

Financial Statements

Non-Consolidated Financial Statements
December 31, 2004 and 2003

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

We have audited the accompanying non-consolidated balance sheets of GS E&C Corporation (the "Company") as of December 31, 2004 and 2003, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the non-consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of GS Engineering & Construction Corporation as of December 31, 2004 and 2003, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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

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

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

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

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

Seoul, Korea / January 28, 2005

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

NON-CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

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

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

NON-CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

in millions of Korean Won

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

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

NON-CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2004 and 2003

in millions of Korean Won, except per share amounts

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

NON-CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2004 and 2003

in millions of Korean Won, except per share amounts

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

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

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

Years Ended December 31, 2004 and 2003

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

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

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

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2004 and 2003

in millions of Korean Won

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

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

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2004 and 2003

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

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

1. The Company

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

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

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

2. Summary of Significant Accounting Policies

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

Basis of Financial Statement Presentation

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

Accounting Estimates

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

Application of the Statements of Korean Financial Accounting Standards

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

Revenue Recognition

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

Allowance for Doubtful Accounts

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Investment Securities

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

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

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

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

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

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

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

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

Inventories

Inventories are stated at the lower of cost or market, with cost being determined using the weighted-average method for raw materials and supplies for construction projects. All other inventories are stated at actual cost using the specific identification method.

Interest expense on borrowings to finance the purchase or construction of inventories in connection with lotting-out operations are capitalized during the period of time that is required to complete and prepare the inventories for its intended use, as part of the cost of the asset. Interest expense capitalized for the year ended December 31, 2004 amounted to ₩951 million (2003: ₩3,137 million), of which ₩687 million (2003: ₩4,171 million) was transferred to cost of sales.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Prepaid Construction Costs

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

Property, Plant and Equipment and Related Depreciation

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

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

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

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

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

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

Intangible Assets

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

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

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

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

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

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

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

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

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

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

Provision for Warranty

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

Provision for Foreseeable Losses from Construction Contracts

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Present Value Discount Account

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

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

Discounts on Debentures

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

Derivative Financial Instruments

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

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

Accrued Severance Benefits

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

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

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

Asset Impairment Loss

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Income Taxes

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

Foreign Currency Translation

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

Translation of Foreign Currency Financial Statements

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

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

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

Prior Period Error Corrections

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

3. Summary of Major Construction Contracts

Balance of Construction Contracts

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

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

Cumulative Balance of Construction Contracts

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

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

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Balance of Co-Construction Contracts

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Summary of Housing and Lotting-Out Construction Contracts

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

4. Restricted Bank Deposits

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

5. Receivables

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

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

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

6. Inventories

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

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

7. Property, Plant and Equipment

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

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

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

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

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

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

8. Investment Securities

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

Short-Term Investment Securities

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

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

Long-Term Investment Securities

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

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

in millions of Korean Won

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

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

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

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Maturities of Held-To-Maturity Securities

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

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

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

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

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

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

9. Equity Method Investments

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

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

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

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

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

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

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

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

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

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

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

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

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

10. Short-Term Borrowings

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

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

11. Long-Term Debts

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

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

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

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

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

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

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

12. Commitments and Contingencies

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

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

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

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

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

13. Capital Surplus

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

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

14. Retained Earnings

Legal Reserve

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

Other Reserves

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

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

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

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

15. Treasury Stock

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

16. Income Tax Expense

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

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

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

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

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

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

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

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

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December 31, 2004 and 2003

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

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

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

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

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17. Earnings Per Share

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

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

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

18. Dividends

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

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

Dividend Payout Ratio

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

Dividend Yield Ratio

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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19. Approval of Financial Statements

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

20. Transactions with Related Parties

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

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

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

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

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

21. Segment Information

Divisions

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

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

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Financial Information on Industry Segments

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

Geographical Segments

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

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

22. Supplemental Cash Flow Information

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

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

23. Operating Results of the Final Interim Period

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

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

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

24. Foreign Currency Translation

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

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

25. Reclassification of Prior Year Amounts

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