



LG ENGINEERING & CONSTRUCTION CORPORATION
AUDIT REPORT 2002

As of and for the years ended December 31, 2002 and 2001



**To the Shareholders and Board of Directors 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, 2002 and 2001, 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, 2002 and 2001, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended, in conformity with financial accounting standards generally accepted in the Republic of Korea.

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

As discussed in Note 18 to the non-consolidated financial statements, the Company changed its accounting method for investment in securities of companies related to Social Overhead Capital (SOC) from the equity method to the cost method, based on the opinion of the Financial Supervisory Service. The Financial Supervisory Service viewed the cost method as more appropriate since the Company is restricted from exercising a significant influence over Cheonan-Nonsan Highway Co., Ltd. due to an agreement between the creditors committee and the company's shareholders, regardless of the twenty five percent ownership in Cheonan-Nonsan Highway Co., Ltd. As a result of the change in accounting method, the loss on valuation of investment securities using the equity method of accounting decreased by ₩9,510 million and ₩13,710 million in 2002 and 2001, respectively. In addition, net income increased by ₩6,685 million and ₩9,487 million, and unappropriated retained earnings increased by ₩16,212 million and ₩9,527 million in 2002 and 2001, respectively.

As discussed in Note 18 to the non-consolidated financial statements, the prior year's non-consolidated financial statements have been restated to correct an error in relation to the capitalized interest expense on the construction in-progress of LG Holdings (HK) Ltd. and its subsidiary, Beijing Lucky Goldstar Building Development Co., Ltd. As a result, net income and shareholders' equity for the year ended December 31, 2001 increased by ₩5 million and ₩5,085 million, respectively.

As discussed in Note 19 to the non-consolidated financial statements, due to the Company's early adoption of Korea Accounting Standards Board ("KASB") Statement No.6 "Events Occurring After the Balance Sheet Date", dividends amounting to ₩49,847 million and ₩39,891 million for the years ended December 31, 2002 and 2001, respectively, were not accounted for as liabilities in the Company's non-consolidated financial statements. Accordingly, the non-consolidated balance sheets as of December 31, 2002 and 2001 show the balances before the appropriation of retained earnings.

As discussed in Note 20 to the non-consolidated financial statements, the Company's total sales to affiliated and related companies, including LG Philips LCD Co., Ltd., amounted to ₩562,533 million in 2002 and ₩868,336 million in 2001, and total purchases from affiliated and related companies amounted to ₩151,016 million in 2002 and ₩130,443 million in 2001. Also, related receivables amounted to ₩470,450 million and ₩400,524 million and payables amounted to ₩166,897 million and ₩125,126 million as of December 31, 2002 and 2001, respectively.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in 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 non-consolidated financial statements are for use by those who are knowledgeable about Korean accounting principles or auditing standards and their application in practice.

Samil Accounting Corporation

Seoul, Korea
January 24, 2003

LG ENGINEERING & CONSTRUCTION CORPORATION
NON-CONSOLIDATED BALANCE SHEETS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

00 company profile 01 financial highlights 02 letter to Shareholders 06 2002 highlights 08 vision & strategy 18 review of operation_civil engineering 22 review of operation_plant 26 review of operation_architecture 30 review of operation_housing 34 review of operation_technology center 36 management's discussion & analysis 42 milestone 44 board of directors 45 financial section 80 global network

	Millions of Won	
	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	₩132,783	₩153,225
Short-term financial instruments	3,500	13,433
Trade accounts and notes receivable, net (Notes 5 and 20)	836,125	655,998
Other accounts receivable, net (Note 5)	16,399	19,581
Short-term loans, net (Notes 5, 11 and 20)	55,040	67,343
Inventories (Note 6)	174,520	405,660
Accrued income	5,690	7,916
Advance payments	47,426	54,563
Prepaid expenses	12,135	11,591
Prepaid construction costs	17,555	5,784
Others (Note 11)	130	-
Total current assets	1,301,303	1,395,094
Property, plant and equipment, net (Notes 7, 21 and 22)	651,644	592,168
Investment securities (Note 8)	564,531	527,948
Long-term loans, net (Notes 5 and 11)	15,579	26,865
Long-term financial instruments (Note 4)	38	38
Long-term trade accounts receivable, net (Note 5)	32,101	39,064
Long-term guarantee deposits	25,217	21,414
Deferred income tax assets (Note 15)	62,097	31,968
Intangible assets (Note 21)	9,382	10,016
Total assets	2,661,892	2,644,575

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

Continued;

	Millions of Won	
	2002	2001
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings (Note 9)	₩31,412	₩89,031
Current maturities of long-term debt, net (Note 10)	119,566	114,597
Trade accounts and notes payable (Note 20)	826,986	822,006
Other accounts payable, net (Note 20)	38,694	34,040
Income taxes payable (Note 15)	58,624	62,139
Accrued expenses	20,836	27,503
Dividends payable (Notes 17 and 19)	13	14
Other current liabilities	29,868	25,474
Total current liabilities	1,125,999	1,174,804
Long-term debt, net (Note 10)	194,607	312,465
Accrued severance benefits, net	36,468	32,328
Provision for warranty	19,513	17,584
Provision for foreseeable losses from construction contracts	9,439	11,324
Leasehold guarantee deposits received (Notes 7 and 20)	87,185	85,295
Membership guarantee deposits received (Note 20)	128,796	67,649
Other long-term liabilities	11,217	11,111
Total liabilities	1,613,224	1,712,560
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Common stock, ₩5,000 par value per share; authorized, 200,000,000 shares; issued and outstanding, 51,000,000 shares	255,000	255,000
Capital surplus (Note 12):		
Paid-in capital in excess of par value	109,735	109,735
Asset revaluation surplus	75,192	75,192
Others	18,370	22,242
	203,297	207,169
Retained earnings (Notes 13 and 19):		
Legal reserve	17,905	13,916
Other reserves	278,867	172,523
Unappropriated retained earnings (Net income: ₩160,713,651 thousand in 2002 ₩159,561,152 thousand in 2001)	156,099	158,558
	452,871	344,997
Capital adjustments:		
Treasury stock (Note 14)	(13,644)	(14,784)
Gain on valuation of investment securities (Note 8)	176,225	176,877
Overseas business translation debit	(25,081)	(37,244)
	137,500	124,849
Total shareholders' equity	1,048,668	932,015
Total liabilities and shareholders' equity	2,661,892	2,644,575

LG ENGINEERING & CONSTRUCTION CORPORATION
NON-CONSOLIDATED INCOME STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Millions of Won	
	2002	2001
Sales (Notes 3, 20 and 21):		
Construction operations	₩2,687,055	₩2,566,166
Housing and lotting-out operations	463,161	551,051
Other operations	24,249	35,885
	<u>3,174,465</u>	<u>3,153,102</u>
Cost of sales (Note 20) :		
Construction operations	2,276,298	2,236,716
Housing and lotting-out operations	394,428	472,567
Other operations	31,239	38,892
	<u>2,701,965</u>	<u>2,748,175</u>
Gross profit	472,500	404,927
Selling and administrative expenses (Note 20)	196,436	150,082
Operating income (Note 21)	<u>276,064</u>	<u>254,845</u>
Non-operating income (expense):		
Interest income (expense), net	825	(13,162)
Foreign exchange loss, net	(9,607)	(163)
Loss on valuation of inventories	(17,970)	(13,986)
Loss on disposal of investment assets, net	(11)	(1,195)
Loss on valuation of investment securities	0	0
under the equity method of accounting (Note 8)	(6,602)	(14,382)
Gain (loss) on disposal of property, plant and	0	0
equipment, net	714	(3)
Impairment loss on property, plant and equipment	(12,600)	-
Others, net (Note 11)	14,289	12,866
	<u>(30,962)</u>	<u>(30,025)</u>
Ordinary income	245,102	224,820
Extraordinary income	-	714
Extraordinary loss	14,078	-
Income before income tax expense	<u>231,024</u>	<u>225,534</u>
Income tax expense (Note 15)	(70,310)	(65,973)
Net income	<u>160,714</u>	<u>159,561</u>
Basic ordinary income per share (Note 16) (In Won)	<u>3,424</u>	<u>3,190</u>
Basic earnings per share (Note 16) (In Won)	<u>3,225</u>	<u>3,199</u>

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

00 company profile 01 financial highlights 02 letter to Shareholders 03 2002 highlights 04 vision & strategy
 18 review of operation_civil_engineering 22 review of operation_plant 26 review of operation_architecture
 30 review of operation_housing 34 review of operation_technology_center 36 management's discussion & analysis
 42 milestone 44 board of directors 45 financial section 80 global network

LG ENGINEERING & CONSTRUCTION CORPORATION
NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Dates of appropriations : February 26, 2003 and March 20, 2002
For the years ended December 31, 2002 and 2001, respectively

	Millions of Won	
	2002	2001
Unappropriated retained earnings at the end of the year (Note 13):		
Unappropriated retained earnings carried forward from the prior year	₩8,333	₩1,533
Cumulative effect of an accounting change (Note 18)	-	40
Change in retained earnings under equity method (Note 5)	(12,948)	-
Loss on prior period adjustments	-	(2,576)
Net income	160,714	159,561
	156,099	158,558
Transfer from other reserves	14,088	16,821
	170,187	175,379
Appropriations:		
Transfer to legal reserve	4,985	3,989
Transfer to other reserves	113,776	123,166
Cash dividends (Note 17)	49,847	39,891
(Dividend to par value ratio 20% in 2002 and 16% in 2001)		
	168,608	167,046
Unappropriated retained earnings carried forward to the subsequent year	1,579	8,333

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

LG ENGINEERING & CONSTRUCTION CORPORATION
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Millions of Won	
	2002	2001
Cash flows from operating activities:		
Net income	₩160,714	₩159,561
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,916	12,956
Provision for severance benefits	20,560	15,468
Loss (gain) on foreign exchange translations, net	12,046	(2,434)
Amortization of discounts on debentures	2,111	5,794
Loss on valuation of inventories	17,970	13,986
Loss (gain) on disposal of property, plant and equipment, net	(714)	3
Loss on disposal of investment assets, net	11	1,195
Loss on valuation of investment securities under the equity method of accounting	6,602	14,382
Impairment loss on property, plant and equipment	12,600	-
Increase in trade accounts and notes receivable	(181,217)	(227,980)
Decrease in other accounts receivable	3,182	3,453
Decrease in accrued income	2,226	6,781
Decrease in inventories	219,484	157,370
Decrease (increase) in advance payments	7,137	(18,008)
Increase in prepaid expenses	(544)	(260)
Increase in prepaid construction costs	(11,771)	(3,339)
Increase in deferred income tax assets	(24,658)	(17,944)
Increase in trade accounts and notes payable	5,150	155,763
Increase (decrease) in other accounts payable	4,733	(6,109)
Increase (decrease) in accrued expenses	(6,667)	692
Increase (decrease) in income taxes payable	(3,515)	26,841
Increase in other current liabilities	4,870	4,474
Payment of accrued severance benefits	(10,210)	(7,978)
Increase in membership guarantee deposits received	61,147	6,044
Increase in provision for warranty	1,929	9,509
Increase (decrease) in provision for foreseeable losses from construction contains	(1,885)	4,495
Increase in leasehold guarantee deposits received	1,890	3,633
Decrease in other long-term liabilities	-	(5,856)
Others, net	5,815	(6,048)
Net cash provided by operating activities	324,912	306,444

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

Continued;

00 company profile 01 financial highlights 02 letter to Shareholders 06 2002 highlights 08 vision & strategy
 18 review of operation_civil_engineering 22 review of operation_plant 26 review of operation_architecture
 30 review of operation_housing 34 review of operation_technology_center 36 management's discussion & analysis
 42 milestone 44 board of directors 45 financial section 80 global network

	Millions of Won	
	2002	2001
Cash flows from investing activities:		
Disposal of short-term financial instruments	₩9,933	₩18,955
Proceeds from short-term loans	-	12,232
Disposal of long-term financial instruments	-	323
Disposal of investment securities	8,192	9,588
Proceeds from long-term loans	7,638	1,296
Proceeds from long-term guarantee deposits	-	1,073
Disposal of property, plant and equipment	1,106	463
Acquisition of long-term financial instruments	-	(180)
Acquisition of investment securities	(51,794)	(21,546)
Short-term loans provided	(4,938)	-
Long-term loans provided	(580)	-
Payment from long-term guarantee deposits	(4,727)	-
Acquisition of property, plant and equipment	(93,199)	(50,164)
Acquisition of intangible assets	(1,022)	(2,041)
Others	-	264
Net cash used in investing activities	(129,391)	(29,737)
Cash flows from financing activities:		
Proceeds from long-term debt	-	127,101
Disposal of treasury stock	2,405	978
Payment of short-term borrowings	(58,003)	(52,859)
Payment of current maturities of long-term debt	(115,000)	(180,369)
Payment of dividends	(39,892)	(29,952)
Payment of long-term debt	-	(494)
Acquisition of treasury stock	(5,473)	(2,017)
Net cash used in financing activities	(215,963)	(137,612)
Net increase (decrease) in cash and cash equivalents	(20,442)	139,095
Cash and cash equivalents at the beginning of the year	153,225	14,130
Cash and cash equivalents at the end of the year	132,783	153,225

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 1999.

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, 2002.

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 official accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with financial accounting standards generally accepted in the Republic of Korea. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements. 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. Certain information attached to the Korean language non-consolidated financial statements, that are not required for a fair presentation of the Company's financial position and results of operations, are not presented in the accompanying non-consolidated financial statements.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

Revenue Recognition

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

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on the aggregate estimated net realizable value of the receivables by using the previous years' experience.

Marketable Securities and Investments

Marketable securities (current assets) and all investments in equity and debt securities are initially carried at cost, including incidental expenses. In the case of debt securities, cost includes the premium paid or discount received at the time of purchase.

Marketable securities (current assets) are carried at market value at the balance sheet date. The unrealized gains and losses on such securities are charged to current operations.

Investments in marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are accounted for in the capital adjustments account, a component of shareholders' equity. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustments account.

Investments in non-marketable equity securities of non-controlled investees are carried at cost, except for declines in the Company's proportionate ownership of the underlying book value of the investee which are anticipated to be permanent, which are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.

Investments in equity securities of companies over which the Company exerts a significant influence are valued 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 the book value of the investee. Equity method goodwill is calculated as the difference between the initial purchase price and the Company's initial proportionate share of the net book value of the investee at the date of purchase.

Equity method goodwill is amortized over five years and negative goodwill, arising when the initial purchase price is less than the company's initial proportionate share of net book value of the investee of the date of purchase, is amortized over the weighted average useful lives of the investees depreciable assets using the straight-line method.

Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Investments in 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 (amortized cost). Declines in the fair value of debt securities which are anticipated to be permanent are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the amortized cost of the investment.

Other investments in debt securities are carried at fair value. Temporary differences between the fair value and amortized cost are accounted for in the capital adjustments account. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustments account.

Investments in the Stock Market Stabilization Fund are carried at fair value, which is the proportionate ownership amount of the Company. The resulting gains and losses are recorded in current operations.

00 company profile 01 financial highlights 02 letter to Shareholders 03 2002 highlights 04 vision & strategy
 05 review of operation_civil engineering 06 2002 highlights 07 review of operation_architecture
 08 review of operation_housing 09 review of operation_technology center 10 management's discussion & analysis
 11 milestone 12 board of directors 13 financial section 14 global network

Inventories

Raw materials and supplies for construction projects are stated at the lower of cost or market price, with cost being determined using the weighted average method. 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. The Company capitalizes interest expense incurred on debt used to fund the purchase or construction of inventories in connection with lotting-out projects. Interest expense capitalized in 2002 and 2001 amounted to approximately ₩13,282 million and ₩23,384 million, respectively, of which ₩19,811 and ₩21,098 million was transferred to cost of sales, respectively.

Property, Plant and Equipment and Related Depreciation

Property, plant and equipment are recorded at cost, except for certain assets subject to upward revaluation in accordance with the Asset Revaluation Law.

Depreciation is computed using the straight-line method and declining-balance method over the estimated useful lives of the assets as described below.

	Estimated Useful Lives	Depreciation Method
Buildings	40 years	Straight-line method
Structures	40 years	Straight-line method
Machinery and equipment	4 - 12 years	Declining-balance method
Vehicles	4 years	Declining-balance method
Other assets	4 years	Declining-balance method

Maintenance and Repairs

Routine maintenance and repairs are charged to expense as incurred. Expenditures which enhance the value or extend the useful lives of the related assets are capitalized.

Capitalization of Interest

The Company capitalizes interest expense incurred on debt used to fund the purchase or construction of property, plant and equipment as a part of the cost of the related assets. The amounts capitalized in 2002 and 2001 are ₩6,330 million and ₩5,017 million, respectively.

Intangible Assets

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

Lease rights are amortized over twenty years using the straight-line method.

Continued;

Research costs are charged to operations as incurred. Development costs incurred for new products or technologies which can be clearly identified and 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 that 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 unrecoverable costs are charged to operations in the period that they are first identified. For the years ended December 31, 2002 and 2001, the Company capitalized ₩1,022 million and ₩2,041 million of development costs, respectively, and recognized ₩45,088 million and ₩31,766 million, respectively, of normal research and development costs.

The details of changes in capitalized development costs are as follows:

	Millions of Won	
	2002	2001
Balance as of January 1	₩1,840	₩276
Increase	1,022	2,041
Amortization	552	477
Balance as of December 31	2,310	1,840

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. Unrecoverable amounts are charged to operations in the period that they are first identified.

The details of changes in goodwill are as follows:

	Millions of Won	
	2002	2001
Balance as of January 1	₩2,718	₩3,495
Increase	-	-
Amortization	777	777
Balance as of December 31	1,941	2,718

Continued;

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 operations at the time of sale and are included in the accompanying 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 operations when first identified and is included in the balance sheet as a reserve 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 present value. Such differences are presented as present value discounts and directly deducted from the nominal value of the related trade receivable or payable.

The present value discount account is amortized using the effective interest rate method 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

Derivative financial instruments are carried at fair value on the balance sheet date.

Valuation gains and losses from fair value derivative hedging instruments are recognized in a manner consistent with the accounting treatment appropriate for valuation gains and losses of the underlying hedged transactions. The hedging instruments are valued at fair value when the underlying hedged transactions are valued at market and the resulting unrealized valuation gains or losses are recognized currently.

For cash-flow hedging instruments, the effective portion of the change in the fair value of the hedging derivative is recorded as a capital adjustment and recognized in the same period or periods during which the hedged forecasted transaction occurs. Non-effective portions of the change in the fair value of the hedging derivative are recognized in current operations.

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, 2002 and 2001, the Company paid severance benefits amounting to ₩10,210 million and ₩7,978 million, respectively.

Accrued severance benefits are funded at approximately 53.94% and 52.72% as of December 31, 2002 and 2001, respectively, through a group severance insurance plan. The Company accounts for the amounts funded

under the plan as a deduction to accrued severance benefits.

In accordance with the National Pension Act, as of December 31, 2002 and 2001 accrued severance benefits amounting to approximately ₩5,520 million and ₩5,887 million, respectively, were deposited with the National Pension Fund and 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 sudden decline in market value, the impaired amount is accounted for as loss on impairment of assets in the period identified.

Income Tax Expenses

Deferred income taxes are recognized for the tax consequences in future years of the differences between the tax and financial reporting bases of assets and liabilities at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the 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 is the tax payable for the period and the change during the period in deferred income tax assets and liabilities.

Continued;

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. The resulting translation gains and losses are recognized in current operations.

Monetary assets and liabilities, excluding the accounts of overseas business, denominated in foreign currency as of December 31, 2002 and 2001 comprise the following:

		Thousands of Foreign Currency		Millions of Won	
		2002	2001	2002	2001
Cash and cash equivalents	US\$	12,764	-	₩15,322	-
Short-term financial instruments		-	US\$ 5,065	-	6,717
Trade accounts and notes receivable	US\$	50,143	US\$ 27,718	61,229	38,497
	LRK	24,826	LRK 13,958		
	QAR	481	JPY 148,030		
	SAR and others	1,781	QAR and others 2,321		
Other accounts receivables	US\$	12	-	14	-
Short-term loans	US\$	27,800	US\$ 34,000	33,371	43,059
Long-term loans	US\$	23,575	US\$ 23,575	28,299	30,070
Long-term trade accounts receivable	US\$	43,589	US\$ 44,761	52,324	59,358
Trade accounts and notes payable	US\$	32,663	US\$ 1,282	44,234	9,609
	SAR	72	SAR 9,590		
	EUR	1,766	EUR 2,821		
	JPY	216,090	JPY 70,755		
	GBP	151	GBR and others 41		
	LRK and others	24,182			
Other accounts payable	US\$	884	US\$ 625	1,136	842
	JPY and others	7,380	GBP and others 7		
Other current liabilities	US\$	3,491	US\$ 1,469	4,191	2,675

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, income and expenses are translated at the average exchange rates during the year and assets and liabilities are translated at the rate prevailing on the balance sheet date. The resulting translation gains and losses are offset against each other and the net amounts are recorded as overseas business translation debit (credit), presented as an addition to or deduction from shareholders' equity. Overseas business translation debit (credit) are offset against subsequent overseas business translation debit (credit) until they are recognized as gains or losses at the time when the foreign business branches or offices are liquidated.

Continued;

A summary of the Company's overseas operations as of December 31, 2002 and 2001 comprises the following:

	Millions of Won	
	2002	2001
Assets	₩50,281	₩68,085
Liabilities	39,093	48,327

3. Summary of Major Construction Contracts:

Balance of Construction Contracts

Project	Customer	Millions of Won			
		New		Realized Revenue	Ending Balance
		Beginning Balance	Construction Contracts		
LG PHILIPS LCD P4 Project	LG PHILIPS LCD Co., Ltd.	₩69,983	₩144,615	₩156,689	₩57,909
LG Hangang Xi	Isu Engineering & Construction	152,856	-	92,835	60,021
YonginSugi LG Village 6th Stage	Myung Jin Construction Industry Co., Ltd.	105,431	-	80,266	25,165
LG Shinbong Xi	Kyeng Oh Construction Co., Ltd.	211,321	409	76,506	135,224
Bucheon Sangdong Gongmuwon APT.	National Pension Corporation	56,363	-	39,120	17,243
Donghae Highway 2nd Stage	Korea Highway Corporation	65,943	9,541	29,156	46,328
Daegu-Pohang Highway 3rd Stage	Korea Highway Corporation	88,390	8,101	25,765	70,726
Dangjin-Deajeon Highway 4th Stage	Korea Highway Corporation	122,985	9,352	7,774	124,563
Azzawiya Refinery Revamping Project	Azzawiya Oil Refinery Company Inc.	-	372,967	2,962	370,005
OCR Project	Kuwait National Petroleum	-	168,082	397	167,685
Other		5,190,744	1,781,530	2,175,585	4,796,689
2002		6,064,016	2,494,597	2,687,055	5,871,558
2001		4,525,434	4,104,748	2,566,166	6,064,016

Cumulative Balance of Construction Contracts

Project	Millions of Won				
	Cumulative Revenue Realized	Billed Amount In 2002	Cumulative Billed Amount	Cumulative Collection Amount	Trade Receivables
LG PHILIPS LCD P4 Project	₩453,782	₩151,279	₩547,371	₩531,877	₩15,494
LG Hangang Xi	156,089	70,818	168,415	138,383	30,032
YonginSugi LG Village 6th Stage	144,432	96,073	110,686	100,686	-
LG Sinbong Xi	85,001	112,047	122,825	122,825	-
Bucheon Sangdong Gongmuwon APT.	67,497	37,079	62,520	62,520	-
Donghae Highway 2nd stage	46,183	31,200	46,575	45,951	624
Daegu-Pohang Highway 3rd Stage	77,965	41,225	100,474	100,474	-
Dangjin-Daejeon Highway 4th Stage	7,801	5,863	5,863	5,863	-
Azzawiya Refinery Revamping Project	2,962	-	-	-	-
OCR Project	397	-	-	-	-

Total billed amounts under construction contracts in 2002 and 2001 are ₩2,702,681 million and ₩2,726,688 million, respectively, and total collected amounts under constructions contract in 2002 and 2001 are ₩2,652,372 million and ₩2,918,210 million, respectively.

00 company profile 01 financial highlights 02 letter to Shareholders 06 2002 highlights 08 vision & strategy
 18 review of operation_civil engineering 22 review of operation_plant 26 review of operation_architecture
 30 review of operation_housing 34 review of operation_technology center 36 management's discussion & analysis
 42 milestone 44 board of directors 45 financial section 80 global network

Balance of Co-construction

Project	Period of Construction	Customer	Contracts		Share of the Company	Representative Company
			Amount	the Company		
Cheonan-Nonsan Highway Project	1997.12.26-2003.01.31	Cheonan-Nonsan Highway Co., Ltd.	₩1,328,164	₩332,041	25.0%	LG Engineering & Construction Co., Ltd.
Seoul Outer Circular Highway	2001.06.30-2006.06.29	Seoul Highway Co., Ltd.	1,354,552	365,729	27.0%	"
Kyungchunsun Double track Electric Railway 7th stage	1999.12.28-2007.12.22	Korea National Railroad	216,713	65,014	30.0%	"
Dangjin-Daejeon Highway Project	2001.12.24-2006.02.05	Korea Highway Corporation	147,071	132,364	90.0%	"
Dongbu Electric Train Office Project	1997.02.28-2003.12.30	Korea National Railroad	157,888	107,364	68.0%	"
HyunPung-Kimcheon Construction 1st Stage	2001.11.28-2006.02.09	Korea Highway Corporation	104,570	94,113	90.0%	"
Mapo Recycling Complex	2001.11.30-2005.04.30	Seoul Construction Security Management Center	147,000	89,817	61.1%	"
Ulgjin-Jukbyun Highway Expansion	1996.12.31-2004.12.31	Busan Regional Construction Management office	98,180	93,271	95.0%	"
Donghae Highway Expansion Project	2000.10.05-2004.03.10	Korea Highway Corporation	102,790	92,511	90.0%	"
Chungryangri-Dukso Railroad	1997.10.06-2003.12.31	Korea National Railroad	86,644	47,654	55.0%	"
Iksan-Jangsu Highway	2001.11.01-2005.12.31	Korea Highway Corporation	92,369	83,132	90.0%	"
Subway 9-4 Stage	2001.12.31-2008.03.31	Seoul Subway Construction Center	112,204	57,224	51.0%	"
Others			4,405,074	1,785,111		
2002			8,353,219	3,345,345		
2001			9,431,155	3,824,112		

Summary of Housing and Lotting-Out Construction

Projects	Period of Construction	Millions of Won		
		Realized Revenue	Cumulative Revenue Realized	Unrealized Revenue Carried forward
LG Metrocity 4th Stage	2000.11-2003.8	₩194,860	₩244,267	₩112,474
LG Metrocity 3rd Stage	1999.12-2002.11	82,830	129,310	-
LG Metrocity 2nd Stage	1999.12-2002.11	6,400	34,648	-
Sinsanbon LG Village 1st Stage	2000.5-2003.2	34,739	78,740	8,401
Sinsanbon LG Village 2nd Stage	2000.6-2003.4	70,331	135,796	27,601
Others		74,001	124,992	86,395
2002		463,161	747,753	234,871
2001		551,051	948,532	698,032

4. Restricted Bank Deposits:

As of December 31, 2002 and 2001, long-term financial instruments amounting to ₩38 million are deposited in connection with bank overdrafts. The withdrawal of these deposits is restricted.

5. Receivables:

Receivables and allowance for doubtful accounts as of December 31, 2002 and 2001 comprise the following:

	Millions of Won				
	Trade Accounts and Notes Receivable	Other Accounts Receivable	Short-term Loans	Long-term Loans	Trade Accounts Long-term Receivable
Balance as of December 31, 2002	₩866,707	₩17,364	₩68,278	₩29,209	₩52,324
Less: Allowance for doubtful accounts	30,582	965	13,238	13,615	20,223
Present value discount	-	-	-	15	-
	836,125	16,399	55,040	15,579	32,101
Balance as of December 31, 2001	677,698	20,586	68,023	33,669	59,358
Less: Allowance for doubtful accounts	21,700	1,005	680	6,778	20,294
Present value discount	-	-	-	26	-
	655,998	19,581	67,343	26,865	39,064

00 company profile 01 financial highlights 02 letter to Shareholders 03 2002 highlights 04 vision & strategy
 05 2001 highlights 06 2002 highlights 07 2001 highlights 08 vision & strategy
 09 2001 highlights 10 2002 highlights 11 2001 highlights 12 2002 highlights
 13 2001 highlights 14 2002 highlights 15 2001 highlights 16 2002 highlights
 17 2001 highlights 18 review of operation_civil_engineering 22 review of operation_plant 26 review of operation_architecture
 30 review of operation_housing 34 review of operation_technology_center 36 management's discussion & analysis
 42 milestone 44 board of directors 45 financial section 80 global network

6. Inventories:

Inventories as of December 31, 2002 and 2001 comprise the following:

	Millions of Won	
	2002	2001
Completed building	₩9,787	₩35,233
Uncompleted building	101,829	301,636
Building lots	48,839	58,723
Raw materials and supplies	10,284	8,211
Materials in-transit	1,622	1,695
Other	2,159	162
	174,520	405,660

7. Property, Plant and Equipment:

Property, plant and equipment as of December 31, 2002 and 2001 comprise the following:

	Millions of Won	
	2002	2001
Buildings	₩228,972	₩175,285
Structures	47,704	19,547
Machinery and equipment	28,363	15,545
Vehicles	8,073	6,276
Tools and furniture	63,619	51,648
	376,731	268,301
Accumulated depreciation	(90,359)	(80,903)
	286,372	187,398
Land	217,360	221,051
Course	105,904	65,872
Trees	12,731	6,749
Construction in-progress	29,277	111,098
	651,644	592,168

A substantial portion of the Company's property, plant and equipment as of December 31, 2002 and 2001 has been pledged as leasehold guarantee deposits up to a maximum of ₩35,918 million and ₩30,836 million, respectively. As of December 31, 2002 and 2001, the government-posted value of land for tax purposes amounted to ₩154,835 million and ₩151,006 million, respectively.

8. Investment Securities:

Investment securities as of December 31, 2002 and 2001 comprise the following:

	Ownership Percentage	Millions of Won					
		Acquisition Cost		Book Value		Fair Value, Net Asset Value or Value under the Equity Method (**)	
		2002	2001	2002	2001	2002	2001
		2002.12.31	2002	2001	2002	2001	2002
Listed Stocks							
LG Investment & Securities Co., Ltd.	4.26	₩97,534	₩97,534	₩70,830	₩79,351	₩70,830	₩79,351
Hana Bank	-	-	172	-	286	-	286
		97,534	97,706	70,830	79,637	70,830	79,637
Unlisted Stocks							
The Korea Economic Daily	0.01	14	14	14	14	5	7
Pusan Travel & Development Co., Ltd.	2.67	400	400	400	400	146	236
New Airport Highway Co., Ltd.	5.00	21,710	21,710	21,710	21,710	20,133	18,375
Daegu East Inter Circular Road Co., Ltd.	14.58	8,658	8,658	8,658	8,658	8,482	8,564
Daegu West North Road Co., Ltd.	15.07	3,316	2,880	3,316	2,880	2,883	3,156
Manwolsan Tunnel Co., Ltd.	15.00	4,342	600	4,342	765	4,243	610
Korea Housing Guarantee Co., Ltd.	0.18	21,532	21,532	-	-	1,822	1,162
LG Energy Co., Ltd.	10.00	8,100	8,100	10,054	10,054	13,174	12,472
LG Mart Co., Ltd.	1.75	15,402	15,402	11,344	11,344	7,062	7,476
LG CNS Inc.	9.08	3,522	3,522	3,533	3,533	6,974	5,714
LG Sports Co., Ltd.	6.25	375	375	265	265	309	309
POTATO Co. Ltd.	10.00	300	300	300	300	293	299
International Convention Center Jeju	0.65	500	500	500	500	525	591
Public Development Co., Ltd.	18.98	3,947	2,388	3,947	2,388	3,986	2,441
EzVille Inc.	16.00	1,600	1,600	1,600	1,600	1,217	1,424
Cheonan-Nonsan Highway Co., Ltd.	25.00	112,500	112,500	112,500	112,500	108,984	111,135
Seoul Highway Co., Ltd.	27.00	52,731	9,639	52,731	9,639	51,358	8,957
Kangnam Inter Circular Road Co., Ltd	11.50	978	-	978	-	978	-
Others		2,976	3,055	532	532	427	413
		262,903	213,175	236,724	187,082	233,001	183,341
Investments Accounted for using the Equity Method							
Han Moo Development Co., Ltd.	67.56	85,861	85,861	166,637	159,460	227,667	222,889
LADERA CO., Ltd. (*)	65.52	50,633	50,633	23,621	37,427	23,621	37,428
LG-HP CORP. (*)	30.00	2,196	2,196	-	2,515	1,198	2,502
LG Holdings (HK) Ltd. (*)	25.00	16,065	3,781	9,513	-	7,553	-
LG Construction (Arabia) Ltd. (*)	49.00	874	874	-	-	-	-
LG Properties (S'PORE)Pte Ltd. (*)	30.00	14,349	9,300	-	-	-	-
		169,978	152,645	199,771	199,402	260,039	262,819
Other equity securities		15,597	17,740	15,577	17,096	18,692	19,437
Held-to-maturity securities		41,959	45,060	41,629	44,731	41,629	44,731
		587,971	526,326	564,531	527,948	624,191	589,965

(*) The equity method of accounting was applied to these companies based on recent financial information available.

(**) Net asset value was calculated based on recently obtained financial statements of the investees.

Continued;

00 company profile 01 financial highlights 02 letter to Shareholders 06 2002 highlights 08 vision & strategy
 18 review of operation_civil_engineering 22 review of operation_plant 26 review of operation_architecture
 30 review of operation_housing 34 review of operation_technology_center 36 management's discussion & analysis
 42 milestone 44 board of directors 45 financial section 80 global network

As of December 31, 2002 and 2001, the investment securities valued using the equity method are as follows:

	Millions of Won					
	Beginning Balance	Acquisition	Valuation Gain or Loss	Retained Earnings	Increase(Decrease) in Capital Adjustments	Ending Balance
Han Moo Development Co., Ltd.	₩159,460	-	₩7,156	-	₩21	₩166,637
LADERA CO., Ltd.	37,427	-	(12,627)	-	(1,179)	23,621
LG-HP CORP.	2,515	-	(1,626)	-	(889)	-
LG Holdings (HK) Ltd.	-	12,284	495	(13,369)(*)	10,103	9,513
LG Properties (S'PORE) Pte Ltd.	-	5,049	-	(5,049)(*)	-	-
2002	199,402	17,333	(6,602)	(18,418)	8,056	199,771
2001	227,103	-	(14,382)	-	(13,319)	199,402

(*)During 2002, the Company has participated in the capital increase of LG Holdings (HK) Ltd. and LG Properties (S'PORE) PTE, Ltd., whose investment stocks are valued at zero under the equity method. The Company accounted for unrecognized losses amounting to ₩12,948 million, net of deferred tax effect amounting to ₩5,470 million, as a decrease in retained earnings.

As of December 31, 2002, 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 value has reduced to below zero. The unrecognized losses for the investment in LG Properties (S'PORE) PTE, Ltd. and LG Construction (Arabia) Ltd. amounted to ₩5,337 million and ₩176 million, respectively.

The accumulated unamortized differences between the purchase price and the underlying proportionate net book value of equity investments, along with changes in such amounts during 2002 and 2001, are as follows:

	Millions of Won			
	Debit		Credit	
	2002	2001	2002	2001
Beginning balance	-	₩58	₩37,853	₩39,392
Increase	-	-	-	-
Amortization or reversal	-	(58)	(1,536)	(1,539)
Ending balance	-	-	36,317	37,853

The Company removed the intercompany loss from the provision for losses from construction amounting to ₩1,961 million and also recognized the unrealized portion of intercompany gains of ₩721 million from the prior period. As a result, the net income in 2002 increased by ₩2,682 million.

As of December 31, 2002, the Company pledged 2,370 thousand shares (face value amounting to ₩11,850 million) of LG Energy Co., Ltd. as collateral to Kreditanstalt fur Wiederaufbau and Korea Development Bank for the benefit of a related party, LG Energy Co., Ltd.

9. Short-term Borrowings:

Short-term borrowings as of December 31, 2002 and 2001 comprise the following:

	Annual Interest Rate (%)		Millions of Won	
	2002.12.31	2002	2001	
Bank overdrafts	4.50 - 13.00	₩5,643	₩4,046	
Foreign currency loans	2.42 - 13.00	25,769	84,985	
		(US\$ 21,467)	(US\$ 67,137)	
		31,412	89,031	

See Note 11 for collateral arrangements on the above borrowings.

10. Long-term Debt:

Long-term debt as of December 31, 2002 and 2001 comprise the following:

	Millions of Won	
	2002	2001
Debentures(*)	₩178,687	₩296,545
Loans(**)	15,920	15,920
	194,607	312,465

(*) Debentures

	Annual Interest Rate (%)		Millions of Won	
	2002.12.31	2002	2001	
Non-guaranteed debentures	6.00 - 9.00	₩200,000	₩295,000	
Private offered debentures	9.99 - 10.10	100,000	120,000	
		300,000	415,000	
Less : Current maturities		(120,000)	(115,000)	
Discount on debentures issued		(1,313)	(3,455)	
		178,687	296,545	

(**) Loans

	Annual Interest Rate (%)		Millions of Won	
	2002.12.31	2002	2001	
Won currency loans				
Korea Housing				
Guarantee Co., Ltd.	3.50	₩15,920	₩15,920	

Continued;

00 company profile 01 financial highlights 02 letter to Shareholders 03 vision & strategy 04 2002 highlights 05 2001 highlights 06 2002 highlights 07 vision & strategy
 18 review of operation_civil engineering 22 review of operation_plant 26 review of operation_architecture
 30 review of operation_housing 34 review of operation_technology center 36 management's discussion & analysis
 42 milestone 44 board of directors 45 financial section 80 global network

The annual maturities of long-term debt as of December 31, 2002 are as follows:

Year	Millions of Won		
	Debentures	Loans	Total
2004	₩180,000	₩1,327	₩181,327
2005	-	1,327	1,327
2006	-	1,327	1,327
2007	-	1,327	1,327
2008 and thereafter	-	10,612	10,612
	180,000	15,920	195,920

See Note 11 for collateral arrangements on long-term debt.

11. Commitments and Contingencies:

As of December 31, 2002 and 2001, Korea Housing Guarantee Co., Ltd., Korea Construction Financial Corporation, a government agency and others have provided guarantees amounting to approximately ₩866,510 million and ₩1,554,555 million on behalf of the Company for the performance of construction and contracts, respectively. As collateral for ₩419,867 million of the above guarantees as of December 31, 2002, Kookmin Bank and others have provided securities amounting to approximately ₩213,511 million to Seoul Guarantee Insurance and Korea Construction Financial Corporation.

As of December 31, 2002 and 2001, the Company has provided guarantees amounting to approximately ₩3,531,863 million and ₩5,020,606 million, respectively, on behalf of other construction companies, including ChungAng Construction Co., Ltd.

The Company has guaranteed the performance of construction of other construction companies. The outstanding balance of such construction contracts as of December 31, 2002 and 2001 amounted to ₩3,597,210 million and ₩1,570,751 million, respectively. In addition, outstanding guarantees provided by other construction companies amounted to ₩2,949,566 million and ₩3,823,916 million as of December 31, 2002 and 2001, respectively.

As of December 31, 2002 and 2001, the Company and LG International Corporation have guaranteed the performance of construction for Lurgi. Oil. Gas. Chemie GmbH in connection with the National Oil Distribution Company Project in Qatar. The guaranteed amounts are ₩57,619 million and ₩63,653 million, respectively. Also, Lurgi. Oil. Gas. Chemie GmbH has guaranteed the same amount for the performance of construction for the Company and LG International Corporation.

The Export-Import Bank of Korea and others have guaranteed the performance of construction of the Company in overseas projects. As of December 31, 2002 and 2001, the outstanding guarantees amounted to ₩281,386 million and ₩239,861 million, respectively. As of December 31, 2002 the Company has pledged checks and notes

Continued;

as collateral for borrowings and payment guarantees.

As of December 31, 2002 and 2001, the Company has provided guarantees amounting to ₩223,314 million and ₩209,022 million, respectively, on behalf of related parties, including LG International Corporation. The amount of available guarantees provided by related parties, including LG International Corporation, are ₩36,012 million and ₩151,175 million as of December 31, 2002 and 2001, 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, 2002, the aggregate amount of these claims as defendant and plaintiff is ₩25,885 million and ₩6,627 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 the associations amounted to ₩23,791 million and ₩5,205 million as of December 31, 2002 and 2001, respectively.

As of December 31, 2002 and 2001, the Company provided notes to customers for apartments construction.

As of December 31, 2002, in order to hedge against foreign exchange rate fluctuation, the Company has entered into forward exchange contracts.

The outstanding forward exchange contracts are as follows:

Counterpart	Date of Contract	In Thousands		Maturity Date	Contract Exchange Rate (JPY/USD)
		Sell	Buy		
CREDIT LYONNAIS	2002.10.31	USD1,785	JPY 215,880	2003. 8.29	120.95
SOCIETE GENERALE	2002.10.31	USD2,417	JPY 288,800	2004. 2.27	119.50
		USD4,202	JPY 504,680		

As of December 31, 2002, the Company recognized a net valuation gain in the amount of ₩130 million in relation to forward exchange contracts, and recorded ₩1,524 million as a net gain on forward trading.

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Company may be either directly or indirectly affected by these generally unstable economic conditions and the reform program described above. The accompanying non-consolidated financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

00 company profile 01 financial highlights 02 letter to Shareholders 06 2002 highlights 08 vision & strategy
 18 review of operation_civil engineering 22 review of operation_plant 26 review of operation_architecture
 30 review of operation_housing 34 review of operation_technology center 36 management's discussion & analysis
 42 milestone 44 board of directors 45 financial section 80 global network

12. 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, 2002 amounted to ₩75,192 million.

13. 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 paid-in capital. 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, 2002 and 2001 comprise the following:

	Millions of Won	
	2002	2001
Reserve for improvement of financial structure	₩58,497	₩43,490
Reserve for technological development	61,530	39,450
Reserve for overseas business losses	64,054	36,885
Reserve for overseas investment losses	3,955	10,025
Reserve for loss on disposal of treasury stock	178	90
Reserve for business rationalization	74,653	34,583
Other	16,000	8,000
	278,867	172,523

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 purpose or reversed. However, the reserves which are not deducted in its income tax return are available for the payment of dividends.

14. Treasury Stock:

As of December 31, 2002 and 2001, the Company retains 1,152,560 shares and 1,136,174 shares of its issued and outstanding common stock carried at ₩13,644 million and ₩14,784, respectively. The treasury stock was recorded as a capital adjustment and will be sold depending on stock market conditions.

15. Income Tax Expense:

The statutory income tax rates applicable to the Company, including resident tax surcharges, are approximately 29.7% and 30.8% and the effective tax rates are 30.4% and 29.3% for the years ended December 31, 2002 and 2001, respectively.

Income tax expense for the years ended December 31, 2002 and 2001 comprise the following:

	Millions of Won	
	2002	2001
Current income taxes under the tax law	₩94,969	₩86,542
Changes in deferred income taxes(*)	(24,658)	(20,569)
	70,311	65,973

(*) The changes in deferred income tax assets and liabilities are as follows :

	Accumulated Temporary Differences	Income Tax Effects	Deferred Income Tax Assets
January 1, 2002	₩103,792	₩31,968	₩31,968
December 31, 2002	209,079	62,096	62,096
			30,128
Deferred income tax deducted from shareholders' equity			(5,470)
			24,658

Continued;

LG ENGINEERING & CONSTRUCTION CORPORATION
 NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS, Continued
 FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

The differences between income before income tax expenses and income for tax purpose comprise the following:

	Millions of Won	
	2002	2001
Income before income tax expenses	₩231,024	₩225,534
Temporary differences:		
Construction costs	(1,300)	(1,432)
Transfer from reserve for overseas investment loss	3,954	6,071
Transfer from reserve for technological development, net	(12,613)	(12,080)
Provision for warranty, net	1,929	9,509
Capitalized interest expenses, net	35,050	21,950
Loss on valuation of investment securities using the equity method	6,602	14,382
Accrued income, net	(79)	6,834
Provision for foreseeable losses from construction contracts, net	(1,885)	4,495
Allowance for doubtful accounts, net	30,240	(681)
Impairment loss on property, plant and equipment	12,600	-
Loss on valuation of inventories	9,684	13,986
Others	2,687	3,749
	86,869	66,783
Permanent differences:		
Entertainment expenses in excess of tax limit	5,751	3,915
Taxes and other expenses	523	8,020
Others	(3,902)	(259)
	2,372	11,676
Income for tax purposes	320,265	303,993

Continued;

00 company profile 01 financial highlights 02 letter to Shareholders 06 2002 highlights 08 vision & strategy
 18 review of operation_civil_engineering 22 review of operation_plant 26 review of operation_architecture
 30 review of operation_housing 34 review of operation_technology_center 36 management's discussion & analysis
 42 milestone 44 board of directors 45 financial section 80 global network



The changes in temporary differences and related income tax effects for the years ended December 31, 2002 and 2001 are as follows:

	Millions of Won				
	Beginning Balance	Increase	Decrease	Ending Balance	Income Tax Effect
Provision for warranty	₩17,515	₩1,929	-	₩19,444	₩5,775
Allowance for doubtful accounts	46,713	30,240	-	76,953	22,855
Provision for foreseeable losses					
from construction contracts	11,324	-	1,885	9,439	2,803
Construction costs	1,467	-	1,300	167	50
Loss on valuation of investment securities					
using the equity method	130,189	24,738	-	154,927	46,013
Bonus for directors	5,994	-	849	5,145	1,528
Loss on valuation of inventories	13,986	9,684	-	23,670	7,030
Impairment loss on property, plant and equipment	-	12,600	-	12,600	3,742
Reserve for overseas business losses	(4,054)	-	(2,569)	(1,485)	(441)
Reserve for overseas investment losses	(3,954)	-	(3,954)	-	-
Reserve for technological development	(46,530)	(20,000)	(7,387)	(59,143)	(17,565)
Capitalized interest expenses	(89,529)	-	(35,050)	(54,479)	(16,180)
Accrued income	(5,027)	1,065	1,144	(5,106)	(1,516)
Accumulated depreciation	(1,298)	-	-	(1,298)	(386)
Others	26,996	153	(1,096)	28,245	8,389
2002	103,792	60,409	(44,878)	209,079	62,097
2001	37,009	37,647	(29,136)	103,792	31,968

Temporary differences and the related income tax effects deducted from shareholders' equity are as follows:

	Millions of Won	
	Amount	Income Tax Effects
Loss on valuation of investment securities		
using the equity method (Retained Earnings)	₩18,418	₩5,470

The Company did not recognize the deferred income tax arising from the revaluation increment of land pursuant to the financial accounting standards generally accepted in the Republic of Korea. Gain on valuation of treasury stock fund was not included in the deferred income tax calculation.

00 company profile 01 financial highlights 02 letter to Shareholders 03 vision & strategy 04 2002 highlights 05 2001 highlights 06 2002 highlights 07 vision & strategy
 18 review of operation_civil_engineering 22 review of operation_plant 26 review of operation_architecture
 30 review of operation_housing 34 review of operation_technology_center 36 management's discussion & analysis
 42 milestone 44 board of directors 45 financial section 80 global network

16. Earnings Per Share:

Basic ordinary income per share and earning per share represents the ordinary income and net income of one share of common stock. Ordinary income of common stock is calculated by deducting income tax corresponding to ordinary income.

	2002	2001
Ordinary income (A)	₩245,102,428,723	₩224,819,635,058
Income tax effects (B)	74,491,884,968	65,752,853,288
Ordinary income of common stock (C=A-B)	170,610,543,755	159,066,781,770
Net income (D)	160,713,650,840	159,561,152,314
Weighted average number of shares outstanding common stock (E)	49,831,310 shares	49,871,980 shares
Basic ordinary income per share (C/E)	3,424	3,190
Basic earnings per share (D/E)	3,225	3,199

There are no outstanding convertible bonds or other dilutive securities as of December 31, 2002 and 2001. Accordingly, basic and ordinary income per share are equal to fully diluted earnings per share.

17. Dividend:

Dividend

	2002	2001
Common share issued (par value ₩5,000) (A)	49,847,440 shares	49,863,826 shares
Common share dividend per share (ratio) (B)	₩1,000 (20%)	₩800 (16%)
Common share dividend amount (AxB)	₩49,847,440,000	₩39,891,060,800

Dividend Payout Ratio

	2002	2001
Dividend (A)	₩49,847,440,000	₩39,891,060,800
Net income (B)	160,713,650,840	159,561,152,314
Dividend payout ratio (A/B)	31.02%	25.00%

Dividend Yield Ratio

	2002	2001
Dividend per share (A)	₩1,000	₩800
Market value at the end of the year (B)	11,500	14,100
Dividend yield ratio (A/B)	8.70%	5.67%

18. Restatement of Prior Year Financial Statements:

Change in Accounting method

The Company changed its accounting method for investment in securities of companies related to Social Overhead Capital (SOC) from the equity method to the cost method, based on the opinion of the Financial Supervisory Service. The Financial Supervisory Service viewed the cost method as more appropriate since the Company is restricted from exercising a significant influence over Cheonan-Nonsan Highway Co., Ltd. due to an agreement between the creditors committee and the company's shareholders, regardless of the twenty-five percent ownership in Cheonan-Nonsan Highway Co., Ltd. As a result of the change in accounting method, the loss on valuation of investment securities using the equity method of accounting decreased by ₩9,510 million and ₩13,710 million in 2002 and 2001, respectively. In addition, net income increased by ₩6,685 million and ₩9,487 million, and unappropriated retained earnings increased by ₩16,212 million and ₩9,527 million in 2002 and 2001, respectively.

The non-consolidated financial statements as of and for the years ended December 31, 2000 and 1999 have been restated in the current year to show the effects of the change in accounting method.

The significant changes in the restated non-consolidated financial statements as of and for the year ended December 31, 2001 are as follows:

	Millions of Won	
	Before Adjustments	As Adjusted
Balance sheet		
Investment securities	₩514,167	₩527,948
Deferred income tax assets	36,191	31,968
Unappropriated retained earnings	149,031	158,558
Income statement		
Loss on valuation of investment securities under the equity method of accounting	28,092	14,382
Income tax expenses	61,750	65,973
Ordinary income	211,110	224,820
Net income	150,074	159,561

In addition, the significant changes in the restated non-consolidated financial statements as of and for the years ended December 31, 2000 and 1999 are as follows:

	Millions of Won	
	1999	2000
Ordinary loss	₩140,763	₩176,163
Net income	99,841	123,646
Ordinary Income per share (In Won)	2,451	2,458
Net Income per share (In Won)	2,448	2,458

Continued;

00 company profile 01 financial highlights 02 letter to Shareholders 06 2002 highlights 08 vision & strategy 18 review of operation_civil engineering 22 review of operation_plant 26 review of operation_architecture 30 review of operation_housing 34 review of operation_technology center 36 management's discussion & analysis 42 milestone 44 board of directors 45 financial section 80 global network

Prior Period Error Corrections

The prior year's non-consolidated financial statements have been restated to correct an error in relation to the capitalized interest expense on the construction in-progress of LG Holdings (HK) Ltd. and its subsidiary, Beijing Lucky Goldstar Building Development Co., Ltd. As a result, net income and shareholders' equity for the year ended December 31, 2001 increased by ₩5 million and ₩5,085 million, respectively.

The details of the prior period error corrections as of and for the years ended December 31, 2001, 2000, and 1999 are as follows:

	1999		2000		2001	
	Before Adjustments	As Adjusted	Before Adjustments	As Adjusted	Before Adjustments	As Adjusted
Balance sheets						
Investment securities	₩475,597	₩469,702	₩500,680	₩495,111	₩534,182	₩527,948
Deferred income tax assets	11,886	13,038	12,878	14,024	30,819	31,968
Total shareholder's equity	724,389	719,646	772,620	768,198	937,100	932,015
Income Statement						
Ordinary Income	140,761	140,763	176,145	176,163	224,827	224,820
Net Income	99,839	99,841	123,634	123,646	159,566	159,561
Ordinary Income per share (In Won)	2,451	2,451	2,458	2,458	3,190	3,190
Net Income per share (In Won)	2,448	2,448	2,458	2,458	3,190	3,199

19. Early Adoption of the KASB Statement No.6:

Due to the Company's early adoption of Korea Accounting Standards Board ("KASB") Statement No.6 "Events Occurring after the Balance Sheet date", dividends amounting to ₩49,847 million and ₩39,891 million for the years ended December 31, 2002 and 2001, respectively, were not accounted for as liabilities in the Company's non-consolidated financial statements. Accordingly, the non-consolidated balance sheets as of December 31, 2002 and 2001 show the figures before the appropriation of retained earnings.

The Company's non-consolidated financial statements will be approved by the Board of Directors on February 4, 2003.

20. Related Party Transactions:

Significant transactions which occurred in the ordinary course of business with related companies for the years ended December 31, 2002 and 2001 are summarized as follows:

Description	Millions of Won	
	2002	2001
Sales and others	₩562,533	₩868,336
Purchases and others	151,016	130,443
Receivables	470,450	400,524
Payables	166,897	125,126

The Company has guaranteed the repayment of obligations of subsidiaries and related parties. As of December 31, 2002, the balance of guarantees by the Company on behalf of subsidiaries and related parties, including LG International Corporation amounted to ₩40,814 million. In addition, the balance of guarantees the Company received from related parties, including LG Chem Ltd., as of December 31, 2002 amounted to approximately ₩36,012 million (equivalent to US\$30,000 thousand).

The Company has pledged 2,370 thousand shares (face value amounting to ₩11,850 million) of LG Energy Co., Ltd. as collateral to Kreditanstalt fur Wiederaufbau and Korea Development Bank for the benefit of a related party, LG Energy Co., Ltd.

The Company has guaranteed the repayment of employees' bank loans to acquire shares of the Company.

00 company profile 01 financial highlights 02 letter to Shareholders 03 2002 highlights 04 vision & strategy
 18 review of operation_civil_engineering 22 review of operation_plant 26 review of operation_architecture
 30 review of operation_housing 34 review of operation_technology_center 36 management's discussion & analysis
 42 milestone 44 board of directors 45 financial section 80 global network

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	Kookmin Pension Management Corporation, LG Group of Companies, 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
Engineering Work Division	Energy plant, industrial facilities, and others	NODCO Project and others
Development Work Division	Golf course, and others	Unspecified
Other	Rental	"

Financial Information on Industry Segments

	Millions of Won						
	Architectural	Civil	Housing	Engineering	Development	Others	Total
1. Sales							
2002	₩815,626	₩508,168	₩1,250,011	₩582,863	₩13,581	₩4,216	₩3,174,465
2001	852,393	533,174	1,122,713	631,153	7,589	6,080	3,153,102
2. Operating income (loss)							
2002	66,909	81,519	149,266	(7,994)	(13,779)	144	276,065
2001	77,789	55,174	115,098	12,649	(4,682)	(1,183)	254,845
3. Tangible and intangible assets							
2002	191,270	3,742	19,646	32,437	352,461	61,470	661,026
2001	195,294	2,707	19,903	31,903	272,014	80,363	602,184
4. Depreciation and amortization							
2002	4,315	553	656	2,230	4,802	624	13,180
2001	3,764	694	807	2,947	2,447	709	11,368

Geographical Segments

Sales by geographical area are summarized as follows:

	Millions of Won	
	2002	2001
Domestic sales	₩2,819,817	₩2,718,231
China	34,594	43,287
Central Asia	246,745	339,399
South East Asia	57,575	20,306
Others	15,734	31,879
	₩3,174,465	₩3,153,102

22. Supplemental Cash Flow Information:

Major transactions not involving an inflow or outflow of cash and cash equivalents are as follows:

	Millions of Won	
	2002	2001
Transfer to current maturities of debentures	₩169,244	₩113,780
Transfer to property, plant and equipment	158,961	15,172
Transfer to inventories	3,669	27,996

23. Reclassification of Prior Year Amounts:

Certain amounts in the 2001 non-consolidated financial statements have been reclassified to conform to the 2002 presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.

