

Management's Discussion and Analysis

Korea's Construction Market 2003

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

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

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

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

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

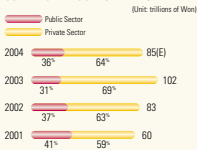
Over time, there has been significant fluctuation in the volume of overseas construction orders. In 2003, according to the Ministry of Construction and Transportation, overseas orders for Korean construction totaled US\$3.7 billion, a significant reduction compared with US\$14 billion, the total near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

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

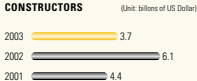
The government has, at times, employed a pump-priming policy to boost the construction industry as a tool for overall business stimulation during an economic recession. Accordingly, government construction projects tend to increase during times of economic distress. The domestic housing market is heavily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

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

CONTRACT AMOUNTS TRENDS



OVERSEAS ORDERS FOR KOREAN CONTRACTORS



Results of Business Operation

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

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

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

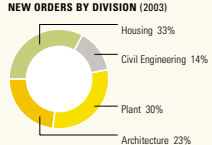
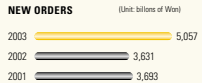
Orders

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

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

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

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



Entry into New Fields

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

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

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

Expansion of TFT-LCD Factory

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

Cancellation of Two Overseas Projects Worth ₩1 trillion

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

Sales Revenues and Profits

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

Sales Revenues

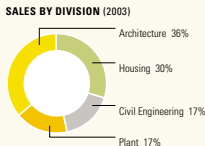
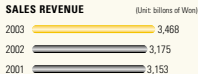
In recent years, the duration of our construction projects tends to be prolonged when compared with that of past years. This is primarily attributable to the increased number of tech-intensive projects rather than labor-intensive construction works. In the Civil Divisions, public sector orders received from the government follow this growing trend. In the Housing Division, the new order portion for apartment redevelopment and reconstruction projects requiring longer construction period than contract-type projects shows steady growth. The Plant Division receives an increasing number of overseas projects requiring all-inclusive solutions covering feasibility study, financing, engineering, design, procurement, construction, operation and maintenance, and product buyer arrangement. The scale of all-inclusive projects grows larger each year.

As abovementioned, the duration of construction projects has been longer and new order-to-sales ratio in 2000, 2001, and 2002 has been consistently lowered. On the other hand, new order volume recorded 39.3% and new order-to-sales ratio 32% point increase in 2003, respectively with the prior year. Consequently, sales increased a modest 9.2% to reach ₩3,468 billion, increasing ₩293 billion from the previous year. Sales volume of the Civil Engineering and Architecture Divisions increased while the Housing and Plant Divisions decreased.

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

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

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



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

Gross Profit

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

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

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

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

Operating Profit

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

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

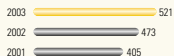
Recurring Profit

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

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

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

GROSS PROFIT 2003 (Unit: billions of Won)



OPERATING PROFIT 2003 (Unit: billions of Won)



RECURRING PROFIT (Unit: billions of Won)



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

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

Extraordinary Income and Loss

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

Non-Stop Upgrade in PMS+

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

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

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

Ex-Const Performance Innovation

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

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

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

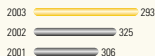
Financial Position

Cash Generated by Operations

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

CASH FLOWS FROM OPERATIONS

(Unit: billions of Won)



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

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

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

Capital Expenditure

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

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

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

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

Equity Sell-off of PFI Projects

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

Debt

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

Equity

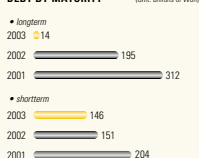
As of December 31, 2003, common stock stood at 51,000,000 and no preferred stocks or equity-linked securities such as convertible bonds or bonds with warrant were issued. Chairman Chang-Soo Huh and his family members hold 15,310,156 shares equivalent to 30.0% of the total shareholders' equity including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

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

DEBT



DEBT BY MATURITY



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

Changes in the Company-held Equity Ratio of LG Affiliates

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

Dividends

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

DIVIDEND PER SHARE (Unit: Won)



Financial Risks

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

Liquidity Risks

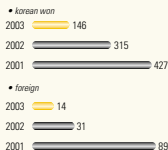
The Company has ₩102 billion in lines of bank overdrafts and ₩1,330 billion in lines of commercial paper to keep Won currency sufficiently liquid. In addition, the Company maintains US\$34 million in lines of foreign currency overdrafts, US\$204 million in lines to support letter of credit, and US\$309 million in lines of bank guarantees (performance bonds, etc.) to provide support for various commercial provisions in overseas engineering and construction contracts.

LG E&C takes precautionary measures against liquidity risks through setting weekly, monthly, and quarterly watch plans to facilitate sound cashflow, funding, and financial status. A positive cash flow is maintained for each project to minimize the possibility to non-performing trade receivables. The Company provides major overseas clients with project financing allowing direct payment to LG E&C from the bank for costs incurred during the project.

Foreign Exchange Risks

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

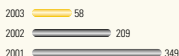
DEBT BY CURRENCY (Unit: billions of Won)



Interest Rate Risks

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

NET DEBT (Unit: billions of Won)



Company Milestones

- 1969** • Lackhee Development Co., Ltd. (the Company's predecessor) established
- 1975** • Company name changed to Lucky Development Co., Ltd.
- 1977** • Lucky International Construction Co., Ltd. established
- 1979** • Lucky Development Co., Ltd. merged with Lucky International Construction Co., Ltd.
• The Company designated a housing contractor by the Ministry of Construction
- 1981** • Initial public offering issued
- 1983** • Lucky Development (Arabia) Co., Ltd. established
- 1984** • Company received Korean government's export award for winning US\$1 billion in international contracts
• Lucky Development International Inc. established in the US
- 1989** • Lucky Development Inc. established in Saipan
• 21st Century Vision adopted for becoming a best all round developer in the domestic market and a general construction company globally
- 1991** • Construction license acquired for Japan
• Medal of Industrial Service awarded on Tax Day
• Company 20 Year Almanac published
- 1993** • American Society of Mechanical Engineers accredited the Company in construction of nuclear power plant
• Lucky Thai Engineering & Construction Co., Ltd. established in Bangkok
- 1994** • ISO 9001 quality management certificate acquired
- 1995** • Company name changed to LG Construction Co., Ltd.
• "The Year of New Construction Era" announced
- 1996** • ISO 14001 environmental management certificate acquired
- 1998** • Soo-Kee Min appointed the Company's 9th President & CEO
• LG-HP Sunflower International Village awarded by Haiphong People's Committee in Vietnam
- 1999** • LG Engineering Co., Ltd. merged with LG Construction Co., Ltd.
• Grand prize received as the Superior Company and the Best Apartment by Women Consumer Survey
- 2000** • Construction of the West Sea Grand Bridge completed
- 2001** • Best Corporate Governance Award received by the Korea Stock Exchange
• LG apartment chosen Hit Apartment Product in the 2nd half of 2001 by the Korea Daily News
• Outstanding Corporate PR Award received in the World Advertisement Awards
- 2002** • Silver Industrial Medal received on Tax Day
• Kap-Ryul Kim appointed the Company's 10th President & CEO
• Good Corporate Governance Award received by the Korea Stock Exchange
• LG E&C's new apartment brand identity "Xi (eXtra intelligent)" introduced
- 2003** • Vision 2010 announced
• US 1.6 Billion South Pars 9 & 10 gas treatment project awarded in Iran
• Grand prize received in the cyber IR field at the 5th Korea Economic Daily IR Awards, and in the construction and cement fields at the 1st Money Today IR Awards
• Charter for Corporate Governance enacted