

A Life Becomes A Great Story

Annual Report 2003



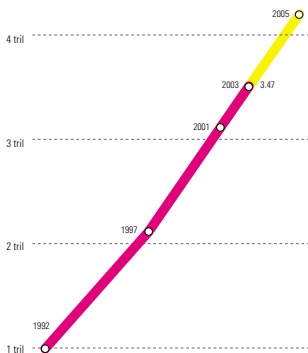
LG Engineering & Construction Corp.



COMPANY OVERVIEW

LG Engineering & Construction Corporation (LG E&C) has carried out numerous construction projects at home and abroad, growing into one of the leading companies in Korea's construction industry. Since its establishment in 1969, LG E&C has developed and refined expertise to deliver customers greater value with new-concept living and working spaces in a blend of the latest technologies. The Company has stimulated business for civil engineering, process plants, highrises, and housing, while actively entering into more global regions including the Middle East, Southeast Asia, and Russia. The corporate goal is to win the heart of customers through being the "best and first" in every field of endeavor, and thus taking the top share in the domestic construction market by 2010.

SALES REVENUE TRENDS



02	Company Overview
03	Financial Highlights
04	Letter to Shareholders
08	2003 At a Glance
10	Vision & Strategy
11	Risk Management
12	ESH
13	Review of Operation
14	Review of Operation - Civil engineering
20	Review of Operation - Plant
26	Review of Operation - Architecture
32	Review of Operation - Housing
38	Review of Operation - Technology Center
42	Management's Discussion and Analysis
49	Company Milestones
50	Board of Directors
51	Financial Statements
80	Global Network

Civil Engineering

Railroads
Roads/Tunnels/Bridges
Ports & Dredging
Underground Space

Architecture

Commercial Buildings
Industrial Factories
Hotel/Condominium
Cultural Center/School

BUSINESS AREA

Plant

Oil & Gas Refinery
Petrochemical
Energy/Power Plants
Environmental Facilities

Housing

Residential Complex
Apartments
Officetels
Villa

FINANCIAL HIGHLIGHTS

For the fiscal year ended December 31

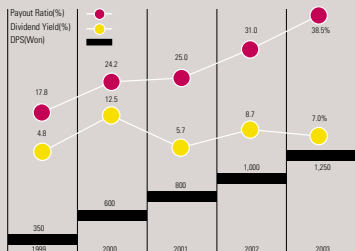
(Unit: billions of Won)

	2003	2002	2001
Sales revenue	3,468	3,175	3,153
Operating profit	271	276	255
Net profit	162	161	160
EPS (Won)	3,245	3,225	3,199
Total assets	2,690	2,662	2,645
Total liabilities	1,535	1,613	1,713
Total shareholders' equity	1,156	1,049	932

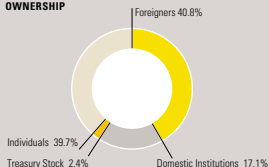
NEW ORDERS



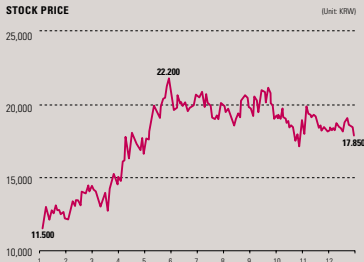
DIVIDEND TREND



OWNERSHIP



STOCK PRICE



To Our Shareholders and Investors

In 2003, despite an unfavorable business environment inside and outside Korea, we at LG Engineering & Construction Corporation (LG E&C) recorded the highest number ever of new orders, and steady growth of sales and profits. The significant increase of new turnkey projects won in the public sector and the new orders received from LG affiliates in 2003, backed by aggressive growth strategies and the seamless teamwork of our employees, reinforced our business foundation and made it stronger than in previous years. We carry forward from 2003 the commitment to our business strategy in 2004, our goal remains becoming the "best and first" in Korea's construction industry by 2010.

2003 Initiatives

Q: The business environment in Korea and elsewhere was quite difficult for many industries in 2003. What was the 2003 environment like for the construction industry?

A: There was no exception for the construction industry. Factors adding to the adverse conditions were the war in Iraq, SARS, continued unrest over the nuclear weapons issue in North Korea, a general economic recession and political turmoil that undermined domestic construction markets. Although the business environment was undoubtedly tough, we worked hard to establish LG E&C as a top construction company in the market, moreover, we consider

last year's effort as a foundation upon which we can build a new round of growth in 2004.

Q: The new vision of LG E&C was slated for 2003 through 2010. What are major accomplishments in 2003?

A: Despite the abovementioned difficulties, I believe 2003 was a banner year for us by every performance standard. Sharing the vision together, our employees did their utmost to seize and capitalize on sparse opportunities. As a result, new orders broke all previous records, exceeding ₩5 trillion. Especially in the public sector, new orders were up 104% to ₩1,092 billion. In Housing Division, the new provisional orders received totaled ₩5,718 billion, an unprecedented figure among our peers. Our marketing efforts have resulted in a more balanced business portfolio and solidified our foundation for steady future growth. In 2003, the initial year of our Vision 2010 drive, we realized again that our "team approach" to achieve goals is one of our most powerful tools.

2003 Results

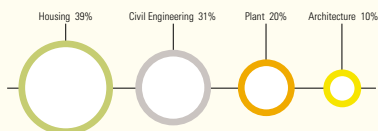
Q: Can you specify the figures for new orders, sales, and profits in 2003?

A: New orders in 2003 were up a remarkable 39.3% from the previous year to reach an all-time high of ₩5,057 billion. Each of our four business divisions recorded double-digit growth in new orders. We have specifically targeted new fields of construction such as a nuclear power plant, port, overseas gas plant, and cable-stayed bridge. We see our ability to compete in diverse construction disciplines as one of our core strengths. The new orders received for the construction of the LG Phillips TFT-LCD factory in the Architecture Division and the continued growth of new

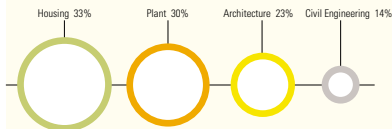
orders in the Civil Engineering Division and Plant Division were major contributors. Sales totaled ₩3,468 billion, a 9.2% increase over 2002. The 1.7% decline in operating profit was due, in large part, to increased general and administrative expenses. It was incurred in the process of pursuing provisional new orders in Housing Division, advertising LG E&C's apartment brand identity, "Xi(eXtra intelligent)", and stimulating diverse project bids in the public sector, particularly turnkey project. Meanwhile despite the decline of operating profit, the net profit grew steadily to ₩162 billion. The total liability to equity ratio was lowered to 133%, a 21% point reduction from the previous year's 154%, net debt to equity ratio lowered to 5% from 20% in previous year as well, strengthening our financial health.



ORDER BACKLOGS BY DIVISION



NEW ORDERS BY DIVISION



New orders in 2003 were up a remarkable 39.3% from the previous year to reach an all-time high of 5,057 billion. Each of our four business divisions produced double-digit new order growth. We have specifically targeted new fields of construction such as a nuclear power plant, harbor, overseas gas plant, and cable stayed bridge.

Q: LG E&C is said to have initiated the "all employee salesmanship" regardless of their positions, the Project Management System (PMS+) at all construction sites, and enterprise resources integration. How have these measures impacted performance over 2003?

A: These initiatives have had a very favorable impact on our business. Challenging employees to take greater responsibility has instilled a renewed vigor, inspired greater creativity, and reinforced the winning concept of seamless teamwork. The excellent results are evidenced in receiving increased turnkey, redevelopment, and reconstruction projects as well as entering into the new business areas. The PMS+ applied at all construction sites inside and outside Korea has consistently increased productivity and profitability by raising efficiency of supply chain and managing the entire process more scientifically. We continue to invest in the best training programs possible for our employees, leadership development programs for our executives, while constantly examining our operations to ensure optimal and profit-wise management practices.

2004 Plans & Strategies

Q: Many predict the construction market in 2004 will be more stagnant worldwide. What is the LG E&C's view on this?

A: Adversity for Korean contractors seems inevitable in 2004. The shrinking housing market, a growing number of the lowest price bids, and the precipitous decline in new orders expected in the private sector will significantly increase competition in both public and private sectors. Many in the industry are looking overseas to offset this downturn in domestic activity. Accordingly, the total of new overseas orders for the Korean constructors is expected

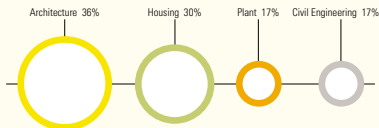
to increase up to US\$6 billion in 2004 from \$3.6 billion in 2003. Looking forward, we set our sights on global objectives as well. Our global marketing will go into full swing, hoping to turn difficulties into opportunities through challenges and changes.

Q: What are the LG E&C business goals and strategies in 2004?

A: We will continue targeting new orders in the public sector as we have done in 2003, while pursuing a dominant position in the housing market. Our new order target is set at ₩6.0 trillion and sales ₩3.6 trillion. Borrowings will be lowered to stabilize our financial position, as a hedge against potential uncertainties in future money markets. To achieve these goals, our business divisions will intensify marketing activities. The Civil Engineering Division will accentuate turnkey projects and new fields in the public sector. The Plant Division will look to overseas plants and domestic public projects. The Architecture Division will concentrate on public turnkey projects, office presales project, and LG affiliates-related projects especially the TFT-LCD factory project. The Housing Division will selectively receive projects and investment for proper margins, heighten the apartment presales rate, and continuously focus on residential redevelopment and reconstruction projects. In 2004, we will separate the environmental operations from the Plant Division to prepare for the growing environmental business opportunity in the future. The Environmental Division will boost turnkey orders and

We will continue propelling new orders in the public sector as we have done in 2003, while pursuing a dominant position in the housing market. Our new order target in 2004 is set at ₩6.0 trillion and sales ₩3.6 trillion.

SALES BY DIVISION



privately funded infrastructure (PFI) projects. In line with ongoing promotion of the apartment brand identity "Xi" and upgrade of the IT system, all divisions will redouble their combined efforts toward cost cutting, process innovation, and risk and safety management.

Q: What are the top management objective and key tasks in 2004?

A: "Sustainable Growth through Challenges and Changes" is the 2004 management objectives. All employees will work as a salesman, addressing key tasks; delivering greater customer satisfaction based on the customer relationship management (CRM) and enhancing knowledge management (KM), quality stewardship, and safety management. We carry forward from last year's commitment to energetic marketing activities driven by the salesmanship of all employees, sharpening our competitive edge. Meanwhile, we are going to reinforcing our CRM functions very aggressively in 2004. It aims at providing greater satisfaction through value-added products to meet the preferences of customers. Our unique CRM and "Mentor System" are designed to satisfy customers and build up a true partnership with sub-contractors. At the same time, the customer-oriented organizational culture is being promulgated at every business division and worksite. Our IT-based KM system coupled with the PMS+ positions us well to compete as a truly "Digitally-run Company." Our standard for quality and our commitment to safety will always be steadfast and without compromise.

Q: LG E&C is also known for returning maximized value to shareholders and investors. What is LG E&C's emphasis on this?

A: We have worked hard to maximize corporate value for shareholders, investors, and all with a stake in our Company. Our dividend payout ratio was increased to 38.5% from the previous year's 31.0%. As part of transparent management, we enacted the Charter for Corporate Governance in 2003. We are holding frequent domestic and overseas IR activities including the roadshows and operating the investor relations' home page, ensuring easy and accurate access to our managerial information. Our efforts have been appreciated by customers and investors and acknowledged by major industry organizations. We were honored with a grand prize in the cyber IR field at the 5th Korea Economic Daily IR Awards and in the construction and cement fields at the 1st Money Today IR Awards. We will continuously reinforce our IR capabilities to enhance the communication with the shareholders. We extend appreciation for the support of our shareholders and investors, and look forward to your unwavering encouragement and support in the coming years as well.

Kab-Ryul Kim _____ President & CEO



2003 At a Glance

• New Vision 2010 Initiated ^{01 02}

LG E&C announced Vision 2010 on January 2, 2003. The Vision 2010 objective is to become the "best and first" in terms of quality work and market share in the domestic construction industry by 2010. Enrichment in core values, excellence in tasks, and strong long-term strategies are essential for realizing the vision.

• Construction of Nuclear Power Plants and Gas Treatment Plants Contracted ⁰³

The contract won on June 30 for the construction of Sin-Wolseong Nuclear Power Plants 1 & 2 was a crowning achievement realized after ten years of preparation garnered from building combined-cycle and co-generation power plants. This construction experience will provide us with an excellent position to seize lucrative opportunities in domestic power plant construction. South Pars Gas Treatment Plants 9 & 10 in Iran amounting US\$655 million (41% of total contract amount US\$1.6 billion) is the single largest project in company history.

• Port and Cable-Stayed Bridge Construction Newly Launched ⁰⁶

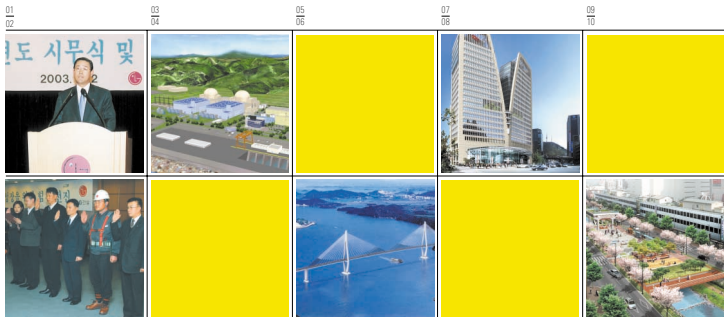
Advancing into new fields of construction, particularly port and cable-stayed bridge, has been a long-cherished goal. Accordingly, we have developed the engineering skills to achieve our goal. Contracts won for the construction of Gwangyang Port section 3-2 and of Goha-Jukgyo road, which contained a cable-stayed bridge, position us well to capitalize on our new experience and take advantage of future opportunities in upcoming port and cable-stayed bridge works.

• Large-scale Turnkey Projects Fetched ^{02, 18}

The company-wide drive in pursuit of Vision 2010 has produced large-scale turnkey projects in the public sector. These include the construction of Boseong-Imseongni railroad section 7, Goha-Jukgyo road, and Seoul Central Post Office; renovation work of sewage pipe of Han River section 2; and restoration work of Cheonggyecheon Stream.

• Successful Presales of LG Xi Apartment Units ^{11 12}

LG E&C's apartment brand identity "Xi (eXtra intelligent)" and product quality set it apart from others in the housing market. In 2003, pre-sales of LG Xi apartment units went on steadily. Starting with LG Xi in Yangju in May, Hanam in June, Cheongam in July, LG Xi II in Yangju



and LG Hanbat Xi in Daejeon in October, LG Xi in Yongin in November, and LG Hwangsil Xi and LG Xi II in Jukjeon in December, apartment presales totaled 8,366 units.

• **Large Amount of Reconstruction and Redevelopment Projects Received** ¹³

New provisional orders for reconstruction and redevelopment projects have been generated through our nationwide effort. These orders have bolstered the Company's competitiveness in the housing business. Winning new provisional orders for the redevelopment of 16 projects, including Geumho District 13, and for the reconstruction of 13 projects, including Ganseok Complex 1 in Incheon, have resulted in ₩3.5 trillion of new provisional orders.

• **Mega size TFT-LCD factory construction continued** ¹⁵

The 6th generation of TFT-LCD factory was being built in Gumi, Korea, and is scheduled to complete by the end of 2004. Due to the continuous growth of TFT-LCD market, these will be the huge new orders of TFT-LCD factory construction over the several years.

• **Charter for Corporate Governance Enacted**

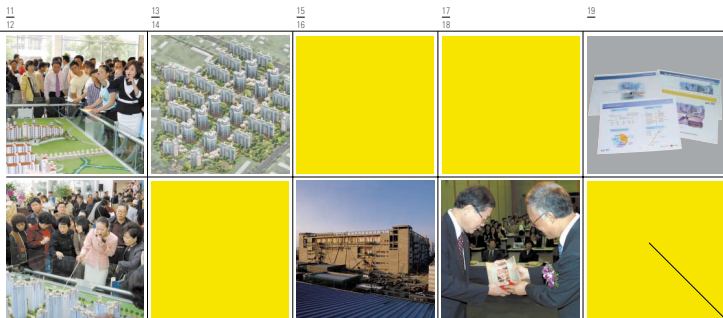
The Charter for Corporate Governance enacted on July 25 is itemized in five sections, for shareholders, board of directors (BOD), audit committee, interested parties, and customer-centered fair trade practices. The BOD framed the Charter to ensure disciplined and responsible management. The back-to-basics management is fundamental to earning trust from interested parties and retaining lifelong customers.

• **IR Awards by Domestic Press Companies Received** ¹⁸

The active IR promotion was recognized when the Company was awarded the grand prize in the cyber IR field at the 5th Korea Economic Daily IR Awards and in the construction and cement fields at the 1st Money Today IR Awards.

• **Overseas IR Roadshow Held Regularly** ¹⁹

The investor relations roadshow was held in Asia, Europe, and the US, each in 1H and 2H of 2003. It will be held on a regular basis every year. The IR roadshow is a valuable vehicle for sharing reliable management information and business results with shareholders and investors alike.



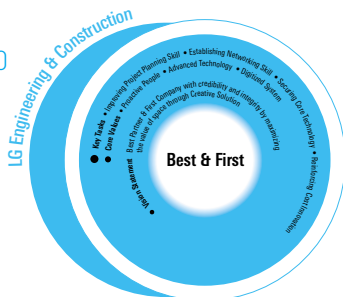
• VISION

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

2004 2005 2006 2007 2008 2009



2010

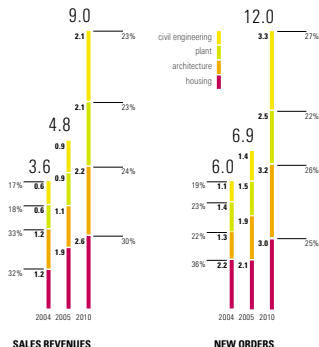


• STRATEGY

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

(Unit: trillions of Won)

(Unit: trillions of Won)



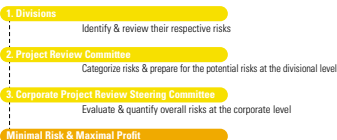
• RISK MANAGEMENT

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

BUSINESS RISKS

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

Formal Project Risk Management Procedure



FINANCIAL RISKS

Liquidity Risks

Liquidity risk is the risk of having a long-term imbalance between assets and debt, a sudden decrease in the cash balance, liquidity dilemma, and other financial problems that result in insufficient cash to sustain normal business activity. LG E&C's funding strategy seeks to spread out the maturities of borrowings to minimize funding pressure from loan repayment. Importantly, the Company has a variety of lines of credit to ensure smooth cash management and operations.

Foreign Exchange Risks

Foreign exchange risk is the effect that unanticipated or fluctuating exchange rate changes have on the value of assets, liabilities, and potential gain or loss on foreign currency transactions. LG E&C's foreign exchange risk is minimal. Overseas projects represent only a small portion of sales revenue, and many of the materials used in these projects are purchased locally, limiting foreign exchange exposure. Exchange rate fluctuations, too, have little effect on income. The Company's foreign exchange policy with regard to overseas projects is to match cash received with cash paid out to minimize foreign exchange exposure. To cover any mismatch or surplus US Dollar payment, however, the Company maintains foreign currency accounts and borrowings as needed.

Interest Rate Risks

Interest rate risk is defined as the variability of a corporate value due to an unexpected change in market interest rates. This can result from cash flows from material interest bearing assets or liabilities that will produce an interest return or cost. LG E&C has reduced debt in large volume each year. The Company keeps reducing debt for an all-weather sustainability in an unfavorable business climate, uncertain financial market, long-term recession, and emerging new economic paradigm worldwide.

• ENVIRONMENTAL, SAFETY, AND HEALTH POLICY

LG E&C incorporates environmental, safety and health considerations into every project. These concerns for our clients, employees, and the public are an integral part in our corporate ethic. We feel that embracing these highest standards will ultimately create value for our customers and shareholders by enhancing the Company's reputation as a solid corporate citizen. It is our Company policy that we protect the natural environment, safety and health of the public, clients and employees by all means throughout the execution of our business activities with the following principles;

- LG E&C shall establish and maintain the ESH Management System, objectives and targets in accordance with ISO 14001 standard to contribute to continual improvement of natural environment.
- LG E&C shall observe customers' requirements as well as relevant environmental, safety and health legislation and regulations.
- LG E&C shall make every effort to become the best company in ESH performance and to create an accident and injury free culture for the benefit of public, clients and employees by means of identifying ESH issues and controlling them.
- LG E&C shall take part in regional ESH programs and cooperate closely with the regional society.
- All of the LG E&C employees shall reduce the consumption of materials and energy and shall eliminate unnecessary waste generation.

The Management Representative shall ensure that this ESH Policy is fully understood, implemented and maintained at relevant functions and all levels of organizations by means of monitoring it's continued suitability and improving the effectiveness of the documented ESH management system. At LG E&C, all of our employees take part in the ESH Management System and make efforts to enhance the ESH mindset. We will continue to expand on the environmental protection, safety and health management while taking a critical look at existing measures.

ESH MANAGEMENT OVERVIEW

- | | |
|---|--|
| 1. Leadership & Culture | Management from top to down will demonstrate, encourage, and participate ESH activities |
| 2. ESH Policy & Goal | The utmost our customer satisfaction and reaching our ZERO INJURY GOAL |
| 3. Organization & Coordination | For successful handling of ESH matters, we establish network between central committee and area management committee. Also we operate different delegations from a view of positive participation by all levels of management supervision. |
| 4. Planning & Risk Management | Instructions/procedures for risk reduction in accordance with our ESH policy. |
| 5. Implementation & Monitoring | We develop detail instructions and systems and safety promotion programs as well as work permit system and site patrol. |
| 6. Auditing & Reviewing | To effectively carry out our regular inspection and audit, we develop risk classification, reporting sequence, non-compliance penalty system, etc. Lessons learned will be feed back to all workers in site. |



CERTIFICATE OF ISO 14001



Creator

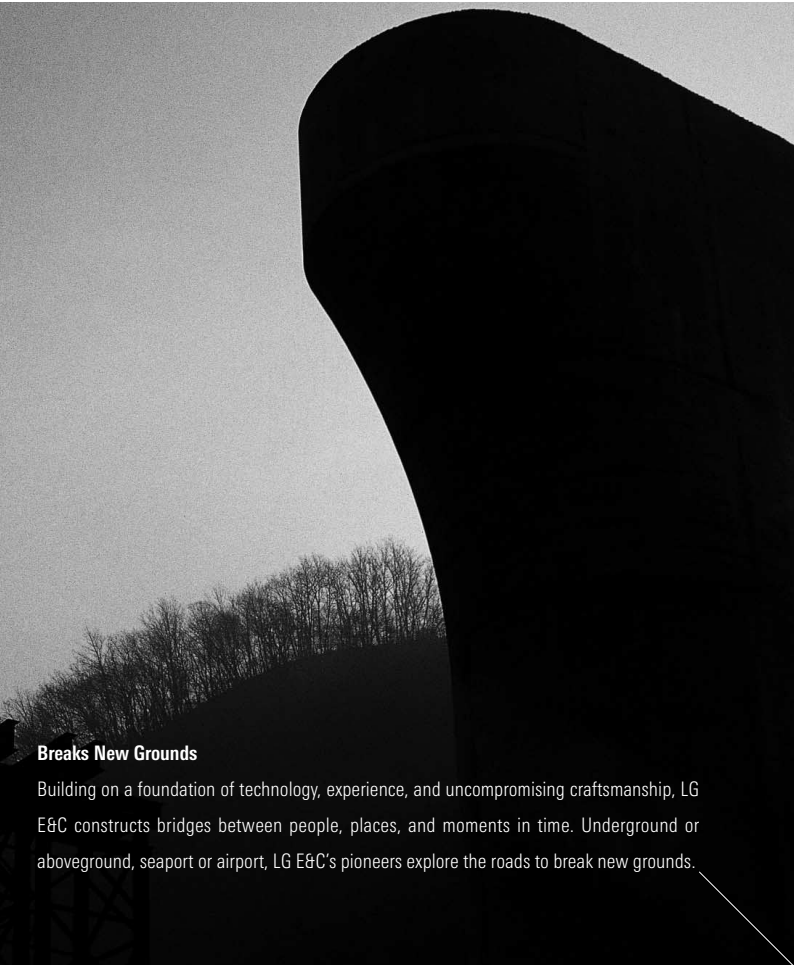
Inspires Spaces and Places

Construction is a fusion of art and engineering, created with primary resources like water, soil, wood, stone, and iron with human resources. With hands and minds, people of LG E&C know how to mix these resources together into spaces and places, where people can live in comfort with style.

Civil Engineering

P i o n e e r





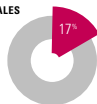
Breaks New Grounds

Building on a foundation of technology, experience, and uncompromising craftsmanship, LG E&C constructs bridges between people, places, and moments in time. Underground or aboveground, seaport or airport, LG E&C's pioneers explore the roads to break new grounds.



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

PORTION OF TOTAL SALES



PORTION OF NEW ORDERS



civil engineering



Daegu-Pohang Highway Construction

• Client: Korea Road Corporation • Location: Youngcheon, Korea • Contract Period: Oct. '98 – Dec. '04 • Project Descriptions: - Length: 10.0km; - 15 Bridges

“

Message from Top Management

In 2003, the first year marking Vision 2010, we at the Civil Engineering Division laid a solid groundwork for continued growth. We feel this effort will result in substantial increases in order quantity. We continue to aggressively pursue diverse turnkey orders and other government contracts in the public sector with our outstanding design capabilities. We proceed with a number of new privately funded infrastructure (PFI) projects currently under government review. In accordance with our equity liquidation policy for those PFI projects that are completed and in operation, our equity in New Airport Highway was sold off in 2003. Presently, our equity in Cheonan-Nonsan Highway, which was completed and went into operation at the end of 2002, is in negotiation for sale. Winning the contract for the construction of Gwangyang Port section 3-2 has placed us in an advantageous position to become a primary contractor for Pyeongtaek Port and other large-scale port works scheduled in the coming years. The Project Management System (PMS+) was applied at all construction sites for strict and prompt management of the project schedule and cost to improve overall productivity. Employee training programs and technical innovations continue in the interest of the Company becoming the sector's unrivaled leader.”

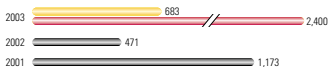
”



NEW ORDERS

(Unit: billions of Won)

ORDER BACKLOG



SALES REVENUES

(Unit: billions of Won)



GROSS PROFIT

(Unit: billions of Won)



Jeong-Ho Park Engineer | Construction site, Daegu-Pohang Highway Section 3

"This Daegu-Pohang Highway Section 3 project contains several bridges spanning more than 25% of its total length. Here, the new concept of bridge engineering, so called the "Steel Bridge with Wide-Space Girders," is applied for the first time in Korea. I feel as if I'm part of a historical event. LG E&C is a great place to work. We work hard and our safety inspection and quality control literally never stop, but it's all worthwhile when you see this beautiful nonstop highway."



Cheonan-Nonsan Highway Section 3

• Client: Cheonan-Nonsan Highway Co. • Location: Gongju, Korea • Contract Period: Dec. '97 - Dec. '02 • Project Descriptions: - Length: 12.42km, - 14 Bridges, - 2 Tunnels

Seoul Beltway Section 6

• Client: Seoul Beltway Corp. • Location: Namyangju, Korea • Contract Period: Jun. '01 - Jun. '06 • Project Descriptions: - Length: 36.3km, - 50 Bridges, - 5 Tunnels



Seoul-Choonchun Railroad Section 7

• Client: Korean National Railroad • Location: Choonchun, Korea • Contract Period: Dec. '99 - Dec. '07 • Project Descriptions: - Length: 12.146km, - 5 Bridges, - 4 Tunnels, - 2 Stations





2003 Achievements

The Civil Engineering Division showed strong growth in turnkey orders in the public sector and alternative proposal projects, receiving ₩463 billion worth. The amount of both orders rose a remarkable 134% over the previous year. Thanks to this exceptional performance, total new orders grew 45.0% to ₩683 billion in 2003. Sales were up 11.5% from the previous year to ₩574 billion, despite the suspension of the Seoul Beltway construction and the lull in progress of overseas projects. This performance can be attributed to increased sales from various road projects and the early start of new projects. As a part of PFI projects in which the Company has invested, Cheonan-Nonsan Highway was completed at the end of 2002 and was soon followed by the Seoul Beltway construction. However, meeting with opposition from some Buddhists and environmentalists, the beltway construction was suspended, causing a setback in reaching business goals planned for the PFI projects in early 2003. The beltway construction, resumed end of 2003, is expected to stay on track from now on.

2004 Goals and Strategies

A change in turnkey project bidding rules, a growing number of the lowest price bids, and other unfavorable factors will add to a lackluster business environment in 2004. Competition between contractors is expected to increase, adding to difficulties in securing profitability. In 2004 the new order volume goal is set at ₩1,126 billion, an unprecedented growth. As all construction projects are well underway, sales are set at ₩629 billion, with the hope of achieving a level of ₩600 billion or better for the first time. In particular, resumption of work on the Seoul Beltway will leverage a great sum in profit. Eventually, the PMS+ will take firm root at every construction site. The PMS+ and e-Works 21, a collaborative system, will combine to empower safety, quality, and environmental management. Knowledge management and innovation initiatives will also continuously be reinforced.



Incheon LPG Storage

• Client: LG-Caltex Oil Co. • Location: Incheon, Korea • Contract Period: Dec. '96 - Aug. '00 • Project Descriptions: - Length of Storage Tunnel: 4.28km, - Port Access Facility: 55,000DWT, - Dredging: 2.13 Million m³



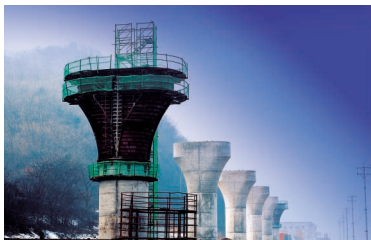
New Airport Highway Section 2

• Client: New Airport Highway Co. • Location: Incheon, Korea • Contract Period: Apr. '96 - Feb. '01 • Project Descriptions: - Length: 10.6km - 10 Bridges



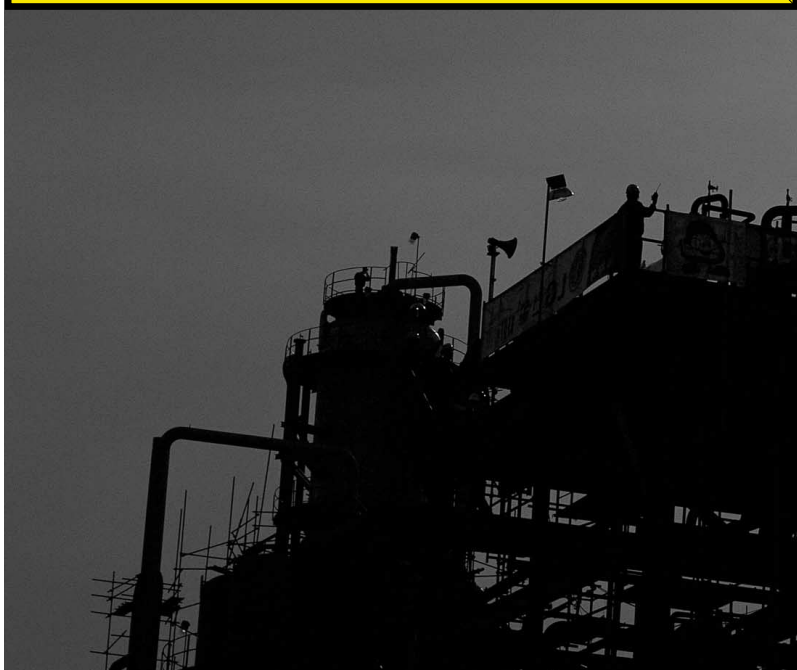
Jungang Railroad Foundation Construction

• Client: Korean National Railroad • Location: Namyangju, Korea • Contract Period: Oct. '97 - Dec. '03 • Project Descriptions: - Foundation Installation: 4.0km, - Foundation Expansion: 5.5km, - 15 Bridges, - 4 Stations



Plant

A l c h e m i s t





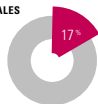
Generates Tomorrow's Technology

From oil and gas, petrochemical, power and energy to environmental facilities, these industries rely on engineering experts. Though there are many from which to choose, many choose LG E&C knowing the value we bring.

plant



PORTION OF TOTAL SALES



PORTION OF NEW ORDERS



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



“

Message from Top Management

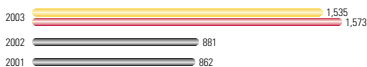
In 2003, the Plant Division won orders for Iran's large-scale gas plants, in keeping with our strategic aim for future growth. Success in Iran and Turkey establishes us with a significant presence in overseas plant construction. Amidst a stagnant domestic market, we produced excellent results with orders for constructing LG Petrochemical BPA Plant, Incheon Combined-cycle Power Plant, Dang-Jin Thermal Power Plants 7 & 8 and Sin-Wolseong Nuclear Power Plants 1 & 2. The order we won in 2003 for the operation and maintenance (O&M) of Sohar Refinery Company in Oman affords us an opportunity to demonstrate that we are far more than an engineering, procurement, and construction (EPC) contractor. Samnam Petrochemical Plant, Yeosu YM 2, and other plants we completed in Korea in 2003 are in successful operation. The turnkey order won for sewage pipe renovation work of Han River section 2 is an excellent point of entry into the environmental field. Aiming to become a one-stop service provider in new, wider business areas, we constantly broaden the solution horizon.

”



NEW ORDERS

(Unit: billions of Won) ORDER BACKLOG



SALES REVENUES

(Unit: billions of Won)



GROSS PROFIT

(Unit: billions of Won)



Young-Tae Choi, Team Chief / Caprolactam Expansion Project 2

"For the expansion of Caprolactam plant, four leading contractors and three package vendors collaborated together. It is like a showcase of cutting-edge engineering technologies. For plant construction, the welding process is critical. LG E&C's welding defect rate is around 1% and it has been unbeatable by others at this site. We can see it is one of our strong points here."



Caprolactam Expansion Project 2

Client: Capro Corporation • Location: Ulsan, Korea • Contract Period: Jun. '02 – Mar. '04 • Project Descriptions: - A yearly output : Caprolactam 120,000 MTPY

P6 Environmental Facility Construction

Client: LG Philips LCD • Location: Gumi, Korea • Contract Period: Dec. '02 – Dec. '04 • Project Descriptions: - 92,500m³/day capacity waste water treatment etc. - 8 Environmental Facilities



Seosan Storage Bases

Client: Korea National Oil Corporation • Location: Seosan, Korea • Contract Period: Nov. '99 – Jun. '05 • Project Descriptions: - Crude Oil storage tank 950k BBL X 4





2003 Achievements

The Plant Division's new orders jumped 74.2% to ₩1,535 billion in 2003, with ₩853 billion overseas and ₩682 billion in Korea. In the public sector, new orders reached ₩217 billion. They include Sin-Wolseong Nuclear Power Plant, Incheon Combined-cycle Power Plant, Dang-Jin Thermal Power Plants 7 & 8, and sewage pipe renovation work of Han River section 2, indicating its rapid, profitable, and stable sales growth. In particular, the order for South Pars Gas Treatment Plants 9 & 10 in Iran, a US\$ 655 million (41% of total contract amount US\$1.6 billion) is the single largest project in Company history. The Division is flanked by competitiveness and experience, giving it a leading edge in a promising gas plant market. Compared with the prior year, sales were almost flat to ₩580 billion, largely due to the cancellation of an oil refinery project in Libya and the Mobin project in Iran. In 2004, continued cost management with the PMS+ is geared up with rigorous project management at every construction site.

Daejeon 2nd R.I.P

• Client: Daejeon Metropolitan City Development Authority • Location: Daejeon, Korea • Contract Period: Dec. '01 – Mar. '05 • Project Descriptions: - Refuse Incinerator 200ton/day



2004 Goals and Strategies

Middle East Facility investment will become robust in 2004. Ample capital reserves of oil-rich countries and the cessation of hostilities in Iraq should contribute to infrastructure expansion. Accordingly, potential overseas orders related to the oil and gas plant sector looks promising. On the other hand, market situations in Korea appear bleak and that will present difficulties in securing new orders. The Division's latest strategic focus is on winning oil and gas plant orders overseas. At the same time, marketing activities in emerging economies including Russia, CIS, China, and Southeast Asian countries, will go into full swing. In the domestic market, the focus will move to the public sector from the weakening private sector. In line with specialized EPC projects, the Division's plan for performing as a total service provider consists of diversified solutions. They include project feasibility study, financing, product off-take, and plant operations and maintenance (O&M). The Division will add PFI projects to lay a strategic groundwork for environment-related projects in the public sector while increasing the turnkey market share through technical improvement. In 2004, the goal of new order is set at ₩1,367 billion and sales are set at ₩641 billion.



LG-Dow Polycarbonate Project

• Client: LG-DOW Polycarbonate Ltd. • Location: Yosu, Korea • Contract Period: Aug. '99 - Jan. '01 • Project Descriptions: - Polycarbonate: 65,000 MTPY



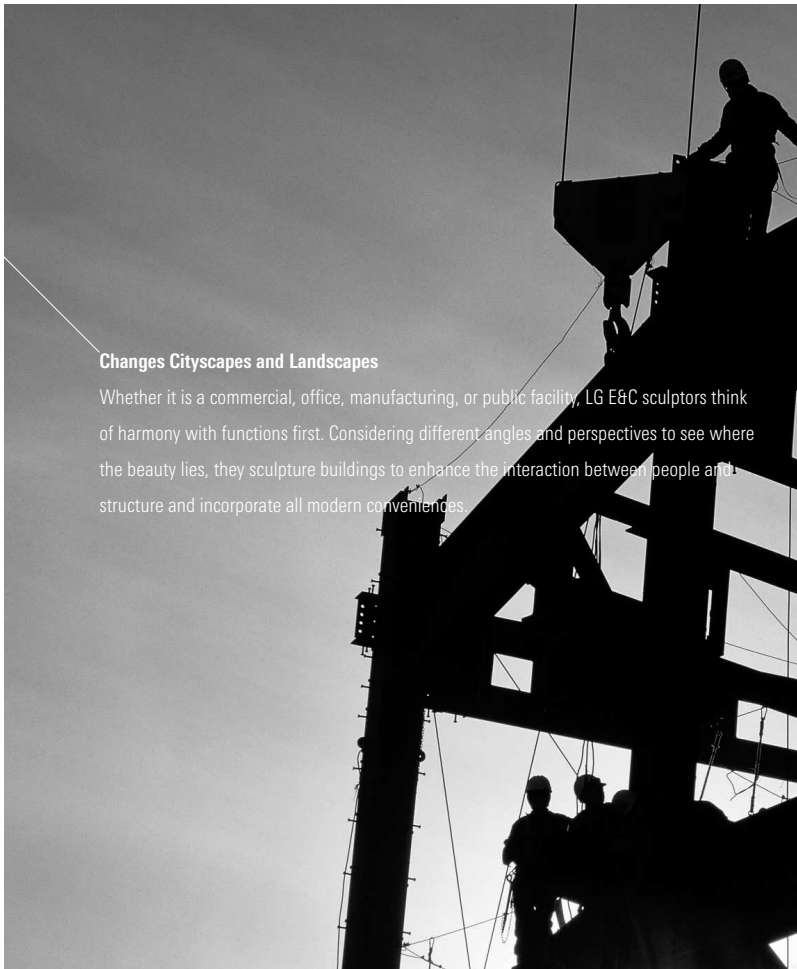
No.3 PX Project

• Client: LG-Caltech Oil Corp. • Location: Yosu, Korea • Contract Period: Mar. '01 - Feb. '03 • Project Descriptions: - ParaXylene: 400,000 MTPY - Off-site & Tankage



Changes Cityscapes and Landscapes

Whether it is a commercial, office, manufacturing, or public facility, LG E&C sculptors think of harmony with functions first. Considering different angles and perspectives to see where the beauty lies, they sculpture buildings to enhance the interaction between people and structure and incorporate all modern conveniences.





Architecture

S c u l p t o r



PORTION OF TOTAL SALES



PORTION OF NEW ORDERS



architecture

Won-Jai Maing Executive Vice President, Head of Architecture Division



Hall of Juranmido

• Client: Municipality of Gwangju • Location: Muan, Korea • Contract Period: Dec. '01 ~ May. '05 • Project Descriptions: ~ Total floor area ~ 74,450 sqm

“

Message from Top Management

At the Architecture Division, we enjoyed a banner year in 2003, which will lead us to realizing our Vision 2010 goals. In the public sector, we won all three government turnkey orders that we bid in 2003, beating out major competitors. In the private sector, new orders were reduced due to a downturn in the economy. But our agile marketing activities backed by nationwide sales channels and strong brand awareness helped seize a series of new orders in the shrinking market. Presently, our capability is focused on project feasibility studies, financing, technology innovation, and risk management, to deliver all-inclusive architectural solutions to the private sector. Architecture projects completed in 2003 include the Seoul Women's University Department of Humanities Center and the remodeling of Korea Export-Import Bank. Overall, sales and profits showed remarkable growth, a trend we expect to continue steadily in coming years.

”



NEW ORDERS

(Unit: billions of Won) **ORDER BACKLOG**



SALES REVENUES

(Unit: billions of Won)



GROSS PROFIT

(Unit: billions of Won)



Dunsan Hospital

• Client: Eulji General Hospital • Location: Daejeon, Korea • Contract Period: Apr. '01 – Feb. '04 • Project Descriptions: - Total floor area 91,578 m²

LG LCD P6

• Client: LG Philips LCD • Location: Gumi, Korea • Contract Period: Sept. '02 – Mar. '04 • Project Descriptions: - Total floor area 270,600 m² (6 Stories, 3 Underground levels)



Hong-Jun Cho, Site Manager | LG Chem: Polarizing Plate Factory Project in China

"There is no room for error at this plant, as our experts and workers team up providing quality stewardship backed by cutting-edge technology. Our PMS+ is a very efficient tool to reduce cost and time for the construction of this China-based factory. Working at an overseas construction site is a wonderful experience but also presents many difficulties with which to deal. However, the idea of laying a stepping-stone in the vast Chinese market encourages us to do our best."



LG Beijing Tower

• Client: LG Group • Location: Beijing, China • Contract Period: Aug. '02 – Aug. '05 • Project Descriptions: - Total floor area : 150,400m² (30 Stories, 4 Underground levels)



2003 Achievements

New orders of the Architecture Division in 2003 climbed 53.1% from 2002 to reach ₩1,148 billion. In the public sector, new orders, including turnkey-project of the Central Post Office, amounted to ₩131 billion. As for the LG affiliates-related projects, new orders including the construction of LG Philips TFT-LCD factory amounted to ₩841 billion while other private sector new orders amounted to ₩177 billion. The public turnkey orders and the LG affiliates orders stabilized growth of both sales and profit as we made profitability the top priority in selection of projects to pursue. Sales were strong in 2003, rising over 53.5% to ₩1,258 billion. Meanwhile in both the public and private sectors, declining demand in the economic downturn saw sales decline slightly, but sales resulting from the TFT-LCD factory project were more than offset this decline. In the private sector, the Division won the Mario project to construct an apartment-type factory building. This established our successful entry into the private development arena with huge growth potential in the coming years. The Division also seeks greater business opportunities and profitability from expanding its business range through providing financing and breakthrough engineering solutions.

2004 Goals and Strategies

The goals and strategies carried forward from last year are focused on winning more turnkey orders and government contracts, increasing presale-type private orders, and intensifying the marketing promotions for the LG affiliates contracts, to achieve long term profitable growth. In 2004, the goal of new order volume is set at ₩1,332 billion and sales at ₩1,198 billion. In particular, the construction of the 7th-generation of the TFT-LCD factory will commence in March 2004 and will contribute greatly to the Division's performance for the next several years. The unfavorable business outlook for 2004 will make it difficult to win new orders. However, the Division will pour effort into adding orders while reducing the cost by mobilizing the rigorous cost management coupled with PMS+. Knowledge management and innovation initiatives will also continuously be reinforced.



COEX Convention Center/ASEM Tower

• Client: Korea International Trade Association • Location: Seoul, Korea • Contract Period: Apr. '97 - Dec. '99 • Project Descriptions: - Total floor area: 554,631m²



LG Namkyung LCD C-Project

• Client: LG Philips LCD • Location: Namkyung, China • Contract Period: Aug. '02 - May. '03 • Project Descriptions: - Total floor area: 33,000m²



Advanced Research Institute of Hanyang University

• Client: Hanyang University • Location: Seoul, Korea • Contract Period: Jan. '99 - Oct. '00 • Project Descriptions: - Total floor area: 32,955m²



Housing

Designer





Designer Discovers Difference

Green nature, healthful life, modern amenities, and latest technologies are put into the blueprint. LG E&C's designers refined the space with cultural and natural touches. LG E&C designs and delivers living space around people enriching individual lifestyle.

housing



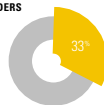
- "Xai" (Zai) is LG's new brand that will be used on all future apartments.
- "Xai" means "extra intelligent".



PORTION OF TOTAL SALES



PORTION OF NEW ORDERS

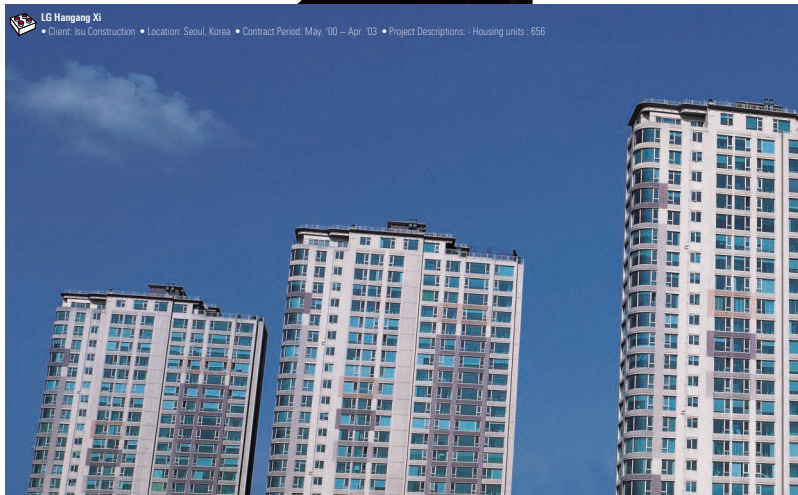


Yong-Hwa Kim Executive Vice President, Head of Housing Division



LG Hangang Xi

- Client: Isu Construction • Location: Seoul, Korea • Contract Period: May '00 - Apr '03 • Project Descriptions: - Housing units : 656

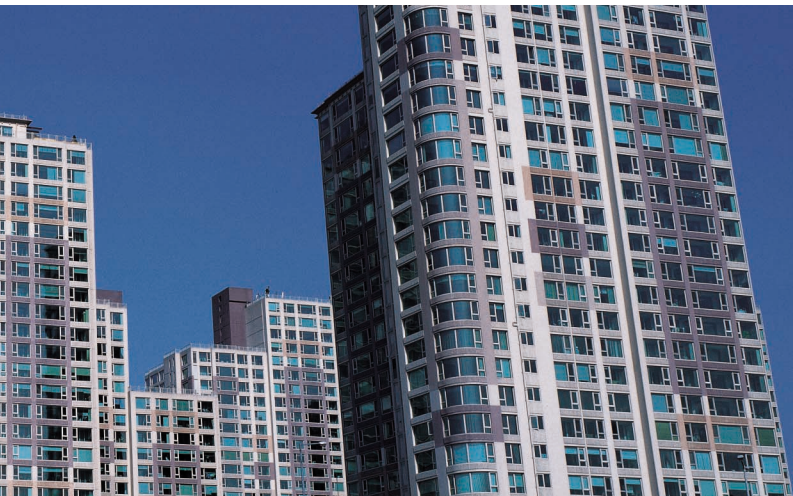


“

Message from Top Management

Unfortunately, frequently changing real estate policies of the government, along with intensifying competition among housing contractors for reconstruction and redevelopment projects, further depressed the housing market in 2003. Undaunted, our dedicated employees doubled their efforts to overcome these difficulties, assuring success whatever the business climate. Despite intense competition, we won reconstruction and redevelopment projects and stabilized our business foundation. Our success in sales of large-scale LG E&C's Xi apartment complexes in Yangju, Suji, and Hanam enabled us to maintain a leading position in the housing market. Pursuing expansion in the provinces, we opened a marketing branch office in Busan. We recruited new marketing employees to address difficult housing market situations while restructuring internal organizations to push our competitive edge. In 2003 LG Hangang Xi was selected as the best apartment complex for ideal living in Seoul and became the landmark. Adding value and style crafted by technology, our living spaces are sure to meet the demands of the most demanding homeowners.

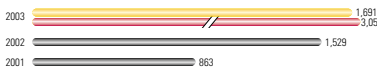
”



NEW ORDERS

(Unit: billions of Won)

ORDER BACKLOG



* ₩8.7trillion provisional Order Backlogs not included

SALES REVENUES

(Unit: billions of Won)



GROSS PROFIT

(Unit: billions of Won)



Hyun Chul Kim, Manager LG Yongsan Xi Project

"I call it this LG Yongsan Xi my dream home. It is a crystal of digital technology interlinking home networking, home control and security systems, and an intelligent building management system. This allows a futuristic lifestyle in a pleasant landscape. I've often wanted to move into this apartment complex myself."



LG Dongsuwon Xi

- Client: Samho E&C • Location: Suwon, Korea • Contract Period: Oct. '00 - Jul. '03
- Housing Units: 924

New Sanbon Apartment II

- Client: LG E&C • Location: Guro, Korea • Contract Period: Apr. '00 - Feb. '03
- Housing Units: 453

Jukjeon Apartment

- Client: Selim L&D • Location: Yongin, Korea • Contract Period: Oct. '01 - Jun. '04
- Project Descriptions: - Housing Units : 238





2003 Achievements

In 2003 the Housing Division received ₩1,360 billion in new orders for contract-type new apartment projects. They include LG Xi in Hanam, LG Hanbat Xi in Daejeon, and LG Suji Xi in Yongin. New orders for redevelopment and reconstruction projects were ₩3,314 billion including the construction of Yeonji District 1-1 in Busan. Total new orders the Division received amounted to ₩1,691 billion, representing a slight increase over the figure in 2002 of ₩1,529 billion. Further, the Division received new provisional orders of ₩2,216 billion for new apartment projects and ₩3,502 billion worth of redevelopment and reconstruction projects, totaling ₩5,718 billion of new provisional orders, the largest amount secured among Korean housing contractors. Sales declined slightly to ₩1,056 billion from the previous year's ₩1,258 billion, due to a delay of construction permit by the government while a large number of projects near completion in 2003. However, sales in 2004 will rebound with large reconstruction projects scheduled. The Division's apartment brand identity "Xi" was ranked second in consumer preference surveys on apartment builders. A landmark achievement in just the first year of our campaign that clearly establishes the brand identity we seek to build.

2004 Goals and Strategies

Business forecasts for the housing sector are bleak for 2004. The Korean government's strict policy for stabilizing the real estate market has frozen apartment pre-sales and intensified competition among housing contractors, while consumer spending has been squeezed in a long period of recession. Addressing these issues, the Division will minimize risk through selective, profit-based contracts of orders and marketing strategies that will differentiate by project type. For residential redevelopment and reconstruction projects, profit-promising districts are to be targeted through meticulous feasibility studies, while resources are concentrated for the groundbreaking of projects earlier than scheduled. At the same time, the Division will enhance customer relationship management (CRM) with increased customer service personnel. Through restructuring in-house customer service organizations, the Division aims to deliver greater satisfaction to customers with improved product quality and service, thus reaching the number 1 place in apartment brand identity. In the long run, new business models incorporating remodeling and luxury villas will be added to the portfolio to maximize profits. In 2004 the goal of new order volume is set at ₩2.175 billion and sales are set at ₩1.172 billion.



Bangbae Xi

• Client: Korea Real Estate Investment Trust Co. • Location: Seoul, Korea • Contract Period: Jan. '02 – Oct. '03 • Project Descriptions: - Housing units : 136



LG Hangang ECLAT

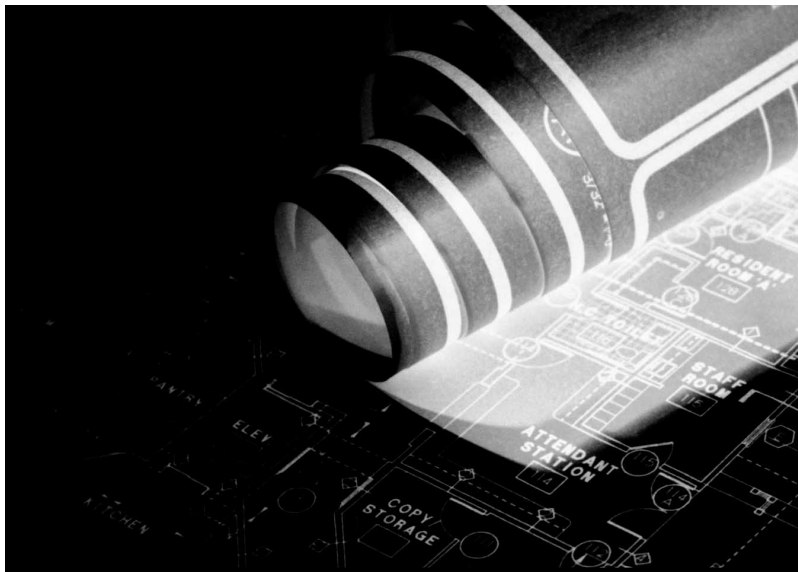
• Client: Samgu • Location: Seoul, Korea • Contract Period: Jul. '03 - Jul. '06 • Housing Units : 278



LG Yongsan Xi

• Client: Morgan Adams Korea • Location: Seoul, Korea • Contract Period: Oct. '02 - Dec. '05 • Housing Units : 1,272





Technology Center

C o n n e c t o r

Dreams Come True Through Technology

Walking the line between technological conveniences and natural comforts, LG E&C connects people, nature, and the future through tomorrow's engineering and construction technology. Always reaching for greater and deeper meanings, LG E&C shapes a world of ideal living.





technology center

Kyu-Il Cho Vice President, Head of Technology Center

Message from Top Management

We at the Technology Center provide the technological support that enables the Company to specialize in tech-intensive and large-scale construction projects. Our focus in 2003 was on reviewing blueprints and specifications prior to work startup, inspecting and improving technologies involved at construction sites, proposing design changes, and feeding technical assistance to win new orders. These efforts resulted in improving quality and productivity at both office floors and construction sites while raising sales and cutting costs. In 2004, our major objectives consist of creating higher value in projects, advancing technological solutions needed at construction sites and assisting to win orders, as well as acquiring core technology patents which can surpass global standards.



2003 Achievements

The Technology Center achieved satisfactory results in terms of on-site technical support by examining material stability, profit feasibility, as well as drawings and specifications prior to construction commencement. The pre-project reviews helped increase the Company sales, cut cost, eliminate waste, and shorten project time. Special inspections carried out during the spring thaw and rainy seasons and frequent on-site inspections for tech-intensive projects realized a zero-defect rate during 2003. In terms of assisting the Company to win orders, the Center provided technical, expert, and design support prior to bidding on 16 turnkey and 25 alternative proposal projects, as well as assisting with general contracts. Looking into research and development activities, the Center pursued 31 tasks for eight research areas, including highrises, long span bridges, unlined tunnels, environmental-friendly roads, sewage treatment, port, water resources, and the environment. Major tasks were the design and application of high-performance concrete, development of high-performance shotcrete for unlined tunnel, development of the analysis and design systems for cable-stayed bridges, and runoff-pollution control system. Including pre-cast concrete lining, 17 technologies the Center developed were applied at 51 construction sites.



2004 Goals and Strategies

In 2004, the Technology Center stresses mainly two fronts: (1) research organization renovation to invent breakthrough technology to create new business models, productivity-innovating technology, and future-oriented technology; (2) core technology research for building highrise, health-concept housing, remodeling, cable-stayed bridge, and unlined tunnel. Strategic partnerships with prestigious overseas and domestic contractors will be sought to secure globally unrivaled competitiveness and expertise in project management. Already-developed engineering technologies will be applied to a broader range of construction sites to improve productivity. To enhance its supportive role in the Company's receipt of orders, the Center plans to assist with greater solutions needed prior to bidding on turnkey and alternative proposal projects. This in turn will help enhance marketing for tech-intensive projects and designing capability. Again, to help garner new orders, the Center will database turnkey project designs in connection with knowledge management uploaded with information on technologies and engineering methods. The Center will take a closer look at construction sites and provide consultation and technical support in advance or in real time. The goal is to realize defect-free, cost-cutting, and time-saving results and thus deliver to customers projects packed with a higher value than they expected. As part of its customer relationship management, the Center will operate a technology solution system. This will in turn increase the center's operational efficiency.



Management's Discussion and Analysis

Korea's Construction Market 2003

According to data released by the Construction Association of Korea (CAK), the construction industry in 2003 received project orders totaling ₩102 trillion, a 23.1% increase over 2002. This represents a 28.5% increase compared with ₩80 trillion in 1997 and a 115.6% increase compared with ₩48 trillion in 1998.

The year's orders from the public sector totaled ₩32 trillion, representing an increase of 4.4% over the previous year. A review of the year's Civil Engineering orders indicates a total of ₩23 trillion, a 3.5% increase over the prior year. Similarly, activity in this year's architectural work reflects a total of ₩9 trillion, a 6.8% increase from the prior year.

In 2003, housing construction was a primary vehicle of growth in the private sector. Orders received from the private sector increased 34.3% to ₩70 trillion. Most of the increase occurred in the first half of 2003, prior to the revision of laws relating to housing construction that went into effect in July. In the private sector, orders for residential construction totaled ₩42 trillion and non-residential ₩19 trillion, a 43.3% and an 18.3% increase, respectively.

In 2003, land areas permitted for construction projects totaled 142km², a 2.4% increase over the previous year. Land areas permitted for residential construction were 62km² and non-residential 80km² an 8.4% increase and a 1.8% decrease, respectively.

According to the figures for housing construction permit released by the Ministry of Construction and Transportation, total housing units permitted for construction decreased 12.2% from the previous year to 585,000, with 465,000 in the private sector and 120,000 in the public sector, a 14.4% and a 2.6% decrease, respectively. Apartment prices in 2003 increased an average 9.6% while single-detached houses and townhouses increased only 0.8% and 2.3%, respectively.

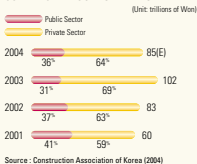
Over time, there has been significant fluctuation in the volume of overseas construction orders. In 2003, according to the Ministry of Construction and Transportation, overseas orders for Korean construction totaled US\$3.7 billion, a significant reduction compared with US\$14 billion, the total near the end of 1997 just before Korea's foreign currency crisis occurred. In the global regions, construction orders in the Middle East accounted for 59% and Asia 32%. The breakdown of overseas orders by sector is civil engineering accounting for 11%, architecture 15%, and plant 68%. This shows the portion of overseas civil engineering and architecture orders dropped compared with past years, while plant business jumped.

As of 2003, the number of general contractors totaled 12,996 according to the Construction Association of Korea (CAK). The top 290 general contractors share 74% of the domestic construction market. As the market share suggests, each contractor, even a leading contractor, takes a relatively small portion of the entire market. Therefore, business results of a contractor are less likely to be influenced by market situations, and rather more by expertise and market strategies.

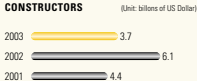
The government has, at times, employed a pump-priming policy to boost the construction industry as a tool for overall business stimulation during an economic recession. Accordingly, government construction projects tend to increase during times of economic distress. The domestic housing market is heavily influenced by government policy. In this regard, a contractor like LG E&C with a diversified construction business portfolio is better acclimated to the changing business climate in Korea.

Major issues influencing Korea's construction market in 2003 which may continue in the coming years can be summed up as the government's plan for moving the capital to another location, introduction of a post-sale system, establishment of specialized housing mortgage loan firms, and launching of a high-speed train. In the overseas market, influential factors are the ending of war in Iraq, oil prices hiking, etc.

CONTRACT AMOUNTS TRENDS



OVERSEAS ORDERS FOR KOREAN CONSTRUCTORS



Results of Business Operation

We at LG E&C, 2003 marked completion of the first year of the Vision 2010 objectives. Our strategy is geared to solidify the business foundation and ensure continued growth and prosperity far into the future.

Objectives set in 2003 in accordance with the Vision 2010 focused on four fronts. First, all employees worked as a cohesive sales team to increase order volume and pioneer new fields of business. Second, business intelligence solutions were strengthened via the Company-wide knowledge and risk management systems to minimize any potential counter effects of our rapid growth. Meanwhile, the Company aggressively pursued turnkey project orders from the public sector. Our employees rededicated themselves in their commitment to excellence within a culture of proactive measures and seamless team approaches that will maximize corporate synergy.

Overall, the result of the 2003 objectives was satisfying. New orders and provisional orders combined to hit a record high volume. The increase in the public sector was dramatic. Business performance in new fields was also noteworthy. However, except for housing construction and TFT-LCD factory construction projects, orders received from the domestic private sector continued at low volume.

Orders

In 2003, all LG E&C divisions recorded new orders resulting in double digit growth, a 39.3% increase established an all-time high of ₩5,057 billion, up ₩1,426 billion from the previous year. Order backlogs increased ₩818 billion from the previous year, up 11.6% to ₩7,852 billion at year's end.

In addition, the Housing Division has "provisional new orders." This term refers to projects for which the Company has been chosen as contractor but government approval is pending. The provisional order backlog rose 86.7% to ₩8,670 billion from the previous year's ₩4,643 billion. Total order backlog combining new orders and the Housing Division's provisional orders reached ₩16,522 billion as of 2003. New order volume outpaced sales in 2003 by 145.8%, showing a strong growth compared with 114.4% in 2002. Total order backlog in 2003 is equivalent to 4.8 years sales volume.

The Company's public orders received, mainly turnkey projects, jumped a remarkable 103.7%, a ₩536 billion increase to ₩1,092 billion, accounting for 21.6% of the total new order volume. The Company will vigorously pursue turnkey projects in the public sector since these projects have a greater marginal profitability than those won through a lowset price bid. In the private sector, backed by LG affiliates-related orders including LG Phillips TFT-LCD factory, new orders were up 28.9% to ₩3,092 billion, increasing ₩693 billion from the previous year.

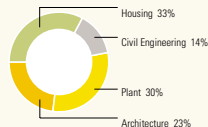
In the overseas sector, new orders were up 25.4% to ₩873 billion, increasing ₩177 billion. Activities concentrated primarily in Iran and Turkey where the Company has solid experience.

NEW ORDERS

(Unit: billions of Won)



NEW ORDERS BY DIVISION (2003)



Entry into New Fields

2003 will be remembered as a landmark year for LG E&C. It marked our entry into new and lucrative areas such as nuclear power plant, port, and cable-stayed bridge construction where we previously had no presence. The Company specifically pursued strategic consortiums and alliances with leading companies that possessed a demonstrated track record of excellence and experience in such fields. As the result, the Company won the project for building Sin-Wolseong Nuclear Power Plants 1 & 2 and Gwangyang Port section 3-2 as well as Goha-Jukgyo Road (included a cable-stayed bridge spanning 2.2-kilometer above the seawater). Our successful completion of these projects will strengthen our presence and lay the groundwork for our future growth in these fields

Won Large-scale Overseas Orders (Iran's South Pars Gas Treatment Plants 9 & 10)

In March 2003, the Company won the order for the construction of Iran's South Pars Gas Treatment Plants 9 & 10, a US\$1.6 billion project. LG E&C will be responsible for engineering and procurement. To minimize potential construction risks, work will be performed in collaboration with two local-based primary contractors who have prior experience in building the South Pars Gas Treatment Plants. The progress payment will be made directly to LG E&C by the bank who provided the project financing. In the event of any payment default, the Korea Export Insurance Corporation will insure payment. As financing capability is becoming indispensable in winning overseas projects, the Company has concentrated greater resources in the area of financing.

Expansion of TFT-LCD Factory

The order of ₩1 trillion project for the construction of the 6th-generation TFT-LCD factory of LG Phillips LCD, one of the LG affiliates, significantly improved sales and new order volume. Since timely delivery is critical for a digital-intensive manufacturer, the Company is executing the project on a fast-track basis, which simultaneously performs design and construction work to be completed by 2004, ahead of scheduled. The construction of the 7th-generation TFT-LCD factory in Paju is expected to start in 2004. In Paju factory LG Phillips LCD is said to invest US\$10 billion allocated over the next 10 years. Therefore, the TFT-LCD factory construction is a blue chip project for the Company over the next several years.

Cancellation of Two Overseas Projects Worth ₩1 trillion

In the second half of 2003, the Company dropped two project orders, Iran's Mobin project and Libya's Azzawiya project, with a combined order volume of nearly ₩1 trillion. These project clients did not provide the advance payments after one year had elapsed. Historically, when a project begins a year later or thereafter, it incurs higher material and labor costs. Anticipating inevitable losses, the Company canceled the projects with amicable agreement. The cancellation reduced the Company's order backlog in 2003. However, the two projects had not reached the groundbreaking stage and thus the initial expenses were insignificant.

Sales Revenues and Profits

Revenues are recognized by using the "Percentage-of-completion" method, measured principally by the percentage of costs incurred to date versus the total estimated contract costs. The percentage is computed reflecting total estimated construction costs spent to the point of completion by cost actually invested. The duration of construction varies by project, usually the private sector work is shorter than that of the public sector. Construction costs in general consist of cost of materials, wages, subcontracting expenses, other operational expenses, and in-house projects involving the cost of land acquisition. At LG E&C, subcontracting expenses account for approximately 50% of total project costs. This is a growing and favorable trend positioning the Company positively with respect to competitiveness in the area of project management.

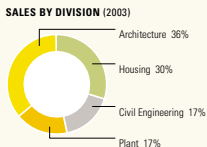
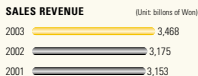
Sales Revenues

In recent years, the duration of our construction projects tends to be prolonged when compared with that of past years. This is primarily attributable to the increased number of tech-intensive projects rather than labor-intensive construction works. In the Civil Divisions, public sector orders received from the government follow this growing trend. In the Housing Division, the new order portion for apartment redevelopment and reconstruction projects requiring longer construction period than contract-type projects shows steady growth. The Plant Division receives an increasing number of overseas projects requiring all-inclusive solutions covering feasibility study, financing, engineering, design, procurement, construction, operation and maintenance, and product buyer arrangement. The scale of all-inclusive projects grows larger each year. As abovementioned, the duration of construction projects has been longer and new order-to-sales ratio in 2000, 2001, and 2002 has been consistently lowered. On the other hand, new order volume recorded 39.3% and new order-to-sales ratio 32% point increase in 2003, respectively with the prior year. Consequently, sales increased a modest 9.2% to reach ₩3,468 billion, increasing ₩293 billion from the previous year. Sales volume of the Civil Engineering and Architecture Divisions increased while the Housing and Plant Divisions decreased.

Sales in the Civil Engineering Division were ₩574 billion, a 11.5% increase year on year. The sales accounted for 16.5% of the Company's total, rising 0.3% over the previous year's 16.2%. In 2002, its sales in privately funded infrastructure (PFI) projects increased, particularly with the construction of Cheonan-Nonsan Highway. However, with no new orders and the delay of Seoul Beltway construction, sales volume in the PFI projects decreased. Government turnkey projects grew steadily from the later 2002 and in general construction projects, sales are increasing at steady pace.

The Plant Division recorded 0.5% reduction in sales to ₩580 billion, which represents 16.7% of the Company's total sales, 1.7% down from the previous year's 18.4%. Mainly with sales increase in the environmental sector, sales in Korea increased 35.0% to ₩423 billion while in the overseas sector it decreased 41.7% to ₩157 billion. As aforementioned, the Division dropped the construction of two large-scale overseas plants. New overseas project orders in the engineering stage have not resulted in sales, causing the Division's sales increase to reverse in 2003.

The Architecture Division enjoyed a sharp increase in sales, 53.3% to ₩1,258 billion. Its sales accounted for the largest portion of the Company's total, 36.3% with a 10.5% increase from 25.8% in 2002. The construction of the TFT-LCD factory in fair progress contributed to increasing sales volume.



The Housing Division's sales were ₩1,056 billion, a 16.0% reduction year on year. Its sales portion in the Company's total also lowered 9.2% to 30.4% from 39.6% in 2002. Despite having a healthy amount of provisional orders, negative factors in sales could be summed up with three elements. First, the delay in government approval for the construction of apartment projects retarded growth in new orders that began in the 2nd half of 2003. Secondly, some apartment reconstruction projects, recognized as orders in 2002, showed slow progress. Thirdly, no start of in-house apartment project in 2003, following the trend begun in 2002, depressed in-house sales volume to a point nearly half that of 2002.

Gross Profit

There was a decrease in the material cost portion of total construction costs during 2003 and at the same time a significant increase in costs associated with subcontracting expenses. The increase in subcontracting expenses is attributable to architecture and civil engineering projects heavily dependent upon subcontracting operations. The decreased cost of construction materials particularly benefited the Company's plant and housing construction projects.

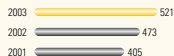
Costs associated with sales during 2003 breakdown as follows: cost of materials represented 22.7% with a 5.6% decrease, labor 4.4% with a 0.7% decrease, subcontracting operations 59.9% with a 6.1% increase, the largest stake, land 0.1% with a 0.4% decrease, and other operations 12.9% with a 0.6% increase.

In 2003, the gross profit reached ₩521 billion, a 10.3% increase from the previous year, and the gross margin 15%, a 0.1% point increase from the previous year. The gross margin for the Civil Engineering Division dropped to 17.2% in 2003 from 22.6%, 2002. The decrease is due to its sales reduction of the highly profitable PFI projects.

In the Plant Division, an increasing number of domestic projects, which are more profitable than overseas projects, improved the gross margin, 9.5% in 2003 from 6.7%, 2002. The Architecture Division generated a large increase in sales favorably impacting gross margin, 14.9% in 2003 from 12.3%, 2002. The gross margin for the Housing Division declined slightly to 17.0% in 2003 from 17.2%, 2002, but continued to retain solid marginal profitability.

GROSS PROFIT 2003

(Unit: billions of Won)



Operating Profit

In 2003, operating profit wrote ₩271 billion, a 1.7% and ₩5 billion down from the previous year, due to overall increase in costs associated with selling and administrative expenses. This accompanied a reduction in operating margin, recording 7.8% in 2003 from 8.7%, 2002. Selling and administrative expenses were ₩250 billion, a 27.1% and ₩53 billion increase from the previous year. The ratio of selling and administrative expenses in sales was 7.2% in 2003, increased from 6.2% in 2002.

The increase in selling and administrative expenses is due to strategic spending which specifically targets the sustainability of mid and long-term growth objectives. This stimulus led to a rapid growth evidenced in new orders and the Housing Division's provisional new orders. Analyzing the breakdown of selling and administrative expenses, firstly the R&D cost outlays 125.1% to ₩74 billion, up ₩41 billion over the previous year since the Company aggressively pursued new government turnkey projects, which incurs the upfront designing costs. Secondly, the Housing Division's increased wages, marketing, and advertising expenses impacted significantly in the second half of 2003. In particular, ongoing TV and commercial advertisement expenses for the apartment brand "Xi (eXtra intelligent)" has surged 67.8% to ₩27 billion in 2003, increasing ₩11 billion from the previous year's ₩16 billion. These marketing efforts resulted in a favorable impact on receiving provisional new orders for redevelopment and reconstruction projects.

OPERATING PROFIT 2003

(Unit: billions of Won)



Recurring Profit

The decline in operating profit was offset by a decline in non-operating expenses, resulting in a 6.8% and ₩17 billion increase in recurring profit to reach ₩262 billion in 2003. However, recurring profit margin wrote 7.6% in 2003, a slight decline compared with 7.7% in 2002. Non-operating income fell 17.3% to ₩38 billion, reducing ₩8 billion from the previous year, while non-operating expenses fell 38.2% to ₩47 billion, reducing ₩29 billion. The figure represents a reduction in non-operating expenses that exceeded that of non-operating income.

In 2003, despite the reduction in borrowing and interest rate, the interest expenses increased to ₩16 billion from ₩15 billion in 2002. This is primarily attributable to the decline in capitalized interest expenses from ₩20 billion in 2002 to ₩5 billion in 2003. The capitalized interest expenses are appropriated in the cost of sales of inventories and other tangible assets. If adding the capitalized interest expenses, the total interest expenses came to ₩21 billion in 2003, decreasing from ₩35 billion in 2002.

The equity accounting method is applied when evaluating investment securities in which the Company holds at least 20% of the total equity. The Company owns the largest share of Han Moo Development Co., Ltd., which posted losses in 2003. This in turn added to the Company's equity valuation loss of ₩2 billion. The sharp drop in asset value of LADERA, a

RECURRING PROFIT

(Unit: billions of Won)



LG E&C's subsidiary in Guam, also caused an equity valuation loss of ₩11 billion, and LG Holding (HK), a subsidiary established in Hong Kong for the construction of LG Beijing Tower in China, incurred ₩3 billion. These were reflected in the Company's equity valuation losses of ₩16 billion in 2003, increasing 141.6% and ₩9 billion over 2002.

In 2002, the loss on valuation of inventories and the impairment loss on property, plant, and equipment incurred ₩18 billion and ₩13 billion, respectively. However, such losses did not incur in 2003.

Extraordinary Income and Loss

In 2003, debits of ₩21 billion in foreign currency translation at overseas operations were amortized as an extraordinary loss, following 2002, ₩14 billion. Independent accounting records are maintained in the local currency at overseas branch offices and construction sites. Assets and liabilities from these records are entered on the balance sheet in Won values converted according to local exchange rates prevailing on the last day of the fiscal year, while the average exchange rate for the entire fiscal year is applied for converting incomes and expenses into Won. The resulting gains or losses are offset against each other and the net amounts are recorded as an overseas business translation debit or credit, and presented as an addition to or deduction from shareholders' equity. The overseas business translation debits or credits are offset against subsequent overseas business translation debits or credits until they are recognized as gains or losses at the time when the respective foreign branch is closed or the overseas project is completed. As of 2003, ₩2 billion overseas translation debits recorded as deduction in the shareholders' equity.

Non-Stop Upgrade in PMS+

The Process Management System (PMS), first developed in 1997 was designed to handle various construction processes, tracking cost and performance indicators. In 2003, PMS was innovated to PMS+. With the inclusion of the overseas PMS version allowing for foreign exchange management and the addition of an English version, it allows see-it-all and real time applications worldwide. For instance, subcontractors and project clients in Beijing collaborate with off-site partners to optimize construction processes through LG E&C PMS+.

In 2004, visualization, analytic functions, design, engineering, data storage, and other functions will be upgraded in PMS+ permitting faster and finer applications at worksites. At the same time, each division in LG E&C will tailor PMS+ to the specific application for its work environment.

The Company remains committed to employee training and leadership development programs that will ensure the best and brightest talent to lead our effort in the future. We plan to pool 120 experts specialized in PFI and high-tech engineering fields in support of this effort.

Ex-Const Performance Innovation

"Ex-Const," a phrase derived from "Excellent Construction," was formulated in 1996 to develop an innovative approach to excellence at each construction site. Since then, Ex-Const has become common practice in daily operations, producing various innovative methods and procedures that have improved productivity and safety at construction sites.

In 2003, 17 teams applied Ex-Const practices to various projects and presented their results in an annual Ex-Const meeting. Awards were presented for teams that demonstrated the best practices. The team from the Daejeon-Dangjin section 4 and 5 won the grand prize for their "bridge slip-form innovation method." The team cut cost and construction time significantly with their application while propelling the innovation activities synergistically with construction sites nearby.

Ex-Const 2004, as adjusting goals of the Company's long-term strategies and Vision 2010, lays emphasis on quality improvement in major tasks, industry-academia R&D ties, and the Six Sigma Pilot.

Financial Position

Cash Generated by Operations

A cash flow generated by business operations reduced 9.7% to ₩293 billion in 2003, down ₩32 billion from ₩325 billion in 2002. 2002, operating profit rose 8.3% and a cash flow of ₩39 billion was produced by changes in assets and liabilities related with business operations. However, operating income in 2003 reduced 1.7% while a cash flow of ₩15 bil-

CASH FLOWS FROM OPERATIONS

(Unit: billions of Won)



lion was produced by changes in assets and liabilities related with business operations.

In 2003, trade accounts and notes receivable increased ₩50 billion over 2002, showing a stable increase rate lower than that of sales. A growing volume of LG affiliates orders resulted the increase in the prepaid construction costs, ₩31 billion over 2002. Inventories decreased to ₩61 billion from the previous year. The decrease in inventories in 2003, showed slower than that of 2002, however continued to decline steadily due to the progress of in-house construction projects begun prior to 2001.

In 2003, trade accounts and notes payable increased ₩109 billion over 2002, while the advance received construction costs decreased ₩62 billion year on year. In addition, the Company-built Gangchon Resort, opened and in operation, and Elysian Country Club, currently under construction, have provided an inflow of membership guarantee deposits. The deposits received in 2003 increased ₩47 billion year on year.

Capital Expenditure

Capital expenditure (commonly written as CapEx) the Company used in 2002 was mostly centered on the construction of condominiums and ski slopes at Gangchon Resort, completing at year's end. In 2003, CapEx followed the construction of Elysian Country Club in Jeju Island, with the investment continued to be until 2004.

In 2003, CapEx totaled ₩83 billion, decreasing 9.8% from ₩92 billion in 2002. In addition, the investment in PFI projects in which the Company participates cannot be translated as equity investment. Its nature, however, directly influences a new order volume and profit resources similar to CapEx. In this view, PFI investment is being recognized as CapEx.

For the acquisition for long-term assets and lucrative profit resources, the Company has focused on winning profitable PFI project orders and other infrastructure orders, including highways, ports, railroads, sewage treatment facilities. In consortiums with other construction and financing companies to sufficiently raise funds, government subsidies, borrowings, and competitiveness, the Company has sought and won orders and fetching profits through operation and equity sales after their completion.

Funds invested in PFI projects by the Company totaled ₩80 billion in 2000, ₩15 billion in 2001, ₩48 billion in 2002, while the total reduced in 2003, ₩36 billion. Presently, as the Company pursues various PFI projects, relevant investment will be continued in the coming years. At the same time, the Company has tried sell off equity of projects completed and in operation.

Equity Sell-off of PFI Projects

As of 2003 six PFI projects the Company invested were completed and in operation while two were under construction. Investment involved in the PFI projects totaled ₩244 billion, taking up 9.7% of the Company's total assets. As active involvement in PFI projects requiring sufficient capital resources, the Company seeks to sell off equity of already completed and operating PFI projects to circulate capital as CapEx to further utilize them for upcoming PFI projects. The Company-held equity in New Airport Highway ('03), Chulima Development ('01) and Busan New Port ('99), total amounts of ₩25 billion was sold off. Selling off the equity in Cheonan-Nonsan Highway the Company invested, ₩112.5 billion, to Korea Road Infrastructure, which is expected to reach conclusion in 2004.

Debt

Total borrowings were ₩160 billion as of 2003, decreasing ₩186 billion from ₩346 billion in 2002. Of the total borrowing, short borrowings took 9.0%, representing ₩14 billion, which includes overdrafts for overseas projects and trade-related borrowings such as Usance L/Cs and construction financing from the Korea Export-Import Bank. Long-term debt consists of ₩16 billion of loans from Korea Housing Guarantee Co., Ltd. and ₩130 billion in debentures. Most debentures mature in 2004.

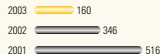
Equity

As of December 31, 2003, common stock stood at 51,000,000 and no preferred stocks or equity-linked securities such as convertible bonds or bonds with warrant were issued. Chairman Chang-Soo Huh and his family members hold 15,310,156 shares equivalent to 30.0% of the total shareholders' equity including the 4.8% equity acquired from LG Industrial System in February 2003.

Of the total issued shares, treasury stocks equivalent to 2.4% or 1,230,420 shares the Company held by as of December 31, 2003. The Company bought back 237,265 shares as treasury stocks and 138,275 shares were given to employees as

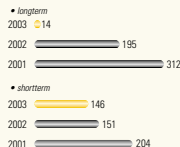
DEBT

(Unit: billions of Won)



DEBT BY MATURITY

(Unit: billions of Won)



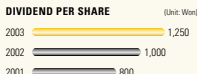
performance incentives during 2003. The Company plans to continue offering these performance incentives through this stock buyback

Changes in the Company-held Equity Ratio of LG Affiliates

In December 2003, the Company transferred the equity disposal right to its 4.36% equity in LG Investment and Securities (LGIS) to the creditors of LG Card upon agreement concluded between LG Group and the collectors of LG Card. The inquirer of LGIS agreed to acquire the carried over equity at market prices in coming years, at that time transferred equity of the Company is expected in cash returns. In July 2003, the Company acquired 5.1% equity of LG Energy transferred from LG Cable, increasing the equity ratio of 10% to 15.1%, while selling off 6.25% equity of LG Sports in March 2003.

Dividends

The Company's dividend per share and payout ratio have increased steadily from 1999. The dividend per share increased to ₩1,000 in 2002 and again to ₩1,250 in 2003, raising the payout ratio from 31% and then 38.5% over the previous two years. The payout ratio is at a level exceeding the market watchers and shareholders alike. In 2003, investor expectation was more than satisfied by a dividend yield rate of 7%, which outpaced most of the leading contractors in Korea



Financial Risks

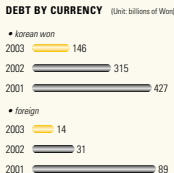
LG E&C enjoys the highest credit rating of any listed Korean Construction firm and takes measures to ensure our continued high rating.

Liquidity Risks

The Company has ₩102 billion in lines of bank overdrafts and ₩1,330 billion in lines of commercial paper to keep Won currency sufficiently liquid. In addition, the Company maintains US\$34 million in lines of foreign currency overdrafts, US\$204 million in lines to support letter of credit, and US\$309 million in lines of bank guarantees (performance bonds, etc.) to provide support for various commercial provisions in overseas engineering and construction contracts. LG E&C takes precautionary measures against liquidity risks through setting weekly, monthly, and quarterly watch plans to facilitate sound cashflow, funding, and financial status. A positive cash flow is maintained for each project to minimize the possibility to non-performing trade receivables. The Company provides major overseas clients with project financing allowing direct payment to LG E&C from the bank for costs incurred during the project.

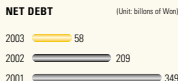
Foreign Exchange Risks

Borrowings on foreign currencies as of 2003 totaled ₩14 billion accounting for 8.8% of total borrowings. The company has US\$260 million lines of forward exchange transactions which is used as a derivative hedging instrument between US Dollars received and payments made in other currencies such as Euros or Yen. The Company received US\$176 million from overseas projects in 2003 while paying out US\$143 million, leaving a surplus of US\$33 million. Paying back the foreign currency loans of US\$17 million, the surplus balance of US\$16 million was left on hand. In 2004, the Company will acquire foreign exchange risk insurance from Korea Export Insurance Corp. to hedge against risk from exchange rate fluctuation, starting from the tender participation stage. Foreign exchange risk management activities will be strengthened as a result.



Interest Rate Risks

As of 2003, interest payables amounted to ₩160 billion and cash and cash equivalent financial instruments to ₩102 billion that came to net debt of ₩58 billion. This fast-paced reduction in borrowings will be continued in 2004, aiming at the net debt to be around ₩15 billion at the year. In 2003, interest rate averaged 5.9% (Korea 6.6%, overseas 2.4%) and the average interest rate is expected to be around 5% in 2004.





Company Milestones

1969 • Lackhee Development Co., Ltd. (the Company's predecessor) established

1975 • Company name changed to Lucky Development Co., Ltd.

1977 • Lucky International Construction Co., Ltd. established

1979 • Lucky Development Co., Ltd. merged with Lucky International Construction Co., Ltd.
• The Company designated a housing contractor by the Ministry of Construction

1981 • Initial public offering issued

1983 • Lucky Development (Arabia) Co., Ltd. established

1984 • Company received Korean government's export award for winning US\$1 billion in international contracts
• Lucky Development International Inc. established in the US

1989 • Lucky Development Inc. established in Saipan
• 21st Century Vision adopted for becoming a best all round developer in the domestic market and a general construction company globally

1991 • Construction license acquired for Japan
• Medal of Industrial Service awarded on Tax Day
• Company 20 Year Almanac published

1993 • American Society of Mechanical Engineers accredited the Company in construction of nuclear power plant
• Lucky Thai Engineering & Construction Co., Ltd. established in Bangkok

1994 • ISO 9001 quality management certificate acquired

1995 • Company name changed to LG Construction Co., Ltd.
• "The Year of New Construction Era" announced

1996 • ISO 14001 environmental management certificate acquired

1998 • Soo-Kee Min appointed the Company's 9th President & CEO
• LG-HP Sunflower International Village awarded by Haiphong People's Committee in Vietnam

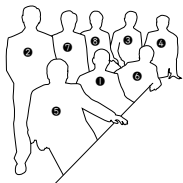
1999 • LG Engineering Co., Ltd. merged with LG Construction Co., Ltd.
• Grand prize received as the Superior Company and the Best Apartment by Women Consumer Survey

2000 • Construction of the West Sea Grand Bridge completed

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

2002 • Silver Industrial Medal received on Tax Day
• Kap-Ryul Kim appointed the Company's 10th President & CEO
• Good Corporate Governance Award received by the Korea Stock Exchange
• LG E&C's new apartment brand identity "Xi (eXtra intelligent)" introduced

2003 • Vision 2010 announced
• US 1.6 Billion South Pars 9 & 10 gas treatment project awarded in Iran
• Grand prize received in the cyber IR field at the 5th Korea Economic Daily IR Awards, and in the construction and cement fields at the 1st Money Today IR Awards
• Charter for Corporate Governance enacted



❶ **Chang-Soo Huh** CHAIRMAN OF THE BOARD

❷ **Myung-Soo Huh** EXECUTIVE VICE PRESIDENT & CFO

❸ **Kuen-Ho Kim** OUTSIDE DIRECTOR

❹ **Sang-Kee Min** OUTSIDE DIRECTOR

❺ **Kab-Ryul Kim** PRESIDENT & CEO

❻ **Sang-Ryong Woo** EXECUTIVE VICE PRESIDENT

❼ **Kyung-Han Kim** OUTSIDE DIRECTOR

❽ **Hak-Eun Lee** OUTSIDE DIRECTOR

LG ENGINEERING & CONSTRUCTION CORPORATION

As of and for the years ended December 31, 2003 and 2002

FINANCIAL STATEMENTS

_____	52 _ Report of Independent Auditors
_____	53 _ Non-Consolidated Financial Statements
_____	53 _ Balance Sheets
_____	55 _ Income Statements
_____	57 _ Statements of Appropriations of Retained Earnings
_____	58 _ Statements of Cash Flows
_____	60 _ Notes to Financial Statements

**To the Board of Directors and Shareholders of
LG Engineering & Construction Corporation**

We have audited the accompanying non-consolidated balance sheets of LG Engineering & Construction Corporation (the "Company") as of December 31, 2003 and 2002, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG Engineering & Construction Corporation as of December 31, 2003 and 2002, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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

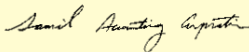
As discussed in Note 20 to the non-consolidated financial statements, the Company's total sales to, and purchases from, the related companies, amounted to ₩1,092,286 million and ₩98,414 million, respectively, for the year ended December 31, 2003 and 562,856 million and ₩151,016 million, respectively, for the year ended December 31, 2002. Related receivables and payables amounted to ₩604,724 million and ₩85,891 million, respectively, as of December 31, 2003 and ₩570,159 million and ₩166,897 million, respectively, as of December 31, 2002.

As discussed in Notes 12 and 19 to the accompanying financial statements, following the approval of the business normalization plan of LG Card Co., Ltd. and the resolution by the Board of Directors on December 29, 2003, the Company has entrusted Woori Bank, the representative of the bank creditors' committee, with the disposal and voting rights for the 5,325,572 shares of LG Investments and Securities Co., Ltd. In addition, following the resolution of the Board of Directors on January 27, 2004, the Company is scheduled to purchase commercial papers of LG Card Co., Ltd. within the limit of ₩50,000 million by the end of March 2004 for the purpose of the business normalization of LG Card Co., Ltd.

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

This report is effective as of January 19, 2004, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Seoul, Korea
January 19, 2004





	(in millions of Korean Won)	
	2003	2002
ASSETS		
Current assets		
Cash and cash equivalents	₩98,643	₩132,783
Short-term financial instruments (Note 4)	3,633	3,500
Trade accounts and notes receivable, net (Notes 3, 5 and 20)	874,474	836,125
Other accounts receivable, net (Notes 5 and 20)	20,219	16,399
Short-term investment securities (Notes 8 and 20)	5,358	21,746
Short-term loans, net (Notes 5, 12 and 20)	48,216	55,040
Inventories (Note 6)	121,288	174,520
Accrued income	3,386	5,690
Advance payments (Note 20)	59,628	47,426
Prepaid expenses	11,882	12,135
Prepaid construction costs	48,376	17,555
Derivatives (Note 12)	2,753	130
Total current assets	1,297,856	1,323,049
Property, plant and equipment, net (Notes 7, 13 and 21)	709,351	651,644
Long-term investment securities (Note 8)	335,756	343,014
Equity method investments (Note 9)	194,985	199,771
Long-term loans, net (Notes 5, 12 and 20)	3,802	15,579
Long-term financial instruments (Note 4)	28	38
Long-term trade accounts receivable, net (Note 5)	31,052	32,101
Long-term guarantee deposits (Note 20)	33,217	25,217
Deferred income tax assets (Note 16)	76,647	62,097
Intangible assets (Notes 2 and 21)	7,738	9,382
Total assets	₩2,690,432	₩2,661,892
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings (Note 10)	₩14,403	₩31,412
Current maturities of long-term debt, net (Note 11)	131,030	119,566
Trade accounts and notes payable (Note 20)	875,850	826,986
Other accounts payable (Note 20)	43,207	38,694
Other advances received	6,478	2,205
Withholdings	22,348	14,650
Guarantee deposits received	14,180	12,440
Accrued expenses	16,541	20,836
Derivatives (Note 12)	3,550	-
Unearned revenue	639	573
Income taxes payable (Note 16)	56,360	58,624
Dividends payable	16	13
Total current liabilities	1,184,602	1,125,999

DECEMBER 31, 2003 AND 2002

	(in millions of Korean Won)	
	2003	2002
Long-term debt, net (Note 11)	14,593	194,607
Accrued severance benefits, net (Note 2)	43,064	36,468
Provision for warranty	27,026	19,513
Provision for foreseeable losses from construction contracts	2,785	9,439
Leasehold guarantee deposits received (Notes 7 and 20)	86,451	87,185
Membership guarantee deposits received (Note 20)	175,343	128,796
Other long-term liabilities	940	11,217
Total liabilities	1,534,804	1,613,224
Commitments and contingencies (Note 12)		
Shareholders' equity		
Common stock, ₩5,000 par value per share; authorized, 200,000,000 shares; issued and outstanding, 51,000,000 shares (Note 1)	255,000	255,000
Capital surplus (Note 13)		
Paid-in capital in excess of par value	109,735	109,735
Asset revaluation surplus	75,192	75,192
Others	15,002	18,370
	199,929	203,297
Retained earnings (Note 14)		
Legal reserve	22,890	17,905
Other reserves	378,555	278,867
Retained earnings before appropriations	163,115	156,099
	564,560	452,871
Capital adjustments		
Treasury stock (Note 15)	(10,313)	(13,644)
Loss on valuation of investment securities (Note 8)	(33,849)	(8,364)
Gain on valuation of equity method investments (Note 9)	183,910	184,590
Loss on disposal of treasury stock	(1,667)	-
Overseas business translation debit	(1,942)	(25,082)
	136,139	137,500
Total shareholders' equity	1,155,628	1,048,668
Total liabilities and shareholders' equity	₩2,690,432	₩2,661,892

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

(in millions of Korean Won, except per share amounts)

	2003	2002
Sales (Notes 3, 20 and 21) :		
Construction operations	₩3,216,673	₩2,687,055
Housing and lotting-out operations	214,177	463,161
Other operations	36,734	24,249
	<u>3,467,584</u>	<u>3,174,465</u>
Cost of sales (Note 20) :		
Construction operations	2,703,333	2,276,298
Housing and lotting-out operations	192,923	394,428
Other operations	50,320	31,239
	<u>2,946,576</u>	<u>2,701,965</u>
Gross profit	<u>521,008</u>	<u>472,500</u>
Selling and administrative expenses :	<u>249,597</u>	<u>196,436</u>
Operating income (Note 21)	<u>271,411</u>	<u>276,064</u>
Non-operating income :		
Interest income	11,142	15,483
Dividend income	1,786	2,021
Gain on foreign currency transactions	5,547	10,967
Gain on foreign currency translation	218	853
Gain on disposal of investments	1,173	133
Gain on disposal of property, plant and equipment	481	765
Gain on derivatives transactions (Note 12)	1,887	1,930
Gain on derivatives valuation (Note 12)	2,713	130
Refund of income taxes	-	1,506
Others	12,702	11,741
	<u>37,649</u>	<u>45,529</u>

	(in millions of Korean Won, except per share amounts)	
	2003	2002
Non-operating expenses :		
Interest expense	16,078	14,658
Loss on foreign currency transactions	4,702	8,403
Loss on foreign currency translation	1,635	13,023
Loss on valuation of inventories	-	17,970
Loss on disposal of investments	497	144
Loss on valuation of equity method investments (Note 9)	15,948	6,602
Impairment loss on investments	-	433
Loss on disposal of property, plant and equipment	130	51
Impairment loss on property, plant and equipment	-	12,600
Loss on derivatives transactions (Note 12)	14	407
Loss on derivatives valuation (Note 12)	3,550	-
Loss on disposal of trade accounts and notes receivable	545	23
Additional payment of income taxes	860	-
Donations	1,973	1,204
Others	1,376	973
	47,308	76,491
Ordinary income	261,752	245,102
Extraordinary loss :		
Amortization of overseas business translation debit	(21,457)	(14,077)
	(21,457)	(14,077)
Income before income tax expense	240,295	231,025
Income tax expense (Note 16)	78,758	70,311
Net income	₩161,537	₩160,714
Basic ordinary income per share (Note 17) (in Korean Won)	₩3,548	₩3,424
Basic earnings per share (Note 17) (in Korean Won)	₩3,245	₩3,225

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

YEARS ENDED DECEMBER 31, 2003 AND 2002

(DATE OF APPROPRIATIONS: MARCH 17, 2004 AND FEBRUARY 26, 2003 FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002, RESPECTIVELY)

	(in millions of Korean Won)	
	2003	2002
Retained earnings before appropriations :		
Unappropriated retained earnings		
carried forward from the prior year	₩1,578	₩8,333
Change in retained earnings under the equity method (Note 9)	-	(12,948)
Net income	161,537	160,714
	163,115	156,099
Transfer from other reserves	8,629	14,088
	171,744	170,187
Appropriations of retained earnings :		
Transfer to legal reserve	6,221	4,985
Transfer to other reserves	101,821	113,777
Cash dividends (Note 18)		
(Dividend to par value ratio of 25% in 2003 and 20% in 2002)	62,212	49,847
	170,254	168,609
Unappropriated retained earnings		
carried forward to the subsequent year	₩1,490	₩1,578

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

	(in millions of Korean Won)	
	2003	2002
Cash flows from operating activities :		
Net income	₩161,537	₩160,714
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation and amortization	27,348	15,916
Bad debt expense	9,402	13,193
Provision for severance benefits	24,777	20,560
Provision for warranty	17,268	10,821
Loss on foreign currency translation, net	1,509	12,046
Amortization of discounts on debentures	1,450	2,111
Impairment loss on investments	-	433
Loss on valuation of inventories	-	17,970
Loss (gain) on disposal of investments, net	(676)	11
Loss on valuation of equity method investments	15,948	6,602
Gain on disposal of property, plant and equipment, net	(351)	(714)
Impairment loss on property, plant and equipment	-	12,600
Loss (gain) on derivatives valuation	837	(130)
Amortization of overseas business translation debit	21,457	14,077
Others, net	(1,895)	(503)
	117,074	124,993
Changes in operating assets and liabilities :		
Increase in trade accounts and notes receivable	(49,815)	(190,086)
Decrease (increase) in other accounts receivable	(4,176)	3,221
Decrease in inventories	60,700	219,484
Decrease in accrued income	2,457	2,075
Decrease (increase) in advance payments	(11,737)	2,926
Decrease (increase) in prepaid expenses	256	(544)
Increase in prepaid construction costs	(30,821)	(11,771)
Increase in deferred income tax assets	(14,550)	(24,658)
Increase in trade accounts and notes payable	47,041	5,149
Increase in other accounts payable	4,495	4,733
Decrease in accrued expenses	(4,295)	(6,667)
Decrease in income taxes payable	(2,264)	(3,515)
Payment of accrued severance benefits	(8,709)	(10,210)
Decrease in provision for warranty	(9,753)	(8,891)
Decrease in provision for foreseeable losses from construction contracts	(6,654)	(1,885)
Increase in membership guarantee deposits received	46,547	61,147
Others, net	(3,944)	(1,303)
	14,778	39,205
Net cash provided by operating activities	293,389	324,912

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

	(in millions of Korean Won)	
	2003	2002
Cash flows from investing activities :		
Disposal of short-term financial instruments	-	9,933
Disposal of property, plant and equipment	961	1,106
Disposal of investment securities	46,058	8,192
Proceeds from long-term loans	12,459	7,638
Disposal of long-term financial instruments	11	-
Acquisition of short-term financial instruments	(134)	-
Short-term loans provided	(8,462)	(4,938)
Acquisition of property, plant and equipment	(83,904)	(93,199)
Acquisition of investment securities	(47,498)	(51,794)
Long-term loans provided	-	(580)
Payment of long-term guarantee deposits	(7,905)	(4,727)
Acquisition of intangible assets	-	(1,022)
Net cash used in investing activities	(88,414)	(129,391)
Cash flows from financing activities		
Disposal of treasury stock	2,460	2,405
Payment of short-term borrowings	(17,519)	(58,003)
Payment of current maturities of long-term debt	(120,000)	(115,000)
Payment of dividends	(49,844)	(39,892)
Payment of long-term debt	(50,000)	-
Acquisition of treasury stock	(4,212)	(5,473)
Net cash used in financing activities	(239,115)	(215,963)
Net decrease in cash and cash equivalents	(34,140)	(20,442)
Cash and cash equivalents		
Beginning of the year	132,783	153,225
End of the year (Note 22)	₩98,643	₩132,783

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

1. The Company

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

In August 1981, the Company offered its shares for public ownership and all shares are listed on the Korea Stock Exchange. The Company changed its name from LG Construction Co., Ltd. to LG Engineering & Construction Corporation in 1995.

Upon a resolution of the Board of Directors on November 19, 1999, the Company issued 11,789,000 shares of common stock at ₩7,800 per share, generating net cash proceeds amounting to ₩91,954 million, and the Company has outstanding capital stock amounting to ₩255,000 million as of December 31, 2003.

2. Summary of Significant Accounting Policies

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

Basis of Financial Statement Presentation

The Company maintains its accounting records in Korean Won and prepares statutory financial statements in the Korean language (Hangul) in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these non-consolidated 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 from the Korean language non-consolidated financial statements. Certain information attached to the Korean language non-consolidated financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying non-consolidated financial statements.

Accounting Estimates

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

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board ("KASB") has published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards, established by the Korean Financial and Supervisory Board. SKFAS No. 2 through No. 9, except for SKFAS No. 6 which was applied from the fiscal year ended December 31, 2002, became effective for the Company on January 1, 2003, and the Company has adopted these statements in its financial statements for the year ended December 31, 2003.

Revenue Recognition

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

Allowance for Doubtful Accounts

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

Investments in Affiliates and Other Investments

The Company accounts for equity and debt securities under the provision of Statement of Korean Financial Accounting Standards No. 8, Investments. This statement requires investments in equity and debt securities to be divided into one of three categories: trading, available-for-sale and held-to-maturity.

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

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

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

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

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

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

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

Inventories

Inventories are stated at the lower of cost or market price, 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. Raw materials and supplies used in construction projects are depreciated over their estimated useful lives.

Interest costs on borrowings to finance the purchase or construction of inventories in connection with lotting-out operations are capitalized during the period of time that is required to complete and prepare the inventories for its intended use, as part of the cost of the asset. Interest expense capitalized for the years ended December 31, 2003 and 2002 amounted to ₩3,137 million and ₩13,282 million, respectively, of which ₩4,171 and ₩19,811 million was transferred to cost of sales, respectively.

Prepaid Construction Costs

Interest costs on borrowings to finance the construction costs related to a contract that is not yet made but is probable to be made and the transfer fees for the union members of the reconstruction or rebuilding sites are capitalized as prepaid construction costs.

Property, Plant and Equipment and Related Depreciation

The cost of property, plant and equipment includes purchase costs or manufacturing costs, incidental costs directly related to preparing the property, plant and equipment for use, and the discounted estimated costs to remove, dismantle or restore property, plant and equipment at the end of the estimated useful lives of the related assets, when those costs meet the conditions for the recognition of liabilities.

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

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

Routine maintenance and repairs are charged to current operations as incurred. Betterments and renewals, enhancing the value of the assets over the recently appraised value of the assets, are capitalized.

The Company assesses the potential impairment of property, plant and equipment when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value to be unlikely. The carrying value of the assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets would be recorded in current operations up to the cost of the assets, net of accumulated depreciation before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

The Company capitalizes interest expense incurred on debt used to finance the purchase or construction of property, plant and equipment as a part of the cost of the related assets. The amounts capitalized for the years ended December 31, 2003 and 2002 are ₩2,210 million and ₩6,330 million, respectively.

Intangible Assets

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

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

Research costs are charged to current operations as incurred. Development costs incurred for new products or technologies which can be specifically identified and reliably measured and which have probable future economic benefits are capitalized. Other development costs are recognized in the period incurred as normal development expenses. Capitalized development costs are amortized using the straight-line method over the period during which the related economic benefits are recognized, not to exceed twenty years, from the initial commercial sale of new products or utilization of such technology. The Company performs periodic assessments of the recoverability of development costs, and the carrying value of the assets is reduced to the estimated recoverable amount and an impairment loss is recorded as a reduction in the carrying value of the related assets and is charged to current operations. For the years ended December 31, 2003 and 2002, the Company capitalized ₩160 million and ₩1,022 million of development costs, respectively, and recognized ₩103,998 million and ₩45,088 million, respectively, as normal research and development costs.

The details of the changes in capitalized development costs for the years ended December 31, 2003 and 2002 are as follows:

	(in millions of Korean Won)	
	2003	2002
Beginning balance	₩2,310	₩1,840
Increase	160	1,022
Amortization	699	552
Ending balance	₩1,771	₩2,310

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

The details of the changes in goodwill for the years ended December 31, 2003 and 2002 are as follows:

	(in millions of Korean Won)	
	2003	2002
Beginning balance	₩1,941	₩2,718
Increase	-	-
Amortization	777	777
Ending balance	₩1,164	₩1,941

Provision for Warranty

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

Provision for Foreseeable Losses from Construction Contracts

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

Present Value Discount Account

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

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

Discounts on Debentures

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

Derivative Financial Instruments

The Company enters into derivative transactions to hedge against financial risks. Derivatives are classified into: cash flow hedges, hedges for fluctuations in fair market value caused by the changes in foreign exchange rates, and those acquired for profit. In case of cash flow hedges, unrealized holding gains and losses are recorded as capital adjustments in the balance sheet. In the case of hedging for fluctuations in fair market value, unrealized holding gains and losses are recorded in the income statement. If the contract expires, the gains and losses from derivative transactions are presented in the income statement in case of hedges for fluctuations in fair market value and are offset against sales in case of cash flow hedging.

Accrued Severance Benefits

Employees and directors with one year or more of employment with the Company are entitled to receive a lump-sum payment upon termination of their service with the Company, based on their length of employment and rate of pay at the time of termination. Accrued severance benefits represent the amount of severance benefits payable assuming all eligible employees and directors were to terminate their employment with the Company as of the balance sheet date. For the years ended December 31, 2003 and 2002, the Company paid severance benefits amounting to ₩8,709 million and ₩10,210 million, respectively.

As of December 31 2003 and 2002, total accrued severance benefits amounting to ₩107,239 million and ₩91,171 million, respectively, are funded through a group severance insurance plan amounting to ₩58,907 million and ₩49,183 million, respectively. Accordingly, accrued severance benefits in the accompanying balance sheets are presented net of these amounts.

In accordance with the National Pension Act, as of December 31, 2003 and 2002 accrued severance benefits amounting to approximately ₩5,268 million and ₩5,520 million, respectively, were deposited with the National Pension Fund and the account is deducted from accrued severance benefits. The contributed amount shall be refunded from the National Pension Fund to employees and directors upon their retirement.

Asset Impairment Loss

If the expected recoverable amounts of certain assets, except for marketable securities, investments in equity securities and investments in debt securities, are less than the book value of those assets due to obsolescence, physical damage or significant decline in market value, the impaired amount is accounted for as loss on impairment of assets in the period identified. A subsequent recovery is recorded as a non-operating income up to the original book value.

Income Taxes

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

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the rates in effect at the balance sheet dates (₩1,197.8 : US\$1 as of December 31, 2003; ₩1,200.4 : US\$1 as of December 31, 2002). The resulting translation gains and losses are recognized in current operations.

Monetary assets and liabilities, excluding the accounts of overseas business and foreign currency borrowings, denominated in foreign currency as of December 31, 2003 and 2002 comprise the following:

(in thousands of Foreign Currency, in millions of Korean Won)					
	2003		2002	2003	2002
Cash and cash equivalents	US\$ 7,227	US\$ 12,764	₩8,656	15,322	
Trade accounts and notes receivable	US\$ 19,484	US\$ 50,143	23,968	61,229	
	LRK 592	LRK 24,826			
	QAR 166	QAR 481			
	SAR and others 1,781	SAR and others 1,781			
Other accounts receivable	US\$ 35	US\$ 12	42	14	
Short-term loans	US\$ 20,700	US\$ 27,800	24,795	33,371	
Long-term loans	US\$ 3,485	US\$ 23,575	4,174	28,299	
Long-term trade accounts receivable	US\$ 42,799	US\$ 43,589	51,264	52,324	
Trade accounts and notes payable	US\$ 23,013	US\$ 32,663	48,557	44,234	
	SAR 72	SAR 72			
	EUR 6,374	EUR 1,766			
	JPY 973,036	JPY 216,090			
	GBP 225	GBP 151			
	CHF and others 19	LRK and others 24,182			
Other accounts payable	US\$ 166	US\$ 884	215	1,136	
	EUR and others 11	JPY and others 7,380			
Guarantee deposits received	US\$ 119	US\$ 3,491	143	4,191	

Translation of Foreign Currency Financial Statements

Accounts of overseas business locations are maintained in the currencies of the countries in which they conduct their operations. In translating the foreign currency financial statements of these foreign business branches or offices into Korean Won, assets and liabilities are translated at the current exchange rate on the balance sheet date and income and expenses are translated at the average exchange rate during the year. The resulting translation gains and losses are offset against each other and the net amount is recorded as overseas business translation debit (credit), presented as an addition to or deduction from shareholders' equity. Overseas business translation debit (credit) is offset against subsequent overseas business translation debit (credit) until it is recognized as a gain or loss at the time when the foreign business branches or offices are liquidated.

A summary of the Company's overseas operations as of December 31, 2003 and 2002 comprises the following:

(in millions of Korean Won)		
	2003	2002
Assets	₩75,592	₩50,281
Liabilities	52,094	39,093

Prior Period Error Corrections

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

3. Summary of Major Construction Contracts

Balance of Construction Contracts

		(in millions of Korean Won)			
Project	Customer	New		Realized Revenue	Ending Balance
		Beginning Balance	Construction Contracts		
LG Phillips LCD P6 Project	LG Phillips LCD Co., Ltd.	₩25,183	₩468,190	₩380,719	₩112,654
Dongbu Electric Train Office	Korean National Railroad	32,920	23,098	20,704	35,314
LG Yangju Xi	Korean Real Estate Investment Trust Co., Ltd.	-	325,541	51,867	273,674
LG Shinbong Xi	Kyeng Oh Construction Co., Ltd.	135,224	-	131,315	3,909
Donghae Highway 2nd Stage	Korea Highway Corporation	46,328	9,782	38,782	17,328
Daegu-Pohang Highway 3rd Stage	Korea Highway Corporation	70,726	7,614	46,055	32,285
Dangjin-Daejeon Highway 4th Stage	Korea Highway Corporation	124,563	19,934	21,468	123,029
SP 9-10 Project (*)	National Iranian Oil Company	-	719,233	23,255	695,978
OCR Project (*)	Kuwait National Petroleum Company	167,685	(5,690)	27,670	134,325
Others		5,268,929	2,132,190	2,474,838	4,926,281
2003		₩5,871,558	₩3,699,892	₩3,216,673	₩6,354,777
2002		₩6,064,016	₩2,494,597	₩2,687,055	₩5,871,558

(*) Changes in Korean Won amounts are due to the fluctuations in foreign currency exchange rates.

Cumulative Balance of Construction Contracts

		(in millions of Korean Won)				
Project	Cumulative Revenue Realized	Billed Amount In 2003	Cumulative Billed Amount	Cumulative Collection Amount	Trade Receivables	
LG Phillips LCD P6 Project	₩396,984	₩465,355	₩482,891	₩396,991	₩85,900	
Dongbu Electric Train Office	95,148	19,508	91,162	91,062	100	
LG Yangju Xi	51,867	20,280	20,280	20,010	270	
LG Shinbong Xi	216,334	89,378	202,847	202,847	-	
Donghae Highway 2nd Stage	84,973	38,781	81,121	81,121	-	
Daegu-Pohang Highway 3rd Stage	124,029	44,091	135,749	135,749	-	
Dangjin-Daejeon Highway 4th Stage	29,269	15,918	21,248	21,248	-	
SP 9-10 Project	23,255	-	-	-	-	
OCR Project	28,067	35,900	35,900	30,429	5,471	

Total billed amounts under construction contracts for the years ended December 31, 2003 and 2002 are ₩3,362,432 million and ₩2,702,681 million, respectively, and total collected amounts under construction contracts for the years ended December 31, 2003 and 2002 are ₩3,286,964 million and ₩2,652,372 million, respectively.

Balance of Co-Construction

Project	Period of Construction	Customer	(in millions of Korean Won)			
			Contracts Amount	Portion of the Company	Share of the Company	Representative Company
Seoul Outer Circular Highway	2001.06.30~2006.06.29	Seoul Highway Co., Ltd.	₩1,394,153	₩376,421	27.0%	LG Engineering & Construction Co., Ltd.
Shinwolsung Atomic Power Plant Main Facility No. 1 and 2	2003.07.01~2009.09.30	Korea Hydro & Nuclear Power Co., Ltd.	764,100	103,154	13.5%	Daewoo Engineering & Construction Co., Ltd.
Dokokdong Reconstructon	2002.07.10~2005.12.31	Dokokdong 1st Apt. Reconstruction Association	432,977	144,326	33.3%	LG Engineering & Construction Co., Ltd.
Dongbu Electric Train Office	1997.02.28~2004.12.30	Korea National Railroad	207,081	130,461	63.0%	"
Dangjin-Daejeon Highway 4th Stage	2001.12.24~2006.02.05	Korea Highway Corporation	169,220	152,298	90.0%	"
Dangjin-Daejeon Highway 5th Stage	2001.12.24~2006.02.05	"	152,224	137,002	90.0%	"
Dangjin-Daejeon Highway 7th Stage	2001.12.24~2006.02.05	"	151,947	136,753	90.0%	"
Hyunpung-Kimcheon Construction 1st Stage	2001.12.28~2006.02.09	"	121,751	109,575	90.0%	"
Dangjin-Daejeon Highway 6th Stage	2001.12.24~2006.02.05	"	117,183	105,465	90.0%	"
Donghae Highway Expansion 2nd Stage	2000.01.05~2004.03.10	"	113,659	102,293	90.0%	"
Hyunpung-Kimcheon Construction 6th Stage	2001.12.28~2006.02.09	"	111,435	100,292	90.0%	"
Hyunpung-Kimcheon Construction 3rd Stage	2001.12.28~2006.02.09	"	107,478	96,731	90.0%	"
Iksan-Jangsu Highway 5th Stage	2001.11.22~2005.12.31	"	107,058	96,352	90.0%	"
Others			5,402,061	1,691,763		
2003			₩9,352,327	₩3,482,886		
2002			₩8,353,219	₩3,345,345		

Summary of Housing and Lotting-Out Construction

Projects	Period of Construction	Realized Revenue	(in millions of Korean Won)	
			Cumulative Revenue Realized	Unrealized Revenue Carried Forward
LG Metrocity 4th Stage	2000.11-2003.08	₩123,600	₩367,867	₩318
LG Metrocity 5th Stage	2001.10-2004.11	19,604	38,106	33,306
Sinsanbon LG Village 1st Stage	2000.05-2003.02	9,178	87,918	-
Sinsanbon LG Village 2nd Stage	2000.06-2003.04	29,135	164,931	-
Secho Eclat	2001.10-2004.09	26,745	53,691	40,023
Others		5,915	-	-
2003		₩214,177	₩712,513	₩73,647
2002		₩463,161	₩747,753	₩287,762

4. Restricted Bank Deposits

As of December 31, 2003 and 2002, short-term financial instruments amounting to ₩3,632 million and ₩3,500 million, respectively, and long-term financial instruments amounting to ₩28 million and ₩38 million, respectively, are deposited in connection with bank overdrafts. The withdrawal of these deposits is restricted.

5. Receivables

The Company's receivables, including trade accounts and notes receivable, as of December 31, 2003 and 2002, consist of the following:

	2003		(in millions of Korean Won)	
	Gross Amount	Allowance for Doubtful Accounts	Discounts on Present Value	Carrying Value
Trade accounts and notes receivable	₩899,970	₩(25,496)	₩-	₩874,474
Other accounts receivable	21,228	(1,009)	-	20,219
Short-term loans	65,041	(16,821)	(4)	48,216
Long-term loans	16,594	(12,792)	-	3,802
Long-term trade accounts receivable	51,264	(20,212)	-	31,052
	₩1,054,097	₩(76,330)	₩(4)	₩977,763

	2002		(in millions of Korean Won)	
	Gross Amount	Allowance for Doubtful Accounts	Discounts on Present Value	Carrying Value
Trade accounts and notes receivable	₩866,707	₩(30,582)	₩-	₩836,125
Other accounts receivable	17,364	(965)	-	16,399
Short-term loans	68,278	(13,238)	-	55,040
Long-term loans	29,209	(13,615)	(15)	15,579
Long-term trade accounts receivable	52,324	(20,223)	-	32,101
	₩1,033,882	₩(78,623)	₩(15)	₩955,244

6. Inventories

Inventories as of December 31, 2003 and 2002 comprise the following:

	(in millions of Korean Won)	
	2003	2002
Completed buildings	₩12,613	₩9,787
Uncompleted buildings	29,736	101,829
Building lots	44,649	48,839
Raw materials and supplies	18,183	10,284
Materials in-transit	13,605	1,622
Others	2,502	2,159
	₩121,288	₩174,520

7. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2003 and 2002 comprise the following:

	(in millions of Korean Won)					
	Land	Course	Trees	Buildings	Structures	Machinery
Balance as of January 1, 2003	₩217,360	₩105,904	₩12,730	₩212,804	₩44,117	₩12,218
Acquisition during the year	1,993	487	-	3,784	6,248	5,374
Disposal	239	-	-	-	7	20
Depreciation	-	-	-	5,839	1,212	6,717
Overseas business translation debit	-	-	-	-	-	20
Balance as of December 31, 2003	₩219,114	₩106,391	₩12,730	₩210,749	₩49,146	₩10,835
Accumulated depreciation	₩ -	₩ -	₩ -	₩ 34,606	₩ 4,762	₩9,489

	(in millions of Korean Won)				
	Equipment	Vehicles	Tools and Furniture	Construction In-Progress	Total
Balance as of January 1, 2003	₩1,833	₩2,573	₩12,828	₩29,277	₩651,644
Acquisition during the year	-	5,341	6,456	66,742	96,425
Disposal	66	84	192	12,520	13,128
Depreciation	859	2,589	8,358	-	25,574
Overseas business translation debit	1	2	(7)	-	16
Balance as of December 31, 2003	₩ 907	₩5,239	₩10,741	₩83,499	₩709,351
Accumulated depreciation	₩11,039	₩5,822	₩56,473	₩ -	₩122,191

A substantial portion of the Company's property, plant and equipment as of December 31, 2003 and 2002 has been pledged as leasehold guarantee deposits up to a maximum of ₩36,148 million and ₩35,918 million, respectively.

As of December 31, 2003 and 2002, the government-posted value of land for tax purposes amounted to ₩184,458 million and ₩154,835 million, respectively.

As of December 31, 2003 and 2002, a portion of both inventories and property, plant and equipment are insured against fire and other casualty losses up to ₩217,352 million and ₩186,954 million, respectively. In addition, certain amounts of courses and machinery are covered by civil engineering works insurance and personal property general insurance. In relation to the construction sites located locally and abroad, several job-sites are covered by construction works insurance.

8. Investment Securities

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

Short-Term Investment Securities

Short-term investment securities as of December 31, 2003 and 2002 are all held-to-maturity securities classified into current assets that mature within one year and are as follows:

		(in millions of Korean Won)			
		(Face Value)		(Book Value)	
	Annual Interest Rate (%) as of December 31, 2003	2003	2002	2003	2002
Government bonds and public bonds	2.5 ~ 6.0	₩5,358	₩12,146	₩5,358	₩12,146
Corporate bonds	-	-	9,600	-	9,600
		₩5,358	₩21,746	₩5,358	₩21,746

Long-Term Investment Securities

Long-term investment securities as of December 31, 2003 and 2002 are as follows:

	(in millions of Korean Won)							
	Ownership Ratio		Acquisition Cost		Book Value		Fair Value or Net	
	(%) as of		2003	2002	2003	2002	Asset Value (*)	
	December 31, 2003						2003	2002
Available-for-sale securities								
Marketable equity securities								
LG Investment & Securities Co., Ltd.	4.36	₩97,534	₩97,534	₩44,202	₩70,830	₩44,202	₩70,830	
		97,534	97,534	44,202	70,830	44,202	70,830	
Non-marketable equity securities								
The Korea Economic Daily	0.01	14	14	14	14	5	5	
Pusan Travel & Development Co., Ltd.	2.67	400	400	400	400	-	146	
New Airport Highway Co., Ltd.	-	-	21,710	-	21,710	-	20,133	
Daegu East Inter Circular Road Co., Ltd.	14.58	8,658	8,658	8,658	8,658	7,980	8,482	
Daegu West North Road Co., Ltd.	15.07	3,316	3,316	3,316	3,316	3,240	2,883	
Manwolsan Tunnel Co., Ltd.	15.00	5,025	4,342	5,025	4,342	4,157	4,243	
Korea Housing Guarantee Co., Ltd.	0.16	21,532	21,532	-	-	1,635	1,822	
LG Energy Co., Ltd.	15.10	14,432	8,100	16,386	10,054	20,678	13,174	
LG Mart Co., Ltd.	1.75	15,420	15,402	11,363	11,344	7,394	7,062	
LG CNS Inc.	9.05	3,522	3,522	3,533	3,533	9,887	6,974	
LG Sports Co., Ltd.	-	-	375	-	265	-	309	
POTATO Co. Ltd.	10.00	300	300	300	300	278	293	
International Convention Center Jeju	0.65	500	500	500	500	882	525	
Public Development Co., Ltd.	17.09	3,947	3,947	3,947	3,947	3,590	3,986	
EzVille Inc.	16.00	1,600	1,600	1,600	1,600	1,039	1,217	
Cheonan-Nonsan Highway Co., Ltd.	25.00	112,500	112,500	112,500	112,500	93,868	108,984	
Seoul Highway Co., Ltd.	27.00	88,371	52,731	88,371	52,731	86,235	51,358	
Kangnam Inter Circular Road Co., Ltd.	11.50	1,093	978	1,093	978	932	978	
Engineering Financial Cooperative	0.38	179	179	179	179	294	295	
Korea Electric Engineers Association	0.18	21	21	21	21	27	27	
Electric Contractors' Fanatical Cooperative	0.04	98	98	98	98	206	76	
Korea Construction Financial Cooperative	0.46	12,092	12,092	12,092	12,092	18,305	15,065	
Information & Communication Financial Cooperative	0.07	61	61	61	61	107	102	
Stock Market Stabilization Fund	0.60	616	1,646	1,842	2,260	1,842	2,261	
Treasury Stock Fund	-	1,500	1,500	1,059	866	1,059	866	
Others		949	2,976	949	531	588	427	
		296,146	278,500	273,307	252,300	264,228	251,693	
Held-to-maturity securities								
		18,247	19,884	18,247	19,884	18,247	19,884	
		₩411,927	₩395,918	₩335,756	₩343,014	₩326,677	₩42,407	

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

Maturities of Held-To-Maturity Securities

The maturities of held-to-maturity securities as of December 31, 2003 and 2002 are as follows:

	(in millions of Korean Won)	
	2003	2002
More than one year to five years	₩16,077	₩16,203
More than five years to ten years	2,170	3,111
More than ten years	-	570
	₩18,247	₩19,884

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

The changes in the unrealized holding gains or losses from available-for-sale securities for the year ended December 31, 2003 are as follows:

	(in millions of Korean Won)			
	Beginning Balance	Valuation	Disposal	Ending Balance
Marketable equity securities	₩(8,491)	₩(26,628)	₩-	₩(35,119)
Non-marketable equity securities	127	1,143	-	1,270
	₩(8,364)	₩(25,485)	₩-	₩(33,849)

Interest income earned from short-term investment securities and long-term investment securities for the years ended December 31, 2003 and 2002 amounted to ₩2,250 million and ₩3,335 million, respectively.

9. Equity Method Investments

Equity method investments as of December 31, 2003 and 2002 are as follows:

	(in millions of Korean Won)							
	Ownership Ratio		Acquisition Cost		Book Value		Fair Value or Net Asset Value under the Equity Method (*)	
	(%) as of							
	December 31, 2003	2003	2002	2003	2002	2003	2002	
Han Moo Development Co., Ltd.	67.56	₩85,861	₩85,861	₩164,341	₩166,637	₩223,113	₩227,667	
Ladera Co., Ltd.	65.52	50,633	50,633	12,605	23,621	12,605	23,621	
LG-HP Corp.	30.00	2,196	2,196	-	-	1,011	1,198	
LG Holdings (HK) Ltd.	25.00	27,907	16,065	18,039	9,513	18,386	7,553	
LG Construction (Arabia) Ltd.	49.00	874	874	-	-	-	-	
LG Properties (S' pore) PTE Ltd.	30.00	14,349	14,349	-	-	-	-	
		₩181,820	₩169,978	₩194,985	₩199,771	₩255,115	₩260,039	

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

The changes in the Company's share in the investees' net asset value for the years ended December 31, 2003 and 2002 are as follows:

(in millions of Korean Won)						
	Beginning Balance	Acquisition	Valuation Gain or Loss	Retained Earnings	Capital Adjustments	Ending Balance
Han Moo Development Co., Ltd.	₩166,637	₩-	₩(2,296)	₩-	₩-	₩164,341
Ladera Co., Ltd.	23,621	-	(10,910)	-	(106)	12,605
LG Holdings (HK) Ltd.	9,513	11,842	(2,742)	-	(574)	18,039
2003	₩199,771	₩11,842	₩(15,948)	₩-	₩(680)	₩194,985
2002	₩199,402	₩17,333	₩(6,602)	₩(*) (18,418)	₩8,056	₩199,771

(*)During 2002, the Company participated in the capital increase of LG Holdings (HK) Ltd. and LG Properties (S'pore) PTE Ltd., whose book values before capital increase were valued at zero under the equity method. The Company accounted for unrecognized losses prior to the capital increase participation amounting to ₩12,948 million, net of a deferred tax effect amounting to ₩5,470 million, as a decrease in the beginning balance of unappropriated retained earnings.

As of December 31, 2003, the Company has discontinued applying the equity method of accounting for LG Properties (S'pore) PTE Ltd. and LG Construction (Arabia) Ltd. as their book values have been reduced to below zero. As of December 31, 2003, the unrecognized losses for the investment in LG Properties (S'pore) PTE Ltd. and LG Construction (Arabia) Ltd. amounted to ₩6,026 million and ₩219 million, respectively.

The changes in the unrealized gains or losses from equity method investments for the year ended December 31, 2003 are as follows:

(in millions of Korean Won)				
	Beginning Balance	Valuation	Disposal	Ending Balance
Han Moo Development Co., Ltd.	₩160,703	₩-	₩-	₩160,703
Ladera Co., Ltd.	13,784	(106)	-	13,678
LG Holdings (HK) Ltd.	10,103	(574)	-	9,529
	₩184,590	₩(680)	₩-	₩183,910

The accumulated unamortized differences between the purchase price and the underlying proportionate net book value of equity method investments, along with changes in such amounts, during the years ended December 31, 2003 and 2002 are as follows:

(in millions of Korean Won)				
	Debit		Credit	
	2003	2002	2003	2002
Beginning balance	₩-	₩-	₩36,317	₩37,853
Increase	-	-	-	-
Amortization	-	-	(1,536)	(1,536)
Ending balance	₩-	₩-	₩34,781	₩36,317

The details of the elimination of unrealized gains or losses from equity method investments for the years ended December 31, 2003 and 2002 are as follows:

	(in millions of Korean Won)	
	2003	2002
Han Moo Development Co., Ltd.	₩24,005	₩24,726
LG Holdings (HK) Ltd.	(903)	(1,961)
	₩23,102	₩22,765

10. Short-Term Borrowings

Short-term borrowings as of December 31, 2003 and 2002 comprise the following:

		(in millions of Korean Won, thousands of U.S. Dollars)	
	Annual Interest Rate (%) as of December 31, 2003	2003	2002
Bank overdrafts	4.5	₩3,101	₩5,643
Foreign currency loans	1.5 - 2.1	11,302	25,769
		(US\$ 9,436)	(US\$ 21,467)
		₩14,403	₩31,412

See Note 12 for collateral arrangements on the above borrowings.

11. Long-Term Debt

Long-term debt as of December 31, 2003 and 2002 comprise the following:

	(in millions of Korean Won)	
	2003	2002
Debentures (*)	₩-	₩178,687
Loans (**)	14,593	15,920
	₩14,593	₩194,607

(*) Debentures -

		(in millions of Korean Won)	
	Annual Interest Rate (%) as of December 31, 2003	2003	2002
Non-guaranteed debentures	6.0 - 7.0	₩130,000	₩200,000
Private offered debentures	-	-	100,000
		130,000	300,000
Less: Current maturities (a)		(130,000)	(120,000)
Discount on debentures issued		-	(1,313)
		₩-	₩178,687

(a) Related discount on debentures issued as of December 31, 2003 and 2002 amounted to ₩297 million and ₩434 million, respectively.

(**) Loans -

	Annual Interest Rate (%) as of December 31, 2003	(in millions of Korean Won)	
		2003	2002
Won currency loans			
Korea Housing Guarantee Co., Ltd.	2.0	₩15,920	₩15,920
Less: Current maturities		(1,327)	-
		₩14,593	₩15,920

The annual maturities of long-term debt as of December 31, 2003 are as follows:

	(in millions of Korean Won)
For the year ending December 31,	
2005	₩1,327
2006	1,327
2007	1,327
2008	1,327
2009 and thereafter	9,285
	₩14,593

12. Commitments and Contingencies

As of December 31, 2003, outstanding notes receivable discounted but not yet matured amounted to ₩106,201 million.

As of December 31, 2003 and 2002, Korea Housing Guarantee Co., Ltd., Korea Construction Financial Corporation, a government agency and others have provided guarantees amounting to approximately ₩1,443,794 million and ₩866,510 million, respectively, to the Company for the construction performance, lotting-out performance and construction warranty. Also, as of December 31, 2003 and 2002, the Company has provided guarantees, jointly and severally, with Korea Housing Guarantee Co., Ltd. and others, amounting to approximately ₩2,734,039 million and ₩3,531,863 million, respectively, to other construction companies, including ChungAng Construction Co., Ltd.

As a common practice in the Korean construction industry, the construction companies involved have exchanged mutual guarantees of construction performance. Guarantees that the Company has provided and has been provided by others amount to ₩1,320,354 million and ₩914,011 million as of December 31, 2003 and ₩3,597,210 million and ₩2,949,566 million as of December 31, 2002, respectively.

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

The Export-Import Bank of Korea and others have guaranteed the performance of construction of the Company in overseas projects. As of December 31, 2003 and 2002, the outstanding guarantees amounted to ₩208,913 million and ₩281,386 million, respectively.

As of December 31, 2003, the Company has pledged checks and notes to several banks and financial institutions as collateral for borrowings and payment guarantees.

As of December 31, 2003 and 2002, the Company has provided guarantees and collateral amounting to ₩587,383 million and ₩583,755 million, respectively, on behalf of the Cheonan-Nonsan Highway project and others. Also, in relation to the housing loans for future tenants during the construction period, the Company has provided guarantees amounting to ₩2,051,207 million and ₩1,066,831 million to several domestic financial institutions as of December 31, 2003 and 2002, respectively.

The Company has been named as a defendant and plaintiff in a number of claims arising in the normal course of performing construction and engineering services. As of December 31, 2003, the aggregate amount of these claims as a defendant and plaintiff is ₩10,322 million and ₩4,810 million, respectively. In management's opinion, the claims will not have a material adverse impact on the Company's operations or financial position.

The Company provides loans to reconstruction associations for house reconstruction projects. The outstanding balance of long-term and short-term loans to those associations amounted to ₩41,274 million and ₩23,791 million as of December 31, 2003 and 2002, respectively.

As of December 31, 2003 and 2002, the Company has provided several notes to customers for apartments construction.

The Company has entrusted Woori Bank, the representative of the bank creditors' committee, with disposal and voting rights for the 5,325,572 shares of LG Investments and Securities Co., Ltd., following the approval of the business normalization plan of LG Card Co., Ltd. and the resolution by the Board of Directors on December 29, 2003.

As of December 31, 2003, in order to hedge against foreign exchange rate fluctuation, the Company has entered into currency forward and currency option contracts.

The outstanding currency forward contracts as of December 31, 2003 are as follows:

Counterpart	Date of Contract	(In Thousands)		Maturity Date	Contract Exchange Rate (US\$/JPY) (US\$/EUR) (US\$/KRW)
		Sell	Buy		
Credit Lyonnais	2003.06.05	US\$ 1,660	EUR 1,435	2004.04.30	1.16
"	2003.06.05	US\$ 1,093	JPY 128,700	2004.01.15	117.7
"	2003.07.21	US\$ 798	EUR 711	2004.02.09	1.12
"	2003.08.27	US\$ 2,504	EUR 1,894	2004.01.15	1.08
"	2003.11.28	US\$ 1,166	EUR 979	2004.01.30	1.19
"	2003.12.12	US\$ 1,949	JPY 210,000	2004.01.30	107.75
"	2003.12.24	US\$ 2,012	JPY 215,880	2004.01.30	107.3
Societe Generale	2002.10.31	US\$ 1,399	JPY 167,200	2004.02.27	119.5
Indosuez	2003.10.16	US\$ 5,525	KRW 6,851,000	2005.04.18	1,240.0
"	2003.12.19	US\$ 10,411	JPY 1,119,500	2004.01.30	107.54
ABN AMRO	2003.08.07	US\$ 15,000	KRW 18,202,500	2004.08.31	1,213.5

The outstanding currency option contracts as of December 31, 2003 are as follows:

Counterpart	Type	(In Thousands)		Maturity Date
		Contract Amounts	Exercise Price	
ABN AMRO	Put	US\$ 20,000	KRW 1,239.00/US\$	2005.04.14
"	Call	US\$ 40,000	KRW 1,239.00/US\$	2005.04.14
"	Put	US\$ 35,000	KRW 1,281.98/US\$	2005.10.18
"	Call	US\$ 35,000	KRW 1,281.98/US\$	2005.10.18

In relation to the above derivatives contracts, the Company recognized a net transaction gain amounting to ₩1,873 million and a net valuation loss amounting to ₩837 million for the year ended December 31, 2003.

In common with certain other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement structural reforms to historical business practices, including corporate governance. The Company may be either directly or indirectly affected by these volatile economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic environment on the financial position and results of operations of the Company. Actual results may differ materially from management's current assessment.

13. Capital Surplus

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

In accordance with the Asset Revaluation Law, the Company revalued a substantial portion of its property, plant and equipment on July 1, 1998, based primarily on the current replacement costs. The revaluation increments amounting to ₩33,833 million, net of revaluation taxes amounting to ₩454 million, were credited to revaluation surplus. Revaluation surplus balance as of December 31, 2003 amounted to ₩75,192 million.

14. Retained Earnings

Legal Reserve

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

Other Reserves

Other reserves as of December 31, 2003 and 2002 comprise the following:

	(in millions of Korean Won)	
	2003	2002
Reserve for improvement of financial structure	₩74,569	₩58,497
Reserve for technological development	84,143	61,530
Reserve for overseas business losses	91,486	64,054
Reserve for overseas investment losses	-	3,955
Reserve for loss on disposal of treasury stock	1,204	178
Reserve for business rationalization	104,653	74,653
Others	22,500	16,000
	₩378,555	₩278,867

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

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

15. Treasury Stock

As of December 31, 2003 and 2002, the Company retains 1,230,420 shares and 1,152,560 shares of its issued and outstanding common stock carried at ₩10,313 million and ₩13,644 million, respectively. The treasury stock was recorded as a capital adjustment and will be sold depending on stock market conditions.

16. Income Tax Expense

Income tax expense for the years ended December 31, 2003 and 2002 are as follows:

	(in millions of Korean Won)	
	2003	2002
Current income taxes	₩93,308	₩94,969
Deferred income taxes (*)	(14,550)	(24,658)
Income tax expense	₩78,758	₩70,311

(*) The changes in deferred income tax assets and liabilities for the years ended December 31, 2003 are as follows:

	Accumulated Temporary Differences	Income Tax Effects	Deferred Income Tax Assets
January 1, 2003	₩209,079	₩62,097	₩62,097
December 31, 2003	264,603	76,647	76,647
			₩14,550

The income tax effect of temporary differences, including available net operating loss carry-forwards and tax credits, comprising the deferred income tax assets and liabilities as of December 31, 2003 and 2002, are as follows:

	(in millions of Korean Won)	
	2003	2002
Provision for warranty	₩7,633	₩5,775
Allowance for doubtful accounts	21,503	22,855
Provision for foreseeable losses from construction contracts	827	2,803
Construction costs	66	50
Equity method investments	47,975	46,013
Amortization of overseas business translation debit	10,158	-
Bonus for directors	749	1,528
Investment securities	7,410	-
Inventories	5,036	7,030
Capitalized interest expense	(10,878)	(16,180)
Accrued income	93	(1,516)
Property, plant and equipment	-	3,742
Others	(13,925)	(10,003)
	₩76,647	₩62,097

Temporary differences, net of the related income tax effects, deducted from shareholders' equity for the year ended December 31, 2002 are as follows:

	(in millions of Korean Won)	
	Amount	Income Tax Effects
Loss on valuation of equity method investments (retained earnings)	₩18,418	₩5,470

The reconciliations from income before income taxes to taxable income for years ended December 31, 2003 and 2002 are as follows:

	(in millions of Korean Won)	
	2003	2002
Income before income taxes	₩240,295	₩231,025
Temporary differences:		
Construction costs	-	(1,300)
Transfer from reserve for overseas investment losses	1,486	3,954
Transfer from reserve for technological development, net	(2,857)	7,387
Provision for warranty	7,513	1,929
Capitalized interest expense, net	15,476	35,050
Loss on valuation of investment securities using the equity method	15,565	25,020
Accrued income, net	3,426	(79)
Provision for foreseeable losses from construction contracts, net	(6,654)	(1,885)
Allowance for doubtful accounts, net	(2,656)	30,240
Impairment loss on property, plant and equipment	-	12,600
Loss on valuation of inventories, net	(6,631)	(10,316)
Amortization of overseas business translation debit	34,202	-
Bonus for directors	(2,623)	-
Others	(724)	2,687
	55,523	105,287
Permanent differences:		
Entertainment expenses in excess of tax limit	6,765	5,751
Taxes and other expenses	8,761	-
Others	1,797	(3,379)
	17,323	2,372
Taxable income	₩313,141	₩338,684

The statutory income tax rate, including resident tax surcharges, applicable to the Company was approximately 29.7% in 2003 and 2002, and was amended to 27.5% effective for fiscal years beginning January 1, 2005 in accordance with the Corporate Income Tax Law enacted in December 2003.

The effective income tax rates applicable to the Company differs from the statutory income tax rate due to temporary differences in recognizing certain income and expenses for financial reporting and income tax purposes. The effective tax rates of the Company for the years ended December 31, 2003 and 2002 are 32.8% and 30.4% respectively.

17. Earnings Per Share

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

	(in Korean Won)	
	2003	2002
Ordinary income (A)	₩261,751,612,203	₩245,102,428,723
Income tax effects (B)	85,130,417,398	74,491,884,968
Ordinary income of common stock (C=A-B)	176,621,194,805	170,610,543,775
Net income (D)	161,536,664,712	160,713,650,840
Weighted-average number of shares of outstanding common stock (E)	49,783,051 shares	49,831,310 shares
Basic ordinary income per share (C/E)	₩3,548	₩3,424
Basic earnings per share (D/E)	₩3,245	₩3,225

There are no outstanding convertible bonds or other dilutive securities as of December 31, 2003 and 2002. Accordingly, basic earnings per share and basic ordinary income per share are equal to fully diluted earnings per share and fully diluted ordinary income per share.

18. Dividends

Dividends

	2003	2002
Common shares issued (par value of ₩5,000 per share) (A)	49,769,580 shares	49,847,440 shares
Common share dividend per share (ratio) (B)	₩1,250 (25%)	₩1,000 (20%)
Common share dividend amount (AXB)	₩62,211,975,000	₩49,847,440,000

Dividend Payout Ratio

	2003	2002
Dividend (A)	₩62,211,975,000	₩49,847,440,000
Net income (B)	161,536,664,712	160,713,650,840
Dividend payout ratio (A/B)	38.51%	31.02%

Dividend Yield Ratio

	2003	2002
Dividend per share (A)	₩1,250	₩1,000
Market value per share at the end of the year (B)	17,850	11,500
Dividend yield ratio (A/B)	7.00%	8.70%

19. Events Occurring after the Balance Sheet Date

The Company's non-consolidated financial statements will be approved by the Board of Directors on January 27, 2004.

Following the resolution of the Board of Directors on January 27, 2004, the Company is scheduled to purchase commercial papers of LG Card Co., Ltd. within the limit of ₩50,000 million by the end of March 2004 for the purpose of the business normalization of LG Card Co., Ltd.

20. Related Party Transactions

Significant transactions which occurred in the ordinary course of business with related companies for the years ended December 31, 2003 and 2002 are summarized as follows:

Description	(in millions of Korean Won)	
	2003	2002
Sales and others	₩1,092,286	₩562,856
Purchases and others	98,414	151,016
Receivables	604,724	570,159
Payables	85,891	166,897

The Company has guaranteed the repayment of obligations of its subsidiaries and related parties. As of December 31, 2003, the balance of guarantees provided by the Company on behalf of its subsidiaries and related parties, including LG Holdings(HK) Ltd., amounted to ₩40,725 million. There is no outstanding balance of guarantees that the Company has been provided with by its subsidiaries and related parties as of December 31, 2003.

The Company has pledged 3,578,700 shares, with a face value amounting to ₩17,894 million, of LG Energy Co., Ltd. as collateral to Kreditanstalt für Wiederaufbau and the Korea Development Bank in relation to the borrowings of LG Energy Co., Ltd., a related company.

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

21. Segment Information

Industry Segments

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

Type	Products or Services	Major Customers
Architectural Work Division	Building, factory, and others	Korea National Railroad and others
Civil Work Division	Road, bridge, and others	Korea Highway Corporation, Korea Land Corp., and others
Housing Work Division	Apartment, villa, and others	Various and unspecified persons
Plant Work Division	Energy plant, industrial facilities, and others	OCR Project and others
Development Work Division	Golf course, and others	Unspecified
Others	Rental	"

Financial Information on Industry Segments

		(in millions of Korean Won)						
		Architectural	Civil	Housing	Plant	Development	Others	Total
1. Sales								
	2003	₩1,250,397	₩562,895	₩1,040,820	₩580,193	₩26,208	₩7,071	₩3,467,584
	2002	₩815,626	₩508,168	₩1,250,011	₩582,863	₩13,581	₩4,216	₩3,174,465
2. Operating income (loss)								
	2003	₩154,201	₩38,620	₩96,639	₩1,500	₩(19,064)	₩(485)	₩271,411
	2002	₩66,909	₩81,519	₩149,266	₩(7,994)	₩(13,779)	₩143	₩276,064
3. Property, plant and equipment and intangibles assets								
	2003	₩188,035	₩5,161	₩13,229	₩31,598	₩411,257	₩67,810	₩717,090
	2002	₩191,270	₩3,742	₩19,646	₩32,437	₩352,461	₩61,470	₩661,026
4. Depreciation and amortization								
	2003	₩3,334	₩1,455	₩409	₩1,885	₩16,398	₩3,867	₩27,348
	2002	₩4,315	₩553	₩656	₩2,230	₩4,802	₩3,360	₩15,916

Geographical Segments

Sales by geographical for the years ended December 31, 2003 and 2002 are summarized as follows:

		(in millions of Korean Won)	
		2003	2002
Domestic sales		₩3,205,896	₩2,819,817
China		42,266	34,594
Central Asia		179,872	246,745
South East Asia		39,550	73,309
		₩3,467,584	₩3,174,465

22. Supplemental Cash Flow Information

Significant transactions not affecting cash flows for the years ended December 31, 2003 and 2002 are as follows:

	(in millions of Korean Won)	
	2003	2002
Transfer to current maturities of long-term debt	₩131,327	₩120,000
Transfer to property, plant and equipment	12,520	158,961
Transfer to equity method investments from long-term loans	11,842	-

23. Operating Results for the Final Interim Period

Significant operating results for the three-month periods ended December 31, 2003 and 2002 are as follows:

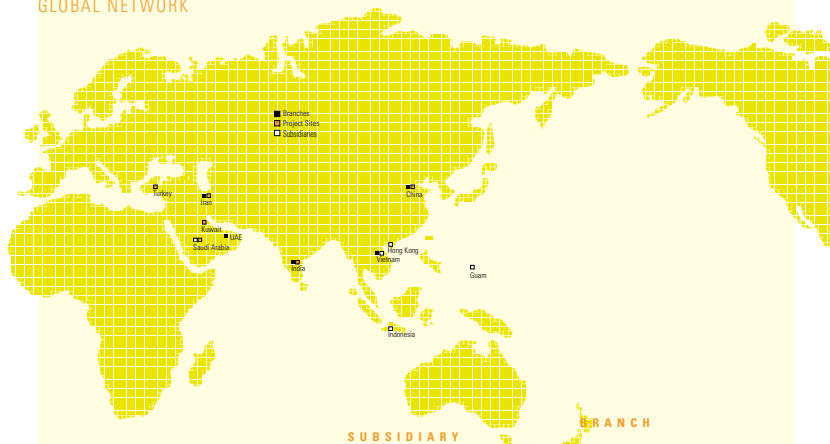
	(in millions of Korean Won, except for the number of shares and per share amounts)	
	2003	2002
Sales	₩1,075,408	₩1,006,213
Operating income	90,274	84,876
Net income	43,219	45,857
Weighted-average number of common shares outstanding (*)	48,946,103	49,844,985
Basic ordinary income per share (in Korean Won)	₩1,191	₩1,114
Basic earnings per share (in Korean Won)	₩883	₩920

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

24. Reclassification of Prior Year Amounts

Certain amounts in the financial statements as of and for the year ended December 31, 2002 have been reclassified to conform to the 2003 presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.

GLOBAL NETWORK



SUBSIDIARY

Guam

Ladera Co., Ltd.
Ladera Towers, 310 Ladera Lane, Mangilao
Guam 96913, USA
tel: 671-735-1120
fax: 671-735-1168

Hong Kong

LG Holdings (H.K.) Ltd
BOA Tower 15F, Harcourt Road, 12, Hong Kong
tel: 852-2820-7830
fax: 852-2868-1460

Indonesia

PT Lukindo Technics
Jakarta Stock Exchange Building 15th Floor
Suite 1502, Jl. Jend. Sudirman KAV, 52-53
Jakarta 12190, Indonesia
tel: 62-21-515-1844
fax: 62-21-515-1847

Saudi Arabia

LG Construction (Arabia) Ltd
PO Box 7232, Riyadh, Saudi Arabia
tel: 966-1-258-1467/61
fax: 966-1-258-1454

Vietnam

LG HP Sunflower International Village
126 Van Cao Street, Ngo Quyen District
Haiphong, Vietnam
tel: 84-31-89-2-001
fax: 84-31-892-021

BRANCH

China

Beijing office
China Travel Service Tower, 1715 No. 2
Beisanhuan East Road, Beijing, China
tel: 8610-6461-2609/10
fax: 8610-6461-2611

India

New Delhi office
1st Floor, Building No. 9, D Block
Shopping Center-II, Poorvi Marg, Vasant Vihar
New Delhi 110 057, India
tel: 91-11-2614-5020/21
fax: 91-11-2614-1617

Iran

Tehran office
No. 63, Zafar St., Shariati St., Tehran, Iran
tel: 98-21-227-2401
fax: 98-21-227-2480

UAE

Dubai office
Sultan Business Centre Flat #505, Oud Metha Road
Bur Dubai, Dubai, UAE, P.O. Box 42451
tel: 971-4-334-0883
fax: 971-4-334-0884

Vietnam

Hanoi office
11th Floor, Melia Office Building
448 Ly Thuong Kiet Street, Hanoi, Vietnam
tel: 84-4-934-5100/3
fax: 84-4-934-5104

www.lgenc.com | www.lgencir.com

Forward-Looking Statements

Various sections of this Report contain forward-looking statements. Forward-looking statements may be identified by the context of the statement and generally arise when we are discussing our beliefs, estimates, or expectations. These statements are not guarantees of future performance and involve a number of risks and uncertainties. Actual results and outcomes may differ materially from what is expressed or forecasted in these forward-looking statements.



LG Engineering & Construction Corp.

537 5-ga, Namdaemun-ro, Chung-gu
Seoul, Korea

tel: 82-2-728-2400

fax: 82-2-775-6610

homepage: <http://www.lgenc.com>

IR homepage: <http://www.lgencir.com>