

LG ENGINEERING & CONSTRUCTION CORPORATION

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

FINANCIAL STATEMENTS

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

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

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

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

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

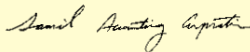
As discussed in Note 20 to the non-consolidated financial statements, the Company's total sales to, and purchases from, the related companies, amounted to ₩1,092,286 million and ₩98,414 million, respectively, for the year ended December 31, 2003 and 562,856 million and ₩151,016 million, respectively,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

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

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

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

Seoul, Korea
January 19, 2004



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

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

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

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

	(in millions of Korean Won, except per share amounts)	
	2003	2002
Non-operating expenses :		
Interest expense	16,078	14,658
Loss on foreign currency transactions	4,702	8,403
Loss on foreign currency translation	1,635	13,023
Loss on valuation of inventories	-	17,970
Loss on disposal of investments	497	144
Loss on valuation of equity method investments (Note 9)	15,948	6,602
Impairment loss on investments	-	433
Loss on disposal of property, plant and equipment	130	51
Impairment loss on property, plant and equipment	-	12,600
Loss on derivatives transactions (Note 12)	14	407
Loss on derivatives valuation (Note 12)	3,550	-
Loss on disposal of trade accounts and notes receivable	545	23
Additional payment of income taxes	860	-
Donations	1,973	1,204
Others	1,376	973
	47,308	76,491
Ordinary income	261,752	245,102
Extraordinary loss :		
Amortization of overseas business translation debit	(21,457)	(14,077)
	(21,457)	(14,077)
Income before income tax expense	240,295	231,025
Income tax expense (Note 16)	78,758	70,311
Net income	W161,537	W160,714
Basic ordinary income per share (Note 17) (in Korean Won)	W3,548	W3,424
Basic earnings per share (Note 17) (in Korean Won)	W3,245	W3,225

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

YEARS ENDED DECEMBER 31, 2003 AND 2002

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

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

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

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

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

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

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

1. The Company

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

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

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

2. Summary of Significant Accounting Policies

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

Basis of Financial Statement Presentation

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

Accounting Estimates

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

Application of the Statements of Korean Financial Accounting Standards

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

Revenue Recognition

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

Allowance for Doubtful Accounts

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

Investments in Affiliates and Other Investments

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

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

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

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

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

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

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

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

Inventories

Inventories are stated at the lower of cost or market price, with cost being determined using the weighted-average method for raw materials and supplies for construction projects. All other inventories are stated at actual cost using the specific identification method. Raw materials and supplies used in construction projects are depreciated over their estimated useful lives.

Interest costs on borrowings to finance the purchase or construction of inventories in connection with lotting-out operations are capitalized during the period of time that is required to complete and prepare the inventories for its intended use, as part of the cost of the asset. Interest expense capitalized for the years ended December 31, 2003 and 2002 amounted to W3,137 million and W13,282 million, respectively, of which W4,171 and W19,811 million was transferred to cost of sales, respectively.

Prepaid Construction Costs

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

Property, Plant and Equipment and Related Depreciation

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

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

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

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

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

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

Intangible Assets

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

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

Research costs are charged to current operations as incurred. Development costs incurred for new products or technologies which can be specifically identified and reliably measured and which have probable future economic benefits are capitalized. Other development costs are recognized in the period incurred as normal development expenses. Capitalized development costs are amortized using the straight-line method over the period during which the related economic benefits are recognized, not to exceed twenty years, from the initial commercial sale of new products or utilization of such technology. The Company performs periodic assessments of the recoverability of development costs, and the carrying value of the assets is reduced to the estimated recoverable amount and an impairment loss is recorded as a reduction in the carrying value of the related assets and is charged to current operations. For the years ended December 31, 2003 and 2002, the Company capitalized W160 million and W1,022 million of development costs, respectively, and recognized W103,998 million and W45,088 million, respectively, as normal research and development costs.

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

	(in millions of Korean Won)	
	2003	2002
Beginning balance	W2,310	W1,840
Increase	160	1,022
Amortization	699	552
Ending balance	W1,771	W2,310

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

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

	(in millions of Korean Won)	
	2003	2002
Beginning balance	W1,941	W2,718
Increase	-	-
Amortization	777	777
Ending balance	W1,164	W1,941

Provision for Warranty

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

Provision for Foreseeable Losses from Construction Contracts

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

Present Value Discount Account

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

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

Discounts on Debentures

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

Derivative Financial Instruments

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

Accrued Severance Benefits

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

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

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

Asset Impairment Loss

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

Income Taxes

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

Foreign Currency Translation

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

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

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

Translation of Foreign Currency Financial Statements

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

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

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

Prior Period Error Corrections

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

3. Summary of Major Construction Contracts

Balance of Construction Contracts

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

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

Cumulative Balance of Construction Contracts

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

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

Balance of Co-Construction

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

Summary of Housing and Lotting-Out Construction

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

4. Restricted Bank Deposits

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

5. Receivables

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

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

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

6. Inventories

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

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

7. Property, Plant and Equipment

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

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

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

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

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

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

8. Investment Securities

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

Short-Term Investment Securities

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

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

Long-Term Investment Securities

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

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

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

Maturities of Held-To-Maturity Securities

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

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

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

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

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

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

9. Equity Method Investments

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

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

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

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

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

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

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

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

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

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

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

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

	(in millions of Korean Won)	
	2003	2002
Han Moo Development Co., Ltd.	W24,005	W24,726
LG Holdings (HK) Ltd.	(903)	(1,961)
	W23,102	W22,765

10. Short-Term Borrowings

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

	Annual Interest Rate (%) as of December 31, 2003	(in millions of Korean Won, thousands of U.S. Dollars)	
		2003	2002
Bank overdrafts	4.5	W3,101	W5,643
Foreign currency loans	1.5 - 2.1	11,302	25,769
		(US\$ 9,436)	(US\$ 21,467)
		W14,403	W31,412

See Note 12 for collateral arrangements on the above borrowings.

11. Long-Term Debt

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

	(in millions of Korean Won)	
	2003	2002
Debentures (*)	W-	W178,687
Loans (**)	14,593	15,920
	W14,593	W194,607

(*) Debentures -

	Annual Interest Rate (%) as of December 31, 2003	(in millions of Korean Won)	
		2003	2002
Non-guaranteed debentures	6.0 - 7.0	W130,000	W200,000
Private offered debentures	-	-	100,000
		130,000	300,000
Less: Current maturities (a)		(130,000)	(120,000)
Discount on debentures issued		-	(1,313)
		W-	W178,687

(a) Related discount on debentures issued as of December 31, 2003 and 2002 amounted to W297 million and W434 million, respectively.

(**) Loans -

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

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

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

12. Commitments and Contingencies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13. Capital Surplus

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

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

14. Retained Earnings

Legal Reserve

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

Other Reserves

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

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

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

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

15. Treasury Stock

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

16. Income Tax Expense

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

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

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

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

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

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

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

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

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

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

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

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

17. Earnings Per Share

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

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

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

18. Dividends

Dividends

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

Dividend Payout Ratio

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

Dividend Yield Ratio

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

19. Events Occurring after the Balance Sheet Date

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

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

20. Related Party Transactions

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

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

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

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

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

21. Segment Information

Industry Segments

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

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

Financial Information on Industry Segments

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

Geographical Segments

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

	(in millions of Korean Won)	
	2003	2002
Domestic sales	₩3,205,696	₩2,819,817
China	42,266	34,594
Central Asia	179,872	246,745
South East Asia	39,550	73,309
	₩3,467,584	₩3,174,465

22. Supplemental Cash Flow Information

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

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

23. Operating Results for the Final Interim Period

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

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

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

24. Reclassification of Prior Year Amounts

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