E&C Italy S.R.L. and other entities.

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

2. Summary of significant accounting policies

Basis of financial statement preparation

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

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

Adoption of new Statements of Korea Accounting Standards

The Korea Accounting Standards Board has issued new Statements of Korea Accounting Standards ("SKAS") to revise the existing Korea accounting standards with the intention to meet international practices and disclosure rules. The following new SKAS have become effective for accounting periods beginning on or after January 1, 2007:

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

- SKAS 23 Earnings per Share

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

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

Cash equivalents

Highly liquid deposits and marketable securities with original maturities of three months or less, and which have no significant risk of loss in value by interest rate fluctuations, are considered as cash equivalents.

Financial instruments.

Financial instruments, such as time deposits and restricted bank deposits, which are traded by financial institutions and are held for short-term cash management purposes or which will mature within one year, are accounted for as short-term financial instruments. Financial instruments other than cash equivalents and short-term financial instruments are recorded as long-term financial instruments.

Allowance for doubtful accounts

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

Inventories

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

When a decline in the value of an inventory indicates that its cost exceeds net realizable value, a valuation loss will be recognized to write the inventory down to its net realizable value. The loss on valuation is recognized in cost of sales.

Financing costs on borrowings to finance the purchase or construction of inventories in connection with housing construction and sales operations are capitalized during the period of time that is required to complete and prepare the inventories for its intended use, as part of the cost of the assets.

Investments in securities

Investments in securities within the scope of SKAS 8 Investments in Securities are classified as either trading, held-to-maturity and available-for-sale securities, as appropriate, and are initially measured at cost, including incidental expenses, with cost being determined using the moving average method. The Company determines the classification of its investments after initial recognition, and, where allowed and appropriate, re-evaluates this designation at each fiscal year end.

Securities that are acquired and held principally for the purpose of selling them in the near term are classified as trading securities. Debt securities which carry fixed or determinable payments and fixed maturity are classified as held-to-maturity if the Company has the positive intention and ability to hold to maturity. Securities that are not classified as either trading or held-to-maturity are classified as available-for-sale securities.

After initial measurement, available-for-sale securities are measured at fair value with unrealized gains or losses being recognized directly in equity as other comprehensive income. Likewise, trading securities are also measured at fair value after initial measurement, but with

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

unrealized gains or losses reported as part of net income. Held-to-maturity securities are measured at amortized cost after initial measurement. The cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount.

The fair value of trading and available-for-sale securities that are traded actively in the open market (marketable securities) is measured at the closing price of those securities at the balance sheet date, except for non-marketable equity securities which are measured at cost subsequent to initial measurement if their fair values cannot be reliably estimated. Non-marketable debt securities are carried at a value using the present value of future cash flows discounted using an appropriate interest rate which reflects the issuer's credit rating announced by a public independent credit rating agency. If the application of such measurement method is not feasible, estimates of fair values may be made using a reasonable valuation model or quoted market prices of similar debt securities issued by entities conducting business in similar industries.

Trading securities are classified as current assets. Available-for-sale and held-to-maturity securities are classified as long-term investments, except that securities maturing within one year or are certain to be disposed of within one year from the balance sheet date are classified as short-term investments.

The Company recognizes an impairment loss on its investments in securities if there is objective evidence that the securities are impaired. The impairment loss is charged to statement of income.

Equity method investments

Investments in entities over which the Company has control or significant influence are accounted for using the equity method.

Under the equity method of accounting, the Company's initial investment in an investee is recorded at acquisition cost. Subsequently, the carrying amount of the investment is adjusted to reflect the Company's share of income or loss of the investee in the statement of income and share of changes in equity that have been recognized directly in the equity of the investee in the related equity account of the Company on the balance sheet. If the Company's share of losses of the investee equal or exceed its interest in the investee, it discontinues recognizing its share of further losses. However, if the Company has other long-term interests in the investee, it continues recognizing its share of further losses to the extent of the carrying amount of such long-term interests.

At the date of acquisition, the excess of the cost of the investment over the Company's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill which is amortized over rational period using the straight-line method. Conversely, negative goodwill represents the excess of the Company's share in the net fair value of the investee's identifiable assets and liabilities over the cost of the investment. Negative goodwill is recorded to the extent of the fair value of acquired non-monetary assets and recognized as income using the straight-line method over the remaining weighted-average useful life of those acquired non-monetary assets. The amount of negative goodwill in excess of the fair value of acquired non-monetary assets is recognized as income immediately.

The Company's share in the investee's unrealized profits and losses resulting from transactions between the Company and its investee are eliminated.

In translating the financial statements of foreign investees into Korean won, assets and liabilities are translated at the exchange rate on the balance sheet date and income and expenses are translated at the weighted-average exchange rate for the period. All resulting exchange differences are recognized as foreign currency translation adjustments in the other comprehensive income within equity.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, except for certain assets acquired from investment in-kind and assets donated by other parties are stated at fair value less accumulated depreciation, and certain assets which were revalued in accordance with the Korean Assets Revaluation Law are stated at revalued amount less accumulated depreciation.

Maintenance and repairs are expensed in the year in which they are incurred. Expenditures which enhance the value or extend the useful life of the related assets are capitalized.

The Company records an impairment loss on the carrying amount of an item of property, plant and equipment when there is an indication that the asset is impaired. Impairment is measured by comparing the carrying amount of the asset with its recoverable amount. An impairment loss is charged to the statement of income immediately.

Depreciation of property, plant and equipment is provided, using the straight-line method for buildings and structures and the declining-balance method for the other assets, over the estimated useful life of the assets as follows:

Description	Years
Buildings	40
Structures	40
Machinery	4 - 6
Construction equipment	4 - 12
Vehicles	4
Other assets	4

Intangible assets

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

Prepaid construction costs

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

Impairment of assets

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

Discount on bonds

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

Provision for construction losses

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

Provision for construction warranty

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

Severance and provision for retirement benefits

In accordance with the Korean Law on Guarantee of Employee's Severance and Retirement Benefits and the Company's regulations, employees terminating their employment with at least one year of service are entitled to severance and retirement benefits, based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision for the years ended December 31, 2007 and 2006 is sufficient to state the liability at the estimated obligation arising from services performed to and at rates of pay in effect as of December 31, 2007 and 2006. Funding of this liability is not required by Korean law.

The lesser of 5% of annual payroll expense or 35% of the accumulated severance and retirement benefits provision is deductible for corporate income tax reporting purposes unless benefits are actually paid or the non tax-deducted portion is deposited with financial institutions. Accordingly, the Company has deposited a portion of its severance and retirement benefits obligation with an insurance company. Since the Company's employees are individually nominated as the vested beneficiaries of the deposit in respect of what is due to them as of December 31, 2007 and 2006, such deposit has been offset against the Company's liability for severance and retirement benefits as of such dates.

In accordance with the Korean National Pension Law prior to revision, the Company had prepaid a portion of its severance and retirement benefits obligation to the Korean National Pension Corporation ("KNPC") at the rate of 3% of payroll expense up through March 31, 1999. Such prepayments have been offset against the Company's liability for severance and retirement benefits. In accordance with a revision in the Korean National Pension Law, additions to these prepayments are no longer required effective from April 1, 1999.

Actual payments of severance and retirement benefits amounted to ₩30,323 million and ₩24,722 million during the years ended December 31, 2007 and 2006, respectively.

Translation of overseas financial statements stated in foreign currency

Financial statements of overseas business locations are maintained in the currencies of the countries in which they conduct their operations. In translating the foreign currency financial statements of these foreign business branches or offices into Korean won, assets and liabilities are translated at the current exchange rate on the balance sheet date and income and expenses are translated at the weighted-average exchange rate during the year. All resulting exchange differences are recognized as foreign currency translation adjustments in the other comprehensive income within equity.

Foreign currency translation

Transactions involving foreign currencies are recorded at the exchange rates prevailing at the time the transactions are made.

Assets and liabilities denominated in foreign currencies are translated into Korean won at the appropriate exchange rates on the balance sheet date. The resulting unrealized foreign currency translation gains or losses are credited or charged to current operations.

Derivative financial instruments

Derivative financial instruments are presented as assets or liabilities valued principally at the fair value of the rights or obligations associated with the derivative contracts. The unrealized gain or loss from a derivative transaction with the purpose of hedging the exposure to changes in the fair value of a recognized asset or liability or unrecognized firm commitment is recognized in current operations. For a derivative instrument with the purpose of hedging the exposure to the variability of cash flows of a recognized asset or liability or a forecasted transaction, the hedge-effective portion of the derivative instrument's gain or loss is deferred as an other comprehensive income in equity. The ineffective portion of the gain or loss is charged or credited to current operations. Derivative instruments that do not meet the criteria for hedge accounting, or contracts for which the Company has not elected hedge accounting are measured at fair value with unrealized gains or losses reported in current operations.

Share-based payment transactions

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

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

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

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

Revenue recognition

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

Income taxes

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

Treasury Stock

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

Per share amounts

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

Use of estimates

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

3. Restricted deposits

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

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

4. Inventories

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

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

5. Short-term investments securities

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

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

6. Long-term investments securities

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

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

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

	2007									
	Number of shares	Percentage of ownership	Acquisition cost	Fair value	Book value	Unrealized holding gain (loss)	Impairment losses			
							Up to 2006	2007		
< Non-marketable securities >										
The Korea Economic Daily	646	0.00%	₩	14 (*)	₩	14	₩	-	₩	-
Pusan Travel & Development Co., Ltd.	80,000	2.67%		400 (#)		-		-	(400)	
Seoul Highway Co., Ltd.(**)	24,840,000	27.00%		124,200 (*)		124,200		-		-
Uijeongbu LRT Inc.(**)	3,724,428	47.54%		18,622 (*)		18,622		-		-
Kangnam Inter Circular Road Co., Ltd.	414,000	11.50%		2,070 (*)		2,070		-		-
Youngchun-Sangju Highway Co., Ltd.	7,000	10.00%		35 (*)		35		-		-
Manwolsan Tunnel Co., Ltd.(**)	1,005,000	15.00%		5,025 (*)		5,025		-		-
GS Retail Co., Ltd.	270,106	1.75%		15,420 (*)		11,362	(19)		-	
LG CNS Co., Ltd.	2,603,800	2.99%		1,043 (*)		1,051		-		-
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	4.43%		3,100 (*)		3,100		-		-
Junju Drain Co., Ltd(**)	196,410	7.90%		982 (*)		982		-		-
Nonsan Drain Co., Ltd.(**)	91,868	11.90%		459 (*)		459		-		-
Masan Drain Co., Ltd.(**)	15,792	8.14%		79 (*)		79		-		-
Youngduk&Bio Co., Ltd.(**)	41,270	5.00%		206 (*)		206		-		-
M-Ciety Development Co., Ltd.	396,000	4.40%		1,980 (*)		1,980		-		-
M-Ciety Co., Ltd.	2,640	4.40%		13 (*)		13		-		-
Corona Development Co., Ltd.	653,600	7.60%		3,268 (*)		3,268		-		-
Metro Corona Co., Ltd.	5,952	9.92%		30 (*)		30		-		-
Lippo Incheon Development Co., Ltd(**)	1,809,760	12.60%		9,049 (*)		9,049		-		-
Jei Youngdong Highway Co., Ltd	313,600	16.00%		1,568 (*)		1,568		-		-
Eumseong Drain Co., Ltd(**)	31,500	6.30%		158 (*)		158		-		-
Gangneung Drain Co., Ltd(**)	38,280	3.30%		191 (*)		191		-		-
Gaya Railway Co., Ltd(**)	305,490	23.00%		1,527 (*)		1,527		-		-
Ulsan Green Co., Ltd.	4,166	41.66%		21 (*)		21		-		-
MILESEUM Co., Ltd.	63,517	12.50%		318 (*)		318		-		-
Dream Hub Project Financial Investment Co., Ltd(**)	20,000	2.00%		100 (*)		100		-		-
Alpha Dome City Co., Ltd.	1,920,000	4.00%		9,600 (*)		9,600		-		-
Alpha Dome City Asset Management Co., Ltd.	4,000	4.00%		20 (*)		20		-		-
Seoul Northern Highway Co., Ltd.	1,408	14.08%		7 (*)		7		-		-
Seoul-Munsan Highway Co., Ltd.	4,550	45.50%		23 (*)		23		-		-
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		-		-
Korea Housing Guarantee Co., Ltd.	1,038,490	0.16%		21,532 (#)		-		-	(21,532)	
Treasury Stock Fund				1,500 (*)		10,057		-		-
Less: treasury stock				- (*)		(9,912)		-		-
Subtotal				1,500 (*)		145	120		-	
Others				2,444 (#)		-	-		(2,444)	
			₩	242,201		₩	212,420	₩	101	₩(24,376)

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

	2006							
	Number of shares	Percentage of ownership	Acquisition cost	Fair value	Book value	Unrealized holding gain (loss)	Impairment losses	
							Up to 2005	2006
< Non-marketable securities >								
The Korea Economic Daily	646	0.00%	₩ 14	(*)	₩ 14	₩ -	₩ -	₩ -
Pusan Travel & Development Co., Ltd.	80,000	2.67%	400	(#)	-	-	(400)	-
Seoul Highway Co., Ltd.(**)	24,840,000	27.00%	124,200	(*)	124,200	-	-	-
Kangnam Inter Circular Road Co., Ltd.	310,500	11.50%	1,552	(*)	1,552	-	-	-
Youngchun-Sangju Highway Co., Ltd.	1,000	10.00%	5	(*)	5	-	-	-
Uiyeongbu LRT Inc.(**)	2,906,808	47.54%	14,534	(*)	14,534	-	-	-
GS Retail Co., Ltd.	270,106	1.75%	15,420	(*)	11,362	(19)	-	-
LG CNS Co., Ltd.	1,041,520	2.69%	1,043	(*)	1,051	-	-	-
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	-	-	-
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	-	-	-
Junju Drain Co., Ltd(**)	93,710	7.90%	469	(*)	469	-	-	-
Nonsan Drain Co., Ltd. (**)	28,000	8.15%	140	(*)	140	-	-	-
Masan Drain Co., Ltd. (**)	10,582	8.14%	53	(*)	53	-	-	-
Youngduk&Bio Co., Ltd.	25,500	5.10%	127	(*)	127	-	-	-
M-Ciety Development Co., Ltd.	352,000	4.40%	1,760	(*)	1,760	-	-	-
M-Ciety Co., Ltd.	2,640	4.40%	13	(*)	13	-	-	-
Corona Development Co., Ltd.	76,000	7.60%	380	(*)	380	-	-	-
Metro Corona Co., Ltd.	5,952	9.92%	30	(*)	30	-	-	-
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	(*)	5,804	-	-	-
Less: treasury stock			-	(*)	(5,641)	-	-	-
Subtotal			1,500	(*)	163	113	-	-
Others			2,444	(#)	-	-	(2,444)	-
			₩ 213,923		₩ 184,160	₩ 94	₩ (24,376)	₩ -

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

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

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

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

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

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

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

7. Equity method investments

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

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

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

(*) These investees have been discontinued to be accounted for using the equity method. The Company has not been able to obtain the net asset value of the investees as of December 31, 2007, due to unavailability of their financial statements.

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

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	2006					
	Number of shares	Ownership (%)	Acquisition cost	Net asset value	Book value	
Hanmoo Development Co., Ltd.	6,654,675	67.56%	₩ 85,861	₩ 234,155	₩ 182,156	
Sachun Resort Co., Ltd.	290,000	29.00%	1,450	962	962	
GLS Service Co., Ltd.	60,000	100.00%	300	296	296	
Ladera Co., Ltd.	365,528	65.52%	50,633	11,039	10,503	
GS-HP Corp.(formerly, LG-HP Corp.)	1	30.00%	2,196	(*)	-	
LG Holdings(HK), Ltd.	35,000,000	25.00%	54,823	47,111	35,810	
GS Construction(Arabia), Ltd. (formerly, LG Construction(Arabia), Ltd.)	3,920	49.00%	874	(*)	-	
LG Properties(S'PORE) Pte. Ltd.	25,944,630	30.00%	18,466	5,369	-	
XI Service Co., Ltd.(formerly, With Service Co., Ltd.)	96,000	100.00%	480	493	493	
GS E&C Nanjing	1	100.00%	5,330	10,457	12,015	
GS E&C Italy S.R.L	300,000	100.00%	430	155	1	
GS E&C Poland SP.ZO.O	100	100.00%	17	8,484	8,484	
GS E&C Mexico, S.A.DEC.V.	100	100.00%	9	1,271	1,271	
GS E&C India Private Ltd.	11,374,728	100.00%	2,354	1,707	1,707	
GS E&C Thai Co., Ltd.	19,600	49.00%	50	150	150	
Estech Estimate Corp.	20,000	100.00%	100	96	96	
EzVille Inc.	1,559,998	78.00%	9,385	6,161	7,147	
			₩ 232,758	₩ 327,906	₩ 261,091	

(*) These investees have been discontinued to be accounted for using the equity method. The Company has not been able to obtain the net asset value of the investees as of December 31 2006, due to unavailability of their financial statements.

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

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

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

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

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

	2006(*)			
	Assets	Liabilities	Sales	Net income (loss)
Hanmoo Development Co., Ltd.	₩ 735,093	₩ 388,482	₩ 181,649	₩ 10,174
Ladera Co., Ltd.	30,337	13,488	4,661	4,224
LG Holdings (HK), Ltd.	188,525	81	-	(1,063)
LG Properties (S'PORE) Pte. Ltd.	69,894	51,997	3	(3,811)
XI Service Co., Ltd.(formerly, With Service Co., Ltd.)	1,454	962	6,297	1
GS E&C Nanjing	18,941	6,900	23,034	7,173
GS E&C Italy S.R.L	67,862	67,707	78,198	(432)
GS E&C Poland SP.ZO.O	91,333	82,851	241,595	11,947
GS E&C Thai Co., Ltd.	4,196	3,890	8,965	193
GS E&C Mexico, S.A.DEC.V.	1,860	589	18,888	1,293
GS E&C India Private Ltd.	1,765	57	350	(691)
Estech Estimate Corp.	364	268	2,960	(1)
EzVille Inc.	23,211	15,313	44,046	940
Sachun Resort Co., Ltd.	11,683	8,366	-	(1,683)
GLS Service Co., Ltd.	398	102	242	(4)

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

The equity method of accounting is applied based on the investees' most recent available financial statements, one of which has not been audited as follows (Korean won in millions):

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

	2006			
	Net asset value before adjustment	Adjustment	Net asset value after adjustment	Proportionate ownership
LG Holdings (HK), Ltd.	₩ 188,444	₩ (100,585)	₩ 87,859	₩ 21,965

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

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

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

	2006			
	Jan.1, 2006	Additions	Amortization	Dec.31, 2006
Hanmoo Development Co., Ltd.	₩ (31,691)	₩ -	₩ (1,536)	₩ (30,155)
EzVille Inc.	-	1,233	247	986
	₩ (31,691)	₩ 1,233	₩ (1,289)	₩ (29,169)

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

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

	2006			
	Jan.1, 2006	Additions	Realization	Dec.31, 2006
Hanmoo Development Co., Ltd.	₩ 22,563	₩ -	₩ (721)	₩ 21,842
LG Holdings (HK), Ltd.	617	419	-	1,036
	₩ 23,180	₩ 419	₩ (721)	₩ 22,878

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

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

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

2006

	Jan.1, 2006	Acquisition cost	Equity in earnings (loss) of investee	Share of changes in equity adjustments	Others	Dec.31, 2006
Hanmoo Development Co., Ltd.	₩ 173,026	₩ -	₩ 9,131	₩ -	₩ -	₩ 182,157
EzVille Inc.	3,460	5,925	486	(2,724)	-	7,147
XI Service Co., Ltd (formerly, With Service Co., Ltd.)	492	-	1	-	-	493
Estech Estimate Corp.	97	-	(1)	-	-	96
Sachun Resort Co., Ltd.(*)	-	1,450	(488)	-	-	962
GLS Service Co., Ltd.	-	300	(4)	-	-	296
LG Holdings (HK), Ltd.(*)	24,157	15,248	(1,203)	(2,392)	-	35,810
Ladera Co., Ltd.(*)	9,029	-	2,262	(788)	-	10,503
GS E&C Nanjing(*)	3,180	1,878	7,173	(217)	-	12,014
GS-HP Corp.(formerly, LG-HP Corp.)(**)	-	-	-	-	-	-
GS E&C Italy S.R.L(*)	583	-	(528)	(54)	-	1
LG Properties (S'PORE) Pte. Ltd.(*)	245	-	(245)	-	-	-
GS E&C Thai Co., Ltd.(*)	50	-	94	6	-	150
GS E&C Poland SP.ZO.O(*)	-	-	8,082	401	-	8,483
GS E&C Mexico, S.A.DEC.V.(*)	-	9	1,293	(31)	-	1,271
GS E&C India Private Ltd.(*)	-	2,354	(691)	45	-	1,708
GS Construction (Arabia), Ltd. (formerly, LG Construction (Arabia), Ltd.)(**)	-	-	-	-	-	-
Total	₩ 214,319	₩ 27,164	₩ 25,362	₩ (5,754)	₩ -	₩ 261,091

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

- (i) Obtained the representation from the Chief Executive Officer and the internal auditors of each investee by affixing their signatures on the unaudited financial statements;
- (ii) Reviewed the unaudited financial statements to understand whether significant transactions or events that may have material accounting implications, either publicly announced or otherwise, are properly reflected; and
- (iii) Inquired about significant issues raised by the investees' auditors relating to the year end closing; and analyzed other potential adjustments, which could be made to the unaudited financial statements.
- (iv) Analyzed differences which can be occur between other unaudited financial statements and audited financial statements.

(**) The Company discontinued the equity method of accounting for GS-HP Corp. (formerly, LG-HP Corp.), and GS Construction (Arabia), Ltd. (formerly, LG Construction (Arabia), Ltd.) as the carrying amount of the investments has been recorded to below nil as of December 31, 2007 and 2006.

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

As of December 31, 2007 and 2006, the respective accumulated losses of the investees from which the application of the equity method of accounting has been suspended due to their accumulated losses are as follows (Korean won in millions):

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

8. Government posted value of land owned

The book value of the Company-owned land and the value of land officially announced by the Korean government for tax and land policy purposes as of December 31, 2007 and 2006 are as follows (Korean won in millions):

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

9. Property, plant and equipment

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

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

	2006			
	Cost	Accumulated depreciation	Accumulated impairment losses	Net book value
Land	₩ 377,808	₩ -	₩ -	₩ 377,808
Golf course	171,486	-	-	171,486
Structure timber	28,796	-	-	28,796
Buildings	400,284	(44,679)	(16,910)	338,695
Structures	106,555	(11,427)	-	95,128
Machinery	24,486	(20,101)	-	4,385
Construction equipment	11,784	(11,322)	-	462
Vehicles	17,814	(15,256)	-	2,558
Others	64,339	(47,045)	-	17,294
Construction-in-progress	1,170	-	-	1,170
	₩ 1,204,522	₩ (149,830)	₩ (16,910)	₩ 1,037,782

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

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

2006										
	Jan. 1, 2006	Additions	Disposals/ transfers	Depreciation	Impairment loss	Overseas business translation adjustment	Dec. 31, 2006			
Land	₩ 281,319	₩ 97,787	₩ (1,298)	₩ -	₩ -	₩ -	₩ 377,808			
Golf course	171,443	43	-	-	-	-	171,486			
Standing timber	28,733	63	-	-	-	-	28,796			
Buildings	289,675	48,866	(2,974)	(9,536)	(4,309)	16,973	338,695			
Structures	97,346	343	-	(2,561)	-	-	95,128			
Machinery	8,478	63	(1)	(4,154)	-	(1)	4,385			
Construction equipment	1,005	45	-	(588)	-	-	462			
Vehicles	5,225	337	(78)	(2,890)	-	(36)	2,558			
Others	14,371	13,933	(18)	(10,967)	-	(25)	17,294			
Construction-in-progress	7,358	42,994	(49,182)	-	-	-	1,170			
Total	₩ 904,953	₩ 204,474	₩ (53,551)	₩ (30,696)	₩ (4,309)	₩ 16,911	₩1,037,782			

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

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

10. Capitalized financing costs

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

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

11. Intangible assets

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

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

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

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

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

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

(*) Amortization includes transferred cost into development cost

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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

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

12. Short-term & long-term borrowings

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

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

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

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

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

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

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

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

Year	Long-term loans		Bonds		Total	
2008	₩	1,327	₩	-	₩	1,327
2009		1,327		-		1,327
2010		1,327		50,000		51,327
2011		1,327		-		1,327
2012 and thereafter		6,632		-		6,632
	₩	11,940	₩	50,000	₩	61,940

13. Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies as of December 31, 2007 and 2006 are as follows:

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

14. Financial position of overseas operations

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

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

15. Related party disclosures

The subsidiaries of the Company are as follows:

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

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

	2007
Salaries including short-term incentives	₩ 32,537
Severance and retirement benefits	4,367
Share-based compensation (*)	21,720

	2006
Salaries including short-term incentives	₩ 33,312
Severance and retirement benefits	2,870
Share-based compensation (*)	16,624

(*) Details of share-based compensation as of December 31, 2007 are presented in Note 28.

Key management personnel include standing directors and outside directors who have the authority and responsibilities for planning, operation and control of the business of the Company.

Significant transactions with related parties for the years ended December 31, 2007 and 2006 are as follows (Korean won in millions):

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

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Years ended December 31, 2007 and 2006

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

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

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

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

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

As of December 31, 2007 and 2006, there are no guarantees and collateral provided to the Company by any subsidiaries or related parties.

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

16. Capital stock

There is no change in capital stock of the Company during the years ended December 31, 2007 and 2006. Details of capital stock of the Company as of December 31, 2007 and 2006 are as follows:

Number of shares authorized	: 200,000,000 shares
Par value per share	: ₩5,000
Number of common shares issued	: 51,000,000 shares in 2007 and 2006

17. Capital surplus

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

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

Paid-in capital in excess of par value

Paid-in capital in excess of par value may not be utilized for cash dividend, but may be used to offset a future deficit, if any, or may be transferred to capital stock.

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Asset revaluation surplus

In accordance with the Korean Assets Revaluation Act, the Company revalued certain of its property and equipment as of July 1, 1998, resulting in a gain on revaluation of ₩34,287 million and ₩33,833 million being transferred to revaluation surplus, net of revaluation tax. The total balance of revaluation surplus amounting ₩75,192 million as of December 31, 2007 and 2006 includes revaluation surplus carried forward from revaluation carried out prior to 1998. The asset revaluation surplus may not be available for cash dividends but may be used to offset a future deficit, if any, or may be transferred to capital stock.

18. Retained earnings

Retained earnings of the Company as of December 31, 2007 and 2006 are as follows (Korean won in millions):

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

Legal reserve

In accordance with the Korean Commercial Code, an amount equal to at least 10% of cash dividends is required to be appropriated as a legal reserve until the reserve equals 50% of paid-in capital. The legal reserve may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital.

Financial structure improvement reserve

The Korean Financial Control Regulation for listed companies requires that an amount equal to at least 10% of net income, plus a 50% of net gain, if any, on extraordinary disposal of property, plant and equipment (after related income taxes), be appropriated as reserve for improvement of financial position until the ratio of stockholders' equity to total assets equals 30%.

Business rationalization reserve

Prior to December 2004, in accordance with the Korean Tax Incentives Limitation Law ("TILL"), the amounts of tax credits or exemptions taken under this law were appropriated as a reserve for business rationalization. Such reserve could not be utilized for cash dividends but could be used to offset an accumulated deficit, if any, or be transferred to paid-in capital. Effective from December 2004, such reserve is no longer required by the revised TILL.

Research and human resources development reserve

Pursuant to the TILL, the reserve for research and human development reserve are provided in order to obtain tax benefits with respect to the year for which the appropriations are proposed. These reserves may be utilized for cash dividends after the expiration of specified grace period.

19. Capital adjustments and accumulated other comprehensive income

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

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

Treasury stock

To stabilize the Company's share price in the KRX, the Company acquired 1,077,556 shares of its issued common stock carried at ₩24,429 million by treasury stock fund and specified money trust, and recorded the treasury stock as a capital adjustment in the stockholders' equity as of December 31, 2007.

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

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

20. Construction contracts

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

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

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

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Years ended December 31, 2007 and 2006

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

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

Project name	2006			
	Jan.1, 2006	New contract	Realized revenue	Dec.31, 2006
LG Philips LCD P7 Project	₩ 124,741	₩ 67,676	₩ (188,316)	₩ 4,101
LCD P7 Environment Equipment Construction	93,721	(3,823)	(68,195)	21,703
Seoul Outer Circular Highway 4th stage	150,080	16,991	(70,546)	96,525
Dangjin-Daejeon Highway 4th Stage	83,598	797	(29,429)	54,966
Mokpo National Road (Koha-Jukyo)	95,509	2,977	(8,849)	89,637
Jamsil 4th Reconstruction	87,528	26,956	(98,970)	15,514
Metro Xi	77,539	-	(77,539)	-
SP 9-10 Project (*)	409,257	46,520	(283,846)	171,931
QP LAB Project (*)	25,193	322	(21,777)	3,738
Others	6,561,674	8,027,073	(4,736,215)	9,852,532
	₩ 7,708,840	₩ 8,185,489	₩ (5,583,682)	₩ 10,310,647

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

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

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

Project name	2006						
	Cumulative revenue realized	Cumulative billed amount	Cumulative collected amount	Accounts and notes receivable			Other advance receipts
				Billed	Non-billed	total	
LG Philips LCD P7 Project	₩ 1,411,175	₩ 1,415,276	₩ 1,312,206	₩ 98,969	₩ -	₩ 98,969	₩ -
LCD P7 Environment Equipment construction	287,074	308,777	299,486	-	-	-	12,412
Seoul Outer Circular Highway 4 th Stage	289,515	355,065	351,997	-	-	-	62,482
Dangjin-Daejeon Highway 4 th Stage	103,906	101,042	100,567	475	2,864	3,339	-
Mokpo National Road (Koha-Jukyo)	553,102	529,800	368,199	161,601	23,302	184,903	-
Jamsil 4 th Reconstruction	206,792	214,426	177,874	28,918	-	28,918	-
Metro Xi	176,749	176,749	156,206	20,543	-	20,543	-
SP 9-10 Project	487,840	398,525	395,848	2,677	89,315	91,992	-
QP LAB Project	237,396	240,982	240,982	-	-	-	3,586
Other	13,198,000	13,297,631	12,588,705	771,140	305,221	1,076,361	467,066
Total	₩16,951,549	₩17,038,273	₩15,992,070	₩ 1,084,323	₩ 420,702	₩ 1,505,025	₩ 545,546

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

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

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

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

The legends represent the following representative (project owner) companies;

(*) GS Engineering & Construction Co., Ltd.

(#) Samsung Corporation

(@) Daewoo Engineering & Construction Co., Ltd.

(^) Hyundai Engineering & Construction Co., Ltd.

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

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

2006					
Project name	Contract amount	Cumulative revenue realized	Cumulative collected amount	Trade receivables	Advance receipts
Heights Xi	₩ 278,082	₩ 41,980	₩ 86,194	₩ 247	₩ 44,461

The accounts receivable arising from construction contracts include certain amounts billed to project owners where payments are retained until all the conditions specified under the contracts are met and any construction related issues during course of construction, if any, are resolved. Retention sums on construction contracts as of December 31, 2007 and 2006 amounted to ₩45,752 million and ₩36,267 million, respectively.

21. Income taxes

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

The major components of provision for income taxes for the years ended December 31, 2007 and 2006 are as follows (Korean won in millions):

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

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

Reconciliations of income before income taxes for financial reporting purposes and taxable income for corporate income tax reporting purposes are summarized as follows (Korean won in millions):

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

Deferred income taxes reflect the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax reporting purposes. Significant changes in cumulative temporary differences and deferred income tax assets and liabilities for the years ended December 31, 2007 and 2006 are as follows (Korean won in millions):

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

2006					
	As of Jan. 1, 2006	Changes in 2005 tax filing	Net increase (decrease)	As of Dec. 31, 2006	
Deductible temporary differences:					
Allowance for doubtful accounts	₩ 64,584	₩ 714	₩ (1,317)	₩ 63,981	
Available-for-sale securities	24,908	-	(532)	24,376	
Land	183	-	-	183	
Buildings	11,880	(360)	3,950	15,470	
Executive incentives	8,950	-	7,850	16,800	
Provision for construction warranty	28,854	-	41,307	70,161	
Provision for construction losses	995	-	11,506	12,501	
Severance and retirement benefits	81,584	-	5,306	86,890	
Government grants	-	23	51	74	
Equity method investments	153,159	-	(25,358)	127,801	
Others	29,035	-	(26,699)	2,336	
	₩ 404,132	₩ 377	₩ 16,064	₩ 420,573	
Taxable temporary differences:					
Inventories	(37,952)	(39)	(756)	(38,747)	
Accrued income	(5,062)	-	(936)	(5,998)	
Accumulated depreciation	(1,274)	-	-	(1,274)	
Available-for-sale securities	(4,371)	-	-	(4,371)	
Deposits for severance indemnities and retirement benefits	(81,584)	-	(5,306)	(86,890)	
Appropriated retained earnings for technological development	(26,936)	-	5,162	(21,774)	
Treasury stock fund	-	-	4,191	4,191	
Appropriated retained earnings for loss on sale of treasury stock	(2,467)	-	-	(2,467)	
Derivative instruments	(7,468)	-	3,292	(4,176)	
	₩ (167,114)	₩ (39)	₩ 1,456	₩ (165,697)	
Deferred income taxes recognized:					
Deferred income tax assets, net	₩ 65,180	₩ 92	₩ 4,819	₩ 70,091	
Deferred income tax liabilities recognized directly to equity, net	₩ (49,097)	₩ -	₩ (3,053)	₩ (52,150)	

The Company did not recognize the deferred income tax effect for temporary differences of ₩28,528 million arising from land revaluation surplus as the Company has no firm commitment to dispose of the land.

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

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

	2006				
	Temporary differences	Reversal of temporary differences		Deferred income taxes	
		2007	2008 and thereafter	Current	Non-current
Deductible temporary differences:					
Allowance for doubtful accounts	₩ 63,981	₩ 50,656	₩ 13,325	₩ 13,930	₩ 3,665
Available-for-sale securities	24,376	-	24,376	-	6,703
Land	183	-	183	-	50
Buildings	15,470	-	15,470	-	4,254
Executive incentives	16,800	16,800	-	4,620	-
Provision for construction warranty	70,161	-	70,161	-	19,294
Provision for construction losses	12,501	-	12,501	-	3,438
Severance and retirement benefits	86,890	-	86,890	-	23,895
Government grants	74	74	-	20	-
Others	130,137	675	129,462	206	35,602
	₩ 420,573	₩ 68,205	₩ 352,368	₩ 18,756	₩ 96,901
Taxable temporary differences:					
Inventories	(38,747)	(38,747)	-	(10,655)	-
Accrued income	(5,998)	(5,998)	-	(1,649)	-
Available-for-sale securities	(4,371)	-	(4,371)	-	(1,202)
Accumulated depreciation	(1,274)	-	(1,274)	-	(350)
Derivative instruments	(4,176)	(4,176)	-	(1,148)	-
Deposits for severance indemnities and retirement benefits	(86,890)	-	(86,890)	-	(23,895)
Appropriated retained earnings for technological development	(21,774)	-	(21,774)	-	(5,988)
Appropriated retained earnings for loss on sale of treasury stock	(2,467)	-	(2,467)	-	(678)
Deferred income taxes recognized directly to equity	(189,637)	-	(189,637)	-	(52,150)
	₩ (355,334)	₩ (48,921)	₩ (306,413)	₩ (13,452)	₩ (84,263)
Net	₩ 65,239	₩ 19,284	₩ 45,955	₩ 5,304	₩ 12,637
Applicable tax rate		27.5%	27.5%		

The Company's income taxes payable amounted to ₩82,484 million and ₩110,755 million as of December 31, 2007 and 2006, respectively. Deferred income tax assets and liabilities are calculated based on the expected income tax rate of 27.5%, the tax rate that will be in effect when the temporary differences are expected to reverse.

Details of deferred income tax which are charged or credited directly to equity as of December 31, 2007 and 2006 are as follows (Korean won in millions):

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

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

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

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22. Per share amounts

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

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

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

	2007		
	Number of shares outstanding	Days	Accumulated number of shares outstanding
Number of issued shares	51,000,000	365	18,615,000,000
Purchased shares of treasury stock	(63,954)	365	(23,343,210)
Additional purchase of treasury stock	(58,579)	285	(16,695,015)
Additional purchase of treasury stock	(58,579)	284	(16,636,436)
Additional purchase of treasury stock	(33,921)	281	(9,531,801)
Additional purchase of treasury stock	(33,921)	280	(9,497,880)
Shares granted to executives under share-based compensation	87,308	280	24,446,240
Shares on treasury stock fund	(915,910)	365	(334,307,150)
			18,229,434,748
			÷ 365
Weighted-average number of shares outstanding			49,943,657

	2006		
	Number of shares outstanding	Days	Accumulated number of shares outstanding
Number of issued shares	51,000,000	365	18,615,000,000
Purchased shares of treasury stock	(193,921)	365	(70,781,165)
Shares on treasury stock fund	(915,910)	365	(334,307,150)
Shares granted to executives under share-based compensation	50,681	286	14,494,766
Shares granted to executives share-based compensation	79,286	280	22,200,080
			18,246,606,531
			÷ 365
Weighted-average number of shares outstanding			49,990,703

Diluted earnings per share

As disclosed in Note 27, an additional 775,415 shares of common stock would be issued if all the vesting conditions of the Company's Long-term Performance Incentive Plan are fulfilled and the weighted-average number of common shares outstanding for the year would increase to 50,719,072 shares. As diluted earnings per share amounts are calculated by dividing the net profit attributable to common stockholders of the parent (after deducting stock-based compensation expense after tax) by the weighted-average number of common shares, and the additional shares to be issued have an anti-dilutive effect. As such, diluted earnings per share amounts are not applicable to the Company.

23. Dividends

The 2006 dividends were approved at the ordinary stockholders' meeting held on March 16, 2007 and the 2007 dividends are proposed for an approval at the annual common stockholders' meeting to be held on March 7, 2008.

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

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

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

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

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

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

24. Supplementary cash flow information

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

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

Years ended December 31, 2007 and 2006

25. Commitments and contingencies

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

As a common practice in the Korean construction industry, construction companies exchange mutual guarantees for construction performance. Guarantees that the Company has provided to and provided by other parties amounted to ₩1,068,600 million and ₩5,223,389 million, respectively, as of December 31, 2007.

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

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

As of December 31, 2007, the Company has pledged checks and notes to several banks and financial institutions as collateral for borrowings and construction performance guarantees.

As of December 31, 2007, the Company has provided guarantees amounting to ₩550,941 million on behalf of the Seoul Highway Co., Ltd. and other parties. In relation to the housing loans for future tenants during the construction period, the Company has provided guarantees amounting to ₩10,811,605 million to several domestic financial institutions as of December 31, 2007.

The Company has been named as a defendant and a plaintiff in a number of legal claims in the normal course of business. As of December 31, 2007, the aggregate amount of these claims as a defendant and as a plaintiff amounted to ₩29,463 million (6 cases) and ₩19,551 million (28 cases), respectively. In management's opinion, the outcome of those claims will not have a material adverse impact on the Company's financial position or results of operation.

The Company provides loans to reconstruction associations for house reconstruction projects. The outstanding balance of long-term and short-term loans to those associations amounted to ₩238,724 million as of December 31, 2007.

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

26. Derivative financial instruments

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

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

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

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

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

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

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

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

Contracts			2006			
			Fair value		Credited (charged) to net income	Other comprehensive income (*)
Currency forwards	₩	1,184	₩	19	₩	1,165
Currency options		1,922		(505)		-
Foreign exchange risk insurance		15,391		3,987		11,404
	₩	₩ 18,497	₩	₩ 3,501	₩	₩ 12,569

(*) Before deducting deferred income taxes

27. Share-based compensation

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

The LPI plan

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

Details of the LPI Plan are as follows:

Grant date	: September 26, 2006
Standard number of shares (*)	: 775,415 shares
Range of number of shares to be granted (*)	: nil to 1,163,123 shares
Counterparty	: executives
Vesting conditions	: (i) In service for a period of three years (ii) Performance conditions: <ul style="list-style-type: none"> • Cumulative amount of construction order; • Increase rate of amount of construction order in comparison with competitors; • Cumulative operating income; and • Indexed TSR (Total Stockholder's Return)
Method of settlement	: Shares

(*) The number of shares to be granted will depend on the extent of achievement of the pre-defined performance target level. No shares will vest unless the Company meets the minimum threshold level of more than 70% of the performance target. The standard number of shares as indicated will be granted if the Company meets 100% of the performance target and a maximum threshold level of more than 130% of the performance target is set. The number of shares that will vest will depend on the extent of achievement of the performance target from nil to 150% of the standard number of shares (see next table). The standard number of shares is determined by, among other factors, the standard share price by numerically averaging the yearly, half-yearly and one-month weighted-average share prices.

As of December 31, 2007, 68 executives are eligible to participate in the LPI Plan. The Company estimated that it will meet 116% of the performance target and expensed one-third of the estimated total compensation expense to the statement of income and recorded the corresponding amount in the other comprehensive income within equity.

The details of number of shares to be granted and the percentage of shares to be granted in relation to the extent of achievement of performance targets are as follows:

Extent of attainment of performance targets			Number of shares to be granted
More than		Below	
130%			Standard number of shares + 50%
120%	~	130%	Standard number of shares + 20%
110%	~	120%	Standard number of shares + 10%
100%	~	110%	Standard number of shares
90%	~	100%	Standard number of shares - 10%
80%	~	90%	Standard number of shares - 20%
70%	~	80%	Standard number of shares - 50%
		70%	nil

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

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

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

28. Employee welfare benefits and contributions to society

The Company lends housing-loans up to ₩40 million per employee subject to the individual employees' service periods as welfare benefits for the employees. The Company records those benefits as long-term loans and the amounts granted to employees as of December 31, 2007 and 2006 are ₩23 million and ₩25 million, respectively.

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

29. Environmental consideration

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

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

Expenditures relating to environmental matters during the years ended December 31, 2007 and 2006 amounted to ₩9,659 million and ₩6,411 million, respectively.

30. Human resource development

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

31. Segment information

The Company has six major reportable business segments - architectural work division, civil work division, housing work division, plant work division, environment work division and development work division - with each segment representing a strategic business unit that offers different services.

Division	Products or services	Major customer
Architectural work division	Building, factory and others	LG Philips LCD Co., Ltd. , Kyungbang Ltd. , etc.
Civil work division	Road, bridge and others	Public Procurement Service, Korea Land Corp., Korea rail network authority
Housing work division	Apartment, villa and others	Korea Real Estate Investment Trust Co., Ltd., Banpo Jugong Rebuilding Association
Plant work division	Energy plant, industrial facilities and others	Aromatics Oman LLC, Qatar Petroleum, etc.
Environment work division	Environment facility and others	LG Philips LCD Co., Ltd., Environmental Management Corporation, etc.
Development work division	Golf course and others	Unspecified
Others	Rental	Unspecified

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

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

Division	2006				
	Sales	Operating income (loss)	Property, plant and equipment, and intangible assets	Depreciation and amortization	
Architectural work division	₩ 1,584,504	₩ 164,298	₩ 218,821	₩ 4,466	
Civil division	707,912	65,490	18,768	1,559	
Housing division	1,694,492	116,398	187,244	2,618	
Plant	1,455,193	59,015	46,522	3,421	
Environment	255,268	17,808	6,377	353	
Development work division	45,284	(19,882)	501,562	14,128	
Others	2,512	243	62,501	4,721	
	₩ 5,745,165	₩ 403,370	₩ 1,041,795	₩ 31,266	

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

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

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

32. Added value information

The accounts and amounts which are required to be disclosed in connection with the calculation of the value added of the Company's operations for the years ended December 31, 2007 and 2006 are as follows (Korean won in millions):

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

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

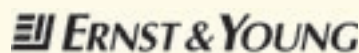
Summary of operating results (unaudited) for the three months ended December 31, 2007 and 2006 are as follows (Korean won in millions, except per share amounts):

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

34. Comprehensive income

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

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



ERNST & YOUNG HAN YOUNG

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

Representative Director
GS Engineering & Construction Corporation

We have reviewed the accompanying management's report on the operations of the internal accounting control system ("IACS") of GS Engineering & Construction Corporation(the "Company") as of December 31, 2007. The Company's management is responsible for design and operations of its IACS, including the reporting of its operations. Our responsibility is to review the management's IACS report and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2007, the Company's IACS has been effectively designed and has operated as of December 31, 2007, in all material respects, in accordance with the IACS standards established by the IACS Operations Committee."

We conducted our review in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. These standards require that we plan and perform our review to obtain less assurance than an audit as to management's report on the operations of the IACS. A review includes the procedures of obtaining an understanding of the IACS, inquiring as to management's report on the operations of the IACS and performing a review of related documentation within limited scope, if necessary.

A company's IACS consists of an establishment of related policies and organization to ensure that it is designed to provide reasonable assurance on the reliability of financial reporting and the preparation of financial statements for external financial reporting purposes in accordance with accounting principles generally accepted in the Republic of Korea. However, because of its inherent limitations, the IACS may not prevent or detect material misstatements of the financial statements. Also, projections of any assessment of the IACS on future periods are subject to the risk that IACS may become inadequate due to the changes in conditions, or that the degree of compliance with the policies or procedures may be significantly reduced.

Based on our review of the management's report on the operations of the IACS, nothing has come to our attention that causes us to believe that the management's report referred to above is not presented fairly, in all material respects, in accordance with the IACS standards.

We conducted our review of the IACS in existence as of December 31, 2007, and we did not review the IACS subsequent to December 31, 2007. This report has been prepared for Korean regulatory purposes pursuant to the Act on External Audit for Joint-Stock Companies, and may not be appropriate for other purposes or for other users.

February 15, 2008

This report is annexed in relation to the audit of the financial statements as of December 31, 2007 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

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

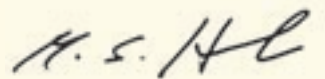
I, as the Internal Accounting Control Officer ("IACO") of GS Engineering & Construction Corporation ("the Company"), assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2007.

The Company's management including the IACO is responsible for the design and operations of its IACS. I, as the IACO, assessed whether the IACS has been effectively designed and has operated to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external financial reporting purposes. I, as the IACO, applied the IACS standards for the assessment of design and operations of the IACS.

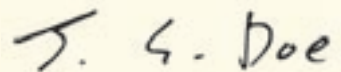
Based on the assessment of the operations of the IACS, the Company's IACS has been effectively designed and has operated as of December 31, 2007, in all material respects, in accordance with the IACS standard.

February 13, 2008

Myung-Soo Huh
Chief Operating Officer



Jae-Seung Doe
Internal Accounting Control Officer



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Three-year Summary

Balance Sheet

Unit : Billions of Won

	2007	2006	2005
Current assets	3,758	3,019	2,423
Fixed assets	1,967	1,732	1,403
Total assets	5,725	4,751	3,826
Current liabilities	2,947	2,385	1,849
Long-term liabilities	646	582	526
Total liabilities	3,593	2,967	2,375
Paid-in capital	255	255	255
Capital surplus	213	208	204
Retained surplus	1,496	1,173	857
Capital adjustment	168	148	135
Shareholders' equity	2,132	1,784	1,451
Total liabilities & shareholders' equity	5,725	4,751	3,826

Income Statement

Unit : Billions of Won

	2007	2006	2005
Sales	6,012	5,745	5,631
Cost of sales	5,152	4,983	4,951
Gross profit	860	762	680
SG&A	418	359	344
Operating profit	442	403	336
Non-operating income	172	201	108
Non-operating expense	46	60	77
Ordinary income	568	544	367
Income tax expense	168	157	102
Net profit	400	387	265

Cash Flow

Unit : Billions of Won

	2007	2006	2005
Cash flows from operating activities	-192	591	73
Cash flows from investing activities	-277	-257	73
Cash flows from financing activities	315	-159	-50
Net change in cash and cash equivalents	-154	175	96
Cash and cash equivalents			
Beginning of the year	533	358	262
End of the year	379	533	358

Number of Employees

Unit : Person

	2007	2006	2005
At year end	4,027	4,147	3,778

Key data GS E&C 2007

Sales

Unit: Billions of Won

Sales	6,012
Sales by segment	
Civil Engineering	796
Plant	1,989
Environment	214
Architecture	1,056
Housing	1,957

Earnings

Unit: Billions of Won

Gross Profit	860
Operating Profit	442
Ordinary Profit	568
Net Profit	400

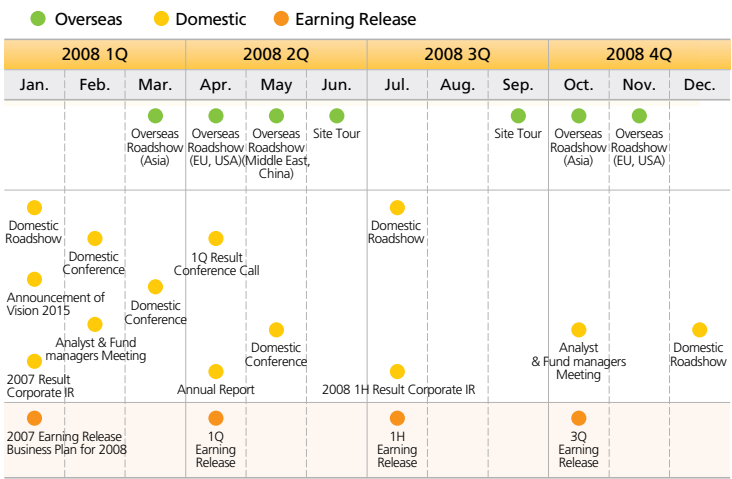
Key GS E&C Share Data

Total number of shares[issued] (Million)	51
Total market cap (Billion of KRW)	7,956
Share price[high] (KRW)	197,500
[low] (KRW)	73,000

Per Share Information

EPS (KRW)	8,009
Dividend per share(KRW)	1,650

GS E&C IR Plan 2008



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www.gsconstir.co.kr/english



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