

# To Our Shareholders and Investors

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

## 2003 Initiatives

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

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

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

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

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

## 2003 Results

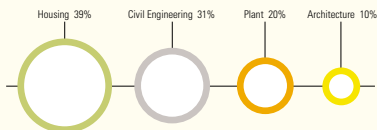
**Q: Can you specify the figures for new orders, sales, and profits in 2003?**

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

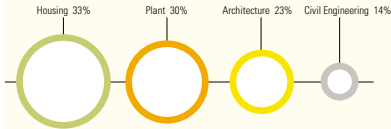
orders in the Civil Engineering Division and Plant Division were major contributors. Sales totaled ₩3,468 billion, a 9.2% increase over 2002. The 1.7% decline in operating profit was due, in large part, to increased general and administrative expenses. It was incurred in the process of pursuing provisional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



**ORDER BACKLOGS BY DIVISION**



**NEW ORDERS BY DIVISION**



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

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

**2004  
Plans &  
Strategies**

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

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

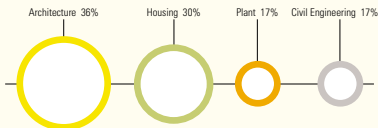
to increase up to US\$6 billion in 2004 from \$3.6 billion in 2003. Looking forward, we set our sights on global objectives as well. Our global marketing will go into full swing, hoping to turn difficulties into opportunities through challenges and changes.

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

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

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#### SALES BY DIVISION



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

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

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

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

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

Kab-Ryul Kim \_\_\_ President & CEO

